Explanatory Notes (EN) for the Revised 2020 Budget Assumptions/Projections and Expenditure.

1.0: Underlying Assumptions

Explanatory Note 1.1: Ekiti State took cognizance of the unprecedented fall in the price of crude oil which berthed at US$18 per barrel before it began to rise slowly by the end of the quarter, arising from the outbreak of the novel COVID-19 pandemic in the second quarter (Q2) of 2020. It is expected that oil prices will rise from an average of US$23 per barrel in the second quarter to US$28 per barrel in the third quarter and US$35 per barrel in the fourth quarter. More importantly, NGF advised States to peg oil price assumptions at $20 per barrel. Ekiti State, being unadventurous, and considering Federal Government's assumptions of $25 pb and later $28 pb, pegged oil price benchmark at $20 pb in its 2020 revised Budget. This assumption was informed by the unprecedented fall in oil price which culminated in dwindling revenue from the FAAC and the volatility of crude oil prices at the international market caused by low demand as a result of the lockdown of major economies and the cold war between Saudi Arabia and Russia. The foregoing compelled Ekiti State to peg its oil price benchmark at $20 pb in the 2020 revised Budget.

EN 1.2: Ekiti State also took cognizance of the OPEC agreement regarding cut in oil production by oil producing countries whereby Nigeria is expected to cut its production to 1.4 MBPD excluding condensates. This is a sharp reduction in the oil production of 2.1 MBPD of the FGN 2020 Budget. Since Ekiti State is not oil producing but only shares in the total oil revenue, it reviewed its crude oil production benchmark from 1.9 MBPD to 1.7 MBPD in its 2020 revised Budget which is 0.1 MBPD below the assumption of the FGN. The State however, expects to benefit from the remaining 300k BPD.

EN 1.3: Ekiti State observed the devaluation of Naira to Dollar which reflected in the exchange rate. The official exchange rate has been adjusted upwards to N360/US$1 by the Central Bank of Nigeria (CBN). At the Importers & Exporters Foreign Exchange (IEFX) window, where the largest chunk of foreign exchange transactions are consummated, the exchange rate depreciated from N362/US$1 in January 2020 to over N385/US$1. While the apex Bank continues in its effort to stabilize the exchange rate, the assumption is that the Naira will suffer further devaluation as Nigeria is projected to lose about US$26 billion in oil revenues, its principal source of foreign currency. Ekiti State therefore, adopted Exchange Rate of N360/$1 in its 2020 revised Budget in line with the FG's approved official Exchange Rate for States.

EN 1.4: The National GDP has been revised from 2.93% to -4.42% in the FGN revised 2020 budget as a result of Nigeria's Economy being threatened by the Covid-19 pandemic and the concomitant unprecedented sharp decline in international oil prices. The implication of this on the economy is that Nigeria has entered another face of recession with adverse effect much grievous than the one witnessed in 2016/2017. It is customary for Ekiti State to adopt the National GDP figures in its Annual Budgets. The State has therefore, adopted a GDP of -4.42% projections/assumptions as recommended by the FGN and NGF to States.

EN 1.5: Ekiti State was among the very few States to shut down its borders and restrained movement within the State, save for people providing essential services. FGN also pronounced total lockdown of Abuja, Lagos, Ogun and Kaduna in a bid to flatten the curve of covid-19 spread. The attendant effect was a sharp rise in the prices of goods and services due to the lockdown. Arising from the lockdown, the IMF projected an inflation rate of 13.4% for Nigeria by the end of 2020. However, both FGN and NGF projected 14.3% inflation rate in the review of the 2020 budget. Since Ekiti State is not immune to the economic downturn, it projected 14.3% inflation rate in line with the economic realities of the country.

EN 1.6: The NNPC in conjunction with the Budget Office of the Federation reduced their cost downwards by 53% with a view to ensuring minimal deductions and maximizing contribution to the Federation Account. After the deduction of these costs on the total mineral revenue, what is left is the Mineral Ratio of 47%. Ekiti State adopted a conservative 34% mineral ratio assumptions for the review of the 2020 Budget.

2.0: Revenues and Grants

EN 2.1: Ekiti State considered NGF's assumptions in relation to the non-oil revenue as plausible. The State therefore, adopted NGF's assumptions of N23.6 billion as the State's share of Statutory Allocation in the revised 2020 Budget. However, the sum of N22.5 billion was projected as Statutory Allocation in the Ekiti State 2020 revised Budget with a view to spend the excess on COVID-19.

EN 2.2: On VAT, the Federal Government budgeted N2.089 trillion in 2020 and revised it to N2.029 trillion (FG's Addendum 2020 MTEF & FSP). NGF calculated Ekiti State's share of VAT at N11.9 billion, which is N0.9 million short of what was received as VAT by the State in 2019. Consequently, considering the various stimulus packages put in place by FGN and the efforts of the State to boost the economy and enhance SMEs activities, Ekiti State took a more optimistic approach to project at least N0.904 billion monthly and pegged its revenue from VAT at N10.85 billion for the 2020 Revised Budget. As at 30th June, 2020, the State had received N5.6 billion from VAT thus making the estimated revenue vote of N10.85 billion achievable.

EN 2.3: The State performance on IGR was impressive up till February, 2020 a development attributable to various reforms of the Government to create enabling environment for business activities and evolve various new revenue sources. The State projected N17.1 billion in 2020 Budget but reviewed it downward to N7.05 billion in the revised budget. The downward review is necessitated by the lockdown occasioned by the covid-19 pandemic. Businesses activities and other sources of IGR may be affected especially in the Q2 and Q3. Business owners groaned under the pandemic and social activities were paralyzed. To cushion the effect, Government considered tax reliefs which may affect major sources of IGR. Only PAYE is expected to maintain its current performance, most especially from the public sector. Furthermore, as at 30th June, 2020, the State IGR was N3.5 billion therefore making the projection of N7.05 billion feasible.

EN 2.4: On assumption of office in 2018, the administration renewed its cordial relationship with development Partners and Federal Government for various intervention programmes. The State settled counterpart contributions which were in arrears most especially, UBEC/SUBEB counterpart contributions. The State is very optimistic that all TETFUND for tertiary institutions and UBEC funds, some of which had already been drawn, would be accessed in 2020.

The State projected N8.008 billion as grant from SFTAS in 2018/2019 out of which N1.008 billion had been drawn. The State expects to draw N7 billion from the New DLIs (Additional Financing).

EN 2.5: The State is expecting additional external grants from the collaboration with development Partners on various projects such as NEWMAP, RAAMP, EU, UNICEF, among others. The State had already accessed the sum of N675.02 million as Draw-Down from the various development Partners. The State hopes to fully secure these funds before the end of fourth quarter 2020.

3.0: Expenditure

EN 3.1: Ekiti State Government has implemented the minimum wage of N30,000.00 in the State for officers on GL 1-6 while negotiation was almost concluded on the minimum wage for officers on GL 7-17 and consequential adjustment before the outbreak of the pandemic and the lockdown in March, 2020.

EN 3.2: The Overhead budgetary provision has been reduced from N23.6 billion in the 2020 Budget to N15.0 billion in the revised Budget. The reduction of Overhead budgetary provision in the revised 2020 Budget is in line with the economic reality of dwindling revenue accruable to the State and the need to identify non-essential or Non-Covid-19 related activities and substantially reducing them or eliminating them outright. This painful but necessary decision which resulted from the drop in expected revenue is to enable the State cater for more important issues that relate to mitigating, managing, combating and/or cushioning the economic and social effects of the pandemic. The State has compressed the cost of governance by reducing the overhead cost with the exception of the Health sector which is at the frontline in the fight to contain COVID – 19. Also, a provision of additionally N800 million was set aside in Overhead to cater for palliatives, essential services and other critical needs in responsive to and fight against the Covid-19.

In sum, the State has reduced the Overhead cost by 35% from the original Budget which cuts across all Sectors with the exception of Health Sector. For instance, programmes such as local and overseas training, pilgrimage activities, arts and culture festivals, scholarship schemes, grants to Schools and Technical Colleges, hosting of Conferences etc. have been reduced/eliminated in the Revised Budget. Furthermore, priority has been accorded to COVID-19 related activities such as fumigation of MDAs, markets, schools and other designated areas, activities of Waste Management Authority, Sensitization and Television Programmes, allowances to Security personnel, purchase of Personal Protective Equipment (PPE) for MDAs in the State, monitoring the activities of primary, secondary health facilities and medical mission and assistance in the State.

EN 3.3: The State tailored its Capital Budgetary provision towards response to COVID-19 by eliminating non-essential services. The Capital Budgetary Provision has been reduced from N53.5 billion to N36.8 billion to reflect the current revenue projections and assumptions. Preference was given to projects which had commenced and Government had made financial commitment, COVID-19 related projects and legacy projects. Provisions that were not linked to any concreate outcomes were eliminated, projects that were yet to commence were drastically reduced or stopped. Out of the State Capital Budgetary Provision of N36.8 billion in the revised budget, N21.5 billion is tagged covid-19 responsive. Activities such as purchase of Office furniture and equipment, production of political souvenirs, Governors interactive sessions with towns and communities, consultancy services, purchase of vehicles have been substantially reduced or eliminated in the 2020 Revised Budget.

4.0: Financing

EN 4.1: The State has a total loan plan of N23.83 billion in the revised budget. The proposed loans have been structure not to affect or increase the domestic arrears. The State is expected to access N5 billion Agriculture loan from the CBN to fund farming in the State. The State also hopes to access the CBN N2.5 billion loan facility to fund the development of primary and secondary health institutions and the balance to fund some specific capital projects across all Sectors in the State. These health institutions are to be further developed in response to COVID-19 effort of the State Government.

EN 4.2: The State considers the importance of Capital Market as a veritable source of loan for developmental projects at a reasonable digit and long tenor of repayment. The State is optimistic to approach the Capital Market for Municipal Bond before the year runs out. Proceed of the Bond will be used to finance the Cargo Airport, road construction and other legacy projects.

5.0: Memorandum Items:

EN 5.1: Based on the revised 2020 Budget **26.08**% of the amended budget was provided in funding COVID-19 related activities.

General Explanatory Note for the Revised 2020 Budget

The Ekiti State Government 2020 revised Budget has been tailored towards meeting the World Bank's State Fiscal, Transparency, Accountability and Sustainability Programme (SFTAS) Additional Financing Disbursement Link Indicators (DLI). Consequently, all health necessities, Agriculture and SMEs are tagged COVID-19 Responsive. In addition, all constructions and civil works, rehabilitation, procurement, ICT and other social securities are identified as COVID-19 Responsive.

Provisions for the healthcare services are tagged as COVID 19 responsive in the revised 2020 Budget as they are frontline interventions towards managing and combating the pandemic.

Agriculture activities are tagged COVID-19 responsive to ensure food security. SMEs are the worst hit in the economy. Many small business activities are on the verge of collapse. As live wire of the economy, SMEs are tagged as COVID-19 responsive in the 2020 revised Budget.

The Building and Civil Engineering projects are COVID-19 Responsive because they have the capacity to create jobs and stimulate economic activities of the State. This is necessary as it would provide households with income and also provide the state with infrastructure that will boost Internally Generated Revenue (IGR) in the long run.

All ICT activities are tagged COVID – 19 responsive in the review of 2020 Budget because it enhances social distancing, E-governance, and continuation of government activities without hindrance to the lockdown imposed by the government.

Social security is tagged COVID-19 response in the reviewed 2020 Budget as it targets the vulnerable and the poor State. Provisions have been made to provide food and very basic needs for the poor and the vulnerable in the 2020 revised Budget.