Delta State Government

FISCAL STRATEGY PAPER (FSP) 2018 - 2020

(Economic and Fiscal Update (EFU), Fiscal Framework and Budget Policy Statement (BPS))

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Abbreviations

AfDB	African Development Bank
BRICS	Brazil, Russia, India, China, South Africa
BIR	Board of Internal Revenue
BPS	Budget Policy Statement
CAP	Chapter
CBN	Central Bank of Nigeria
CRF	Consolidated Revenue Fund
CRFC	Consolidated Revenue Fund Charge
CPIA	Country Policy and Institutional Assessment
DMO	Debt Management Office (Federal Government)
DESOPADEC	Delta State Oil Producing Areas Development Commission
DTSG	Delta State Government
DTHA	Delta State House of Assembly
EFU	Economic and Fiscal Update
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FDI	Foreign Direct Investment
FRL	Fiscal Responsibility Law
FSP	Fiscal Strategy Paper
FX	Foreign Exchange
GDP	Gross Domestic Product
HE	His Excellency
HoS	Head of Service
IGR	Internally Generated Revenue
LFN	Laws of Federation of Nigeria
IMF	International Monetary Fund
IPSAS	International Public-Sector Accounting Standards
MDA	Ministry, Department and Agencies
MEP	Ministry of Economic Planning
MINT	Malaysia, Indonesia, Nigeria & Turkey
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
NBS	National Bureau of Statistics
NGN	Nigeria Naira (Currency)
NNPC	Nigerian National Petroleum Company
OAG	Office of the Accountant General
OAuD	Office of the Auditor General
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay as You Earn
PFM	Public Financial Management

PITA	Personal Income Tax Act
PMS	Petroleum
PPL	Public Procurement Law
SHoA	State House of Assembly
USD	United States Dollar (Currency)
VAT	Value Added Tax
WEO	World Economic Outlook

Section 1 Introduction and Background

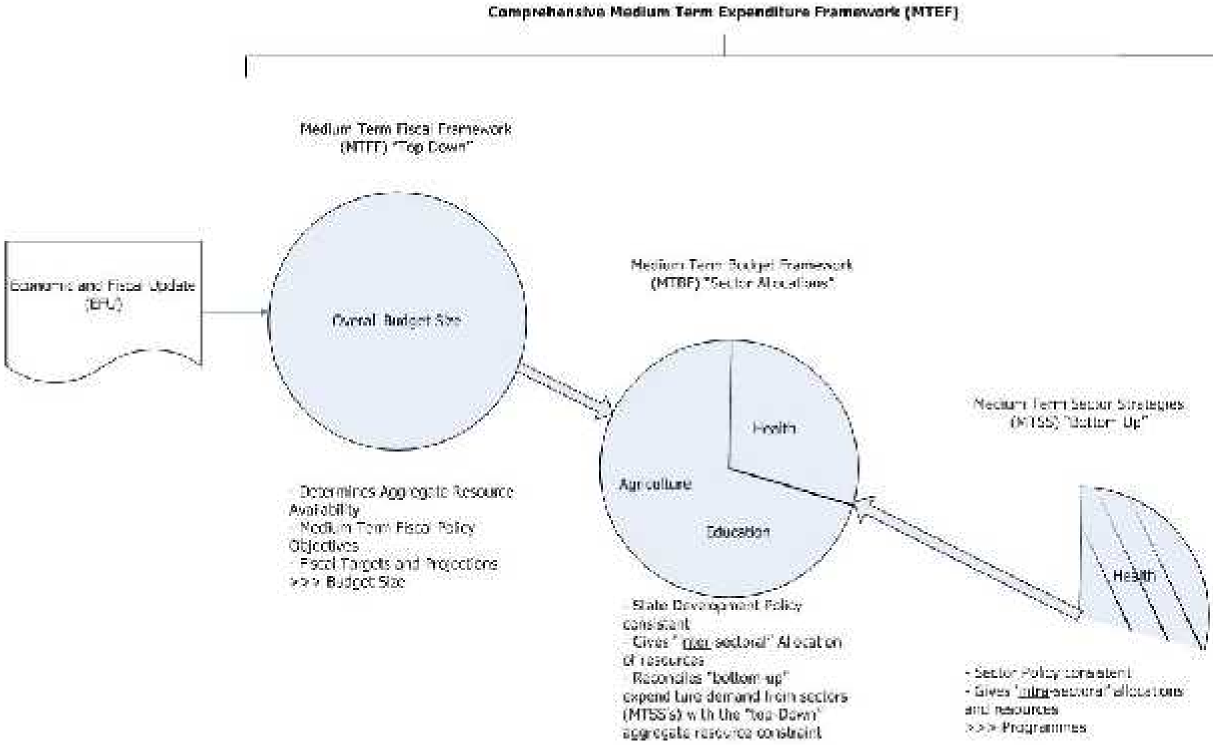
1.A Introduction

1. The Fiscal Strategy Paper (FSP) is a key element in the Medium-Term Budget Framework (MTBF) and annual budget process and as such, it determines the aggregate resources available to fund the Government's projects and programmes from a fiscally sustainable perspective.
2. The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for the Fiscal Forecast, budget planning and preparation process. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It is aimed primarily at policy makers and decision takers in the Delta State Government (DTSG).
3. The Budget Policy Statement (BPS) is the part of the FSP which takes the aggregate resource envelope and divides this into indicative sector expenditure ceilings which are consistent with the Government's policy priorities for socioeconomic development. In this way, the FSP becomes an integral part of a policy driven budget process.
4. The DTSG decided to adopt the preparation of the FSP for the first time in 2014 as part of the movement toward a comprehensive MTEF process. This is however the third rolling edition of the document and covers the period 2018-2020.

1.A.1 Budget Process

5. The budget process describes the budget cycle in a fiscal year. Its conception is informed by the MTEF process which has three components namely:
    i. Medium Term Fiscal Framework (MTFF)
    ii. Medium Term Budget Framework (MTBF)
    iii. Medium Term Sector Strategies (MTSS)
6. It commences with the conception through preparation, execution, control, monitoring and evaluation and goes back again to conception for the ensuing year's budget.
7. The MTEF process is summarised in diagram below:

Figure 1: MTEF Process



1.A.2 Summary of Document Content

8. In accordance with international best practice in budgeting, the production of a Fiscal Strategy Paper (FSP) is the first step in the budget preparation cycle for Delta State Government (DTSG) for the period 2018-2020.

9. 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 revenue policy; revenue mobilisation; level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper; and

   iii. Provide indicative sector envelopes for the period 2018-2020.

10. The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis in order to inform the budget planning process. It is aimed primarily at budget policy makers and decision takers in the Delta State Government. 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

11. The Fiscal Framework presented in Section 3, is a key element in the DTSG Medium Term Expenditure Framework (MTEF) process and annual budget process. As such, it determines the resources available to fund the Government's programmes from a fiscally sustainable perspective.

12. The BPS, presented in Section 4, is the part of the analysis which takes the aggregate resource envelope and divides this into indicative sector expenditure ceilings which are consistent with the Government's policy priorities for socioeconomic development.

1.A.3 Preparation and Audience

13. The purpose of this document is to provide an informed basis for the 2018-2020 budget preparation cycle for all of the key Stakeholders, specifically:
    - All Government Ministries, Departments and Agencies (MDA's);
    - Executive Council (ExCo);
    - State House of Assembly (SHoA);
    - International Development Partners;
    - Civil Society;
    - Organised Private Sector; and
    - Public.
14. The preparation of this document was led by the Ministry of Economic Planning between July - August 2017, with support from Ministry of Finance, Office of Accountant General and Board of Internal Revenue. It was prepared prior to the annual budget preparation period using data collected from International, National and State organisations.

1.B Background

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

15. Legislative Framework for PFM in Delta State - Federal legislation and regulations provide for PFM institutions and processes at the sub-national level only to some extent. The 1999 Constitution cover several aspects of the PFM system, including the institutional framework for the PFM system, establishment of the consolidated revenue fund (CRF), authorization of expenditure from the CRF, allocation of expenditure responsibilities to tiers of government, allocation of revenue and tax powers to tiers of government, audit of accounts and legislative scrutiny of the public finances of a state. The complementary acts include: (i) the Finance (Control and Management) Act (CAP 144) of 1990; the Revenue Allocation Act of 1992; the Personal Income Tax Act P8 LFN 2004; Taxes and Levies (Approved List for Collection) Act (CAP 21) of 1998; and the Finance (Miscellaneous Taxation Provisions) Act (CAP 30) of 1999. In the sphere of audit, there are standards and guides, namely Public Sector Auditing Standards 1997 issued by Auditor-General for the Federation; and Audit Guide for Federal and State Government Auditors produced by Auditors-General in the Federation. Legislation and financial regulations at the sub-national level (i.e. state edicts and local government bye-laws) are expected to complement federal laws and regulations and to cater for local peculiarities.
16. Delta State regulations and laws complement Federal PFM legislation and regulations to a large extent. In addition to extant circulars, the predominant legislation and regulations in use are: Delta State Financial Regulations 2000; Bendel State Audit Law 1982; Delta State Public Service Rules 2001; and Delta State Civil Service Commission Regulations. In 2008, the state government passed the Fiscal Responsibility Law (FRL) to provide for the prudent management of the state's resources and secure greater accountability and transparency in fiscal operations; and the Public Procurement Law (PPL) to ensure probity, accountability and transparency in public procurement. A new Public Financial Management Bill (2016) has been approved by the State's Executive Council and will shortly be forwarded for consideration by the State House of Assembly. Besides, an amendment to the Procurement Law has also been sent to the State House of Assembly for consideration and approval before implementation. These reform initiatives of the State Government are geared towards aligning the financial processes with best practices and international standards.
17. The Bendel State Audit Act of 1982 has been updated by the Delta State Government. The draft Audit Bill (2016) recommends consolidation of audit rules. This, with other reform measures is currently being pursued in order to address the challenges of lack of independence of external audit staff, delay in

[1] Based on 2010 PEMFAR Assessment for Delta State

preparation of audited accounts and enhance the performance of the Public Accounts Committee of the State House of Assembly.

18. Institutional Framework for PFM in Delta State - The Constitution vests executive powers of the state in the Governor. Executive powers extend to implementation of the Constitution, all laws made by the Delta State House of Assembly (DTHA) and to all matters with respect to which the DTHA has power to make laws. With regard to the PFM system, executive powers include discharge of the expenditure functions of the state government, revenue mobilization and fiscal management. The Governor can exercise executive powers either directly or through the Deputy Governor, his Commissioners or officers in the public service of the state.

19. In practice, the State Executive Council (EXCO), the Ministry of Economic Planning (MEP), the Ministry of Finance, (MoF), the Office of Accountant-General (OAG) under the MoF, the Office of State Auditor-General (OAuG), and the Office of Auditor-General for Local Government all participate in the coordination of the PFM system. The EXCO formulates the priorities of the state government, and considers and recommends the state budget to the DTHA. On passage, the Governor signs the appropriation bill into law. The MEP coordinates state development plans and the annual budget, and issues budget clearance to MDAs. The MoF has the responsibility for the receipts, custody and disbursement of government funds, and the management of government investments in equities and other items of the investment portfolio, and public debt. The AG's Office, which is under the MoF, is responsible for the custody of public funds; coordination of the accounting systems and internal audit in MDAs, and preparation of the State Final Accounts and Financial Statements. The OAuG (State) audits and certifies the accounts of the State Government and submits certified reports to the DTHA. The Local Government AuG (Local Government) performs similar responsibilities at the local government level.

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

1.B.2 Overview of Budget Calendar

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

Table 1: Budget Calendar

Stage	Date (s)	Responsibility
1st and 2nd Quarter Budget Performance Report	July 2017	MEP
Preparation of EFU-FSP-BPS Document	June – August 2017	MEP
Submission of EFU-FSP-BPS to EXCO for Review and Approval	August 2017	MEP
Submission of EFU-FSP-BPS to DTHA	August 2017	HE
Pre-Budget Conference	August 2017	MEP and MDA's
Stakeholder Consultation (MDAs, CSO's, other stakeholders)	August 2017	MDA's
Issuance of Budget Call Circular with CAPEX / Recurrent envelopes	August, 2017	MEP
Collation of MDA Budget Proposals	1st Week of Sept., 2017	MEP
Bilateral Discussions and Defence	2nd Week of Sept., 2017	Budget Defence Committee (MEP/MOF/BIR)
Consolidation of MDA's Proposals	2nd Week of Sept., 2017	MEP

EXCO Review and Approval of Draft Budget	3rd Week of Sept., 2017	EXCO
Presentation of Draft Budget to DTHA	1st Week of Oct 2017	HE, The Governor
Budget Defence by MDA's before DTHA	Nov 2017	DTHA
Debate and Approval of Budget by DTHA	Dec 2017	DTHA
HE, The Governor's Assent	Dec 2017	HE, The Governor
Budget Breakdown	Dec 2017	MEP and MoF
Dissemination of Budget	1st January 2018	MEP

Section 2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

22. Based on the IMF's April 2017 WEO Update, global economic activity is picking up with a promising cyclical recovery in investment, manufacturing, and trade. World growth is expected to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018, slightly above the October 2016 forecast. Improved economic activities and expectations of a more robust global demand, coupled with agreed restrictions on oil supply, have helped commodity prices recover from their troughs in early 2016.

23. Higher commodity prices have provided some relief to commodity exporters and helped lift global headline inflation and reduce deflationary pressures. Also, financial markets have become buoyant and expect continued policy support in China along with fiscal expansion and deregulation in the United States. If confidence and market expectation remain strong, short-term growth could indeed surpass forecast.

24. However, these positive developments should not distract economies from binding structural impediments to a stronger recovery and a balance of risks that remains downward sloping, especially over the medium term. Also, Structural problems—such as low productivity growth and high-income inequality — are likely to persist.

25. The adoption of introspective and restrictive policies threatens global economic integration and the cooperative global economic order, which have served the world's economy, especially emerging markets and developing economies, well.

26. A rapid growth in interest rate hikes in the United States could tighten financial conditions elsewhere, with potential U.S. dollar appreciation straining emerging market economies who depend on the dollar or whose exchange rate are pegged with material balance sheet mismatches.

27. More generally, a reversal in market sentiment and confidence could tighten financial conditions and exacerbate existing vulnerabilities in many emerging market economies, including China—which faces the daunting challenge of reducing its reliance on credit growth. A dilution of financial regulation may lead to stronger near-term growth but may imperil global financial stability and raise the risk of costly financial crises down the road. In addition, the threat of deepening geopolitical tensions persists, especially in the Middle East and North Africa.

28. Against this backdrop, economic policies have an important role to play in curtailing downside risks, securing and sustaining recovery, as stressed in previous WEOs. On the domestic front, policies should promote growth in domestic demand, fiscal sustainability and positive balance of payment. These efforts should be complimented with improvements in productivity through structural reforms, well-targeted infrastructure spending, and other supply-friendly fiscal policy measures; and support those displaced by structural transformations, such as technological change and globalization. Also, emerging markets and developing economies should adopt sustainable debt paths lic; Adjusting to lower commodity revenues and addressing financial vulnerabilities.

29. In conclusion, the world needs a renewed multilateral effort to tackle many common challenges (e.g. Terrorism, global warming, etc.) in an integrated global economy.

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

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	2020	2021
Angola	4.8	3.0	0.0	1.3	1.5	1.4	1.5	1.4
Brazil	0.5	-3.8	-3.6	0.2	1.7	2.0	2.0	2.0
China	7.3	6.9	6.7	6.6	6.2	6.0	5.9	5.8
Germany	1.6	1.5	1.8	1.6	1.5	1.4	1.3	1.2
Ghana	4.0	3.9	4.0	5.8	9.2	5.9	5.0	5.2
Indonesia	5.0	4.9	5.0	5.1	5.3	5.4	5.5	5.5
Mexico	2.3	2.6	2.3	1.7	2.0	2.7	2.7	2.7
South Africa	1.7	1.3	0.3	0.8	1.6	2.2	2.2	2.2
Turkey	5.2	6.1	2.9	2.5	3.3	3.4	3.8	3.8
United Kingdom	3.1	2.2	1.8	2.0	1.5	1.6	1.9	1.9
United States	2.4	2.6	1.6	2.3	2.5	2.1	1.8	1.7

Source: IMF's World Economic Outlook, April 2017.

31. 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	2015	2017	2018	2019	2020	2021
Angola	7.3	10.3	32.4	27.0	17.8	13.8	10.9	9.5
Brazil	6.3	9.0	8.7	4.4	4.3	4.5	4.5	4.5
China	2.0	1.4	2.0	2.4	2.3	2.6	3.0	3.0
Germany	0.8	0.1	0.4	2.0	1.7	1.9	2.1	2.2
Ghana	15.5	17.2	17.5	12.0	9.0	7.0	6.0	6.0
Indonesia	6.4	6.4	3.5	4.5	4.5	4.3	4.1	4.0
Mexico	4.0	2.7	2.8	4.8	3.2	3.0	3.0	3.0
South Africa	6.1	4.6	6.3	6.2	5.5	5.5	5.5	5.5
Turkey	8.9	7.7	7.8	10.1	9.1	8.5	7.9	7.5
United Kingdom	1.5	0.1	0.6	2.5	2.6	2.2	2.1	2.0
United States	1.6	0.1	1.3	2.7	2.4	2.6	2.3	2.2

Source: IMF's WEO, April 2017

32. 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.

2.A.2 Africa

33. The sub-Sahara African economic outlook remains clouded recording a sluggish growth averaging 1.4% in 2016; the lowest in two decades. About two-thirds of the countries in the region, together accounting for 83 percent of the region's GDP, slowed down – although some countries like Senegal and Kenya still continued to expand strongly. A modest rebound in growth to 2.6 percent is expected in 2017, but even that rebound will be to a large extent driven by one-off factors in the three largest countries – a recovery in oil production in Nigeria, higher public spending ahead of the elections in Angola, and the fading of drought effects in South Africa, combined in all three countries with modest improvements in the terms of trade. At this rate, growth for the region as a whole will continue to fall well short of past trends and barely deliver any per capita gains.

34. While noting that many countries suffered a very substantial commodity price shock, there has also been insufficient policy adjustment to account for broad-based slowdown in growth movement in the region. This is especially the case among commodity exporters, notably oil exporters, such as Angola, Nigeria and the countries of the Central African Economic and Monetary Union.

35. Vulnerabilities are also emerging in countries that do not rely significantly on commodities for their exports. While these countries – such as Cote d'Ivoire, Kenya, and Senegal – have generally maintained high growth rates, their fiscal deficits have been high for years, as governments rightly sought to address social and infrastructure gaps.

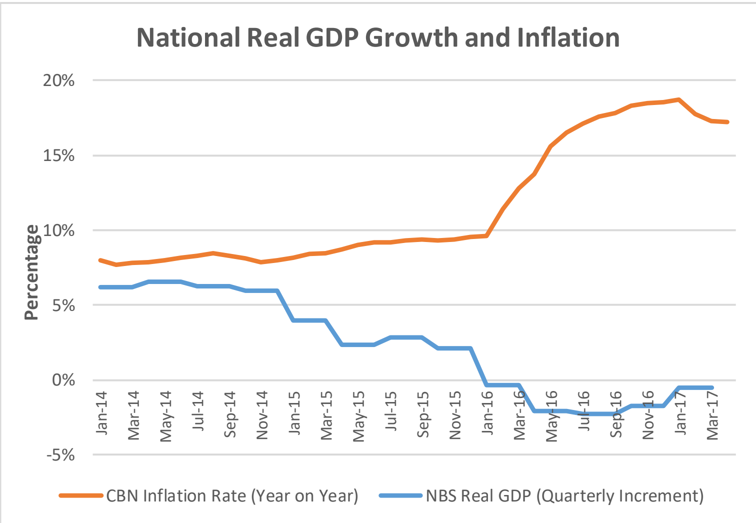
36. Improvements in commodity prices will provide some breathing space, but will not be enough to address existing imbalances among resource-intensive countries.

2.A.3 Nigerian Economy[2]

Macroeconomic

37. 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.
38. The sharp and continuous decline in crude oil prices since mid-2014, 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 due to corruption and inefficient spending in the recent past.
39. The Nigerian economy's dependence on crude oil can quite easily be seen in Figure 2 below. Bonny Light prices started to drop in the second half of 2014 and, after a short (three month) lag, the Nigerian economy began to see falling real GDP growth and growing inflation.
40. 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.

Figure 2 National Real GDP Growth and Inflation



Data Source and Key Observations

- CBN Year-on-Year Inflation, NBS Quarterly Real GDP Growth
- Point of initial divergence was December 2014, coinciding with global Crude Oil Price crash.
- Divergence accelerated in June 2016 which coincided with the devaluation of the Naira
- Inflation peaked at 18.72% (year-on-year) in January 2017
- Real GDP growth (decline) bottomed out at -2.24% in Q3 2016
- Some convergence of inflation and real GDP growth observed in Q1 2017

[2] Source: IMF World Economic Outlook April and July Editions, CBN Statistical Bulletin & Annual Reports, NBS Reports and Nigeria Economic Recovery and Growth Plan 2017 - 2020.

41. Data for Q1 2017 shows real GDP growth was still negative (-0.52%) but it is anticipated that the economy will return to positive growth in Q2 (the next NBS GDP report, for Q2, will be available in late August).

42. In its April 2017 World Economic Outlook (WEO), the IMF (International Monetary Fund) forecasts a recovery in macroeconomic activity in 2017 which should lead to a return to positive growth for the year as a whole. For 2017 and 2018 the forecast real GDP growth rates are 0.8% and 1.9% respectively.

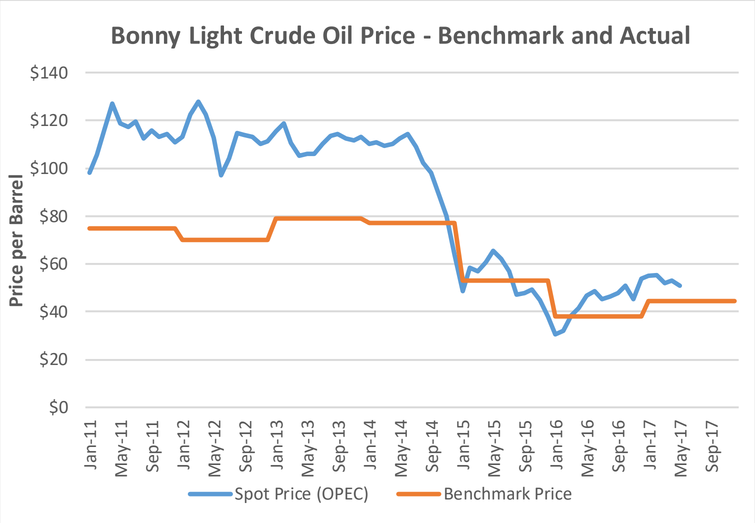
43. The Nigeria Economic Recovery and Growth Plan (ERGP) 2017 – 2020 provides that the real GDP is projected to grow by 4.62 per cent on average over the plan period of 2017 – 2020, from an estimated contraction of 1.54 per cent in 2016. The ERGP also stated that real GDP growth is projected to improve significantly to 2.19 per cent in 2017, reaching 7 per cent at the end of the Plan period (i.e. 2020). The ERGP argued that this growth will be driven by a fiscal stimulus helped by an expected increase in oil prices, an increase in non-oil federal receipts, an increase in oil production, and resolution of payment arrears especially joint venture cash calls. The strong growth during the Plan period will be driven by agriculture and industry, and in the later parts of the Plan period by the services sector as well.

44. Inflation also fell month-on-month for the first five months of 2017 – from 18.72% in January to 16.25% in May. However, it will take longer to return to the sub-10% level observed up to the end of 2015 – the latest IMF forecasts for 2017 and 2018 are 17.4% and 17.5% respectively for consumer price inflation (CPI), with the rate remaining as high as 14.5% in 2022.

45. NBS and ERGP 2017 – 2020 documents inflation rate forecast for 2017, 2018 and 2019 are 15.74%, 12.42% and 13.39% respectively. The forecast in NBS and ERGP documents are different with the forecast in July 2017, IMF WEO as indicated in paragraph 44 above. The IMF, NBS and ERGP all indicated decreasing inflation rate.

46. Mineral Sector Performance – Mineral sector performance over the last 18 months has been variable and significantly below the price and production levels observed between 2011 and 2014. Global economic uncertainties as well as militancy issues in the Niger Delta have affected price and production respectively.

47. The dynamic of actual price per barrel and the benchmark since 2011 is shown in Figure below.

Figure 3 Bonny Light Spot Price	Data Source and Key Observations
	- Spot Price from OPEC, Benchmark from Federal Government Budgets - From 2011 to 2014 actual price was on average 46% higher than Benchmark - Price per barrel dropped from $114 in June 2014 to $48 in January 2015, then to $30 by January 2016 - From January 2015 to May 2017, the differential has been 9% - Price has been fluctuating between $45 and $55 for last 12 months - Significant factors affecting both supply and demand of crude oil mean outlook is uncertain

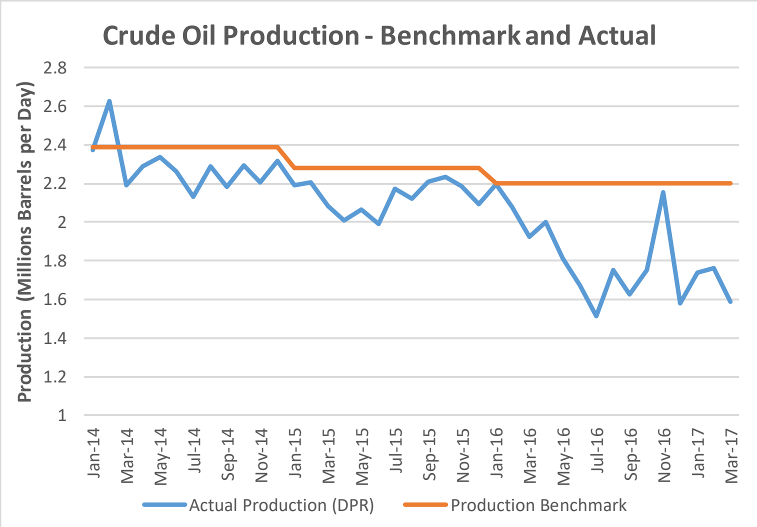
48. Crude Oil prices have been fluctuating between $40 and $60 per barrel for the last 15 months after they hit a low of $30 in January 2016. There have been both upward and downward pressures on global crude oil supply and demand resulting from uncertainty in the global economy (for example protection policies of the new US administration, Brexit) – this has in turn led to cuts in production from OPEC in late 2016 (Nigeria was exempted from the cut).

49. The outlook for the next 18 months (i.e. the remainder of 2017 and all of 2018) suggests the price will stay in the range observed over the last 15 months. The US Energy Information Administration (EIA) June 2017 Short-Term Outlook for 2017 for Brent Crude is $52.69 (actual price was $52.74 for Jan-May), with the forecast for 2018 being $55.61. Bonny Light usually trades marginally above the price of Brent Crude so an average price of $53-54 for 2017 and around $56-57 (again with some short-term fluctuation).

50. A 25% discount against the forecast price would put the benchmark around $42-45 per barrel for 2018.

51. Crude Oil production has also suffered in the last 15 months as shown in Figure below.

Figure 4 Crude Oil Production



Data Source and Key Observations

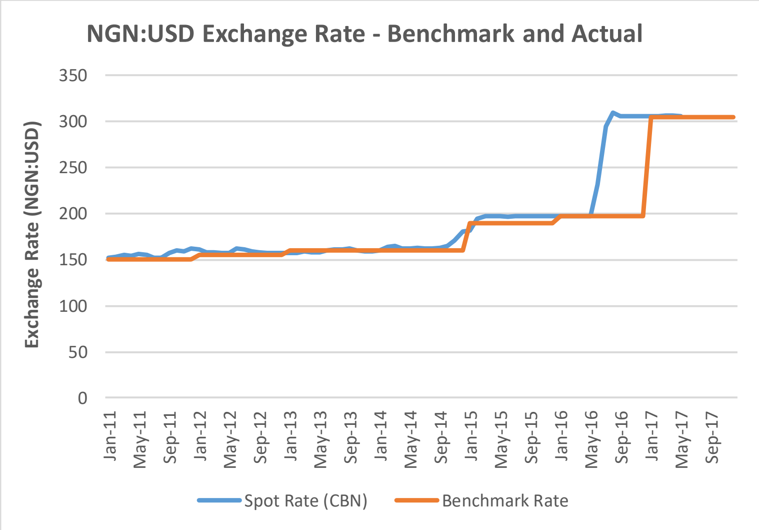
- Actual production from Department of Petroleum Resources, Benchmark from Federal Government budgets
- OPEC quota reduced from 2.4 MBPD to 2.2 in 2014
- Long term trend of around 2.2 MBPD over the period
- Production has averaged 1.8 MBPD since over the period Jan-16 to Mar-17, but with significant volatility
- Drop in production due to Niger Delta militancy and production facilities going off line

52. Production averaged 1.7 million barrels per day (MBPD) in the first quarter of 2017 (this is the most recent available data), and slightly higher at 1.8 million (1.9 million including condensates) over the 15 months from January 2016 to March 2017 inclusive. Production has been below the production benchmark (and OEPC quota) every month since March 2014. The issues are largely around block-ins and other militancy issues in the Niger Delta region which have increased since the 2015 elections.

53. It is difficult to forecast where production will go in the next 18 months – although there are attempts to address most of the problems affecting productions, until the production level is above the 15-month average of 1.8 MBPD (1.9 million including condensates) for a sustained period. Given the relative peace in the Niger Delta, a forecast of 2.3 MBPD is being proposed for 2018. Forecasts might be more optimistic for 2019-2020, however with elections coming up in 2019, there is uncertainty into the medium term.

54. The NGN:USD Exchange rate has stabilised at 305 since the devaluation in June 2016 – the historical trend of the International Foreign Exchange Market (IFEM) rate and the benchmark since 2011 are showing in Figure below.

Figure 5 NGN:USD Exchange Rate



Data Source and Key Observations

- Spot rate from CBN (IFEM rate), Benchmark from Federal Government budgets
- 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 NGN to the USD
- Devaluation from 155 to 197 in early 2015 coincided with Crude Oil Price crash, further devaluation in June 2016 to around 300, stable for the last 12 months
- Recent closing of gap between IFEM, BDC and parallel market rates

55. Exchange rates are difficult to forecast – the general principle is that the best estimate of the exchange rate tomorrow is the exchange rate today. In Nigeria's own specific circumstance, the narrowing of the gap between the official and unofficial rates in recent months suggest the risk of a further devaluation is reducing, whilst growth in crude oil exports, economic growth and falling inflation all present a case for possible appreciation – therefore the current rate of 305 is best adopted as the basis of 2018-2020 benchmarks as things stand (CBN reports and commentaries should be monitored for latest information).

56. The Nigeria key Macroeconomic Indicators are shown in table 4 below.

Table 4: Nigeria Key Macroeconomic Indicators

Year	2017	2018	2019	2020
National Inflation (CPI)	15.74%	12.42%	13.39%	9.90%
National real GDP Growth	2.20%	4.80%	4.50%	7.00%
Implied Growth in NCS[3]	12.80%	13.78%	13.28%	12.71%
Implied Growth in CIT[2]	15.37%	16.54%	15.94%	15.26%
Implied Growth in VAT[2]	10.83%	11.65%	11.23%	10.75%
Oil Price (Benchmark)	$44.50	$45	$50.00	$52.00
Oil Production MBPD (Benchmark)	1.80	2.30	2.00	2.30
NGN:USD Exchange Rate (Benchmark)	305	305	305	282

Source: (Economic Outlook) NBS, WEO, IMF; CBN, ERGP 2017 – 2020, and Federal Government FSP 2018-2020

[3] Based on Elasticity forecasting (Real GDP and Inflation explanatory variables)

57. The Nigeria Mineral Statistics is shown in table 5 below.

Table 5: Nigeria Mineral Statistics

Year	Average Actual Price USD (CBN)	FAAC Benchmark Price USD	Average Actual Production (CBN)
2007	74.48	40	
2008	101.41	59	
2009	63.90	45	2.110833
2010	80.92	67	2.110833
2011	113.76	65	2.4675
2012	113.47	72	2.080833
2013	110.29	79	2.318333
2014	100.35	77.5	2.2
2015	52.65	53	2.13
2016		38	
2017		44.5	

58. The above table shows that over the last five years the FAAC benchmark price for crude oil has almost doubled from $40 per barrel in 2007 to $79 per barrel in 2013, whereas over the same period prices have only increased by around 50% (i.e. 74.48 per barrel to 110.29 per barrel) before decreasing with about 50% in 2015.

2.A.4 Delta State Economy[4]

59. Delta State was created on August 27, 1991 out of the former Bendel State. It is located in the Southern part of Nigeria between longitude 5' 00'E and 6'00'E and latitude 5 00'N and 6'30'N. It occupies a land area of 18,050km2 with a coastline of approximately 163km on the Atlantic Ocean. It is bounded in the East by Anambra and Rivers States, on the North by Edo State, North- West by Ondo State and South by Bayelsa State and the Atlantic Ocean. The capital city is Asaba, located at the northern end of the State, while Warri is the commercial nerve centre. The State currently consists of 25 local government areas that operate under 3 senatorial districts.

60. The estimated population of Delta State is 5.1m as at 2013. This is about 3.0% of Nigeria's population and occupies only 1.9% of the country's land mass. It produces over 30% of oil output and about 52% of the 159 oilfields comprising of 1,481 oil wells in the country. Delta State oil production currently accounts for a significant amount of Nigeria's foreign exchange earnings and government revenue.

61. Delta state has a variety of resources which confer on her significant comparative advantage over other states. The Economy is diverse and largely driven by crude oil earnings. There are huge potentials in the formal and informal sectors, such as Agriculture,

[4] References:

Agusto, O. (2002): Industry Report- Oil and Gas (Upstream) conducted by Agusto & Co. Limited, April.

Delta State Vision 2020 (2011-2020); Published by Delta State Ministry of Economic Planning

Esho, B. (2006): Local Content Policy, Best Thing to Happen to Oil and Gas Sector, The Sun Newspaper, November 23.

Report on Delta State Gross Domestic Product (GDP) 2006-2008; 2009-2013; By the Delta State Ministry of Economic Planning.

Tourism and Entertainment, Commerce and Industry, which hitherto were underdeveloped because of over dependence on crude oil.

62. The GDP reports continue to show that the Oil & Gas sector dominate other sectors in terms of contribution to the State's GDP with a very wide margin. Ironically, other important sectors like Agriculture, Manufacturing, Wholesale and Retail trade whose contributions to the State's GDP are insignificant compared to the oil and gas sector, employs the bulk of the state's work force.

63. Delta State Government has 16% share in Mid-Western Oil. In addition there are other private oil prospecting and commercial enterprises across the state as well as large Federal Government establishments such as Warri refinery, Ekpan Petrochemical Plant and Okpai Gas Plant etc.

64. Delta State provides viable investment environment given its comparative advantages, some of which include:

- Leading producer of oil & gas
- Coastal state with access to four sea ports
- Strategically located and accessible to other parts of Nigeria by land, rail, air & sea
- Breed of young, educated, & active population
- Continuous investment in security by government to create a safe and secure environment
- Government commitment on the provision of critical infrastructure to support investors; increasing access to key public services such as education, health and security to put the state on a durable high growth path to reduce poverty and inequality; and government provision of good governance to improve the business environment
- Presence of two fully operational Airports at Asaba and Osubi
- Delta State is developing Special Economic Zones to provide the necessary infrastructure for both domestic and foreign investors

65. The new administration is entrenching good governance. The focus is to strengthen government institutions, processes, and systems in the areas of Public Financial Management, Policy and Strategy, Public Sector Management, Knowledge Management, and Monitoring and Evaluation, towards promoting better service delivery.

66. The Fiscal Responsibility Act and the Public Procurement Act were passed into law in 2009. There is a robust financial system, SAP is in use for budget execution and accounting expenditure control; the State through the SEEFOR Project which has a component for integrated financial management information system is working towards implementation of additional modules graduating to end-to-end process including human resource, project management, and procurement management. The World Bank in 2010 reviewed the State's Procurement System, as a result of their assessment and recommendation, the government has set up a Public Procurement Reform Implementation Committee that is currently driving the establishment of the appropriate institution and structure for the operation of the Public Procurement Law.

67. On economic and social cohesion, the State Government is providing opportunities for youths, women and unemployed graduates under its job and wealth creation programmes of YAGEP (Youth Agricultural Entrepreneurs Programme); STEP (Skills Training and Entrepreneurship Programme); and Micro Credit Schemes.

68. The Government is also pursuing an agriculture agenda to diversify the economy of the State. The agricultural and agribusiness programmes are being implemented through a variety of value chain support measures under the Production and Processing Support Programme (PPSP).

69. The current administration has developed a monitoring and evaluation framework in the state. The essence of the framework is to guarantee project execution pace, and have minimal projects being abandoned or delayed execution. These will bring positive results in the area of project delivery.

70. The government is also playing a major role towards guaranteeing investors' confidence. Currently, the State is working on the harmonization of taxes and also providing information on guidance for corporate/income tax towards guaranteeing investors' confidence in the State. A committee has been put in place for the harmonization/reform of the State tax system and regulation of other taxes/levies. Major land reforms have been embarked upon ranging from "FAST TRACK 90" to strong focus on land bank and review of timelines for construction permit to facilitate ease of doing business.

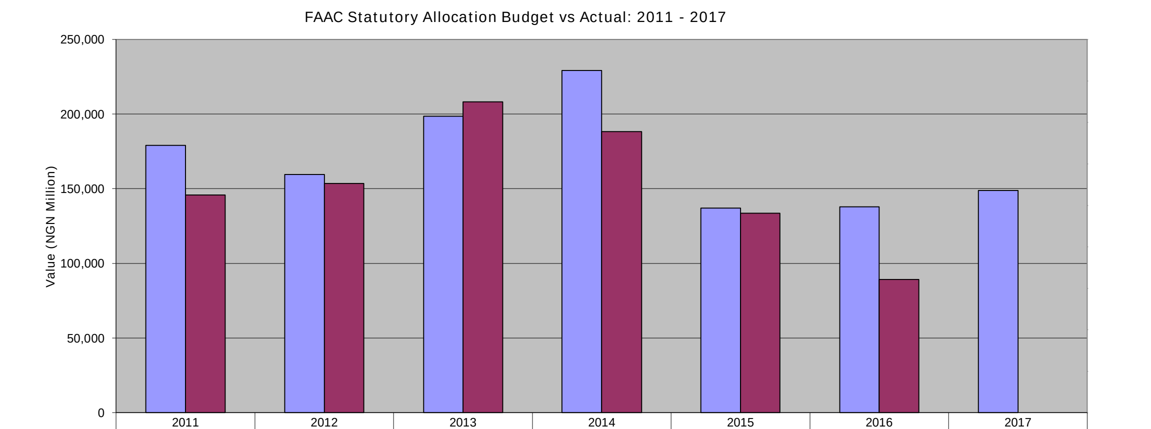
2.B Fiscal Update

2.B.1 Historic Trends

Revenue Side

71. The revenue side of this document looks at Statutory Allocation, VAT, IGR, Excess Crude, and Capital Receipts – budget versus actual for the period 2011-2016 (six years historic) plus the 2017 budget.

Figure 6: Statutory Allocation (including net derivation)



	2011	2012	2013	2014	2015	2016	2017
Budget	179,174,871,560	159,631,084,121	198,513,285,148	229,315,948,494	137,052,669,603	137,948,341,497	148,939,012,121
Actual	145,840,991,909	153,569,227,739	208,150,556,361	188,299,423,043	133,767,527,590	89,117,061,863	
Performance	81.4%	96.2%	104.9%	82.1%	97.6%	64.6%	
Growth		5.30%	35.54%	-9.54%	-28.96%	-33.38%	

Year

72. The statutory allocation is a transfer from the Federation Account to States. The revenues flow from mineral sector (NNPC and DPR) and non-mineral sector (Customs and Excise and Companies Tax as well as VAT). The accruals into federation account are then shared between the three tiers of government based on defined sharing ratios. As an oil producing state, Delta State also attracts a share of "net derivation" which is a share of 13% of mineral revenues.

73. Performance against budget in the above graph does not take into consideration other federation accounts transfers, which is shown separately overleaf. Overall, it has been variable over the period observed – with actual exceeding budget in 2013 (i.e. 104%). The trend in actual receipts was upwards from 2010 to 2013, increasing from 108 billion in 2010 to 208 billion in 2013, which represents growth of more than 60% in a four-year period. The large increases in statutory allocation over the period was driven by increases in the benchmark of crude oil price from $40 to $79 per barrel (average price of crude oil in international market was $112 in 2013).

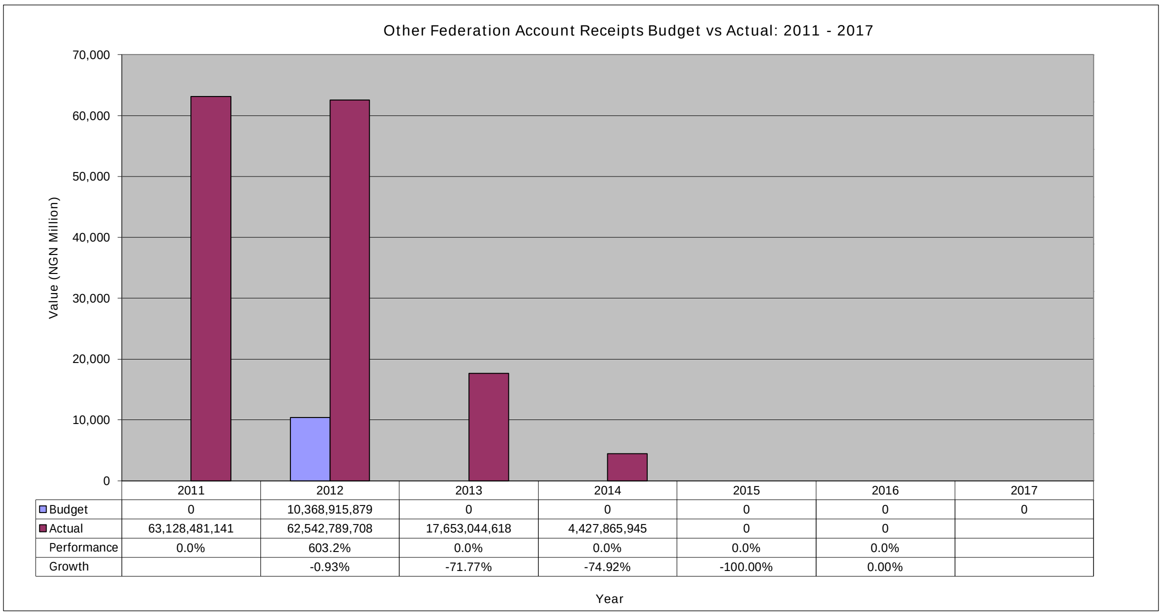
74. However, there was significant decline in statutory allocation in 2014 and 2015 due to drop in crude oil price in the international market. The crude oil prices dropped to about $60 per barrel in the second half of 2014 and about $38 per barrel in the last quarter of 2015. From the second half of 2014 to the end of 2015 crude oil prices were less than projected benchmarks of $77.5 per barrel for 2014 budget and $53 per barrel for 2015 budget.

75. Statutory allocation further declined in 2016 from (N133 billion in 2015 to N87 billion in 2016) because of further drop in the price of crude oil as well as drop in production caused by militancy issues in the Niger Delta region in the first and second quarters of 2016.

76. The relative peace in the Niger Delta region is beginning to manifest in 2017 performance of statutory allocation (including net derivation). The first 9 months of 2017 statutory allocation receipt (i.e. from January to September 2017) is N83.66 billion which is almost at par with the 2016 full year performance of N89.11 billion. Notwithstanding improved receipt, 74.9% performance on 9 months budget is an indication that the 2017 budget of N148.93 billion may not be achieved.

77. The figures for Statutory allocation are gross (i.e. before debt servicing deductions and any other deductions), which is done directly by FAAC. For this reason, the actual receipt figures may vary slightly from those in the audited financial statements of the State.

Figure 7: Other FAAC Transfers

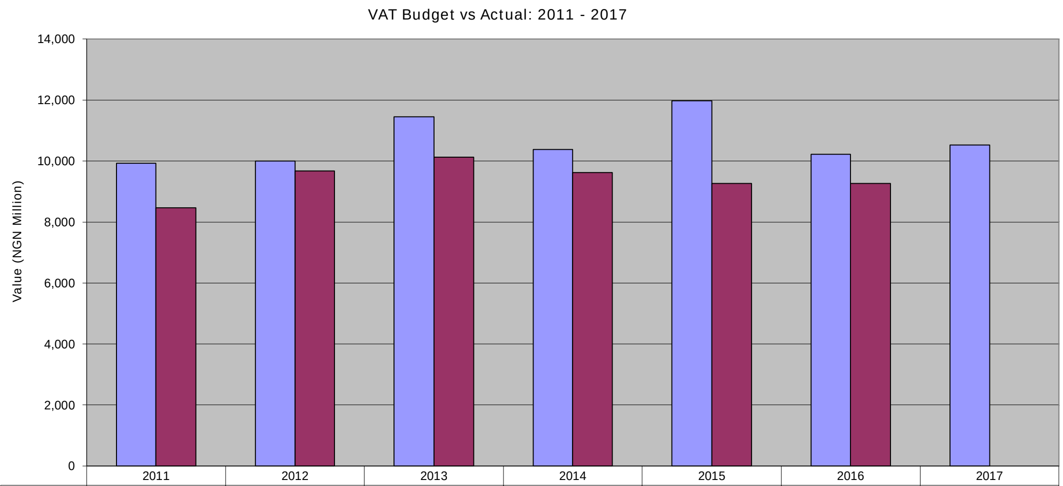


	2011	2012	2013	2014	2015	2016	2017
Budget	0	10,368,915,879	0	0	0	0	0
Actual	63,128,481,141	62,542,789,708	17,653,044,618	4,427,865,945	0	0	
Performance	0.0%	603.2%	0.0%	0.0%	0.0%	0.0%	
Growth		-0.93%	-71.77%	-74.92%	-100.00%	0.00%	

78. Other FAAC transfers including Excess Crude, which is generated from oil sector performance above the benchmarks, is also received by Delta State based on the same sharing ratios as are used for statutory allocation. The distribution includes NNPC refunds, augmentations, exchange gains and any other excesses.

79. Performance of other distributions has been falling in recent years as the SURE-P programme stopped (in 2015) and the build-up of excesses has reduced as benchmarks have decreased and the crude oil price has been volatile.

Figure 8: VAT



	2011	2012	2013	2014	2015	2016	2017
Budget	9,927,756,200	9,991,239,535	11,441,860,370	10,376,666,433	11,968,230,716	10,218,715,326	10,515,786,230
Actual	8,467,586,865	9,676,839,414	10,124,911,725	9,619,182,846	9,265,096,195	9,265,096,195	
Performance	85.3%	96.9%	88.5%	92.7%	77.4%	90.7%	
Growth		14.28%	4.63%	-4.99%	-3.68%	0.00%	

80. VAT is established under an act that states that goods and services are taxed at 5% on an ad valorem basis, and is collected by the Federal Inland Revenue Service. The receipts are then distributed across the three tiers of government. States receive a combined 50% share, from which Delta receives a share based on defined ratios.

81. States have little direct influence over the VAT receipts except through their own VAT collection effort which is one of the ratios used to determine distributions amongst states.

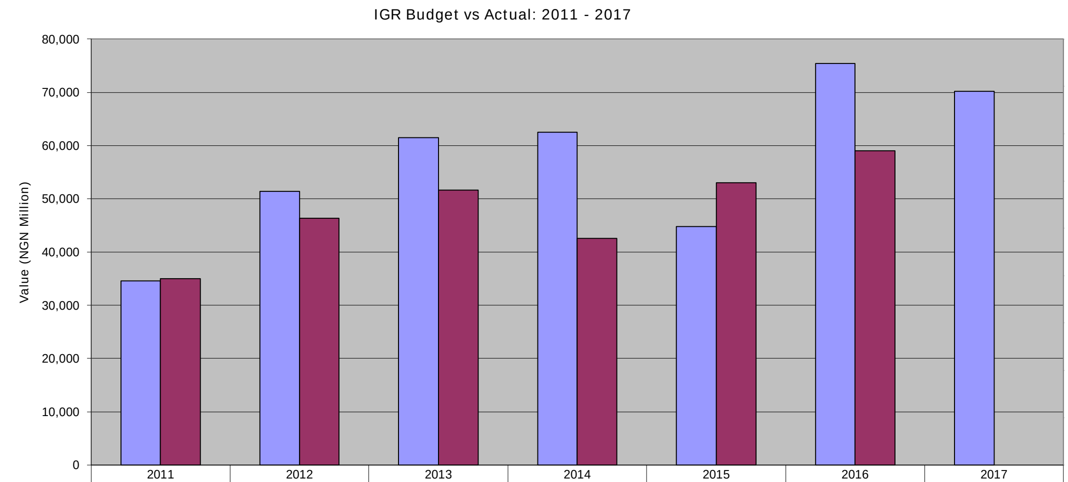
82. Actual VAT receipts increased year on year up until 2013 due to national GDP growth, but fell slightly in 2014, and further dropped in 2015.

83. In the years under consideration, Delta State has performed close to budget, except for 2011 and 2015 that recorded 85.3% and 77.4%respectively.

84. The 9 months (January – September 2017) receipt of N8.37 billion is very encouraging. Thus, the 106.21% performance in respect of the 2017 VAT budget for 9 months is an indication that the 2017 full budget of N10.51 billion will be exceeded.

85. The future trend in national GDP and inflation must be taken into consideration when forecasting VAT for the period 2018-2020, as well as determining the cause of the drop in 2015.

Figure 9: IGR



	2011	2012	2013	2014	2015	2016	2017
Budget	34,601,446,623	51,447,050,581	61,440,624,172	62,493,600,528	44,758,181,147	75,398,226,742	70,165,959,503
Actual	35,036,557,501	46,288,267,186	51,614,755,266	42,558,692,782	52,989,978,399	59,002,587,764	
Performance	101.3%	90.0%	84.0%	68.1%	118.4%	78.3%	
Growth		32.11%	11.51%	-17.55%	24.51%	11.35%	

Year

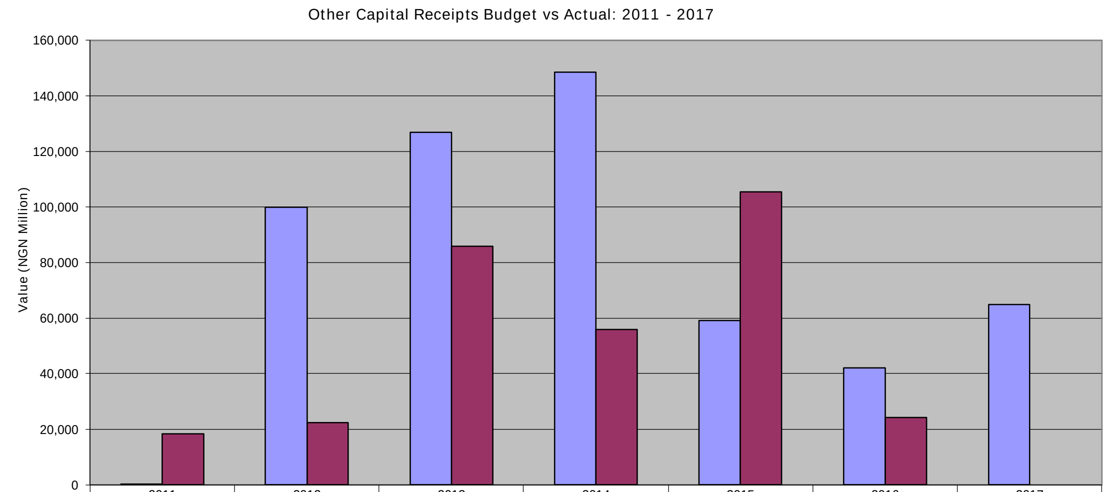
86. Internally Generated Revenue (IGR) is collected by BIR and revenue collecting MDA's. The major sources of IGR are PAYE, lands and land Services, withholding tax, dividends from state investments, fine, fees, licenses and other sources.

87. IGR has grown year-on-year since 2011 to 2014, from 35 billion to 51 billion over the period, which represents an average annual growth rate of approximately 15% per annum.

88. Except for 2011, IGR performance against budget has not been strong although it improved in 2012 and 2013. The budget for 2014 was not achieved as some oil companies left the State. The performance of 108.7% in 2015 was due to the efficiency arising from the plugging of loop holes in the system. In 2016, the period of militancy in the Niger Delta region notwithstanding, financial prudence of the administration yielded significant result.

89. In 2017, the IGR budget performance from January - September is N35.08 billion which is 66.67% performance for the 9 months period. However, January – September 2017 actual collection is 59.08% of the 2016 full year collection of N59 billion. The performance in the first 9 months is discouraging and the Government is working with key revenue generating MDAs to increase collections. It is expected that with the new measures being put in place to reform the Delta State Board of Internal Revenue (BIR); the improvement of IGR assessment and collection strategies; the blocking of loopholes/leakages which contributed to low performance in the past; and the introduction of new IGR sources, the full year performance for 2017 will be higher than what was achieved in 2016.

Figure 10: Capital Receipts



	2011	2012	2013	2014	2015	2016	2017
Budget	30,000,000	100,000,000,000	126,921,344,146	148,552,011,627	59,164,412,963	42,122,872,608	64,836,282,623
Actual	18,276,790,948	22,444,468,410	85,901,070,276	56,030,377,509	105,352,628,832	24,341,472,933	0
Performance	60922.6%	22.4%	67.7%	37.7%	178.1%	57.8%	
Growth		22.80%	282.73%	-34.77%	88.03%	-76.90%	

90. Capital Receipts include grants, loans and all other capital receipts. Loans have been drawn from the capital market through issuance of bonds, credits from the international development partners, and some short term bank borrowings. Grants come from international development partners and MDG grants from federal government. Capital receipts also includes sale of state assets/investments, and other one-off credits.

91. Performance against budget over the period has been low. This is because budget and expenditure is recorded on cash basis, as some development partners funding (loans and grants) are not captured in the budget or the accounts. However, there was a significant rise in 2015. Out of the 105.3 billion, 69.8 billion (66.25%) accounted for existing loans that were restructured into long term FGN's Bond, Central Bank's intervention fund of 20.9 billion for capital expenditure and salary bail out, while the balance of 14.6 billion accounted for SUBEB and contractors' guarantee loan for infrastructural development. Please note that the 69.8 billion were old bank facilities from previous years which have been restructured to longer tenure and not available as cash in the year of reporting.

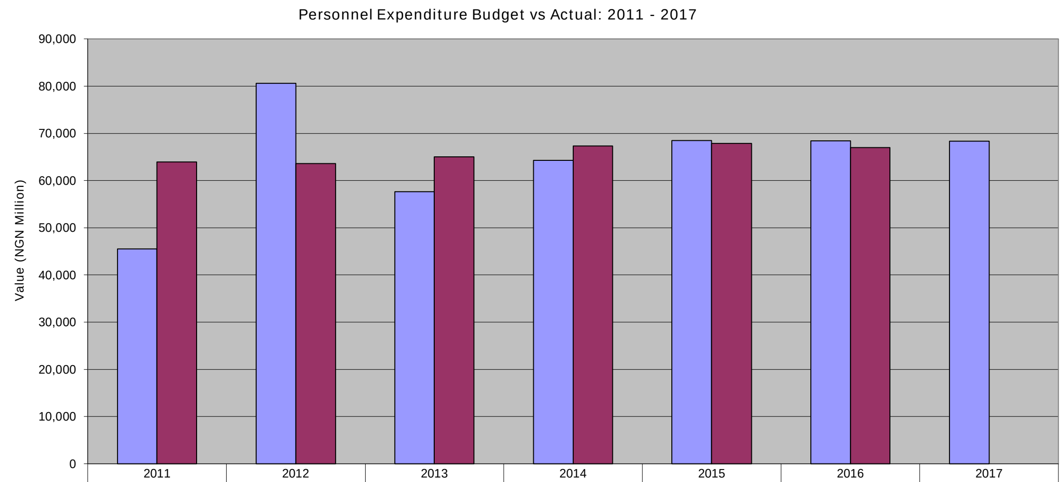
92. Furthermore, loans have been used to bridge the financing gap based on the desires of government with regards to capital expenditure, which in some cases have not been realised.

93. When forecasting loans and grants, due consideration should be given to both realism in terms of what facilities can be realistically negotiated with creditors, and the debt sustainability ratios included later in this section.

Expenditure Side

94. On the expenditure side, the document looks at Personnel, Overheads and Capital Expenditure – budget versus actual for the period 2011-2016, plus the 2017 budget. The historical analysis is based on the original budgets for the period 2011 – 2016. Delta State in some of the years revised/amended the original budget without expanding the original budget size.

Figure 11: Personnel



	2011	2012	2013	2014	2015	2016	2017
Budget	45,533,777,699	80,564,125,769	57,663,459,536	64,223,825,162	68,531,968,520	68,453,584,572	68,345,546,506
Actual	63,957,976,497	63,622,421,551	65,051,102,406	67,329,809,470	67,864,861,224	67,035,674,966	
Performance	140.46%	78.97%	112.81%	104.84%	99.03%	97.93%	
Growth		-0.52%	2.25%	3.50%	0.79%	-1.22%	

Year

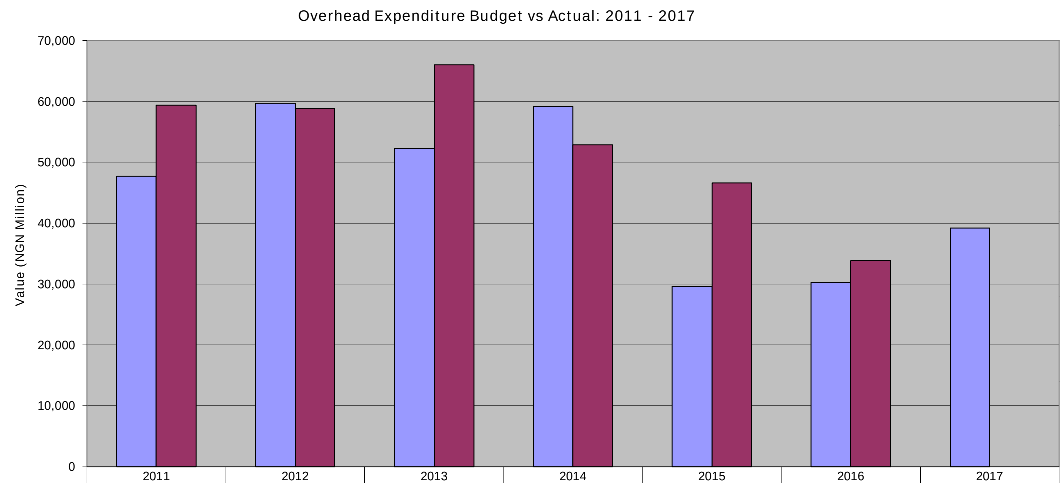
95. Personnel costs related to the salaries and allowances of public servants and political office holders.

96. Personnel costs in 2011 saw a significant increase from N45 billion to N64 billion mainly because of the increase in the minimum wage and new entrants into the public service. Personnel costs performance against budget was close to budget in 2014, 2015 and 2016 as variance in the 3 years was less than 5%.

97. The Performance from January – September 2017 which is N48.6 billion or 94.82% is very encouraging. It is anticipated that this trend will continue and the variance at the end of 2017 will be less than 5%.

98. When forecasting personnel costs for 2018-2020, consideration should be given to the on-going Biometric exercise.

Figure 12: Overheads



	2011	2012	2013	2014	2015	2016	2017
Budget	47,712,864,840	59,712,503,852	52,201,030,693	59,181,061,650	29,609,641,678	30,301,834,179	39,211,379,552
Actual	59,349,943,143	58,849,444,455	66,035,515,492	52,886,215,640	46,606,150,627	33,822,224,491	
Performance	124.39%	98.55%	126.50%	89.36%	157.40%	111.62%	
Growth		-0.84%	12.21%	-19.91%	-11.87%	-27.43%	

Year

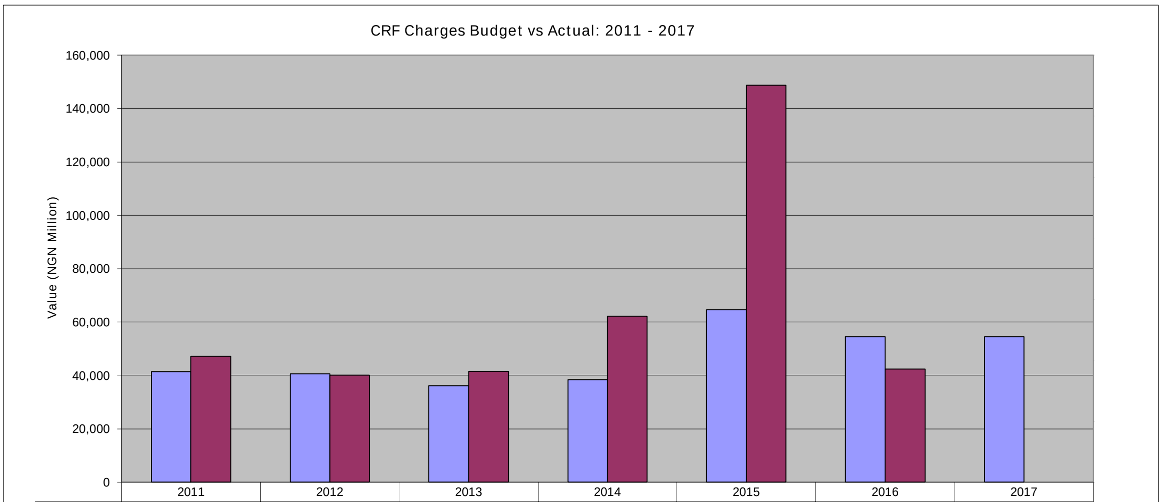
99. Overhead expenditure relates to the operational costs incurred by MDA's. A proportion of these, classified as regular overheads are released monthly to MDA's for the day-today running costs. Non-regular overheads relate to periodic activities of government.

100. In all years except 2012 and 2014, overhead expenditure exceeded the original budget. In 2012, the actual was very close (marginally below) budget. Major reason for the over expenditure compared to original budget in 2012, was unforeseen activities that were funded from overhead costs.

101. There were continuous drop in actual overhead expenditure from 2014 to 2016 due to prudent management, reduction in overheads occasioned by fiscal constraints, and centralized spending on some operations of government.

102. The performance from January – September 2017 which is N23.65 billion or 80.45% is very encouraging. It is anticipated that this trend will continue and the actual overhead expenditure at the end of 2017 will be less than actual overhead expenditure for 2016.

Figure 13: CRF Charges



	2011	2012	2013	2014	2015	2016	2017
Budget	41,427,706,881	40,569,967,479	36,201,030,693	38,327,553,261	64,603,103,611	54,536,934,205	54,536,934,205
Actual	47,193,848,127	40,000,563,784	41,581,478,472	62,221,987,389	148,653,488,028	42,508,785,563	
Performance	113.92%	98.60%	114.86%	162.34%	230.10%	77.94%	
Growth		-15.24%	3.95%	49.64%	138.91%	-71.40%	

Year

103. Consolidated Revenue Fund (CRF) charges includes pensions and gratuities, public debt charges, state government transfer to local governments, consolidated salaries of judicial officers, members of commissions and members of the DTHA. The 2015 actual is a direct consequence of restructured loans into FGN Bond as shown in Figure 6.

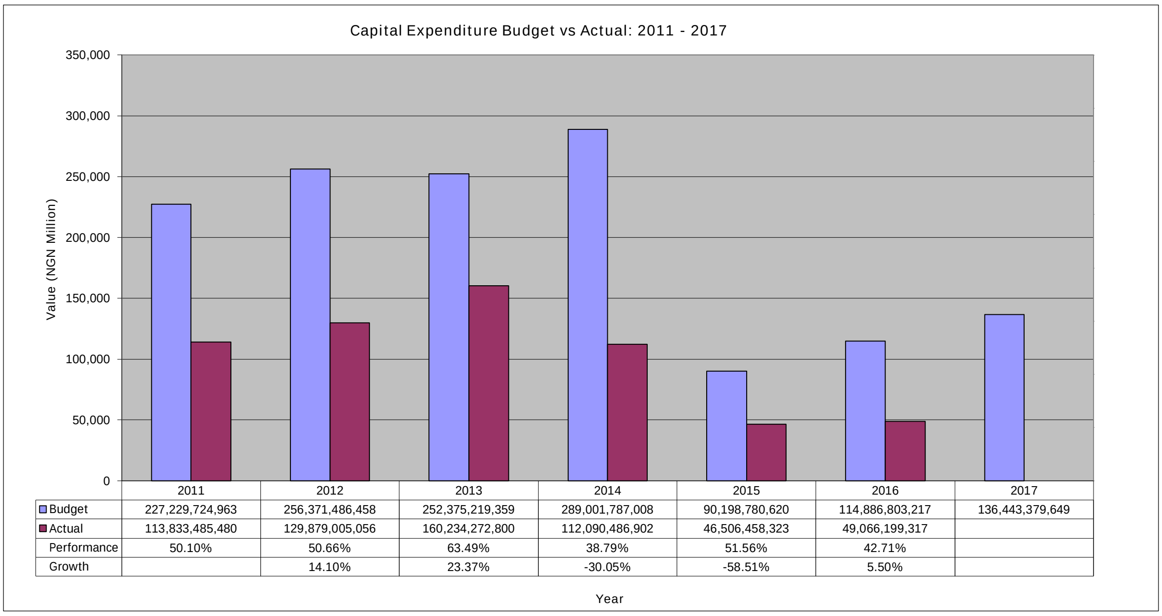
104. The CRF charges in years 2011, 2013, 2014 and 2015 exceeded the original budget. In 2012 and 2016, CRF charges were less than budget.

105. There was a significant increase in CRF charges in 2015 because of substantial increases in public debt charges. Some of the debt charges are currently being revalidated.

106. The performance from January – September 2017 which is N31.98 billion or 84.53% is consistent with the 2016 performance. It is anticipated that this trend will continue and the actual CRF charges at the end of 2017 will be close to actual CRF charges for 2016.

107. An accurate forecasting of debt repayment is critical for the Delta State FSP 2018-2020.

Figure 14: Capital Expenditure



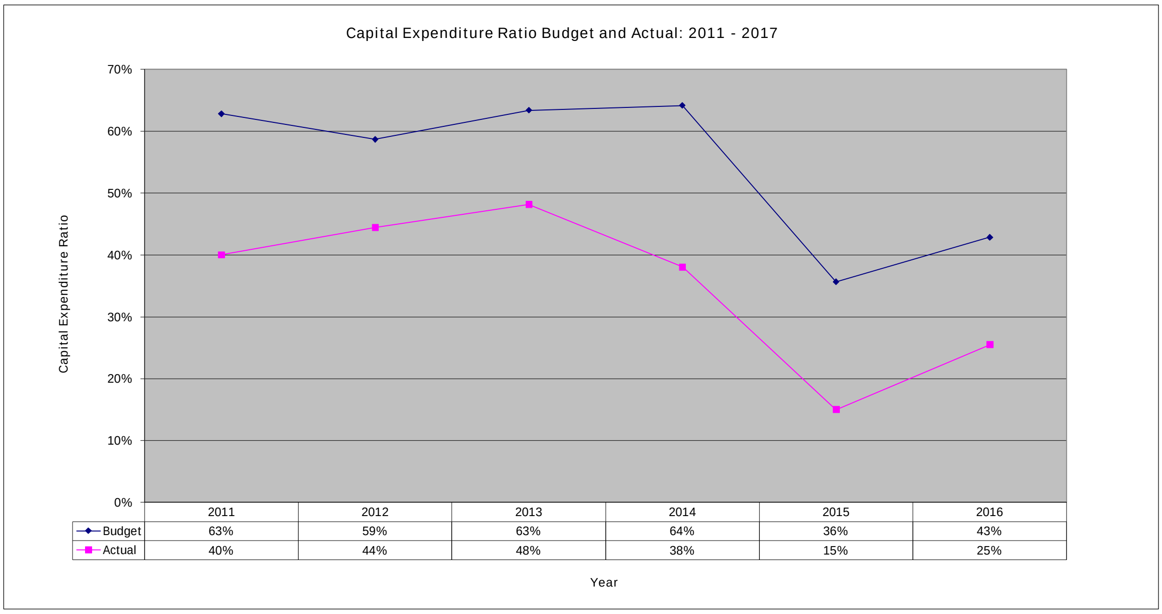
108. Capital Expenditure relates to public investments and development programmes of government.

109. Capital Expenditure performance from 2011 to 2015 has averaged a little over 50%. This is largely due to a short-fall in capital receipts and the need to fund recurrent expenditure monthly. For 2016, the low performance of 42.71% is attributed to the crash in international oil price and fall in production level due to the crises in the Niger Delta Region. Although the percentage achievement was relatively low comparatively but the outcome and impact of the interventions are enormous as it was focused and need based.

110. For the first 9 months (i.e. from January to September, 2017) actual capital expenditure is N22.79 billion which is 33.41% performance. The trend is consistent with the performance in 2015 and 2016.

111. When considering the aggregate resource envelope for 2018-2020, it is important to be realistic otherwise sectors will be given unrealistic envelopes for planning purposes and will not be able to implement programmes and projects in their MTSSs.

Figure 15: Capital Expenditure Ratio



112. The ratio of capital expenditure rose over the period 2011 to 2013 from 40% to 48% but decreased again in 2014 and 2015 to 38% and 15% respectively and increased to 25% in 2016. The actual capital expenditure ratio has been significantly below budget throughout the period, largely due to non-realisation of capital receipts which would have funded the projected amount of capital expenditure.

By Sector[5]

113. The total actual capital expenditure increased from approximately N130 billion in 2012 to N160 billion in 2013 and decreased to N112 billion and N46.5 billion in 2014 and 2015 respectively. Expenditure by main sectors has been relatively variable although economic sector has commanded the largest share of actual capital expenditure in all but one of the years shown.

114. Transport (infrastructure) sector had a significant level of capital expenditure in 2012 and 2013. In 2015, the capital expenditure on Transport (infrastructure) decreased significantly.

115. Education has commanded the highest expenditure amongst the social sector, but had significant dip in 2014 and 2015. The other three sectors (Health, Social Development and Information and Culture) have all decreased by 2014 compared to 2012.

116. Actual Capital Expenditure on General Administrative has decreased from N17 billion in 2012 to N9 billion in 2015.

117. A summary of budgeted and actual capital expenditure for the period 2012 - 2015 including performance summaries is included in the tables on the pages below.

118. Economic and Environmental sectors have been the priority of government since 2012 based on the capital expenditure allocations, particularly transport, urban and regional planning, and sewerage. DESOPADEC, which spends funds on development projects in the oil producing communities, also received 23.82% of the actual capital expenditure.

119. Agriculture, livestock and sewerage sectors have performed most poorly against budget whereas the best performing sectors were Education, General Administration (others) and DESPODEC.

120. The capital expenditure performance figures below are based on releases (cash accounting) not actual project implementation therefore they may not reflect actual progress of projects.

121. In terms of performance against budget, DOSAPADEC and other general administration have enjoyed high allocations against budget (close to 100%). On the whole, performance of capital budget has been poor (less than 50%), agriculture and social development being particularly poor performing.

[5] The disaggregated 2016 actual budget performance report is not available, hence the sector analysis stopped with 2015.

Table 6: Capital Expenditure Budget vs Actual 2012-2015

Capital Expenditure by Administrative Classification												
No.	Sector	2012 Budget	2012 Actual	2013 Budget	2013 Actual	2014 Budget	2014 Actual	2015 Budget	2015 Actual	Performance	Average Budget	Average Actual
1	Economic	88,478,125,971	42,027,003,076	79,052,878,380	51,942,302,658	99,455,944,354	53,325,578,312	11,638,658,769	8,118,047,809	55.78%	27.83%	34.62%
2	Agriculture	5,811,554,439	311,554,439	5,490,243,280	78,379,527	2,464,048,505	831,752,308	3,056,673,865	1,862,127,226	18.33%	1.68%	0.69%
3	Livestock	212,873,924	16,787,317	344,611,690	16,567,866	416,382,501	28,140,415	100,284,099	23,686,375	7.93%	0.11%	0.02%
4	Forestry	127,184,813	997,500	501,631,734	282,653,523	1,268,404,850	97,926,262	23,000,000	61,241,600	23.06%	0.19%	0.10%
5	Fisheries	116,900,657	7,728,118	204,725,835	35,273,889	200,723,880	2,000,000	42,500,000	25,601,924	12.50%	0.06%	0.02%
6	Industry	7,453,639,251	1,484,149,864	6,343,857,364	4,956,065,769	4,663,714,551	499,164,176	478,036,664	322,792,168	38.34%	1.89%	1.62%
7	Energy	4,901,376,375	1,582,996,022	3,199,808,795	2,423,870,192	4,327,569,728	408,688,987	443,463,920	235,852,287	36.14%	1.29%	1.04%
8	Commerce, Coop Tourism & Finance	8,577,513,450	1,303,062,195	15,174,934,712	13,023,087,960	5,203,982,702	492,528,514	646,244,617	811,149,088	52.80%	2.96%	3.48%
9	Transport	61,277,083,062	37,319,727,621	47,793,064,970	31,126,403,933	80,911,117,637	50,965,377,650	6,848,455,604	4,775,597,141	63.09%	19.66%	27.67%
10	Social	50,644,639,538	18,960,574,551	46,984,952,781	20,874,334,022	58,593,493,421	10,372,744,958	12,254,394,689	7,581,182,747	34.30%	16.83%	12.87%
11	Education	30,165,156,594	13,928,055,334	27,095,266,504	14,458,842,423	31,874,755,397	5,978,650,726	9,045,732,096	6,347,903,581	41.47%	9.81%	9.07%
12	Health	14,125,034,536	3,152,440,063	11,553,584,511	3,938,984,905	20,063,485,706	2,842,096,018	1,924,983,910	878,363,775	22.68%	4.76%	2.41%
13	Information and Culture	1,175,356,728	609,280,434	3,533,026,936	827,926,706	1,675,343,282	856,333,860	363,189,451	91,004,668	35.34%	0.67%	0.53%
14	Social Development	5,179,091,680	1,270,798,720	4,803,074,830	1,648,579,987	4,979,909,036	695,664,354	920,489,232	263,910,724	24.42%	1.59%	0.86%
15	Environmental	55,028,612,276	14,883,527,029	166,817,564,931	33,718,520,095	56,741,211,681	5,816,673,091	16,434,487,671	6,858,302,815	20.77%	29.47%	13.65%
16	Water Resources & Water Dev	4,486,274,846	2,019,451,416	5,756,925,200	1,455,620,106	3,199,839,950	594,938,857	549,038,616	269,913,606	31.02%	1.40%	0.97%
17	Sewerage	11,785,536,402	3,292,782,623	128,954,272,139	3,066,067,739	12,296,126,995	910,208,748	3,566,142,584	956,041,713	5.25%	15.64%	1.83%
18	Housing	783,739,252	444,538,238	2,869,280,809	720,576,769	4,034,215,020	741,009,565	888,947,254	518,175,631	28.27%	0.86%	0.54%
19	Urban & Regional Planning	37,878,750,888	9,071,212,127	28,936,107,744	28,380,065,304	37,037,986,806	3,554,860,490	11,318,467,129	5,090,725,265	40.02%	11.51%	10.27%
20	Community Development	94,310,888	55,542,625	300,979,039	96,190,178	173,042,910	15,655,431	111,892,088	23,446,600	28.05%	0.07%	0.04%
21	General Administration	25,220,108,673	17,758,934,742	38,078,623,267	21,845,717,846	34,211,137,554	18,841,956,266	17,371,239,491	9,017,311,321	58.72%	11.48%	15.03%
22	Building	9,865,049,989	2,631,790,435	12,075,022,563	2,704,335,119	11,411,013,862	2,039,139,887	2,035,380,641	1,321,122,388	24.58%	3.54%	1.94%
23	Others	15,355,058,684	15,127,144,307	26,003,600,704	19,141,382,727	22,800,123,692	16,802,816,379	15,335,858,850	7,696,188,933	73.93%	7.94%	13.09%
24	Others	36,500,000,000	36,500,000,000	36,500,000,000	31,853,398,180	39,000,000,000	23,552,469,276	32,000,000,000	15,013,434,217	74.25%	14.39%	23.82%
25	DESOPADEC	36,500,000,000	36,500,000,000	36,500,000,000	31,853,398,180	39,000,000,000	23,552,469,276	32,000,000,000	15,013,434,217	74.25%	14.39%	23.82%
	Total	255,871,486,458	130,130,039,398	367,434,019,359	160,234,272,801	288,001,787,010	111,909,421,903	89,698,780,620	46,588,278,908	44.84%	100.00%	100.00%

2.B.2 Debt Position[6]

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

Table 7: Debt Position as at 31st December 2015

	Debt Sustainability Analysis		
A	DSA RATIO SCENARIOS:	Sustainability Thresholds	As at 31st December 2015
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue	50%	59.63%
2	Total Domestic Debt/IGR	150%	235.86%
3	Total External Debt/Total Revenue	50%	0.44%
4	Total Public Debt/Total Revenue	100%	60.06%
5	Total Public Debt/State GDP Ratio	40%	No GDP Figure Available
	Liquidity Ratios		
6	External Debt Service/Total Revenue	10%	0.10%
7	Total Debt Service/Total Revenue	15%	62.98%
8	Domestic Debt Service/IGR	10%	248.72%
			2015 Actual
B	PUBLIC DEBT DATA AS AT 31st DECEMBER 2015		Naira
1	Total Domestic Debt		119,940,474,918
2	Total External Debt		875,264,839
3	Total Public Debt		120,815,739,757
4	Total Domestic Debt Service 2015		126,478,066,672
5	Total External Debt Service in 2015		196,451,111
6	Total Public Debt Service		126,674,517,783
C	STATE GDP FOR 2015		
1	State GDP		0

123. The external stock is related to loans from IBRD (International Bank for Reconstruction and Development), IDA (International Development Association) and AfDB (African Development Bank). Deductions for servicing external debt are deducted directly from Statutory Allocation and passed to the Federal Debt Management Office (DMO) to service the debt.

124. Internal debt stock is related to infrastructure development bond of 50 billion NGN taken out in 2011 at an interest rate of 14% and a term of 7 years, commercial bank loan of 42.74 billion NGN, and judgement debt of 173.85 million NGN. Although the State has surpassed the sustainable threshold, these benchmark figures are also obsolete given the development in the macroeconomic space over the said period.

[6] The Debt positon and analysis is also as at 31st December, 2015.

Section 3 Fiscal Framework

3.A Macroeconomic Framework

125. National Inflation (Consumer Prices) and real GDP growth are taken from the NBS and ERGP 2017 - 2020 documents. The crude oil production benchmark is based on the 2017 Federal budget assumptions. However, the daily projected oil production was reduced to 1.9mbpd because of Nigeria performance in the last 2 years. The production benchmark, oil price and NGN:USD exchange rate of N305:$1 for 2018 - 2020 is based on the proposed price and exchange rate in the Federal Fiscal Strategy Paper 2018 - 2020. The fundamentals for the Delta State Macroeconomic Framework are explained in detail in paragraphs 36 – 57 above.

Macro-Economic Framework

Item	2018	2019	2020
National Inflation	12.42%	13.39%	9.90%
National Real GDP Growth	4.80%	4.50%	7.00%
Oil Production Benchmark (MBPD)	2.30	2.00	2.30
Oil Price Benchmark	$45.00	$50.00	$52.00
NGN:USD Exchange Rate	305	305	305

3.B Fiscal Framework and Assumptions

Policy Statement

126. The overriding thrust of Delta State moving forward is sustainable development. The principal goal is to use available resources to develop the non-oil sector of the state economy to reduce its high dependence on crude oil and gas revenues.

127. The strategic framework and economic direction in this regard, is hinged on the S.M.A.R.T. agenda. This is underpinned by five building blocks of economic growth strategy; effective maximization of resources; fiscal adjustment strategy; maximization of private investment and public spending; human capital development and effective collaboration, cooperation and sequencing of activities. The focus is to use the opportunity of the current economic situation to diversify the economic base of the state and pursue economic growth and development based on the non-oil sector. Thus, the emphasis is being shifted to such sectors as agriculture, tourism and entertainment, commerce and industry.

Objectives and Targets

128. The key targets from a fiscal perspective are:

- A medium term target of 60-40 for infrastructure investment to Recurrent Expenditure (in favour of capital items) through reduced recurrent expenditure;
- A medium term target to increase the proportion of recurrent revenue flowing from IGR (hence reducing dependence on federal transfers), and longer term to fund all recurrent expenditure through IGR;
- Bring debt position in line with federal debt management office benchmarks;
- Complete all ongoing projects in the long term to avoid abandoning of projects;
- Budget for pending contractual commitments in line with IPSAS requirements;
- Create efficiencies in business processes to reduce wastage through establishment of best practice in public procurement processes.

3.C Indicative Three Year Fiscal Framework

129. The indicative three-year fiscal framework for the period 2018 - 2020 is presented in the table below.

Table 8: Medium Term Fiscal Framework

Recurrent Revenue	2018	2019	2020
Statutory Allocation/Net Derivation	168,056,627,329	186,500,620,290	194,642,342,810
VAT	10,767,532,297	11,049,456,914	11,423,353,072
IGR	71,360,419,715	78,838,398,756	86,872,027,609
Other Federation Account Receipts	10,000,000,000	10,000,000,000	10,000,000,000
Total Recurrent Revenue	260,184,579,341	286,388,475,961	302,937,723,491
Recurrent Expenditure			
CRF Charges	54,536,934,205	54,536,934,205	54,536,934,205
Personnel	69,060,152,349	70,441,355,396	71,850,182,504
Overheads	37,289,002,501	39,153,452,626	41,111,125,257
Total	160,886,089,055	164,131,742,227	167,498,241,967
Transfer to Capital Account	99,298,490,286	122,256,733,734	135,439,481,525
Capital Receipts			
Grants	2,250,000,000	2,250,000,000	2,250,000,000
Other Capital Receipts	0	0	0
Total	2,250,000,000	2,250,000,000	2,250,000,000
Reserves			
Contingency Reserve	0	0	0
Planning Reserve	0	0	0
Total Reserves	0	0	0
Capital Expenditure	123,648,490,286	149,506,733,734	167,689,481,525
Discretional Funds	123,648,490,286	149,506,733,734	167,689,481,525
Non-Discretional Funds	0	0	0
Net Financing	22,100,000,000	25,000,000,000	30,000,000,000
Total Budget Size	284,534,579,341	313,638,475,961	335,187,723,491
Ratios			
Growth in Recurrent Revenue	21.01%	10.07%	5.78%
Growth in Recurrent Expenditure	1.98%	2.02%	2.05%
Capital Expenditure Ratio	43.46%	47.67%	50.03%
Deficit to Total Expenditure	7.77%	7.97%	8.95%

3.C.1 Assumptions

130. Statutory Allocation/Net Derivation – is estimated using an elasticity based forecast using the oil price of $45 per barrel (pb), NGN:USD Exchange benchmarks of N305 to $1 and production benchmark of 2.3 million barrels per day (mbpd). The NGN:USD exchange rate and crude oil price are consistent with the benchmark contained in the federal fiscal strategy paper 2015-2017. The production of 2.3 mbpd estimated for 2018 is in line with the advice of the National Economic Council. 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.

131. VAT – is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2018 is in line with the current rate of collections. This forecast should be revisited if there are any changes to the VAT rates as proposed in the ERGP 2017 - 2020.

132. Other FAAC Distributions. It is assumed that the exchange rate will appreciate slightly in the medium term and the exchange gains will continue to be distributed. It is assumed that excess revenue from other sources will also be shared by the three tiers of Government. A notional figure on N10 billion is the estimate for 2018.

133. Internally Generated Revenue (IGR) – the IGR performance for half year 2017 is higher than the performance for 2014, 2015 and 2016. 2018 – 2020 IGR forecast is based on a 3-year moving average growth rate. When compared to other moving averages and elasticity based forecasts, the 3 year moving average gave a figure that was in consistent with the 2017 half year performance.

134. Grants – SUBEB is assumed at N2 billion per annum from 2018 -2020.

135. Financing (Net Loans) – Net financing of N22b for 2018 including commercial bank loan.

136. CRF Charges – includes current pension liabilities plus contributions, gratuities, internal and external loan principal repayments, LG pension contribution, 10% IGR to LG, LG education fund and statutory emoluments. Contributory Pensions are assumed to grow at the same rate as personnel costs, LG IGR transfer is a function of IGR in the fiscal framework and debt repayment is based on figures from the state DMO. All other items are assumed to remain the same as basis as 2017 budget.

137. Personnel – first quarter January – March 2017 figures indicates that personnel cost grew by about 2% over the amount spent from January – March 2016. 2% growth is therefore assumed in 2018 and 2020 based on the current growth rate.

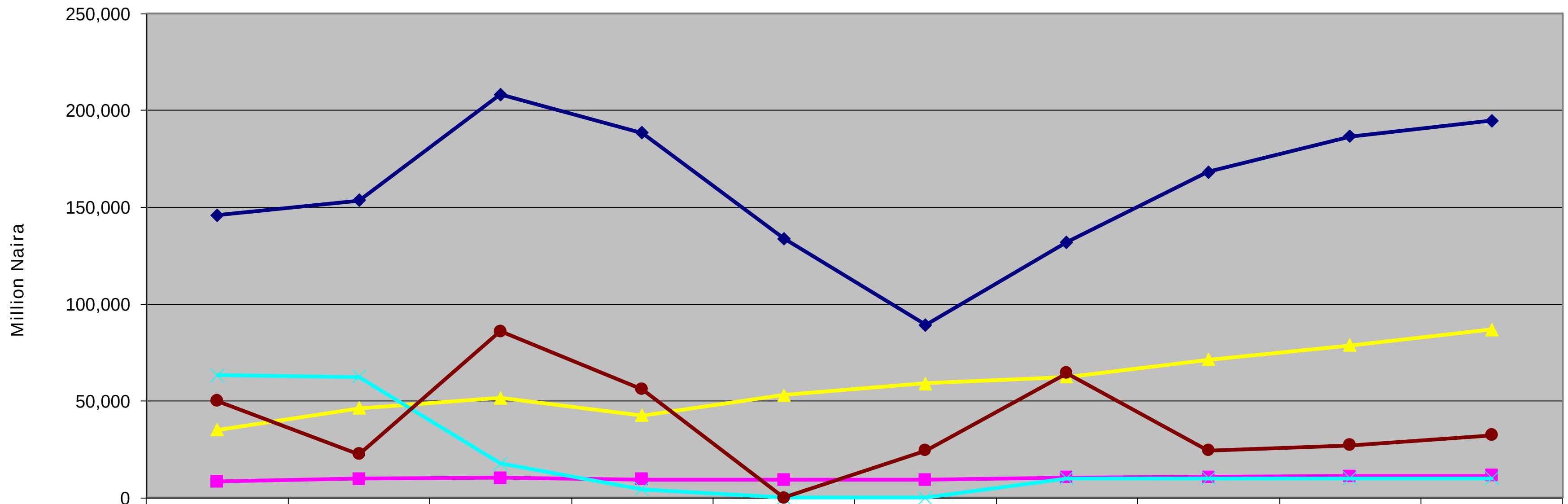
138. Overheads – first quarter January – March 2017 figures indicates that overhead cost grew by about 4.5% over the amount spent from January – March 2016. 5% growth is therefore assumed in 2018 and 2020 based on the current growth rate.

139. Capital Expenditure – This is based on recurrent account surplus and capital receipts.

3.C.2 Fiscal Trends

140. Based on the above envelope, plus actual figures for 2012-2017 (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 in the line graph below.

Figure 16: Delta State Revenue Trend



	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Stat.Allocation	145,840,991,90	153,569,227,73	208,150,556,36	188,299,423,04	133,767,527,59	89,117,061,863	131,991,600,17	168,056,627,32	186,500,620,29	194,642,342,81
VAT	8,467,586,865	9,676,839,414	10,124,911,725	9,619,182,846	9,265,096,195	9,265,096,195	10,421,706,202	10,767,532,297	11,049,456,914	11,423,353,072
Total IGR	35,036,557,501	46,288,267,186	51,614,755,266	42,558,692,782	52,989,978,399	59,002,587,764	62,604,017,710	71,360,419,715	78,838,398,756	86,872,027,609
Other Federation Account Receipts	63,128,481,141	62,542,789,708	17,653,044,618	4,427,865,945	0	0	10,000,000,000	10,000,000,000	10,000,000,000	10,000,000,000
Capital Receipts	50,000,000,000	22,444,468,410	85,901,070,276	56,030,377,509	0	24,341,472,933	64,450,000,000	24,350,000,000	27,250,000,000	32,250,000,000

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 9: Risk Matrix

Risk	Likelihood	Impact	Mitigation and Reaction
Delta State's Statutory Allocation/Net Derivation is directly linked to the level of oil production in the state. Any shock (as currently being experienced) to oil production will result in decreased Statutory transfer and will also threaten IGR due to decreased secondary economic activity in the state	Very High	Very High	1. Projections for 2018-2020 are conservative 2. To build on efforts to decrease reliance on oil based revenues over the medium term 3. Diversification of IGR sources
Threat of terrorism increases the cost of security (reducing funds for capital development) and poses a threat to economic activity nationally (Federal transfers affected)	High	High	1. Youth employment 2. Improved internal security through investment, stakeholder consultation, training of security personnel
Threat to economic activity and business of government in the state due to ecological factors including erosion and flood	Medium	Medium	1. Reliance of meteorological forecasts 2. Pro-active on forecasts 3. Appropriate spending to maintain assets and create new assets that help build ecological resilience 4. Public awareness on climate change and resilience and other environment issues
Threat to oil revenues from global economic and political factors, resulting in drop in oil revenue	High	Very High	1. Reduced reliance on Oil revenues through long term policies such as Delta Beyond Oil which build economic independence and increase IGR 2. Increased efficiency in recurrent expenditure to allow maximum funding for Capital Expenditure 3. Setting aside between 5% and 10% of total recurrent revenue as contingency reserve fund. Fund set aside to build the State reserve fund
Inaccurate estimation of resources resulting in overestimation of	Medium/ High	High	1. Scientific forecasting techniques used to estimate recurrent revenue

expenditure envelope			2. Awareness raising on importance of prudent budgeting to all stakeholders 3. Clear policy of prioritisation for capital expenditure projects 4. Linkage of revenue sources (particularly capital receipts) to specific projects 5. Clear and transparent budget documentation in line with IPSAS requirements and international best practice

142. It should be noted that no budget is without risk. The ongoing implementation of the 2017 budget should be closely monitored, as well as the security situation and their impact on the fiscal and economic outlook.

Section 4 Budget Policy Statement

4.A Budget Policy Thrust

143. This administration has a clear vision of what it wants to do in the life of its tenure as captured in the S.M.A.R.T. agenda – the focus is on employment opportunities, a flourishing agriculture and agro-business sector, effective health and education systems, renewed urban infrastructure and enhanced security and peace to bolster economic growth and development. The agenda has five policy thrusts:

- Strategic wealth creation projects and provisions of jobs for all Deltans;
- Meaningful peace building platforms aimed at political and social harmony;
- Agricultural reforms and accelerated industrialisation;
- Relevant health and education policies; and
- Transform environment through urban renewal.

4.B Sector Allocations (3 Year)

144. The total forecast budget size for 2018 fiscal year as explained in Section 3.C above is ₦284,534,579,341 of which the sum of ₦123,648,490,286 will be for capital expenditure. Based on the principles of prudent fiscal management the sum of ₦13,862,206,504 is proposed to be set aside as planning/contingency reserve. Consequently, the allocated total fund for 2018 budget is ₦270,672,372,837 of which the sum of ₦109,786,283,782 will be for capital expenditure.

145. Based on the budget policy thrust derived from the S.M.A.R.T agenda of the current administration an indicative capital allocation to the MDAs for 2018 is shown in table 10 below.

Table 10: Indicative MDAs Capital Expenditure Ceilings 2018-2020

MDA	%	2018	2019	2020
Total Capital Expenditure	100%	**109,786,283,782**	**127,121,561,647**	**167,689,481,525**
Directorate of Government House	3.76%	4,126,500,964	4,778,076,355	6,302,889,426
Deputy Governor's Office	0.16%	177,251,575	205,239,636	270,737,141
Delta State Capital Territory	2.54%	2,783,540,311	3,223,061,926	4,251,627,940
State Emergency Management Agency	0.03%	36,831,496	42,647,197	56,257,068
Direct Labour Agency	0.65%	708,917,442	820,855,659	1,082,812,845
Job Creation Office	2.73%	2,999,977,186	3,473,674,231	4,582,217,392
Secretary to the State Government Headquarters	0.77%	848,474,778	982,449,128	1,295,975,150
Directorate of Cabinet and Administration	0.01%	14,272,205	16,525,789	21,799,614
Delta State Pension Bureau	0.02%	20,349,402	23,562,576	31,082,030
Local Government Pension Bureau	0.02%	24,861,260	28,786,858	37,973,521
Bureau of Special Duties Hqtrs	0.36%	390,670,622	452,357,597	596,717,110
Directorate of Establishment and Pension	0.05%	49,736,215	57,589,575	75,967,961
Directorate of Political and Security	0.03%	35,450,315	41,047,927	54,147,428
State House of Assembly	0.59%	646,215,148	748,252,659	987,040,269
House of Assembly Commission	0.03%	31,767,165	36,783,208	48,521,721
Ministry of Information Main	0.30%	333,463,157	386,117,061	509,337,433
Orientation and Communication	0.03%	27,623,622	31,985,398	42,192,801
Office of the Head of Service	0.06%	60,771,968	70,367,875	92,824,163
Office of the Auditor General State	0.08%	82,870,866	95,956,194	126,578,404
Office of the Auditor General Local Government	0.06%	67,126,276	77,725,530	102,529,843
Civil Service Commission	0.02%	18,231,591	21,110,363	27,847,249
Local Government Service Commission	0.01%	11,651,644	13,491,441	17,796,924
Delta State Independent Electoral Commission	0.02%	22,697,409	26,281,335	34,668,418
Ministry of Agriculture & Natural Resources Hqtrs	0.63%	687,762,482	796,360,327	1,050,500,392
Ministry of Finance Hqtrs	3.35%	3,676,723,715	4,257,279,182	5,615,891,824
Office of the Accountant General	0.06%	66,204,614	76,658,337	101,122,080
Board of Internal Revenue	1.01%	1,104,944,880	1,279,415,915	1,687,712,050
Ministry of Commerce and Industry Hqtrs	2.23%	2,452,688,564	2,839,968,617	3,746,279,221
Directorate of Science and Technology Hqtrs	0.38%	414,836,762	480,339,576	633,628,894
Directorate of Transport Hqtrs	0.97%	1,063,867,192	1,231,852,051	1,624,969,273
Ministry of Energy Hqtrs	1.00%	1,093,435,056	1,266,088,687	1,670,131,745
Rural Development Agency	0.53%	586,043,758	678,580,193	895,133,440
Ministry of Oil and Gas Hqtrs	0.16%	170,761,615	197,724,910	260,824,263
Ministry of Works Hqtrs	27.28%	29,951,150,491	34,680,443,607	45,747,908,790
Directorate of Culture and Tourism Hqtrs	0.40%	442,208,149	512,032,911	675,436,427
Ministry of Economic Planning Hqtrs	2.13%	2,343,170,663	2,713,157,816	3,578,999,672
Ministry of Water Resources Hqtrs	1.18%	1,298,467,451	1,503,495,741	1,983,301,794
Ministry of Housing Hqtrs	2.50%	2,745,972,185	3,179,561,785	4,194,245,731
Ministry of Lands, Survey & Urban Development H	1.57%	1,721,323,148	1,993,120,444	2,629,178,950
Judiciary Service Commission	0.01%	8,148,968	9,435,692	12,446,876
High Court of Justice	0.87%	959,193,783	1,110,650,689	1,465,089,287
Customary Court of Appeal	0.42%	463,438,662	536,615,727	707,864,282
Ministry of Justice Hqtrs	0.13%	138,073,662	159,875,523	210,896,115
DESOPADEC	23.48%	25,782,047,209	29,853,038,019	39,379,947,843
Directorate of Youth Development Hqtr	0.19%	208,742,504	241,702,990	318,836,935
Ministry of Women Affairs and Social Developmen	0.29%	318,595,624	368,901,941	486,628,503
Ministry of Basic and Secondary Education	7.56%	8,296,500,916	9,606,520,198	12,672,219,963
Ministry of Higher Education	2.05%	2,255,573,548	2,611,729,097	3,445,202,312
Ministry of Health Hqtrs	4.87%	5,342,458,157	6,186,033,451	8,160,163,615
Ministry of Environment Hqtrs	2.08%	2,278,504,337	2,638,280,663	3,480,227,199
Delta State Sports Commission	0.29%	314,905,321	364,628,939	480,991,871
Directorate of Local Government	0.06%	69,041,276	79,942,908	105,454,846
Directorate of Chieftaincy Affairs	0.01%	12,246,472	14,180,193	18,705,475

Section 5 Summary of Key Points and Recommendations

146. Below is summary of key points arising in this document:

- The State should sustain its PFM reform programme particularly as it relates to the implementation of IPSAS, update to the SAP based SIFMIS and budget reforms, as well as targeting enhanced IGR performance in order to achieve its fiscal and budget policy objective and priorities;
- The State must continue to monitor performance of its mineral based revenues in order to ensure estimates are consistent with the latest development globally and within the Federal Government's budget process (i.e. any changes to the crude oil benchmarks (production quota and price) as well as exchange rate for 2018 and beyond);
- Better data recording and sharing between PFM oversight agencies will enable the State to have a clearer picture of its current fiscal position and hence help make better informed decisions.