NIGERIA GOVERNORS' FORUM

AN ASSESSMENT OF THE

FISCAL SUSTAINABILITY OF STATES

April 2017

Published in Nigeria by Nigeria Governors' Forum Publishing

The Secretariat
49/51, Lake Chad Crescent
Maitama, Abuja
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www.ngf.org

To cite this publication: NGF (2017). An Assessment of the Fiscal Sustainability of States. Nigeria Governors' Forum, Abuja

ISBN: 978-978-56975-2-0

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Abbreviations and Acronyms

BIR	Board of Internal Revenue
BVN	Bank Verification Number
CBN	Central Bank of Nigeria
CDF	Capital Development Fund
CDSA	Consolidated Debt Service Account
CRFA	Consolidated Revenue Fund Account
DMO	Debt Management Office
DRI	Debt Relief International
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ERGP	Economic Recovery and Growth Plan
FAAC	Federation Accounts Allocation Committee
FEC	Federal Executive Council
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
FRSC	Federal Road Safety Commission
FSP	Fiscal Sustainability Plan
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial Management Information System
GPFP	General Purpose Financial Principles
ICRC	Infrastructure Concession Regulatory Commission
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management Information System
IGR	Internally Generated Revenue
IPPIS	Integrated Payroll and Personnel Information
IPSAS	International Public Sector Accounting Standards
IRS	Internal Revenue Service
ISA	Investment and Securities Act
ISPO	Irrevocable Standing Payment Order
JTB	Joint Tax Board
MDAs	Ministries, Departments and Agencies
NCoA	National Chart of Accounts
NGF	Nigeria Governors' Forum
OGP	Open Government Partnership
PFM	Public Financial Management
PPA	Public Procurement Act
PPP	Public Private Partnership
PSEs	Public Sector Entities
SEC	Securities and Exchange Commission
SHoA	State House of Assembly
SIRS	State Internal Revenue Service

SPARC	State Partnership for Accountability Responsiveness and Capability
TIN	Tax Identification Number
TSA	Treasury Single Account
UNU-WIDER	United Nations University World Institute for Development Economics Research
VAT	Value Added Tax
WHT	Withholding Tax

Preface and Acknowledgements

This report has four broad objectives. Firstly, it assesses the fiscal sustainability of States within the context of the Fiscal Sustainability Plan (FSP). Secondly, it examines the extent to which States have responded to the plan; thirdly, it identifies State-specific challenges in fiscal management; and lastly, it intends to facilitate synergy between the federal government and States around a pool of strategic interventions required to strengthen fiscal consolidation in the country. The report is based on desk research and self-assessment questionnaires disseminated to the 36 States.

The cut-off date for all data reported in this study was April 2017. The report is intended for all State officials (particularly the Ministries of Finance and Budget and Planning) and the network of professionals engaged in fiscal management in Nigeria.

This report was developed by the Nigeria Governors' Forum Secretariat led by David Nabena (Senior Economist), with support from the Learning, Evidencing and Advocacy (LEAP) pillar of the Partnership to Engage, Reform and Learn (PERL) - a Department for International Development (DFID)-funded programme. Valuable contributions were provided by Abdullahi Haruna (Public Financial Management Specialist) and Uzochukwu Alutu (Economist). The report also benefited from the valuable research assistance of Timilehin Ogunbekun (Researcher) and incisive comments from Olanrewaju Ajogbasile (HelpDesk Programme Manager).

The study was conducted under the overall supervision of Asishana Bayo Okauru, Director General of the Nigeria Governors' Forum Secretariat.

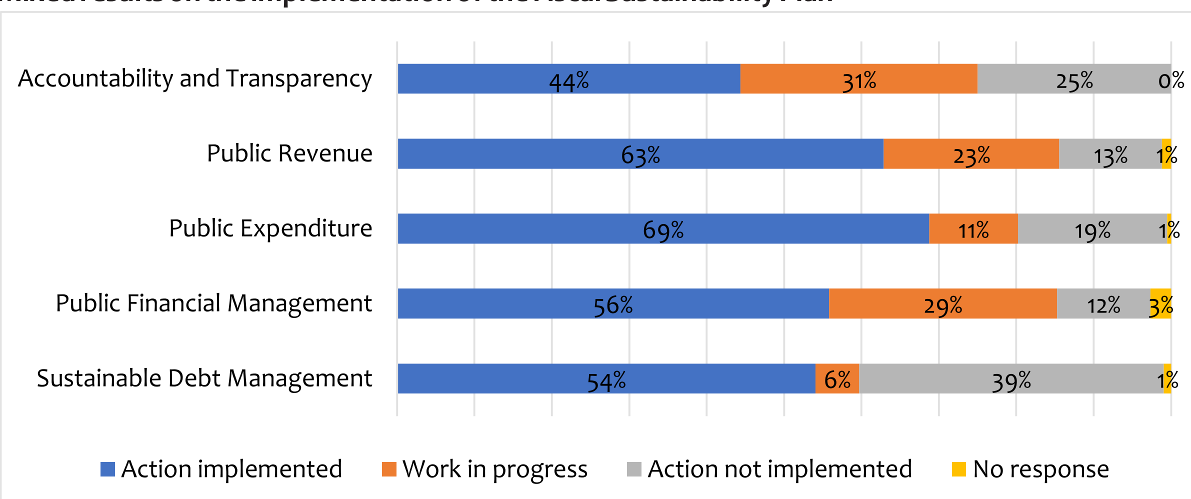
Executive Summary

In 2016, Nigeria's growth slowed sharply to -1.6 percent – the lowest in the last two decades. The country had transitioned from the status of one of the fastest growing economies in the world into recession. The mid-2014 oil bust affected governments' revenue negatively and caused ripple effects, including widening fiscal deficits, eroding currencies, and looming debt risks. Although the oil sector accounts for less than 10 percent of the country's GDP, it plays a central role in the economy, accounting for over 90 percent of exports and 70 percent of government revenues.

The momentum of the fiscal crisis has not only been attributed to the usual suspects for a resource-dependent country like Nigeria, but a delay in policy response which heightened revenue losses, rising budget deficits and government borrowing. Given the context, policy adjustments are required to address both fiscal and macroeconomic imbalances at the national and sub-national level.

This report examines the response of State governments to the fiscal crisis within the context of the 22-point Fiscal Sustainability Plan (FSP) designed by the federal government to address fiscal responsibility at the sub-national level. It is based on questionnaire responses from 32 States[1] of the Federation and desk research using available secondary data.

Mixed results on the implementation of the Fiscal Sustainability Plan



Source: FSP questionnaire responses from 32 States

i. Implementation of the FSP across its five objectives has been modest, based on States' self-assessments. On average, the implementation rate of actions fully completed was 44 percent for accountability and transparency actions; 63 percent for actions targeted at increasing public revenue; 69 percent for reforms aimed at reducing public expenditure; 56 percent for public financial management reforms; and 54 percent for sustainable debt management reforms.

[1] *Abia, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Ondo, Osun, Oyo, Plateau, Rivers, Sokoto, Taraba, Yobe, Zamfara.*

ii. On average, States have implemented 15 out of the 22 actions of the FSP, with significant implementation challenges recorded for IPSAS implementation, publication of audited financial statements, establishment of a fixed asset register and a consolidated debt service account, and the issuance of value added tax (VAT) and withholding tax (WHT) certificates. Results also showed that most States have not received an online price guide on reference unit costs from the federal government, as well as guidelines for loans and municipal bonds.

iii. Results showed that State governments prioritised reforms targeted at cutting public expenditure and raising revenues, with both objectives recording the highest levels of actions completed – at 69 percent and 63 percent respectively. Measures aimed at improving accountability and transparency recorded the lowest level of implementation at 44 percent, although ongoing reforms reached 31 percent – the highest across the five objectives.

iv. In a bid to rationalise public expenditure, 29 States reported that they have carried out a biometric exercise to eliminate payroll fraud; 28 States reported to setting limits on personnel expenditure; 31 States maintain systems of continuous internal audit; while 16 States have established efficiency units.

v. The fifth objective targeted at achieving sustainable debt management recorded the highest number of actions not implemented, reaching 39 percent of the total number of actions recommended to achieve the objective. 15 States had not established a debt service consolidated account or a sinking fund to secure debt obligations. 29 States reported that they had not received a benchmark rate for loans, while 24 States had not received guidelines for municipal bonds.

Main Findings

i. **There is a consensus on the importance of the fiscal sustainability plan.** State governments agree that the fiscal reform agenda is legitimate, and they are keen on addressing inherent challenges affecting fiscal governance at the sub-national level.

ii. **The fiscal sustainability reform agenda is taking shape.** Notwithstanding the varied level of reform implementation across States, the FSP has been largely applied to strengthen public financial management systems and institutions at the sub-national level.

iii. **Implementing certain actions of the FSP require substantial funding.** The poor level of implementation of reforms such as International Public Sector Accounting Standards (IPSAS) compliance, Treasury Single Account (TSA), and the creation of a fixed asset register was attributed to the high cost of procuring and maintaining financial management systems.

iv. **More mileage can be gained by bridging resource and capacity gaps.** Most States reported that there is an absence of complementary technical or financial support in implementing the FSP. Although considerable progress has been made, the current period of low federation revenues has continued to weaken the ability of State governments to bridge funding and capacity gaps.

v. **High political commitment and engagement has been the most important factor that has led to recorded successes in States.** Political support is essential and has been highlighted by State officials as the key factor that can guarantee the provision of funding, institutional strengthening and inter-agency cooperation.

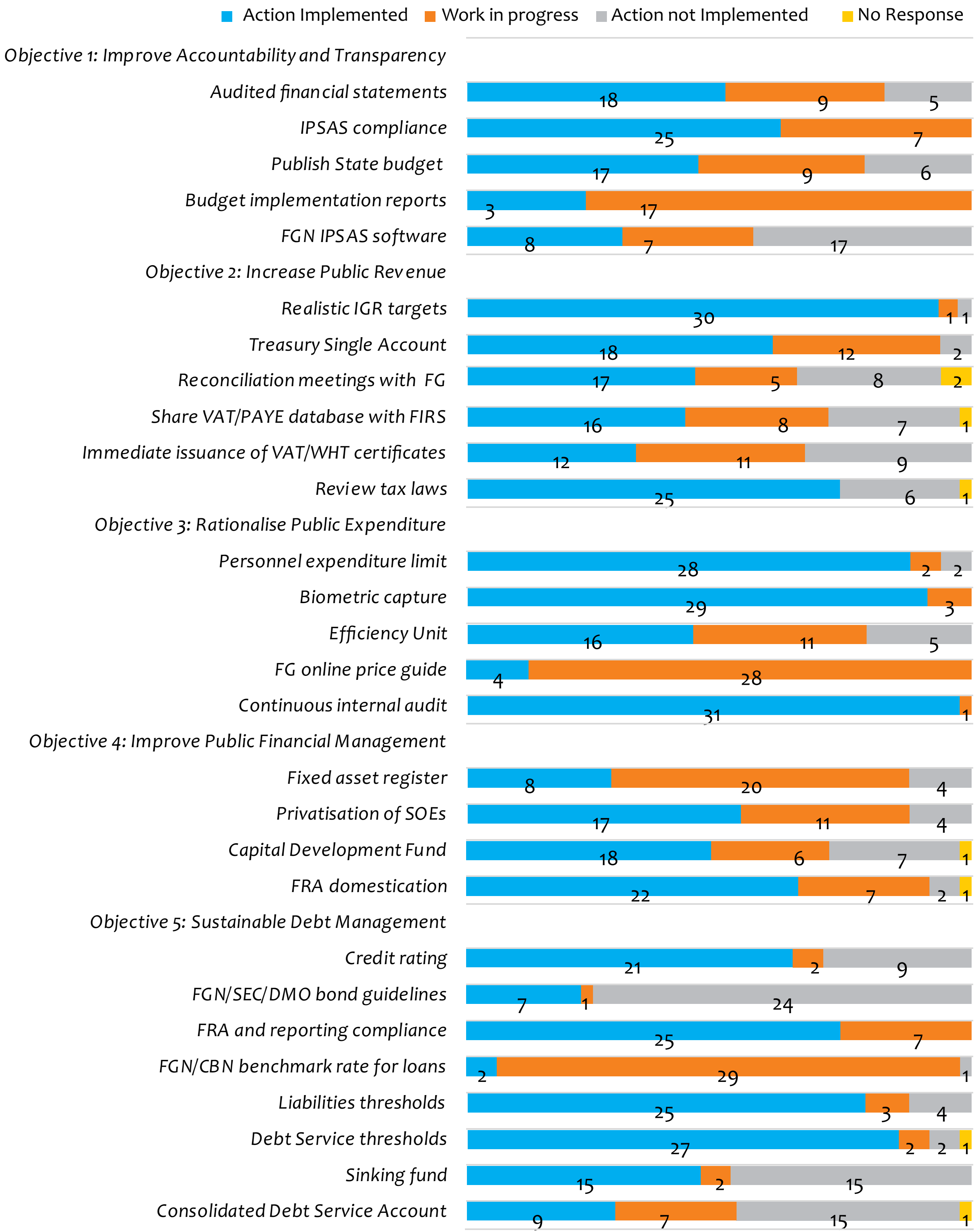
vi. **State governments have experienced lags in the implementation of the FSP.** For most States, implementation lags were recorded as a result of factors such as lack of credible data for problem identification and baseline tracking, fall in federation receipts, weak institutional capacity, and poor linkages across government ministries, department and agencies (including State Houses of Assembly as it relates to the review and passage of relevant laws and its oversight functions).

vii. **Gradual and sustained policy adjustments are required to implement certain actions of the FSP.** Reforms targeted at rationalising public expenditure require broader public service reforms which will lead to a more unified, efficient, responsive and accountable civil service. Series of activities are also required to facilitate the domestication of relevant laws such as the Fiscal Responsibility Act (FRA), Public Procurement Act (PPA) and the Public Private Partnership (PPP) framework.

viii. **Strong intergovernmental relations is an overarching framework for strengthening fiscal reforms.** To engender a supportive environment for information sharing and peer learning, effective engagement between the federal government and States, as well as collaboration among State governments is an important consideration to address implementation lags. So far, reforms have been characteristically unstable and isolated.

ix. **Weaknesses/strengths in the implementation of the FSP reflect weaknesses /strengths in broader aspects of the fiscal system of States.** Overall, the fiscal performance of States showed marked linkages with the implementation of the 22 actions of the FSP. This relationship is particularly prominent for public revenue actions which recorded high implementation and debt management actions which recorded the lowest level of implementation.

Implementation of the FSP by State governments



Source: FSP questionnaire responses from 32 States

1.0 INTRODUCTION

The fiscal sustainability of States has become a subject of increasing concern for several reasons. First, is the slide in revenue in recent times which has contracted the fiscal space of governments. Secondly, the rising fiscal deficits of States with mounting domestic debts consisting of salary and pension arrears and other liabilities. Thirdly, the absence of policies to manage revenue volatility and achieve fiscal independence. These concerns have implications on how governments can stimulate pro-poor growth and sustainable economic development.

Nigeria's recent fiscal shock which saw the economy slide into recession in 2016 has largely been attributed to the country's petro-dollar dependence and its atypical nature of diversification[2]. The oil bust which began since June 2014, coupled with internal insecurity challenges in the Niger Delta region and the North East, resulted in a steep turnaround for one of the world's fastest growing economies. Revenues to the government plummeted as production decreased from an average of 2.3 million barrels per day (mbpd) in January 2014 to 1.6 mbpd by August 2016. Dependence on large revenue windfalls recorded during boom periods has destabilized government budgets and economic activities in the country. The trend has also created macroeconomic imbalances and eroded the capacity of the country's Central Bank to stabilise the Naira[3], amidst rising inflation, deficits in fiscal accounts, and dependence on a single commodity for foreign exchange earnings (table 1.1). External reserves which had risen from US$32.3 billion in 2011 to US$54.3 billion in 2012, fell steadily to US$29 billion by February 2017.

Table 1.1: Selected economic indicators, Nigeria, 2010 – 16

Description	2010	2011	2012	2013	2014	2015	2016
Real GDP Growth Rate (%)	5.3	5.1	4.2	5.5	6.2	2.8	(1.6)
CPI Inflation (end-period) (%)	13.9	11.8	10.3	12.0	8.0	9.6	18.6
Budget Deficit (% of GDP)	6.1*	3.0	2.9	1.9	1.9	1.1	2.1
External Reserves (US$' billion)	42.4	32.3	54.3	43.8	34.3	28.3	27
End-Period Exchange Rate (US$: NGN)	150.6	158.3	156.1	155.6	168.0	197.0	305
Total Public Debt-to-GDP Ratio (%)	10.8	20.6	22.4	12.7	12.7	13.0	16.3
Benchmark Crude oil price (US$)	57	65.0	72.0	79.0	77.5	53.0	38
Equities Market Capitalization (NGN' trillion)	7.9	6.5	9.0	13.2	11.5	9.7	9.3
Bond Market Capitalization (NGN' trillion)	2.4	3.7	5.8	5.9	5.4	7.1	6.9

Source: MBNP, NBS, CBN, DMO (2017); Note: *data pre-GDP rebasing

[2]The Nigerian economy has been transforming from an agrarian economy into a tertiary service industry without going through the intermediate stage of industrialization as seen in the Asian Tiger economies. The contribution of both agriculture and industry value added (% of GDP) fell from 32 percent to 21 percent and 45 percent to 20 percent respectively between 1990 to 2015, compared to the services sector which more than doubled over the period from 23 percent to 59 percent. See Ajakaiye, Olu, Afeikhena T. Jerome, David Nabena, and Olufunke A. Alaba. (2015). 'Understanding the Relationship between Growth and Employment in Nigeria'. 2015/124. Helsinki: UNU-WIDER; and te Velde, D. W., Booth, D., Leipziger, D., & Uneze, E. (2015). Supporting Ec onomic Transformation in Nigeria. Supporting Economic Transformation Programme, London: ODI.

[3] The Naira fell by over 80 percent from 168 per dollar in 2014 to 307 per dollar in March 2017, amidst foreign exchange scarcity.and an advocacy drive to reduce imports by promoting the production and consumption of made-in- Nigeria goods. The government also took steps to cut its cost of governance by eliminating ghost workers, and established an efficiency unit

In its response, the federal government adopted a number of policy measures aimed at ameliorating the country's macroeconomic and fiscal conditions, including a restrictive monetary policy stance to address inflation and exchange rate pressures; an expansionary fiscal policy to reflate the economy; and an advocacy drive to reduce imports by promoting the production and consumption of made-in-Nigeria goods. The government also took steps to cut its cost of governance by eliminating ghost workers, and established an efficiency unit across ministries, departments and agencies with the aim of driving down procurement costs. Tougher measures were also adopted, such as adopting a treasury single account (TSA) across all government organs and ending subsidy payments – a palliative which was depleting the country's already weak reserves.

In 2016, the federal government developed a Strategic Implementation Plan (SIP) for its 2016 Budget of Change. The SIP highlighted more than 30 short term priority actions to be completed across 6 strategic intervention areas. The Economic Recovery and Growth Plan (ERGP), a medium-term plan for 2017 – 2020 followed in 2017, to restore economic growth hinged on the expected recovery of crude oil production (from 2.2 mdpd in 2017 to 2.5 mbpd by 2020) and growth in non-oil GDP (from 0.20 percent in 2017 to 7 percent by 2020). The new plan emanated as part of measures to strengthen fiscal consolidation in the country, by addressing structural impediments and the procyclical nature of the country's fiscal policy.

This report is intended to contribute to the government's reform process by determining the extent to which current reforms are leading to fiscal sustainability.

1.1 The Fiscal Sustainability Plan

Developed by the Federal Ministry of Finance in May 2016, the FSP highlights five key strategic objectives, followed by 22 recommended actions, with a view to achieving objectives around improved fiscal behaviour and aligning both short and long-term sustainability objectives of the Federal and State governments. The plan is designed to improve accountability and transparency; increase government revenue; rationalize public expenditure; improve overall public financial management; and achieve sustainable debt management at the State level.

The framework was developed as a condition for States to access a federally-guaranteed conditional budget support facility provided to cushion short term liquidity and help State governments meet obligations to workers, pensioners and contractors. The facility which 35 States (excluding Lagos) subscribed to, provides a sum of N14.16 billion per State for one year – available in three (3) tranches of N1.39 billion for three (3) months followed by N1.11 billion for nine (9) months. The terms of the FSP were agreed at the National Economic Council Meeting held on 19th May 2016 (see appendix A).

Disbursement of the budget support facility commenced in June 2016 and was conditional upon an initial financial review and the attainment of targets to be outlined in individually tailored State plans. These plans were expected to be reflective of ongoing reforms and the capacity of State institutions to meet the targets of the FSP.

across ministries, departments and agencies with the aim of driving down procurement costs. Tougher measures were also adopted, such as adopting a treasury single account (TSA) across all government organs and ending subsidy payments – a palliative which was depleting the country's already weak reserves.

1.2 Objective and Scope

This report provides an assessment of the fiscal sustainability of States within the context of the FSP. It is intended to contribute to the set of ongoing reforms aimed at addressing fiscal sustainability issues at the State level. It will examine the extent to which States are performing; identify State-specific challenges in fiscal management; and facilitate synergy between the federal and State governments around a pool of strategic interventions that will strengthen fiscal consolidation at the State level. The report draws upon the following:

a. A self-reported assessment of the implementation of the FSP across the 36 States;
b. Desk research on States' fiscal performance; and
c. Highlights of commendable practices for peer learning.

1.3 Methodology

The report is based on desk research and feedback from self-assessment questionnaires administered to the 36 States. The response rate for the survey was 89 percent, with 32[4] out of 36 States responding to the assessment questionnaire. The study will be supported by subsequent detailed case studies of selected States. It addresses two (2) sets of questions:

i. Is the FSP being implemented? Why or why not? If being implemented, to what extent? What are the patterns and challenges? and;
ii. Is the FSP an effective means of promoting stronger fiscal management and sustainability in States? Do weaknesses or strengths in the FSP implementation reflect weaknesses or strengths in broader aspects of the fiscal system?

The report is divided into six chapters. Chapters two through six provide an analysis of ongoing fiscal reforms at the sub-national level and findings from the questionnaires, covering the five (5) objectives of the FSP – accountability and transparency; public revenue; public expenditure; public financial management and sustainable debt management.

[4] *Abia, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Ondo, Osun, Oyo, Plateau, Rivers, Sokoto, Taraba, Yobe, Zamfara.*

2.0 TRANSPARENCY AND ACCOUNTABILITY

2.1 Background

This section reviews transparency and accountability in government within the context of the level of the disclosure or openness of government budgets, budgeting processes and budget performance. These are important channels through which governments and public office holders and institutions give documentary account of policies, decision making, resource allocation, custody, and the use of public resources. These measures are also aimed at ensuring that governments show a true and fair representation of their budgets and fiscal performance to meet accountability standards. Budget transparency is critical for monitoring fiscal risks and maintaining long-term sustainability.

The FSP recommends the following actions to strengthen accountability and transparency in government:

Table 2.1: Transparency and Accountability Actions

S/N	Actions	Responsibility	Deadline
1	Publish audited annual financial statements within 6 months of financial year end.	State Government	Dec 2016
2	Introduction and compliance with the International Public Sector Accounting Standards (IPSAS)	State Government	Ongoing
3	Publish State budget online annually	State Government	Mar 2017
4	Publish budget implementation performance report online quarterly	State Government	
5	Develop standard IPSAS compliant software to be offered to States for use by State and Local Governments	Federal Government	Dec 2016

2.2 General findings from desk review

2.2.1 Publication of State budgets, audited financial statements and budget performance reports

The publication of key reports during budget planning, implementation and evaluation is a globally recommended practice. To be considered publicly available, a document must be published by the government on an accessible medium within an acceptable timeframe. Unless a State government's financial statement is published, citizens may not have the opportunity to influence or monitor government performances; and it would therefore not pass the threshold of public availability. Similarly, a State's budget proposal not published before it is signed into law, or performance report published more than twelve months after the end of the fiscal year may not be considered publicly available.

Timely publication of budget documents is a general challenge for most States, with budget documents available online in less than 18 States including Abia, Akwa Ibom, Delta, Edo, Enugu, Kaduna, Lagos, Plateau, Nasarawa, Osun, and Yobe among others. Budget performance reports were even fewer, and accessible online for States such as Osun (where budget performance reports are available up to quarter 4, 2016), Kaduna and Yobe.

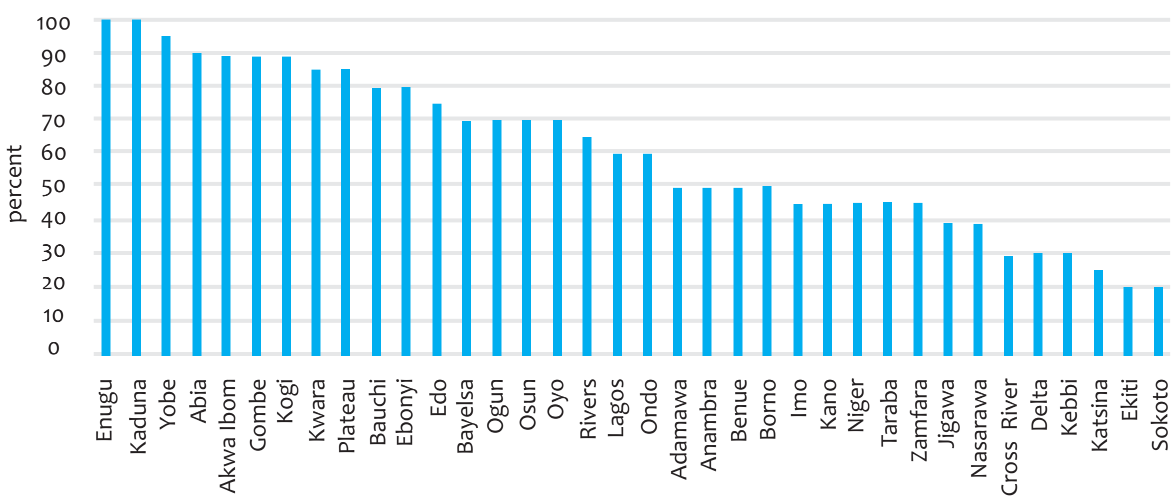
In summary, this criterion is partially met for budgets, but largely unmet for evaluations. For most States, budget information is inaccessible, fragmented or unavailable. Although these documents are printed in hard copy, they are rarely publicly available, except audited financial statements published in newspapers.

2.2.2 Introduction and compliance with the International Public Sector Accounting Standards (IPSAS)

Following the federal government's approval of the implementation of IPSAS in all Public-Sector Entities (PSEs) in Nigeria, a National Chart of Accounts (NCoA) was designed in 2013 to assist governments achieve the implementation of IPSAS Cash Basis by 2014 - 2015 and IPSAS Accrual Basis by 2016. The NCoA was designed to organize the finances of governments and to segregate expenditures, revenue, assets and liabilities with the aim of providing to the citizens, a better understanding of the financial health of the government (including its policy direction) in line with the General-Purpose Financial Principles (GPFP)[5].

According to a June 2016 FAAC[6] sub-committee report on IPSAS implementation, only two States (Enugu and Kaduna) had achieved 100 percent compliance with the IPSAS cash basis accounting standard (see figure 2.1).

Figure 2.1: Low level of IPSAS cash reporting



Source: FAAC Sub-Committee on IPSAS Implementation, June 2016[7]
Note: Data as at 31st December 2015

States were at different levels of IPSAS cash basis implementation, ranging from 100 percent which represented full compliance, to 20 percent which showed the lowest level of implementation. Only 16 States recorded an implementation level above 70 percent as at 31st December 2015. Enugu and Kaduna

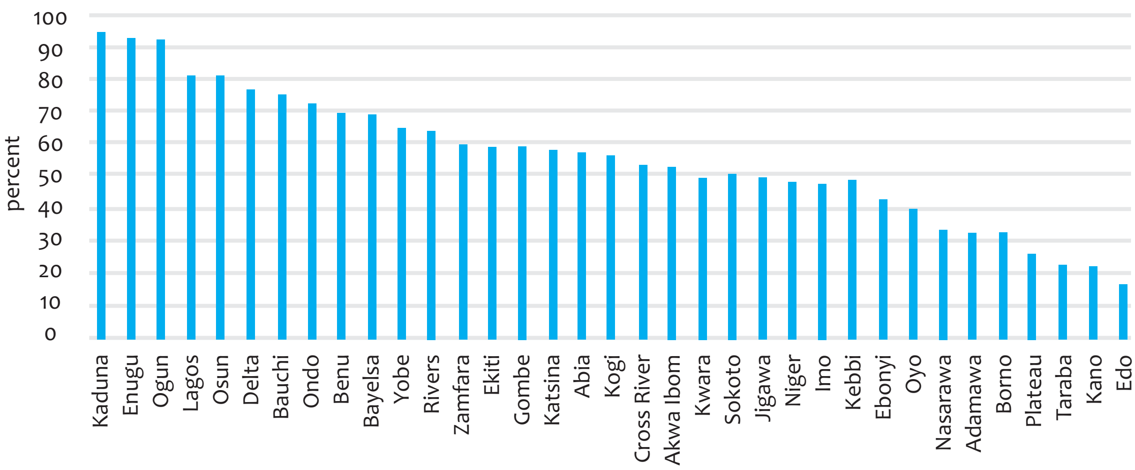
[5] GPFP provides financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

[6] The Federation Accounts Allocation Committee (FAAC) is responsible for the distribution of revenue s accruing to the Federation Account amongst the Federal, State and Local governments.

[7] Level of implementation was calculated based on five indicators – awareness of IPSAS cash basis of accounting

The FAAC sub-committee report on the preparedness of States to commence an accrual basis of accounting recorded more significant challenges. Whereas 16 States had achieved over 70 percent level of compliance with the IPSAS cash basis, only 6 States (Kaduna, Enugu, Ogun, Lagos, Osun and Delta) were 70 percent ready to migrate to the accrual system. No State was fully prepared to transit from IPSAS cash to IPSAS accrual reporting.

Figure 2.2 Low readiness to commence IPSAS accrual reporting



Source: FAAC Sub-Committee on IPSAS Implementation, June 2016[8]
Note: Data as at 31st December 2015

Box 1: Findings and Recommendations of the FAAC Sub-Committee on IPSAS Implementation

Key Findings:

I. There is general awareness of the adoption of IPSAS in Nigeria by most officers involved in budgeting, accounting, auditing and reporting across the three tiers of government;
ii. The number of officers that have undertaken capacity building exercises on both IPSAS Cash and Accrual Basis of Accounting is inadequate;
iii. The federal government has developed a software that is compliant to both cash and accrual basis of accounting; however, only a few States and local governments have deployed the software;
iv. Except for a few States, there is a lack of political will and funding to implement IPSAS; and v. Security challenges in the North East greatly affected the level of implementation in the region

Major Recommendations:

i. There is need for sustained political will and funding for IPSAS implementation in Nigeria;
ii. There should be continuous post implementation support for PSEs across the three tiers of government;
iii. More capacity building programmes are required for all PSEs;
iv. The engagement of more qualified officers is required to ensure full implementation;
v. All PSEs should consider the deployment of an IPSAS compliant software to ease implementation;

implementation with effect from 1st January 2014 (10 percent), deployment of software (20 percent), domestication of National Chart of Accounts (20 percent), adequate training on IPSAS cash basis of accounting (20 percent), and the preparation of a 2014 IPSAS cash basis of accounting-compliant financial statement (30 percent) recorded 100 percent compliance, followed by Yobe, Abia, Akwa Ibom, Gombe and Kogi which recorded over 90 percent. 13 States– including Imo, Kano, Niger, Taraba, Zamfara, Jigawa, Nasarawa, Cross River, Delta, Kebbi, Katsina, Ekiti and Sokoto recorded compliance levels below 50 percent.

[8] *Based on 12 indicators including constitution of an IPSAS implementation committee, training of officers, and preparation of opening statement of financial position by 1st January 2016 among others.*

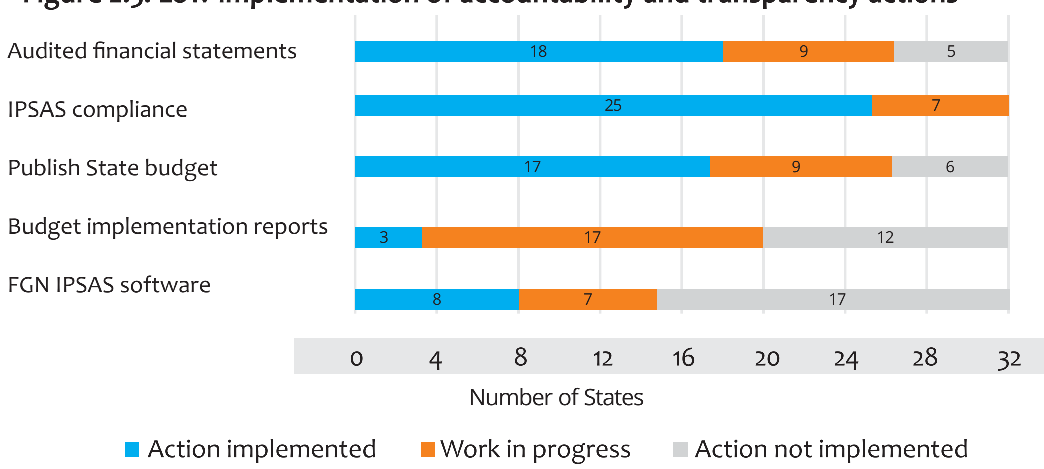
2.2 Main findings from States' Self-Assessment

A summary of feedback from State officials on the implementation of accountability and transparency actions is presented in table 2.2.

Table 2.2: Response on Accountability and Transparency Actions

S/N	Questions	Yes	Work in Progress	No	No Response	Number of Respondents
1	Does your State publish its audited annual financial statements within 6 months of financial year end?	18 (56.3%)	9 (28.1%)	5 (15.6%)	0	32
2	Has the State introduced and complied with the International Public Sector Accounting Standards (IPSAS)?	25 (78.1%)	7 (21.9%)	0	0	32
3	Does your State publish its annual budget online?	17 (53.1%)	9 (28.1%)	6 (18.8%)	0	32
4	Does your State publish its budget implementation performance report online quarterly?	3 (9.4%)	17 (53.1%)	12 (37.5%)	0	32
5	Is your State using a standard IPSAS compliant software developed by the Federal Government?	8 (25.0%)	7 (21.9%)	17 (53.1%)	0	32

Figure 2.3: Low implementation of accountability and transparency actions



i. Publication of audited annual financial statements within 6 months of the financial year end.

18 States[9] reported that they publish their audited financial statement within 6 months of the financial year end, while 9 States[10] reported that they are putting in place measures to publish their statements online. With the exception of 14 States who reported to publishing audited reports online, including Abia, Delta, Edo, Ekiti, Enugu, Gombe, Kaduna, Kogi, Lagos, Nasarawa, Ondo, Osun, Plateau and Yobe, most States highlighted the use of national dailies as their primary medium of publication.

[9] *Bauchi, Benue, Borno, Edo, Ekiti, Enugu, Gombe, Jigawa, Kaduna, Katsina, Kebbi, Kogi, Kwara, Lagos, Niger, Ondo, Osun and Yobe*

[10] *Bayelsa, Cross River, Imo, Kano, Nasarawa, Plateau, Rivers, Sokoto, and Taraba*

ii. Introduction and compliance with the International Public Sector Accounting Standards (IPSAS)

All States are implementing the IPSAS basis of accounting at varying degrees. The pioneer States are Enugu and Kaduna with 100 percent level of implementation, followed by Yobe, Abia, Akwa Ibom, Gombe, and Kogi. Implementation challenges (see box 1) have been recorded in other States including Cross River, Delta and Sokoto among others. Compliance on IPSAS accrual basis of accounting is much slower (see figures 2.1 and 2.2).

iii. Publish State budgets online annually

17 States[11] report to publishing their annual budgets online via their official websites. Implementation of the action has reached significant levels in 9 States[12] but more challenging in 6 States[13].

iv. Publish budget implementation performance reports online quarterly

Only 3 States publish their budget implementation performance reports online, according to self-reports from States. They include Jigawa, Lagos and Osun. 17 States[14] reported that they are currently putting measures in place to achieve this.

v. Utilisation of a standard IPSAS-compliant software provided by the federal government for use by State and local governments

8 States[15] are currently using an IPSAS software developed by the federal government whereas the transition is ongoing in 7 States[16]. Bauchi, Edo, Kebbi, Kwara, Lagos, and Ondo are currently using independently-sourced software.

2.4 Conclusion

Overall, the implementation of accountability and transparency measures has been weak. In percentage levels, implementation was recorded at 44 percent, 31 percent and 25 percent respectively, for actions completed, ongoing and not completed. The highest level of implementation was recorded for IPSAS compliance, with 25 States reporting to have adopted the IPSAS cash basis of accounting. 18 and 17 States also reported that they publish their audited financial statements and budgets online respectively. Publication of budget implementation reports recorded the lowest level of implementation, in only 3 States, followed by only 8 States that had adopted the federal government's IPSAS software.

The slow implementation of accountability and transparency initiatives has been attributed to several factors, including the high cost of financial management software and limited capacity of State officials on the adoption of IPSAS.

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[11] *Abia, Delta, Edo, Ekiti, Enugu, Gombe, Jigawa, Kaduna, Kano, Kogi Lagos, Nasarawa, Ondo, Osun, Oyo, Plateau and Yobe*

[12] *Bauchi, Bayelsa, Borno, Cross River, Imo, Kogi, Kwara, Rivers and Taraba*

[13] *Benue, Ebonyi, Kebbi, Niger, Sokoto and ZamfaraOnly 3 States publish their budget implementation performance reports online, according to self- reports from States. They include Jigawa, Lagos and Osun. 17 States*

[14] *Bauchi, Bayelsa, Borno, Delta, Edo, Ekiti, Enugu, Gombe, Katsina, Kogi, Kwara, Nasarawa, Niger, Plateau, Rivers, Taraba and Yobe*

[15] *Abia, Ebonyi, Ekiti, Enugu, Gombe, Jigawa, Kaduna and Taraba*

[16] *Borno, Delta, Imo, Niger, Osun Plateau and Yobe*

Commendable practices were recorded in Enugu, Edo, Kaduna, Osun and Yobe States with strong positive results for establishing standards and processes that foster transparency and accountability in government. In Kaduna State, an ICT hub and citizens engagement portal has been launched to facilitate citizens' monitoring and evaluation of progress of State government projects. Enugu has a fully compliant IPSAS budgeting system, while the Osun State government publishes its budget performance reports online regularly.

Although undervalue by governments, transparency and accountability actions remain the bedrock for maintaining legitimacy and public support in the implementation of breakthrough governance and institutional reforms. More mileage can be reached by strengthening the institutional capacity of the Ministries of Finance, Budget and Planning, and the State Houses of Assembly. The Open Government Partnership (OGP) also provides a veritable platform to address these issues.

3.0 PUBLIC REVENUE

3.1 Background

Revenue generation is an overarching component of the FSP, and it is required to facilitate States' fiscal independence. Since 2014, there has been a decline in the total recurrent revenue of States, although domestic revenues are rising (table 3.1). The phenomenon has become disruptive to government operations, as federation transfers which make up over 70 percent of the total revenue of most States fell sharply as a result of the fall in oil prices. Federation allocation to States declined steadily from N2.7 trillion in 2014 to N2 trillion in 2015 and N1.6 trillion in 2016, leading to urgent reforms across States to bolster tax administration. By 2016, at least 27 State governments were unable to service salary payments and contractual obligations.

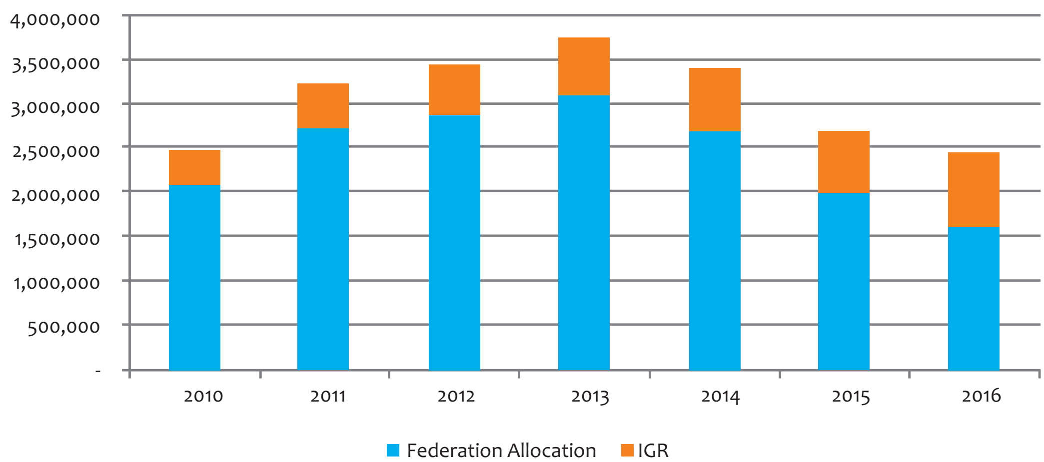
Table 3.1: Total Recurrent Revenue of States (NGN Million), 2010 - 16

	2010	2011	2012	2013	2014	2015	2016	CAGR (%)
Federation Allocation	2,083,331	2,729,109	2,856,419	3,093,185	2,691,413	2,007,899	1,618,808	(4.9)
Share (%)	83.8	84.8	83.0	82.4	79.2	74.5	66.4	N/A
Growth rate (%)	-	31.0	4.7	8.3	(13.0)	(25.4)	(19.4)	N/A
IGR	401,434	490,377	584,398	662,046	707,858	687,060	820,740	15.4
Share (%)	16.2	15.2	17.0	17.6	20.8	25.5	33.6	N/A
Growth rate (%)	-	22.2	19.2	13.3	6.9	(2.9)	19.5	N/A
Total Recurrent Revenue	2,484,766	3,219,486	3,440,817	3,755,230	3,399,271	2,694,959	2,439,547	(0.4)

Source: OAGF, JTB (2017)

The total recurrent revenue of the 36 States was recorded as N2.4 trillion in 2016 – the lowest in the last seven years. Although tax reforms yielded positive results in the last year, this was hardly enough to cushion the effect of the 19 percent decline in federation allocation to States from N2 trillion in 2015 to N1.6 trillion in 2016. During this period, the share of federation revenues (% of total recurrent revenue) fell from 74.5 percent in 2015 to 66.4 percent in 2016 while internally generated revenues (% of total recurrent revenue) rose from 25.5 percent to 33.6 percent. The results do not reflect an entrenchment of States' fiscal independence, but a contracting fiscal space, as federation transfers to States declined by a compound annual growth rate of 5 percent between 2010 and 2016. The crisis saw States losing around N2.5 trillion in unearned federation revenues.

Figure 3.1: Declining total recurrent revenue of States, 2010 – 16



Source: OAGF, JTB (2017)

The FSP aims to address the volatility of States' revenues by strengthening the collection of value added tax (VAT), withholding tax (WHT) and pay-as-you-earn (PAYE), as well as the implementation of the treasury single account. It also prioritised improving relations among tax authorities at the federal and State level on issues such as data sharing and integration. Through the Government Integrated Financial Management Information System (GIFMIS) for example, the Federal Inland Revenue Service (FIRS) is collaborating with the Office of the Accountant General of the Federation (OAGF) to collect VAT and WHT from government suppliers at the point of payment. The VAT auto-collect platform is also an initiative of the FIRS that ensures that transactions which are liable to VAT are taxed automatically at source. These measures will support federally collected non-oil revenues which are then shared to States monthly. The key recommendations of the FSP are as follows:

Table 3.2: Public Revenue Actions

S/N	Actions	Responsibility	Deadline
1	Set realistic and achievable targets to improve independently generated revenue (from all revenue generating activities of the State in addition to tax collection) and ratio of capital to recurrent expenditure.	State Government	Sep 2016
2	Implement a centralised Treasury Single Account (TSA) in each State	State Government	Dec 2016
3	Quarterly financial reconciliation meetings between Federal and State Governments to cover VAT, PAYE remittances, refunds on Government projects, Paris Club and other accounts.	State/Federal Government	Sep 2016
4	Share the database of companies within each State with the Federal Inland Revenue Service (FIRS). The objective is to improve VAT and PAYE collection.	State/Federal Government	July 2016
5	Introduce a system to allow for the immediate issue of VAT/WHT certificates on payment of invoices.	State/Federal Government	July 2016
6	Review all revenue related laws and update of obsolete rates/tariffs	Local/State/Federal Government	Mar 2017

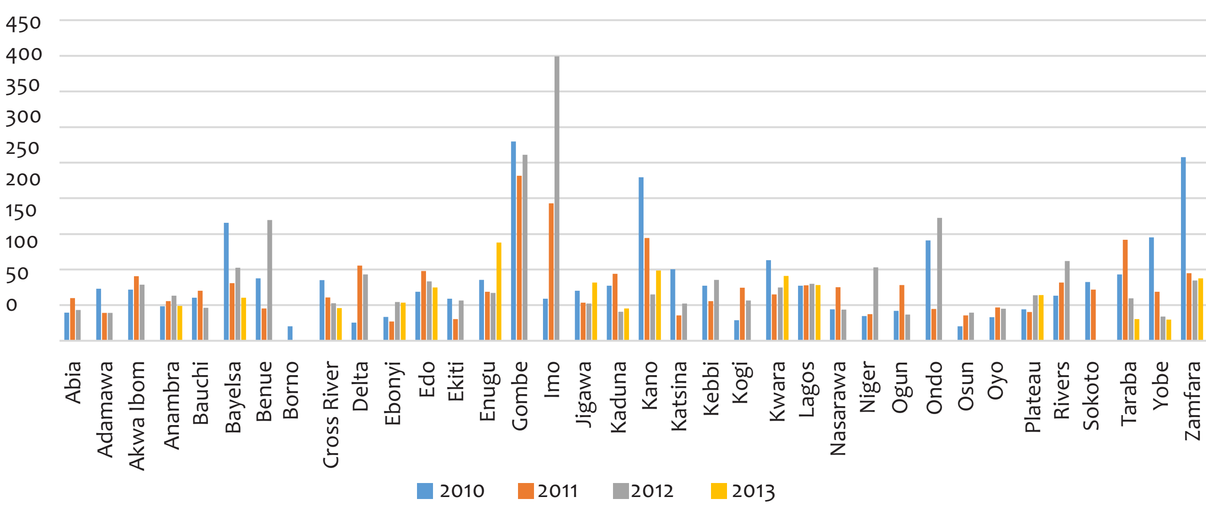
3.2 General findings from desk review

3.2.1 Setting realistic targets for IGR:

Setting a realistic target for IGR is perhaps the most important strategy for achieving a realistic budget. Domestic revenues, although contributing less than 30 percent of the total revenue of States, are more stable than federation transfers which are susceptible to oil price volatility. Historical data show that the performance of States' budgeted IGR against actual performances has been generally poor (table 3.2), culminating in the poor budget performance of States. As State governments set unrealistic targets for IGR, they invariably impose high expenditure targets which they are unable to finance.

In setting a realistic target for domestic revenues, it is important to consider whether prior fiscal performances were good (actual performance was close to the budget) or poor (actual performance was not close to IGR budgeted), while considering the practicality of new or ongoing tax reforms, and trends in the macroeconomy and mineral sector using relevant measures such as the fiscal strategy paper. Historical data from 2010 to 2013 show poor and unstable IGR performances.

3.2: IGR targets have mostly been unrealistic, 2010 – 13

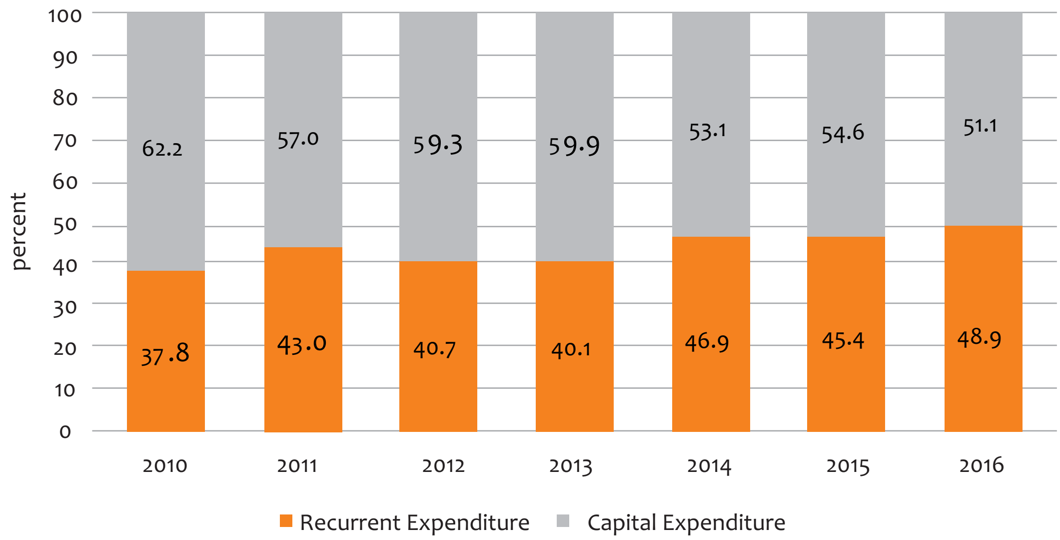


Source: Computed from Budgets of States, 2010 – 2013
Note: Data unavailable for some years

3.2.2 Setting realistic targets for capital and recurrent expenditure:

Nigeria's oversized infrastructure deficit and poor service delivery have been linked with government's high recurrent spending which restricts capital spending. Figures 3.3 and 3.4 demonstrate that on average, government recurrent expenditures have been higher than capital spending. This has been due to several factors, including the high cost of governance and a bloated civil service.

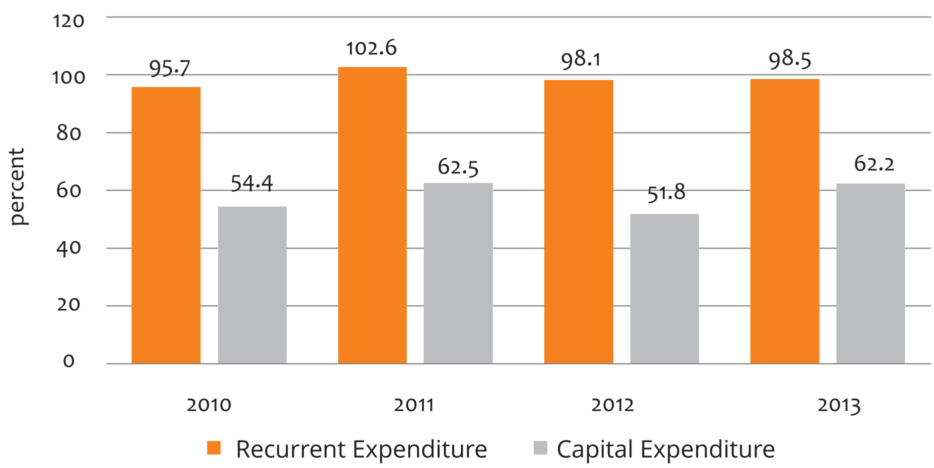
Figure 3.3: State governments allocate higher capital spending, 2010 – 16



Source: Computed from Budgets of States, 2010 – 2016

Realistic expenditure targets must be reflective of revenue inflows. Large revenue windfalls recorded during boom periods have over the years destabilized the budgets of States. The phenomenon has lured governments into unsustainable increases in expenditures, in which they find themselves locked in when revenue falls. Historically, the performance of capital spending has been particularly poor, compared to the performance of recurrent expenditures (see figure 3.4).

Figure 3.4: Poor release of capital spending, 2010 – 13



Source: Computed from Budgets and Audited Accounts of States, 2010 – 2013

3.2.3 Implementing a Treasury Single Account

The Treasury Single Account (TSA) is a unified structure of government bank accounts which gives a consolidated view of cash resources. The unified system enables relevant stakeholders, such as the Ministry of Finance and Accountant General to have full oversight of all cash flows of the government. This will ensure adequate monitoring of government revenue receipts and expenditures, block leakages and check the incidence of idle cash lying over extended periods in bank accounts held by MDAs. The policy has its merit of curbing revenue leakages by streamlining the process of the remittance of revenues generated by various MDAs. Since the policy was implemented by the federal government, over N3 trillion has been mopped up as revenue accruals[17].

Although implementation of the TSA has come with challenges at the federal level (including tighter liquidity conditions for commercial banks), a number of State governments have leveraged on these experiences. Pioneer States that introduced the single accounting system, or a set of linked accounts include Lagos, Kaduna and Plateau.

3.2.4 Quarterly financial reconciliation meetings between federal and State governments to cover VAT, PAYE remittances, refunds on government projects, Paris club and other accounts

The National Economic Council (NEC) and the Joint Tax Board (JTB) provide platforms for the federal and State governments to discuss crosscutting issues. In 2016, NEC kickstarted discussions to address issues such as the reimbursement of Paris Club over-deductions to States and local governments as well as claims by State governments that invested on federal road projects. On the other hand, FIRS and States' Internal Revenue Services (SIRS) through the JTB, are collaborating to improve revenue collection, by sharing data through the VAT data automation platform designed to collect VAT and WHT from government contractors/suppliers at point of payment.

3.2.5 Sharing the database of companies within each State with the Federal Inland Revenue Service (FIRS)

The collaborative effort between the FIRS and SIRS has strengthened ongoing reforms targeted at raising tax revenue, including the following:

i. Improvement in data on complaint taxpayers. As at November 2016, data obtained from States indicated that 8,550,643 individuals and 4,483,579 enterprises are active taxpayers;
ii. According to the JTB, the number of taxpayers from the 36 SIRS rose from 10 million in April 2016 to 13 million in November 2016 – an additional 3,414,496 taxpayers over the 7-month period;
iii. Collaboration on joint audits has led to sharing of useful information on unremitted taxes and taxpayer education in many States; and
iv. Taxpayer's Identification Number (TIN) upgrade to facilitate data sharing and tracking across the 36 States of the Federation.

3.2.6 Introducing a system to allow for the immediate issuance of VAT/WHT certificates on payment of invoices

The FIRS developed the States VAT automation portal to enable the tracking and automatic deduction/ remittance of VAT from vatable transactions across the 36 States of the federation. The system ensures that tax is deducted automatically at source on transactions that are liable to VAT. However, only 13 States18 had connected to the platform, with only Jigawa State channelling data through it. 7 States19 have indicated their interest to connect to the platform.

3.2.7 Review all revenue-related laws and update of obsolete rates/tariffs

One of the key activities of the FIRS-SIRS collaborative framework implemented through the JTB is the support for the inauguration of Joint State Revenue Committees[20] across States to harmonise

[17] *Thisday (2016, March 24) FG saves over N3 trillion through TSA. Retrieved from: htt/2016/03/24/fg-saves-over-n3-trillion-through-tsa/*

[18] *Bauchi, Delta, Gombe Imo, Jigawa, Kaduna, Kebbi, Kogi, Nasarawa, Niger, Plateau, Taraba, and Zamfara*

[19] *Abia, Benue, Ebonyi, Katsina, Kwara, Ondo, and Osun*

[20] *The Joint State Revenue Committee is a State-based committee fashioned after the JTB. It comprises of representatives of the SIRS, Local Government Revenue Committee and Affairs and an observer from the RMFAC.*

taxes and levies and amend obsolete provisions in tax laws to meet best practices. These activities also involve wider collaboration with Stakeholders including the Ministries of Finance, and Justice, State Houses of Assembly. The presumptive tax regime has become an important regulation that will create a healthy environment for taxing the informal sector based on the nature of their businesses.

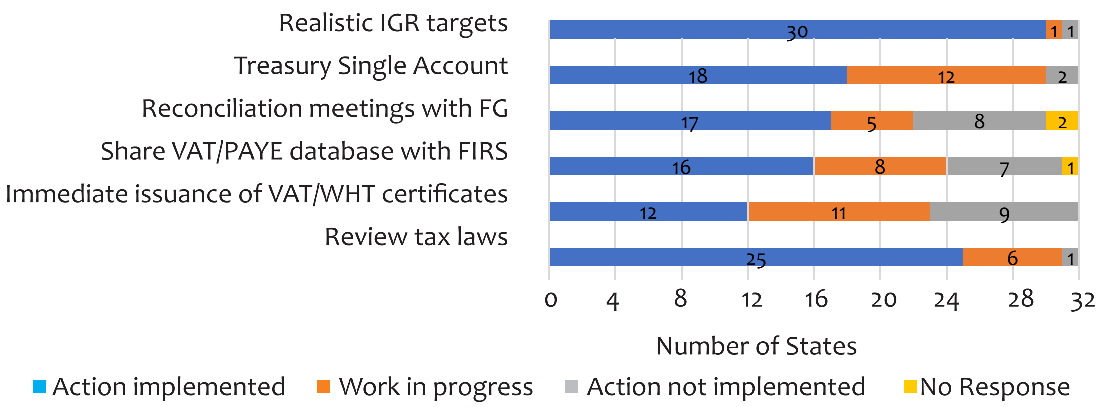
3.3 Main findings from States' Self-Assessment

The feedback of State officials on the assessment questionnaire are summarised in the table below.

Table 3.3: Response on Public Revenue Actions

S/N	Questions	Yes	Work in Progress	No	No Response	Number of Respondents
6a	Has your State set realistic and achievable targets to improve independently generated revenue (from all revenue generating activities of the State in addition to tax collections)?	30 (93.8%)	1 (3.1%)	1 (3.1%)	0	32
6b	Has your State set a realistic and achievable target for its capital to recurrent expenditure ratio?	28 (87.5%)	1 (3.1%)	1 (3.1%)	0	32
7a	Has the State implemented a central Treasury Single Account (TSA)?	18 (56.3%)	2 (6.3%)	2 (6.3%)	0	32
7b	Does your State operate a computerized treasury system (such as an IFMIS)?	15 (46.9%)	5 (15.6%)	5 (15.6%)	0	32
8a	Does the State hold quarterly financial reconciliation meetings with the Federal Government on VAT, PAYE remittances, refunds on government projects, Paris Club and other accounts?	17 (53.1%)	8 (25.0%)	8 (25.0%)	2 (6.3%)	32
8b	Does your State share the database of companies within the State with the Federal Inland Revenue Service (FIRS)?	16 (50.0%)	7 (21.9%)	7 (21.9%)	1 (3.1%)	32
9a	Has your State introduced a system to facilitate the immediate issue of VAT / WHT certificates on payment of invoices?	12 (37.5%)	9 (28.1%)	9 (28.1%)	0	32
10a	Has your State reviewed revenue related laws and updated obsolete rates/tariffs?	25 (78.1%)	1 (3.1%)	1 (3.1%)	0	32

Figure 3: Better performance on public revenue actions



i. Set realistic and achievable targets to improve independently generated revenue from all revenue generating activities of the State in addition to tax collection) and ratio of capital to recurrent expenditure

30 States[21] indicated that they have set realistic and achievable targets to improve the performance of their IGR (budgeted versus actual). Out of these, 5 States[22] set an IGR target (as share of total recurrent revenue) less than or equal to 20 percent, the lowest target being 10 percent for Yobe State for the year 2017. 4 States[23] established targets within the range of 21– 30 percent; 3 States[24] between 31 and 40 percent; and 2 States[25] between 41 and 50 percent. Lagos and Oyo recorded the highest targets of 74 percent and 70 percent respectively.

28 States[26] also reported setting realistic and achievable targets for capital to recurrent expenditure. 12 States[27] had their capital expenditure targets significantly higher than targets for recurrent expenditure, the highest being 87:13% for Cross River State for the 2017 fiscal year. 15 States[28] had their recurrent expenditure targets higher than capital expenditure. Osun State had the highest recurrent expenditure target of 60 percent for the 2017 fiscal year; while Edo State targeted equal provisions for both capital and recurrent expenditure for 2017.

ii. Implementing a centralised Treasury Single Account (TSA) in each State

18 States[29] reported that a centralised Treasury Single Account (TSA) has been implemented. 12 States[30] indicated that implementation was ongoing, while lags were reported in Benue, Katsina and Ondo.

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[21] *Abia, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Ondo, Osun, Oyo, Rivers, Sokoto, Taraba, Yobe and Zamfara*

[22] *Abia, Niger, Ondo, Sokoto and Yobe*

[23] *Borno, Benue, Enugu and Plateau*

[24] *Kano Kogi, and Kwara*

[25] *Cross River and Rivers*

[26] *Abia, Bauchi, Benue, Borno, Cross River, Delta, Edo, Ekiti, Enugu, Gombe, Jigawa, Kaduna, Kano, Katsina, Kogi, Kwara, Lagos, Nasarawa, Niger, Ondo, Osun, Oyo, Plateau, Rivers, Sokoto, Taraba, Yobe and Zamfara*

[27] *Bauchi, Borno, Cross River, Ebonyi, Kaduna, Kano, Kebbi, Kogi, Kwara, Lagos, Niger and Rivers*

[28] *Abia, Bayelsa, Delta, Edo, Enugu, Gombe, Katsina, Nasarawa, Ondo, Osun, Oyo, Plateau, Taraba, Yobe and Zamfara*

A computerized treasury system such as an Integrated Financial Management Systems (IFMIS) is already in operation in 15 States[31] and in implementation in 12 States[32]. 5 States – Borno, Ekiti, Imo Oyo and Taraba reported that they do not have a computerised treasury system in place.

iii. Quarterly financial reconciliation meetings between Federal and State Governments on VAT, PAYE remittances, refunds on Government projects, Paris Club and other accounts.

17 States[33] reported holding quarterly financial reconciliation meetings with the federal government, while 5 States[34] are initiating such engagements. 8 States[35] have not held these meetings.

iv. Share the database of companies within each State with the Federal Inland Revenue Service (FIRS).

14 States[36] indicated that their database of companies are shared with FIRS while 6 States[37] are putting in place mechanisms to achieve this action. 7 States[38] are yet to initiate this process.

v. Introduce a system to allow for the immediate issue of VAT/WHT certificates on payment of invoices.

12 States[39] indicated that a system to facilitate the immediate issuance of VAT/WHT certificates had been introduced. Jigawa and Oyo State had an instant processing time for the issuance of these certificates, while the processing time for others varied significantly. Taraba State recorded the longest processing time of 90 days, compared with 1 day reported in Benue, Cross River and Osun. 11 other States[40] indicated that they were in the process of signing on the platform provided by the FIRS.

vi. Review all revenue related laws and update obsolete rates/tariffs

Most States reported that revenue-related laws are reviewed periodically. The frequency however differs. In Jigawa and Enugu, this is reported as a quarterly activity, in Abia, Delta and Edo, annually, and ad-hoc in other States.

3.4 Conclusion

Despite the 2016 economic recession and the sharp slide in federation revenues, the 36 States recorded a 20 percent growth in domestic revenues, from N687.1 billion in 2015 to over N820.7 billion in 2016 – a significant recovery from a 2.7 percent decline recorded previously. The performance was

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[29] *Bayelsa, Cross River, Delta, Ebonyi, Edo, Enugu, Gombe, Jigawa, Kaduna, Kogi, Kwara, Lagos, Niger, Osun, Oyo, Plateau, Sokoto and Zamfara*

[30] *Abia, Bauchi, Borno, Ekiti, Imo, Kano, Katsina, Kebbi, Nasarawa, Rivers, Taraba and Yobe*

[31] *Abia, Cross River, Delta, Ebonyi, Enugu, Gombe, Jigawa, Kaduna, Kogi, Lagos, Osun, Plateau, Sokoto and Zamfara*

[32] *Bauchi, Bayelsa, Benue, Edo, Kano, Katsina, Kebbi, Kwara, Nasarawa, Niger, Ondo, Rivers and Yobe*

[33] *Abia, Benue, Borno, Cross River, Edo, Imo, Jigawa, Kano, Katsina, Kwara, Nasarawa, Ondo, Osun, Oyo, Plateau, Taraba and Zamfara*

[34] *Bayelsa, Delta, Enugu, Kebbi and Kogi*

[35] *Ebonyi, Ekiti, Gombe, Lagos, Niger, Rivers, Sokoto and Yobe*

[36] *Abia, Benue, Borno, Cross River, Edo, Ekiti, Kaduna, Kano, Katsina, Lagos, Nasarawa, Ondo, Osun, Oyo, Plateau and Rivers*

[37] *Bayelsa, Enugu, Gombe, Kebbi, Kwara and Yobe*

[38] *Delta, Ebonyi, Imo, Jigawa, Niger, Sokoto and Taraba*

[39] *Bayelsa, Benue, Cross River, Edo, Jigawa, Kaduna, Kano, Katsina, Osun, Oyo, Sokoto and Taraba*

[40] *Bauchi, Borno, Delta, Enugu, Imo, Kogi, Nasarawa, Niger, Plateau, Rivers and Zamfara*

spurred by worsening fiscal conditions which necessitated reforms to strengthen their capacity to raise tax revenues. Reforms pushed by the JTB to strengthen VAT, WHT and PAYE data management and remittances, as well as the adoption of a centralised government account also consolidated recent revenue performances. Challenges however remain. In many cases, revenue projections are based on very loose and unrealistic grounds, putting the revenue system in jeopardy. This is in addition to institutional weaknesses across SIRS which limit tax administration.

Implementation of the six (6) actions targeted at raising public revenue reached 61 percent for completed actions, 22 percent for actions that are ongoing, and 15 percent for actions not implemented. According to States' self-assessments, 30 States have implemented measures to improve their IGR performance; 18 States have introduced the TSA to consolidate revenues from government agencies into a single account and 17 States have held revenue reconciliatory meetings with the federal government. 25 States are also regularly reviewing their tax laws. The lowest levels of implementation were recorded in the adoption of a system to facilitate the immediate issue of VAT/WHT certificates and sharing of the database of companies with FIRS. Over 18 States have neither shared their VAT/PAYE database with the FIRS nor integrated their data on the issuance of VAT/WHT certificates

4.0 PUBLIC EXPENDITURE

4.1 Background

Government budgets are the primary fiscal policy instruments that determine the size of public investments and economic activities, especially during periods of low or negative growth. The government can adjust the nature of its spending, in addition to taxation, to influence business decisions and private sector investment. The expenditure roles and responsibilities of States as defined in the Nigerian 1999 Constitution relate to the areas under the concurrent list (table 4.1), while the exclusive and residual components are governed by the federal and local governments. Items under the concurrent list are also shared between the federal and State governments, while the residual list is at the prescription of State governments.

Table 4.1: Expenditure roles and responsibilities of the three tiers of Government

Federal Government (Exclusive List)	State Government (Concurrent List)	Local Government (Residual List)
Defence and National security	Higher education	Sewage disposal
Police	Secondary education	Environmental sanitation
Foreign Affairs	Primary education	Maintenance of roads
Inter-State roads	Vocational Education	Primary education
Mines, minerals, oil and gas	Maintenance of Standards	Adult education
Railways	Urban and rural waters	Vocational education
Airports	Transportation	Market stalls
Aviation Facilities Energy	Housing	Craft and small-scale
and power	Health	industries
Telecommunications	Light industries	Health services
Management of territorial	Agriculture	
waters	Tourism and town planning	
Higher education	Energy and power	
Secondary education	Statistics	
Tertiary education		
Agriculture		
Trade, commerce, and		
tourism		
Labour		
Statistics		

Source: Constitution of the Federal Republic of Nigeria, 1999

The following are recommended actions of the FSP to rationalize public expenditure:

Table 4.2: Public Expenditure Actions

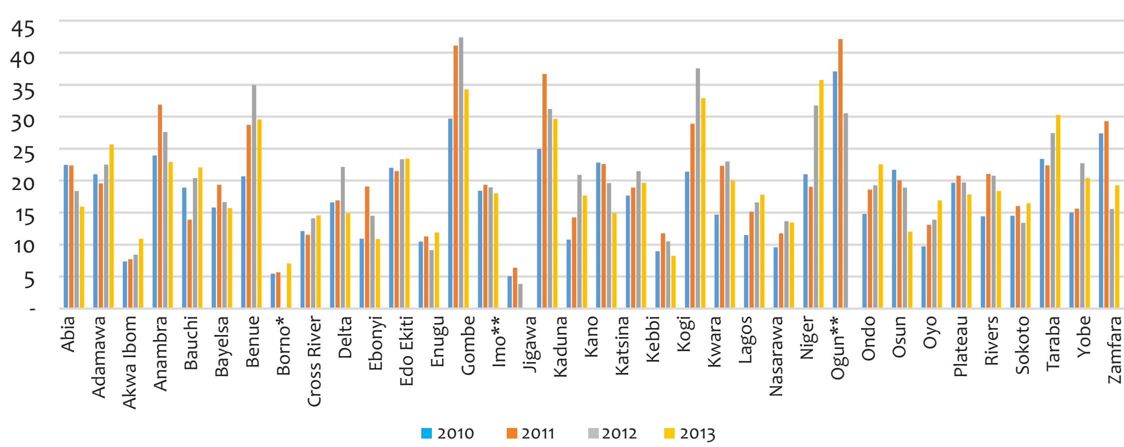
S/N	Actions	Responsibility	Deadline
1.	Set limits on personnel expenditure as a share of total budgeted expenditure	State Government	Dec 2016
2.	Biometric capture of all States' civil servants will be carried out to eliminate payroll fraud	State Government	Dec 2016
3.	Establishment of Efficiency unit	State Government	Dec 2016
4.	Federal Government online price guide to be made available for use by States	State/Federal Government	Dec 2016
5.	Introduce a system of continuous audit (internal audit)	State/Federal Government	Dec 2016

4.2 General findings from desk review

4.2.1 Setting limits on personnel expenditure as a share of total budgeted expenditure

Personnel-related spending for most States has been on the increase, reaching levels over 40 percent in some States (see figure 4.1) as a result of growing and sustained pressures from workers' salaries, allowances, pensions, gratuities and arrears. These figures can be far higher when compared with total revenues, given that expenditures are considerably higher than revenues. Addressing this challenge requires streamlining government services to address efficiency, cutting down political appointees, payroll management and stimulating a business environment that will facilitate labour mobility out of public service.

Figure 4.1: High cost of personnel expenditure, 2010 – 13



Source: Computed from Budgets of States, 2010 – 2013

Note: *data unavailable for 2012; **data unavailable for 2013

4.2.2 Biometric capture of all States' civil servants to eliminate payroll fraud

The traditional means of identifying and registering civil service workers and the lack of proper forensic accounting procedures and sanctions have over the years contributed to payroll fraud. Unlike non- electronic means of identification, biometric capture accounts for biological information stored in a manner that makes it difficult for the information to be duplicated. Evidence from States such as Rivers, Delta, Kaduna and Kano among others, show that the biometric exercise has uncovered more than 7,000 ghost workers. This tool has been employed to support the enrolment of staff under the Integrated Payroll and Personnel Information System (IPPIS) – which is a more comprehensive solution for eliminating payroll fraud. Governments have also used Bank Verification Number (BVN) details to check for ghost workers and identify inconsistences such as multiple payments to a single account holder. The strategy of using BVN rather than requiring the physical presence of each worker has significantly simplified and accelerated the progress of the project and at a lower cost than previously incurred.

4.2.3 Establishment of efficiency unit

The federal government's Efficiency Unit was created in November 2015 under the Federal Ministry of Finance with a mandate to create measures for expenditure controls in order to eliminate wastages in government overheads and generate savings by making procurement processes efficient. The role of the unit includes:

i. Use of administrative tools (mainly circulars) to introduce controls, limits, standards and uniformity across MDAs;
ii. Use of financial tools such as e-payment channels to improve transparency;
iii. Use of price guidelines for commonly used products to create standards for procurement;
iv. Identifying shared services (ICT and support services) and encouraging MDAs to cut cost through collective use;
v. Prioritization of government expenditure during periods of low revenue.

Efficiency units exists across States under various capacities, but lessons from the federal government are useful to realise the much-needed savings required to achieve efficiency in spending, including overheads on travels, training, consumables, to reduce rising fiscal deficits. Data on the operation of efficiency units at the State-level is limited.

4.2.4 Federal Government online price guide to be made available for use by States

The Federal Government through its Efficiency Unit has designed an online price guide to ensure that estimates for procurements and other such purchases including operational spending are guided by an online price survey. States are expected to adopt such measures to support public expenditure management. There is no available data on the deployment or use of price guides at the State level.

4.2.5 Introducing a system of continuous audit (internal audit)

Internal audits are independent appraisal functions established within the government structure. They are important in evaluating and assessing compliance with public expenditure management controls, and are designed to provide reasonable assurance in the effectiveness and efficiency of operations. Audit systems must be compatible with applicable laws and must render reliable financial and non- financial reports, with inbuilt checks against fraud.

At the federal level, the Ministry of Finance has set up a continuous audit team to carry out a detailed programmed audit on payroll to strengthen the controls framework. In Enugu State, the governmenthas a clear manual to guide its system of internal audits – including for personnel audit, auditing of expenditures and the authorization of limits. In Lagos State, this unit operates as the Central Internal Audit Department, under the State's Ministry of Finance.

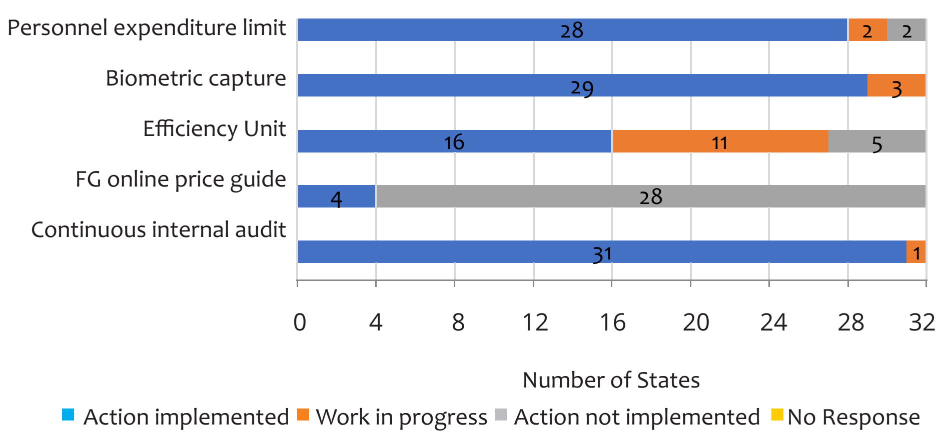
4.3 Main findings from States' Self-Assessment

A summary of States' feedback from completed questionnaires is shown below.

Table 4.3: Response on Public Expenditure Management Actions

S/N	Questions	Yes	Work in Progress	No	No Response	Number of Respondents
11a	Has your State set limits on personnel expenditure as share of total budgeted expenditure?	28 (87.5%)	2 (6.3%)	2 (6.3%)	0	32
11b	Has your State carried out a biometric capture of all civil servants under the State's payroll?	29 (90.6%)	3 (9.4%)	0	0	32
11c	Has your State established measures to strengthen budget credibility, for example, limiting the deviation between budgeted and actual expenditures?	24 (75.0%)	5 (15.6%)	2 (6.3%)	1 (3.1%)	32
12a	Has the State established an Efficiency Unit?	16 (50.0%)	11 (34.4%)	5 (15.6%)	0	32
12b	Has your State received an online price guide on reference unit costs from the Federal Government?	4 (12.5%)	0	28 (87.5%)	0	32
13	Has your State introduced a system of continuous internal audit?	31 (96.9%)	1 (3.1%)	0	0	32

Figure 4.2: Expenditure reforms are taking shape



i. Setting limits on personnel expenditure as share of total budgeted expenditure?

28 States[41] reported that they have set limits on personnel expenditure as a share of budgeted expenditure. This is an indication of States' readiness to manage spending on recurrent expenditure. Bayelsa indicated that the government is currently putting measures in place to achieve realistic targets. These States also indicated that they have created measures to limit the deviation between budgeted and actual expenditures to strengthen budget credibility. The most ambitious targets of 3.9 percent and 7.9 percent were set by Cross River and Imo respectively. 8 States[42] reported between 10– 20 percent, 8 States43 between 21 – 30 percent, while Kano and Kogi reported setting targets of 36 and 40 percent respectively.

ii. Biometric capture of all States' Civil Servants to eliminate payroll fraud

Biometric verification has been carried out in 29 States[44] according to States' self-reports, while States such as Borno and Sokoto are in the process of setting up a biometric capture system. Payroll records show wide disparities in the number of civil servants from State to State due to several factors, including population, the role of government in employment creation, and economic activities in the State. Kwara reported the lowest number of workers at 7,439, compared with 146,478 in Kano and105,000 in Bauchi.

iii. Establishing an Efficiency Unit 16 States[45] reported that they have established efficiency units, while 10 States[46] are in the process of setting up the unit.

10 States[47] domiciled this unit in their Ministries of Finance, and across MDAs in other States. In Delta State, it is domiciled in the State Ministry of Economic Planning; in Edo State, the Economic and Strategy Team under the Office of the Governor; Enugu (Due Process/SERVICOM); Imo (Ministry of Budget and Planning); Katsina (Accountant General's Office); Osun (Bureau of Social Service, PPA, Office of the Auditor–General, Ministry of Economic Planning, and other MDAs); Oyo (Office of the Governor); and Rivers State (Ministry of Budget and Economic Planning).

iv. Utilising an online price guide on reference unit costs from the Federal Government

Only 4 States[48] reported that they have received an online price guide from the federal government.

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[41] *Abia, Bauchi, Benue, Borno, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Lagos, Nasarawa, Niger, Osun, Oyo, Plateau, Rivers, Sokoto, Yobe and Zamfara*

[42] *Ekiti, Gombe, Lagos, Niger, Plateau, Sokoto, Rivers and Zamfara*

[43] *Abia, Benue, Borno, Delta, Edo, Katsina, Osun and Yobe*

[44] *Abia, Benue, Bauchi, Bayelsa, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Osun, Ondo, Oyo, Plateau, Rivers, Taraba and Yobe*

[45] *Bayelsa, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Jigawa, Kaduna, Kebbi, Kogi, Niger, Osun, Oyo, Rivers and Taraba*

[46] *Bauchi, Benue, Gombe, Imo, Kano, Kwara, Nasarawa, Plateau, Sokoto and Yobe*

[47] *Bayelsa, Cross River, Ebonyi, Ekiti, Jigawa, Kaduna, Kebbi Kogi, Niger and Zamfara*

[48] *Bayelsa, Jigawa, Lagos and Taraba*

v. *Introduction of a system of continuous audit (internal audit)*

All States reported that they have a functional system of continuous internal audit. Kogi recorded that it was putting measures in place to strengthen this unit.

4.4 Conclusion

The five actions aimed at rationalising public expenditure recorded implementation rates of 68 percent for completed actions, 11 percent for ongoing actions and 22 percent for actions not implemented. The highest performances were in areas such as the establishment of a system of continuous internal audit (31 States), biometric capture (29 States), personnel expenditure limits (28 States). 16 States have established efficiency units to strengthen expenditure management, but only 4 States reported to have received an online price guide from the federal government.

Although the response of States to this objective is largely positive, achieving effective results will require a fundamental change in the nature and cost of governance, given that personnel expenditure (% of total expenditure) has in the past reached over 40 percent for some States. Strengthening institutional capacities and public administration are also critical steps that will facilitate fiscal adjustment and better public service delivery.

5.0 PUBLIC FINANCIAL MANAGEMENT

5.1 Background

The framework of laws/regulations, institutions and systems for managing government finances vary from State to State, but they maintain general standards which are expected to ensure stable, efficient and effective pubic financial management (PFM) systems. This includes realistic budgets that should reflect the State's policy direction, a well-managed treasury system that provides liquidity and capacity to acquire long-term assets, and sound accounting and audit processes.

Studies[49] have shown weaknesses in States' PFM systems, reflected in indicators such as budget credibility, predictability and execution, comprehensiveness and transparency, and the processes of accounting and external audits. The adoption of relevant laws such as public procurement and fiscal responsibility laws have not fully addressed these challenges. Except for a few States, State budgets are generally not aligned with policy priorities and many fail to meet yearly budget calendars. To address some of these challenges, the following actions were recommended by the FSP to strengthen PFM laws, systems and processes.

Table 5.1: Public Financial Management Actions

S/N	Actions	Responsibility	Deadline
1	Create a fixed asset and liability register	State/Federal Government	Jun 2017
2	Consider privatization or concession of suitable state-owned enterprises to improve efficiency and management	State Government	Ongoing
3	Establish a Capital Development Fund to ring-fence capital receipts and adopt accounting policies to ensure that capital receipts are strictly applied to capital projects	State Government	Dec 2016
4	Domestication of the Fiscal Responsibility Act (FRA).	State Government	Jun 2017

5.2 General findings from desk review

5.2.1 Creating a fixed asset register

Under the IPSAS, governments are expected to record both assets and liabilities to provide full information on all government obligations. The fixed asset register highlights this. At the federal level, the Asset Tracking and Management Project (ATMProject) was launched in March 2017 as a platform to identify, assess and evaluate all moveable and fixed assets of the federal government. This is the first Central and Unified National Database of Assets (asset register) that will manage and track investments in capital assets owned by the government. At the State level, data on the use of fixed asset registers is unavailable.

[49] *See: Nigeria Governors' Forum (2013) NGF lessons Learnt Brief No.1: Public Financial Management, Abuja: Nigeria Governors' Forum; SPARC (2014) Implementation of Fiscal Responsibility Laws and Public Procurement Laws at States in Nigeria and a Comparison of the Federal Laws with four Countries , Abuja; and World Bank (2011) NIGERIA: State Level Public Expenditure Management and Financial Accountability Review, Washington: World Bank Group.*

5.2.2 Privatization or concession of suitable State-owned enterprises to improve efficiency and management

In 2009, the Federal Executive Council (FEC) approved a National Policy on Public-Private Partnership (PPP) which provides guidance on PPP project structuring. PPP laws provide options for conventional procurement, public private partnership and privatization. Unlike public procurement projects, PPPs typically do not include service contracts or turnkey contracts but provide a balance between state ownership and privatization by providing a public asset or service in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. This arrangement has become an important facility to supplement governments' limited resources. PPPs have also been useful in attracting private-sector technology, innovation, and higher operational efficiency.

Lessons from States show that PPPs are complex transactions that should be pursued only with proper risk allocation. The major challenges States face in implementing PPP projects include insufficient budgetary allocation to meet government commitment; inconsistency in PPP project pipelines; weak regulatory and enforcement powers; poor project preparation; and technical skills and knowledge gaps. Addressing PPP challenges require a sound policy roadmap, legal and regulatory framework, institutional framework and capacity, coherent planning, human capital and an infrastructure financing framework. Although a number of States are working to establish PPPs, only 15 have established PPP laws to guide the funding model for public infrastructure projects. This has had serious implications on the flow of private capital and expertise, public-private consolidation of infrastructure financing, and the sustainability of private sector investments across States.

Table 5.2: Status of the PPP Framework across States

State	Bill Available	Law[50] Available	Office[51] & Framework
Abia		✓	
Adamawa			
Akwa Ibom	✓		
Anambra			
Bauchi		✓	✓
Bayelsa	✓		✓
Benue			
Borno			
Cross River		✓	✓
Delta		✓	
Ebonyi		✓	
Edo		✓	✓
Ekiti		✓	✓
Enugu		✓	
Gombe			
Imo			
Jigawa			
Kaduna		✓	✓
Kano			
Katsina			
Kebbi			
Kogi		✓	✓
Kwara		✓	✓
Lagos		✓	
Nasarawa	✓		
Niger		✓	✓
Ogun	✓		
Ondo			
Osun	✓		
Oyo	✓		✓
Plateau	✓		
Rivers		✓	✓
Sokoto		✓	
Taraba			
Yobe			
Zamfara			

Source: ICRC, 2017

5.2.3 Establishing a Capital Development Fund (CDF) to ring-fence capital receipts and adopt accounting policies to ensure that capital receipts are strictly applied to capital projects

CDFs provide some measure of guarantee for capital projects funding. The fund lowers the incidence of government default in payment and fast-tracks infrastructure development. The fund is maintained in States including Edo, Kwara and Lagos. In Kwara State, the Kwara Infrastructure Development Fund (IF-K) is funded from a N500 million fixed deduction from the State's monthly

[50] *The PPP law establishes guidelines for PPP arrangements in the State.*

[51] *PPP offices are responsible for regulating PPP procurement and guiding MDAs in structuring PPP transactions.*

IGR, and it is used as a guarantee to assure contractors that they will be paid upon project completion.

5.2.4 Domesticating the Public Procurement Act (PPA)

Nigeria's public procurement reform programme culminated in the passage of the Public Procurement Act in 2007, as part of the federal government's resolve to streamline the processes and procedures of public expenditure in line with best practices. The law provides regulations for the monitoring and oversight of public procurement, and contributes to maintaining fiscal discipline, transparency and efficiency in government spending. An effective public procurement system requires the following:

i. Establishment of a comprehensive and transparent, legal, regulatory and institutional framework guided by an independent procurement body for policy and quality control;

ii. Provisions for competitive, transparent bidding and award processes as well as contract management systems;

iii. Existence of an independent control system with audit and resource mechanisms separate from the procurement implementation function; andiv. Anti-corruption measures, access to information and citizen engagement; and processes for effective enforcement and sanction.

Box 2: Common gaps in States' Public Procurement Laws:

- Duplication of functions as a result of the establishment of a Central Procurement Board charged with functions and powers that are a hybrid between a Tenders Board and the Due Process Bureau.

- Project mobilization fees can be twice the amount prescribed in the Federal PPA and there is also no specification of the period of time that constitutes delayed payment. For some, the period from which a delay in payment is to be calculated could reach up to 90 days compared with 60 days in the Federal PPA.

- Weak provisions for recourse mechanisms including administrative review, code of conduct, offences and penalties.

- Contradictions between laws in operation in the State. For instance, the Bureau's objective of harmonizing existing policies and practices on public procurement may conflict with the powers granted to the Commissioner of Finance to make regulations for the implementation of the law subject to the approval of the State legislature.

- Exclusion of security and emergency procurements, e-procurement, funding agency requirements and public private partnerships.

A study[52] conducted in 2014 by DFID's State Partnership for Accountability Responsiveness and Capability (SPARC) programme and the Bureau of Public Procurement reported that 19 States had passed a PPL, including Abia, Anambra, Bauchi, Bayelsa, Cross River, Delta, Ebonyi, Ekiti, Enugu, Imo, Jigawa, Kano, Kebbi, Lagos, Niger, Oyo, Rivers, Sokoto and Taraba. 13 States yet to pass a PPL were Akwa Ibom, Benue, Edo, Gombe, Katsina, Kogi, Nasarawa, Ogun, Ondo, Osun, Plateau, Yobe and Zamfara States. Records were unavailable for Adamawa, Borno, Kwara and Kaduna. Common PPL challenges the study highlighted are shown in Box 2.

5.2.5 Domesticating the Fiscal Responsibility Act (FRA)

The FRA is aimed at ensuring prudent management of government resources, promoting long-term macro-economic stability and securing greater accountability and transparency in fiscal operations within a medium term-fiscal policy framework. This is achieved through a legislative backing of fiscal policies that set parameters for expenditure management and the accumulation of public debt.

While there is strong awareness of the importance of the FRA, given its domestication in over 20 States, this has been unmatched with the required process changes recommended to enhance expenditure transparency. The federal government has also been unable to persuade States to effectively manage spending and coordinate a national macroeconomic policy. Compliance requires strong political commitment and the strengthening of the Fiscal Responsibility Commission to carry out these functions.

The 2014 DFID-SPARC study also showed that 17 States had passed an FRL; namely, Abia, Anambra, Bauchi, Bayelsa, Cross River, Delta, Ebonyi, Ekiti, Gombe, Jigawa, Kebbi, Kogi, Kwara, Niger, Ondo, Osun and Taraba. 14 States yet to pass the FRL were Akwa Ibom, Benue, Edo, Enugu, Imo, Kaduna, Kano, Katsina, Nasarawa, Ogun, Plateau, Sokoto, Yobe and Zamfara. Lagos State passed a Public Finance Management Law 2011 which has some of the key components of the FRL. Records were unavailable for Adamawa, Borno, Oyo and Rivers.

Box 3: Common gaps in the Fiscal Responsibility Laws of States:

- Poor guidelines to ensure compliance and maintenance of a reserve account.
- Elements relating to sound financial management principles are weak.
- Absence of provisions to extend application to local governments.

[52] *http://www.sparc-nigeria.com/RC/files/4.3.9_SPARC_Implement_of_FRLs_and_Public_Procurem_Laws_States_Nigeria_Comparison_Federal_Jun_2014.pdf*

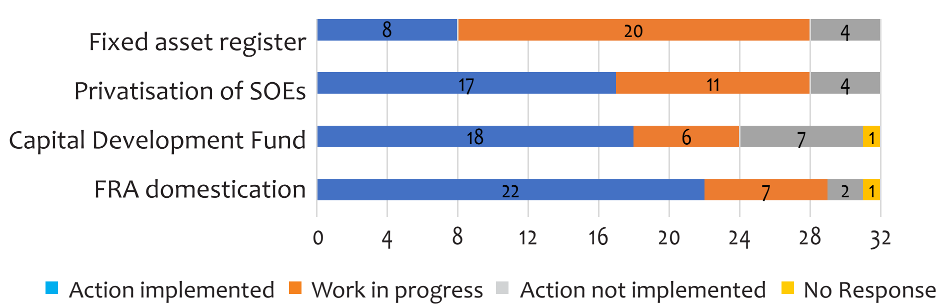
5.3 Main findings from States' Self-Assessment

Government responses on the status of PFM reforms are provided in the table below:

Table 5.3: Response on Public Financial Management Actions

S/N	Questions	Yes	Work in Progress	No	No Response	Number of Respondents
14	Has your State created a fixed asset and liability register?	8 (25.0%)	20 (62.5%)	4 (12.5%)	0	32
15a	Has your State considered the privatization or concession of suitable State-owned enterprises to improve efficiency and management?	17 (53.1%)	11 (34.4%)	4 (12.5%)	0	32
15b	Has your State domesticated the PPP Act?	12 (37.5%)	12 (37.5%)	7 (21.9)	1 (3.1%)	32
16a	Has your State established a Capital Development Fund?	18 (56.3%)	6 (18.8%)	7 (21.9%)	1 (3.1%)	32
16b	Are there clear accounting policies to ensure that capital receipts are strictly applied to capital projects?	26 (81.3%)	2 (6.3%)	3 (9.4%)	1 (3.1%)	32
17a	Has the State domesticated the Fiscal Responsibility Act (FRA)?	22 (68.8%)	7 (21.9%)	2 (6.3%)	1 (3.1%)	32
17b	Has the State domesticated the Public Procurement Act (PPA)?	22 (68.8%)	8 (25.0%)	0	2 (6.3%)	32

Figure 5.1: Implementation of PFM reforms are mostly experiencing lags



I. *Creating a fixed asset and liability register*

8 States[53] reported that they have created a fixed asset and liability register while implementation is ongoing in 20 States[54]. Enugu, Jigawa, Taraba and Zamfara recorded a slowdown in implementation.

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[53] *Ebonyi, Ekiti, Gombe, Imo, Kaduna, Kano, Lagos and Plateau*

[54] *Abia, Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Edo, Kebbi, Kano, Katsina, Kogi, Nasarawa, Niger, Ondo, Osun, Oyo, Rivers, Sokoto and Yobe*

ii. ***Consider privatisation or concession of suitable State-owned enterprises to improve efficiency and management***

17 States[55] have considered privatising State-owned enterprises, while 11 States[56] are reviewing the plan. Additionally, 12[57] States reported that they have enacted the PPP law. 12[58] other States are in the process of domesticating the Act.

iii. ***Establishing a capital development fund to ring-fence capital receipts and adopt accounting policies to ensure that capital receipts are strictly applied to capital projects***

18 States[59] reported that they have established a Capital Development Fund. 7 States[60] indicated that they have not established the fund, while it is being set up in 6 States – Bauchi, Kaduna, Kogi, Niger, Osun and Taraba.

iv. ***Domestication of the Fiscal Responsibility Act***

22 States[61] indicated that they have an FRL in place, while a Bill is under consideration in 7 States[62]. The Delta State government is currently reviewing its 2008 FRL. Additionally, 29 States reported to have either domesticated the PPA (22 States[63]) or submitted a Bill (7 States[64]) to their House of Assembly. The Delta State government is currently reviewing its 2009 PPL.

5.4 Conclusion

Despite the domestication of the FRA and PPA in 22 States, challenges in public financial management still persist, as established in sections of this report. These results highlight the importance of establishing strong institutions to effectively implement these regulations. These laws also do not provide specific and stringent sanctions against government organisations and their heads for compliance failures. PPPs are barely taking shape, with only 12 States reporting to have established PPP laws. This has had implications on opportunities to promote public-private fiscal consolidation for infrastructure financing.

Overall, the level of implementation of actions aimed at improving public financial management was 51 percent for completed actions, 34 percent for ongoing actions, and 13 percent for actions not implemented. The reform which recorded the lowest level of implementation was the establishment of a fixed asset register, with an implementation rate of only 25 percent (8 States).

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[55] *Abia, Bayelsa, Cross River, Delta, Edo, Ekiti, Enugu, Imo, Jigawa, Kaduna, Katsina, Kebbi, Kwara, Nasarawa, Rivers, Sokoto and Yobe*

[56] *Bauchi, Benue, Kano, Kogi, Lagos, Niger, Osun, Oyo, Plateau, Taraba and Zamafara*

[57] *Abia, Bayelsa, Cross River, Delta, Ekiti, Enugu, Kaduna, Katsina, Kogi, Kwara, Niger and Rivers*

[58] *Bauchi, Edo, Imo, Kano, Kebbi, Ondo, Osun, Oyo, Plateau, Taraba, Yobe and Zamfara*

[59] *Abia, Bayelsa, Cross River, Delta, Edo, Ekiti, Enugu, Jigawa, Kano, Katsina, Kwara, Lagos, Nasarawa, Oyo, Plateau, Rivers, Yobe and Zamfara*

[60] *Borno, Ebonyi, Gombe, Imo, Kebbi, Ondo and Sokoto*

[61] *Abia, Bauchi, Bayelsa, Cross River, Delta, Ebonyi, Ekiti, Gombe, Imo, Jigawa, Kaduna, Katsina, Kebbi, Kogi, Kwara, Nasarawa, Niger, Osun, Plateau, Rivers, Taraba and Yobe*

[62] *Borno, Edo, Enugu, Kano, Oyo, Sokoto and Zamfara*

[63] *Abia, Bauchi, Bayelsa, Cross River, Delta, Ebonyi, Edo, Ekiti, Enugu, Jigawa, Kaduna, Katsina, Kebbi, Kogi, Lagos, Niger, Osun, Plateau, Rivers, Sokoto, Taraba and Yobe.*

[64] *Borno, Gombe, Imo, Kano, Kwara, Nasarawa and Ondo.*

6.0 SUSTAINABLE DEBT MANAGEMENT

6.1 Background

Over the last six years, the total debt of the 36 States grew at a compound annual rate of 24 percent from N1 trillion in 2010 to N3.9 trillion in 2016 (table 6.1). Domestic debts consisting of restructured commercial bank loans, workers' salaries and contractor arrears, pensions, bonds and other liabilities which make up over 70 percent of the total debt of States. These debts grew by over 70 percent in the last two years alone, worsened by high recurring costs (including wage bills) which continued to pose serious constraints on government spending and debt financing.

External debts which make up 30 percent of total debts, grew by 64 percent to N1.1 trillion in 2016 from N657 million in 2015, mainly as a result of debts accruing to Lagos State, which accounts for 39 (N421 billion) percent of the total debt of States in 2016.

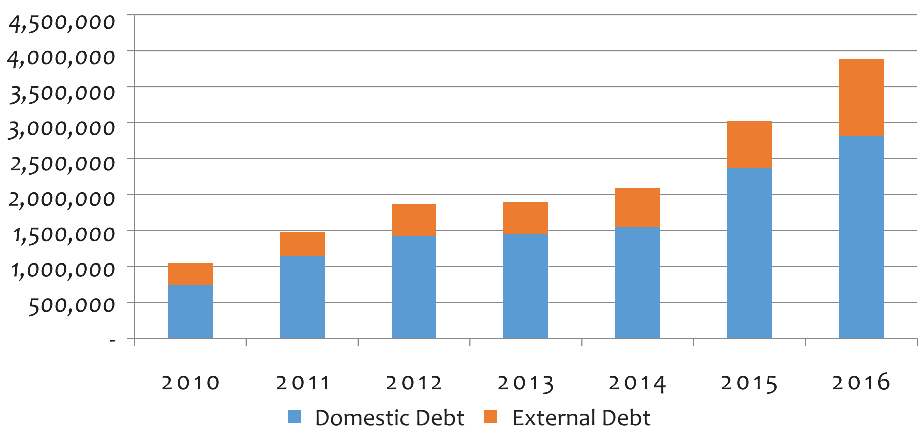
Table 6.1: Total Debt of States (NGN Million), 2010 – 16

	2010	2011	2012	2013	2014	2015	2016
Domestic Debt	746,879	1,147,732	1,427,657	1,453,147	1,545,040	2,369,360	2,805,713
Growth rate (%)	-	53.7	24.4	1.8	6.3	53.4	18.4
Share of Total (%)	71.8	77.4	76.7	76.9	74.0	78.3	72.2
External Debt	292,816	334,175	433,181	435,958	542,502	656,969	1,078,116
Growth rate (%)	-	14.1	29.6	0.6	24.4	21.1	64.1
Share of Total (%)	28.2	22.6	23.3	23.1	26	21.7	27.8
Total Debt	**1,039,695**	**1,481,907**	**1,860,838**	**1,889,105**	**2,087,542**	**3,026,329**	**3,883,829**

Source: DMO (2017)

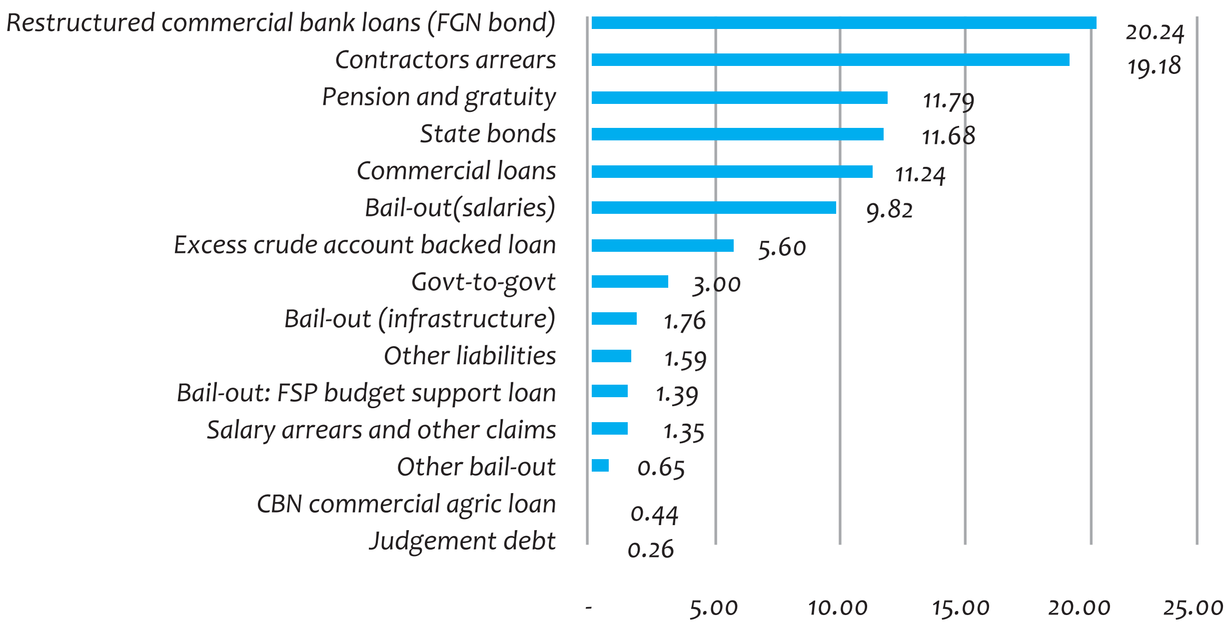
Note: Jigawa and Katsina States' data are as at March 2016, Akwa Ibom and Rivers as at June 2016 and Ogun as at December 2015.

Figure 6.1: Rising debt of States, 2010 – 16



Source: DMO (2017)

Figure 6.2: Composition of the domestic debt of States, 2016

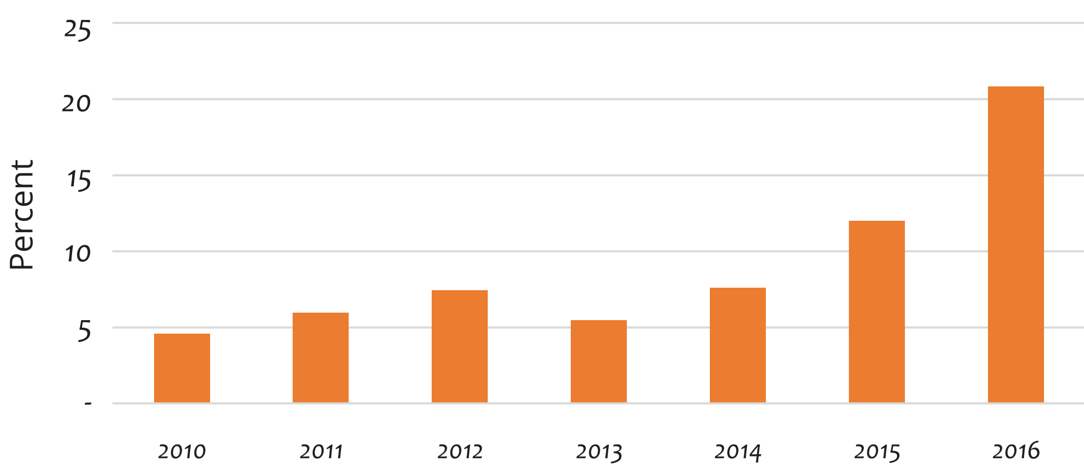


Source: DMO (2017)

This rise in public debt has exacerbated the already tightening fiscal space, leading to a wider divergence between the gross and net federation revenues of States. Figure 6.3 below illustrates the rise in federation deductions which soared following the introduction of the first bailout[65] package in July 2015. In addition to pressures from falling oil revenues, federation revenues also recorded downside pressures from debt servicing, including deductions for bailout and loan facilities. Bailouts provided short term liquidity to States to address accumulating wage bills, pension and contractors' arrears, but also led to a spike in federation deductions. By 2016, federation deductions (% of gross allocation) more than doubled to over 20 percent, from just 7.6 percent in 2014 (figure 6.3).

Figure 6.3: Rising pressures from States federation revenue deductions, 2010 – 16

Federation revenue deduction (share of gross allocation)



Source: OAGF (2017)

Actions aimed at achieving sustainable debt management include the following:

Table 6.2: Sustainable Debt Management Actions

S/N	Actions	Responsibility	Deadline
1	Attainment and maintenance of a credit rating by each State of the Federation	State Government	Dec 2017
2	Federal Government to encourage States to access funds from the capital markets for bankable projects through the issuance of fast-track Municipal bond guidelines to support smaller issuances and shorter tenures	State/Federal Government (SEC/DMO)	Dec 2016
3	Full compliance with the FRA and reporting bligations, including: No commercial bank loans to be undertaken by States; Routine submission of updated debt profile report to the DMO		
4	Publish a benchmark rate for Municipal loans to achieve greater transparency	CBN	Sep 2016
5	Ensure total liabilities do not exceed 250% of total revenue for preceding year	State/Federal Government	Continuous
6	Monthly debt service deduction is not to exceed 40% of the average FAAC allocation for the preceding 12 months		
7	In addition to the sinking fund, States are encouraged to establish a consolidated Debt Service Account to be funded from the State's Consolidated Revenue Fund Account to a minimum of 5% of the IGR.	State Government	Continuous

Box 4: Laws and regulations that guide sub-National borrowing:

- The 1999 Constitution vests the National Assembly with the powers to make laws with respect to any matter that concerns domestic and external loans for the purposes of the Federation or of any State.

- The Debt Management Office Establishment (etc.) Act, 2003, gives powers to the DMO to maintain a reliable database of all loans taken or guaranteed by the federal or State governments or any of their agencies. It also stipulates that all banks and financial institutions requiring lending money to the Federal, State and Local Governments or any of their agencies, shall obtain the prior approval of the Minister of Finance in accordance with Section 24 of the DMO Act, 2003, and the Fiscal Responsibility Act, 2007, and shall state the purpose of borrowing and the tenor. The monthly debt service ratio of a sub-national, which includes the commercial bank loan being contemplated, should not exceed 40% of its monthly federation allocation of the preceding 12 months.

- All commercial banks' lending to a sub-national government must make a provision (currently 50%) on all such loans in line with the Prudential Guidelines of the CBN.

- The Investments and Securities Act, 2007, also includes some prudential restrictions on State and local government borrowing. Sub-national governments are allowed to issue securities only if the total amount of loans outstanding at any particular time, including the proposed loan, does not exceed 50% of the actual revenue of the sub-national concerned for the preceding year.

- The Fiscal Responsibility Act, 2007 requires the President subject to approval by the National Assembly, to set overall limits for the amounts of consolidated debt of the federal and State governments. These limits are set by the federal DMO as part of the annual budget exercise.

- The federal and the 36 State governments and FCT approved National Debt Management Framework agreement which provides additional guidelines for external and domestic borrowing.

- States governments agencies must provide evidence that they have not over-borrowed externally. In this regard, State Governments must demonstrate that the ratio of their projected external debt service plus all other deduction obligations for the next twelve months (inclusive of the new loan under consideration) to their total Federation Accounts Allocation over the preceding twelve months will not exceed 40 percent.

6.2 General findings from desk review

6.2.1 Attainment and maintenance of a credit rating by each State

The capital market is largely inactive for subnational bonds, with less than a quarter of States participating in the market annually. Agusto & Co, a leading credit rating company in Nigeria, has a bond rating for only 15 States in the country, based on a review of audited financial accounts and other political, legal, demographic, management, administrative and economic structures. In

2015, the Global Rating Company downgraded the rating of 6 State governments (Ondo, Niger, Nasarawa, Gombe, Cross River and Osun) that depend on federation transfers for over 75 percent of their revenues. This was based on the conclusion that if federal government support was stopped, the State governments would be unable to maintain their operations. largely

6.2.2 Accessing funds from the capital market

The capital market plays an important role in facilitating private-sector participation in economic activities. The market, however, remains largely untapped by State governments. In the last five years between 2011 and 2015, only 15 States participated in the capital market, with a total bond value of N451 billion, according to data from the Securities and Exchange Commission. The total face value of sub-national bonds issued in 2015 was N60.95 billion, up from just N15 billion in 2014, but down from N125.9 billion in 2013 and N157 billion in 2012.

Table 6.3: Sub-National Bond Issuances (NGN Billion), 2011 – 15

2011		2012		2013		2014		2015	
State	Bond Value	State	Bond Value	State	Bond Value	State	Bond Value	State	Bond Value
Benue	13	Ondo	27	Ekiti	5	Bauchi	15	Gombe	5
Niger	9	Gombe	20	Kogi	5	-	-	Kogi	3
Delta	50	Lagos	80	Nasarawa	5	-	-	Oyo	4.8
Ekiti	20	Osun	30	Niger	12	-	-	Benue	4.95
-	-	-	-	Lagos	87.5	-	-	Plateau	28.2
-	-	-	-	Osun	11.4	-	-	Zamfara	7
-	-	-	-	-	-	-	-	Cross River	8
Total	92		157		125.9		15		60.95

Source: Securities and Exchange Commission (2016)

6.2.3 Publishing a benchmark rate for municipal loans

When evaluating the performance of government securities, it's important to compare it against a standard benchmark. This benchmark rate provides a standard against which the performance of the State's security can be measured to provide checks and balances for governments and also guide investor decisions. The framework should also detect potential crises and inform fiscal policy dialogues(including borrowing decisions). Data for measuring the implementation of this action was unavailable.

6.2.4 Maintaining total liabilities and debt service thresholds

While government borrowing is helpful in bridging the fiscal gap, it could also create counterproductive results when it becomes high and unsustainable. One of the most important strategies to ensure sustainable debt management decisions is setting and adhering to thresholds to guide borrowing decisions. Although federal government debts are measured against internationally set thresholds, the application to States remains lose. Liquidity and solvency ratios measure a mix of ratios for domestic debt, foreign debt, IGR, federation revenues, as well as key economic indices. States that currently have accumulated debt levels above their optimal thresholds need to pursue policies that lower their indebtedness to sustainable levels. See section 6.3 for a broader analysis on the implementation of these targets across States.

6.2.5 Establishing a sinking fund and a consolidated debt service account

Sinking funds provide buffers to safeguard States' borrowing, especially for external loans. Sub-nationals are required to put in place a collateral arrangement such as a sinking fund to hedge against potential default to protect investors. In Lagos State for example, the creation of a Consolidated Debt Service Account (CDSA) requires the Lagos State government to save 15% of its monthly IGR for debt servicing, as security for borrowing. It is from this CDSA that individual sinking funds for bond issuance are created. These instruments can be used to augment Irrevocable Standing Payment Orders (ISPOs) and can act as first response mechanisms to address shocks in debt repayment plans. Through this instrument, State bonds can be secured by an ISPO and transfers from the CDSA, covering both the interest cost and principal redemption. The sinking fund is to be created in accordance with the provisions of the Bond Law and the Investment and Securities Act (ISA) and funded from the CDSA.

The federal government began setting up sinking funds as an appropriation of its revenue for domestic debts in 2012 in line with part 3 of its Promissory Notes Act. At the State level, data for this action remains scanty.

6.3 Debt Sustainability Analysis

6.3.1 The Methodology

This assessment provides an indicator-led framework for analysing key aspects of debt sustainability at the State level. It leverages on the IMF-World Bank Debt Sustainability Framework (DSF)[66] fornational governments and covers data on total recurrent revenue (federation revenues and IGR), total debt (domestic and external), as well as federation deductions for the period 2014 – 2016. The DSA evaluates how a State's current level of debt affects its present and future ability to meet debt service obligations, and the extent of fiscal vulnerability. In what follows, we provide an analysis of the solvency ratio and liquidity ratio of States against indicative thresholds. These thresholds are used for four (4) possible ratings as listed below:

I. Low risk: all debt indicators are well below the indicative thresholds
ii. Moderate risk: solvency ratio on domestic revenues may be breached but thresholds for total recurrent revenue and liquidity ratio are not breached
iii. High risk: solvency ratios on domestic revenues and total recurrent revenues are breached but liquidity remains satisfactory
iv. Debt distress: all thresholds are breached

6.3.2 Solvency Ratio of States

Solvency ratio measures the ability of the State government to service long terms debts and achieve sustainability. It is measured in two streams – (i.) the ratio of the State's public debt to total recurrent revenue; and (ii.) the ratio of domestic debt to IGR.

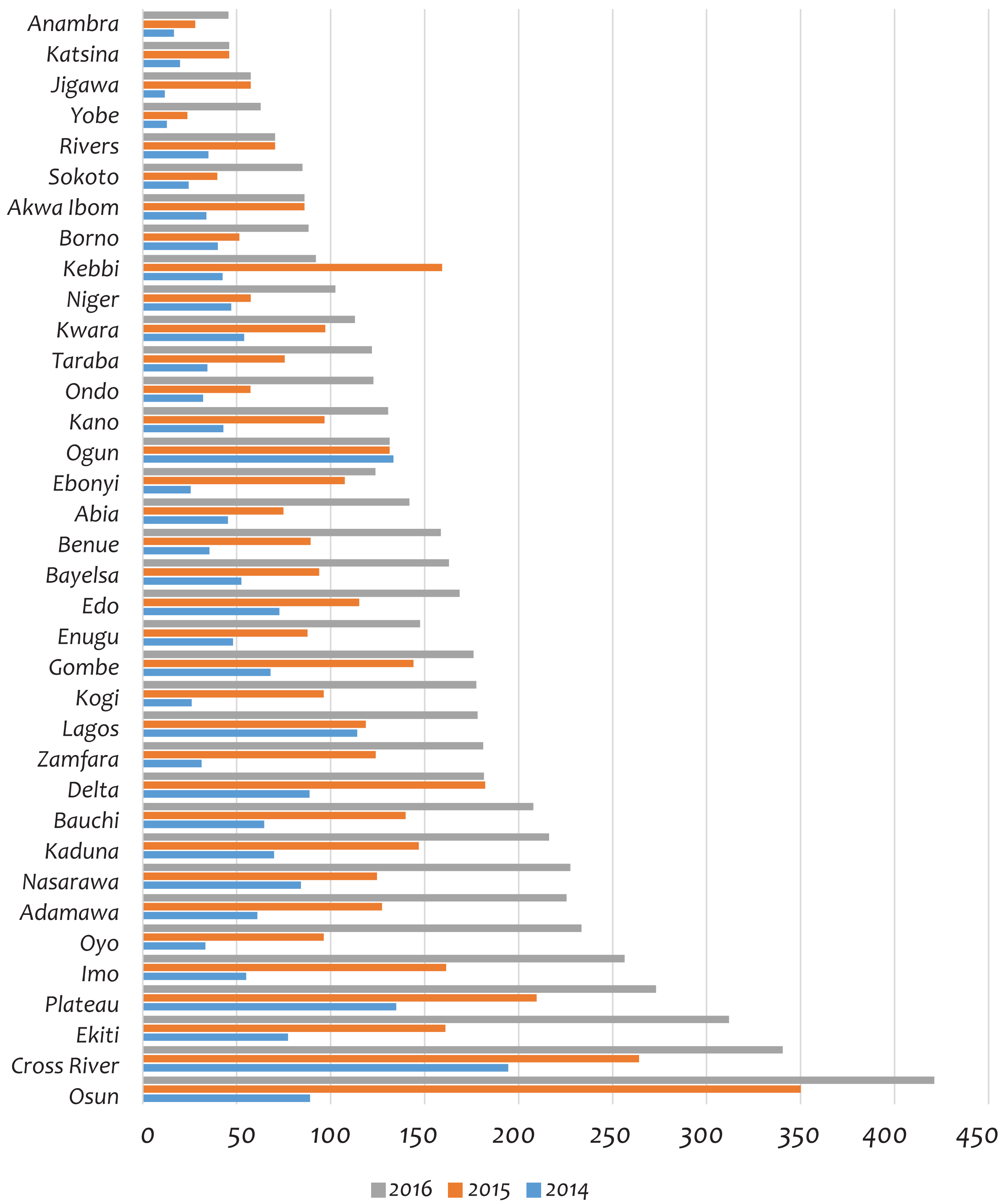
(i) Solvency Ratio - Total Debt: Total Recurrent Revenue[67]

The ratio of public debt to total recurrent revenue for the 36 States rose from an average of 114 percent in 2015 to 164 percent in 2016. The negative performance was largely as a result of the impact of the plunge in oil prices since mid-2014 which led to a slide in federation revenues and rise in

[66] *Introduced in 2005, the joint IMF-World Bank Debt Sustainability Framework (DSF) is a standardized framework for conducting public and external debt sustainability analysis (DSA) in low-income countries (LICs). It aims to help guide the borrowing decisions of LICs, provide guidance for creditors' lending and grant allocation decisions.*
[67] *The DSA and FSP threshold is 250 percent.*

borrowing. Figure 6.4 illustrates high fiscal vulnerability for States such as Osun, Cross River, Ekiti, Plateau and Imo, which reached 421 percent, 341 percent, 312 percent, 273 percent and 256 respectively, well above the FSP threshold of 250 percent. On the other hand, Anambra, Yobe, and Sokoto States recorded the lowest ratios of 45.7 percent, 62.8 percent and 85.1 percent respectively

Figure 6.4: Rising solvency across States, 2014 – 16



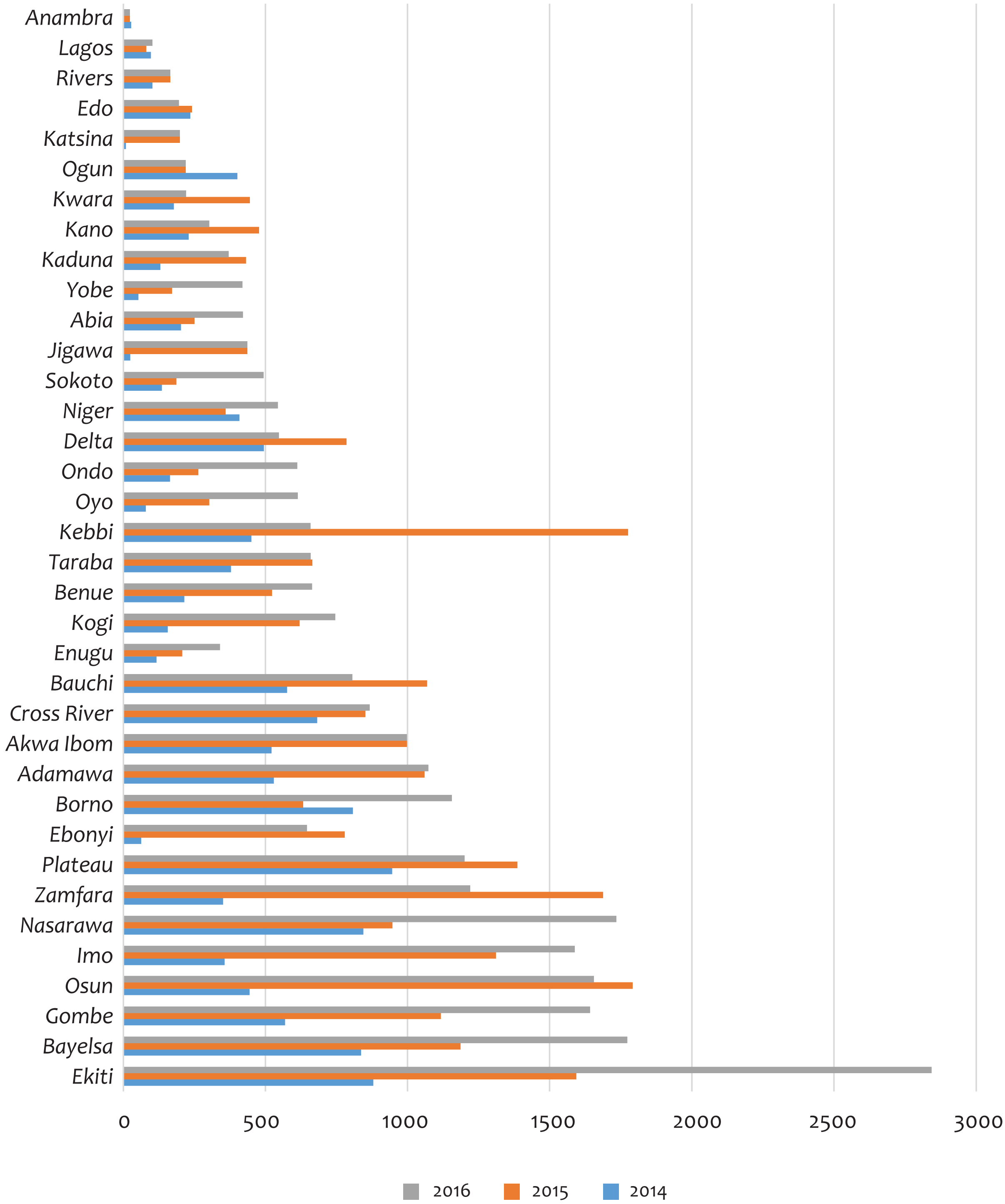
Source: Authors' calculation based on underlying data from DMO, JTB and OAGF (2017)
Note: Analysis for 2016 excludes Akwa Ibom, Jigawa, Katsina, Ogun and River
where full-year 2016 domestic debt data is unavailable. Results for these States are as at 2015.

(ii) Solvency Ratio – Domestic Debt: Internally Generated Revenue[68]

Given that the sustainability of a State's domestic debt is to be best measured against its own revenues, an analysis of the domestic debt of States to their IGR was undertaken. The ratio doubled from 353 percent in 2014 to 701 percent in 2015 and 782.3 percent in 2016. Worsening records persisted owing to mounting domestic debts including salary and pension arrears, contractors' arrears, commercial bank loans and other liabilities – especially in States such as Ekiti, Bayelsa, Gombe, Osun, Imo, Nasarawa Zamfara and Plateau. The State that recorded the highest level of resilience was Anambra at 23.8 percent, followed by Lagos with a record of 103.1 percent in 2016 (see figure 6.5).

[68]Debt Relief International (DRI) recommends a solvency threshold between 92 and 167 percent.

Figure 6.5: Significantly higher solvency for domestic debts, 2014 – 16



Source: Authors' calculation based on underlying data from DMO, JTB and OAGF (2017)
Note: Analysis for 2016 excludes Akwa Ibom, Jigawa, Katsina, Ogun, and Rivers, where full-year 2016 domestic debt data was unavailable. Results for these States are as at 2015.

6.3.3 Liquidity Ratio of States[69]

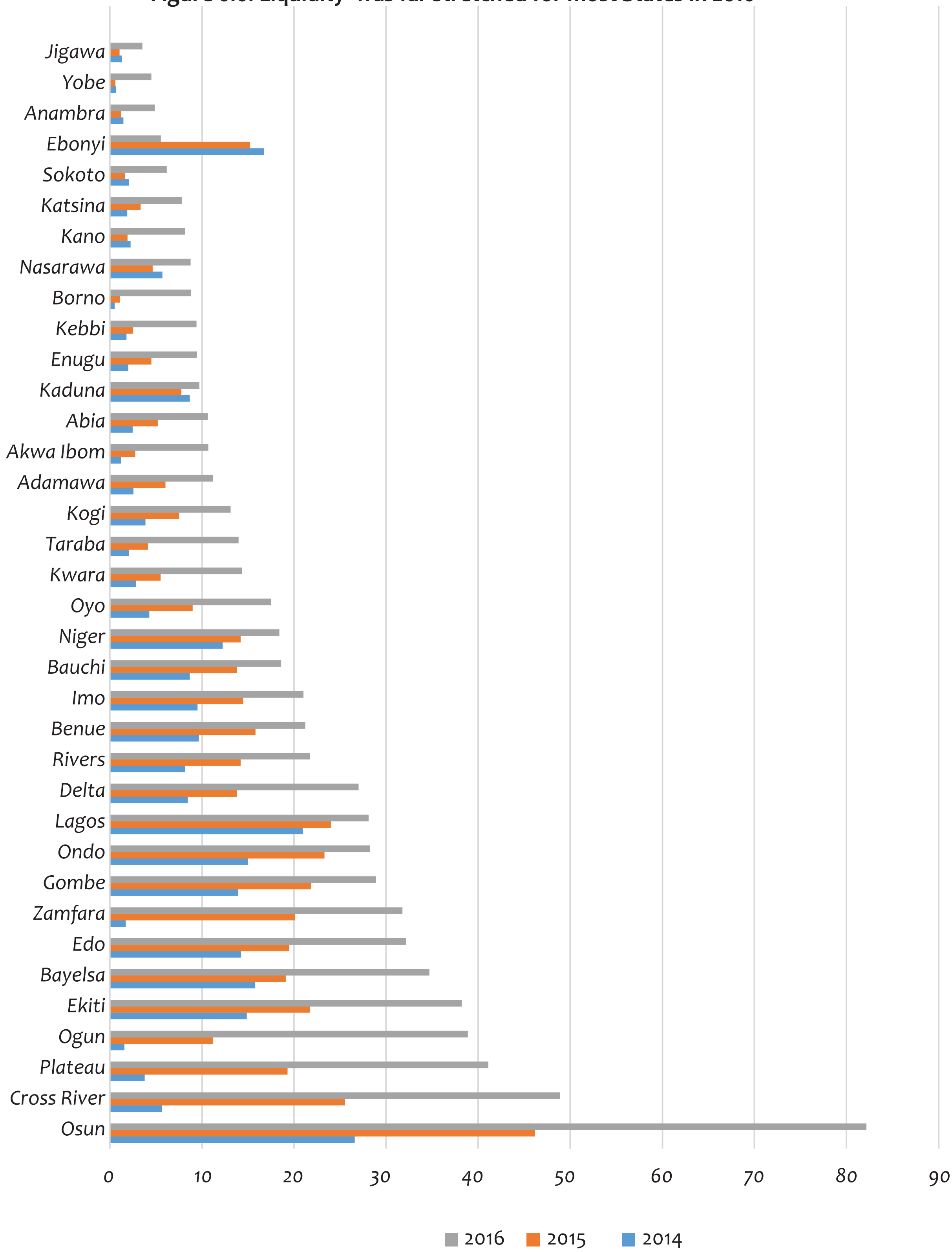
Liquidity ratio measures the ability of the State to service its short-term debts as at when due. It is based on the total 12-month average federation deductions (including deductions for externals debts, loan facilities and bailout, contractual and counterpart obligations) and the 12-month average federation allocation. Average liquidity ratio for the 36 States rose to 21 percent in 2016 from 12 percent in 2015, and 7 percent in 2014. State variations ranged from 82 percent in Osun State[70] (representing high risk in debt servicing), to 3.6 percent in Jigawa (representing strong resilience to revenue shocks). In 2016, 3 States – Osun (82 percent), Cross River (49 percent), and Plateau (41 percent) recorded high liquidity ratios above the recommended 40 percent threshold, while at least 5 States edged towards the threshold (see figure 6.6).

The result shows that most States have transitioned from low risk to medium and high-risk ratings. At least 15 States recorded this transition from the 2014 pre-crisis period to the 2015 – 16 crisis period (see table 6.4).

[69] *DSA and FSP thresholds is 40 percent.*

[70] *In December 2015, Osun State recorded a default in its federation service payment. This default also occurred in March, May and June 2016.*

Figure 6.6: Liquidity was far stretched for most States in 2016



Source: Authors' calculation based on underlying data from DMO, JTB and OAGF (2017)

Table 6.4: DSA Result for States, 2013 - 2016

Year	Rating	No. of States	States
2013	Low Risk	17	Anambra, Delta, Ebonyi, Enugu, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Oyo, Rivers, Sokoto, Yobe
	Medium Risk	19	Abia, Adamawa, Akwa Ibom, Bauchi, Bayelsa, Benue, Borno, Cross River, Edo, Ekiti, Gombe, Nasarawa, Niger, Ogun, Ondo, Osun, Plateau, Taraba, Zamfara
2014	Low Risk	18	Abia, Anambra, Benue, Ebonyi, Edo, Enugu, Jigawa, Kaduna, Kano, Katsina, Kogi, Kwara, Lagos, Ondo, Oyo, Rivers, Sokoto, Yobe
	Medium Risk	18	Adamawa, Akwa Ibom, Bauchi, Bayelsa, Borno, Cross River, Delta, Ekiti, Gombe, Imo, Kebbi, Nasarawa, Niger, Ogun, Osun, Plateau, Taraba, Zamfara
2015	Low Risk	3	Anambra, Lagos, Rivers
	Medium Risk	31	Abia, Adamawa, Akwa Ibom, Bauchi, Bayelsa, Benue, Borno, Delta, Ebonyi, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Nasarawa, Niger, Ogun, Ondo, Oyo, Plateau, Sokoto, Taraba, Yobe, Zamfara,
	High Risk	1	Cross River
	Distress	1	Osun
2016*	Low Risk	3	Anambra, Jigawa, Yobe
	Medium Risk	23	Abia, Adamawa, Benue, Bauchi, Bayelsa, Borno, Delta, Ebonyi, Edo, Enugu, Gombe, Imo, Kaduna, Kano, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Ondo, Oyo, Sokoto, Taraba, Zamfara
	High Risk	1	Ekiti
	Distress	3	Cross River, Plateau, Osun

Note: Analysis for 2016 excludes Akwa Ibom, Jigawa, Katsina, Ogun, and Rivers, where full-year 2016 debt data was unavailable.

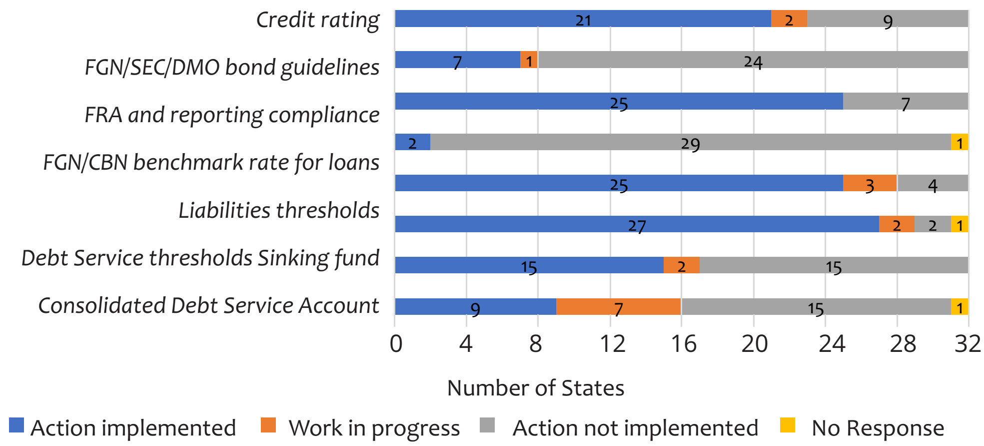
6.2 Main findings from questionnaire

A summary of feedback from States on the implementation status of debt management actions is presented in table 6.5 below.

Table 6.5: Response on Sustainable Debt Management Actions

S/N	Questions	Yes	Work in Progress	No	No Response	Number of Respondents
18a	Does your State have a credit rating?	21 (65.6%)	2 (6.3%)	9 (28.1%)	0	32
19a	Has your State received from the Federal Government guidelines on issuance of fast-track municipal bonds?	7 (21.9%)	1 (3.1%)	24 (75.0%)	0	32
19b	Has your State accessed funds from the capital market for bankable projects through the issuance of fast track municipal bonds?	10 (31.3%)	1 (3.1%)	21 (65.6%)	0	32
19c	Has your State fully complied with the FRA with respect to no undertaking of commercial bank loans since the FSP?	25 (78.1%)	0	7 (21.9%)	0	32
19d	Does your State make routine submissions of updated debt profile reports to the Debt Management Office?	32 (100.0%)	0	0	0	32
20	Has your State received a benchmark rate for municipal loans from the CBN?	2 (6.3%)	0	29 (90.6%)	1 (3.1%)	32
21a	Has your State established measures to ensure that total liabilities do not exceed 250% of total revenue for the preceding year?	25 (78.1%)	3 (9.4%)	4 (12.5%)	0	32
21b	Has your State established measures to ensure that monthly debt service deductions do not exceed 40% of the average FAAC allocation for the preceding 12 months?	27 (84.4%)	2 (6.3%)	2 (6.3%)	1 (3.1%)	32
22a	Does the State run currently a sinking fund for maturing loans?	15 (46.9%)	2 (6.3%)	15 (46.9%)	0	32
22b	In addition to a sinking fund, has your State established a consolidated debt service account to be funded from the State's consolidated reserve fund account to a minimum of 5% of IGR?	9 (28.1%)	7 (21.9%)	15 (46.9%)	1 (3.1%)	32

Figure 6.7: Weaknesses identified in the implementation of debt management actions



i. Maintaining a credit rating

21 States[71] reported that they maintain a credit rating, 9 States[72] do not have one, while 2 States[73] are putting in place measures to attain one.

ii. Accessing funds from the capital market for bankable projects through the issuance of fast track municipal bond guidelines to support smaller issuances and shorter tenures

10 States[74] indicated that they have implemented this target while 21 States[75] have not. Enugu reported that this was an ongoing activity.

Only 7 States[76] reported that they have received guidelines on the issuance of fast-track municipal bonds from the CBN.

iii. Full compliance with the FRA with respect to no undertaking of commercial bank loans since the FSP and routine submissions of updated debt profile reports to the Debt Management Office.

25 States[77] reported that they have not taken a commercial bank loan since the introduction of the FSP. All States reported that they submit their debt profile to the DMO regularly, however, reports from DMO reported data from only 31 States[78] as at December 2016. Domestic debt data for Jigawa and Katsina was as at March 2016; Akwa Ibom and Rivers as at June 2016 and Ogun as at December 2015.

iv. Receiving a benchmark rate for municipal loans?

Only 2 States – Benue and Jigawa reported to have received a benchmark rate for municipal loans from the CBN.

[71] *Bauchi, Benue, Bayelsa, Borno, Delta, Edo, Enugu, Gombe, Kaduna, Kwara, Kogi, Lagos, Nassarawa, Niger, Ondo, Osun, Oyo, Rivers, Taraba, Yobe and Zamfara*
[72] *Cross River, Ebonyi, Ekiti, Imo, Jigawa, Kano, Katsina, Kebbi, Sokoto*
[73] *Abia, Plateau*
[74] *Benue, Cross River, Gombe, Kogi, Kwara, Nassarawa, Osun, Oyo, Plateau and Zamfara*
[75] *Abia, Bauchi, Borno, Benue, Bayelsa, Delta, Ebonyi, Edo, Ekiti, Enugu, Imo, Jigawa, Kaduna, Kano, Ka tsina, Kebbi, Lagos, Niger, Ondo, Rivers, Sokoto, Taraba, Yobe*
[76] *Benue, Borno, Cross River, Jigawa, Nassarawa, Rivers and Zamfara*
[77] *Bauchi, Benue, Bayelsa, Cross River, Delta, Edo, Ekiti, Enugu, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kogi, Kwara, Lagos, Nassara, Niger, Ondo, Osun, Oyo, Rivers, Yobe and Zamfara*
[78] *Abia, Adamawa, Anambra, Bauchi, Bayelsa, Borno, Cross River, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Kebbi, Kogi, Kwara, Lagos, Nasarawa, Niger, Osun, Oyo, Plateau, Sokoto, Taraba, Yobe, Zamfara*

v. Establishing measures to ensure that total liabilities do not exceed 250 percent of total revenue for the preceding year?

25 States[79] indicated that they have established measures to meet this threshold. DSA results for 2016 showed that 5 States – Osun (421 percent), Cross River (341 percent), Ekiti (312 percent), Plateau (273 percent) and Imo (256 percent) recorded liability ratios above the 250 percent threshold, up from only 2 States – Osun and Cross River in 2015.

vi. Has your State established measures to ensure that monthly debt service deductions do not exceed 40 percent of the average FAAC allocation for the preceding 12 months?

27 States[80] reported to have established measures to limit payments on debt servicing. DSA results showed that 3 States – Osun, Cross River and Plateau exceeded the 40 percent threshold in 2016. The three States recorded levels reaching 82 percent, 49 percent and 41 percent respectively.

vii. Does your State currently run a sinking fund for maturing loans and a CDSA to be funded from the State's Consolidated Reserve Fund Account to a minimum of 5 percent of IGR?

15 States[81] reported that they currently maintain a sinking fund for maturing loans. The fund has not been established in 15 States,[82] while implementation is ongoing in Ekiti and Rivers. Only 9 States[83] reported that they maintain a consolidated debt service account.

6.4 Conclusion

In 2016, the total debt of States rose to N3.9 trillion from N3 trillion in 2015, with both domestic and external debts rising by 18 percent and 64 percent respectively. Following the release of bailouts to States and the consequent pressures on service deductions, the period also marked a sharp rise in federation deductions (% of gross allocation) from an average of 8 percent in 2014 to over 20 percent in 2016.

States' self-assessments showed that the implementation of debt management actions has been generally weak. Implementation was recorded as 51 percent for completed actions, 7 percent for ongoing actions, and 41 percent for actions not implemented – the highest across the five objectives of the FSP. Although over 25 States reported to have established liability thresholds, only 9 States maintain a CDSA and 15 maintain a sinking fund. Only 2 States have received a benchmark guideline for loans, while just 7 States have received guidelines for municipal bonds.

States reported to have adopted measures to set liability thresholds and adhere to the FRA, but findings show worsening results. In 2016, 5 States breached the 250 percent threshold for the ratio of total debt to total revenue, compared to only 2 States in 2015. 3 States also breached the 40 percent threshold for gross federation deduction to gross allocation compared to 1 in the previous year. Despite additional measures by the federal government to provide moratorium to States, reforms are yet to stregthen fiscal discipline. In the last two years, the number of States that moved from low debt risk positions to higher risks reduced from 18 in 2014 to 3 in 2016 – showing weaker capacities of State governments to meet both short- and long-term debt obligations as at when due.

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[79] *Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Kebbi, Kwara, Lagos, Nasarawa, Niger, Ondo, Oyo, Rivers, Sokoto, Taraba, Yobe*

[80] *Bauchi, Bayelsa, Benue, Borno, Cross River, Delta, Edo, Ekiti, Enugu, Gombe, Imo, Jigawa, Kaduna, Kano, Katsina, Kebbi, Kwara, Lagos, Nasarawa, Niger, Ondo, Oyo, Rivers, Sokoto, Taraba, Yobe and Zamfara*

[81] *Benue, Edo, Enugu, Gombe, Jigawa, Kogi, Kwara, Lagos, Nasarawa, Ondo, Osun, Oyo, Plateau, Sokoto, Taraba*

[82] *Abia, Bauchi, Bayelsa, Borno, Cross River, Delta, Ebonyi, Imo, Kaduna, Kano, Katsina, Kebbi, Niger, Yobe and Zamafara*

[83] *Jigawa, Katsina, Kwara, Lagos, Osun, Plateau, Sokoto, Tarabe, Yobe*

APPENDIX A: Terms of the Budget Support Facility

Issuer:	______________________ State of the Federal Republic of Nigeria ("the State")
Subscriber:	BSF Special Purpose Funding Limited
Format:	Note Issuance by the state to be purchased by the Subscriber
Method of Issue:	Single Note issuance in monthly tranches
Currency:	Nigeria Naira (NGN)
Amount:	Aggregate amount shall not exceed NGN 15.5 Billion
Maturity/Tenor:	10 (Ten) years
Eligibility/Conditions Precedent:	States' eligibility will be subjected to the following conditions, amongst others: i. Obtaining all authorization of the States' Executive Council and a resolution of its House of Assembly; ii. Achieving compliance with the Fiscal Sustainability Plan and the fiscal reform framework timelines proposed by the Federal Ministry of Finance ("FMF") at levels satisfactory to FMF; and iii. Where the distributable amount from the Federation Allocation Account is equal to or exceeds NGN 500 Billion in any given month, no disbursement will be made in the next month.
Principal and interest Repayment Moratorium:	1 year
Principal Repayment:	Repayment will commence in month 13, following a 1-year moratorium
Securitisation:	Secured against future dividends and receipts due from the Federal Government.
Disbursement Schedule:	Net monthly disbursement to occur as follows, subject to fulfilment of eligibility condition and compliance with Fiscal Sustainability plan: • NGN 1.39 Billion per month for a period of three (3) months from the issue date; and • NGN 1.11 Billion per month thereafter from the following nine (9) months
Monitoring and Evaluation:	Eligibility will be directly tied to the achievement of milestones as outlined in the Fiscal Sustainability Plan ("FSP") to be submitted by States. Monitoring & evaluation will be carried out by an independent firm.

Target Availability Rate:	End June 2016
Indicative interest Rate:	9.00%
Transaction Charges:	Charges for transaction fees, operational expenses and monitoring & evaluation to be levied.
Key Documentation:	Note purchase Facility Agreement • Deed of Covenant to implement the FSP • Purchase Order • Irrevocable Standing Payment Other.

APPENDIX B: The Fiscal Assessment Questionnaire

The Nigeria Governors' Forum is developing a fiscal support framework to help mobilise technical assistance for States in the light of the current fiscal situation. As part of measures put in place to take the initiative forward, the NGF Secretariat has designed an assessment questionnaire that will provide an overview of the functioning of the fiscal system of the 36 States within the context of the fiscal sustainability plan. This questionnaire will identify State-specific challenges in fiscal sustainability and highlight potential areas for technical support.

The assessment has been designed as the first of a two-phased exercise that will lead to a peer learning event/workshop for States in the third quarter of 2017.

Kindly complete the questionnaire below. You may wish to provide additional information that will help us design a support framework specific to your State. ***Submissions should be made on or before March 13, 2017 to the NGF Secretariat or the email addresses provided below.***

	Accountability and Transparency			
S/N	**QUESTIONS**	**YES**	**NO**	**WORK IN PROGRESS**
1a	Does your State publish its audited annual financial statements within 6 months of financial year end?			
1b	If YES, on what platform is this published?			
2a	Has the State introduced and complied with the International Public Sector Accounting Standards (IPSAS)?			
2b	If YES, please indicate level of implementation in percentage (%)			
3a	Does your State publish its annual budget online?			
3b	If YES, please state the platform(s)			
4a	Does your State publish its budget implementation performance report online quarterly?			
4b	If YES, please state the platform(s)			
5	Is your State using a standard IPSAS compliant software developed by the Federal Government?			
	Public Revenue			
6a	Has your State set realistic and achievable targets to improve independently generated revenue (from all revenue generating activities of the State in addition to tax collections)			
6b	If YES, please indicate 2017 target for IGR as a share of total recurrent revenue (federation transfers plus IGR)			
6c	Has your State set a realistic and achievable target for its capital to recurrent expenditure ratio?			
6d	If YES, please indicate 2017 target for capital to recurrent expenditure ratio			

S/N	QUESTIONS	YES	NO	WORK IN PROGRESS
7a	Has the State implemented a central Treasury Single Account?			
7b	Does your State operate a computerized treasury system (such as an IFMIS)			
8a	Does the State hold quarterly financial reconciliation meetings with the Federal Government on VAT, PAYE remittances, refunds on government projects, Paris Club and other accounts?			
8b	Does your State share the database of companies within the State with the Federal Inland Revenue Service (FIRS)?			
9a	Has your State introduced a system to facilitate the immediate issue of VAT / WHT certificates on payment of invoices?			
9b	If YES, please indicate the current average processing time to issue certificates			
10a	Does your State review revenue related laws and update obsolete rates / tariffs?			
10b	If YES, what is the frequency of these reviews? (quarterly, semi-annually, annually or ad-hoc)			
	Public Revenue			
11a	Has your State set limits on personnel expenditure as share of total budgeted expenditure?			
11b	If YES, what is this limit for the 2017 budget?			
11c	Has your State carried out a biometric capture of all civil servants under the State's payroll?			
11d	If YES, how many civil servants on the payroll does the State have?			
11e	Has your State established measures to strengthen budget credibility, for example, limiting the deviation between budgeted and actual expenditures?			
12a	Has the State established an Efficiency Unit?			
12b	If YES, under what MDA is the Efficiency Unit located? Also indicate if it is established within all MDAs			
12c	Has your State received an online price guide on reference unit costs from the Federal Government?			
12d	If YES, is this being used in budgeting and expenditure management?			
13	Has your State introduced a system of continuous internal audit?			
	Public Financial Management			
14	Has your State created a fixed asset and liability register?			

S/N	QUESTIONS	YES	NO	WORK IN PROGRESS
15a	Has your State considered the privatisation or concession of suitable State-owned enterprises to improve efficiency and management?			
15b	Has your State domesticated the PPP Act?			
15c	If YES, is there a PPP law in place or Bill in progress?			
16a	Has your State established a Capital Development Fund?			
16b	Are there clear accounting policies to ensure that capital receipts are strictly applied to capital projects?			
17a	Has the State domesticated the Fiscal Responsibility Act (FRA)?			
17b	If YES, does your State have a Bill in progress or Law in place?			
17c	Has the State domesticated the Public Procurement Act (PPA)?			
17d	If YES, does your State have a Bill in progress or Law in place?			
	Sustainable Debt Management			
18a	Does your State have a credit rating?			
18b	If YES, what is your State's current credit rating and which credit agency assigned this rating and when was it assigned?			
19a	Has your State received from the Federal Government guidelines on issuance of fast-track Municipal bonds?			
19b	Has your State accessed funds from the capital market for bankable projects through the issuance of fast track municipal bonds?			
19c	Has your State fully complied with the FRA with respect to no undertaken of commercial bank loans since the FSP?			
19d	Does your State make routine submissions of updated debt profile reports to the Debt Management Office?			
19e	If YES, what is the frequency of these submissions (monthly, quarterly, semi-annually, annually or ad-hoc)			
20	Has your State received a benchmark rate for municipal loans from the CBN?			
21a	Has your State established measures to ensure that total liabilities do not exceed 250% of total revenue for the preceding year?			
21b	What is the ratio of current total liabilities to total revenues in 2016?			
21c	Has your State established measures to ensure that monthly debt service deductions do not exceed 40% of the average FAAC allocation for the preceding 12 months?			
22a	Does the State run currently a sinking fund for maturing loans?			
22b	In addition to a sinking fund, has your State established a consolidated debt service account to be funded from the State's consolidated reserve fund account to a minimum of 5% of IGR?			

Other Comments

Please briefly comment on the following:

1) What is your view of the overall effectiveness of the FSP in your state to strengthen fiscal sustainability?

2) What have been the main successes in implementing the FSP?

3) What have been the main challenges you face in implementing the FSP?

4) Have you received any technical assistance so far in implementing the FSP? If yes, from which institution?

Additional information/comments (optional)