Osun State Nigeria

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

To Cover Period: 2019 - 2021

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Abbreviations

BDC	Bureau de Change
BIR	Board of Internal Revenue
BRINCS	Brazil, Russia, India, Nigeria, China, South Africa
CBN	Central Bank of Nigeria
CCA	Common Country Assessment
CIT	Company Income Tax
CPI	Consumer Price Index
CRF	Consolidated Revenue Fund
EFU	Economic and Fiscal Update
ERGP	Economic Recovery and Growth Plan
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FLR	Fiscal Responsibility Law
FSP	Fiscal Strategy Paper
FX	Foreign Exchange
G	Group
GDP	Gross Domestic Product
HE	His Excellency
IGR	Internally Generated Revenue
LCDA	Local Council Development Area
LGCs	Local Government Councils
IMF	International Monetary Fund
JTB	Joint Tax Board
MBDP	Million Barrel Daily Production
MDA	Ministry, Department and Agencies
MoEPBD	Ministry of Economic Planning, Budget and Development
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
NCS	Nigeria Custom Service
NBS	National Bureau of Statistics
ND	Net Derivation
NGN or ₦	Nigeria Naira
NNPC	Nigerian National Petroleum Company
OAGS	Office of the Accountant General of State
OAGF	Office of the Accountant General of the Federation
OPEC	Oil Producing Exporting Countries
OSSG	Osun State Government
PFM	Public Financial Management
SA	Statutory Allocation

SMEs	Small and Medium Enterprises
SHoA	State House of Assembly
USD or $	United States Dollar
VAT	Value Added Tax
WEO	World Economic Outlook

Section 1 Introduction and Background

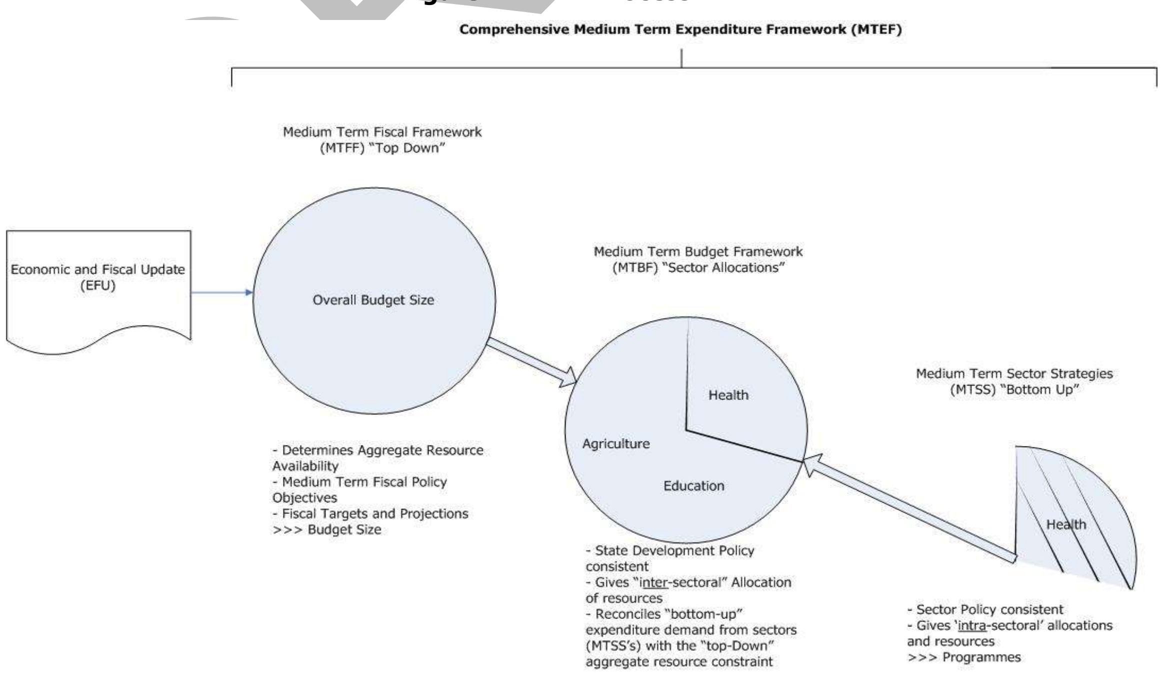
1.A Introduction

1. The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for budget planning process. It is aimed primarily at policy makers and decision takers in State Government of Osun. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.
2. On the other hand, Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in Medium Term Expenditure Framework (MTEF) and annual budget process, and as such, they determine the resources available to fund Government programmes and projects from a fiscally sustainable perspective.
3. The State Government of Osun decided to adopt the preparation of the EFU-FSP-BPS for the first time in 2018 as part of the movement toward a comprehensive MTEF process. This is the first iteration of the document and covers the period 2019 - 2021.

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 four components namely:
   - i. Medium Term Fiscal Framework (MTFF)
   - ii. Medium Term Budget Framework (MTBF)
   - iii. Medium Term Sector Strategies (MTSS)
   - iv. Medium Term Implementation Plan (MTIP)
5. It commences with the conception through preparation, execution, control, monitoring and evaluation and goes back again to conception for the ensuing year's budget.
6. The MTEF process is summarised in diagram below:

Figure 1: MTEF Process



1.A.2 Summary of Document Content

7. In accordance with provisions of Sections 11 – 18 ofthe State of Osun Fiscal Responsibility Law, 2012 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 forthe State Government of Osun(SGO) for the period 2019-2021.

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

   i. To provide a backwards 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; level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper and MTFF; and

   iii. Provide indicative sector envelopes for the period 2019-21which constitute the MTBF.

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

   - Overview of Global, National and State Economic Performance;
   - Overview of the Petroleum Sector;
   - Trends in budget performance over the last six years.

10. The FSP is a key element in the SGO Medium Term Expenditure Framework (MTEF)process and annual budget process. As such, it determines the resources available to fund the Government's growth and poverty reduction programme from a fiscally sustainable perspective.

1.A.3 Preparation and Audience

11. The purpose of this document is to provide an informed basis for the 2019-2021 budget preparation cycle for all the key Stakeholders, specifically:

   - State House of Assembly (SHoA);
   - Executive Council (ExCo);
   - Ministry of Economic Planning, Budget and Development;
   - Ministry of Finance;
   - Office of the Accountant General;
   - All Government Ministries, Departments and Agencies (MDAs);
   - Civil Society.

12. The document is prepared within the first two quarters of the year prior to the annual budget preparation period. It is prepared by the State of OsunMinistry of Economic Planning, Budget and Development in collaboration with Ministry of Finance, Office of Accountant General, State Bureau of Statistics, Board of Internal Revenue, and Debt Management Office using data collected from International, National and State organisations.

1.B Background

1.B.1 Legislative and Institutional arrangement for PFM

13. **Legislative Framework for PFM in the State of Osun**–The fundamental law governing public financial management in Nigeria and the State of Osun in particular is the 1999 Constitution as amended. Section 120 and 121 of the Constitution provides that all revenues accruing to the State Government of Osun shall be received into a Consolidated Revenue Fund (CRF) to be maintained by the Government and revenue cannot 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 the State of Osun shall prepare and lay expenditure proposals for the coming fiscal 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[1].

14. Apart from the Nigerian Constitution, the State of Osun has a set of laws and regulations that govern its budget preparation and implementation. The laws are:

a) Public Administrative Law, Cap. 133 of the Laws of Osun State of Nigeria, 2002.

b) Financial Regulations, 2009 issued by the Treasury Board of Osun State in exercise of the powers vested in the Treasury Board by Section 5(1) of the Public Administrative Law, 2002.The Financial Regulations makes provision for regulating the management of the financial business of the government as well as control and use of public moneys.

c) The State of Osun Fiscal Responsibility Law, 2012. The FRL was enacted in 2012 based on the Federal Fiscal Responsibility Act. The 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, principles of sound financial management, and application of law to Local Governments.

d) The State of Osun Public Procurement Law, 2015provides for a bicameral approach to procurement administration. The policy arm is the State of OsunPublic Procurement Agency Governing Board while the State of Osun Public Procurement Agency is the technical oversight arm. The Governing Board consist of the Commissioner in charge of Finance as Chair, Commissioner of Economic Planning, Budget and Development, Attorney General/Commissioner of Justice, one other member of State Executive Council and three members from public (including a member of a Civil Society Organisation). The Agency is led by a General Manager who shall also serve as Secretary of the Governing Board.

e) Omoluabi Conservative Law, 2012 provides that a percentage of the revenue of the state should be taken out and kept in a special account, which is called Omoluabi Conservation Fund. Fund in the special account can only be taken out with special resolution of the SHoA and basically, there is what is called infrastructure fund, future generation fund and stabilisation funds.

f) Occasional treasury circulars issued by the Accountant General of the State of Osun for additional rules and guidelines to support accounting, internal audit and stores procedures.

15. **Institutional Framework for PFM in** the State of **Osun** - The Constitution vests executive powers of the state in the Governor. The Governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each

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

financial year estimates of the revenues and expenditure of the State for the next following financial year. The Governor of the State of Osun exercises his executive powers directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries and other officers in the public service ofthe State of Osun.

16. Specifically, the State of Osun Executive Council (EXCO) formulates the priorities of the State Government and considers and recommends the State budget to the House of Assembly. On passage, the Governor signs the appropriation bill into law.

17. The Ministry of Finance is the main organ of the EXCO for formulation and execution of fiscal policy. The functions of Ministry of Finance include, financial policy, borrowing, investment, loans, and advances, banking and treasury, boards of survey and boards of enquiry, etc. The Ministry of Finance has two important quasi-autonomous agencies, the Office of the Accountant General for the State (OAGS) and the Board of Internal Revenue (BIR).

18. Specific functions of the OAGS include, maintenance of accounting policies and procedures, supervision and inspection of the accounting operations of all MDAs, inspection and monitoring of all revenue collectors, accounting for the SG's revenue and expenditure, safe custody of all revenue-earning books including license books, etc. The OAGS is also responsible for funds management, expenditure control of all MDAs, investment of surplus short-term funds, compilation of monthly and annual financial statements of accounts, treasury operations, maintenance of accounts, local and foreign, and internal audit, among others. The OAGS also deploys and post accounting staff to MDAs.

19. The Board of Internal Revenue is responsible for generation of government revenue. The Board formulates and executes Joint Tax Board (JTB) policies on taxation, stamp duties, motor vehicle licensing, pools betting and gaming machines, lotteries, sweepstakes, and raffles.

20. The Ministry of Economic Planning, Budget and Development coordinates preparation of state development plans (long and medium-term), medium term sector strategies, medium term fiscal framework within the framework of fiscal strategypaper, and annual budget; leads in formulation of tools and tracking of the implementation of plans and budget; coordinates all development assistance from both bilateral and multilateral sources; and supports the Local Government Councils (LGCs) in developing sound plans at the grass root level.

21. The Office of the Auditor General (State) audits and certifies the accounts of the State Government and submits certified reports to the SHoA. The Auditor General (Local Government) performs similar responsibilities for the LGCs.

1.B.2 Overview of Budget Calendar

22. Indicative Budget Calendar for Osun State Government is presented below:

Table 1: Budget Calendar

Stage	Date (s)	Responsibility
Preparation of EFU-FSP-BPS Document	June	EFU-FSP-BPS Preparation Team
Submission of EFU-FSP-BPS to EXCO for Review and Approval	July	Ministry of Economic Planning, Budget and Development
Submission of EFU-FSP-BPS to House of Assembly and Political	July	Ministry of Economic Planning, Budget and

Engagement		Developmentafter ExCo approval.
Completion/Update of MTSSs		Sectors with support from MEPBD
Issuance of Budget Call Circular with Capital expenditure and Recurrent envelopes	July	MEPBD
Stakeholder Consultation (MDAs, CSO's, other stakeholders)	August	MEPBD
Preparation and Submission of MDA Budget Proposals	September	MDA's
Bilateral Discussions and Defence	September	Budget Committee
Preparation and Submission of MDA Budget Proposals	September	MDA's
Bilateral Discussions and Defence	September	Budget Committee
Consolidation of MDA's Proposals	September	Budget Department
EXCO Review and Approval of Draft Budget	October	EXCO
Presentation of Draft Budget to House of Assembly	October	HE, The Governor
Budget Defence by MDA's before House of Assembly	November	House of Assembly
Debate and Approval of Budget by House of Assembly	December	House of Assembly
HE, The Governor's Assent	December	HE, The Governor

Section 2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

23. Based on the International Monetary Fund's (IMF's) April 2018 World Economic Outlook (WEO)update[2], global economic upswing that began around mid-2016 has become broader and stronger. The report projects that advanced economies as a group will continue to expand above their potential growth rates this year and next before decelerating, while growth in emerging market and developing economies will rise before levelling off. For most countries, current favourable growth rates will not last. Policymakers are expected to capitalise on the current trend and bolster growth, make it more durable, and equip their governments better to counter the next downturn.

24. Global growth seems on track to reach 3.9 percent this year and next, substantially above the October 2017 forecast. Helping to drive this output acceleration is faster growth in the euro area, Japan, China, and the United States, all of which grew above expectations last year, along with some recovery in commodity exporters. Along with China, several other emerging markets and developing economies will also do better this year than in the past projections—that group includes Brazil, Mexico, and emerging Europe. The aggregate gains for this country group are, however, weighed down by sharp downward revisions for a few countries in the grip of civil strife, notably Libya, Venezuela, and Yemen. Growing trade and investment continue as notable factors powering the global upswing.

25. Growth, this broad based and strong has not been seen since the world's initial 2010sharp bounce back from the financial crisis of 2008–09. The synchronized expansion will help to dispel some remaining legacies of the crisis by speeding the exit from unconventional monetary policies in advanced economies, encouraging investment, and healing labour market scars.

26. Other aftereffects of the crisis seem more durable, however, including higher debt levels worldwide and widespread public scepticism about policymakers' capacity and willingness to generate robust and inclusive growth. That scepticism will only be reinforced—with negative political consequences down the road—if economic policy does not rise to the challenge of enacting reforms and building fiscal buffers. Success in such efforts would strengthen medium-term growth, spread its benefits lower in the income distribution, and build resilience to the hazards that lie ahead.

27. Future growth prospects look challenging indeed for advanced economies and many commodity exporters. In advanced economies, aging populations and lower projected advances in total factor productivity will make it hard to return to the precise pace for the average household's income growth. Substantially raising middle and lower incomes looks even tougher. Moreover, growth rates will inevitably bend toward their weaker longer-term levels. Policy support will fade in the United States and China—a necessity in view of those countries' macroeconomic imbalances. However, countries that currently can grow more quickly by putting underutilized labour and capital back to work will reach full capacity. The need for a forward-looking policy perspective is therefore urgent—to limit risks as well as enhance growth.

28. There are inherent risks to achieving the growth prospects, however, the risks are balanced over the next several quarters, with the possibility of more buoyant growth than forecast balancing out unfavourable contingencies. As time passes, the likelihood of negative shifts in the forecast rises.

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[2]http://www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx

29. Monetary policy might tighten sooner than expected if excess demand emerges, a notable possibility in the United States, where fiscal policy has turned much more expansive even as the economy has neared full employment. Financial tightening, in turn, would stress highly indebted countries, firms, and households, including in emerging market economies.

30. An escalating cycle of trade restrictions and retaliation is another risk. The first shots in a potential trade war have now been fired. Conflict could intensify if fiscal policies in the United States drive its trade deficit higher without action in Europe and Asia to reduce surpluses. The multilateral rules-based trade system that evolved after World War II and that nurtured unprecedented growth in the world economy needs strengthening. Instead, it is in danger of being torn apart.

31. The renewed popularity of nationalistic policies is another aftereffect of the fiscal crisis and its prolonged aftermath. Diminished prospects for household income growth in advanced economies, coupled with trends of higher polarization in jobs and incomes, have fuelled a widespread political backlash hostile to traditional political modalities. If policymakers are complacent and do not tackle the challenge of strengthening long-term growth, political risks could intensify, possibly reversing some of the progress that economic reforms and integration have achieved to date.

32. The economic outlook (GDP growth rate and inflation rate) of some countries are shown in tables 2 and 3 below.

33. Countries selected are chosen to represent G20, BRINCS, MINT, N-11, Petro-economies and other large African countries.

Table 2: Real GDP Growth - Selected Countries

Country	Actual				Forecast		
	2014	2015	2016	2017	2018	2019	2023
Mexico	2.8	3.3	2.9	2.0	2.3	3.0	2.9
Indonesia	5.0	4.9	5.0	5.1	5.3	5.5	5.6
Turkey	5.2	6.1	3.2	7.0	4.4	4.0	3.6
United States	2.6	2.9	1.5	2.3	2.9	2.7	1.4
Germany	1.9	1.5	1.9	2.5	2.5	2.0	1.2
United Kingdom	3.1	2.3	1.9	1.8	1.6	1.5	1.6
China	7.3	6.9	6.7	6.9	6.6	6.4	5.5
Ghana	4.0	3.8	3.7	8.4	6.3	7.6	5.1
South Africa	1.8	1.3	0.6	1.3	1.5	1.7	1.8
Brazil	0.5	-3.5	-3.5	1.0	2.3	2.5	2.2
Angola	4.7	3.0	-0.8	0.7	2.2	2.4	4.9

Source: IMF's World Economic Outlook, April 2018.

34. BRICS and MINT countries show an average higher growth than G20 and G7 countries over the period, with Ghana also being particularly better performing.

Table 3: Inflation (CPI) - Selected Countries

Country	Actual				Forecast		
	2014	2015	2016	2017	2018	2019	2023
Mexico	4.0	2.7	2.8	6.0	4.4	3.1	3.0
Indonesia	6.4	6.4	3.5	3.8	3.5	3.4	3.0
Turkey	8.9	7.7	7.8	11.1	11.4	10.5	8.0
United States	1.6	0.1	1.3	2.1	2.5	2.4	2.1
Germany	0.8	0.1	0.4	1.7	1.6	1.7	2.7
United Kingdom	1.5	0.0	0.7	2.7	2.7	2.2	2.0
China	2.0	1.4	2.0	1.6	2.5	2.6	3.0
Ghana	15.5	17.2	17.5	12.4	8.7	8.0	6.0
South Africa	6.1	4.6	6.3	5.3	5.3	5.3	5.5
Brazil	6.3	9.0	8.7	3.4	3.5	4.2	4.1
Angola	7.3	10.3	32.4	31.7	27.9	17	6.5

Source: IMF's WEO, April 2018

35. Ghana and Angola both experienced high inflation rates together with their high real GDP growth. Globally, inflation rates are set to decrease over the next five years as mineral and agriculture prices stabilise.

36. Countries selected are chosen to represent G20, BRINCS, MINT, N-11, Petro-economies and other large African countries.

2.A.2 Africa

37. The African Economic Outlook, 2018[3] provides that the global and domestic shocks in 2016 slowed the pace of growth in Africa, but signs of recovery were already manifest in 2017. Real output growth is estimated to have increased 3.6 percent in 2017, up from 2.2 percent in 2016, and to accelerate to 4.1 percent in 2018 and 2019. Overall, the recovery in growth has been faster than envisaged, especially among non-resource–intensive economies, underscoring Africa's resilience.

38. The recovery in growth could mark a turning point in net commodity-exporting countries, among which the protracted decline in export prices shrunk export revenues and exacerbated macroeconomic imbalances. Economic fundamentals and resilience improved in a number of African countries. In some, domestic resource mobilization now exceeds that of some Asian and Latin America peers. But it is still insufficient to meet the high level of financing to scale up infrastructure and human capital.

39. Many African economies are more resilient and better placed to cope with harsh external conditions than before. But the end of the commodity price super-cycle has cut earnings from primary exports in many countries, undermining planned investments. Weaker external conditions have exposed fiscal vulnerabilities in natural resource–dependent economies as well as several others.

40. Although domestic revenue mobilization improved substantially in recent decades, tax-to-GDP ratios are still low in most African countries. Revenue regimes have to better capture more gains from growth and structural change as economies formalize and become more urbanized.

41. With external official development assistance sharply lower, and greater appetite for debt to finance infrastructure and social sectors, many African governments have turned to international capital markets to meet their financing needs. The result: A build-up of debt,

[3]https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018

much on commercial terms. Despite the increase, debt levels for most countries have not yet breached the traditional threshold indicators. They have actually declined in nine African countries — sometimes mechanically because of the rebasing of gross domestic product — and remained stable in others.

42. Dollar interest rates are expected to edge up and bond spreads widen, increasing the risk of sudden halts in private capital flows. Major investments in infrastructure, financed principally by external borrowing, have raised concerns about a currency and maturity mismatch in debt service, as revenue streams accrue predominantly in local currencies and debt obligations mature before these streams begin.

43. With the notable exception of the CFA franc used by 14 African countries, which is pegged at a fixed exchange rate against the euro, most African currencies have lost about 20–40 percent of their value against the dollar since the beginning of 2015 (Nigeria lost more than 100% as explained in subsequent sub section). But the resulting competitive currency depreciation will not necessarily translate into a strong price advantage in export markets.

44. Structural change is taking place but at very low pace. Structural reforms, sound macroeconomic conditions, and buoyant domestic demand are sustaining the growth momentum in resource-intensive economies. Recent empirical work shows that Africa's recent growth and poverty reduction has been associated with a decline in the share of the labour force in agriculture — especially since the early 2000s, and most pronounced for rural females. This decline has been accompanied by an increase in the productivity of the labour force, as it has moved from low productivity agriculture to higher productivity services and manufacturing. The employment share in manufacturing is not expanding rapidly. In most of the low-income African countries, the employment share in manufacturing has not peaked and is still expanding, albeit from very low levels.

45. African countries should strengthen their economic resilience and dynamism to lift their economies to a new growth equilibrium driven by innovation and productivity rather than by natural resources. Macroeconomic policy strategy should aim at ensuring external competitiveness to avoid real exchange rate overvaluation and take the full benefits of trade, improve fiscal revenue, and rationalize public expenditure. To achieve these goals, the macroeconomic framework must blend real exchange rate flexibility, domestic revenue mobilization, and judicious demand management.

46. In the medium term, the most important area of fiscal policy is tax reform. Widening the tax base (eliminating many exemptions and leakages) rather than hiking already high marginal tax rates will be indispensable for boosting tax revenues. None of these fiscal policy options is straightforward. All of them have difficult distributional and welfare consequences — and all are intensely political.

47. Policy makers need to ensure that fiscal policy does not undercut the growth-promoting effects of public investment, reversing the inroads made in poverty reduction, health, and education across the continent. None of these fiscal choices is straightforward. Intensely political, all have difficult distributional and welfare consequences. Decisions should be made considering country-specific circumstances and development priorities.

48. Development projects and programs in the pipeline should thus be balanced against other needs. Recurrent expenditures must be kept in check, mainly by preventing growth of the public-sector wage bill. Real exchange rate depreciations might be viewed as helpful tools but given the strengthening of the U.S. dollar against many African currencies, competitive depreciations may not necessarily translate into a strong price advantage in export markets. Africa needs more development financing. But the build-up of debt should be consistent with country development needs and capacities to service the loans without compromising fundamentals for future growth. Debt must be deployedin productive investments that yield income streams for self-financing and grow the economy, in order to build capacity for increased domestic resource mobilization that can wean countries from foreign debt and prevent potential debt distress.

49. Expenditure-reducing measures will have to bear a large share of the burden of restoring external balance. The infrastructure–investment drive across Africa, financed largely by

external borrowing, needs careful analysis to ensure that revenue streams (generated in local currencies) are strong enough to meet the debt obligations when they fall due.

50. The IMF's April 2018 WEO Update[4], provides that stronger growth in Africa's largest economies bodes well for the continent's economic prospects as a whole.South Africa, Nigeria and Egypt are regional growth drivers for Southern, West, and North Africa, respectively, and the health of these larger economies has direct bearing on growth prospects in their smaller neighbours.

2.A.3 Nigerian Economy[5]

Macroeconomic

51. From 2004 to 2014, Nigeria economy grew by 7.5% and is next to the two of the world fastest growing economies of Asia, namely China and India which had grown at 10.4% and 7.6%, respectively over the same period. Nigeria's GDP growth rate asat 2014 was 5.94%.

52. The sharp and continuous decline in crude oil prices since mid-2014 to 2016, along with a failure to diversify the sources of revenue and foreign exchange in the economy, led to a recession in the first quarter of 2016 (negative growth rate of -0.4% and -2.1% year-on-year in real terms for first and second quarter respectively). The challenges in the oil sector, including sabotage of oil export terminals in the Niger Delta, negatively impacted government revenue and export earnings, as well as the fiscal capacity to prevent the economy from contracting. The capacity of government spending was equally constrained by lack of fiscal buffers to absorb the shock, as well as leakages of public resources.

53. As a petrocurrency, the Naira came under significant pressure during 2015 and the Central Bank made a devaluation of the official rate in June 2016 – this had a significant contribution on inflation.

54. After five consecutive quarters of real economic decline (from Q1 2016 to Q1 2017 inclusive), the economy returned to positive growth in Q2 2017 and improved month on month thereafter until Q1 2018.

55. The release of the 2018 Q1 GDP figures by ??? saw a slight adjustment to the previous quarter (2017 Q4) figures from 1.95% to 2.11% quarterly growth – this was offset by a reduction in Q3 growth from 1.40% to 1.17% - therefore the total growth for the year remained at 0.83%. This is a marked improvement compared to 2016 which saw a decline of 1.58%.

56. Real GDP growth in 2018 Q1 was estimated at 1.92% - slightly lower than the previous quarter. This is broadly in line with the IMF projects for 2018 of 1.9%, but considerably below the Economic Recovery and Growth Plan (ERGP) target of 4.8%. Growth in Oil sector, which represents almost 10% of the economy, was considerably higher than non-oil (13.24% quarter on quarter compared to 0.76%), and the non-oil rate of 0.76% showed a reduction from the 1.46% in the previous quarter.

57. CPI Inflation has experienced a continual month on month reduction since a high of 18.72% (year-on-year) in January 2017. As the effects of the devaluation of the Naira (from 197 to 305) in mid-2016 come out of the year-on-year figures, and the gap between the official and parallel foreign exchange markets narrows, the drop off in inflation has been quite marked – from 16.05% in July 2017 to 12.48% in April 2018. The average rate for the four months to date in 2018 is below the 14.8% forecast by the IMF, but still above the 12.42% targeted in the ERGP.

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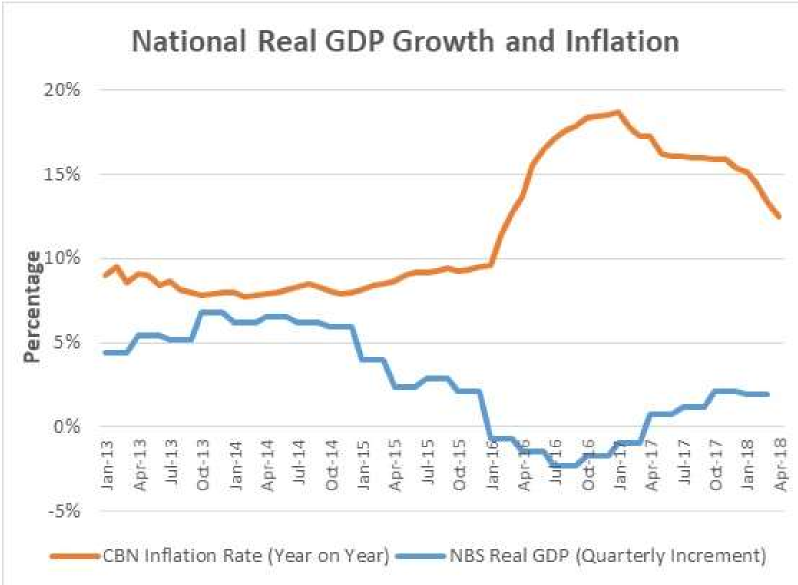
[4] https://www.cnbcafrica.com/insights/2018/04/21/imf-africa-outlook/

[5] Sources: IMF WEO, April 2018, NBS Reports, CBN Reports, NNPC Reports, OPEC Reports and US Energy Information Administration Reports.

Figure 2: Real GDP Growth and Inflation

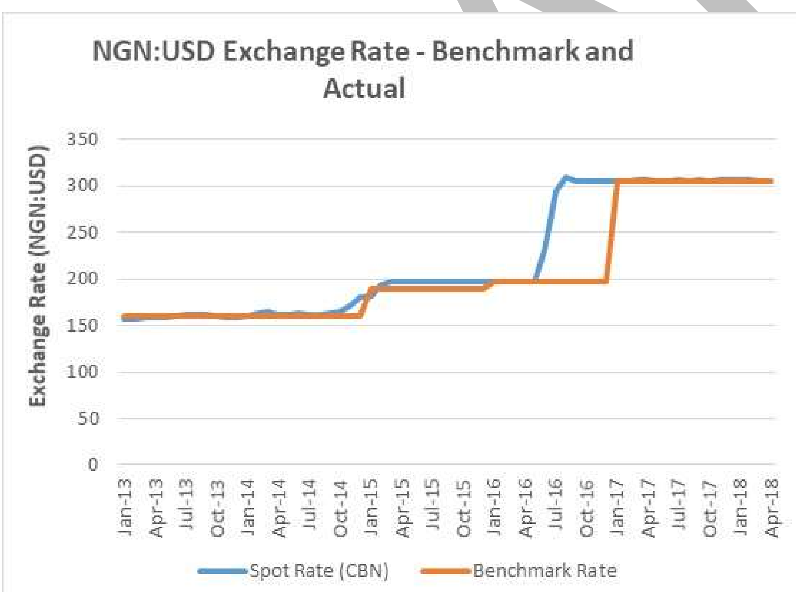


Data Sources and Trends:

- Data from NBS monthly CPI and quarterly GDP reports.
- Divergence of inflation (increasing) and real GDP growth (decreasing) in early 2015 as a result of global crude oil price crash.
- Inflation rate also affected by devaluation of the Naira in mid-2016.
- One-off effect of the 2016 devaluation is no longer reflected in inflation figures, hence a drop.
- Return to positive real GDP growth in Q2 2017 coincided with crude oil price recovery.

58. The NGN:USD exchange rate, which is a key crude oil revenue parameter, for the period January 2013 to April 2018, along with the benchmarks assumed in the Federal Government budgets over the same period, are shown in Figure 3 below.

Figure 3: NGN:USD Exchange Rate



Data Sources and Trends:

- Data from Federal Budget documents and CBN.
- Little variation between benchmark and actual rates over last 6 years.
- NGN:USD FX rate relatively stable from 2011 to end of 2014 at around 150.
- Devaluation from 155 to 197 late 2014 and coincided with Crude Oil Price crash, further devaluation in June 2016 to around 305, stable thereafter.
- Recent closing of gap between IFEM, BDC (Bureau de Change) and parallel market rates.

59. After a period of stability at around 155 Naira to the US Dollar (USD), there was a deprecation to 197 Naira (official rate) in late 2014 and a further significant one-off deprecation from 197 to around 305 in mid-2016 as crude oil export sales value plummeted, and the Nigerian economy sank into recession. As foreign exchange controls came into place, the parallel market rate for USD sored to over 500 for a period. This has since eased back to around 360 with the official rate remaining at 305 for the last two years.

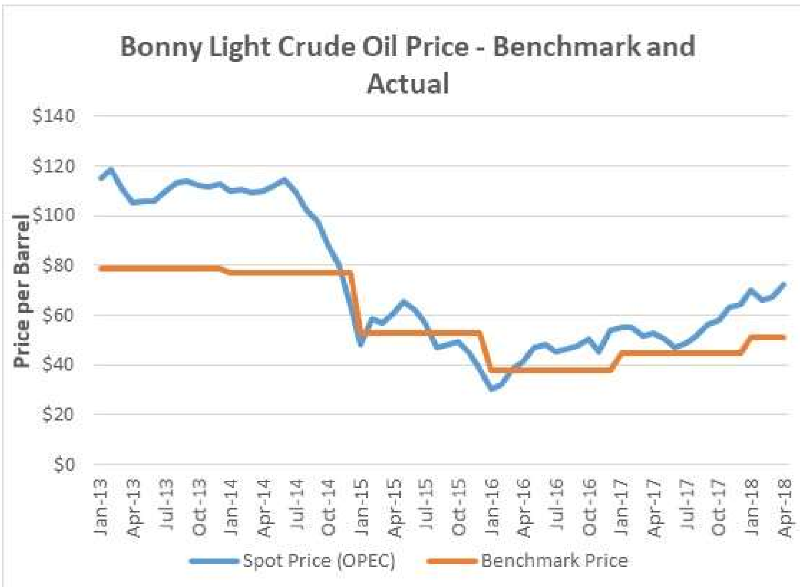
60. As crude oil prices and production rally and then potentially stabilise, there should be less pressure on the Naira. However, inflation is still high (at two digits, insert current inflation rate), money supply is increasing and with a slight correction to crude oil prices in 2019,

there is still a risk, maybe small but still present, of further depreciations of the Naira in the future.

61. The benchmark rate has closely tracked the actual exchange rate of the period. The mid-year depreciation in 2016 was subsequently reflected in the 2017 budget assumptions, and the six-month period of differentials between benchmark and actual rates generated exchange rate gain distributions as the value of crude oil sales exceeded budget when converted to Naira.

62. Crude Oil (Bonny Light) Price (spot price and benchmark), another key mineral revenue parameter, for the period January 2013 to April 2018 are presented in Figure 4 below.

Figure 4: Bonny Light Crude Oil Price



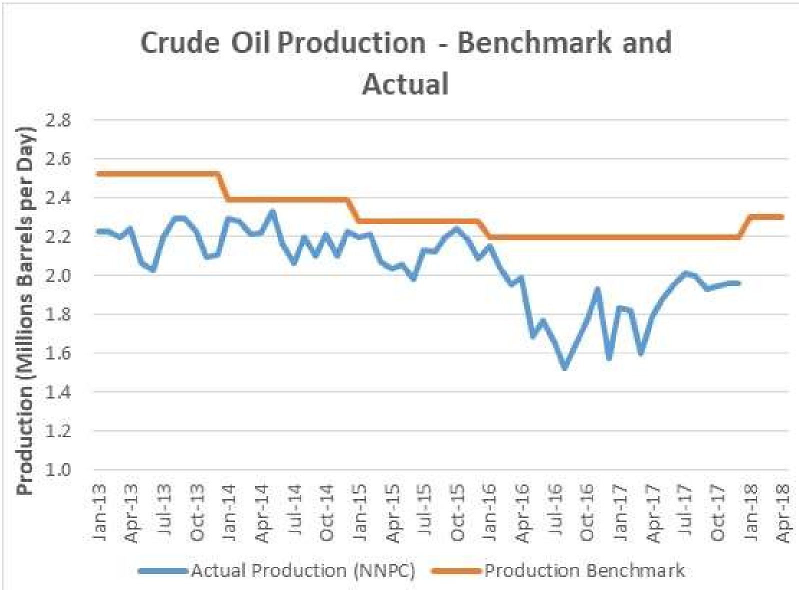
Data Sources and Trends:

- Data from Federal Budget documents and OPEC monthly reports.
- A high of $120 per barrel in early 2013.
- Price crash in second half of 2014 due to global economic downturn resulting in a low of under $30 per barrel in early 2016.
- Price has been above benchmark since Q2 2016.
- Benchmark approved at $51 per barrel for 2018, current prices above $70.
- Full year average price also likely to exceed $70.

63. However, the current price is some way off the high of $120 per barrel recorded in early 2013 – and the outlook into 2019 is for a check to the upward trend. IMF in its WEO April 2018 forecasts a 6.5% drop in Crude Oil prices in 2019, and average annual decreases of 2.1% per annum for the following four-year period up to and including 2023. In a similar vein, the US Energy Information Administration foresees a drop in Crude Oil prices of around $5.00 per barrel in 2019 compared to the average price for 2018 (Brent Crude is forecast to drop from $70.68 in 2018 to $65.98 in 2019). This trend is likely to start taking effect in the second half of 2018 meaning there will be limited scope for increasing the benchmark in 2019.

64. Crude Oil Production is the third key driver of mineral revenues. Production (including Condensates) for the period January 2013 to December 2017 along with the benchmark is presented in **Error! Reference source not found.** below.

Figure 5: Crude Oil Production



Data Sources and Trends:

- Data from Federal Budget documents and NNPC monthly reports (production includes condensates).
- Production has been below the benchmark throughout the period.
- Fluctuations relatively minimal up to end of 2015, but high degree of variance in 2016 and 2017.
- Latest official production figures available are for December 2017 – most up-to-date trend cannot be assessed, but production close to 2.0 MBDP in last quarter of 2017.

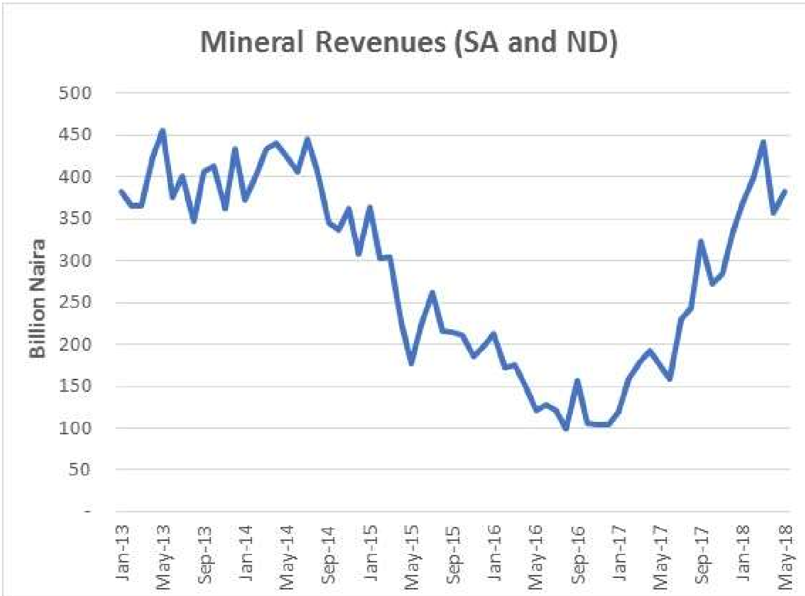
65. Production levels have fallen off the longer-term trend of 2.2 MBPD (million barrels per day) since early 2016 for a number of reasons including militancy in the Niger Delta region and force majeure. Through 2016 and 2017 the average production was 1.85 MBPD, however the latter half of 2017 saw an upgrade trend towards 2.0 MBPD. Data from NNPC is only available up to and including December 2017.

66. OPEC (the Organisation of Petroleum Exporting Countries) provides more recent data (up to and including April 2018) but this does not include condensates so cannot be directly compared to NNPC figures. There is usually a gap of around 0.2-0.3 MBPD between NNPC figures (which include condensates, which is the basis for budget assumptions) and OPEC secondary figures (which do not include Condensates). So, the April 2018 production figure of 1.791 MBPD from OPEC probably translates to around 2.0-2.1 MBPD including condensates for April 2018. This is consistent with the reports in the national dailies of production of 2.07 MBPD.

67. ERGP and the Federal MTEF/FSP document are projecting 2.3 MBPD for 2019 and 2.4 MBDP for 2020 – these levels of production have never been sustainably achieved before. And bringing extra production online may also involve additional costs (exploration) and involve production sites that incur higher costs.

68. Monthly distributed Mineral Revenues (Statutory Allocation (SA) and Net Derivation (ND)) to the three tiers of government from January 2013 to May 2018 inclusive are shown in Figure below.

Figure 6: Distributed Mineral Revenues



Data Sources and Trends:

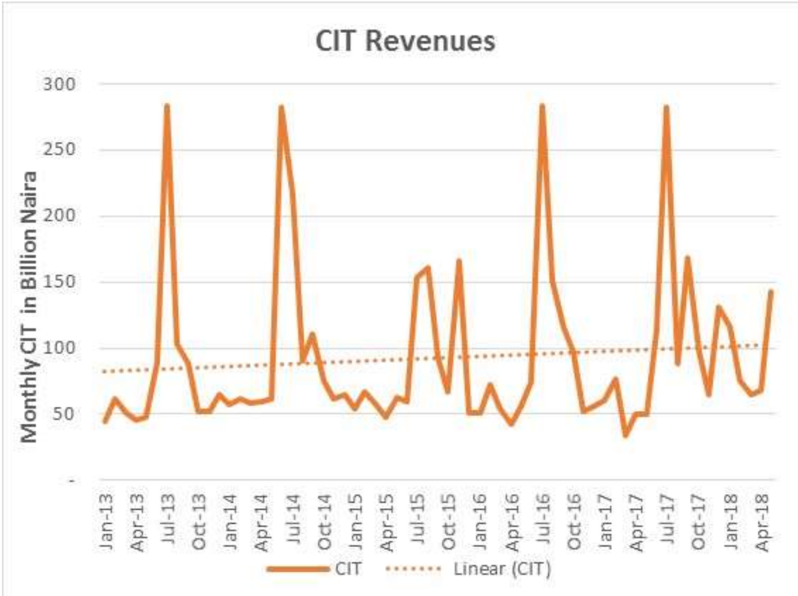
- Data from FAAC summary sheets (OAGF).
- Distributed Mineral Revenues fell to a record low of less than N100 billion in late 2016.
- Strong growth in 2017 and Q1 2018 with a high of almost N450 billion in March 2018.
- Increases are as a result of price and production increases and an increase to the mineral ratio (which is itself affected by various factors including leakage, contracting models, etc).

69. The increase in distributable revenues (this is after deduction of excess crude) over the last 18 months is significant – from around N105 billion in December 2016 to N442 billion in March 2018. The combination of increasing production, price and mineral ratio have all contributed to the improvement.

70. The distribution of N442 billion in March 2018 has only been surpassed on three previous occasions (October 2011, May 2013, July 2014). With the time lag in terms of distribution of crude oil revenues compared to the production and sale, the next 2-3 months should see similar levels of distribution (i.e. around N400 billion per month).

71. Gross Companies Income Tax (CIT) revenues, which are distributed as part of Statutory Allocation, from January 2013 to May 2018 inclusive are shown in Figure below. The graph also includes linear trend.

Figure 7: CIT Revenues



Data Sources and Trends:

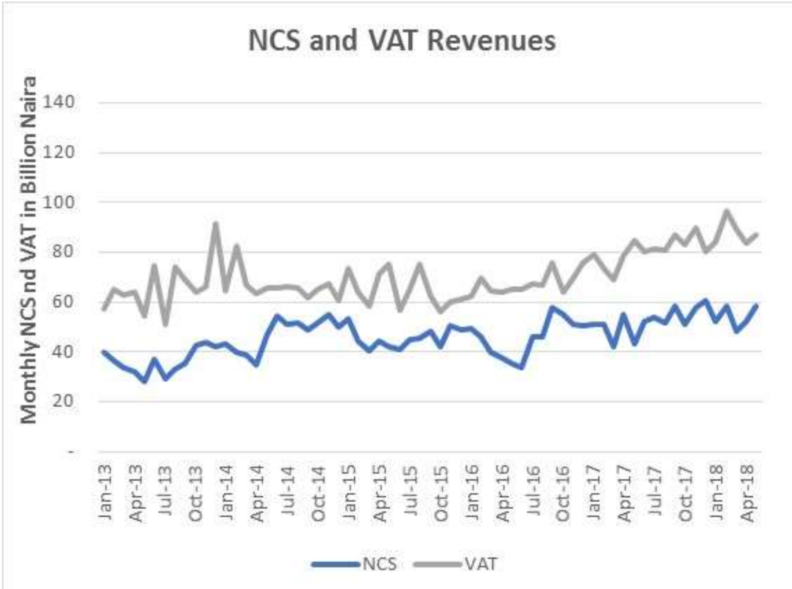
- Data from FAAC summary sheets (OAGF).
- CIT trend of an annual spike in collections in June (distributed in July) continued in 2017 at approximately the same level as previous years.
- Over 40% of the annual collected revenue flows in the three months from June to August.
- Quite significant variability in receipts over the last nine months, including large distributions in December 2017, January and May 2018.
- Linear trend added to graph to smooth large fluctuations.

72. The graph shows the annual spike in distributions (collections from the previous month) that is in line with the annual tax returns and payment cycle in FIRS. This generally happens in July. What is immediately striking is that the level of collections since the July spike in 2017 have been variable and, on average, significantly higher than in previous years (distributions from August 2017 to May 2018 were 35% higher than the same period 12 months earlier). This may be due to one off collections as part of the FIRS amnesty programme (which ended in December 2017, and has been extended to end of June 2018), but these should also result in more corporate tax payers being brought into the net which will boast tax collections in subsequent years.

73. There is also a clear upward trend in CIT as shown by the linear trend line (which is useful given the level of fluctuation). Forecast of CIT for full-year 2018 and for 2019 is still difficult, it will be easier once the mid-year collections are known.

74. Customs and Excise duties (NCS), which is distributed as part of Statutory Allocation, and VAT (which is distributed in its own right), for the period January 2013 to May 2018 are shown in Figure below.

Figure 8: NCS and VAT Revenues



Data Sources and Trends:

- Data from FAAC summary sheets (OAGF).
- Clear upward trend in VAT which has been consistently over N 80 billion per month for the last 12 months.
- NCS (Customs) has been fluctuating around the N 55 billion mark for the last 12 months – no real upward trend but a degree of consistency as exchange rates have settled.

75. VAT shows a clear upward trend since late-2015. This is to be expected as the general price level rose quite significantly over the same period, which should transfer straight into additional VAT (for VAT-able items). There is still a level of monthly volatility that makes it slight difficult to forecast, however with the economy returning to positive real growth and inflation staying above 10% for some time to come, it is anticipated that the VAT will continue to grow in nominal terms.

76. Customs and Excise receipts and distributions have also fluctuated significantly from month to month – most recently between N40 billion and N60 billion per month. Customs and Excise receipts have been consistently in this range since mid-2016 and have tended to be toward the upper end of the range (i.e. above N50 billion) for the last 12 months. The FGN on 4th June 2018 approved an upward revision of Excise duties on alcohol and tobacco products for the next three years (2018-2020). This measure is likely to affect excise duty collections in the remaining months of 2018 and into 2019 and 2020.

77. Based on the above historical trend and projections by various agencies (IMF, EIA, etc.), an outlook for the remainder of 2018 and 2019 is provided in Table below. It includes comparison to the ERGP and the Federal MTEF (2018-2020) assumptions.

Table 4: 2018-2019 Macroeconomic Outlook[6]

Item	2018			2019		
	ERGP	Federal MTEF	Forecast	ERGP	Federal MTEF	Forecast
National Inflation (CPI)	12.42%	12.42%	14.00%	13.39%	13.39%	14.80%
National real GDP Growth	4.8%	3.5%	2.1%	4.5%	4.5%	1.9%

[6]Notes on data in Table 4

- Federal MTEF/FSP (Medium Term Expenditure Framework / Fiscal Strategy Paper) Document dated August 2017.
- 2018 and 2019 Forecast CPI and real GDP is based on IMF World Economic Outlook April 2018.
- 2018 Forecast based on full-year estimating (using year to date collection and prior flow rates), 2019 Forecast based on Elasticity forecasting (Real GDP and Inflation explanatory variables).
- ERGP Growth rates for Non-Mineral Revenues for 2018 is not determinable as this includes Federal IGR for which 2017 actuals are not available. 2019 growth rate is a single figure to cover all non-mineral revenues (including IGR).

Implied Growth in NCS		5.7%	11.8%%		-0.2%	12.2%
Implied Growth in CIT	Unknown	29.2%	48.6%	4.7%	14.0%	15.0%
Implied Growth in VAT		49.2%	13.1%		27.1%	11.4%
Oil Price (Benchmark)	$45	$45	$51	$50	$50	$55
Oil Production MBPD (Benchmark)	2.3	2.3	2.1	2.4	2.4	2.2
USD Exchange Rate (Benchmark)	305	305	305	305	305	305
Mineral Ratio	36.6%	46.2%	33%	43.8%	52.9%	35%

2.A.4 The State of OsunEconomy

78. Osun State has enjoyed impressive GDP performance over the years, although not quite as high as the national average since Osun does not benefit directly from the mineral sector.

79. According to the United Nations' Global Multidimensional Poverty Index, 2017, Osun State was ranked 2nd Wealthiest State in Nigeria after Lagos and Fourteenth on GDP ranking list of States by NBS in 2010. Also, in a recent UN publication, Osun came second after Lagos in the result of a National Assessment for 2014 on infant and material healthcare delivery. On the poverty index rating, Osun still came second (10.9%) only to Lagos State (8.5%) according to UN's report on Nigeria's Common Country Analysis (CCA, 2017).

80. Economic activities in the State are predominantly farming and commerce. The State of Osun is an agrarian State: depending heavily and critically on the agriculture sector for its food supply, employment and growth of its GDP. The major food crops planted include: cereals like maize and beans; roots and tubers like cassava, yam and cocoyam; as well as fruits and vegetables like oranges, cashew, mango and tomatoes. The cash crops grown include tobacco, cocoa and oil palm.

81. Tourism is an emerging economic activity in the State. The State has a rich cultural heritage which is shown in its music, art dances, dress and cultural festivals. The State is well known for its talking and Bata drums, as well as works of arts

82. 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.

83. The state is still a net importer of goods and services but is a net exporter of agriculture produce to other states. The movement of agricultural produce is not well-documented and computed to register meaningful contribution to the state economy.

84. 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 undergoing transformation.

85. 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).

86. 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.

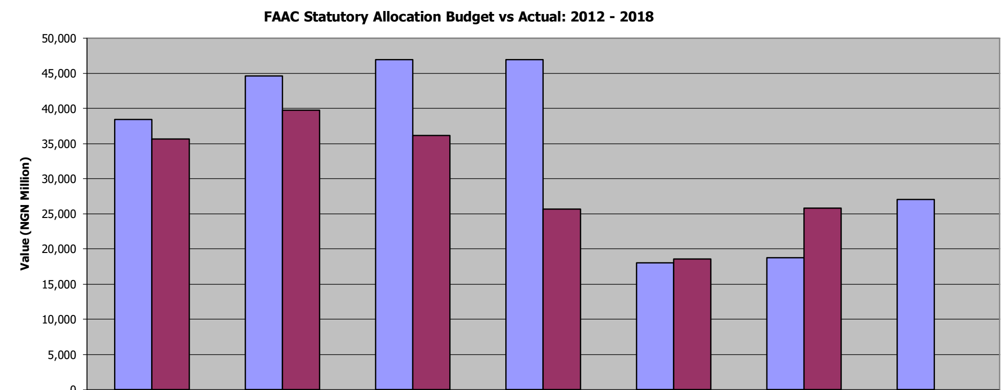
2.B Fiscal Update

2.B.1 Historic Trends

Revenue Side

87. On the revenue side, the document looks at Statutory Allocation, VAT, IGR, Excess Crude, and Capital Receipts – budget versus actual for the period 2012-2017 (six year historic) and 2018 budget.

Figure 9: Statutory Allocation



	2012	2013	2014	2015	2016	2017	2018
Budget	38,400,000,000	44,619,292,303	47,000,000,000	47,000,000,000	18,000,000,000	18,800,000,000	27,064,054,430
Actual	35,638,656,067	39,759,698,254	36,161,401,370	25,670,036,659	18,591,636,640	25,859,771,586	0
Performance	92.8%	89.1%	76.9%	54.6%	103.3%	137.6%	0.0%
Growth		11.56%	-9.05%	-29.01%	-27.57%	39.09%	0.00%

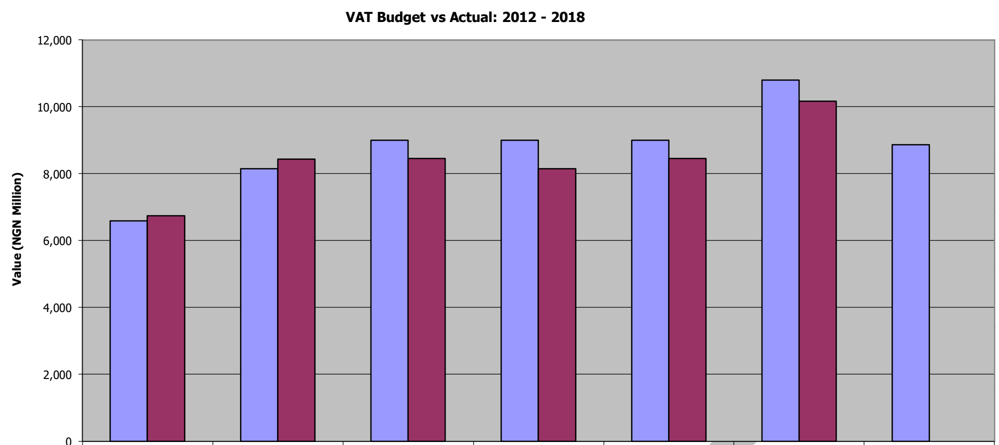
Year

88. Statutory Allocation is a transfer from Federation Account that is distributed to all three tiers of government based on vertical (percentage to each of the three tiers) and a horizontal (e.g. Equity, land mass, population etc) sharing formula. The revenue that flows into Federation Account as Statutory allocation comes from the mineral and non-mineral sources (company income tax and custom and excise duties).

89. In terms of performance, the picture has been mixed with budget exceeding actual in four of the 6 years (i.e. 2012, 2013, 2014 and 2015), whereas in 2016 and 2017 the reverse has been the case with actual exceeding the budgeted amount.

90. Actual statutory allocation increased from 2012 to 2013 by11.56%. Statutory allocation began to decline from 2014 to 2016. Statutory allocation dropped from N39.75 billion in 2013 to N18.59 billion in 2016 (i.e. 53.23%). However, the situation was reversed in 2017 when statutory allocation increased by 39.09% (i.e. N25.85 billion).

Figure 10: VAT



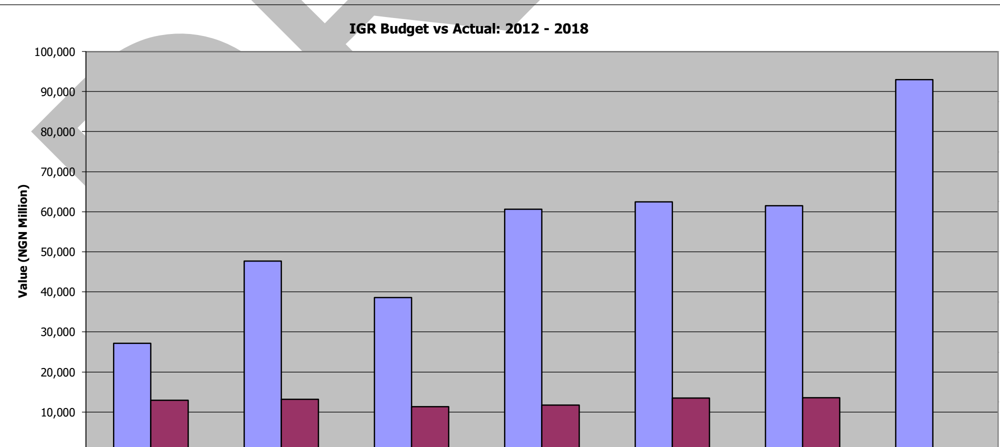
	2012	2013	2014	2015	2016	2017	2018
Budget	6,600,000,000	8,147,084,960	9,000,000,000	9,000,000,000	9,000,000,000	10,800,000,000	8,870,044,300
Actual	6,746,586,543	8,440,260,401	8,462,390,580	8,144,705,885	8,466,435,500	10,175,820,259	0
Performance	102.2%	103.6%	94.0%	90.5%	94.1%	94.2%	0.0%
Growth		25.10%	0.26%	-3.75%	3.95%	20.19%	0.00%

91. Value Added Tax (VAT) is an ad-valorem tax applied to sales of almost all goods and services within the Nigerian economy which is applied at a rate of 5%. VAT is collected by FIRS and distributed across the three tiers of government. The distribution to each state is based on a set of criteria slightly different from statutory allocation distribution.

92. VAT receipts have increased every year from 2012 to 2014 largely due to sustained annual increases in economic activities for the period. VAT dropped in 2015 but increased in 2016 and 2017.

93. From a performance perspective, in the first two years, actual receipts exceeded the budgeted amount whereas in the next four years (2014-2017) the reverse was the case with the budget amount exceeding actual receipts. However, the variance between budget and actual in all the years is less than 10%, this is commendable.

Figure 11: IGR



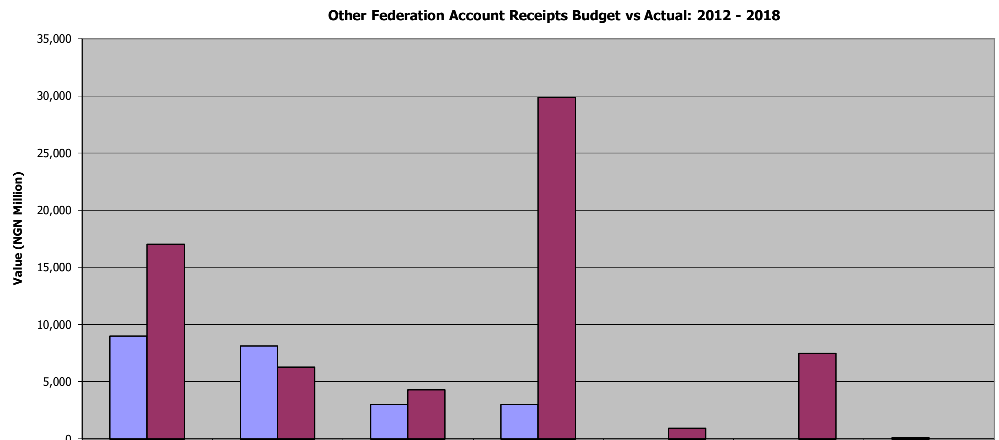
	2012	2013	2014	2015	2016	2017	2018
Budget	27,189,937,187	47,679,245,275	38,491,471,500	60,646,308,500	62,455,079,400	61,535,868,130	93,004,976,458
Actual	12,876,413,225	13,124,886,632	11,290,953,507	11,783,968,573	13,489,297,091	13,656,294,310	0
Performance	47.4%	27.5%	29.3%	19.4%	21.6%	22.2%	0.0%
Growth		1.93%	-13.97%	4.37%	14.47%	1.24%	0.00%

94. Internally Generated Revenue (IGR) is collected by Osun Internal Revenue Service (OIRS) and revenue collecting MDA's. The major sources of IGR are PAYE, lands and land services, withholding tax, dividends from state investments, fines, fees, licenses and other sources.

95. IGR has been fluctuating between N11.29 billion and N13.65 billion from 2012 to 2017. Over the period, IGR increased marginally in one year and declined in the next year.

96. In all the years performance against budget has been abysmal asit was less than 30%.

Figure 12: Other FAAC Receipts



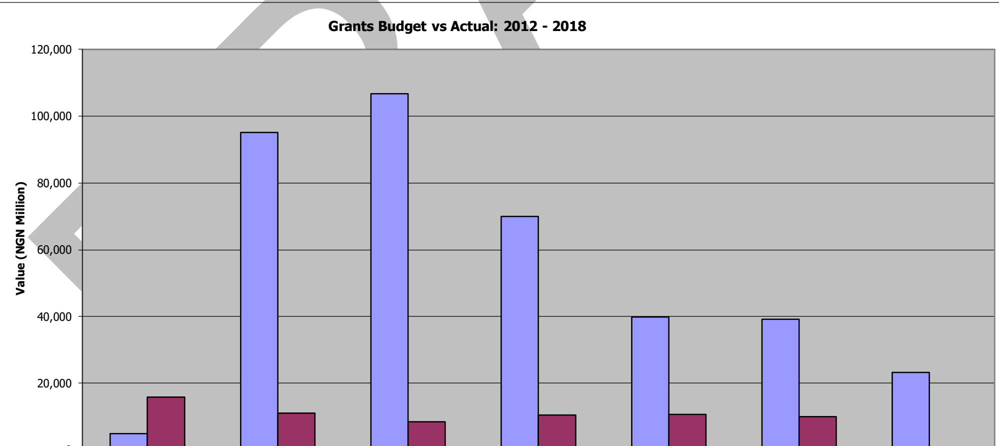
	2012	2013	2014	2015	2016	2017	2018
Budget	9,000,000,000	8,134,334,112	3,000,000,000	3,000,000,000	0	0	77,780,840
Actual	17,018,829,544	6,290,943,775	4,294,282,571	29,880,265,497	945,244,652	7,500,229,951	0
Performance	189.1%	77.3%	143.1%	996.0%	0.0%	0.0%	
Growth		-63.04%	-31.74%	595.82%	-96.84%	693.47%	

Year

97. Other FAAC receipts include all other FAAC distributed revenue accruing from other sources. Other FAAC distributed revenue includes Excess Crude, exchange gains, refunds from NNPC and FIRS, augmentations and any other excesses.

98. Performance has been falling from 2012 to 2014 and no receipts in 2016 and 2017.

Figure 13: Grants



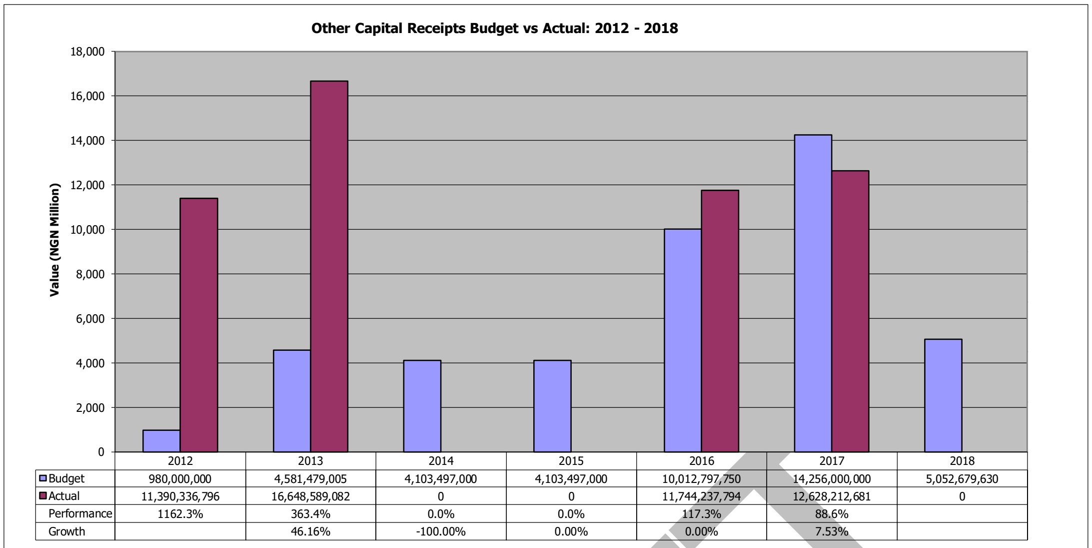
	2012	2013	2014	2015	2016	2017	2018
Budget	4,935,598,822	95,107,873,166	106,748,650,760	69,990,555,200	39,770,520,920	39,203,154,680	23,153,870,020
Actual	15,904,916,796	11,018,163,080	8,389,903,658	10,479,568,205	10,699,274,623	10,009,761,670	0
Performance	322.2%	11.6%	7.9%	15.0%	26.9%	25.5%	
Growth		-30.72%	-23.85%	24.91%	2.10%	-6.44%	

Year

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

100. Grants were received in all the years. The graph shows the high degree of unpredictability in this item of capital receipt as actual performances from 2013 to 2017 were very low (less than 26% in each of the 5 years). The implication going forward is that the state will be very cautious in budgeting for grants in the future.

Figure 14: Other Capital Receipts

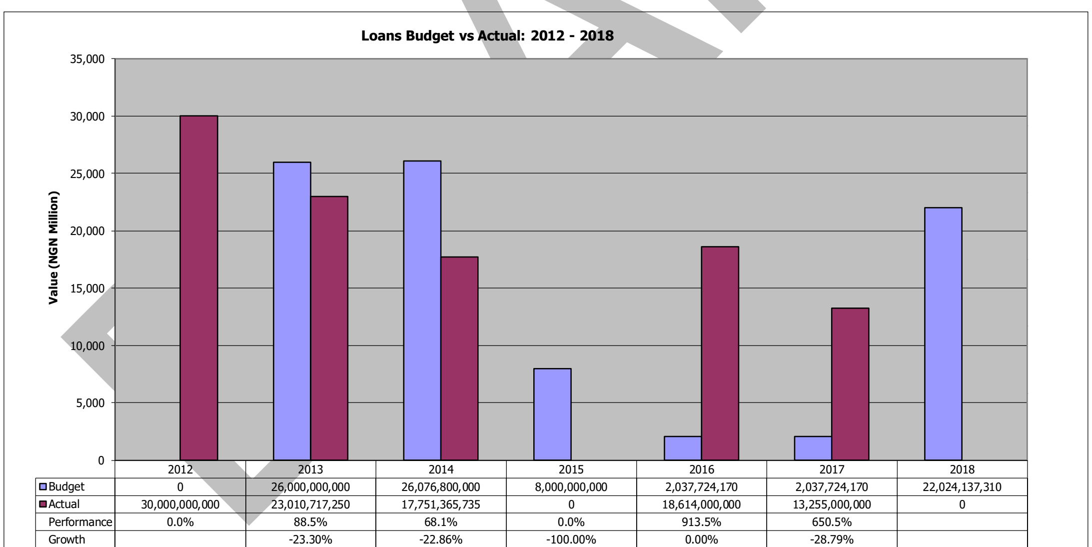


	2012	2013	2014	2015	2016	2017	2018
Budget	980,000,000	4,581,479,005	4,103,497,000	4,103,497,000	10,012,797,750	14,256,000,000	5,052,679,630
Actual	11,390,336,796	16,648,589,082	0	0	11,744,237,794	12,628,212,681	0
Performance	1162.3%	363.4%	0.0%	0.0%	117.3%	88.6%	
Growth		46.16%	-100.00%	0.00%	0.00%	7.53%	

101. Other Capital Receipts includes amount flowing from.................................... Other capital receipts grew from N11.39 billion in 2012 to N16.64 billion in 2013. No receipts in 2014 and 2015, but in 2016 and 2017 the state received N11.74 and N12.62 billion respectively.

102. In terms of performance, the actual amount exceeded budgeted in 2012, 2013 and 2016 but the budgeted amount exceeded the actual amount in 2017.

Figure 15: Loans / Financing



	2012	2013	2014	2015	2016	2017	2018
Budget	0	26,000,000,000	26,076,800,000	8,000,000,000	2,037,724,170	2,037,724,170	22,024,137,310
Actual	30,000,000,000	23,010,717,250	17,751,365,735	0	18,614,000,000	13,255,000,000	0
Performance	0.0%	88.5%	68.1%	0.0%	913.5%	650.5%	
Growth		-23.30%	-22.86%	-100.00%	0.00%	-28.79%	

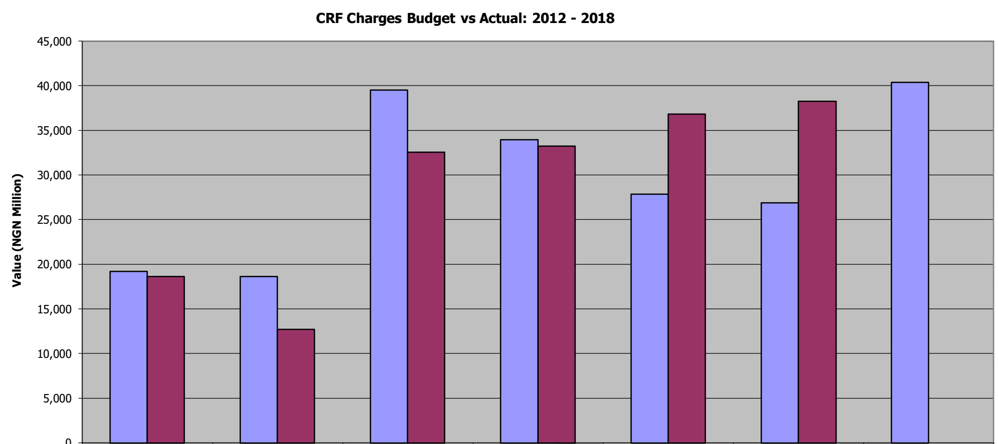
103. Loans include both Internal and External loans. Internal loans include development bond, short term commercial loans, contractual obligations, etc. External loan are receipts from World Bank, African Development, Islamic Development Bank, etc.

104. The State benefited from loans/financing in 5 of the 6 years. The highest amount was in 2012 with N30 billion. The high loan/financing figures of 2012, 2013 and 2014 effected states operations in 2015 to 2017.

Expenditure Side

105. On the expenditure side, the document looks at Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital Expenditure – budget versus actual for the period 2012-2017 (six years) and 2018 budget.

Figure 6: CRF Charges



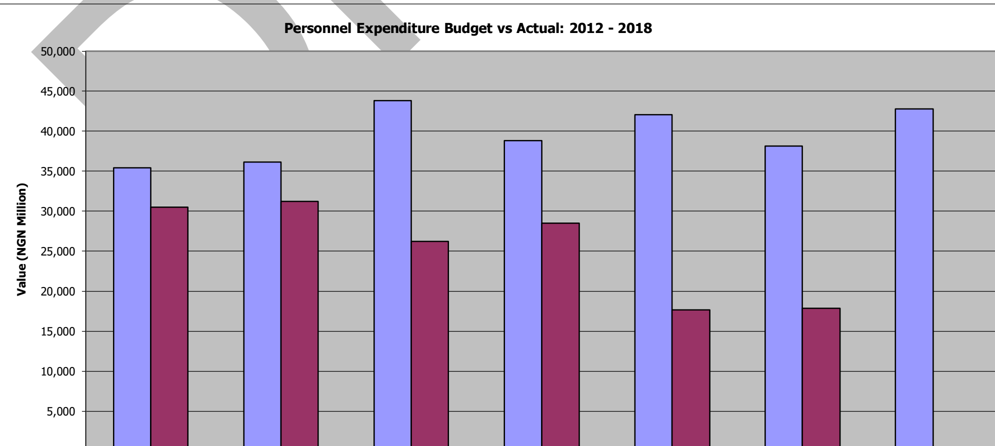
	2012	2013	2014	2015	2016	2017	2018
Budget	19,229,125,000	18,632,190,478	39,550,000,000	33,973,000,000	27,900,000,000	26,900,000,000	40,394,547,850
Actual	18,652,601,568	12,780,671,088	32,581,705,210	33,290,797,359	36,835,273,920	38,264,714,735	0
Performance	97.00%	68.59%	82.38%	97.99%	132.03%	142.25%	
Growth		-31.48%	154.93%	2.18%	10.65%	3.88%	

Year

106. Consolidated Revenue Fund (CRF) charges include Public Debt Charge, Pensions and Gratuities, other social contribution items. Salaries of Judicial Officers, Political Office holders, Permanent Secretaries, Accountant General, Auditor Generals of state, Auditor Generals of Local Government and members of Statutory Commissions are captured under personnel costs.

107. CRF declined from N18.65 billion in 2012 to N12.78 billion in 2013 but increased to N32.58 billion (154% increase) in 2014. The CRF marginally grew in 2015, 2016 and 2017. There has been mixed performance with budget exceeding actual in 2012, 2013, 2014 and 2015 whereas in the other years (2016 and 2017) the reverse has been the case.

Figure 7: Personnel



	2012	2013	2014	2015	2016	2017	2018
Budget	35,368,667,950	36,099,360,561	43,816,022,430	38,810,450,420	42,017,171,910	38,111,191,990	42,716,249,920
Actual	30,457,390,853	31,206,960,875	26,227,186,194	28,475,500,545	17,676,739,656	17,862,024,074	0
Performance	86.11%	86.45%	59.86%	73.37%	42.07%	46.87%	
Growth		2.46%	-15.96%	8.57%	-37.92%	1.05%	

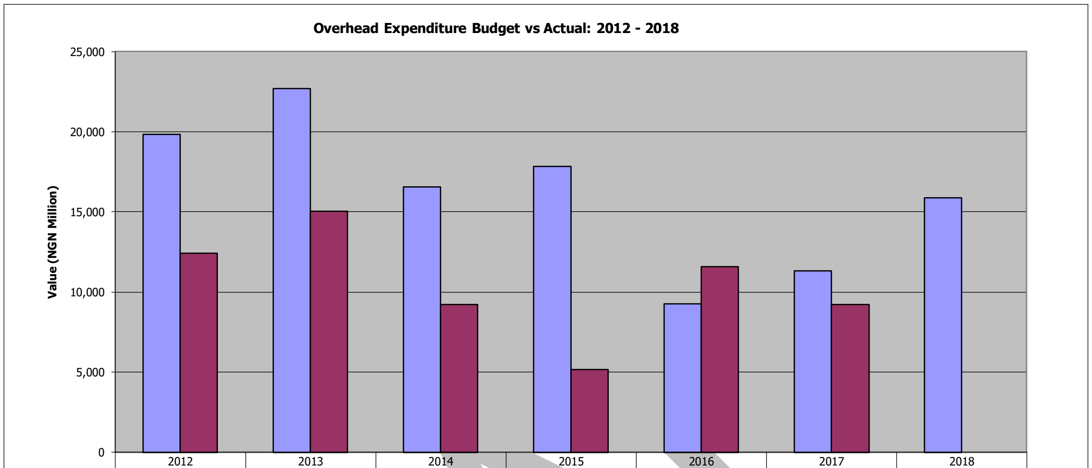
Year

108. Personnel Cost comprised of salaries and allowances of civil servants, public servants in government agencies and parastatals, members of the State House of Assembly, Judicial

Officers, Political Office holders, Permanent Secretaries, Accountant General, Auditor Generals of state, Auditor Generals of Local Government and members of Statutory Commission. Personnel Cost has risen steadily over the period under review reaching N24.8 billion in 2014.

109. In terms of performance, the picture has been mixed with actualsdeclining drastically in 2016 and 2017. The actual performance in the two years (i.e. 2016 and 2017) were because of restructuring of personnel costs in 2016 and 2017. The 2016 and 2017 actual personnel costs should not be used as basis for forecasting personnel costs for 2019 and beyond.

Figure 8: Overheads



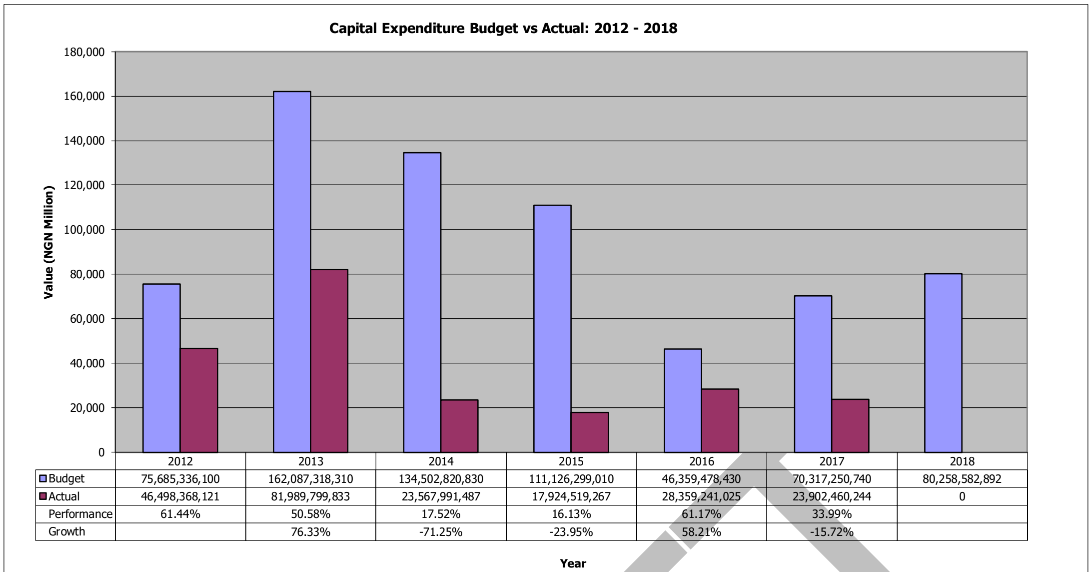
	2012	2013	2014	2015	2016	2017	2018
Budget	19,841,492,830	22,691,534,710	16,551,576,000	17,830,971,270	9,265,921,900	11,304,304,250	15,878,162,326
Actual	12,442,419,184	15,037,182,186	9,232,278,733	5,145,719,456	11,564,447,002	9,219,924,311	0
Performance	62.71%	66.27%	55.78%	28.86%	124.81%	81.56%	
Growth		20.85%	-38.60%	-44.26%	124.74%	-20.27%	

Year

110. Overhead expenditure is comprised of operational and maintenance cost for running Government activities. The actual overhead has been variable, falling from 2013 to 2015 before rising in 2016 and then falling in 2017.

111. In five of the six years, the budgeted amount has significantly exceeded the actual except in 2016 where the reverse was the case. The low amount spent as overhead in 2015 was because reduced overhead was as result of managing challenges resulting from decline in revenue accruing to the State.

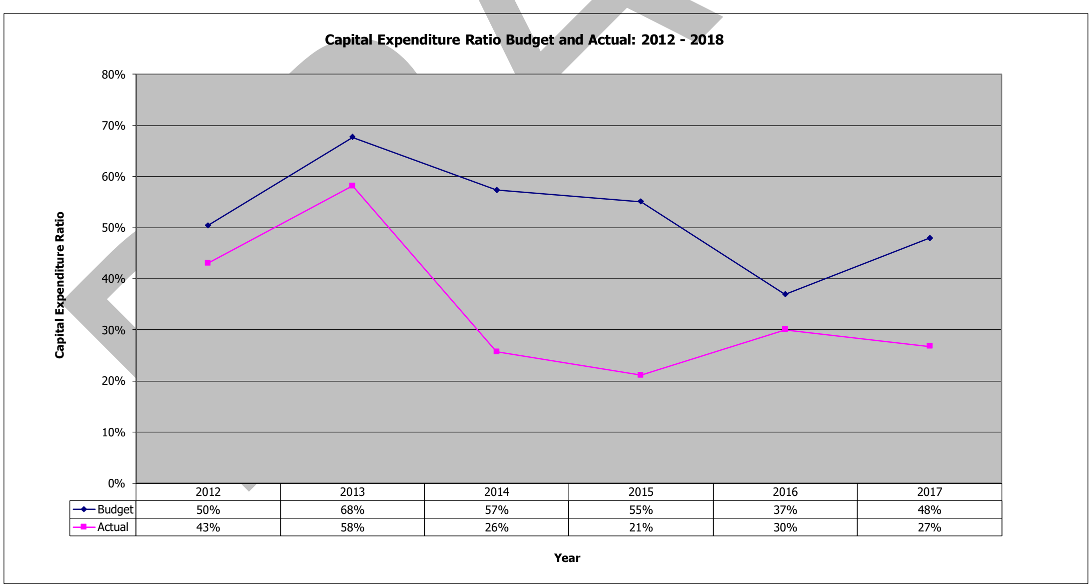
Figure 9: Capital Expenditure



112. Capital Expenditure includes the main investment of government through implementation of programmes and projects. In terms of actual capital expenditure, the picture has again been mixed with the rise over the period 2012 to 2013, decline in 2014 and 2015, then a rise again in 2016 and fall again in 2017.

113. In all the years, the budgeted amount exceeded the actual amount, and in some years performance was less than 50%.

Figure 20:Capital Expenditure Ratio



114. The graph shows a variable picture in terms of capital expenditure ratio. In all the years, the budgeted capital expenditure ratio exceeded the actual capital expenditure ratio. Budgeted capital expenditure ratioexceeded 50% in 2012, 2013, 2014 and 2015 and less than 50% in 2016 and 2017. However, actual capital expenditure ratio exceeded 50% in only 2013 and less than 50% in other years (i.e. 2012, 2014, 2015, 2016 and 2017). The implication is than the State spent more than 50% of entire expenditure on recurrent expenditure.

By Sector

115. The table below is a comprehensive analysis of both capital budget and actual capital expenditure with performance indicators from 2014 to 2017.

Table10: Sector Expenditure Trend

Capital Expenditure by Sector												
No.	**Sector**	**2014 Budget**	**2014 Actual**	**2015 Budget**	**2015 Actual**	**2016 Budget**	**2016 Actual**	**2017 Budget**	**2017 Actual**	**Performance**	**Average Budget**	**Average Actual**
1	**EDUCATION**	18,567,097,130	6,359,234,934	17,011,741,500	9,161,831,223	9,388,594,060	6,253,801,521	9,054,158,760	5,736,333,767	**50.93%**	14.91%	28.52%
2	**HEALTH**	3,525,900,000	832,072,620	2,280,700,000	221,629,158	1,130,751,600	723,193,671	1,776,064,400	485,085,074	**25.96%**	2.40%	2.34%
3	**WATER AND SANITATION**	8,805,000,000	500,469,651	7,444,250,000	132,957,591	1,677,137,810	673,154,018	1,700,128,980	5,308,887,337	**33.71%**	5.42%	6.86%
4	**AGRICULTURE**	1,729,500,000	552,581,658	1,599,500,000	66,510,890	1,120,453,990	40,010,531	4,636,340,560	344,524,494	**11.05%**	2.51%	1.04%
5	**COMMERCE AND INDUSTRY**	4,469,425,000	155,812,075	1,996,000,000	101,503,500	927,748,410	55,401,080	2,034,181,910	635,078,024	**10.05%**	2.60%	0.98%
6	**INFRASTRUCTURE**	57,457,500,000	5,074,056,236	40,050,542,570	3,789,977,209	14,808,193,630	13,227,187,646	21,009,508,110	6,684,036,838	**21.58%**	36.79%	29.83%
7	**SOCIAL DEVELOPMENT AND WELFARE**	4,894,804,000	2,734,825,195	4,965,000,000	1,624,388,737	29,365,050	0	86,001,890	100,104,015	**44.70%**	2.75%	4.62%
8	**ENVIRONMENT**	2,650,000,000	507,210,797	1,465,576,200	32,003,476	5,973,842,050	5,109,327,198	1,554,753,090	439,136,576	**52.28%**	3.21%	6.31%
9	**SECURITY LAW AND JUSTICE**	556,398,700	176,794,600	643,228,570	37,750,000	708,369,550	14,010,000	1,320,456,760	46,477,000	**8.52%**	0.89%	0.29%
10	**BUDGET, PLANNING AND REVENUE MOBILIZAT**	2,023,500,000	59,772,448	17,347,805,560	0	1,445,423,060	3,748,720	11,585,259,940	6,297,000	**0.22%**	8.94%	0.07%
11	**INFORMATION AND COMMINICATION**	4,247,000,000	44,332,494	1,103,440,000	45,195,875	565,076,130	72,430,606	282,132,470	76,200,510	**3.84%**	1.71%	0.25%
12	**GOVERNANCE AND ADMINISTRATION**	25,576,696,000	6,570,828,779	15,218,514,610	2,710,771,609	8,584,523,090	4,897,948,258	15,396,299,070	4,040,299,610	**28.13%**	17.87%	18.89%
	Total	**134,502,820,830**	**23,567,991,487**	**111,126,299,010**	**17,924,519,267**	**46,359,478,430**	**31,070,213,249**	**70,435,285,940**	**23,902,460,244**	**26.62%**	**100.00%**	**100.00%**

116. Thebudgeted capital expenditure exceeded actual capital expenditure in all sectors for 2014, 2015, 2016 and 2017. The sector that had the highest average performance is Environment with 52.28% closely followed by Education with 50.93%. Budget Planning and Revenue Mobilisation, and Information and Communication had the least average performance of 0.22% and 3.84% respectively.

117. In terms of budget allocation for each sector and actual expenditure for each sector, Infrastructure had the highest proportion of total capital budget as well as the highest proportion of actual capital expenditure. For the period 2014 to 2017, Infrastructure accounted for 36.79% of total capital budget and 29.83% of actual capital expenditure. Security, Law and Justice had 0.89% of capital budget but in terms of actual capital expenditure Budget Planning and Revenue Mobilisation, and Information and Communication received the least proportion with 0.07% and 0.25% respectively.

118. Going forward, it is important to be realistic in allocating capital expenditure envelopes to sectors. In addition, the 2019 – 2021 forecastseparated non-discretional capital expenditure from discretional capital expenditure that are allocated across all sectors.

2.B.2 Debt Position

119. A summary of the consolidated debt position for OsunState Government is provided in the table below.

Table 6: Debt Position as at 31st December 2017

Debt Sustainability Analysis			
A	**DSA RATIO SCENARIOS:**	**Sustainability Thresholds**	**As at 31st December 2017**
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue	50%	241.71%
2	Total Domestic Debt/IGR	150%	1012.28%
3	Total External Debt/Total Recurrent Revenue	50%	51.52%
4	Total Public Debt/Total Recurrent Revenue	100%	293.23%
5	Total Public Debt/State GDP Ratio	40%	No GDP Figure Available
	Liquidity Ratios		
6	External Debt Service/Total Recurrent Revenue	10%	1.98%
7	Total Debt Service/Total Recurrent Revenue	15%	51.10%
8	Domestic Debt Service/IGR	10%	205.74%
9	Debt Service Deductions from FAAC/Gross FAAC	40%	63.90%
			2017 Actual
B	**PUBLIC DEBT DATA AS AT 31st DECEMBER 2017**		**Naira**
1	Total Domestic Debt		138,239,593,287
2	Total External Debt		29,465,252,846
3	**Total Public Debt**		**167,704,846,133**
4	Total Domestic Debt Service 2017		28,096,760,769
5	Total External Debt Service in 2017		1,130,477,058
6	**Total Public Debt Service**		**29,227,237,826**

120. The State is not performing well in most ratios except for External Debt Service to Total Recurrent Revenue. Total Domestic Debt to IGR ratio is 1,012.28% which is well off the sustainable threshold of 150%. One of the 22 action points of the Fiscal Sustainability Plan is that monthly debt service deduction should not exceed 40% of the average FAAC allocation for the preceding 12 months. The debt service deduction from January to December 2017 from FAAC allocation over the period is 63.9%. This is higher than the FSP recommended threshold of 40% by 23.9%.

121. In the interim, although foreign exchange represents a risk, foreign loans represent a more affordable solution to borrowing. In view of the high level of domestic debt and domestic debt service costs as indicated in table 6 above, it is also recommended for the Debt Management Office to produce debt sustainability analysis and Medium-Term Debt Management Strategy.

Section 3 Fiscal Strategy Paper

3.A Macroeconomic Framework

122. 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 2018-2021. Real GDP growth and Inflation (CPI) are as per the IMF World Economic Outlook dated April 2018. The figures represent a prudent macro-economic framework from which the State of Osun Medium Term Fiscal Framework is drawn.

Table7: Osun State Macroeconomic Framework

Macro-Economic Framework

Item	**2018**	**2019**	**2020**	**2021**
National Inflation	14.00%	14.80%	14.00%	14.00%
National Real GDP Growth	2.10%	1.90%	2.000%	2.00%
Oil Production Benchmark (MBPD)	2.1000	2.1000	2.3000	2.3000
Oil Price Benchmark	$51.00	$51.00	$51.00	$51.00
NGN:USD Exchange Rate	305	305	305	305
Other Assumptions				
Mineral Ratio	33%	35%	35%	36%

3.B Fiscal Strategy and Assumptions

Policy Statement

123. As a Sub-National Government in a Federating Unit, the overall fiscal policy direction of the Federal Government has serious implication for the State's fiscal policy direction. In this connection, the State's budgetary estimates are based on many variables that are outside the control of the State. Such variables include: transfers from the Federation Accounts, share of Value Added Tax,growth/decline in the national GDP, National Inflation, Exchange Rate, Level of Crude Oil Productions, and Prices of Crude Oil per barrel.

124. Within the constraints imposed by the Federal system, the State of Osun's strategic fiscal policy direction can be summarised as including:

a. broadening the State's revenue base to increase the internally generated revenue (IGR);

b. reducing the cost of governance;

c. strengthening fiscal discipline,

d. transparency and accountability in Public Financial Management; and

e. strengthening human and organizational capacity to manage the State's resources.

Objectives and Targets

125. The key targets for the State Government of Osun from a fiscal perspective are:

a. To grow IGR by a minimum of 20% in 2018 and 15% annually in 2019, 2020 and 2021.

b. By 2021, at least 35% of total expenditure will be funded through IGR and by 2030 60%.

c. Create efficiencies in personnel and overhead expenditure as well as reduce debt service costs to allow greater resource for capital development and by 2022achieve a recurrent to capital expenditure ratio of 40:60.

d. Target sources of capital receipts and financing outside of loans (e.g. Grants, PPP, etc.).

e. Continue to give priority to completion of ongoing capital projects before new projects are commenced.

3.C Indicative Three Year Fiscal Framework

126. The indicative three-year fiscal framework for the period 2019-2021 is presented in the table 8 below.

Table 4: The State of OsunMedium Term Fiscal Framework

Macro-Economic Framework

Item	2019	2020	2021
National Inflation	14.80%	14.00%	14.00%
National Real GDP Growth	1.90%	2.000%	2.00%
Oil Production Benchmark (MBPD)	2.1000	2.3000	2.3000
Oil Price Benchmark	$51.00	$51.00	$51.00
NGN:USD Exchange Rate	305	305	305
Other Assumptions			
Mineral Ratio	35%	35%	36%

Fiscal Framework	**2019**	**2020**	**2021**
Treasury Opening Balance	67,998,839	73,971,667	78,321,555
Recurrent Revenue			
Statutory Allocation	36,648,441,095	39,807,499,349	41,623,469,061
VAT	11,277,539,973	11,841,517,012	12,484,924,129
IGR	18,845,686,148	21,672,539,070	24,923,419,931
Other FAAC Revenues	7,200,000,000	5,000,000,000	5,000,000,000
Other Recurrent Revenues			
Total Recurrent Revenue	**73,971,667,217**	**78,321,555,431**	**84,031,813,120**
Recurrent Expenditure			
CRF Charges	35,511,111,949	33,735,556,352	32,048,778,534
Personnel	24,929,764,518	25,553,008,631	26,191,833,847
Overheads	11,564,719,456	11,564,719,456	11,564,719,456
Total	**72,005,595,923**	**70,853,284,439**	**69,805,331,837**
Transfer to Capital Account	**2,034,070,133**	**7,542,242,659**	**14,304,802,839**
Capital Receipts			
Grants	3,005,000,000	2,705,000,000	2,605,000,000
Other Capital Receipts	6,500,000,000	4,500,000,000	4,300,000,000
Total	**9,505,000,000**	**7,205,000,000**	**6,905,000,000**
Reserves			
Contingency Reserve	0	0	0
Planning Reserve	0	0	0
Total Reserves	**0**	**0**	**0**
Capital Expenditure	**16,465,098,465**	**20,168,921,104**	**24,625,771,026**
Discretional Funds	11,460,098,465	15,463,921,104	22,020,771,026
Non-Discretional Funds	5,005,000,000	4,705,000,000	2,605,000,000
Net Financing	5,000,000,000	5,500,000,000	3,500,000,000
Total Budget Size	**88,470,694,388**	**91,022,205,542**	**94,431,102,863**
Closing Cash Balance	73,971,667	78,321,555	84,031,813
Ratios			
Growth in Recurrent Revenue	8.78%	5.88%	7.29%
Growth in Recurrent Expenditure	-1.72%	-1.60%	-1.48%
Capital Expenditure Ratio	18.61%	22.16%	26.08%
Deficit to Total Expenditure	5.65%	6.04%	3.71%

3.C.1 Assumptions

127. **Statutory Allocation**–is estimated based on elasticity forecast using the oil price of $51 per barrel (pb), NGN:USD Exchange benchmarks of N305 to $1 and production benchmark of 2.1 million barrels daily production (mbdp). The NGN:USD exchange rate and crude oil price are consistent with the benchmark contained in the federal fiscal strategy paper 2018-2020. However, the production of 2.1 mbdp is slightly lower than 2.3 mbdp provided in the Federal Fiscal Framework. For non-oil revenue,it is assumed that the current reforms by the Federal Government, especially in Federal Inland Revenue and Nigeria Custom Services will increase the non-oil revenue flowing to the federation account. Detailed explanation provided in paragraphs 51-77 above.

128. **VAT** - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2019-2021 is in line with the current rate of collections. This forecast should be revisited if there are any changes to the VAT rates (i.e. increase VAT rates) as proposed in the ERGP 2017 – 2020.

129. **Other Federation Account Distributions** - It is assumed that the NNPC refunds, augmentation, and FOREX equalization will continue to be distributed. It is assumed that because of election and the need to release fund to the system as well as increased price of crude oil at international oil market,there will be pressure from subnational governments for small proportion of the excess crude account to be distributed as we get closer to election in 2019 to the three tiers of Government. A notional figure of N7.2 billion is the estimate for 2019 and N5 billion for 2020 and 2021 respectively.

130. **Internally Generated Revenue (IGR)**– Key fiscal target for the State of Osun is to grow IGR by a minimum of 20% in 2018 and 15% annually in 2019, 2020 and 2021. The Government has already started putting in place measures to achieve these IGR targets. Consequently, the actual 2017 IGR is projected to increase by 20% in 2018 and 15% annually for 2019, 2020 and 2021 (refer to paragraph 125a above).

131. **Grants** - UBEC grants is assumed at N1.5 billion per annum for the period 2019 -2021, CSG-SDGs is assumed at N100 million per annum for 2019 and 2020, Federal Medical Center support of N155 million for 2019, and 130 million for TETFUND. Also, N300million is provided for SLOGOR support in 2019 and N5 million annual grants from UNICEF.

132. **Miscellaneous Capital Receipts** - a modest figure of N6.5 billion, N4.5 billion and N4.3 billion are provided as Misc. receipts (from the Federation as budget support or refund such as unremitted oil revenue. federal government projects executed by the State, etc) for 2019, 2020 and 2021 respectively.

133. **Financing (Net Loans)**–The State of Osun will continue to draw dawn World Bank Non-discretional capital expenditure fund of N2 billion per annum for 2019 and 2020. It is estimated that from 2019, the State will commence draw down of the World Bank SFTAS and N1 billion is provided for 2019 and N1.5 billion per annum for 2020 and 2021. The State's domestic debt is too high and a short-term facility of N2 billion is provided for to take care of shortfall in funding.

134. **Consolidated Revenue Fund Charges** - are declining at 5% per annum based on 2017 actuals – this assumes some modest increase in pensions and gratuity, repayment of outstanding salaries anddecreases in debt servicing costs as the major debts are paid fully.

135. **Personnel** - The State restructured the salaries of certain categories ofcivil servants and political office holders because of the economic meltdown and decline in FAAC receipts of 2016. The 2017 actual personnel cost is based on the following adjustments, levels 01 – 07 – full salary; 08 – 10: 75% of salary; and 12 and above including political office holders: 50% of salary. The estimate is based on actual wage bill for 2017 (without percentage deduction) with a marginal growth of 2.5% per annum due to promotion, staff moving to the next notch and retirement.

136. **Overheads** - The principle for personnel cost was also applied for overhead cost in 2017. The overhead costs for 2019-2021 is set at the actual level before the economic meltdown.

137. **Contingency and Planning Reserves** - Provision for reserve will not be made in 2019 because of the current economic situation. Provision for reserve will be made once the recurrent revenue of the state improves.

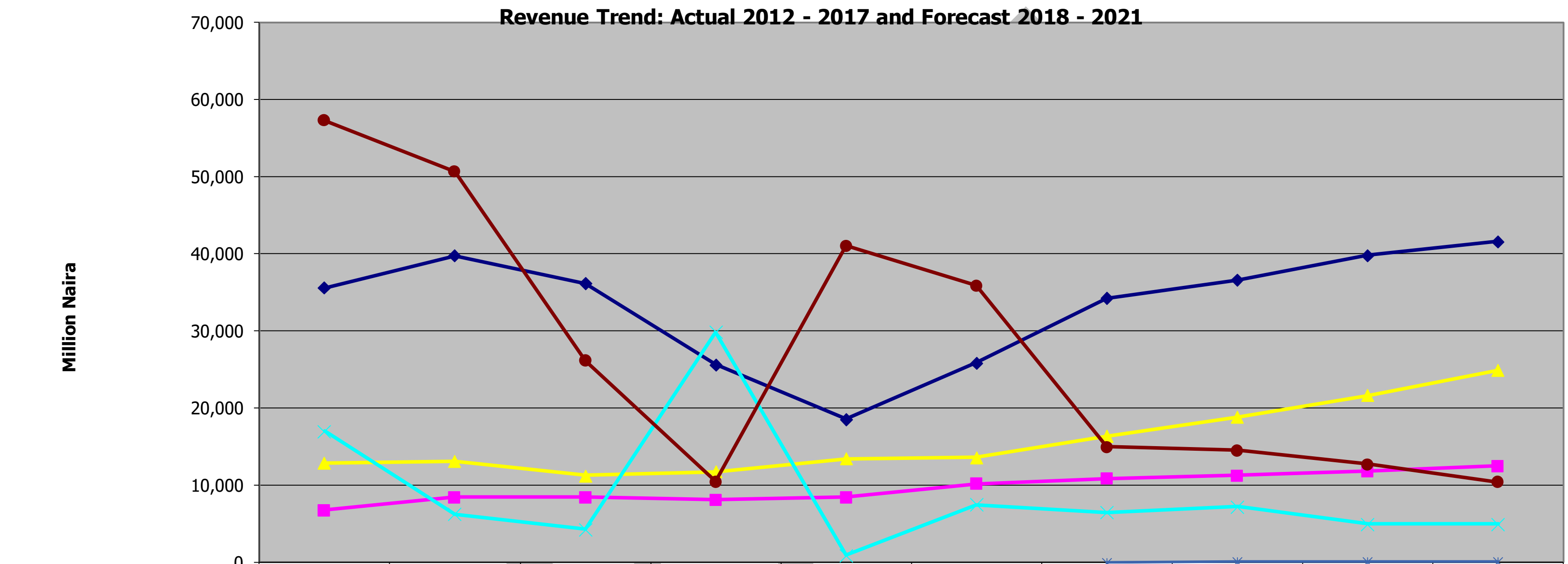
138. **Capital Expenditure** - This is based on recurrent account surplus and capital receipts.

139. **Local Governments (LGs)** – The indicative 2019 revenue (statutory allocation, VAT, other FAAC distribution and 10% of state IGR) forecast based on the assumptions explained in paragraphs 127-130 above is presented in annex 1 while distribution of 10% of state IGR to LGs and LCDAs is presented in annex 2.

3.C.2 Fiscal Trends

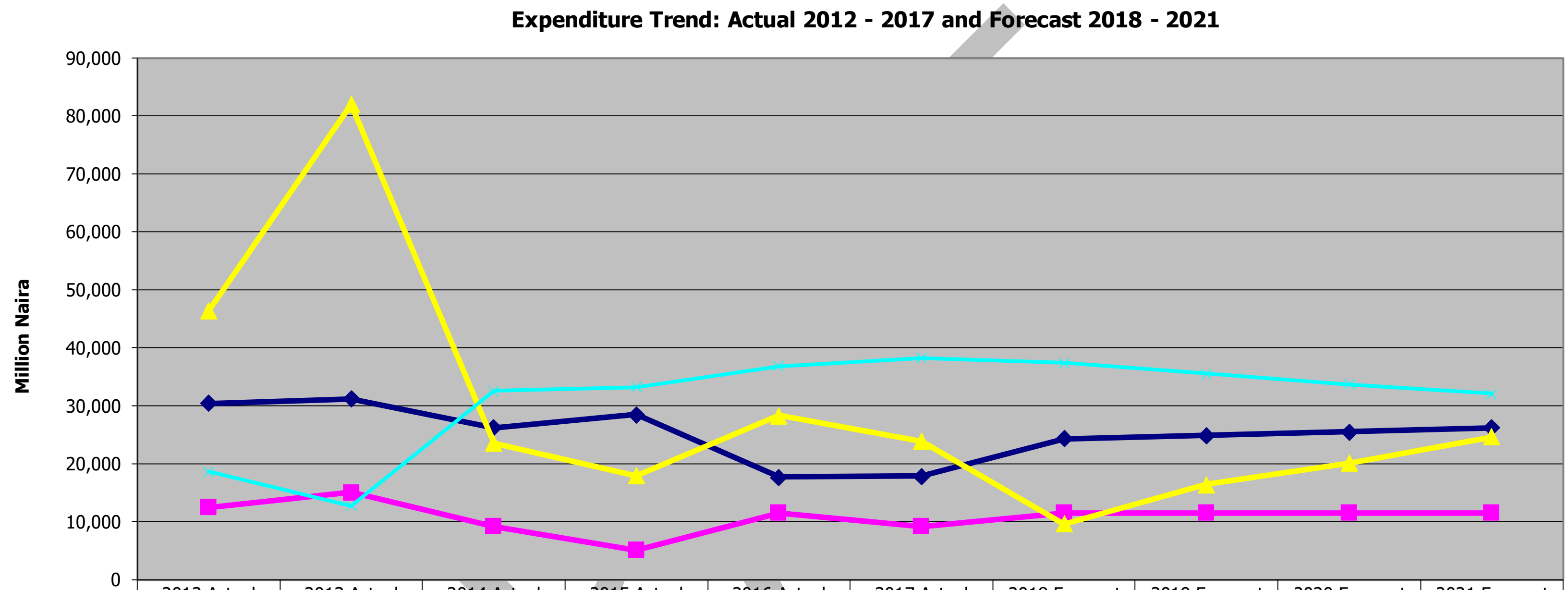
140. Based on the above envelope, plus actual figures for 2019-2021(using the same basis for forecasting as noted in the sub-sections within section 3.B), the trend from historical actual to forecast can be seen for revenue and then expenditure in the line graphs below.

Figure 21: The State of Osun Revenue Trend



	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Stat.Allocation	35,638,656,067	39,759,698,254	36,161,401,370	25,670,036,659	18,591,636,640	25,859,771,586	34,253,150,931	36,648,441,095	39,807,499,349	41,623,469,061
VAT	6,746,586,543	8,440,260,401	8,462,390,580	8,144,705,885	8,466,435,500	10,175,820,259	10,858,134,914	11,277,539,973	11,841,517,012	12,484,924,129
Total IGR	12,876,413,225	13,124,886,632	11,290,953,507	11,783,968,573	13,489,297,091	13,656,294,310	16,387,553,172	18,845,686,148	21,672,539,070	24,923,419,931
Other Recurrent Receipts	17,018,829,544	6,290,943,775	4,294,282,571	29,880,265,497	945,244,652	7,500,229,951	6,500,000,000	7,200,000,000	5,000,000,000	5,000,000,000
Capital Receipts	57,295,253,591	50,677,469,412	26,141,269,393	10,479,568,205	41,057,512,417	35,892,974,351	14,961,933,818	14,505,000,000	12,705,000,000	10,405,000,000
Treasury Opening Balance							0	67998839.02	73971667.22	78321555.43

Figure 22: The State of Osun Expenditure Trend



	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast
Personnel Costs	30,457,390,853	31,206,960,875	26,227,186,194	28,475,500,545	17,676,739,656	17,862,024,074	24,321,721,481	24,929,764,518	25,553,008,631	26,191,833,847
Overheads	12,442,419,184	15,037,182,186	9,232,278,733	5,145,719,456	11,564,447,002	9,219,924,311	11,564,719,456	11,564,719,456	11,564,719,456	11,564,719,456
Cap. Ex.	46,498,368,121	81,989,799,833	23,567,991,487	17,924,519,267	28,359,241,025	23,902,460,244	9,694,214,057	16,465,098,465	20,168,921,104	24,625,771,026
CRF Charges	18,652,601,568	12,780,671,088	32,581,705,210	33,290,797,359	36,835,273,920	38,264,714,735	37,380,117,841	35,511,111,949	33,735,556,352	32,048,778,534

Year

3.D Fiscal Risks

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

Table 5: Fiscal Risks

Risk	Likelihood	Impact	Reaction
We complete the table at the next session			

142. It should be noted however that no budget is without risk. The ongoing implementation of the 2018 budget should be closely monitored, as should the security situation and impact of the fiscal and economic outlook.

Section 4 Budget Policy Statement

4.A Budget Policy Thrust

143. The State of Osun Development Plan, 2019 - 2028 rests on three philosophical principles, namely: i) Poverty eradication as the overarching goal of development efforts; ii) Imperativeness of Gender and Social Inclusion (G&SI) in development; and iii) Eyes constantly on sustainability of development.

144. The 2018 state budget policy thrust is predicated on the five (5) goals of the State Development Plan, which are:

  a. Achieve inclusive, sustainable economic growth with full and productive employment that ensures high

  b. Achieve diversified and enhanced revenue base by providing enabling business environment which will attract and retain investors and expand existing businesses.

  c. Achieve world class state infrastructure system that attracts investors, facilitates economic growth and supports the state's priority needs.

  d. Ensure qualitative and functional education and healthy living in a safe and secure egalitarian society through people-oriented development.

  e. Ensure cities and human settlements are safe, resilient and sustainable while also conserving the ecosystem

4.B Sector Allocations (3 Year)

145. The total forecast budget size for 2019 fiscal year as explained in Section 3.C above is**₦ 88,470,697,388**of which the sum of **₦16,465,098,465**will be for capital expenditure. The sum of **₦11,460,098,465**will be spend across all MDAs while **₦5,005,000,000**are non-discretional capital expenditure fund that will be spent specifically on Health, Education, Infrastructure and Governance sectors. The discretional capital expenditure fund of **₦11,460,098,465**will be allocated to sectors as their expenditure ceilings.

146. Based on the five goals of the State derived from the State Development Plan an indicative capital allocation (envelope) to the sectors for 2019-2021 is shown in table 10 below.

Table 6: Indicative Sector Expenditure Ceilings 2019-2021

Capital Expenditure by Sector		Discretional Funds						Non-Discretional Funds		
No.	Sector	% 2019	2019 Allocation	% 2020	2020 Allocation	% 2021	2021 Allocation	2019 Allocation	2020 Allocation	2021 Allocation
1	EDUCATION	21.71%	2,488,270,680	21.71%	3,357,599,553	21.71%	4,781,253,762	2,400,000,000	2,400,000,000	2,400,000,000
2	HEALTH	2.37%	272,124,224	2.37%	367,196,455	2.37%	522,891,251	305,000,000	305,000,000	205,000,000
3	WATER AND SANITATION	6.14%	703,262,162	6.14%	948,961,357	6.14%	1,351,330,016	0	0	0
4	AGRICULTURE	1.77%	203,265,269	1.77%	274,280,199	1.77%	390,577,617	0	0	0
5	COMMERCE AND INDUSTRY	1.79%	205,348,981	1.79%	277,091,899	1.79%	394,581,505	0	0	0
6	INFRASTRUCTURE	33.31%	3,817,182,445	33.31%	5,150,794,153	33.31%	7,334,779,961	2,000,000,000	2,000,000,000	0
7	SOCIAL DEVELOPMENT AND WELFARE	3.69%	422,595,250	3.69%	570,237,649	3.69%	812,023,847	0	0	0
8	ENVIRONMENT	4.76%	545,707,616	4.76%	736,361,869	4.76%	1,048,586,319	0	0	0
9	SECURITY LAW AND JUSTICE	0.59%	67,379,914	0.59%	90,920,482	0.59%	129,471,633	0	0	0
10	BUDGET, PLANNING AND REVENUE MOBILI	4.51%	516,434,061	4.51%	696,860,991	4.51%	992,336,692	0	0	0
11	INFORMATION AND COMMINICATION	0.98%	112,133,723	0.98%	151,309,960	0.98%	215,466,825	0	0	0
12	GOVERNANCE AND ADMINISTRATION	18.38%	2,106,394,140	18.38%	2,842,306,538	18.38%	4,047,471,598	300,000,000	0	0
	Total	**100.00%**	**11,460,098,465**	**100.00%**	**15,463,921,104**	**100.00%**	**22,020,771,026**	**5,005,000,000**	**4,705,000,000**	**2,605,000,000**

Capital Expenditure by Sector		Total Capital Envelope					
No.	Sector	% 2019	2019 Allocation	% 2020	2020 Allocation	% 2021	2021 Allocation
1	EDUCATION	29.69%	4,888,270,680	28.55%	5,757,599,553	29.16%	7,181,253,762
2	HEALTH	3.51%	577,124,224	3.33%	672,196,455	2.96%	727,891,251
3	WATER AND SANITATION	4.27%	703,262,162	4.71%	948,961,357	5.49%	1,351,330,016
4	AGRICULTURE	1.23%	203,265,269	1.36%	274,280,199	1.59%	390,577,617
5	COMMERCE AND INDUSTRY	1.25%	205,348,981	1.37%	277,091,899	1.60%	394,581,505
6	INFRASTRUCTURE	35.33%	5,817,182,445	35.45%	7,150,794,153	29.78%	7,334,779,961
7	SOCIAL DEVELOPMENT AND WELFARE	2.57%	422,595,250	2.83%	570,237,649	3.30%	812,023,847
8	ENVIRONMENT	3.31%	545,707,616	3.65%	736,361,869	4.26%	1,048,586,319
9	SECURITY LAW AND JUSTICE	0.41%	67,379,914	0.45%	90,920,482	0.53%	129,471,633
10	BUDGET, PLANNING AND REVENUE MOBILI	3.14%	516,434,061	3.46%	696,860,991	4.03%	992,336,692
11	INFORMATION AND COMMINICATION	0.68%	112,133,723	0.75%	151,309,960	0.87%	215,466,825
12	GOVERNANCE AND ADMINISTRATION	14.62%	2,406,394,140	14.09%	2,842,306,538	16.44%	4,047,471,598
	Total	**100.00%**	**16,465,098,465**	**100.00%**	**20,168,921,104**	**100.00%**	**24,625,771,026**

4.C Considerations for the Annual Budget Process

147. The ceilings stated above will be used to complete the MTSSs of the 12 sectors. MEPBD should ensure that the 12 (twelve) MTSSs are completed by July 2019 so that the MTSS will be used for 2019 budget.

148. Therefore,budget call circular should include the following instructions to MDA's for the annual budget submissions:

- Any projects not in MTSS should not be admitted into the Budget
- With a relatively small Capital Development Fund, priority must be given to completing ongoing projects;
- 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).

Section 5 Summary of Key Pointsand Recommendations

149. We summarised below a list of the key points arising from this document:

a. The State of Osunshould sustain the currentBudget reform programme particularly as it relates to the preparation of a realistic budget, ensuring policy-plan-budget linkages, and early passage of the budget.

b. The State of Osun need to reduce the level of its domestic debt and prepare debt sustainability analysis and medium-term debt strategy.

c. The State of Osun must continue to monitor performance of mineral based revenues to ensure estimates are consistent with the latest development globally and within the Federal Government's budget process. For example, it is anticipated that $55 per barrel may be used as the benchmark price in Federal FSP 2019-2021. If the benchmark price of crude in the Federal FSP is higher than $51 per barrel used herein and IMF, World Bank, OPEC and USEnergy Information Administration Reports validates the oil price benchmark provided in Federal FSP, the state should revisit the assumptions and recalculate statutory allocation.

Annex 1: The State of Osun State LGs Forecast 2019 FAAC Revenue and 10% State IGR

Local Government Council	2019				
	Statutory Allocation	VAT	Other Federation Account	Share of State IGR	Total Transfer
ATAKUMOSA EAST	1,045,953,863	297,197,798	205,489,445	56,921,543	1,605,562,649
ATAKUMOSA WEST	1,048,887,908	291,377,711	206,065,871	60,407,187	1,606,738,677
AYEDAADE	1,306,738,147	354,362,393	256,723,462	72,413,856	1,990,237,858
AYEDIRE	1,155,127,639	296,927,365	226,937,866	54,361,239	1,733,354,109
BOLUWADURO	1,093,113,185	293,020,341	214,754,426	58,382,756	1,659,270,708
BORIPE	1,245,002,227	345,861,091	244,594,743	64,510,057	1,899,968,117
EDE NORTH	1,043,496,844	303,079,522	205,006,736	62,494,430	1,614,077,532
EDE SOUTH	1,083,725,044	297,072,983	212,910,020	60,882,239	1,654,590,285
EGBEDORE	1,065,897,353	295,840,240	209,407,569	61,755,144	1,632,900,306
EJIGBO	1,210,004,125	340,685,882	237,718,971	60,960,597	1,849,369,575
IFE CENTRAL	1,281,189,414	367,353,962	251,704,125	65,135,891	1,965,383,391
IFE EAST	1,480,759,716	383,405,043	290,911,963	62,442,722	2,217,519,445
IFE NORTH	1,380,281,642	356,906,466	271,171,911	72,224,773	2,080,584,793
IFE SOUTH	1,203,178,100	342,763,825	236,377,921	66,680,530	1,849,000,376
IFEDAYO	945,482,925	267,042,598	185,750,795	52,983,101	1,451,259,418
IFELODUN	1,218,344,231	313,031,609	239,357,479	64,541,013	1,835,274,332
ILA	1,074,137,018	286,297,270	211,026,344	63,255,935	1,634,716,566
ILESA EAST	1,119,799,470	320,611,436	219,997,248	61,009,098	1,721,417,253
ILESA WEST	1,186,645,217	318,276,159	233,129,850	60,985,278	1,799,036,503
IREPODUN	1,174,360,800	330,558,900	230,716,437	67,900,172	1,803,536,309
IREWOLE	1,270,614,126	349,128,630	249,626,490	61,595,847	1,930,965,092
ISOKAN	1,153,293,057	317,984,924	226,577,441	61,522,089	1,759,377,511
IWO	1,418,135,656	385,939,871	278,608,760	67,682,316	2,150,366,603
OBOKUN	1,176,008,145	328,258,294	231,040,077	59,293,521	1,794,600,037
ODO OTIN	1,549,376,098	341,817,694	304,392,426	63,966,663	2,259,552,882
OLA OLUWA	1,060,511,813	297,502,902	208,349,518	55,606,480	1,621,970,713
OLORUNDA	1,282,739,604	340,007,874	252,008,677	65,476,962	1,940,233,117
ORIADE	1,286,852,522	352,994,819	252,816,706	65,425,858	1,958,089,905
OROLU	1,134,007,377	317,907,877	222,788,552	63,128,842	1,737,832,648
OSOGBO	1,261,668,112	359,217,859	247,868,944	70,622,475	1,939,377,391
Total	**35,955,331,378**	**9,792,433,338**	**7,063,830,771**	**1,884,568,615**	**54,696,164,102**

Annex 1: The State of Osun LGs and LCDAs Forecast 10% State IGRDistribution

	LOCAL GOVTS.	Value 2019
1	Atakumosa East	**56,921,543.47**
1(a)	Atakumosa East LG	31,288,878.30
1(b)	Atakumosa East Central LCDA	25,632,665.17
2	Atakumosa West	**60,407,187.24**
2(a)	Atakumosa West LG	33,232,264.09
2(b)	Atakumosa West Central LCDA	27,174,923.15
3	Ayedaade	**72,413,855.94**
3(a)	Ayedaade LG	39,813,232.79
3(b)	Ayedaade South LCDA	32,600,623.15
4	Ayedire	**54,361,239.33**
4(a)	Ayedire LG	29,892,313.30
4(b)	Ayedire South LCDA	24,468,926.04
5	Boluwaduro	**58,382,756.25**
5(a)	Boluwaduro LG	32,112,624.20
5(b)	Boluwaduro East LCDA	26,270,132.05
6	Boripe	**64,510,056.76**
6(a)	Boripe LG	35,473,677.93
6(b)	Boripe North LCDA	29,036,378.83
7	Ede North	**62,494,430.33**
7(a)	Ede North LG	50,002,141.58
7(b)	Ede North Area Council	12,492,288.76
8	Ede South	**60,882,239.34**
8(a)	Ede South LG	33,490,892.55
8(b)	Ede East LCDA	27,391,346.79
9	Egbedore	**61,755,143.65**
9(a)	Egbedore LG	30,879,926.59
9(b)	Egbedore South LCDA	24,700,229.63
9(c)	Okinni Administrative Office	6,174,987.42
10	Ejigbo	**60,960,596.56**
10(a)	Ejigbo LG	24,383,296.72
10(b)	Ejigbo South LCDA	18,288,649.92
10(c)	Ejigbo West LCDA	18,288,649.92
11	Ife Central	**65,135,890.64**
11(a)	Ife Central LG	35,830,880.20
11(b)	Ife Central West LCDA	29,305,010.43
12	Ife East	**62,442,721.69**
12(a)	Ife East LG	24,983,659.97
12(b)	Ife North East LCDA	18,729,530.86
12(c)	Ife Ooye LCDA	18,729,530.86
13	Ife North	**72,224,773.36**
13(a)	Ife North LG	32,498,977.26
13(b)	Ife North West LCDA	25,281,727.35
13(c)	Ife North Area Council	14,444,068.75
14	Ife South	**66,680,530.35**
14(a)	Ife South LG	36,675,933.53
14(b)	Ife South West LCDA	30,004,596.82
15	Ifedayo	**52,983,101.06**

	LOCAL GOVTS.	Value 2019
15 (a)	Ifedayo LG	52,983,101.06
16	Ifelodun	**64,541,013.02**
16(a)	Ifelodun LG	29,053,866.75
16(b)	Ifelodun North LCDA	22,582,741.27
16(c)	Ifelodun Area Council	12,904,405.00
17	Ila	**63,255,934.76**
17(a)	Ila LG	34,800,432.10
17(b)	Ila Central LCDA	28,455,502.66
18	Ilesa East	**61,009,098.22**
18(a)	Ilesa East LG	33,545,072.57
18(b)	Ilesa North East LCDA	27,464,025.65
19	Ilesa West	**60,985,277.62**
19(a)	Ilesa West LG	33,557,989.48
19(b)	Ilesa West Central LCDA	27,427,288.14
20	Irepodun	**67,900,172.08**
20(a)	Irepodun LG	37,347,506.39
20(b)	Irepodun South LCDA	30,552,665.69
21	Irewole	**61,595,846.60**
21(a)	Irewole LG	33,247,430.36
21(b)	Irewole North East LCDA	28,348,416.24
22	Isokan	**61,522,088.71**
22(a)	Isokan LG	33,835,784.42
22(b)	Isokan South LCDA	27,686,304.29
23	Iwo	**67,682,316.38**
23(a)	Iwo LG	27,071,928.66
23(b)	Iwo East LCDA	20,305,193.86
23(c)	Iwo West LCDA	20,305,193.86
24	Obokun	**59,293,520.98**
24(a)	Obokun LG	32,611,477.54
24(b)	Obokun East LCDA	26,682,043.44
25	Odo Otin	**63,966,663.37**
25(a)	Odo Otin LG	25,587,637.23
25(b)	Odo Otin North LCDA	19,189,513.07
25(c)	Odo Otin South LCDA	19,189,513.07
26	Ola Oluwa	**55,606,479.89**
26(a)	Ola Oluwa LG	30,586,101.16
26(b)	Ola Oluwa North East LCDA	25,020,378.72
27	Olorunda	**65,476,962.27**
27(a)	Olorunda LG	29,469,781.98
27(b)	Olorunda North LCDA	22,918,385.14
27(c)	Olorunda North Area Council	13,088,795.14
28	Oriade	**65,425,857.93**
28(a)	Oriade LG	35,980,494.24
28(b)	Oriade South LCDA	29,445,363.68
29	Orolu	**63,128,842.03**
29(a)	Orolu LG	50,489,879.00
29(b)	Orolu Administrative Office	12,638,963.03
30	Osogbo	**70,622,474.99**
30(a)	Osogbo LG	28,236,681.30
30(b)	Osogbo South LCDA	21,192,896.85
30(c)	Osogbo West LCDA	21,192,896.85
	TOTAL	**1,884,568,614.80**