

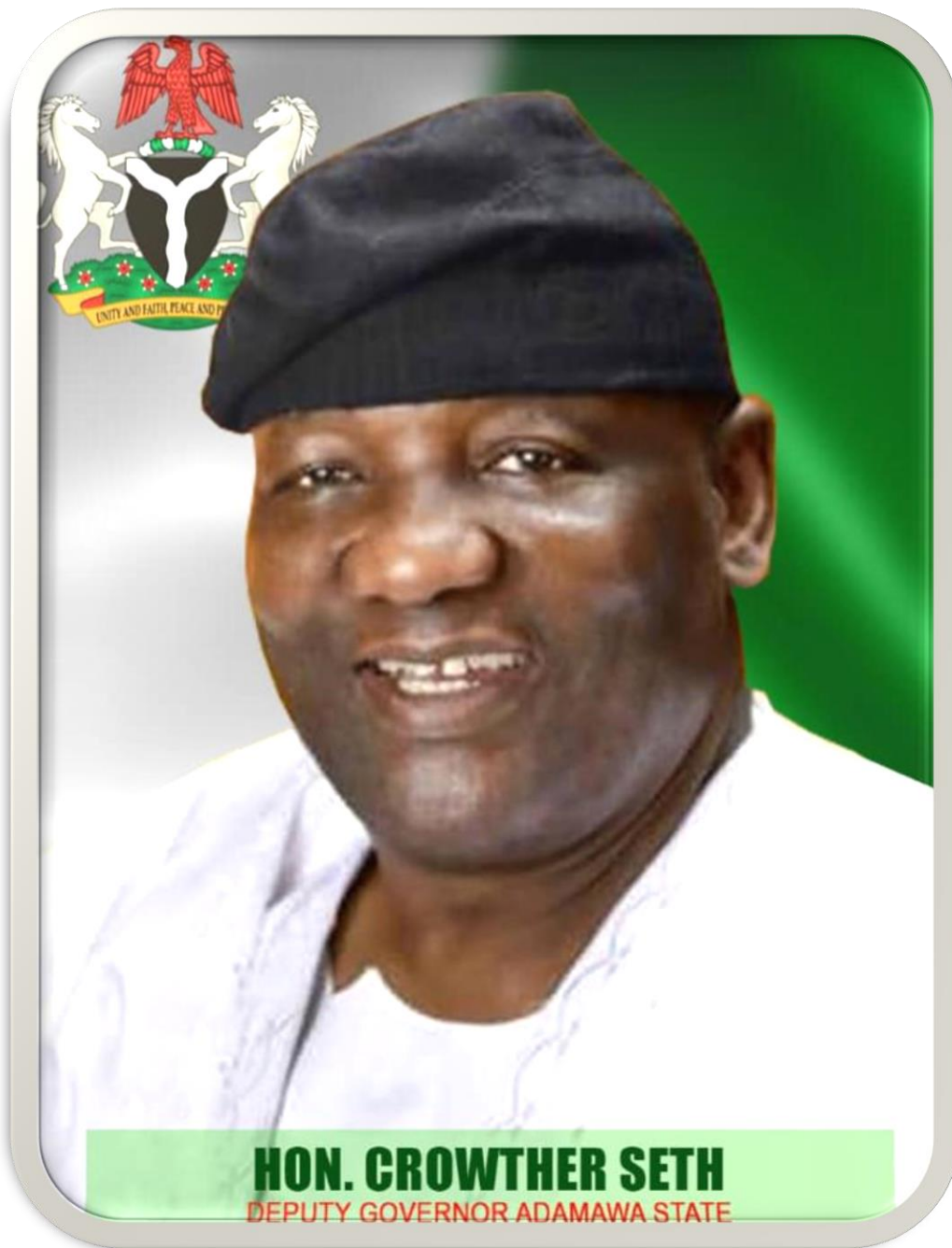


ADAMAWA STATE GOVERNMENT

ECONOMIC AND FISCAL UPDATE (EFU), FISCAL STRATEGY PAPER (FSP) AND BUDGET POLICY STATEMENT (BPS), 2022 – 2024

AUGUST 2021







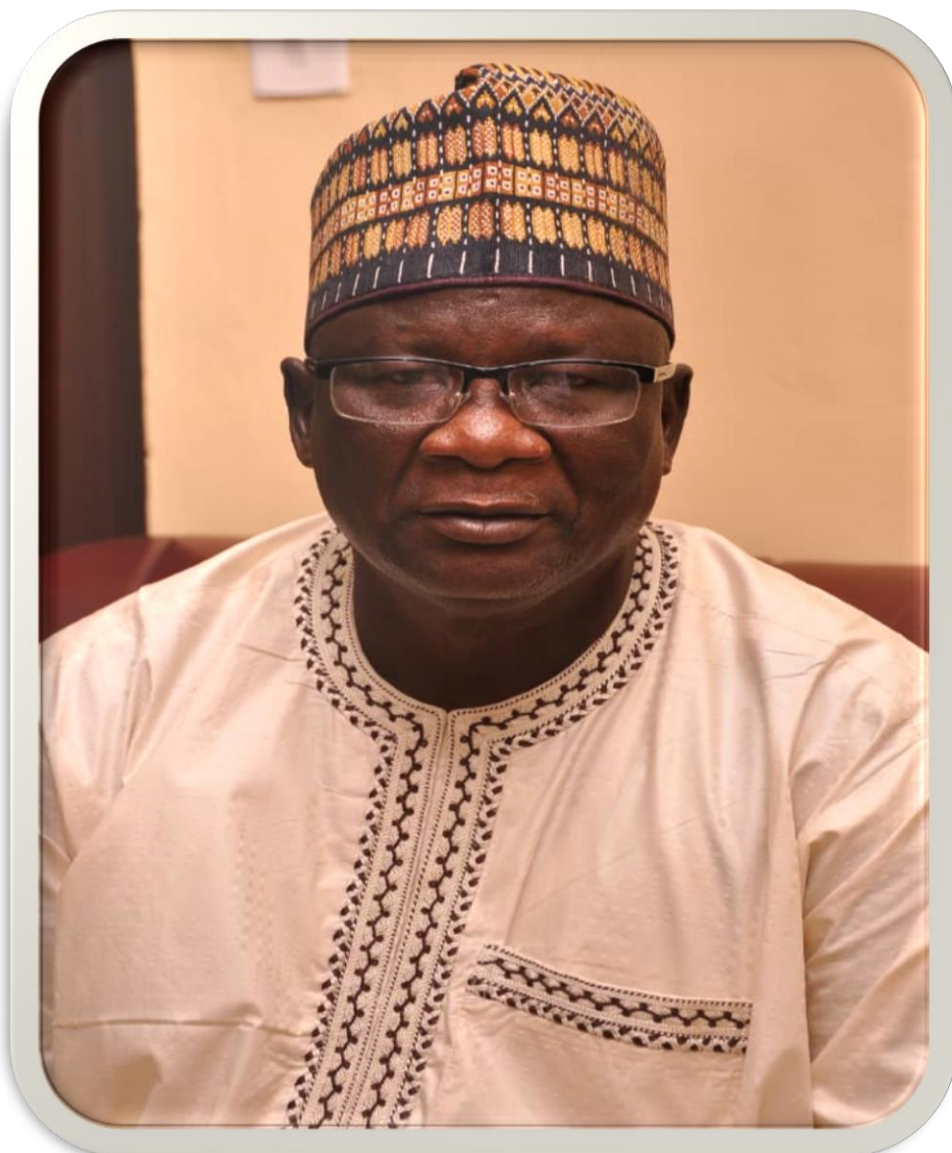
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SPEAKER

ADAMAWA STATE HOUSE OF ASSEMBLY



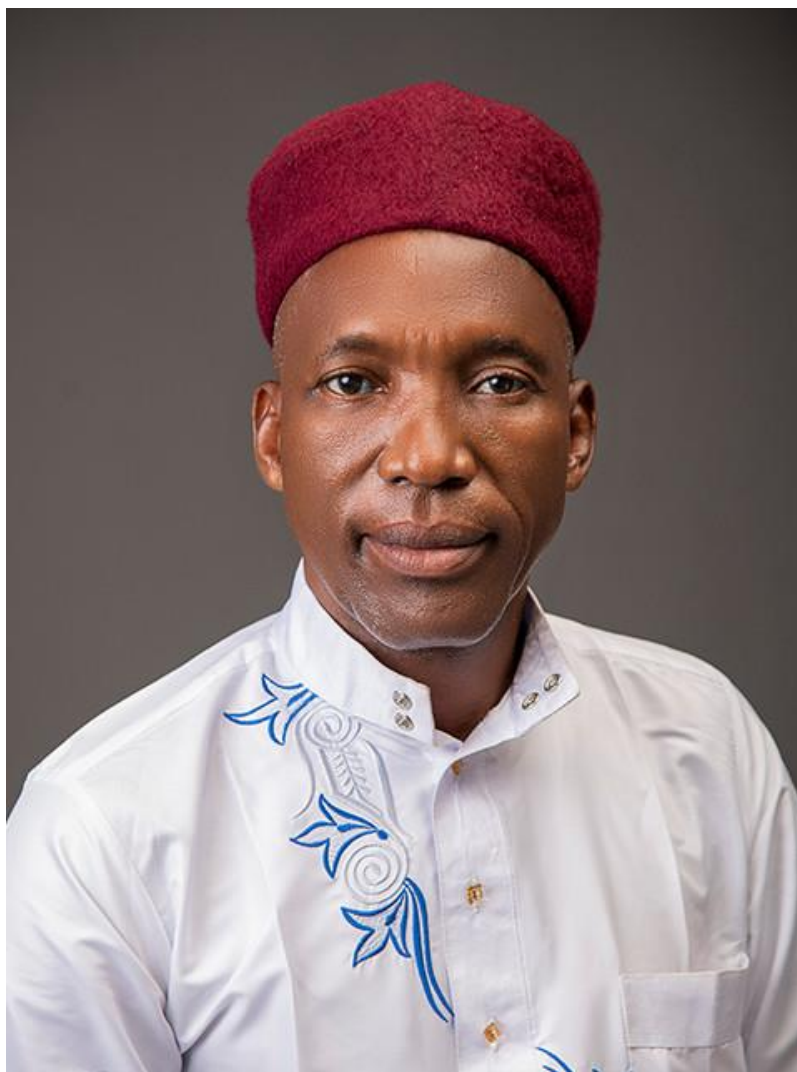
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Table 1: Document Control

Document Control	
Document Version Number:	VI
Document Prepared By:	Adamawa State Planning Commission
Document Approved By:	
Date of Approval:	
Date of Publication:	
Distribution List:	

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List of Abbreviations

ADSG	Adamawa State Government
ASBIR	Adamawa State Board of Internal Revenue
ASBPP	Adamawa State Bureau of Public Procurement
ASPC	Adamawa State Planning Commission
BPS	Budget Policy Statement
BRINCS	Brazil, Russia, India, Nigeria, China, South Africa
CBN	Central Bank of Nigeria
CIT	Companies Income Tax
CPIA	Country Policy and Institutional Assessment
CRF	Consolidated Revenue Fund
CSO	Civil Society Organizations
DMD	Debt Management Department
EFU	Economic and Fiscal Update
ESP	Economic Sustainability Programme
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FIRS	Federal Inland Revenue Service
FRC	Fiscal Responsibility Commission
FRL	Fiscal Responsibility Law
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
HRM	Human Resource Management
IGR	Internally Generated Revenue
IMF	International Monetary Fund
JTB	Joint Tax Board
MBPD	Million Barrels Per Day
MDA	Ministries, Department and Agencies
MEDA	Ministries, Extra-Ministerial Department and Agencies
MTBF	Medium Term Budget Framework

MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
MYBF	Multi-Year Budgeting Framework
NBS	National Bureau of Statistics
NNPC	Nigerian National Petroleum Company
NPC	National Planning Commission
OAG	Office of the Auditor General
ODA	Official Development Assistance
PFM	Public Financial Management
OECD	Organisation for Economic Cooperation and Development
PFM	Public Financial Management
PIB	Petroleum Industry Bill
PITA	Personal Income Tax Act
PMS	Premium Motor Spirit (Petrol)
SHoA	State House of Assembly
SME	Small Medium Enterprises
VAT	Value Added Tax
WEO	World Economic Outlook

Executive Summary

The Economic Management Reform Framework is designed to guide annual budgets and planning; Fiscal Framework forms an integral part, setting out the underlying assumptions for revenue projections, proposed expenditure plans and fiscal targets. The Fiscal Framework therefore enables the State Government *allocate resources based on its identified priorities, control resources and enforce compliance with established spending limits*. This is aimed at achieving a sound budget system with tripartite objectives of aggregate fiscal discipline, allocation efficiency and technical efficiency of spending.

The production of a combined Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) is the first step in the budget preparation cycle for Adamawa State Government (ADSG) for the period 2022-2024.

The purpose of this document is three-fold:

- i. To provide a backwards looking summary of key economic and fiscal trends that will affect the public expenditure in the future - Economic and Fiscal Update;
- ii. To set out medium term fiscal objectives and targets, including tax policy; revenue mobilisation; level of public expenditure; deficit financing and public debt.
- iii. Provide indicative sector envelopes for the period 2022-2024 which constitute the MTBF.

The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for budget planning process aimed primarily at policy makers and decision takers in Adamawa State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.

The Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in Medium Term Expenditure Framework (MTEF) to determine the resources available to fund Government projects and programmes from a fiscally sustainable perspective. Adamawa State Government decided to adopt the preparation of the EFU-FSP-BPS for the first time in 2022 as part of the movement towards a comprehensive MTEF process.

This document reviewed the Global and National Macro-Economic factors affecting the inflow of the revenue to the Country and Adamawa State in particular. Macroeconomic stability of the country has suffered a great setback majorly as result of the result of COVID-19 Pandemic and the dwelling oil price. The growth rate of Nigeria was projected to decline to 2.40% in 2021 from 2.50% in 2020 with the possibility of a projected decrease of 0.2% in 2022. The inflation rate is 11.30% for 2021 and exchange rate of Dollar to Naira officially stands at N410/1\$. (IMF's World Economic Outlook, April 2021).

The State's approved revenue for the 2020 revised budget was N140.07b including loans. Total revenue generated was N101.42b which represented 72.40% of the total approved revenue. The most performing revenue item was Statutory Allocation with N35.96b representing 35.46% of actual total revenue (refer to figure 9 on page 27). Next was VAT with N14.63b representing 14.43% of total actual revenue refer to Figure 10 on page 28). Analyzing the performance of Internally Generated Revenue (IGR) in Adamawa State for 2020, revenue generated amounted to N7.99b of the budgeted (IGR) of N7.63b, representing 104.7% collection (refer to figure 11 on page 29). However, more revenue can be generated with Government employing other additional sources of revenue generation and also emphasis on blocking leakages. Taxes are the major contributor to the IGR, recording N4.3b out of the actual total collection of N7.99b, followed by Fees with N1.69b. The half year IGR performance from January- June, 2021 stands at N6,086,576,008.

The approved figure for both recurrent and capital budget was N140.07b for 2020. Capital expenditure accounted for N72.80b while recurrent expenditure was N67.27b representing 51.70% and 48.03% respectively. The total Actual Capital expenditure in 2020 was N21.30b representing 29.06% of the approved total expenditure. Total actual personnel expenditure was N27.84b representing 99.96% budget performance. Social contribution and benefit, overhead was N7.29b and N17.23b representing 100% and 80.29% budget performance (refer to figure 16-18 and 21 on pages 32-33, and 36).

Total Projected Revenue for 2022, 2023 and 2024 are N163.63b, N200.07b and N207.60b respectively (refer to table 9 on page 42). The State IGR collection has been on the average of **N8.10b** annually for the past 3 years, while **N11.52b** is projected for the 2022 fiscal year. Refer to figure 11 and table 9 on pages 29 and 42)

To achieve the desired development from 2022-2024 as enshrined in the State Development Plan 2021-2025, Fiscal Strategies such as; Macro-economic and Fiscal Stability, Economic diversification, infrastructural development, job creation, social inclusion, improving revenue and managing expenditures, are proposed.

The State Government has also taken a giant step to increasing its IGR by signing an Agro business bond of N100b covering 4 years (2021-2024) to be drawn in equal tranches of N25b annually. Adamawa State Government is also advised to lay emphasis on exploring the solid minerals sector and again key into Development and Donor Partners' interventions in implementing targeted projects to States.

In relation to Adamawa State Economy, the State has enjoyed impressive GDP performance over the years, although not quite as high as the national average since Adamawa State does not benefit directly from the mineral sector. The State economy from the perspective of the GDP is unbalanced. It is heavily tilted towards agricultural production. Under the business environment in Nigeria, 2010, Adamawa State ranked 18th out of the 36 States of the Federation and the FCT. The economic fortunes of the state are heavily dependent on the national economy, and movement of agricultural produce is not well-documented and computed to register meaningful contribution to the state economy. Also, available data indicate that agriculture, especially crops, livestock and fisheries as well as SMEs, which have the potential to generate large scale employment opportunities, are undergoing transformation. There is the predominance of subsistence and non-mechanized agriculture in the state, that is why the growth of the state's economy is predicated on increased transformation of the agricultural value chain (large scale agricultural production and agro-based industrial production).

Although the trend of IGR in the State over the years has been varied, the present administration has demonstrated strong determination to change the prevailing situation of the state's IGR.

The consolidated debt and contingent liabilities of the State were analysed. These include total debt stock, debt service, sustainability nature and fiscal implementation of contingent liabilities of the state. Consequently, the solvency ratio of 220.45% rises favourably above the prescribe threshold of 150%, and the State total external debt to gross FAAC of (74.54%/150%) is also very favourable. The liquidity ratio of 6.46%/40%, which is used in measuring the State's ability to meet its Debt service obligations is also very much favourable, with the exception of domestic debt service to IGR (159.50%/15%). Refer to table 7 page 39.

Fiscal risks that may affect the success of the State's plan were examined. These include; oil inflow on which we depend 90%, natural disasters like floods, security matters like insurgency, farmers' herder's crisis, fire outbreak, diseases etc. The volatility in the price and production of crude oil are the major reasons for fluctuations in revenue that comes to the State from the federal account. This puts more pressure on the State coffers, which affects debt services and other monthly obligations of the State.

It is worthy of note that the efforts of donor Agencies like USAID State2State and UNICEF, towards the production of this document by way of the extensive capacity building accorded the MTEF Technical team, are highly commended.

Also commended is the commitment and professional competence exhibited by the representatives of the relevant MDAs that put this document together.

1 Introduction and Background

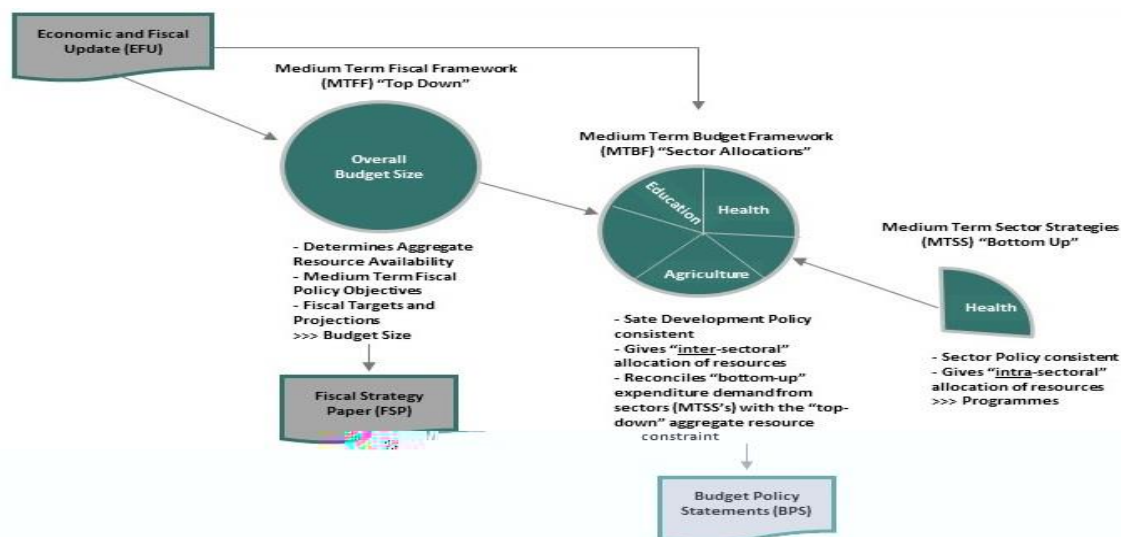
1.A Introduction

1. The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for budget planning process. It is aimed primarily at policy makers and decision takers in Adamawa State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.
2. On the other hand, Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in Medium Term Expenditure Framework (MTEF) and annual budget process, and as such, they determine the resources available to fund Government projects and programmes from a fiscally sustainable perspective.
3. Adamawa State Government decided to adopt the preparation of the EFU-FSP-BPS for the first time in 2022 as part of the movement toward a comprehensive MTEF process. This is the sixth iteration of the document and covers the period 2022 -2024.

1.A.1 Budget Process

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

Figure 1: MTEF Process



1.A.2 Summary of Document Content

7. In accordance with international best practice in budgeting, the production of a combined Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) is the first step in the budget preparation cycle for Adamawa State Government (ADSG) for the period 2022-2024.
8. The purpose of this document is three-fold:
 - i. To provide a backwards looking summary of key economic and fiscal trends that will affect the public expenditure in the future - Economic and Fiscal Update;
 - ii. To set out medium term fiscal objectives and targets, including tax policy; revenue mobilisation; level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper and MTFF; and
 - iii. Provide indicative sector envelopes for the period 2022-2024 which constitute the MTBF.
9. 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 Adamawa 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.
10. The FSP is a key element in the ADSG Medium Term Expenditure Framework (MTEF) process and annual budget process. As such, it determines the resources available to fund the Government's growth and poverty reduction programme from a fiscally sustainable perspective.

1.A.3 Preparation and Audience

11. The purpose of this document is to provide an informed basis for the 2022-2024 budget preparation cycle for all of the key Stakeholders, specifically:
 - State House of Assembly (SHoA);
 - Executive Council (ExCo);
 - Adamawa State Planning Commission;
 - Ministry of Finance and Budget;

- All Government Ministries, Departments and Agencies (MDAs);
- Civil Society Organizations (CSOs).

12. The document is prepared within the first two quarters of the year prior to the annual budget preparation period. It is prepared by Adamawa State Government (EFU-FSP-BPS) Working Group using data collected from International, National and State organisations.

1.B Background

1.B.1 Legislative and Institutional arrangement for PFM¹

13. Legislative Framework for PFM in Adamawa State –The Constitution of the Federal Republic of Nigeria 1999 (as amended). The Constitution is the overarching law that governs the conduct of public financial management in the whole country including Adamawa State. Every other law flow from the Constitution, and any law made by any government that conflicts with provision of the Constitution shall be voided on the grounds of the conflict or the extent of the conflict with the Constitution. Specifically, Sections 120 to 129 provides for the power and control over public funds of the state including budget, expenditure and auditing of public funds; while sections 162 to 168 make provision for the determination and administration of public revenues of the Federation, and each tier of government.

- **The Adamawa State Public Finances (Control and Management) Law 2016**, amongst other things provides for the institutional and procedural mechanisms for the control and management of public finance, public funds, estimate of revenue and expenditure, loans, guarantees and grants, accounting and reporting, as well as the control of the finances of state enterprises. It also has general provisions on the management of state properties, and penalties and surcharges for the infraction of the law. The 2016 law replaces the Public Finances (Control and Management) Law 1983 of Adamawa State; which replaced their pre-independent precursor law - The Finance (Control and Management) Act 1958 - that was generally applicable to Nigeria government and inherited by states. Adamawa State has made good progress with the enactment of PFM laws, which adequately provide for the management of public finances in the state. These laws are the basis for the state's financial regulations.
- **The Financial Regulations of the Federal Government of Nigeria 2009**. Adamawa State uses the Federal Government's Financial Regulations 2009. The Financial Regulations is

¹ Based on xx PEFA Assessment for Adamawa State

based on the Finance Control and Management Law, and provides detailed guidelines and procedures for handling the financial dealings of the state including treatment of revenues and expenditure transactions, recording, control, audit and reporting of public revenues and expenditure. The Financial Regulations is meant to be followed strictly by officers controlling and administering votes in government including heads of MDAs, accounting officers, accountants, and those providing oversight on the use of public funds such as internal auditors, external auditors and the public accounts committee of the state house of assembly.

- **The Adamawa State Fiscal Responsibility Commission (Repeal and Re-enactment) Law, 2018**, which repeals and re-enacts the Adamawa FRCL 2013, is modeled after the Federal Fiscal Responsibility Act 2007. The law, which provides for the prudent, sustainable, transparent and accountable management of the financial resources of the State also has jurisdiction over local governments. The law establishes the Adamawa State Fiscal Responsibility Commission and a Governing Board that should provide general policy guidelines for administration of the law. The Adamawa State FRCL under sections 48-54 provides for penalties including jail terms ranging from two to fourteen years and fines of up to N2,000,000, or both as the case may be, for anyone convicted for breach of this Law.
- **Adamawa State Public Procurement Bureau Law (2020)** amends and replaces the Adamawa State Public Procurement Law, 2013. The law establishes the Adamawa State Board on Public Procurement and the Bureau of Public Procurement as the regulatory authorities responsible for the monitoring and oversight of public procurement, harmonizing the existing government policies and practices, liaising with federal counterpart bodies by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Adamawa State and for related matters.

The Public Procurement Bureau is headed by a Director General as its chief executive officer; while Public Procurement Board has a chairman and membership from the Office of the Secretary to the State Government, Ministry of Finance, Ministry of Justice, State Planning Commission, Adamawa State Chambers of Commerce and Industries, Adamawa State Chapter of the Nigerian Society of Engineers, one local government chairman each from the three senatorial districts, Adamawa chapter of the Nigeria Institute of Purchasing and Supply, Nigeria Institute of Surveyors and Estate Valuers, representatives of the private sector, and civil society. The Secretary of the

Bureau serves as secretary to the Board. The Bureau provides the secretariat to the Board.

- **Adamawa State Tax Administration Law 2020** is the substantive revenue administration law of the State. It updates the Adamawa State Board of Internal Revenue Law, 2007. The Tax Administration Law of 2020, which was deemed to have taken effect from January 1, 2019, establishes the Adamawa State Internal Revenue Service and the Governing Board (i.e. the Board of Internal Revenue). It makes provision for the administration and collection of revenues due to the Adamawa State Government and Local Government Councils and establishes the relevant administrative structures for the enforcement of the law. The Adamawa State Board of Internal Revenue has also produced a Consolidated State and Local Government Revenue Codes, which harmonizes, integrates and consolidates all revenues collectible by all MDAs and LGAs in Adamawa state into a chart of accounts to facilitate effective and efficient tax administration across the state and local government areas.
- **The Adamawa State Debt Management Agency Law No. 2 of 2011**, which came into effect on March 7, 2011, provides for the establishment of the Adamawa State Debt Management Agency and its functions, as well as the debt management committee. It also provides guidelines for external borrowing, execution of external loan agreements, conditions for approval of loans, determination of the state's debt profile or debt stock, terms and conditions for loans and government guarantees. The law is to be implemented alongside other PFM laws such as the Fiscal Responsibility Law, and the Public Finances (Control and Management) Law.
- **The Adamawa State Audit Law (2020)**. Adamawa State is among the very few states in Nigeria that has a modern audit law. This law provides for the office of the State Auditor General, its powers, and functions. The law also provides for the establishment of the State Audit Commission, which has responsibility for the appointment, promotion, dismissal, and exercise of disciplinary control over staff of the Commission and the Office of the Auditor General. The provisions of the law seek to guarantee, if fully implemented, the financial and operational autonomy of the Office of the Auditor General, which can strengthen its independence.
- **Adamawa State Local Government Audit Law, 2017**. The Adamawa State Local Government Audit Law establishes the Office of the Auditor General for Local Governments, its structure, functions, powers, and funding. The law also prescribes the

audit process to be followed by the Auditor General Local Governments in the conduct of audits at the local government councils, and its relationship with the public accounts committee of the state house of assembly.

- **Occasional treasury circulars.** The Adamawa State Ministry of Finance and Budget, Office of the Accountant General or the State Executive Council may issue from time to time, when it becomes necessary, additional policies, rules, and procedures to guide the conduct of public financial management in the state.

14. **Institutional Framework for PFM in Adamawa state** - The Constitution vests executive powers of the state in the Governor. The Constitution provides that “the Governor shall cause to be prepared and laid before the House of Assembly at any time before the commencement of each financial year, estimates of the revenues and expenditure of the State for the next following financial year”². The Governor of Adamawa State exercises his executive powers either directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries, and other officers in the public service of the State.
15. Specifically, Adamawa State Executive Council (EXCO) formulates the policies of the State Government and considers and recommends the state budget to the House of Assembly. On passage, the Governor signs the appropriation bill into law.
16. Adamawa State Government’s public administration is conducted through 106 ministries, departments, and agencies (MDAs); including 24 ministries, each with a commissioner. The key PFM institutions in Adamawa State are as presented below.
 - **Ministry of Finance and Budget (MoFB)** is responsible for the management of the state’s economy, financial management policy, borrowing, investment, loans, and advances, banking and treasury, boards of survey and boards of enquiry, etc. The Ministry coordinates with the State Planning Commission in the budget formulation of the state. Whereas the Budget Department of the Ministry is responsible for the recurrent expenditure budget, the State Planning Commission is responsible for the capital expenditure budget. The Ministry has two important semi-autonomous agencies, namely the Office of the Accountant General for the State, and the Board of Internal Revenues.
 - **Adamawa State Planning Commission (ASPC)** is responsible for the economic planning and capital budgeting function of the Adamawa State Government. It coordinates, guides,

² Section 121 (1) of Constitution of Federal Republic of Nigeria 1999 as amended

and advises the MDAs on state development policy thrust and fiscal measures that the state adopts in the preparation of annual estimates, medium-term expenditure and revenue frameworks, as well as the fiscal strategy paper. It collaborates with the Ministry of Finance and Budget in the planning, preparation, execution, and monitoring of the State's budget. It coordinates the development and economic cooperation activities by international and local development partners in the State.

- **The Office of the Accountant General (OAG)** is the treasury of the State Government; and chiefly responsible for the accounting, recording and reporting functions of the state government. It maintains the State's accounting policies and procedures; manages the state's revenue and expenditures across all the MDAs; deploys and supervises all accounting officers across the MDAs; and produces the in-year and year-end financial reports of the State.
- **Adamawa State Board of Internal Revenue (ASBIR)** established by the Adamawa State Board of Internal Revenue Law 2007; and the Adamawa State Revenue Administration Law 2020. The Revenue Service is governed by a Board, and is responsible for the collection, control, administration, and accounting for all tax and non-tax revenues of the Adamawa State government. The Executive Chairman of the Service heads the Governing Board for the Service. The Board is the policy-making body for the Service and ensures that the Service performs its functions appropriately. The Board is a member of and participates in the formulation and execution of Joint Tax Board (JTB) policies on taxation, stamp duties and motor vehicle licensing.
- **Adamawa State Debt Management Agency (ASDMA)** is established by the Adamawa State Debt Management Agency Law No. 2 of 2011, and responsible for the management of the State and Local Government debts including leading on State debt strategy, debt sustainable analysis, maintenance of the domestic and external debt records of the state, and advising the state government on debt matters. The Agency is supervised by a Debt Management Committee comprising the State Deputy Governor (as Chairman) and the Director Debt Management Agency as Secretary. Other members of the Committee are the Commissioner for Finance and Budget (as Vice Chairman), Commissioner for Local Government and Chieftaincy Affairs, State Attorney General, Chairman Planning Commission, Accountant General, and Special Adviser to the Governor on Budget and Economic Planning.

- **Adamawa State Bureau of Public Procurement (ADSBPP).** The Adamawa State Bureau of Public Procurement was established by the Adamawa State Public Procurement Law 2013, as amended in 2020. The Bureau is the central agency that provides guidance to all MDAs on matter concerning procurement in the state. It sets the guidelines and supervises the procurement processes of the MDAs. The procurement agency maintains the record of procurement across government and ensures that there is transparency and due process in the State's procurement management. The Bureau is governed by a Board responsible for its policy formulation and supervision headed by a Chairman and the Secretary of the Bureau as secretary of the Board. The membership of the Board includes the Director General of the Bureau, representatives of some MDAs, relevant professional bodies, private sector, and civil society.

- **Office of the State Auditor General.** The Adamawa State Office of the Auditor General is a creation of the Audit Law Cap 58 of 1958 repealed and replaced by the Adamawa State Audit Law 2016. The Office is the supreme audit institution of the state, and is headed by the State Auditor General, who is a constitutionally designated officer. The Office provides a central accountability function in the Adamawa State Government including statutory and continuous audits to the State Government; and supervises the audits of the non-ministerial and government owned enterprises. Unlike in most other Nigerian states, the Adamawa State office of the Auditor General is responsible for formulating and maintaining the internal controls and internal audits in all the state's MDAs. This practice also conflicts with the provisions of the Adamawa State Finance (Control and Management) Law 2016, which stipulates in its section 17 (1 & 2) that "there shall be an Internal Audit Department under the Accountant-General" which should "coordinate, facilitate and provide quality assurance for internal audit activities within internal audit units in Government Ministries, Departments, Agencies and Local Governments bodies."

- **The Adamawa State Office of the Auditor General Local Governments** is a State government agency established by the Adamawa State Local Government Audit Law, 2017. It is headed by the Auditor General for Local Governments, who is appointed by the Governor subject to the confirmation by the State House of Assembly. The Office provides statutory audits to all the 21 LGAs of Adamawa State. It regulates and ensures compliance with rules and regulations in local government financial management, as contained in the Financial Memorandum for Local Governments, and other extant circulars.

- **Adamawa State Fiscal Responsibility Commission (AFRC)** was established under the Adamawa State Fiscal Responsibility Law of 2013, which was repealed and re-enacted as the Adamawa State Fiscal Responsibility (Repeal and Reenactment) Law, 2018. The Commission is responsible for enforcement of the Fiscal Responsibility Law to promote prudent, sustainable, transparent, and accountable management of the financial resources of the State towards achieving the economic and fiscal objectives of the State. It is to work with all MDAs to achieve greater efficiency in the allocation and management of public expenditure, revenue collection, debt control, and transparency in fiscal matters. The Adamawa State Fiscal Responsibility Commission has a Board, whose chairman is the chief executive and accounting officer of the Commission. There are other part-time members of the Commission cutting across Organized Private Sector, Organized Labor, Civil Society, representatives from each senatorial district of the State, representatives of the central public financial management agencies.

1.B.2 Overview of Budget Calendar

17. **Indicative Budget Calendar for Adamawa State Government is presented below:** The Key players in the in the budget planning and preparation process are the Ministries, Departments and Agencies (MDAs), the State Executive Council, State House of Assembly and Civil Society Groups. The State Ministry of Finance and Budget coordinates and provides oversight and direction. Good practice requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner. Each stage of the budget planning and preparation process must be performed in a particular manner and within a fixed timeline for the appropriation bill to be approved by State House of Assembly before the start of the financial year.

Delays in approving the appropriation bill may create uncertainty about the level of approved expenditures and delays in some government activities, including implementation of major programs and projects.

Table 2: Overview of the Reviewed Budget Calendar

	ADAMAWA STATE BUDGET CALENDAR												
	December	January	February	March	April	May	June	July	August	September	October	November	December
PRELIMINARY STEPS													
Macro-Economic Analysis													
Government Policy													
Revenue Estimates													
Medium Term Framework													
Budget Process/Calendar													
Budget Handbook													
Budget Framework													
BUDGET INSTRUCTIONS													
Budget Base													
Prior Year Data													
Budget Instructions													
Briefing /Training													
Appeals													
BUDGET REQUESTS													
Strategic Plans													
Program Analysis													
Budget Requests													
BUDGET EXAMINATION													
Compilation of Data													
Macro-economic Update													
Budget Framework Update													
Budget Examination													
Dialogue													
BUDGET DECISIONS													
Briefing and Discussion													
Budget Decisions													
Appeals													
Supporting Materials													
Consolidated Budget													
Submission to HoA													

Source: Adamawa State Ministry of Finance and Budget

Table 3: Budget Calendar

Preparation Stage	Date(s)	Responsibility
Preparation and Publication of EFU-FSP-BPS	June	ASPC and MoFB
Update of MTSSs by 5 Pilot Sectors	June	MDAs
Issuance of Budget Call Circular	July	ASPC
Citizens Engagement	August	ASPC
Budget Preparation Workshop	August	ASPC and MDAs
Preparation of MDAs Budget and on-line Submissions	August	MDAs
Pre-Treasury Board Meetings	September	ASPC and MEDAs
Compilation of Draft Budget	September	ASPC
Treasury Board Meeting	October	ExCo
Presentation of Draft Budget to the SHoA	October	Governor
Review and Approval of Budget by SHoA	November	SHoA
Signing Appropriation Bill	December	Governor
Preparation and Publication of EFU-FSP-BPS	June	ASPC and MoFB

2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

18. The International Monetary Fund's (IMF's) April 2021 World Economic Outlook (WEO) Update³, provides that after an estimated contraction of –3.3% in 2020, the global economy is projected to grow at 6% in 2021, moderating to 4.4% in 2022. The contraction for 2020 is 1.1% points smaller than projected in the October 2020 World Economic Outlook (WEO), reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased and as economies adapted to new ways of working.
19. The April 2021 projections for 2021 and 2022 are 0.8% and 0.2% stronger than in the October 2020 WEO, reflecting additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. Global growth is expected to moderate to 3.3% over the medium term—reflecting projected damage to supply potential and forces that predate the pandemic, including aging-related slower labour force growth in advanced economies and some emerging market economies.
20. Due to unprecedented policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. However, emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses.
21. Output losses have been particularly large for countries that rely on tourism and commodity exports, including Nigeria, and for those with limited policy space to respond. Many of these countries entered the crisis in a precarious fiscal situation and with less capacity to mount major health care policy responses or support livelihoods. The projected recovery follows a severe contraction that has had particularly adverse employment and earnings impacts on certain groups.
22. Globally, income inequality is likely to increase significantly because of the pandemic. Close to 95 million more people are estimated to have fallen below the threshold of extreme poverty in 2020 compared with pre-pandemic projections.
23. Commodity prices (particularly for crude oil) are expected to firm up further in the months ahead. Given their record-low levels of a year ago, firmer prices should mechanically lift

³ [World Economic Outlook, April 2021: Managing Divergent Recoveries \(imf.org\)](https://www.imf.org/publications/WorldEconomicOutlook/2021/04/2021-04-World-Economic-Outlook-Update)

consumer price indices, and headline inflation could turn volatile in coming months. The volatility should be short lived.

24. Baseline projections show a return of inflation to its long-term average as the remaining slack subsides only gradually and commodity-driven base effects fade away. The subdued outlook reflects developments in the labour market, where subdued wage growth and weak worker bargaining power have been compounded recently by high unemployment, underemployment, and lower participation rates. Moreover, various measures of underlying inflation remain low.
25. Trimmed-mean inflation rates (which eliminate extreme price changes from the price distribution every month to filter out underlying inflation and provide slow-moving, unbiased estimates of price pressure) point to declining, not increasing, inflation pressure. Measuring slack has arguably become more difficult during the pandemic as both supply and demand have shifted. Nevertheless, even if output gaps are less negative than currently estimated, the implications for inflation should be relatively moderate.
26. Whether inflation temporarily overshoots or starts trending up in the medium term has quite different implications and depends, in the first instance, on the credibility of monetary frameworks and the reaction of monetary authorities to rising inflation pressure. For instance, if monetary policy is used primarily to keep government borrowing costs low (or is widely perceived as doing so) at the expense of ensuring price stability, inflation expectations and inflation could, in principle, increase rapidly. But this appears unlikely for most advanced and many emerging market economies with independent central banks. The adoption of inflation-targeting frameworks in the 1990s has helped anchor inflation expectations around central banks' inflation targets in advanced economies. Moreover, during the pandemic, survey measures of inflation expectations have remained broadly stable, as have market measures—even though the latter have recently increased slightly.
27. Monetary frameworks have also improved considerably in many emerging markets over the past decade. Inflation expectations are much more anchored, inflation has declined and become less persistent, and the risk of runaway inflation has decreased accordingly. However, progress has not been uniform. Some countries continue to observe high and volatile inflation and may be limited in the monetary accommodation they can provide without risking destabilizing inflation. Rapidly rising food prices have already lifted headline inflation rates in some regions, including sub-Saharan Africa and Asia. Temporarily high headline inflation could raise inflation expectations in these economies and affect inflation durably.

28. Future developments will depend on the path of the health crisis, including whether the new COVID-19 strains prove susceptible to vaccines or they prolong the pandemic, the effectiveness of policy actions to limit persistent economic damage (scarring); the evolution of financial conditions and commodity prices; and the adjustment capacity of the economy. The ebb and flow of these drivers and their interaction with country-specific characteristics will determine the pace of the recovery and the extent of medium-term scarring across countries.
29. In some countries, policy support and lack of spending opportunities have led to large increases in savings that could be unleashed very quickly should uncertainty dissipate. At the same time, it is unclear how much of these savings will be spent, given the deterioration of many firms' and households' balance sheets (particularly among those with a high propensity to consume out of income) and the expiration of loan repayment moratoria. In sum, risks are assessed as balanced in the short term, but tilted to the upside later.
30. Differential recovery speeds across countries may give rise to divergent policy stances, particularly if advanced economies benefit sooner than others from wide vaccine coverage. Clear forward guidance and communication from advanced economy central banks is particularly crucial, and not just for calibrating the appropriate domestic monetary accommodation. It also vitally bears on external financial conditions in emerging markets and the impact that divergent policy stances have on capital flows.
31. WOE, April 2021 concludes that strong international cooperation is vital for achieving the objective of ensuring that emerging market economies and low-income developing countries continue to narrow the gap between their living standards and those of high-income countries. On the health care front, this means ensuring adequate worldwide vaccine production and universal distribution at affordable prices—including through sufficient funding for the COVAX facility—so that all countries can quickly and decisively beat back the pandemic. The international community also needs to work together to ensure that financially constrained economies have adequate access to international liquidity so that they can continue needed health care, other social, and infrastructure spending required for development and convergence to higher levels of income per capita. Countries should also work closely to redouble climate change mitigation efforts. Moreover, strong cooperation is needed to resolve economic issues underlying trade and technology tensions (as well as gaps in the rules-based multilateral trading system). Building on recent advances in international tax policy, efforts should continue to focus on limiting cross-border profit shifting, tax avoidance, and tax evasion.

32. The economic outlook (GDP growth rate and inflation rate) of selected countries are shown in tables 2 and 3 below.
33. Countries selected are chosen to represent G20, BRINCS, MINT, N-11, Petro-economies and other large African countries.

Table 4: Real GDP Growth - Selected Countries

Country	Actual				Forecast		
	2017	2018	2019	2020	2021	2022	2026
Mexico	2.1	2.2	-0.1	-8.2	5.0	3.0	2.0
Indonesia	5.1	5.2	5.0	-2.1	4.3	5.8	5.2
Turkey	7.5	3.0	0.9	1.8	6.0	3.5	3.5
United States	2.3	3.0	2.2	-3.5	6.4	3.5	1.6
Germany	2.6	1.3	0.6	-4.9	3.6	3.4	1.1
United Kingdom	1.7	1.3	1.4	-9.9	5.3	5.1	1.4
China	6.9	6.7	5.8	2.3	8.4	5.6	4.9
Ghana	8.1	6.3	6.5	0.9	4.6	6.1	5.4
South Africa	1.4	0.8	0.2	-7.0	3.1	3.6	1.3
Brazil	1.3	1.8	1.4	-4.1	3.7	2.6	2.0
Angola	-0.2	-2.0	-0.6	-0.4	0.4	2.6	3.7
Nigeria	0.8	1.9	2.2	-1.8	2.5	2.3	2.2

Source: IMF's World Economic Outlook, April 2021.

34. COVID-19 pandemic had severe impact on global growth as most of the BRICS, MINT and advanced economies countries had economic contraction (a negative GDP growth) in 2020. However, China, Turkey and Ghana had GDP growth in 2020. All the selected countries are expected to have a positive GDP growth in 2021 and beyond.

Table 5: Inflation (CPI) - Selected Countries

Country	Actual				Forecast		
	2017	2018	2019	2020	2021	2022	2026
Mexico	6.0	4.9	3.6	3.4	3.5	3.1	3.0
Indonesia	3.8	3.2	2.8	2.0	2.0	3.1	2.9
Turkey	11.1	16.3	15.2	12.3	13.6	11.8	11.0
United States	2.1	2.4	1.8	1.2	2.3	2.4	2.2
Germany	1.7	1.9	1.3	0.4	2.2	1.1	2.1
United Kingdom	2.7	2.5	1.8	0.9	1.5	1.9	2.0
China	1.6	2.1	2.9	2.4	1.2	1.9	2.0
Ghana	12.4	9.8	7.2	9.9	9.0	8.2	6.0
South Africa	5.3	4.6	4.1	3.3	4.3	4.5	11.3
Brazil	3.4	3.7	3.7	3.2	4.6	4.0	3.3
Angola	29.8	19.6	17.1	23.3	22.3	13.1	5.8
Nigeria	16.5	12.1	11.4	13.2	16.0	13.5	10.5

Source: IMF's World Economic Outlook, April 2021.

35. Angola and Turkey both experienced high two digits inflation rates in 2020 while Ghana had inflation for the same year 2020 was 9.9%.

2.A.2 Africa

36. The African Economic Outlook, 2021⁴ provides that Africa suffered its worst recession in more than 50 years in 2020 due to the COVID–19 pandemic, as its GDP declined by 2.1%. But it is expected to increase by 3.4% in 2021. GDP per capita is estimated to have contracted by 10% in nominal terms in 2020. Because of the pandemic’s lower-than-expected impact on Africa, the recession in 2020 was not as severe as the Bank projected earlier. Africa suffered fewer economic losses from the pandemic than other regions of the world. Similarly, the fatality rates per million people have been relatively modest in relation to other regions.
37. Africa’s growth performance and recovery prospects vary across regions and economic groupings. The average GDP decline of 2.1% in 2020 and projected recovery to 3.4% growth in 2021 mask significant heterogeneity.
38. East Africa seems to be the most resilient region, thanks to less reliance on primary commodities and greater diversification. It enjoyed 5.3% growth in 2019 and an estimated 0.7% growth in 2020. In 2021, growth of real GDP is projected at 3.0%, and in 2022, 5.6%. The top performers in 2021 would be Djibouti (9.9%), Kenya (5.0%).
39. Southern Africa is the region that was hardest hit by the pandemic, with an economic contraction of 7.0% in 2020. It is projected to grow by 3.2% in 2021 and 2.4% in 2022. GDP in West Africa is estimated to have contracted by 1.5% in 2020, better than the initial projection of a 4.3% decline in June 2020, partly due to the relatively limited spread of the virus in the region.
40. Many West African countries-maintained growth in 2020 thanks to more targeted and less restrictive lockdowns—including Benin (2.3%), Côte d’Ivoire (1.8%), and Niger (1.2%). Other countries such as Cabo Verde (–8.9%), Liberia (–3.1%), and Nigeria (–3%) were in recession in 2020. Growth in the region is projected at 2.8% in 2021 and 3.9% in 2022, as lockdowns are eased, and commodity prices rebound.
41. In Central Africa, real GDP is estimated to have contracted 2.7% in 2020. Countries significantly impacted by the crisis in the subregion include Cameroon (–2.4%), Republic of

⁴ African Economic Outlook 2021 From Debt Resolution to Growth: The Road Ahead for Africa (afdb.org)

Congo (–7.9%), Democratic Republic of Congo (–1.7%), and Equatorial Guinea (–6.1%). Growth is projected to recover to 3.2% in 2021 and 4% in 2022 in Central Africa.

42. The economies of North Africa contracted by an estimated 1.1% in 2020, propped up mainly by Egypt, which maintained 3.6% growth despite the relatively severe health impact of the virus in the country. Other countries contracted significantly in 2020, including Tunisia (–8.8%), Morocco (–5.9%), and Algeria (–4.7%). The effects of COVID–19, internal conflict, and a drop in oil prices caused an estimated 60.3% contraction of real GDP in Libya. North Africa is projected to experience robust recovery of 4% in 2021 and 6% in 2022.
43. Similarly, Africa’s growth performance varies across country groups depending on structural characteristics. Tourism-dependent economies are estimated to have experienced the sharpest decline in growth in 2020, –11.5% for the group, which includes, among others, Mauritius (–15%), Seychelles (–12%), and Cabo Verde (–8.9%). The group is expected to bounce back in 2021 with a projected growth rate of 6.8%, assuming that the pandemic is subdued, permitting a resumption of international travel and tourism.
44. GDP in oil-exporting countries is estimated to have contracted by 1.5% in 2020, due to the collapse in oil demand and prices, with Libya (–60.3%), Equatorial Guinea (–6.1%), Algeria (–4.7%), Angola (–4.5%), Nigeria (–3.0%) suffering the most. The recovery in 2021 is projected at 3.1%, following an expected modest recovery in oil prices.
45. Other resource-intensive economies are estimated to have contracted by 4.7% in 2020 because of a drop in metal and mineral prices due to lower demand. Botswana (–8.9%), South Africa (–8.2%), Zambia (–4.9%), and Liberia (–3.1%) were particularly hard hit. Growth is projected to recover to 3.1% in 2021.
46. Growth in non-resource-intensive economies is estimated to have contracted by 0.9% in 2020. This group was least affected by the crisis, thanks to diversified economic structures and earlier strong public investments. Most of these countries entered the pandemic from a position of strength, with average GDP growth of 5.3% in 2019, and many did not implement stringent lockdown measures in 2020. Countries that maintained growth in 2020 include Ethiopia (6.1%), Benin (2.3%), Tanzania (2.1%), and Côte d’Ivoire (1.8%). This group is expected to rebound in 2021 with growth of 4.1%.
47. Significant currency depreciations observed in April (during the peak of the crisis) continued through the fourth quarter of 2020. For frontier market economies integrated into global financial markets, such as South Africa, recent depreciations can be attributed to sudden stops

and reversals of capital flows. Exchange rate volatility is particularly severe in tourism-dependent economies (such as Mauritius and Seychelles), and resource-intensive economies. High external debt service obligations, dwindling foreign reserves, and rising fiscal issues will prolong depreciation pressures for most African currencies.

48. Monetary policies varied among countries prior to the pandemic. But the spread of COVID–19 has triggered a synchronization of policies, all of which are providing liquidity to ease the pandemic’s impact. African central banks have eased monetary conditions with a variety of policy actions. Most central banks have cut monetary policy rates since January 2020. Central banks have also injected liquidity into the banking system, ranging from 0.5% of GDP in Angola to about 3.1% of GDP in Zambia.
49. Central banks have also used unconventional monetary and macroprudential tools, such as temporary suspension of loan payments by distressed firms and households. They have relaxed prudential constraints, for example, by reducing bank capital requirements. Other actions include the purchase of government securities (South Africa) and the delay of the transition to Basel III norms (the West African Economic and Monetary Union).
50. Fiscal deficits are estimated to have nearly doubled, to 8.4% of GDP in 2020, from 4.6% in 2019, because of heavy stimulus spending by many countries to alleviate the pandemic’s economic impact. The fiscal measures included above-the-line budgetary support through investments in health systems, expansion of social protection programs, and support to the private sector, for example through tax relief. Some countries have also used below-the-line measures such as guarantees to support ailing businesses. The average size of the fiscal stimulus packages deployed by countries is about 3% of GDP, but it varies significantly, from about 32% in Mauritius to 10% in South Africa to less than 1% in Tanzania.
51. Besides the additional spending related to COVID–19 interventions, fiscal deficits in 2020 were the result of revenue shortfalls for oil exporters, a narrowed tax base due to the economic contraction, and a decline in both imports and exports. Growing debt levels and debt service burdens (more than 20% of tax revenue for many countries) have squeezed available fiscal space for most countries, adding to gross financing needs. But the temporary debt service suspension granted by G20 countries and the emergency budget supports by multilateral institutions have helped alleviate the financing constraints. Modest fiscal consolidation measures are expected as economic activity resumes in 2021.

2.A.3 Nigerian Economy⁵

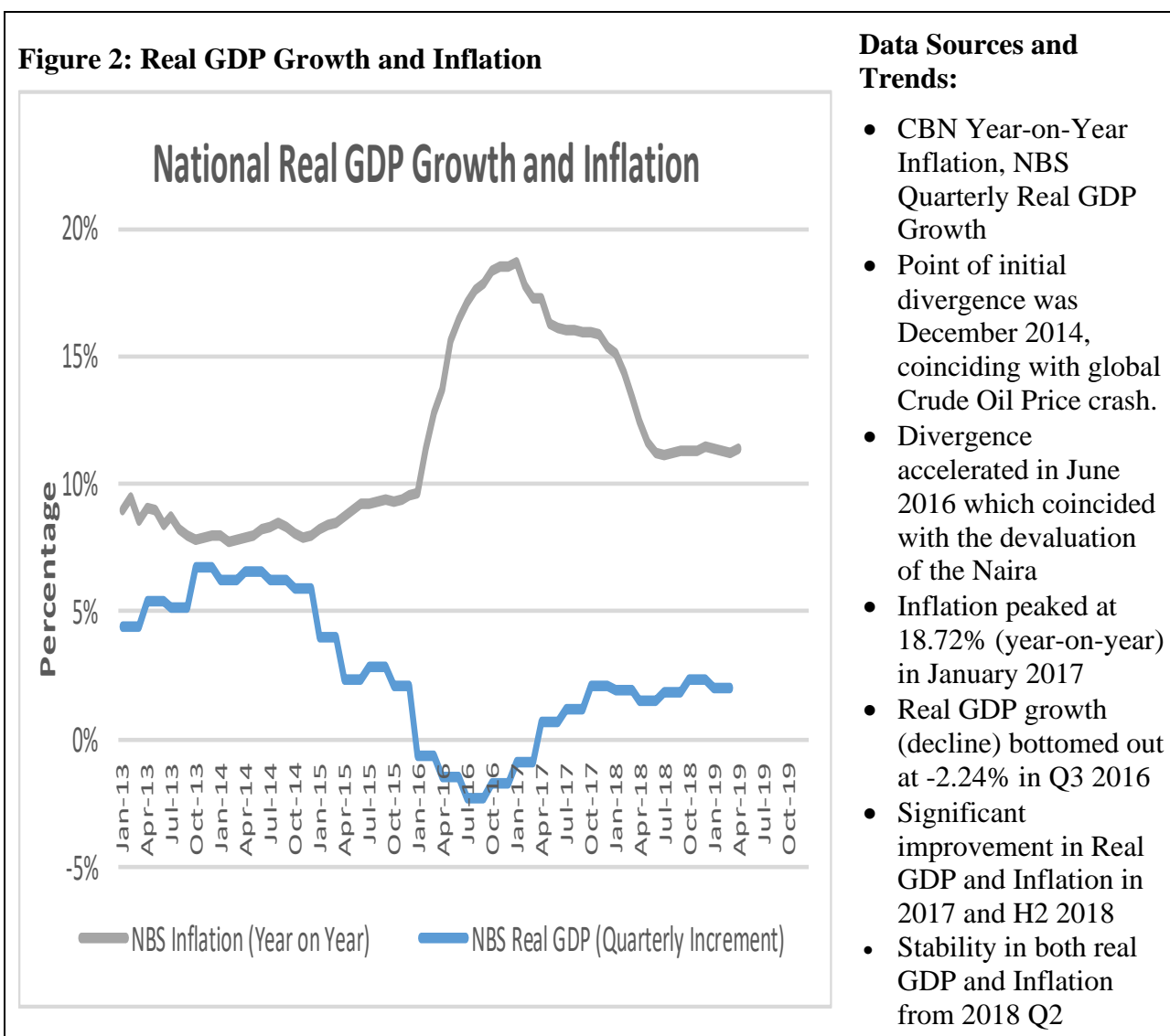
Macroeconomic

52. **Nigeria's economy** - had been on a rough path even before COVID-19. Although the trajectory of economic growth had been improving since 2017, economic growth was still fragile and driven by just a few sectors, as was the case leading up to the recession in 2016. There is a high level of contagion across main macroeconomic indices in response to crude oil prices and production shocks – GDP, inflation, exchange rates and public expenditure all suffering.
53. Nigeria has one of the lowest revenue levels as a share of GDP worldwide. Furthermore, a large share of revenues is spent on the country's public debt service payments, leaving insufficient fiscal space for critical social and infrastructure spending and to cushion an economic downturn. In this context, mobilizing revenues through efficiency-enhancing and progressive measures is a top near-term priority. This situation is currently being worsened by the spate of insecurity in the country.
54. **Real GDP** - Nigeria's economy entered into a recession in 2020, with the real GDP contracting by 1.8%, reversing three years of recovery from 2017 to 2020. This downturn resulted from the fall in crude oil prices on account of falling global demand and containment measures to fight the spread of COVID-19. However, in the fourth quarter of 2020, the Nigerian economy expanded by 0.11%; exiting one of its worst recessions, having posted a decline of 6.1% and 3.6% in 2020 Q2 and 2020 Q3, respectively.
55. Overall real GDP is estimated by the World Bank to have shrunk by 3% in 2020, although mitigating measures in the Economic Sustainability Programme (ESP) prevented the decline from being much worse. According to the IMF forecast, it is expected that Nigeria's economy will expand by 2.5% in 2021. The Federal 2021-2023 MTEF anticipates 3% growth in 2021, increasing to 4.68% in 2022 but then declining slightly to 3.86% in 2023.
56. **Inflation (CPI)** is expected to increase from 13.2% recorded in 2020 to 16% by the end of 2021. Headline inflation (year-on-year) moderately declined to 18.12% in April 2021 from 18.17 per cent in March 2021, following nineteen consecutive months of continuous rise. The decrease was driven by a marginal slowdown in food inflation to 22.7% in April 2021 from 22.95 per cent in the previous month. The increase has been sharpest over the last 11 months

⁵ Sources: IMF WEO, April 2021, NBS Reports, CBN Reports, NNPC Reports, OPEC Reports and US Energy Information Administration Reports.

and has coincided with the Naira devaluation from 305 to 380 (official rate); and the increase in VAT from 5% to 7.5% would also have impacted price levels.

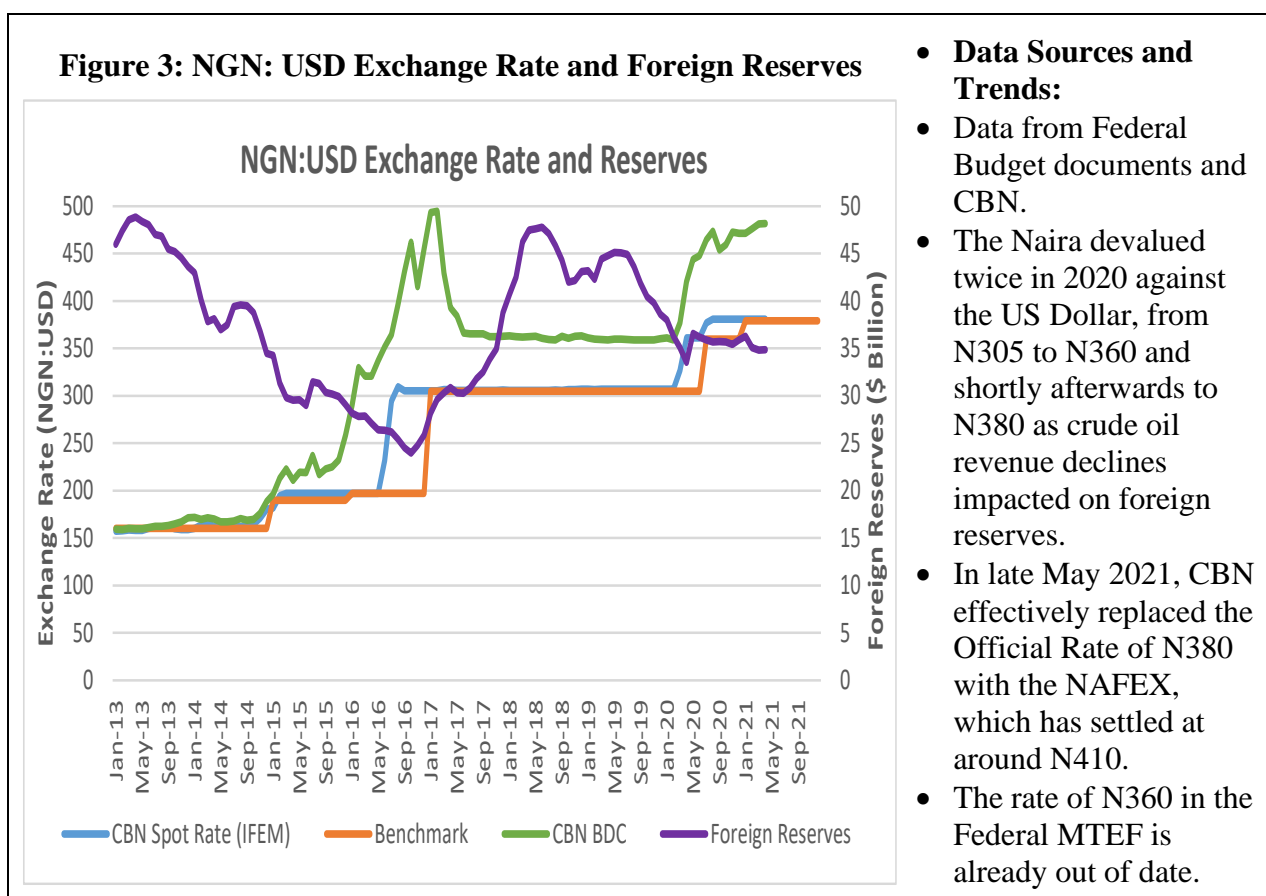
57. The national quarterly real GDP growth and year on year inflation rates from January 2013 and May 2021 are shown in figure 2 below.



58. Foreign Exchange Rate – the Naira devalued against the dollar from 305 to 360 and very shortly after to 380 over the course of 2020. Foreign reserves, which had been on the decline since mid-2019 (25% drop from April 2019 to April 2020), and have remained relatively stable since the COVID pandemic, likely as a result of significant foreign borrowing (e.g., \$3.5 billion from International Monetary Fund (IMF)).
59. In 2020, arbitrage opportunities witnessed significant increase, weakening the convergence of foreign exchange windows. This is partly attributed to the COVID – 19 ripples of economic

downturn. Also, the fall in foreign reserve potentially condenses the policy options available to the CBN in controlling monetary aggregates. Nigeria's foreign reserve has fallen to its lowest level in 10 months.

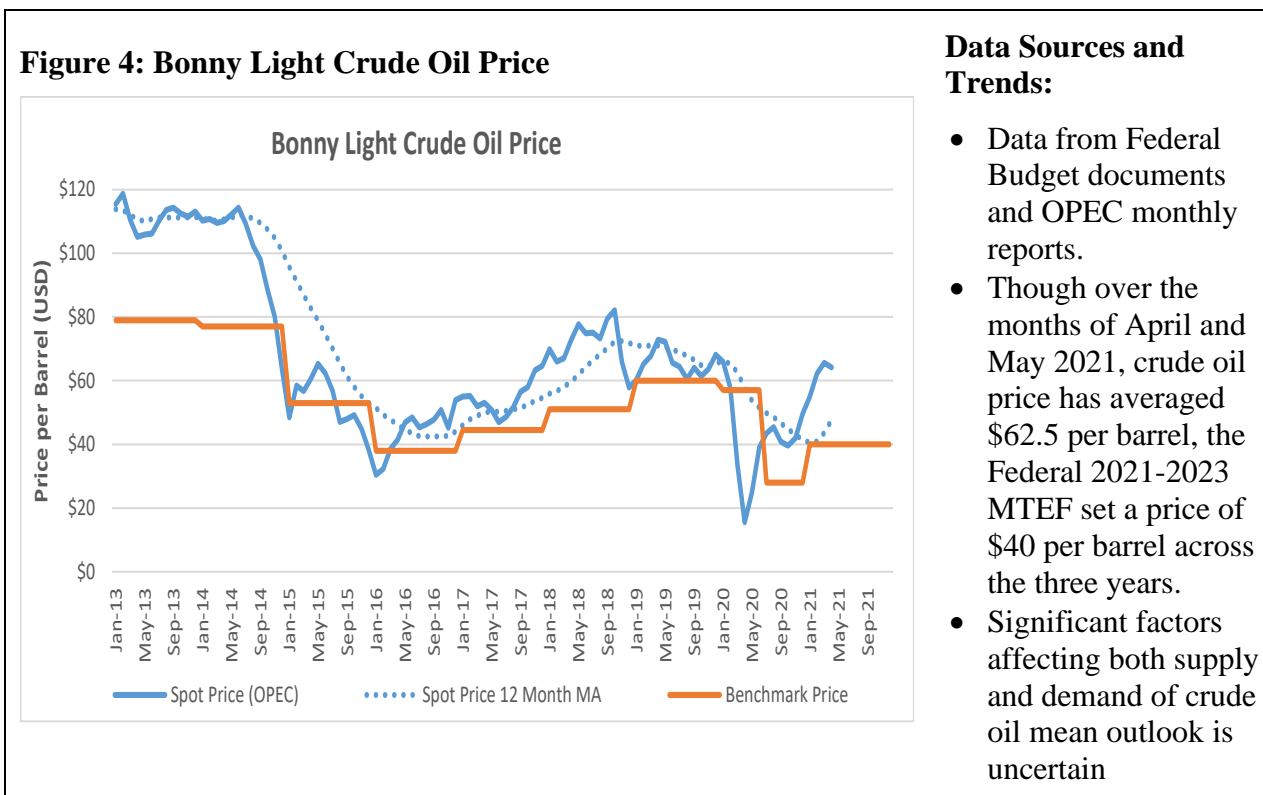
60. As of Friday, 4th June 2021, Nigeria's gross foreign exchange reserve stood at \$34.170 billion, representing a year-to-date decline of \$1.2 billion (3.4%). The last time Nigeria's reserve position was at this level was 5th June 2020, almost exactly 12 months ago. The foreign reserve has recorded a steady decline despite the recent bullish run in the global oil market.
61. The NGN: USD exchange rate, which is a key crude oil revenue parameter, for the period January 2013 to May 2021, along with the benchmarks assumed in the Federal Government budgets over the same period, are shown in Figure 3 below.



62. Crude oil price has trended upwards since the end of October 2020, rising by from Year to date (April 19), crude oil price has increased by 26% and has averaged US\$64.17 per barrel. The increase in the price of crude oil has been driven by factors such as production cuts by OPEC and non-OPEC members and improved demand due to the administration of COVID-19 vaccines. These factors will continue to sustain high crude oil price in the second quarter of

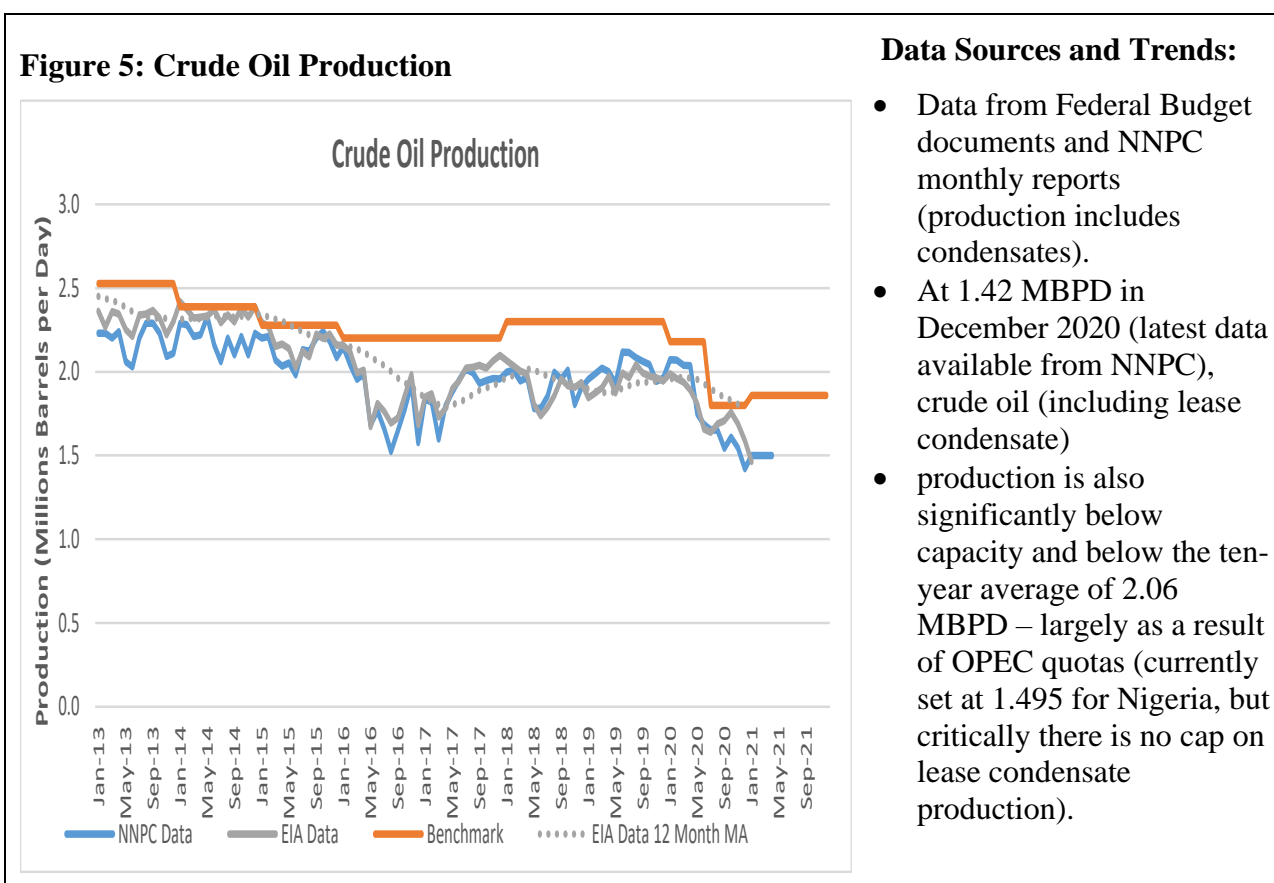
2021. However, it is important to always consider that the crude oil market is highly volatile. This only serves to remind authorities of the delicacies and unpredictability that reinforce the rationale for a benchmark that is set significantly below the current / forecast price.

63. Crude Oil (Bonny Light) Price (spot price and benchmark for the period of January 2013 to April 2021 are presented in Figure 4 below.



64. As indicated in figure 4 above the current price of about \$66 is higher than the average price of \$41.29 recorded in 2020. The current price (1 June 2021) is \$71.21. EIA is forecasting an average price of \$62.26 for Brent Crude in 2021, dropping marginally to \$60.74 in 2022 (Bonny light usually trades a few cents above Brent Crude). The IMF forecast in its April 2021 WEO suggest a price of around \$56.08 for Brent Crude – somewhat lower than EIA.
65. **Crude Oil Production** continues to fall below the potential (believed to be around 2.4 million barrels per day) (MBPD) and it has done for the last five years. At 1.42 MBPD in December 2020 (latest data available from NNPC), crude oil (including condensate) production is also significantly below capacity and below the ten-year average of 2.06 MBPD – largely as a result of OPEC quotas (currently set at 1.495 for Nigeria, but critically there is no cap on condensate production). Nigeria had to cut production in the latter months of 2020 as a result of over production (vis-à-vis its quota) earlier in the year.

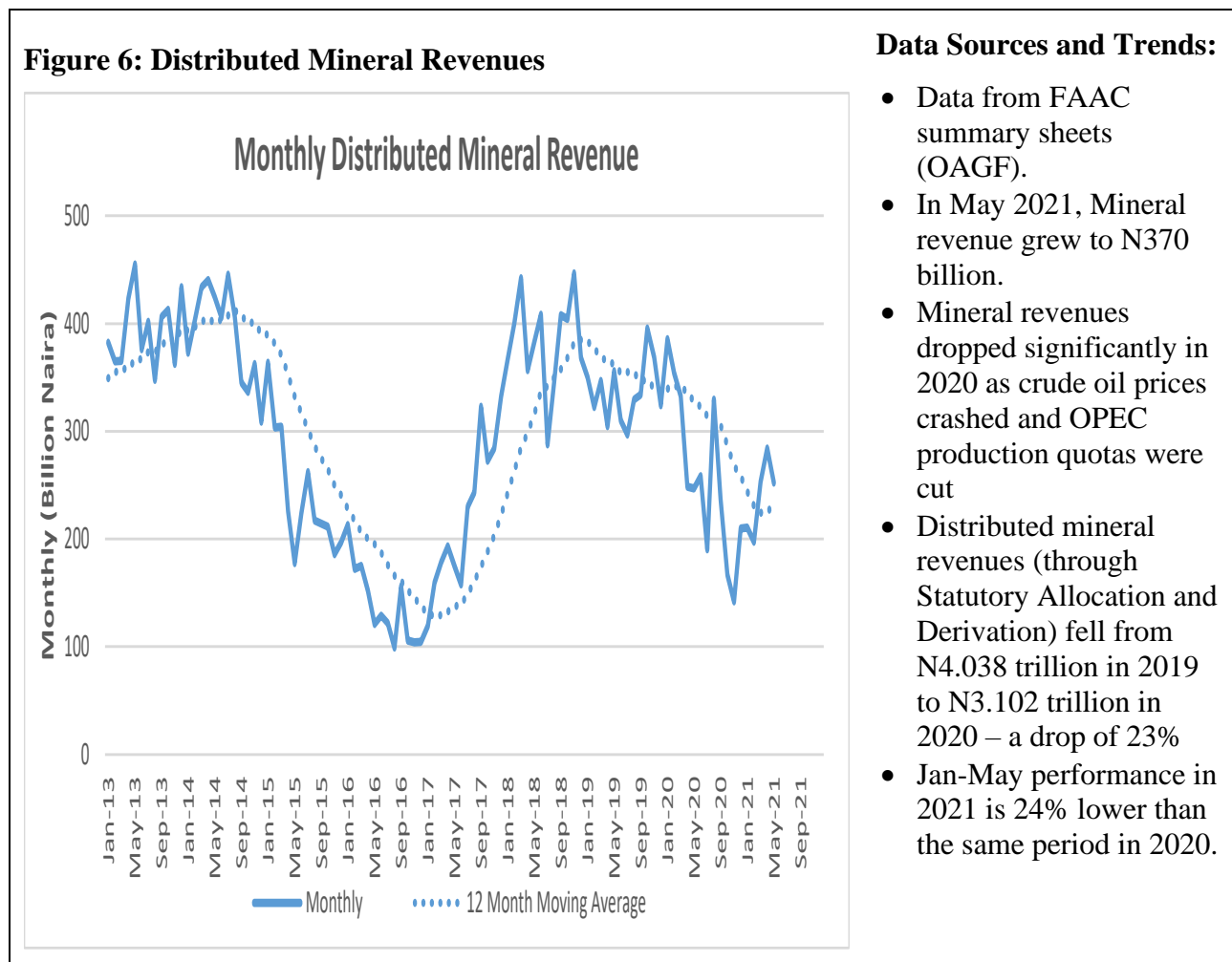
66. According to EIA, production (including lease condensate) increased to 1.595 MBPD in February 2021. Lease condensate production has typically been in the region of 200,000 – 300,000 per day. EIA forecasts that global crude oil demand will increase by around 3.8% in 2022 compared to 2021. They forecast 97.7 MBPD in 2021, which is an increase of 5.4 MBPD from 2020. 2021 is forecast at 101.4 MBPD.
67. Crude Oil Production (including condensates) for the period January 2013 to May 2021 along with the benchmark is presented in figure 5 below.



68. The policy thrust of the ESP include deregulation of the price of refined petroleum products and establish a sustainable framework for maintaining the national strategic stock; remittance of 100% of royalties and taxes paid to NNPC into the Federation Account as well as sustained periodic reconciliation with DPR and FIRS. The implementation of the Finance ACT 2020 and VAT reforms, development of business continuity plans for tax and custom administration and rationalization of ineffective tax incentives and exemptions as well as increased remittances and recovery of unremitted revenues from GOEs.
69. April and May 2021 FAAC distributions saw increasing levels of PMS Under Recovery in the NNPC Reports (N60.4 billion and N112.0 billion respectively, based on NNPC operations in

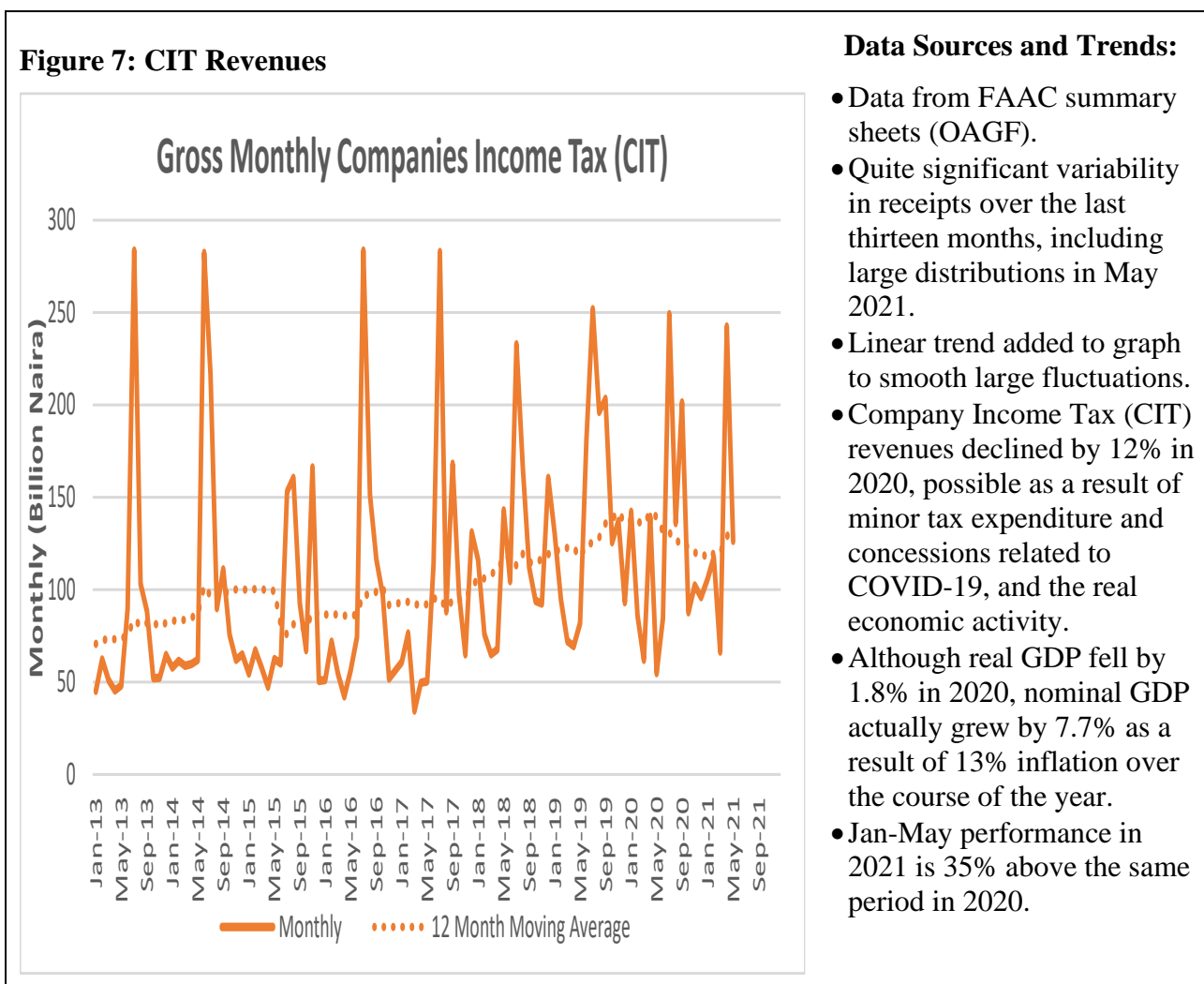
the months of February and March 2021), to the extent that in May, NNPC were not able to remit any revenues to FAAC.

70. Monthly distributed Mineral Revenues (Statutory Allocation (SA) and Net Derivation (ND)) to the three tiers of government from January 2013 to May 2021 inclusive are shown in figure 6 below.



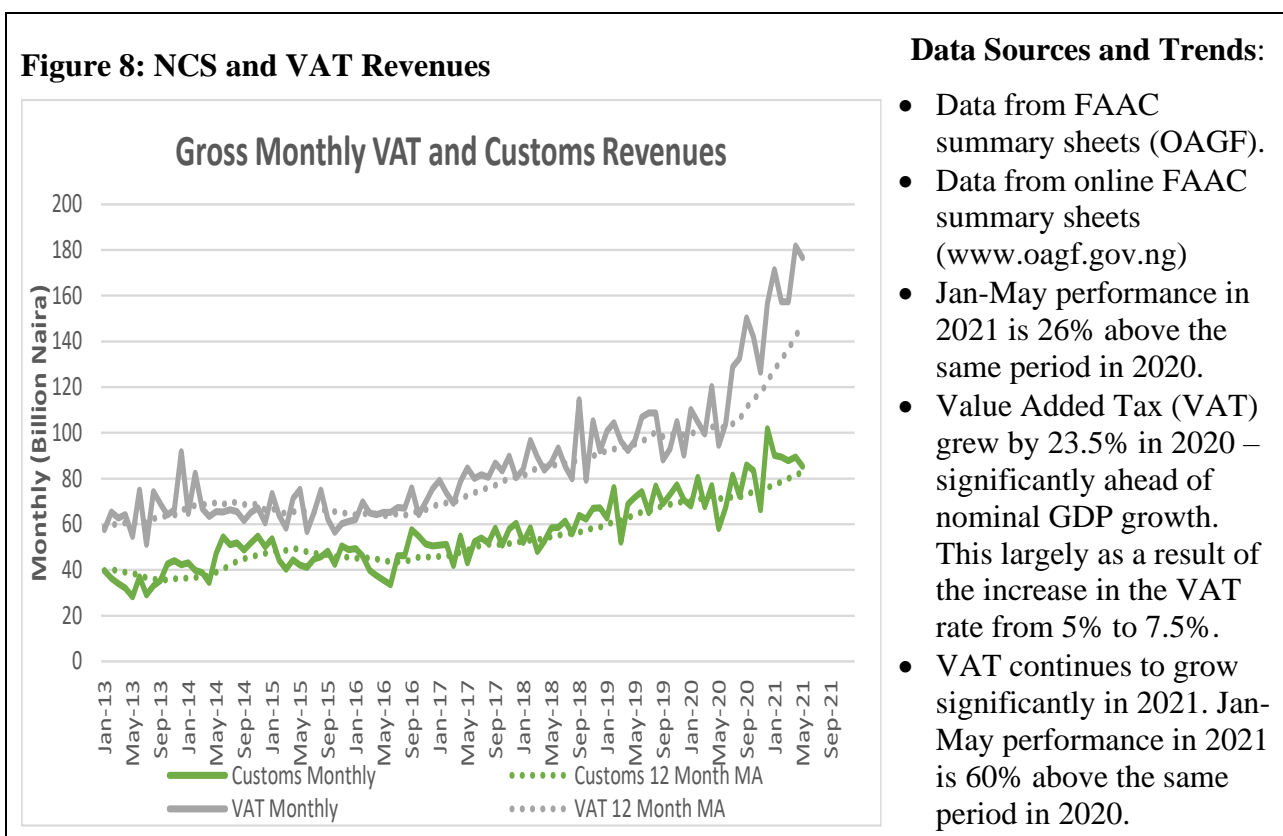
71. A total of N616.9 billion generated as revenue in the month of April 2021 has been disbursed to the federal, states and local governments as allocation for May 2021. However, the NNPC did not remit any revenues to FAAC in May 2021. NNPC first started to report PMS Under Recovery in the March 2021 FAAC pack (based on PMS Under Recovery in January 2021). April and May 2021 FAAC distributions saw increasing levels of PMS Under Recovery in the NNPC Reports (N60.4 billion and N112.0 billion respectively, based on NNPC operations in the months of February and March 2021), to the extent that in May, NNPC were not able to remit any revenues to FAAC.

72. Gross Companies Income Tax (CIT) revenues, which are distributed as part of Statutory Allocation, from January 2013 to May 2021 inclusive are shown in Figure 7 below. The graph also includes linear trend.



73. The graph shows the annual spike in distributions (collections from the previous month) that is in line with the annual tax returns and payment cycle in FIRS. This generally happens in July.
74. The total collection from August 2017 to April 2019 is 35% higher than the collections from August 2016 to April 2017. This may be due to one off collections as part of the FIRS amnesty programme (which ended in December 2017, and has been extended to end of June 2018), but these should also result in more corporate taxpayers being brought into the net which will boost tax collections in subsequent years. High levels of decline in CIT in May 2021 compared to the volume in April 2021 is something to monitor and trend in the condensed projection in the short term.

75. There is also a clear upward trend in CIT as shown by the linear trend line (which is useful given the level of fluctuation). Forecast of CIT for full-year 2020 and 2021 is still difficult, it will be easier once the mid-year collections are known.
76. Customs and Excise duties (NCS), which is distributed as part of Statutory Allocation, and VAT (which is distributed in its own right), for the period January 2013 to May 2021 are shown in Figure 8 below.



77. VAT shows a clear upward trend since late-2015. This is to be expected as the general price level rose quite significantly over the same period, which should transfer straight into additional VAT (for VAT-able items). Given the increase in VAT from 5% to 7.5%, in the 2020 Finance Act, there have been significant spike in VAT over the last nine months from August 2020. There is still a level of monthly volatility that makes it slightly difficult to forecast. However, with the economy returning to positive real growth and inflation staying slightly above 10% for some time, it is anticipated that VAT will continue to grow in nominal terms.
78. Exchange rate controls import policy and devaluing Naira may have affected some Customs receipts. However, there are still some short-term volatility and Federal Revenue reforms should increase collections in the medium term, but the timing of impact remains uncertain.
79. Forecasts for 2021-2024 are contained in the Fiscal Strategy Paper section of this document.

2.A.4. Adamawa State Economy

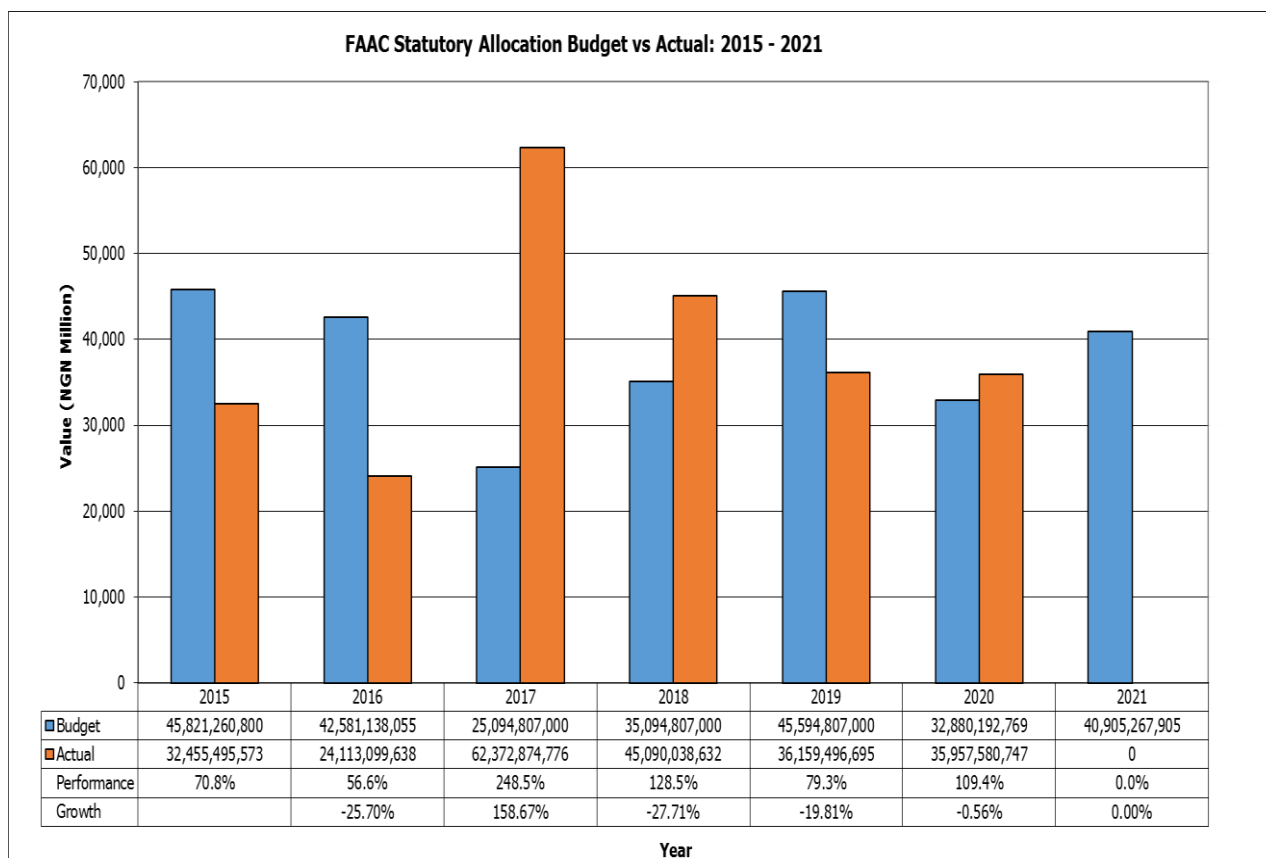
80. Adamawa State has enjoyed impressive GDP performance over the years, although not quite as high as the national average since Adamawa State does not benefit directly from the mineral sector.
81. The Adamawa State economy from the perspective of the GDP is unbalanced. It is heavily tilted on agriculture production. Under the business environment in Nigeria, 2010, Adamawa State ranked 18th out of the 36 States of the Federation and the FCT. The economic fortunes of the state are heavily dependent on the national economy.
82. The economic fundamentals of the state economy have been linked to national indices on the affected specific variables.
83. The state is still a net importer of goods and services but is a net exporter of agriculture produce to other states. The movement of agricultural produce is not well-documented and computed to register meaningful contribution to the state economy. In spite of the steady progress in economic growth and development, available data indicate that agriculture, especially crops and livestock, and fisheries as well as SMEs, which have the potential to generate large scale employment opportunities, are undergoing transformation.
84. There is the predominance of subsistence and non-mechanized agriculture in the state. That is why the growth of the state's economy is predicated on increased transformation of the agricultural value chain (large scale agricultural production and agro-based industrial production). Although the trend of IGR in the State over the years has been varied, the present administration has demonstrated strong determination to change the prevailing situation of the state's IGR.

2.B Fiscal Update

2.B.1 Historic Trends

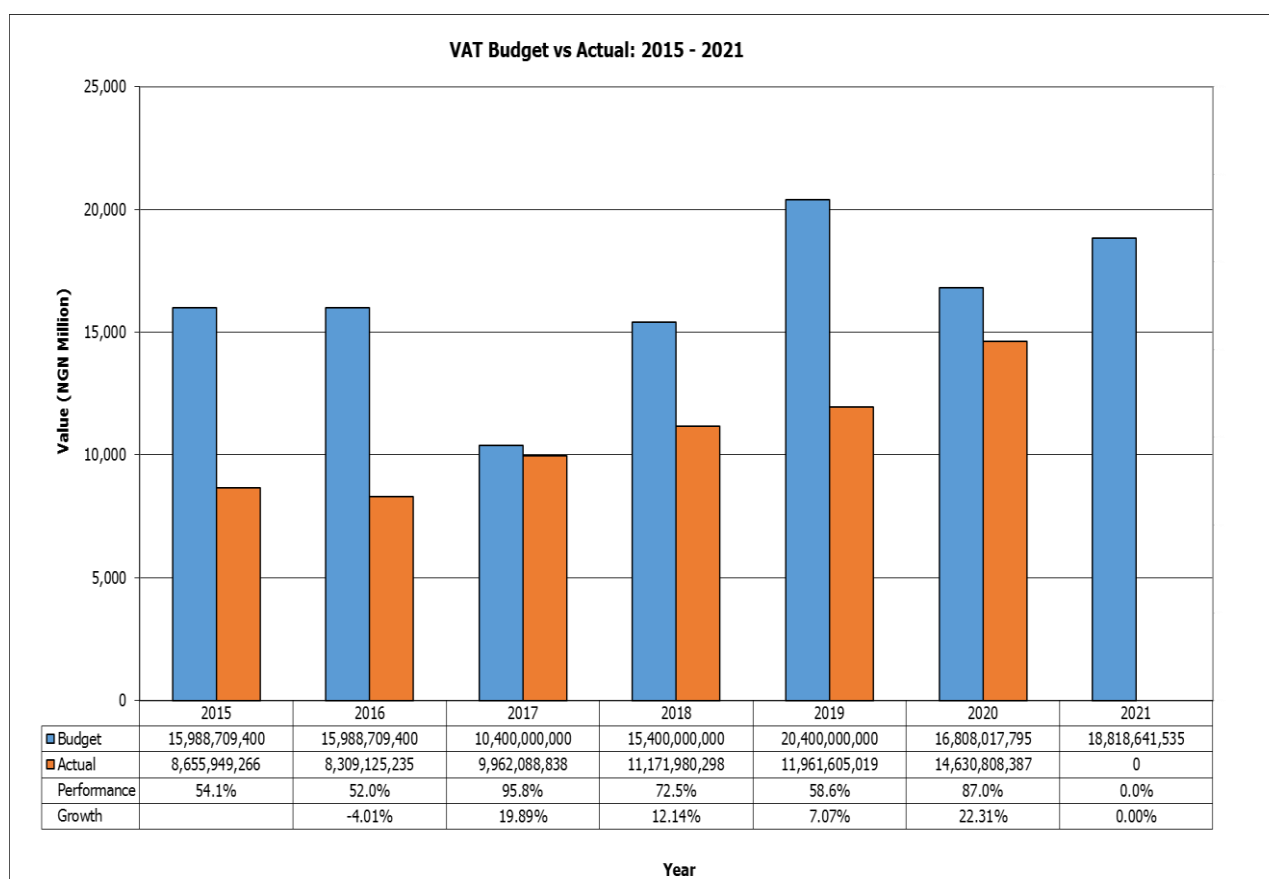
Revenue Side

85. On the revenue side, the document looks at Statutory Allocation, VAT, IGR, Excess Crude, and Capital Receipts – budget versus actual for the period 2015-2020 (six year historic) and 2021 budget.

Figure 9: Statutory Allocation

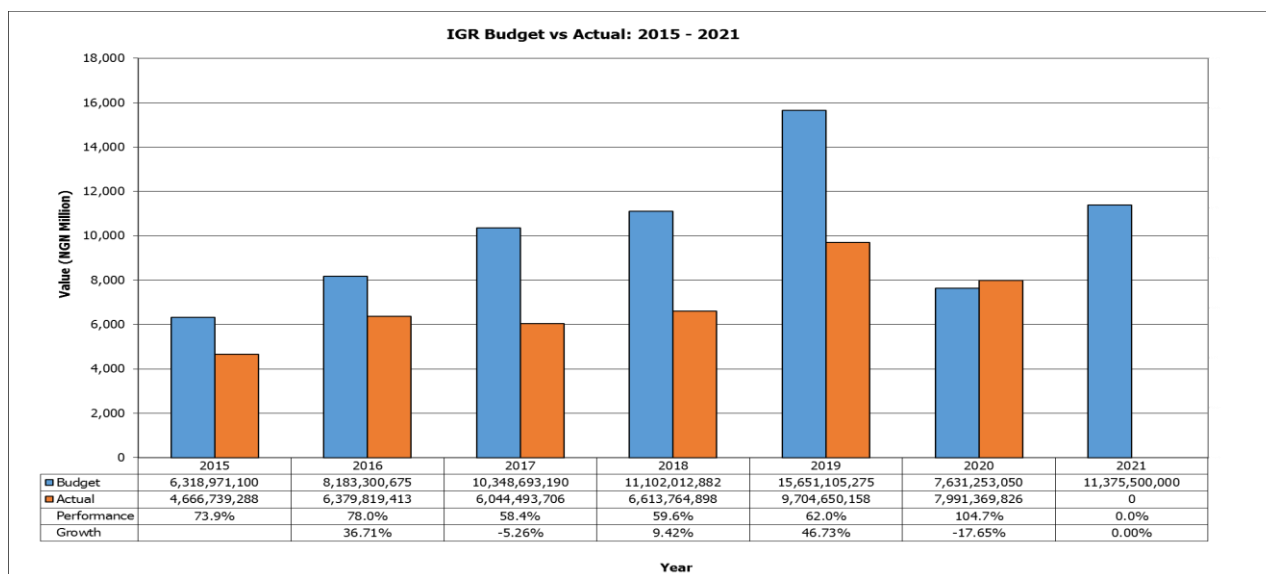
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

86. Statutory Allocation is a transfer from the Federation Allocation Accounts Committee (FAAC) and is based on the collection of minerals (largely Oil) and non-mineral revenues (companies' income tax, custom and excise duties) at the national level, which is then shared between the three tiers of government using sharing ratios.
87. Actual receipts decreased from 2015 to 2016 at -25.70% and increased by 158.67% in 2017. N62 billion reported as actual in 2017 include other transfers from FGN such as budget support fund to Adamawa State. However, it declined drastically (by -27.71%) in 2018, (-19.81%) in 2019, (-0.56%) in 2020 respectively. The reason for the drastic fall of statutory allocation in 2016, 2017, 2019 and 2020 was as a result of the drop in global oil price and drop in oil production in Nigeria.

Figure 10: VAT

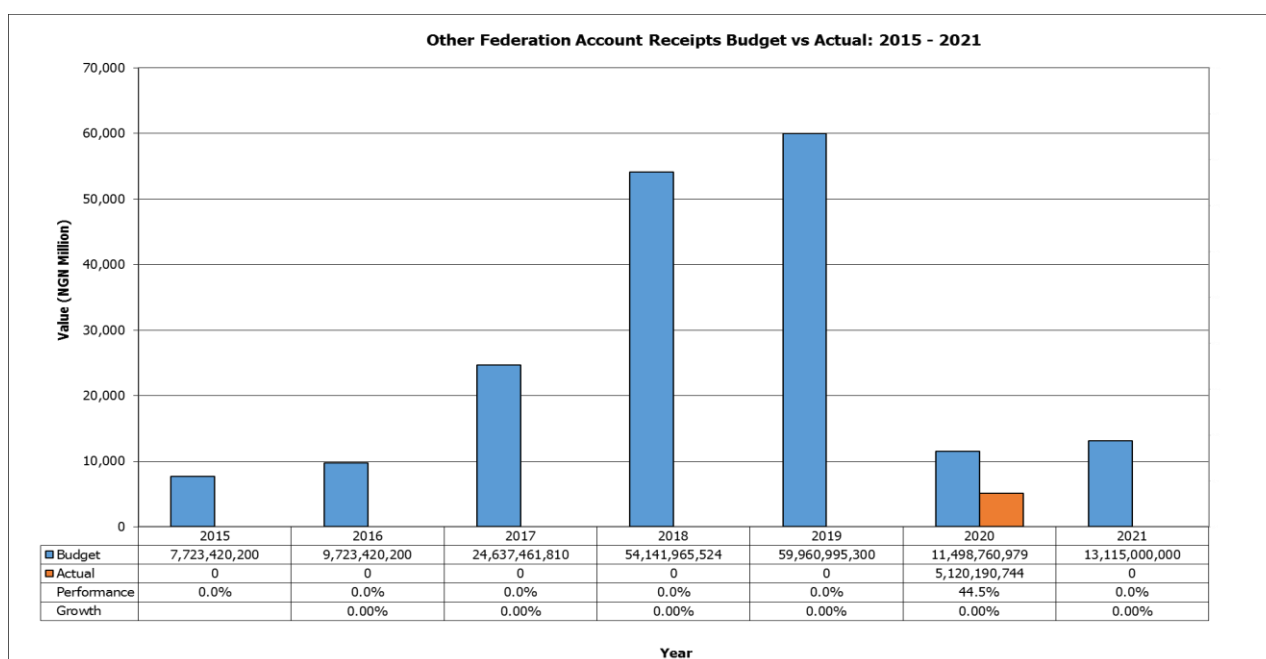
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

88. VAT is an ad valorem tax on most goods and services at a rate of 5% (2015-2019) and 7.5% from 2020. It is collected by the Federal Inland Revenue Service (FIRS) and distributed between the three tiers of government on a monthly basis – partially based on set ratios, and partially based on the amount of VAT a particular state generated. States receive 50% of the total VAT collections nationally, from which Adamawa State receives around 2.14% of the states' allocation.
89. VAT receipts decreased marginally from years 2015 to 2016 by -4.01% and increased by 19.89% in 2017, 12.14% in 2018 and 7.07% in 2019 respectively. It then increased by 22.31% in 2020, this increase is largely due to the growth in nominal economic activity in Nigeria and increase of VAT rate from 5% to 7.5% in 2020.

Figure 11: IGR

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

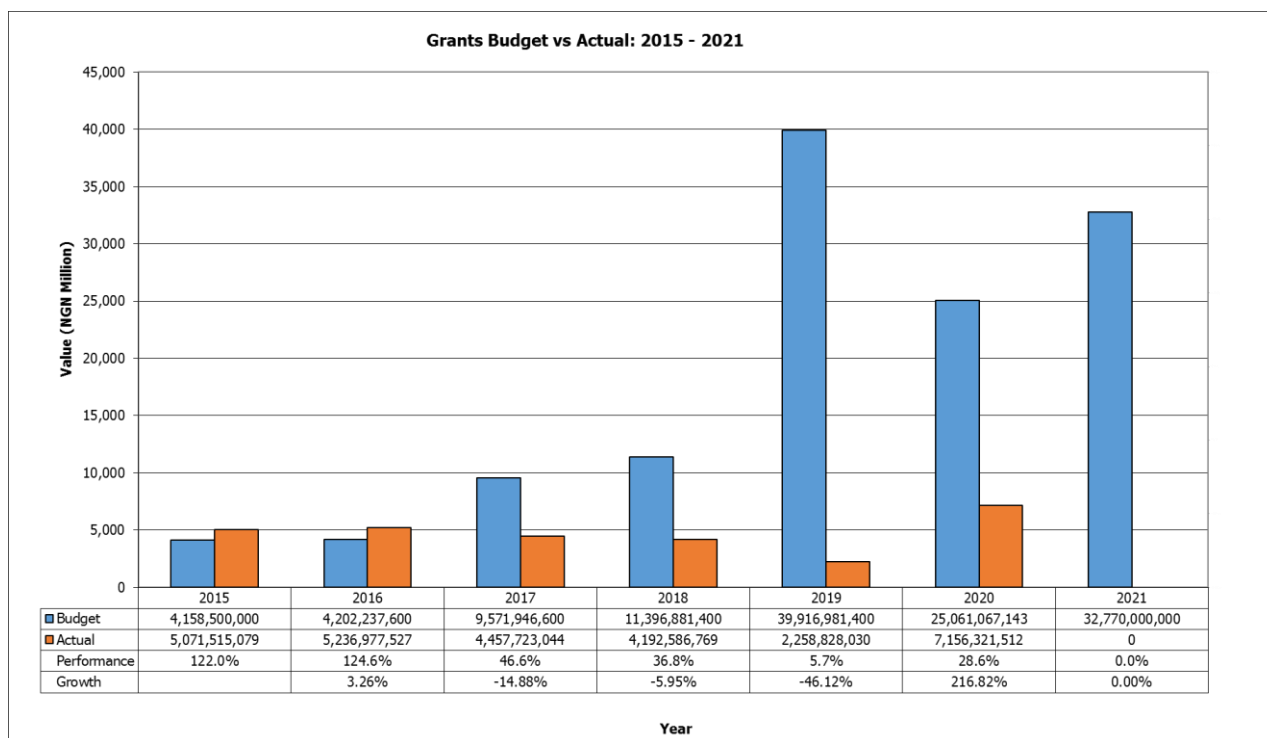
90. Internally Generated Revenue also known as Independent Revenue (IR) is revenue collected within Adamawa State related to income tax (PAYE represents the highest contributor to IGR), fines, levies, fees and other sources of revenue within the state.
91. From 2015 – 2020 actual collections have been lower than the budget. IGR collections declined from 36.71% increase in 2016 to -5.26% in 2017 and increased to 9.41% in 2018 and 46.71% in 2019. It then drastically declined to -17.65 in 2020 mainly due to the Covid-19 Pandemic.

Figure 12: Other Federal Account Receipts Budget vs Actual:2015-2021

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

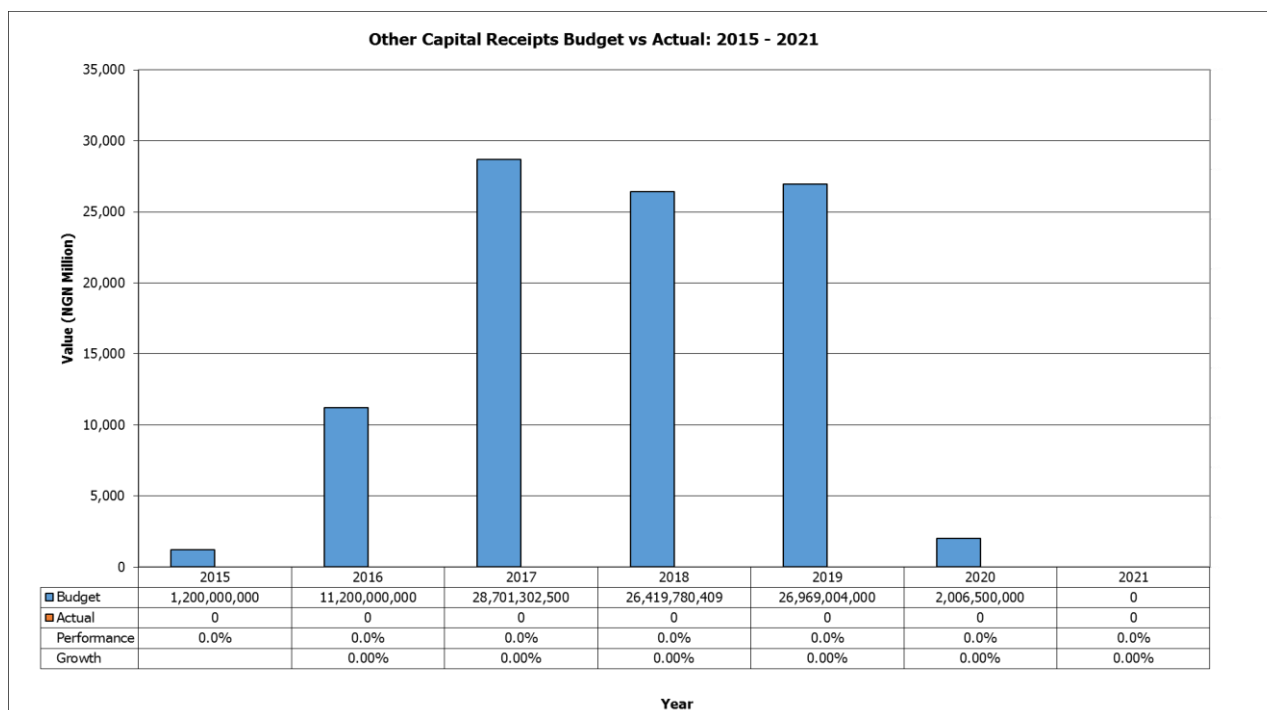
92. Other Federation Account Receipts are other receipts from Federation Accounts which include Exchange Gain, NNPC refund, Augmentation, etc.
93. Reporting of actual other federation account commenced in 2020 as previous years receipts were reported as part of Statutory Allocation. The 2020 actual performance was 44.5%.

Figure 13: Grants



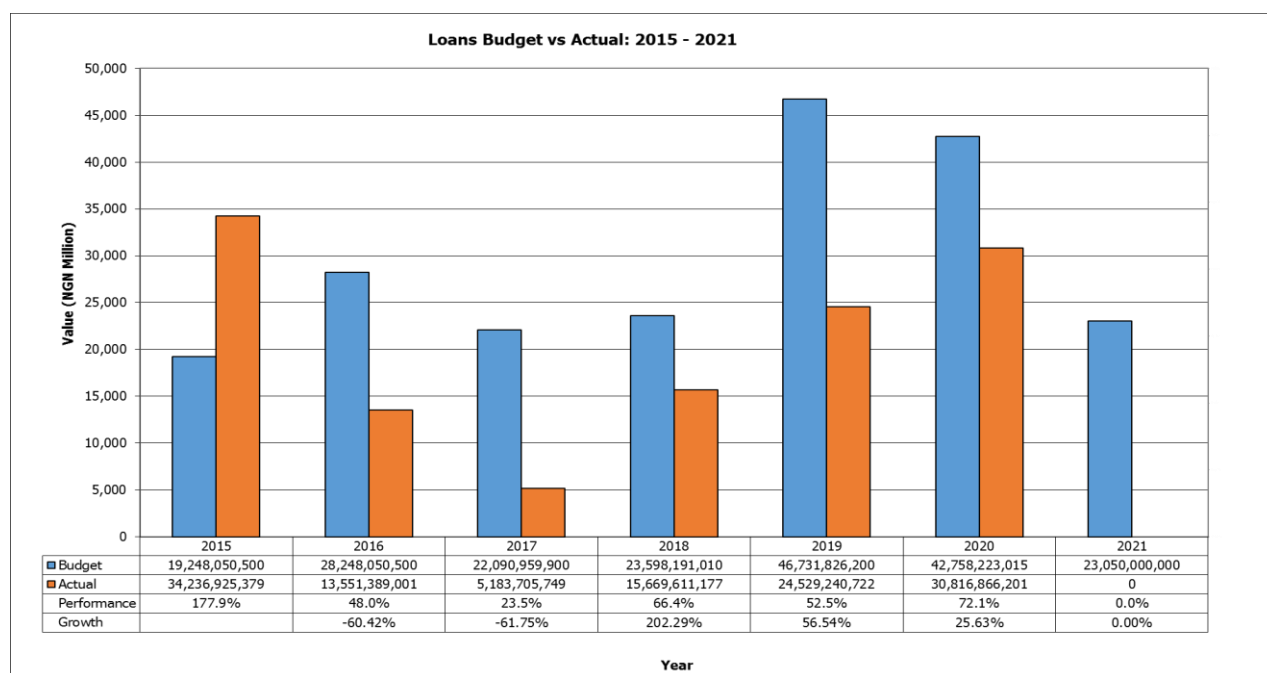
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

94. Grants are receipts from both internal and external sources such as Federal Government SDGs Conditional Grants Scheme, as well as grants from the international development partners (including MCRP, GIZ, European Union (EU) and United Nations Children’s Fund (UNICEF). Adamawa State has proactively included as much grant expenditure “on-budget” as possible, even if the funds don’t travel through the state treasury.
95. Actual performance increased from 122.0% in 2015 to 124.6% in 2016 and then declined to 46.6%, 36.8%, 5.7% in 2017, 2018 and 2019 respectively and increased to 28.6% in 2020. Grant estimates going forward should be realistically budgeted for to avoid low performance.

Figure 14: Other Capital Receipts

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

96. Other capital receipts here include refund on federal roads constructed by the State, budget support, Excess Paris Club deduction refund and refunds from withholding tax. Other capital receipts from FGN were reported as part of Statutory Allocation, hence zero report for 2015 to 2020.

Figure 15: Loans/Financing

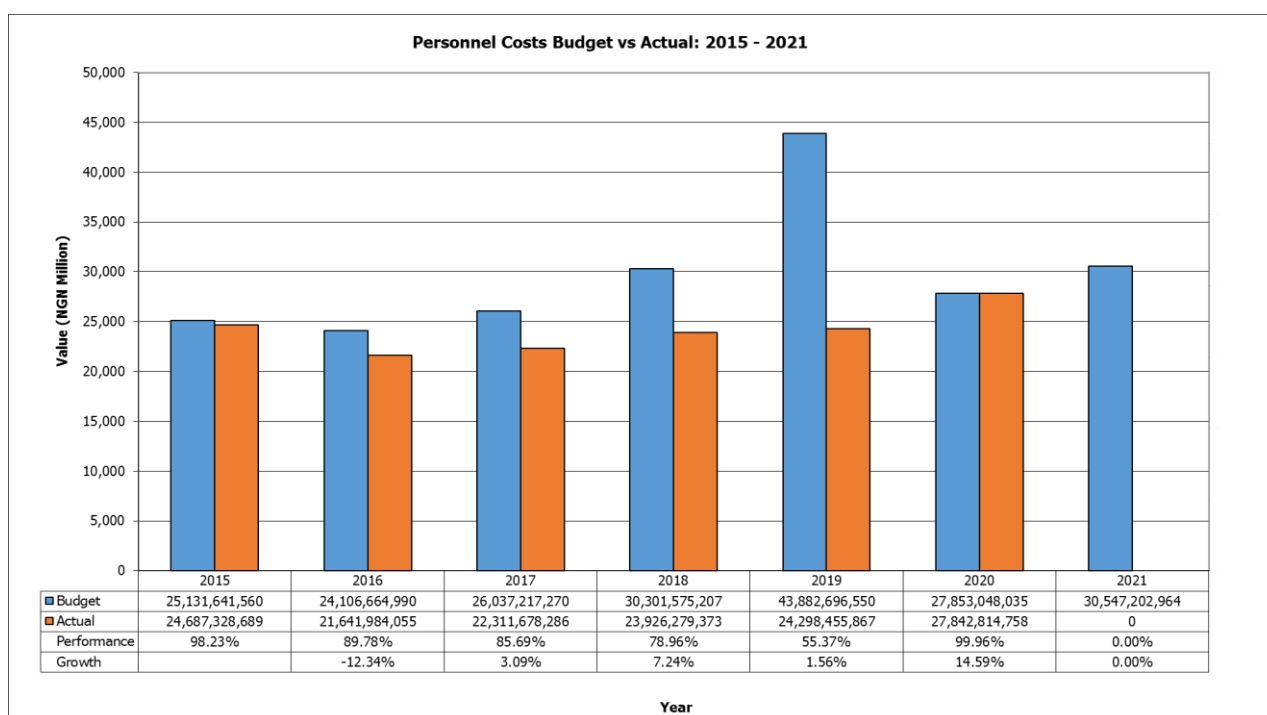
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

97. Besides some short-term borrowing from banking facilities, financing has come in the form of various World Bank programmes (FADAMA, Health and Education sector support).
98. The performance was 177.9% in 2015 which later declined to 48.0% and 23.5% in 2016 and 2017 respectively, it then increased to 66.4% in 2018 and declined to 52.5% in 2019, it again increased to 72.1% in 2020.

Expenditure Side

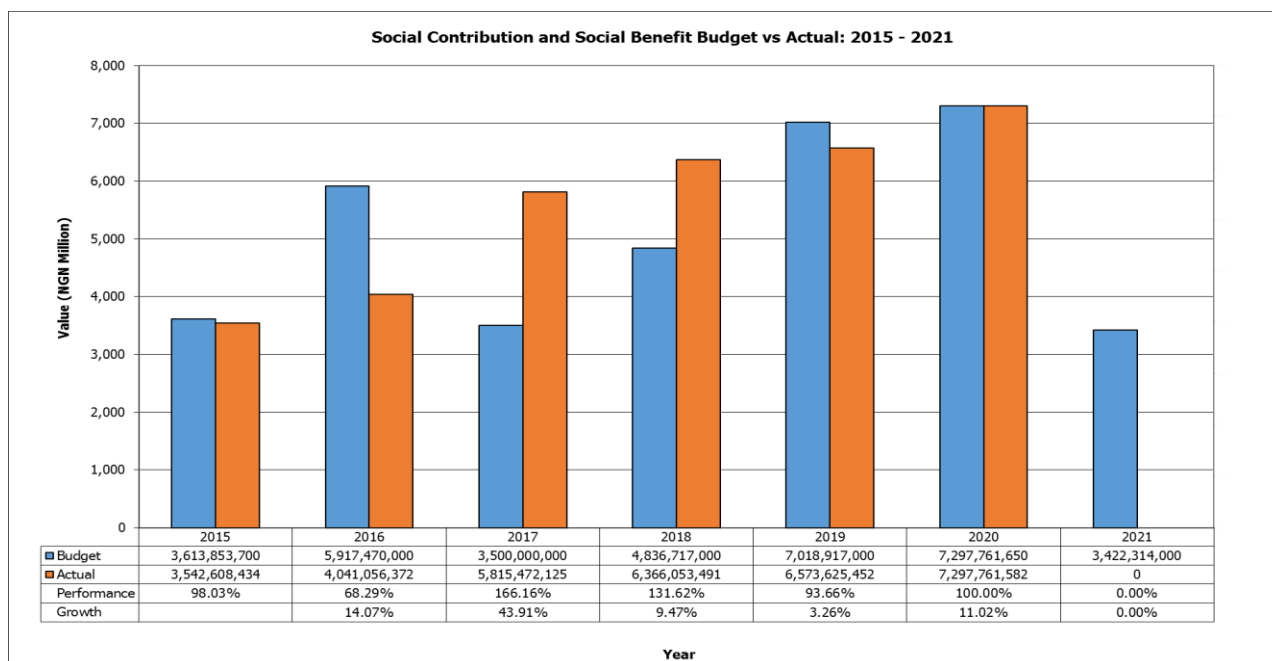
99. On the expenditure side, the document looks at Personnel, Social Contribution and Social Benefits, Overheads, Public Debt Service and Capital Expenditure – budget versus actual for the period 2015-2020 (six years) and 2021 budget.

Figure 16: Personnel



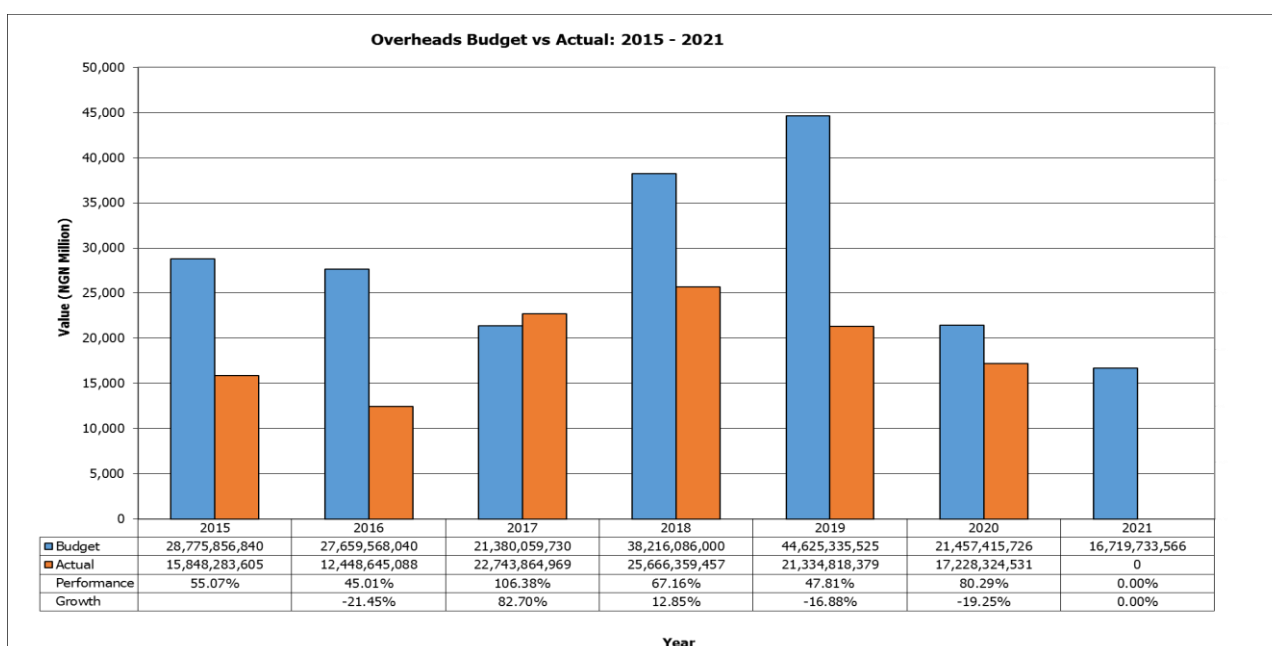
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

100. Personnel expenditure includes salaries, allowances and benefits of core civil servants of the state. Personnel costs have dropped by -12.34 in 2016 and increased to 3.09% and 7.24% in 2017 and 2018 respectively, in 2019 it declined to 1.56% and increased to 14.59% as a result of the implementation of the new minimum wage.
101. Actual expenditure has been close to budget in all years except 2019 because of the expectation of the implementation the new minimum wage.

Figure 17: Social Contributions and Social Benefits

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

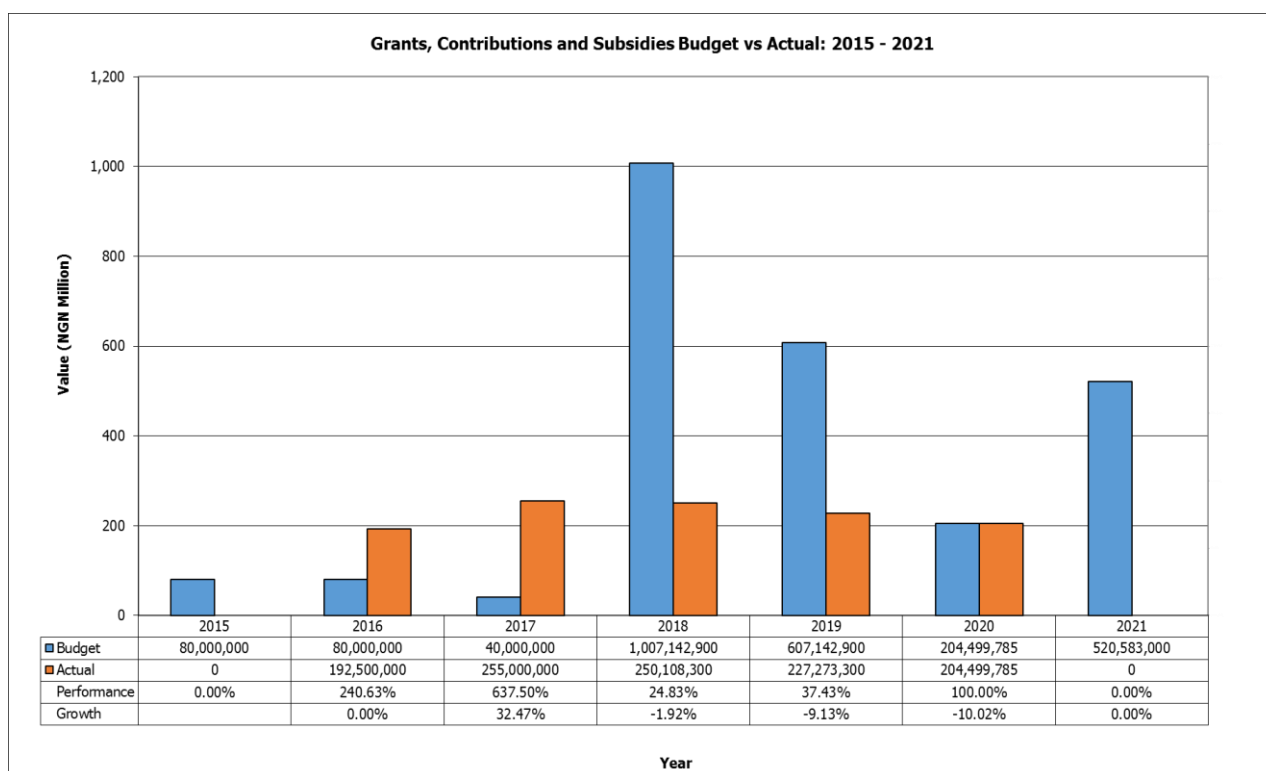
102. Social Contribution and Social Benefits include pension and gratuity, employees' benefits, severance allowance and death benefits. The actual figures have been on a steady increase since 2015 due largely to regular retirement of workers leading to high burden of pension and gratuities. Actual exceeded budget in 2017 and 2018 while the reverse were the cases in 2015, 2016 and 2019. However, in 2020 actual and budget were the same amount (i.e., 100% performance).

Figure 18: Overheads

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

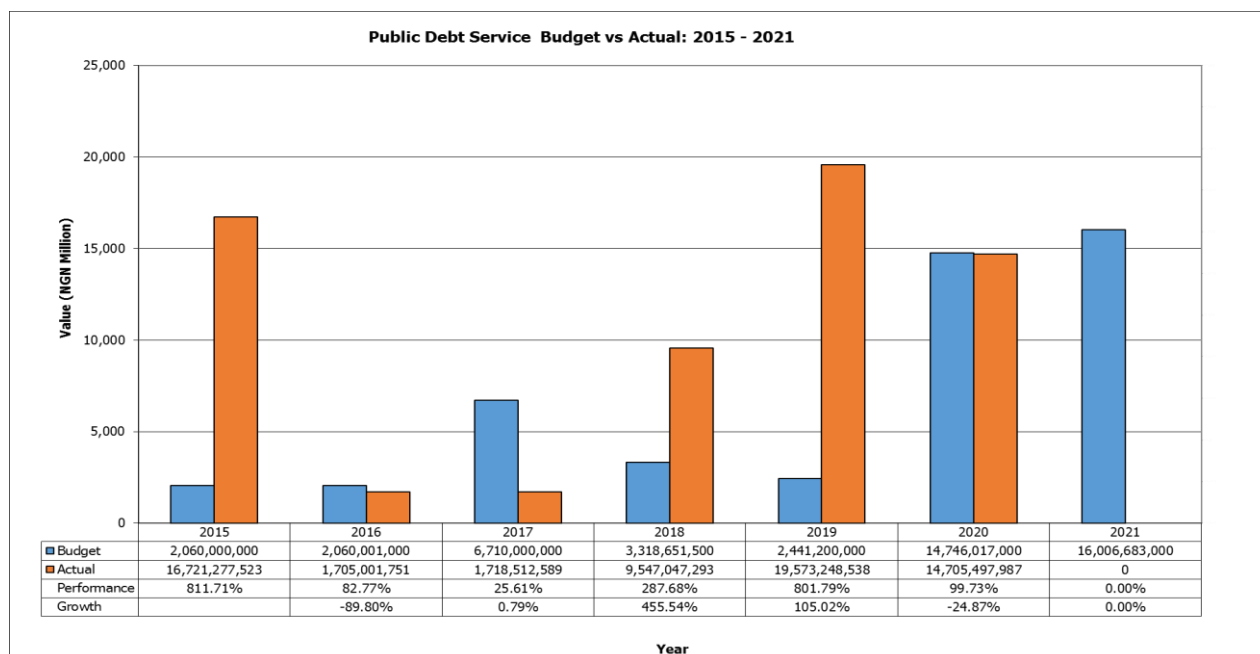
103. Overheads comprise mainly of operational and maintenance costs for running day-to-day activities of the Government. Overhead allocations are transferred to MDAs on a monthly basis subject to warrants and availability of fund.
104. Overhead expenditure was reduced significantly in the year 2016 due to fall in revenue from the Federation Account, it then increased to 82.70% in 2017. Deliberate steps were taken in the year 2019 and 2020 by reducing cost of running government so as to free up more funds for capital projects in the State.
105. Not surprisingly, performance against budget has been poor occasioned by dwindling fortune of the revenue year-on-year. Going forward, overhead expenditure must be brought under control, to ensure that cost of governance is not more than necessary.

Figure 19: Grants, Contributions, Subsidies, Transfers



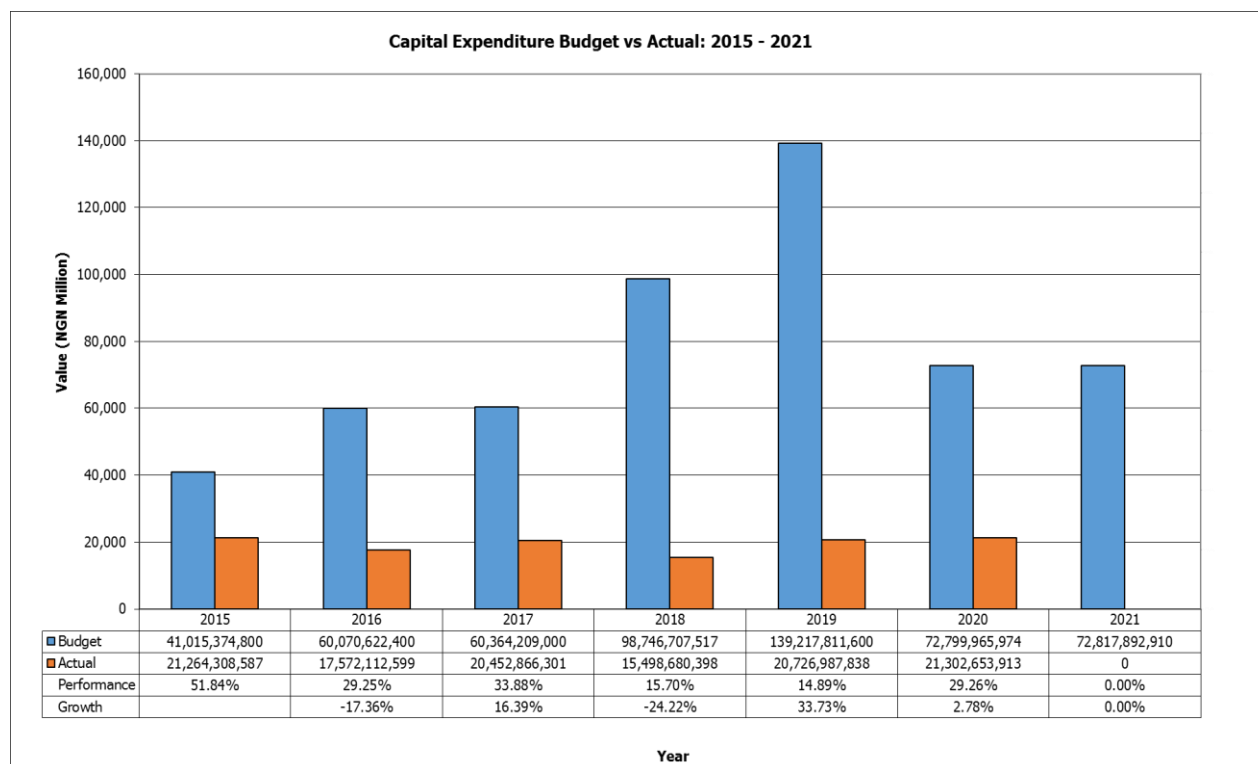
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

106. The actual performance in 2016 and 2017 were 240.63% and 637.50% respectively and it declined to 24.83% in 2018, it then increased to 37.43% and 100% in 2019 and 2020 respectively.

Figure 20: Public Debt Service

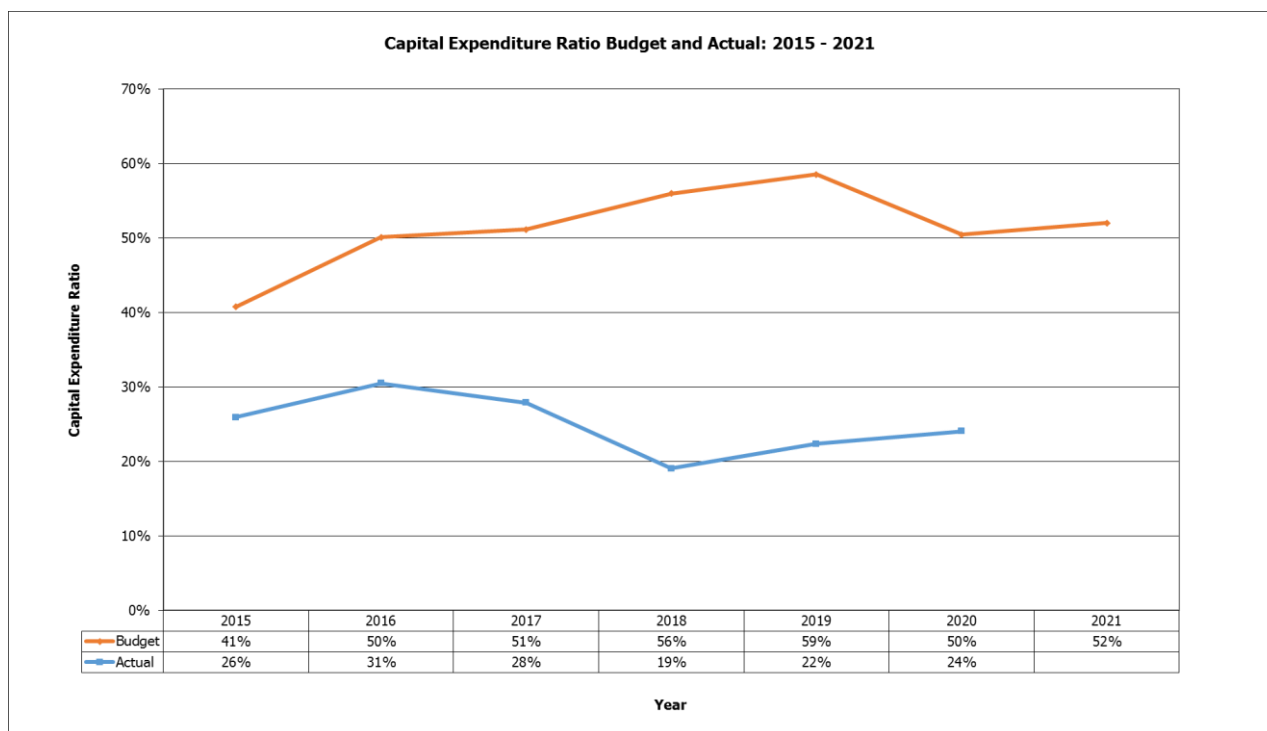
Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

107. Public Debt Charge includes payment for internal and external debt (principal and interest). In 2015, 2018, and 2019 State government paid more than budgeted amount on servicing debt. For example, in 2019 the state recorded performance of 801% (debt service charge growing from N9.54 billion in 2018 to N19.57 billion in 2019 – 105% increase).
108. The expansion in the loan repayment was as a result of upward review of the monetary policy rate (MPR) which is one of the determinants of the cost of funds. This influenced the upward review of the lending rate by commercial banks and also new loans that the State acquired within that period. However, in 2020 public debt charged dropped to N14.7 billion and performance 99.73%.

Figure 21: Capital Expenditure

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

109. Capital expenditure refers to projects that generate State assets (e.g. roads, schools, hospitals).
110. Except for 2016 and 2018 Adamawa State has expended an average 20 billion Naira on Capital Expenditure owing to increase in recurrent expenditure which could not correspondingly matched by the total revenue of the State
111. Prudent forecasting of revenue, and hence the capital development fund, and tight control on recurrent expenditure, will help both increase the level of capital expenditure and also improve performance against budget going forward. This is important as the State should look to avoid wasted effort in preparing detailed capital expenditure submissions if they cannot, ultimately, be resource-backed.

Figure 22: Capital Expenditure Ratio

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

112. The actual capital expenditure ratio declined in 2016 to 2018 and a bit stable from 2018 to 2020. It will be observed that in all the years reviewed (i.e., 2015– 2020) the actual capital expenditure ratio (19%-31%) was lower than capital budget ratio (41%-59%).

By Sector

113. Performance by sector for (personnel, overhead and capital expenditures) varied over the period 2017-2020 as shown in Tables below.

Table 6: Sector Expenditure – Budget Vs Actual

Personnel Expenditure by Sector												
No.	Sector	2017 Budget	2017 Actual	2018 Budget	2018 Actual	2019 Budget	2019 Actual	2020 Budget	2020 Actual	Performance	Average Budget	Average Actual
1	Administrative Sector	3,029,671,210	2,370,897,088	3,507,631,327	2,708,667,712	4,449,285,600	2,842,929,853	4,674,961,920	2,792,850,024	68.42%	11.43%	10.89%
2	Economic Sector	3,616,542,860	3,082,212,977	4,196,445,000	3,353,150,278	6,315,221,525	3,632,382,898	4,603,122,750	3,805,865,967	74.07%	13.67%	14.10%
3	Law & Justice Sector	2,528,214,500	2,266,248,628	2,792,007,000	2,149,787,904	4,383,456,000	2,486,937,253	3,845,232,300	2,669,501,610	70.65%	9.89%	9.73%
4	Regional Sector	19,776,200	9,072,917	21,380,000	8,304,865	33,308,600	6,034,082	1,831,994	1,666,106	32.87%	0.06%	0.03%
5	Social Sector	16,843,012,500	14,583,246,676	19,784,111,880	15,706,368,614	28,701,424,825	15,330,018,527	23,672,054,000	18,572,931,051	72.13%	64.96%	65.25%
	Total	26,037,217,270	22,311,678,286	30,301,575,207	23,926,279,373	43,882,696,550	24,298,302,613	36,797,202,964	27,842,814,758	71.80%	100.00%	100.00%
Overhead Expenditure by Sector												
S/N	Sector	2017 Budget	2017 Actual	2018 Budget	2018 Actual	2019 Budget	2019 Actual	2020 Budget	2020 Actual	Performance	Average Budget	Average Actual
1	Administrative Sector	14,592,924,840	17,474,159,341	26,013,295,003	20,948,536,062	31,868,978,205	21,741,646,001	18,278,627,800	19,252,068,456	87.51%	66.69%	58.19%
2	Economic Sector	6,554,847,650	3,537,985,536	7,845,055,000	2,958,524,647	7,932,020,600	25,308,794,067	6,306,065,711	17,482,244,477	172.11%	21.04%	36.12%
3	Law & Justice Sector	719,639,800	558,216,991	918,300,000	413,940,449	817,156,200	538,522,650	743,985,400	658,712,144	67.81%	2.35%	1.59%
4	Regional Sector	22,577,190	12,158,895	30,735,000	21,181,217	27,090,000	23,575,975	92,204,000	20,904,971	45.09%	0.13%	0.06%
5	Social Sector	1,334,051,450	1,161,344,206	3,408,700,997	1,324,177,083	3,939,490,520	1,160,516,332	4,634,838,500	1,875,333,903	41.46%	9.79%	4.05%
	Total	23,224,040,930	22,743,864,969	38,216,086,000	25,666,359,458	44,584,735,525	48,773,055,024	30,055,721,411	39,289,263,950	100.29%	100.00%	100.00%
Capital Expenditure by Sector												
S/N	Sector	2017 Budget	2017 Actual	2018 Budget	2018 Actual	2019 Budget	2019 Actual	2020 Budget	2020 Actual	Performance	Average Budget	Average Actual
1	Administrative Sector	3,289,484,806	498,182,146	8,274,244,625	1,260,416,082	9,381,058,856	1,970,155,609	6,812,283,000	345,345,637	14.68%	6.90%	5.52%
2	Economic Sector	46,601,138,284	13,152,736,378	56,466,944,626	8,584,448,314	69,745,625,112	12,893,201,036	43,403,569,690	14,938,164,043	22.93%	53.75%	67.19%
3	Law & Justice Sector	69,333,828	18,883,618	259,333,828	10,000,000	784,517,210	6,500,000	532,318,900	0	2.15%	0.41%	0.05%
4	Regional Sector	70,480,000	0	70,480,000	0	70,480,000	0	70,000,000	0	0.00%	0.07%	0.00%
5	Social Sector	16,251,373,162	2,578,372,662	33,675,704,438	5,643,816,003	59,236,130,422	5,857,131,193	47,193,444,611	6,019,144,233	12.85%	38.87%	27.24%
	Total	66,281,810,080	16,248,174,804	98,746,707,517	15,498,680,399	139,217,811,600	20,726,987,838	98,011,616,201	21,302,653,913	18.34%	100.00%	100.00%

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

2.B.2 Debt Position

114. A summary of the consolidated debt position for Adamawa State Government is provided in the Table below.

Table 7: Debt Position as at 31st December 2020

DEBT SUSTAINABILITY ANALYSIS			
A	DSA RATIO SCENARIOS:	Sustainability Thresholds	As at 31st December 2020
	Solvency Ratios	Percentage	Percentage
1	Total Domestic Debt/IGR	150%	1237.59%
2	Total External Debt/Gross FAAC	150%	74.54%
3	Total Public Debt/Total Recurrent Revenue	150%	220.45%
4	Total Public Debt/State GDP Ratio	25%	No GDP Figure Available
	Liquidity Ratios	Percentage	Percentage
5	Domestic Debt Service/IGR	15%	159.50%
6	External Debt Service/Gross FAAC	10%	1.68%
8	Debt Service Deductions from FAAC/Gross FAAC	40%	6.46%
8	Total Debt Service/Total Recurrent Revenue	25%	21.48%
B	PUBLIC DEBT DATA AS AT 31st DECEMBER 2020		Naira
1	Total Domestic Debt		98,900,403,446
2	Total External Debt		41,525,025,178
3	Total Public Debt		140,425,428,624
4	Total Domestic Debt Service 2020		12,746,238,351
5	Total External Debt Service in 2020		935,333,835
6	Total Public Debt Service		13,681,572,186
C	STATE GDP FOR 2020		
1	State GDP		0

115. By December 2020 the State's total public Debt stock was N140,425,428,624 which was profiled into N98,900,403,446 as domestic debt stock and N41,525,025,178 as External debt stock in naira.

116. In general, the State is performing fairly well, with the exception of IGR which constitute a major component in debt sustainability analysis of any State which Adamawa is not an exception. Consequently, the solvency ratio 220.45% rises above the prescribe threshold 150%, but however the State total external debt to gross FAAC (74.54%/150%) is very favourable. Considering the State liquidity ratio of 6.46%/40%, which is a tool used in measuring the State ability to meet its Debt service obligations, these is very much favourable, with the exception of domestic debt service to IGR (159.50%/15%)
117. Finally, the State's Total Domestic Debt stock ratio to public Total Debt stock stood at 70% which is 10% slightly above the threshold of 60%. The total external debt ratio to total public debt stood 30% which is below threshold of 40%. The state has one of the lowest external debt sustainability.

3 Fiscal Strategy Paper

3.A Macroeconomic Framework

118. The Macroeconomic framework is based on IMF national real GDP growth and inflation forecasts from the April, 2021 World Economic Outlook document, and mineral benchmarks (oil price, production and NGN: USD exchange rate) from the draft 2022-2024 Federal Fiscal Strategy Paper.

Table 8: Adamawa State Macroeconomic Framework

Macroeconomic	2022	2023	2024
National Inflation	13.50%	12.75%	12.00%
National Real GDP Growth	2.30%	2.30%	2.50%
Oil Production Benchmark (MBPD)	1.80	1.95	2.1
Oil Price Benchmark	\$57.00	\$57.00	\$57.00
NGN: USD Exchange Rate	410.15	410.15	410.15
Mineral Ratio	31%	31%	31%

3.B Fiscal Strategy and Assumptions

3.B.1 Policy Statement

119. Adamawa State's mission is to mobilize the people of Adamawa State to harness all its God-given resources, create and use wealth for the ends of individual happiness, collective fulfilment and peaceful cohabitation in an environment of transparent and honest leadership. The State's fiscal policy is envisaged to control and enforce compliance with established spending limits to achieve sound budgeting system, which include aggregate fiscal discipline, allocative efficiency and effective spending.

3.B.2 Objectives and Targets

120. The key targets for Adamawa State Government from a fiscal perspective are:

- Create efficiencies in personnel and overhead expenditure to allow greater resource for capital development;
- Grow IGR by a minimum of 20% every year from 2019 to 2022;
- Loans will only be used for capital expenditure projects;
- Long term target of funding all recurrent expenditure through revenue of a recurrent nature (IGR, VAT and Non-mineral component of Statutory Allocation);
- Target sources of capital receipts and financing outside of loans (e.g. Grants, PPP, etc.); and
- Priority given to the completion of ongoing capital projects before new projects are commenced.

3.C Indicative Three-Year Fiscal Framework

121. The indicative three-year fiscal framework for the period 2021-2024 is presented in the Table below.

Table 9: Adamawa State Medium Term Fiscal Framework

Macro-Economic Framework			
Item	2022	2023	2024
National Inflation	13.50%	12.75%	12.00%
National Real GDP Growth	2.30%	2.30%	2.50%
Oil Production Benchmark (MBPD)	1.8000	1.9500	2.1000
Oil Price Benchmark	\$57.00	\$57.00	\$57.00
NGN:USD Exchange Rate	410.15	410.15	410.15
Other Assumptions			
Mineral Ratio	31%	31%	31%
Fiscal Framework			
Item	2022	2023	2024
Recurrent Revenue			
Statutory Allocation	48,980,338,485	42,905,267,905	42,905,267,905
VAT	18,818,641,535	18,818,641,535	18,818,641,535
IGR	11,518,784,000	11,518,784,000	11,518,784,000
Excess Crude / Other Revenue	1,500,000,000	1,500,000,000	1,500,000,000
Total Recurrent Revenue	80,817,764,020	74,742,693,440	74,742,693,440
Recurrent Expenditure			
Personnel Costs	37,828,118,000	41,131,171,024	44,872,335,678
Social Contribution and Social Benefit	9,787,165,465	17,630,004,598	20,003,825,515
Overheads	31,447,250,024	40,178,638,315	44,629,804,358
Grants, Contributions and Subsidies	225,461,013	236,734,064	248,570,767
Public Debt Service	19,567,248,538	19,567,248,538	19,567,248,538
Total	98,855,243,040	118,743,796,539	129,321,783,856
Transfer to Capital Account	9,986,677,878	14,338,370,245	22,216,726,409
Capital Receipts			
Grants (Internal and External)	58,497,146,020	55,820,000,000	55,820,000,000
Other Capital Receipts	0	0	0
Total	58,497,146,020	55,820,000,000	55,820,000,000
Reserves			
Contingency Reserve	0	0	0
Planning Reserve	3,280,736,540	2,807,066,291	3,060,721,599
Total Reserves	3,280,736,540	2,807,066,291	3,060,721,599
Capital Expenditure			
Discretionary Funds	45,934,941,338	46,187,753,955	51,252,204,810
Non-Discretionary Funds	15,558,989,122	7,146,505,566	23,914,515,624
Financing (Bonds and Loans)	39,355,000,000	32,875,250,000	33,550,000,000
Total Budget Size (Revenue)	163,629,910,040	200,072,202,669	207,599,226,889
Total Budget Size (Expenditure)	163,629,910,040	200,072,202,669	207,599,226,889

Table 10: Growth Ratio

Ratios			
Growth in Recurrent Revenue	21.23%	10.43%	9.21%
Growth in Recurrent Expenditure	10.94%	6.14%	1.20%
Capital Expenditure Ratio	45.98%	40.70%	42.51%
Deficit (Financing) to Total Expenditure	27.58%	23.83%	23.30%
Deficit (Financing) to GDP Ratio	NA	NA	NA

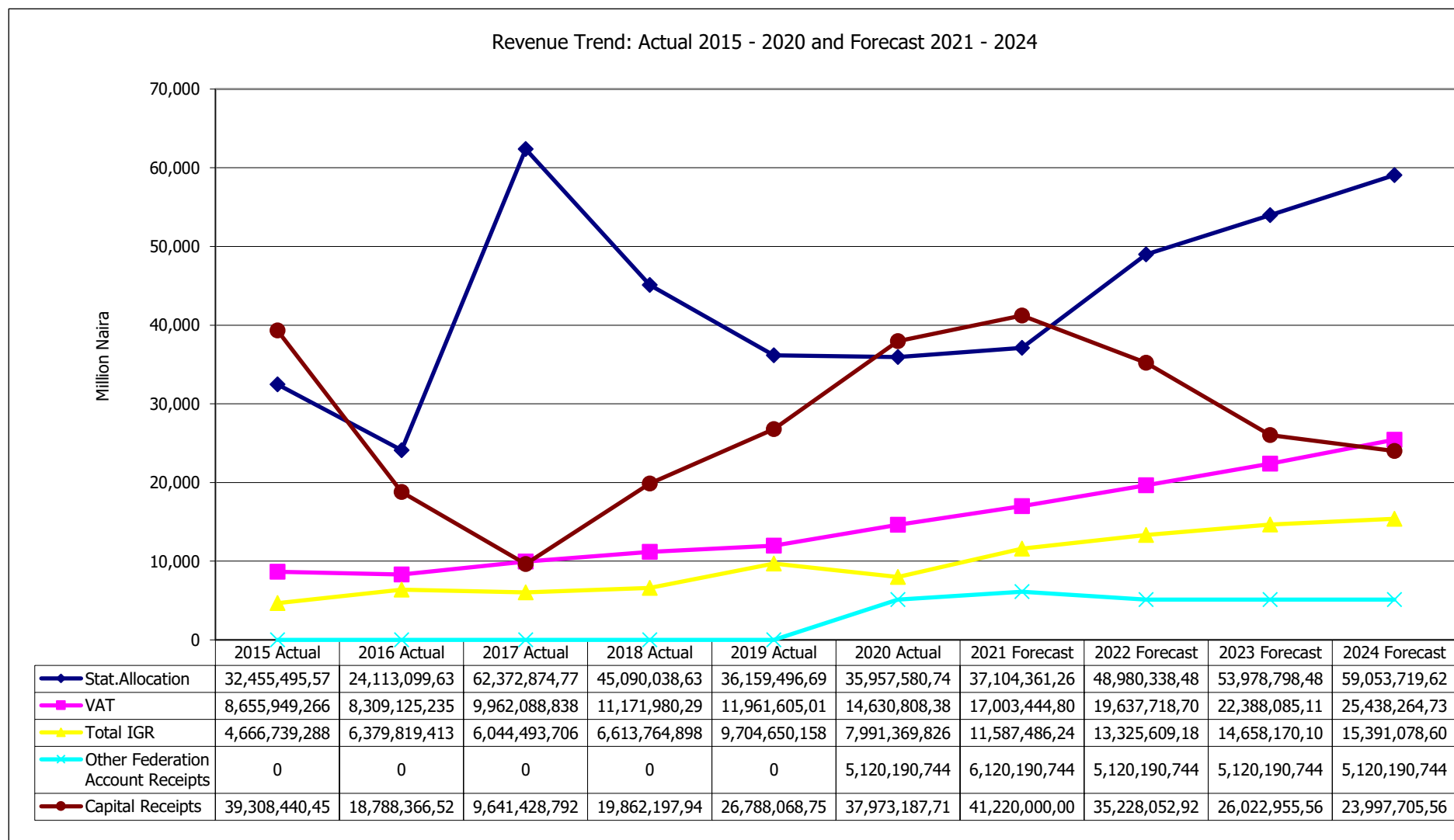
3.C.1 Assumptions

122. **Statutory Allocation** – the estimation for statutory allocation is based on an elasticity forecast taking into consideration the macro-economic framework (National) and the mineral assumptions in the 2019-2021 Federal Fiscal Strategy Paper as explained in paragraph 119 above.
123. **VAT** – is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2022-20214 is in line with the current rate of collections (i.e., 7.5%).
124. **Other Federation Account Distributions** – the estimation is based on the current receipt (i.e. from January to May 2021).
125. **Internally Generated Revenue (IGR)** – It is anticipated that with the improvement in economic activities in 2021 the decline in IGR recorded in 2020 due to the impact of COVID-19 will be reversed. IGR grew by 46% in 2019 and declined by -17% in 2020. The measures introduced by the current administration coupled with improvement in economic activities the projects is that IGR will grow by 45% in 2021 (almost at the level of 2019 growth) and grow on year by year by 15% in 2022, 10% in 2023 and 5% in 2024). Own percentage using the anticipated growth rates were used to forecast IGR for 2022, 2023 and 2024.
126. **Grants** – internal grants are largely from UBEC, TETFund, and SFTAS and these are included across the period 2022-2024. It is important that the relevant institutions in Adamawa State Government will put in place the necessary requirements to draw down UBEC and TETFund while Ministry of Finance will continue to attain SFTAS Eligibility Criteria and Disbursement Linked Indicators.

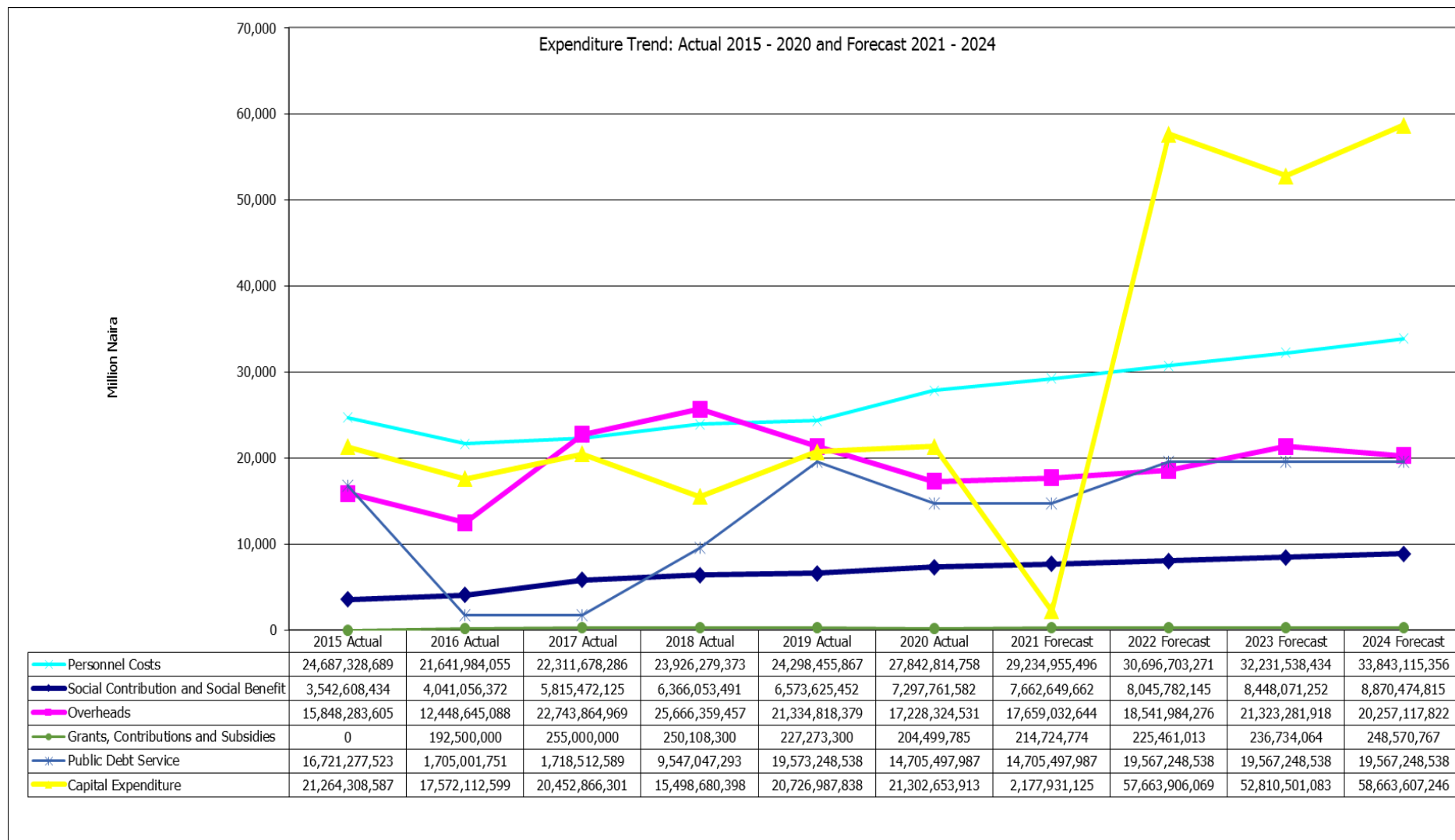
127. **Financing (Net Loans)** – External loans are projected based on signed agreement. Adamawa State has commenced the process of raising N25 billion from Capital Market (bond) in 2022, N25 billion in 2023 and N25 billion in 2024.
128. **Personnel** – It is anticipated that the personnel costs will remain at the current level but will increase marginally due to promotion and annual notch increment. Own percentage of 5% is used to forecast personnel costs for 2022, 2023 and 2024.
129. **Social Contribution and Social Benefits** – It is anticipated that the pension and gratuity payment will remain at the current level but will increase marginally due to new retirees that will increase pension and gratuity payment. Own percentage of 5% is used to forecast Social Contribution and Social Benefit for 2022, 2023 and 2024.
130. **Overheads** – Overhead has been unstable over the last five years (increasing steadily to N25 billion in 2017 and declining in 2019 and 2020 to N17 billion). It is anticipated that Overhead will stabilise in 2021 and 2022 and increase in 2023. Own percentage of 5% is used for 2022, 15% for 2023 and -5% for 2024.
131. **Grants, Contributions, Subsidies and Transfers** – It is anticipated that Grants, Contribution will grow at 5% over the period. Therefore, own percentage of 5% is used to forecast this expenditure class for 2022, 2023 and 2024.
132. **Public Debt Service** - is based on the projected principal and interest repayment for 2020, 2021 and 2022.
133. **Capital Expenditure** – is based on the balance from the recurrent account plus capital receipts.

3.C.2 Fiscal Trends

134. Based on the above envelope, plus actual figures for 2015-2020 (using the same basis for forecasting as noted in the sub-sections within section 3.B), the trend from historical actual to forecast can be seen for revenue and then expenditure in the line graphs below.

Figure 23: Adamawa State Revenue Trend

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

Figure 24: Adamawa State Expenditure Trend

Source: 2016-2020 Adamawa State Report of the Accountant General and 2016-2021 Approved Budget

3.D Local Government Forecasts

135. Based on the Macroeconomic assumptions in section 3.A, the forecasting techniques noted in section 3.B and the vertical and horizontal sharing ratios from May 2021 – April 2022, the Federation Account revenues have been forecasted for the 21 Local Governments (LGs) of Adamawa State.

136. Forecasts for 2022 for the 21 Local Governments are provided in table below.

Table 11: Local Government Revenue Forecasts for 2022

LGAs	2022			
	Statutory Allocation	VAT	Other Federation Account	Total Transfer
DEMSA	1,860,029,503	686,745,744	223,493,521	2,770,268,769
FUFORE	2,272,300,186	723,990,308	273,030,277	3,269,320,771
GANYE	1,934,864,259	664,478,355	232,485,359	2,831,827,973
GIREI	1,694,001,538	617,513,505	203,544,282	2,515,059,324
GOMBI	1,676,275,225	640,152,844	201,414,361	2,517,842,430
GUYUK	1,792,179,769	683,348,603	215,340,975	2,690,869,347
HONG	1,952,113,462	671,420,038	234,557,953	2,858,091,453
JADA	2,042,073,525	670,520,471	245,367,185	2,957,961,181
YOLA-NORTH	1,775,481,328	711,536,881	213,334,559	2,700,352,768
LAMURDE	1,589,710,037	593,829,952	191,013,042	2,374,553,031
MADAGALI	1,615,500,856	624,170,027	194,111,961	2,433,782,844
MAIHA	1,581,679,338	591,642,336	190,048,106	2,363,369,781
MAYO-BELWA	1,833,991,197	649,382,707	220,364,865	2,703,738,769
MICHIKA	1,777,945,850	652,376,213	213,630,686	2,643,952,750
MUBI NORTH	1,696,588,131	646,549,001	203,855,076	2,546,992,208
MUBI SOUTH	1,580,583,879	616,056,013	189,916,481	2,386,556,372
NUMAN	1,502,118,976	563,412,731	180,488,459	2,246,020,167
SHELLENG	1,701,653,511	643,789,685	204,463,711	2,549,906,908
SONG	2,141,901,747	703,891,248	257,362,135	3,103,155,130
TOUNGO	1,835,140,426	510,123,359	220,502,952	2,565,766,737
YOLA-SOUTH	1,778,389,527	706,522,448	213,683,996	2,698,595,971
Total	37,634,522,269	13,571,452,469	4,522,009,944	55,727,984,681

3.E Fiscal Risks

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

Table 12: Fiscal Risks

Risk	Likelihood	Impact	Reaction
Militancy/Pipeline vandalism that could lead to reduction in daily oil production	Medium	High	Dependence on Statutory allocation and Mineral derivation is crucial to the budget, however, clear prioritisation of projects in the capital budget is required. Increased IGR effort to decrease reliance on federal transfers and seeking alternative means of funding (grants, PPP etc.)
Security situation countrywide could affect economic activity and oil production, resulting in risk to VAT and Statutory Allocation	Medium	High	The estimates for VAT and statutory allocation are not overly ambitious. In addition, clear prioritisation of projects in the capital budget is required. Increased IGR effort to decrease reliance on federal transfers and seeking alternative means of funding (grants, PPP etc.)
Risks associated with debt financing	Low	Medium	Use of external borrowing to finance budget deficit
Mismanagement and inefficient use of financial resources	Medium	High	Adherence to existing and new institutional and legal/regulatory framework that will require more transparent and efficient use of financial resources.
Floods, herdsmen/ farmers crises and other natural disasters impact on economic activity and hence IGR tax base, causing increased overhead expenditure	Medium	Medium	Increased investment to increase climate resilience (flood control and irrigation), improved security situation, adaptation, and awareness
Risks associated with debt financing	Low	Medium	Use of external borrowing to finance budget deficit
Mismanagement and inefficient use of financial resources	Medium	High	Adherence to existing and new institutional and legal/regulatory framework that will require more transparent and efficient use of financial resources.

138. It should be noted however that no budget is without risk. The ongoing implementation of the 2021 budget should be closely monitored, as should the security situation and impact of the fiscal and economic outlook.

4 Budget Policy Statement

4.A Budget Policy Thrust

139. The overall policy objectives are captured by the following points:

- Reduced over-dependence on Federal transfers through improved independent revenue generation achievable via a technological-driven and autonomous Board of Internal Revenue;
- Continuous improvement in access to - and quality of - public services, these include Agriculture, Environmental and Infrastructural Development, Education, Water and Health Care Delivery Systems at all levels. Inherent in this is the resolve of government to promote gender equality and inclusive development;
- Pursuit of initiatives that would continue to generate economic growth and guarantee security. This would involve implementation of programmes that generate employment and create wealth and ensure adequate security.
- Another major priority area is to broaden governance reforms particularly in the area of policy and strategy; public expenditure and financial management; and public service management. As part of this process, Government has started developing the Adamawa State Medium-Term Development Plan and Medium-Term Sector Strategy for the key sectors.

4.B Sector Allocations

140. The total forecast budget size for the 2022 fiscal year is **N163,629,910,040** of which the sum of **N98,855,243,040 (60.0%)** will be for recurrent expenditure (i.e. Personnel, Social Contribution and Social Benefits, Overhead, and Public Debt Charge,), **N64,774,667,000 (40.0%)** will be for capital expenditure out of which **N 3,280,736,540** will be for planning reserve that will be allocated to sectors at bilateral discussion stage to fund critical expenditure items not envisaged at the stage of issuing budget call circular.

141. The capital expenditure component is in two parts, the discretionary capital expenditure of sum of **N45,934,941,337** (including planning reserve) that will be spent across all MDAs and non-discretionary capital expenditure of **N16,399,052,920** which is specifically earmarked for projects and programmes in Health, Education, Infrastructural Development, and Agriculture. The non-discretionary amount is in the form of loans and grants. *(Table:9. Page 42 & Table 16. Page 53)*

142. Presented in the table below are the indicative three-year (2022-2024) capital expenditure and overhead envelopes for sectors. The basis for the envelopes is as follows:

- Non-Discretionary capital expenditure is allocated automatically to the relevant sectors.
- Discretionary capital expenditure is allocated using the average trend from 2017-2021 budget, and 2017-2020 actuals.
- These are combined to give the total sector envelopes.
- Overhead expenditure is allocated using the average trend from 2017-2021 budget, and 2017-2020 actuals.

Table 13: Summary Indicative Recurrent Expenditure 2022-2024

S/N	EXPENDITURE CLASIFICATION	2022 =N=	2023	2024
1	Personnel Costs	37,828,118,000	41,131,171,024	44,872,335,678
2	Social Contribution and Social Benefit	9,787,165,465	17,630,004,598	20,003,825,515
3	Overheads	31,447,250,024	40,178,638,315	44,629,804,358
4	Grants, Contributions and Subsidies	225,461,013	236,734,064	248,570,767
5	Public Debt Service	19,567,248,538	19,567,248,538	19,567,248,538
	TOTAL	98,855,243,040	118,743,796,539	129,321,783,856

Table 14: Indicative sector Expenditure ceiling 2022-2024(Personnel)

Personnel Expenditure by Sector							
No.	Sector	% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation
1	Administrative Sector	13.83%	5,231,628,719	13.83%	5,688,440,953	13.83%	6,205,844,024
2	Economic Sector	13.49%	5,103,013,118	13.49%	5,548,594,971	13.49%	6,053,278,083
3	Law & Justice Sector	9.16%	3,465,055,609	9.16%	3,767,615,266	9.16%	4,110,305,948
4	Regional Sector	0.04%	15,131,247	0.04%	16,452,468	0.04%	17,948,934
5	Social Sector	63.48%	24,013,289,306	63.48%	26,110,067,366	63.48%	28,484,958,688
	Total	100.00%	37,828,118,000	100.00%	41,131,171,024	100.00%	44,872,335,678

Table 15: Indicative Sector Expenditure Ceilings 2022-2024 (Overhead)

Overhead Expenditure by Sector							
No.	Sector	% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation
1	Administrative Sector	53.20%	15,736,493,509	53.20%	19,914,881,190	53.20%	21,184,051,044
2	Economic Sector	38.39%	11,355,714,019	38.39%	14,370,907,686	38.39%	15,286,761,646
3	Law & Justice Sector	1.72%	508,773,850	1.72%	643,864,580	1.72%	684,897,891
4	Regional Sector	0.10%	29,579,875	0.10%	37,433,987	0.10%	39,819,645
5	Social Sector	6.59%	1,949,313,764	6.59%	2,466,899,756	6.59%	2,624,114,594
	Total	100.00%	29,579,875,016	100.00%	37,433,987,200	100.00%	39,819,644,820

Table 16: Indicative Sector Expenditure Ceilings 2022-2024 (Capital Discretionary Funds)

S/N o	Sector	Discretionary Funds					Non-Discretionary Funds			
		% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation	2022 Allocation	2023 Allocation	2024 Allocation
1	Administrative Sector	4.15%	1,904,833,588	4.15%	1,915,317,240	4.15%	2,125,330,268	0	0	0
2	Economic Sector	60.46%	27,772,945,313	60.46%	27,925,799,563	60.46%	30,987,841,498	11,183,000,000	1,779,650,000	1,534,650,000
3	Law & Justice Sector	0.40%	185,205,214	0.40%	186,224,529	0.40%	206,643,902	0	0	0
4	Regional Sector	0.64%	294,547,772	0.64%	296,168,877	0.64%	328,643,561	0	0	0
5	Social Sector	34.35%	15,777,409,451	34.35%	15,864,243,745	34.35%	17,603,745,581	5,216,052,920	5,366,855,566	5,366,855,566
	Total	100%	45,934,941,337	100%	46,187,753,955	100%	51,252,204,810	16,399,052,920	7,146,505,566	6,901,505,566

Table 17: Indicative Sector Expenditure Ceilings 2022-2024 (Total Capital Envelope)

Capital Expenditure by Sector				Total Capital Envelope			
No.	Sector	% 2022	2022 Allocation	% 2023	2023 Allocation	% 2024	2024 Allocation
1	Administrative Sector	13.2%	8,546,970,006	10.8%	8,181,310,603	12.2%	8,731,791,072
2	Economic Sector	55.1%	35,716,988,000	56.3%	42,572,356,690	46.5%	33,282,453,135
3	Law & Justice Sector	2.8%	1,797,029,993	0.7%	507,025,927	0.8%	607,025,927
4	Regional Sector	1.6%	1,050,000,000	0.4%	320,000,000	0.5%	341,500,000
5	Social Sector	27.3%	17,663,679,000	31.7%	23,992,457,924	40%	28,539,541,877
	Total	100.00%	64,774,667,000	100.00%	75,573,151,146	100.00%	71,502,312,013

Table 18 SHARING SUGGESTED 2022 BUDGET ENVELOP AS INTERPRETED IN THE STATE HOUSE OF ASSEMBLY LAW

	RATIO	PERSONNEL	RATIO	OVERHEAD	RATIO	CAPITAL (including planning reserve)
REVENUE		37,828,118,000		31,447,250,024		64,774,667,000
EXECUTIVE	89.83	33,980,998,399	93.84	29,510,099,423	92.99	60,904,667,000
LEGISLATIVE	3.00	1,134,843,540	5.38	1,691,862,051	3.89	2,222,970,007
JUDICIARY	7.17	2,712,276,061	0.78	245,288,550	3.12	1,647,029,993

NOTE: Under Recurrent components, only Overhead and Personnel are affected by the sharing while

- i. Social contribution and social benefits: these components comprise of pensions, gratuity etc. and so retained under executive arm
- ii. Grants and Loans (internal and external loans): these are sources of funds advanced specifically for financing capital projects
- iii. Public debt service: these are repayment of loans and servicing of other debts by the State Government.

4.C Considerations for the Annual Budget Process

143. The budget call circular should include the following instructions to MDAs for the annual budget submissions:

- With a relatively small Capital Development Fund, priority must be given to completing ongoing projects;
- Budget submissions for capital projects must include full life-time capital investment requirements (costs) and also sources of funding (particularly if grants and/or loans are being used to partially / fully fund the project);

5 Summary of Key Points and Recommendations

144. We summarise below a list of the key points arising in this document:

- a. The State should sustain the current Budget reform programme particularly as it relates to the preparation of a realistic budget, ensuring policy-plan-budget linkages, and early passage of the budget.
- b. The State needs to prepare detailed debt sustainability analysis to better understand the nature, complexity and monitor sustainability of its debt.
- c. The State should continue to monitor performance of mineral based revenues to ensure estimates are consistent with the latest development globally and within the Federal Government's budget process.

APPENDIX I

CAPITAL RECEIPTS				
Items	2021	2022	2023	2024
Internal Grants				
Grants from Federal Ministry of Finance	500,000,000	0	0	0
FAO	10,000,000	11,000,000	11,550,000	11,550,000
Matching Grants on State UBE Programme	500,000,000	550,000,000	577,500,000	577,500,000
State Fiscal Transparency, Accountability and Sustainability (SFTAS)	3,500,000,000	6,100,000,000	2,700,000,000	0
Receipts from Federal Government	2,500,000,000	0	0	0
General Refunds from Federal Government	2,500,000,000	0	0	0
North East Recovery and Stability Program (NERSP)	20,000,000	22,000,000	23,100,000	23,100,000
Better Education Service Delivery for All (BESDA)	500,000,000	550,000,000	577,500,000	577,500,000
Safe School Initiative (SSI)	20,000,000	22,000,000	23,100,000	23,100,000
Basic Healthcare Provision Funds (Federal)	500,000,000	550,000,000	577,500,000	577,500,000
Basic Healthcare Provision Funds (State)	250,000,000	275,000,000	288,750,000	288,750,000
State Agric Development Programme (CARES Funds	1,800,000,000	1,980,000,000	0	0
TET FUND	422,000,000	464,200,000	487,410,000	487,410,000
Sub-Total Internal Grant	13,022,000,000	10,524,200,000	5,266,410,000	2,566,410,000

APPENDIX II

External Grants				
States MSME Program (CARES Funds) Poverty Alleviation	2,900,000,000	0	0	0
Adamawa State Immunization Plus Malaria Progress by Accelerated Coverage and Transforming Services Project (IMPACT)	1,000,000,000	300,000,000	250,000,000	250,000,000
Global Partnership For Education	950,000,000	1,045,000,000	1,097,250,000	1,097,250,000
World Bank Project-Fiscal Responsibility Commission	20,000,000	22,000,000	23,100,000	23,100,000
Partnerships to Engage Reform and Learn (PERL) Accountable, Responsive & Capable Government	10,000,000	11,000,000	11,550,000	11,550,000
North - East Development Commission	20,000,000	22,000,000	23,100,000	23,100,000
BUA Foundation	10,000,000	11,000,000	11,550,000	11,550,000
State Social Safety Net Intervention (CARES Funds)	2,900,000,000	2,500,000,000	0	0
Soc. Invest. Program Grants for Conditional Cash Transfer	1,200,000,000	0	0	0
Social Investment Program - Market Money Loan	678,000,000	0	0	0
UNICEF -Ministry of Education	5,000,000	5,500,000	5,775,000	5,775,000
FMOH - Saving One Million Lives Program for Results-SOML P&R	2,501,042,800	500,000,000	500,000,000	500,000,000
EU-UNICEF	6,957,200	7,652,920	8,035,566	8,035,566
Family Health International (FHI)	70,000,000	77,000,000	80,850,000	80,850,000
World Bank - Malaria Control	100,000,000	110,000,000	115,500,000	115,500,000
WHO,ARFH-Tuberculosis and Leprosy Control	7,000,000	7,700,000	8,085,000	8,085,000
TIB - Hospital Equipment	120,000,000	132,000,000	138,600,000	138,600,000
EU-UNICEF- Safe Motherhood Free treatment to Women & Child	50,000,000	55,000,000	57,750,000	57,750,000
WHO - Out Reach Service	50,000,000	55,000,000	57,750,000	57,750,000
UNFPA - Sexual and Reproductive Health	30,000,000	33,000,000	34,650,000	34,650,000
GLOBALFUND - Malaria Control	50,000,000	55,000,000	57,750,000	57,750,000
Grants from EU- UNICEF	2,600,000,000	200,000,000	200,000,000	200,000,000
Control of HIV & AIDS - World Bank	1,870,000,000	200,000,000	200,000,000	200,000,000
Sub-Total External Grant	17,148,000,000	5,348,852,920	2,881,295,566	2,881,295,566
Total Grants	30,170,000,000	15,873,052,920	8,147,705,566	5,447,705,566

APPENDIX III

Financing (Loans and Bonds)				
Internal Loans				
Commercial Bank Loans/Restructured Loans	5,500,000,000	6,050,000,000	6,352,500,000	7,000,000,000
BONDS		25,000,000,000	25,000,000,000	25,000,000,000
2000 Housing Units in Adamawa State	4,500,000,000	4,950,000,000	0	0
Sub-Total Internal Loans	10,000,000,000	36,000,000,000	31,352,500,000	32,000,000,000
External Loans				
External Loans -PFMU	50,000,000	55,000,000	57,750,000	50,000,000
Rural Access Mobility Project (RAMP)	1,000,000,000	3,300,000,000	1,465,000,000	1,500,000,000
Sub-Total External Loans	1,050,000,000	3,355,000,000	1,522,750,000	1,550,000,000
Total Loans	11,050,000,000	39,355,000,000	32,875,250,000	33,550,000,000