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| KANO STATE EXPLANATORY NOTES ON 2020 REVISED BUDGET | 2020 | |
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**Introduction**

His Excellency, the Executive Governor presented the 2020 Budget to State House of Assembly on 30th October, 2019 and assented on 18th December, 2019 to the tune of **N206,207,759,657.** The 2020 Budget **tagged** as **‘’Budget of Sustainable Social Development’’** sought to further consolidate the policies that Government have been implementing in directing resources and efforts towards stimulating the state economic growth.

Equally, we are all aware of the covid-19 pandemic currently ravaging the World economies. Nigeria, in particular is exposed to the current global economic disruption originated by the COVID-19 pandemic. Due to the outbreak of the Corona virus Disease (COVID-19) corresponding negative economic consequences emerged as there has been slow down in economics activities due to lock down measures. This restricted movement of goods and services that ensure economic growth.

Kano State is also facing similar challenges caused by the COVID19 pandemic as transfers from the Federation Account to finance its budgets is projected to fall sharply.

In the same vein, State Internally Generated Revenue drastically dropped due to economic slow-down and travel restrictions.

It is also critical to recognise that whatever palliatives are in place now (health programmes and hospital budgets, potential construction of emergency facilities, personal protective equipment (PPE), etc, cash transfers, food aid, empowerment programmes) are likely to continue beyond the pandemic, and where these safety nets are not present, the crisis provides opportunities for them to be initiated

The COVID-19 has brought about new ways of working and service delivery, especially using digital media platforms. This may be the new norm even after the COVID-19. Government should identify their ICT needs for effective virtual working – meetings, conferences and even processing and approving of payments. With school closures, many educational institutions in the world have resorted to online teaching and learning. Most public schools in Nigeria are yet to come to terms with this reality thereby leaving some kids behind in education. The technology must be appropriate to the level of digital exposure of the user, though in some instances training may be necessary to bring the user up to speed on the applicable ICT platform.

Considering the economic centrality of Kano, this can be a significant risk to the rest of northern Nigeria and other neighboring West and Central African countries. Key challenges to the response of Covid-19 in Kano include:

* Poor community awareness, ignorance and in some instances denial of the pandemic
* Limited public health facilities and personnel – including laboratories
* Increasing attrition of health service providers
* Overwhelming informal economy and poverty in the state

Therefore, there is need for the state Government to adopt strategy that mitigates the adverse economic effects of the COVID- 19 pandemic.

That is why the present administration of Dr. Abdullahi Umar Ganduje has been mapping out strategies to restore the state's economy and normalize social life in the commercial nerve centre with its large population with numerous expectations on the government to turn things around. Indeed we have to find a way, to live with Covid-19 for a while.

Kano State need to identify the potential infrastructure and operational resource gaps for dealing with the COVID-19 outbreak and associated social and economic fall-out.

In view of the foregoing, Kano State resort to review its 2020 budget to reduce all non essential projects including resources budgeted for office buildings, training and travels etc. to fund the response. Available funds can be used to support the following:

* Procure more ambulances and operational vehicles to enhance mobility and efficient contact tracing
* Deploy information technology advanced GPS, decentralize telephone contacts and put more personnel to support contact tracing.
* Invest in Personal Protective Equipment (PPE) and incentive for frontline health service providers. This will help manage the increasing level of attrition and infection of health personnel.

**KEY 2020 REVISED BUDGET ASSUMPTION**

**EXPLANATORY NOTE 1 : Budget Assumption:**

**Table 1**

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| --- | --- | --- |
| **Item** | **2020 original budget** | **2020 amended budget** |
| **Assumptions:** |  |  |
| Oil price (US$/bbl) | $60.00 | $25 |
| Oil production (national, mbpd) | 2.1000 | 1.9 |
| Exchange rate (N/US$) | 305 | 360 |
| GDP growth (national, percent annual change) | 2.50% | -4.42% |
| Inflation (national, percent, annual average) | 11.70% | 14.13% |

**Explanatory Note 1.1:**

**Oil price projection**: Kano State adopted the Macro-fiscal assumptions as provided in the FG addendum to MTEF (2020 -2022).

As a result of the adverse effect of the pandemic the International oil price fall sharply to less than 20 dollar per barrel as at April, 2020. This is due to excess of supply over demand at the Global Market. Looking at the reality on ground the oil price projection is drastically reduced from 60 dollar to 25 dollar per barrel.

**Explanatory Note 1.1:**

**Crude Oil Production, (mbpd):**  The oil production is also cut down from 2.1 Million barrel to 1.9 million barrel per day. This reflects Federal Government new assumption in order to ensure conformity with the current cut of oil production by OPEC.It is expected that COVID-19 will severely reduced demand for transportation and other industrials uses.

**Explanatory Note 1.1:**

**NGN: USD FX Rate**: The official exchange rate has also been changed from 305 to 360 per Dollar. This is to reflect CBN report that Naira will suffer further devaluation as Nigeria is projected to lose about US$26 billion in oil revenues, its principal source of foreign currency.

**Explanatory Note 1.1:**

**Inflation rate**: The rate of inflation is also adjusted from 11.7% to 14,13%.The justification for this increased is a result of the high in demand for food due to lockdown measures.

**Explanatory Note 1.1:**

**Real GDP Growth**: Prior to COVID-19 Pandemic, Nigerian economy positively fight for acceleration in real GDP Growth since 2017 but it is expected due Covid-19 pandemic GDP growth rate will remain lower than the desirable targets. It is based on this, real GDP Growth is reduced from 2.5% to-4.4% .

**State Revenue**

Under the revenue aspect, Statutory Allocation, VAT, IGR, Excess Crude and Capital Receipts consisting of loans, grants, contributions & reimbursement and other miscellaneous receipts were reviewed as shown in figure 2-

**Table 2**

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| **Revenues and grants:** | **2020 original budget** | **2020 amended budget** |
| Gross Statutory Allocation (not net of deductions) | 76,000,000,000 | 52,250,000,000 |
| Other FAAC transfers (exchange rate gain, augmentation, others) | 4,800,000,000 | 2,074,275,658 |
| VAT | 23,100,000,000 | 28,664,980,751 |
| IGR | 46,246,000,000 | 24,000,000,000 |
| Loans | 23,112,500,000 |  |
| Internal grants | 7,436,584,540 | 6,236,584,540 |
| External grants | 20,803,299,711 | 25,053,299,711 |

**Explanatory Note 1.2:**

**Gross Statutory Allocation:** The estimated FACC allocation of N52B is given by the Federal Government as ceiling to the Kano State. The reduction from 76Billion to 52.2 billion in the revised budget was due to the nature of unforeseen oil price and some variation received in transfers from FAAC. The 1st quarter actual collection was N15.5 under normal Economy representing 20% achievement. But looking at negative impact of this pandemic, it is expected that transfers to state is projected to fall sharply.

**Explanatory Note 1.4:**

**Other FAAC transfers (exchange rate gain, augmentation, others)** The sum of N2Billion is projected based on our actual of N2Billion from May and April 2020 receipt. The maintained N2Billion Naira because the inflow is inconsistent and during this period of economic crisis Nigeria is not expecting to have excess.

**Explanatory Note 1.4:**

**Value Added Tax (VAT)** The sum of N28Billion as VAT increased from the initial figure of N23.1Billion.The Revised VAT Figure is lower than VAT based on FG MTEF but slightly higher than the NGF Forecast. This is because Actual VAT distributed to States Jan - April 2020 - N204 billion and Estimated VAT to be distributed to States May - Dec 2020 -(factoring the current VAT rate, GDP and Inflation rates in table 4) - N405 Billion. Total estimated VAT to States for 2020 - N609 billion.

Using a factor of 3.788% (average ratio for 2019) - Kano State share is N23.06 billion.

**Explanatory Note 1.5:**

**Internally Generated Revenue.** TheIGR Collection in the State is likely to remain low due to lockdown that affects Business and commercial activities in the State. The reviewed IGR Projection stood at 24Billion based on the actual collection of 9.8Billion from Jan-May 2020.

**GRANTS**

Grants are receipts from federal government and development partners such as Federal Government Conditional Grant Scheme, Federal Government Universal Basic Education Scheme, UNICEF, SLOGOR, etc.

**Explanatory Note 1.6:**

**Table 3**

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| Grant | 2020 Budget | 2020 Amended Budget |
| Internal grants | 7,436,584,540 | 6,236,584,540 |
| External grants | 20,803,299,711 | 25,053,299,711 |

**Internal Grant**: The grant is cut down from 7.4 Billion to 6.2 Billion naira in the 2020 revised budget. The Justification for this reduction is that 5% IGR contribution to Kano Health Trust Fund (KHET FUND) that was formerly captured as Grant is now taken care in the state revised projected IGR. Also looking at realities on ground in terms of Cash inflow as a result of COVID-19 ,there is need to cut the internal grant closer to reality.

**Explanatory Note 1.6:**

**External Grant**: The grant is slightly adjusted upward from 20.8 Billion to 25.05Billion.The increase is due to expectation of 5Billion Naira Grant from the Federal Government. But 750 Million naira is been reduced from light rail based on thorough discussion with Stakeholders.

**Explanatory Note 2: EXPENDITURE**

On the expenditure side, the sum of 138.2 Billion is appropriated in the 2020 revised budget depicting a decrease of 67.9Billion from the 2020 Budget. 78.7 Billion naira is earmarked for the recurrent expenditure while 59.5 Billion naira is dedicated to Capital Expenditure. The budget ratio is 57:43.

**Recurrent Expenditure side**

**Table 4**

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| **Expenditures:** | **2020 original budget** | **2020 amended budget** |
| *Recurrent:* | 81,033,032,719 | 78,711,608,719 |
| *Conslodated Revenue fund Charges (CRF)* | 7,964,487,219 | 7,252,957,219 |
| Personnel costs (salaries, pensions) | 54,769,399,510 | 54,769,399,510 |
| Overhead costs | 18,299,145,990 | 16,689,251,990 |
| Recurrent Expenditure(Covid-19) |  | 4,646,436,260.5 |

**Explanatory Note 2.2:**

**Personnel costs (salaries, pensions):** The personnel cost of 54.7Billion indicate no change between the 2020 Budget and 2020 revised Budget .The justification of retaining the N54,7Billion is because Government has no intention of rationalization of Civil Servant as well as critical employment in health and education is retained. However, 17% of basic salary is Government contribution and 8% constitutes employee contributions. The PC includes payment of salaries and allowances.

**Explanatory Note 2.2:**

**Overhead costs:** An overhead cost is also referred to as operational costs for the day-to-day operation of the government. The overhead allocation is also slightly decreased from **18.2 to 16.6 Billion naira**. The reduction did not affect Essential Sector such as Health and Education. This is to ensure enough resources are mobilized toward cushion the adverse effect of COVID-19 pandemic.

**Explanatory Note 2.4:**

**Consolidated Revenue Funds (CRF) Charges:** Thisexpenditure consists of recurrent expenditure of the Judicial Service Commission, High Court, Sharia Court, Contingency fund & recurrent expenditure to Legislature as well as State Auditor General. As revealed by the chart above, the estimates of this class of expenditure slightly decreased from 7.9 billion to 7.2 billion in the 2020 revised budget.

**Recurrent Expenditure for Covid-19:** The sum of 4.6 Billion naira is set aside to improve community awareness, training of health workers to reduce attrition, sanitation and fumigation exercise and payment of health workers allowances that are engaged in covid-19 activities.

**Capital Expenditure Side**

Capital Expenditure includes the main investment and implementation of programmes and projects of government as well programmes that are directly or indirectly linked with Covid-19 Pandemic.

**Table 5**

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| **Expenditure** | **2020 Budget** | **2020 Amended Budget** |
| **Capital Expenditure** | 125,174,726,938 | 59,567,531,942.014 |
| **COVID-19 Capital Expenditure** |  | 9,824,674,525 |

On the Capital Expenditure side, the sum of 59.5 billion naira is provided to finance capital projects across the MDAs. As depicted in the Table above, there is reduction in the amount of Capital Expenditure from 125.1 billion to 59.5 billion naira. This provides saving of 9.8 billion naira to finance projects attached to addressing Covid-19 in the state.

**Conclusion**

The 2020 revised Budget is very imperative as it captured realities that will cushion disruption caused by the adverse effect of Covid-19 Pandemic.

The Kano state adopted the Federal Government macroeconomic projections. This is to ensure the 2020 revised Budget is in line with the current reality.

The Budget is drastically reduced by about 30% and recurrent expenditure has the largest share of about 57% and capital expenditure of 43%.

The 2020 revised Budget offered appropriate provisions for the COVID-19 and provide other critical adjustments required due to the decline in international oil prices.