**Kaduna State Government**



**Medium-Term Expenditure Framework 2024-2026**

September 2023

Planning and Budget Commission

No.16, Muhammadu Buhari Way Kaduna State, Nigeria.

[www.mobp.kadgov.ng](http://www.mobp.kadgov.ng/) Twitter: @KADPBC

**Table of Contents**

[Section 1 Introduction and Background 1](#_Toc143179766)

[1.A Introduction 1](#_Toc143179767)

[1.A.1 Historical Preparation of MTEF 1](#_Toc143179768)

[1.A.2 Summary of Document Content 2](#_Toc143179769)

[1.A.3 Preparation and Audience 3](#_Toc143179770)

[1.B Background 3](#_Toc143179771)

[1.B.1 Legislative and Institutional arrangement for PFM 3](#_Toc143179772)

[1.B.2 Overview of Budget Calendar 4](#_Toc143179773)

[Section 2 Economic and Fiscal Update 6](#_Toc143179774)

[2.A Economic Overview 6](#_Toc143179775)

[2.A.1 Global Economy 6](#_Toc143179776)

[2.A.2 Inflation 8](#_Toc143179777)

[2.A.3 Commodities 9](#_Toc143179778)

[2.A.4 Sub-Saharan Africa Economic Overview 10](#_Toc143179779)

[2.A.5 Disruption of Economic Recovery 11](#_Toc143179780)

[2.A.6 Undermining Economic and Development Prospects 11](#_Toc143179781)

[2.A.7 Outlook for 2023 12](#_Toc143179782)

[2.B Nigerian Economy 13](#_Toc143179783)

[2.B.1 Nigerian Economy 13](#_Toc143179784)

[2.B.2 Naira Redesign and Monetary Policy on Nigeria’s Economy 13](#_Toc143179785)

[2.B.3 Macroeconomy 15](#_Toc143179786)

[2.B.4 Crude Oil Production 15](#_Toc143179787)

[2.B.5 Crude Oil Sales and Proceeds 16](#_Toc143179788)

[2.B.6 Broader Mineral Sector Performance Outlook 16](#_Toc143179789)

[2.C Kaduna State Economy 17](#_Toc143179790)

[2.C.1 Kaduna GDP 17](#_Toc143179791)

[2.C.2 Kaduna CPI and IGR 17](#_Toc143179792)

[2.C.3 Kaduna State Debt Profile 18](#_Toc143179793)

[2.D Fiscal Update 20](#_Toc143179794)

[2.D.1 Revenue Side 20](#_Toc143179795)

[2.D.2 Expenditure Side 24](#_Toc143179796)

[2.D.3 By Sector 28](#_Toc143179797)

[2.D.4 Debt Position 31](#_Toc143179798)

[Section 3 Fiscal Strategy Paper 32](#_Toc143179799)

[3.A Macroeconomic Framework 32](#_Toc143179800)

[3.B Fiscal Strategy and Assumptions 33](#_Toc143179801)

[3.B.1 Policy Statement 33](#_Toc143179802)

[3.B.2 Objectives and Targets 34](#_Toc143179803)

[3.C Indicative Three-Year Fiscal Framework 35](#_Toc143179804)

[3.C.1 Assumptions 35](#_Toc143179805)

[3.D Fiscal Trend 38](#_Toc143179806)

[3.E Fiscal Risks 40](#_Toc143179807)

[3.F Local Government Forecasts 41](#_Toc143179808)

[Section 4 Budget Policy Statement 44](#_Toc143179809)

[4.A Budget Policy Thrust 44](#_Toc143179810)

[4.B Sector Allocations (3 Year) 44](#_Toc143179811)

[4.C Considerations for the Annual Budget Process 49](#_Toc143179812)

[Section 5 Summary of Key Points and Recommendations 50](#_Toc143179813)

[Annex 1 – Detailed Capital Receipts 51](#_Toc143179814)

**Table of Figures**

[Figure 1: Budget Accuracy 2016-2022 1](#_Toc143179905)

[Figure 2: Global GDP Trend 6](#_Toc143179906)

[Figure 3: Selected Consumer Price Inflation in % 2023 8](#_Toc143179907)

[Figure 4: Historical Bonny Light Crude Price 9](#_Toc143179908)

[Figure 5: Sub-Saharan Africa: Real GDP Growth, 2023 11](#_Toc143179909)

[Figure 6: Real GDP per Capita, 2019–24 12](#_Toc143179910)

[Figure 7: Historical CBN FX Rates and Foreign Reserves 14](#_Toc143179911)

[Figure 8: CRUDE OIL PRODUCTION 15](#_Toc143179912)

[Figure 9: Crude Oil Price 16](#_Toc143179913)

[Figure 10: Kaduna State and Nigeria Inflation Trend 12 Month Series 18](#_Toc143179914)

[Figure 11: IGR Trend in Kaduna 18](#_Toc143179915)

[Figure 12: Kaduna State Total Debt Stock Actuals and Projections 19](#_Toc143179916)

[Figure 13: Kaduna State Domestic and External Debts 19](#_Toc143179917)

[Figure 14: Kaduna State Domestic and External Debts 20](#_Toc143179918)

[Figure 15: Statutory Allocation Budget vs Actuals 2017 - 2023 21](#_Toc143179919)

[Figure 16: VAT Budget vs Actuals 2017 - 2023 21](#_Toc143179920)

[Figure 17: IGR 22](#_Toc143179921)

[Figure 18: Grants 23](#_Toc143179922)

[Figure 19: Other Capital Receipts 23](#_Toc143179923)

[Figure 20: Loans / Financing 24](#_Toc143179924)

[Figure 21: Personnel 24](#_Toc143179925)

[Figure 22: Overheads 25](#_Toc143179926)

[Figure 23: Capital Expenditure 26](#_Toc143179927)

[Figure 24: Social Benefits Budget VS Actual 2017 - 2023 26](#_Toc143179928)[Figure 25: Capital Expenditure Ratio 27](#_Toc143179929)

[Figure 26 Fiscal Performance Summary of Expenditure 27](#_Toc143179930)

[Figure 27: Kaduna State Total Debt Service Actuals and Projections 37](#_Toc143179931)

[Figure 28: Kaduna State Revenue Trend 38](#_Toc143179932)

[Figure 29: Kaduna State Expenditure Trend 39](#_Toc143179933)

**Table of Tables**

[Table 1: MTEF Development Process 2](#_Toc143179938)

[Table 2: The 2024-2026 Budget Preparation Calendar 4](#_Toc143179939)

[Table 3: Selected Economies Real GDP Growth 7](#_Toc143179940)

[Table 4: Selected Economies Real GDP Growth 7](#_Toc143179941)

[Table 5: Kaduna State Domestic and External Debts/Servicing 2017-2022 20](#_Toc143179942)

[Table 6: Personnel Expenditure by Sector 29](#_Toc143179943)

[Table 7: Overhead Expenditure by Sector 29](#_Toc143179944)

[Table 8: Capital Expenditure by Sector 30](#_Toc143179945)

[Table 9: Debt Position as of 31st December 2022 31](#_Toc143179946)

[Table 10: Kaduna State Macroeconomic Framework 33](#_Toc143179947)

[Table 11: Kaduna State Medium Term Fiscal Framework 35](#_Toc143179948)

[Table 12: Fiscal Risks 40](#_Toc143179949)

[Table 13 Local Government FAAC and Share of State IGR Estimates 41](#_Toc143179950)

[Table 14: Indicative Sector Personnel Expenditure Ceilings 2024-2026 46](#_Toc143179951)

[Table 15: Indicative Sector Overhead Expenditure Ceilings 2024-2026 47](#_Toc143179952)

[Table 16: Indicative Sector Capital Expenditure Ceilings 2024-2026 48](#_Toc143179953)

[Table 17 Capital Receipts 51](#_Toc143179954)

Abbreviations

|  |  |
| --- | --- |
| *BRINCS* | *Brazil, Russia, India, Nigeria, China, South Africa* |
| *CBN* | *Central Bank of Nigeria* |
| *CPIA* | *Country Policy and Institutional Assessment* |
| *DMD* | *Debt Management Department* |
| *EFU* | *Economic and Fiscal Update* |
| *ExCo* | *Executive Council* |
| *FAAC* | *Federal Allocation Accounts Committee* |
| *FSP* | *Fiscal Strategy Paper* |
| *GDP* | *Gross Domestic Product* |
| *IGR* | *Internally Generated Revenue* |
| *IMF* | *International Monetary Fund* |
| *KADIRS* | *Kaduna Internal Revenue Service* |
| *KDSG* | *Kaduna State Government* |
| *MDA* | *Ministry, Department and Agencies* |
| *MOF* | *Ministry of Finance* |
| *MTBF* | *Medium Term Budget Framework* |
| *MTEF* | *Medium Term Expenditure Framework* |
| *MTFF* | *Medium Term Fiscal Framework* |
| *NBS* | *National Bureau of Statistics* |
| *NNPC* | *Nigerian National Petroleum Company* |
| *NPC* | *National Planning Commission* |
| *OAG* | *Office of the Accountant General* |
| *PFM* | *Public Financial Management* |
| *PIB* | *Petroleum Industry Bill* |
| *PBC* | *Planning and Budget Commission* |
| *PITA* | *Personal Income Tax Act* |
| *PMS* | *Petroleum* |
| *SHoA* | *State House of Assembly* |
| *SIP* | *Sector Implementation Plan* |
| *VAT* | *Value Added Tax* |
| *WEO* | *World Economic Outlook* |
| *SIECOM* | *State Independent Electoral Commission* |
| *CSC* | *Civil Service Commission* |
| *SWIFT* | *Society for Worldwide International Financial Telecommunications* |
| *AGO* | *Angola* |
| *NGN* | *Nigeria* |
| *NUPRC* | *Nigerian Upstream Petroleum Regulatory Commission* |
| *PMS* | *Premium Motor Spirit* |

# Introduction and Background

## Introduction

1. This Medium-Term Expenditure Framework (MTEF) provides a tool for multi-year fiscal planning and budget formulation process aimed at enabling the Kaduna State Government to set fiscal targets and allocate resources to strategic priorities. Key elements of the MTEF are the Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP), and Budget Policy Statement (BPS).
2. The EFU provides economic and fiscal analyses, forming the basis for the budget planning process. It is aimed primarily at guiding policy and lawmakers in the State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant Global, National, and State level factors affecting implementation.
3. The FSP determines the resources available to fund Government projects and programs from a fiscally sustainable perspective.
4. The BPS states the overarching policy goals that will guide the Government's budget decisions and how the budgets accord with the government’s short-term intentions. It also states any changes to the government’s long and short terms fiscal objectives and assesses how changes in the long-term fiscal objectives and short-term fiscal intentions situate with the principles of responsible fiscal management.

### Historical Preparation of MTEF

1. Kaduna State Government commenced preparation of the MTEF in 2014 – the first MTEF covered the period of 2016-2018. The MTEF has been rolled forward each of the subsequent years including this document which covers the period 2024-2026.
2. The graph below shows the aggregate revenue estimates as per the MTEF documents, the revenue estimate in the annual budget, and the actual revenue. Each year, the MTEF provided a more realistic estimate of revenues than the annual budget.

Figure 1: Budget Accuracy 2016-2022



*Source: State Ministry of Finance (Financial Statements)*

**Note:**

**The comparison is between the initial Approved Budget and Actual Budget Performance as required by the MTEF guidelines.**

Table 1: MTEF Development Process

| **S/N** | | **Activities** | **Timeline** |
| --- | --- | --- | --- |
| 1 | Briefing meeting with Honourable Commissioner, PBC, for information and noting | | April |
| 2 | Planning a Meeting with the technical team and relevant MDAs to agree on the proposed framework | |
| 3 | Meeting with Technical Team to agree and share responsibilities | |
| 4 | Meeting with Civil Society Organizations | |
| 5 | Data gathering and harmonization | | April/May |
| 6 | Inputting data into the template | |
| 7 | Development of an indicative macro-economic framework | |
| 8 | Harmonization of group work | |
| 9 | Drafting | | June |
| 10 | Review of MTEF structure/content for possible addition | |
| 11 | Production of the first draft | | June/July |
| 12 | Meeting with CSOs and technical team to review the entire draft | |
| 13 | Forwarding of the first draft to the Consultant for technical review | |
| 14 | Engagement on the draft MTEF (Private Sector, Market Associations, People Living with Disability (PLWD) and Academia) | |
| 15 | Production of the draft for presentation to the State Executive Council for deliberation | |
| 16 | Effect corrections based on Council’s comments and observations | |
| 17 | Round-table dialogue with Members of the State House of Assembly (SHoA) | | August |
| 18 | Presentation of the Draft MTEF to the SHoA for Consideration and Approval | |
| 19 | Publishing, Printing, and Distribution | | September |

1. The full budget preparation calendar for the 2024 budget is presented in section 1.B.2.

### Summary of Document Content

1. In accordance with international best practices in budgeting, the production of a combined Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP), and Budget Policy Statement (BPS) is the first step in the budget preparation cycle for Kaduna State Government (KDSG) for the period 2024 – 2026.
2. The purpose of this document is three-fold:
3. To provide a backward-looking summary of key economic and fiscal trends that will affect public expenditure in the future - Economic and Fiscal Update.
4. To set out medium-term fiscal objectives and targets, including tax policy; revenue mobilization; level of public expenditure; deficit financing, and public debt - Fiscal Strategy Paper and MTFF; and
5. Provide indicative sector envelopes for the period 2024-2026 which constitute the MTBF.
6. The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis to inform the budget planning process. It is aimed primarily at budget policymakers and decision-makers in Kaduna State. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It includes:

* Overview of Global, Regional, National, and State Economic Performance.
* Overview of the Petroleum Sector.
* Trends in Budget Performance over the last six years.

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

### Preparation and Audience

1. The purpose of this document is to provide an informed basis for the 2024-2026 Budget Preparation Cycle for all the key Stakeholders, specifically:

* State House of Assembly (SHoA).
* Executive Council (ExCo).
* Planning and Budget Commission.
* Ministry of Finance (including Office of the Accountant General (OAG) and Debt Management Department (DMD).
* Kaduna Internal Revenue Service (KADIRS).
* All Government Ministries, Departments and Agencies (MDAs).
* Civil Society.

1. The document is prepared within the first two quarters of the year prior to the annual budget preparation period. It is prepared by the Kaduna State Government MTEF Working Group using data collected from International, National, and State Organisations.

## Background

### Legislative and Institutional arrangement for PFM

1. The 1999 Constitution as amended is the overriding law governing PFM in Kaduna State and indeed Nigeria. Its provisions supersede and override the content of any other law or provision in the States to the extent that other laws are inconsistent with the Constitution. The other PFM-related laws and provisions elaborate and expand on the provision of the Constitution.
2. These include the State's Fiscal Responsibility Law 2016, the Public Procurement Law 2016, Tax Consolidation and Codification Law 2020, and the Public Financial Management Control Law in 2016.
3. The Fiscal Responsibility Law (FRL) provides for prudent public expenditure, financial management, and discipline with a view to ensuring long-term macroeconomic stability in Kaduna State. The FRL stipulates the preparation of a Zero-Based/Multi-Year Budget, MTEF, Budget Execution and Public Revenues and Management of State Enterprises.
4. The Public Procurement Law stipulates that Ministries, Departments, Agencies, and/or controlled Corporations, Government Institutions, and Local Government Areas, shall subject to any exceptions as may be provided under this law be governed by the promotion of competition, economy, efficiency, and equal opportunities. These are to all parties who are eligible and qualified to participate in public contracts and be devoid of discrimination among others.
5. Institutional Framework for PFM in Kaduna State: In Kaduna State, sub-National Public Finance is managed by KDSG and the 23 Local Governments (LGs). The Executive headed by the State Governor, is responsible for the KDSG Budget, and reports on its execution to the Kaduna SHoA. In addition to the Institutional Framework is the creation of the Fiscal Responsibility Commission and the Public Procurement Authority, and the conversion of the former Ministry of Budget and Planning to the Planning and Budget Commission (PBC). An Economic Intelligence Unit (EIU) has also been created under the PBC to provide analysis of the latest economic and fiscal trends.

### Overview of Budget Calendar

1. Indicative Budget Calendar for Kaduna State Government is presented below. The calendar provides detailed activities which serve as a guide in Budget preparation such that by the first week of July 2023, the MTEF document is finalised.

Table 2: The 2024-2026 Budget Preparation Calendar

| S/No. | Date | Activity and or Event | Executor |
| --- | --- | --- | --- |
|  | January - July, 2023 | Preparation of Medium-Term Expenditure Framework 2024 – 2026 | PBC |
|  | 7-9/02/2023 | In-house training for Budget Officers in preparation of Training Workshop on MDAs Budget Profiling and Cash Planning. | PBC |
|  | 6-8/03/2023 | Refresher Training Workshop for Pilot MDAs on the Budget Profiling and Cash Planning Template | PBC |
|  | 11/04/2023 | Revenue Call Circular to MDAs | PBC |
|  | 11/04/2023 | Forwarding of request for the Submissions of Citizens’ inputs of the Community Development Charter (CDC) | PBC |
|  | 11/04/23 – 11/06/23 | Review of Sector Implementation Plans (SIPs) against 2022 Budget Performance by Planning Department of the Planning and Budget Commission | PBC |
|  | 15/05/2023 | Submission of Revenue proposals to Planning & Budget Commission | MDAs |
|  | 16/05/2023- 22/05/2023 | Analysis of Revenue Proposals submitted by MDAs to be used by Estimates Committee at Revenue Defence | PBC |
|  | 19/07/2023 | Receipt of report of Citizens’ inputs from CDC. | PBC |
|  | 31/07/2023 | Expenditure Call Circulars to MDAs along with Citizens’ inputs from CDC | PBC |
|  | 1-2/08/2023 | In-house training for Budget Officers in preparation for Refresher Training Workshop for MDAs on Multiyear Costing Template | PBC |
|  | 7/08/2023 | Engagement with Private Sector, Women Groups and People Living with Disabilities on the MTEF. | PBC |
|  | 8-11/08/2023 | Review/Refresher Training Workshop for MDAs on Multiyear Costing Template | PBC |
|  | 16/08/2023 | Roundtable dialogue with the SHoA on draft 2024 -2026 Medium Term Expenditure Framework (MTEF) | PBC |
|  | 27/08/2023 | Review and Approval of the draft 2024 – 2026 Medium Term Expenditure Framework (MTEF) by SHoA. | SHoA |
|  | 30/08/2023 | Presentation of Revenue Profile, Draft MTEF 2024- 2026 and MDAs Sectoral Expenditure Ceilings to EXCO for deliberations and approval | PBC |
|  | 4/09/2023 | Submission of 2024-2026 Expenditure Proposals to Planning & Budget Commission | MDAs |
|  | 4-7/09/2023 | Analysis of Expenditure Proposals submitted by MDAs to be used by Estimates Committee at the Budget Defence | PBC |
|  | 11-21/09/2023 | Estimates Committee meets with MDAs to defend their 2024- 2026 Budget Proposal and with Revenue Generating Agencies to defend their Revenue Proposals | Estimates Committee |
|  | 25/09/2023-3/10/2023 | Harmonization of Revenue figures to determine the Proposed Revenue for the year 2024 and collation of Proposals defended by MDAs before the Estimates Committee simultaneously | PBC |
|  | 10/10/2023 | Presentation of 2024- 2026 1st Draft Budget to The Governor for perusal, observation and comments | HC, PBC |
|  | 12-16/10/2023 | Effecting corrections/amendments by PBC Vide the Governor’s observations | PBC |
|  | 21/10/2023 | Town Hall Meeting on the 2024 Draft Budget | PBC |
|  | 23/10/2023 | Council deliberation on 2024 Draft Budget | Council |
|  | 25/10/2023 | Presentation of Draft Budget to House of Assembly | Governor |
|  | To be carried out within two (2) months | Review and Approval by the House of Assembly | SHoA |
|  | Subject to Passage by SHoA | Assent of 2024 Approved Budget by the Governor | Governor |
|  | Subject to Assent by HE | Public presentation and analysis of Approved budget | HC, PBC |
|  | Subject to Assent by HE | Signing of 2024 Expenditure Warrants | MoF |
|  | Jan. 2024 | Guidelines for 2024 Budget implementation | PBC |

# Economic and Fiscal Update

## Economic Overview

### Global Economy

1. A series of severe and mutually reinforcing shocks hit the Global economy in 2022, as it approached the mid-point for achieving the Sustainable Development Goals (SDGs) by 2030. While the impacts of the COVID-19 pandemic continue to echo Global-wide, the war in Ukraine unleashed a new crisis, disrupting food and energy markets and worsening food insecurity and malnutrition in many developing countries. High inflation is eroding real incomes, triggering a global cost-of-living crisis that has pushed millions into poverty and economic hardship. At the same time, the climate crisis is taking a heavy toll on many countries, with heat waves, wildfires, floods, and hurricanes inflicting massive humanitarian and economic damage.
2. These shocks will weigh heavily on the Global economy in 2023. Persistently high inflation – which averaged over 9% in 2022 – has provoked aggressive monetary tightening in many developed and developing countries. Rapid interest rate hikes by the Federal Reserve of the United States have triggered capital outflows and currency depreciations in developing countries, increasing balance-of-payment pressures and intensifying debt sustainability risks. Financing conditions have tightened sharply amid high levels of private and public debt, pushing up debt servicing costs, constraining fiscal space, and increasing sovereign credit risks. Rising interest rates and diminishing purchasing power have weakened consumer confidence, investor sentiment, and further clouding the near-term growth prospects of the Global economy. Global trade has softened due to Narrowing demand for consumer goods, the protracted war in Ukraine, and continued supply chain challenges.

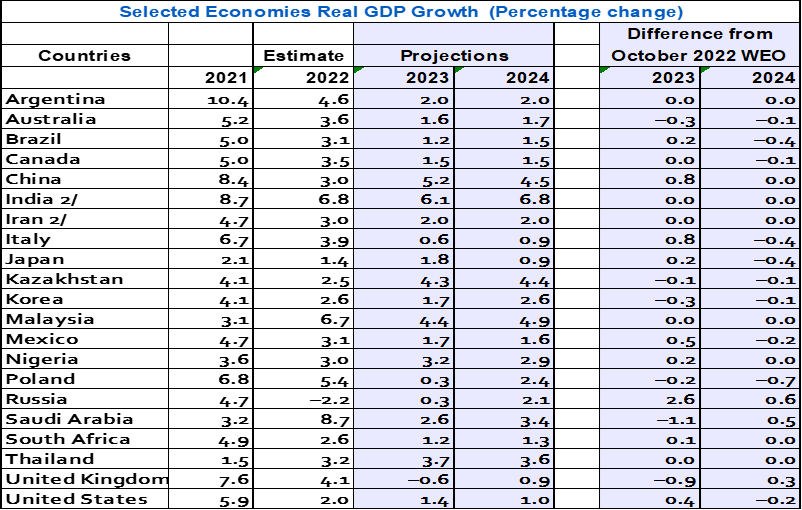
Figure 2: Global GDP Trend



*Source: UN DESA, based on estimates and forecast produced with the Global economic forecasting model*

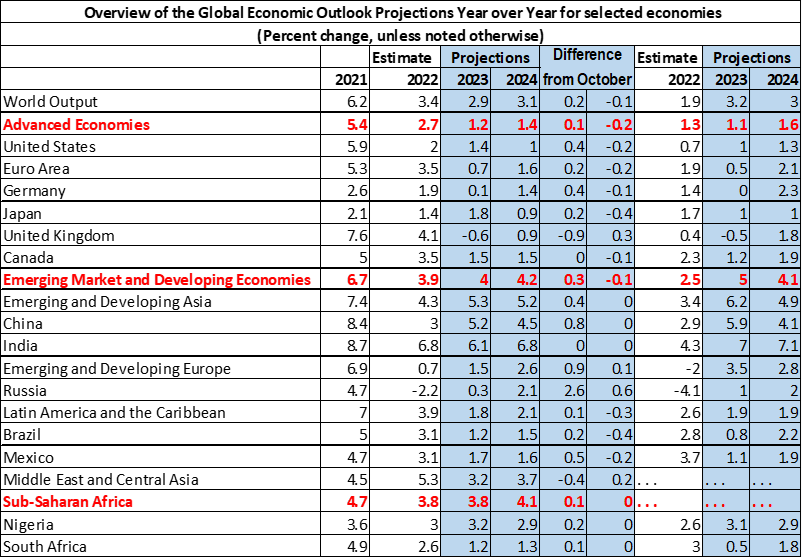
1. Against this backdrop, the Global output growth forecast was revised down significantly from the May 2022 projection. The Global gross product growth is projected to decelerate from an estimated 3.0% in 2022 to only 1.9% in 2023, marking one of the lowest growth rates in recent decades. Global growth is forecast to moderately pick up to 2.7% in 2024, as expected, some of the macroeconomic headwinds begin to subside next year.
2. The real economic growth rate, or real GDP growth rate, measures economic growth, as expressed by gross domestic product (GDP), from one period to another, adjusted for inflation or deflation. The baseline forecast is for global growth to fall from 3.4% in 2022 to 2.8% in 2023, before settling at 3.0% in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023.
3. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5% in 2023 with advanced economy growth falling below 1%. Global headline inflation in the baseline is set to fall from 8.7% in 2022 to 7.0% in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly. Inflation’s return to target is unlikely before 2025 in most cases.

Table 3: Selected Economies Real GDP Growth



*Source:*  IMF World Economic Outlook April 2023

Table 4: Selected Economies Real GDP Growth

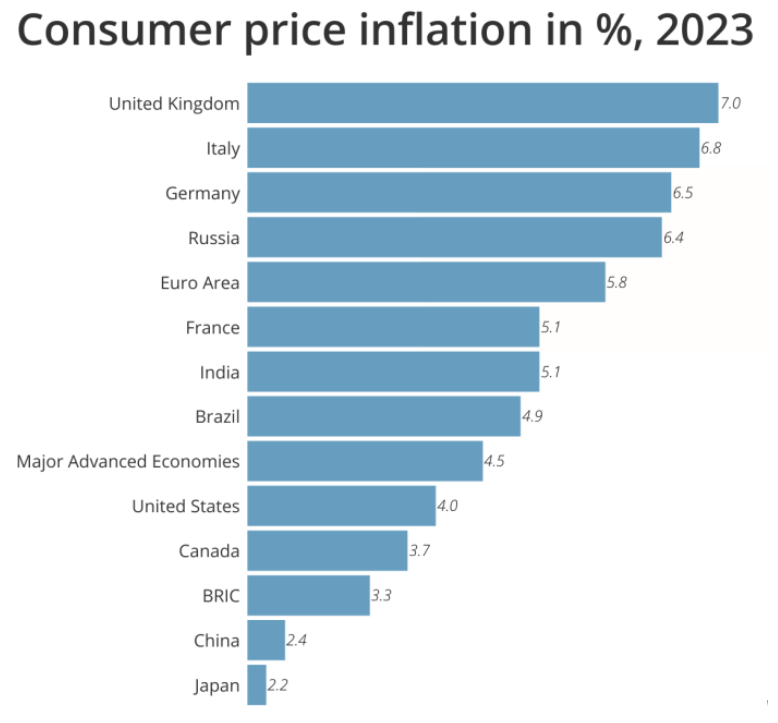
**

*Source:* IMF World Economic Outlook April 2023

### Inflation

1. Inflationary pressures are projected to gradually decrease amid weakening aggregate demand in the global economy. This should allow the US Federal Reserve and other major central banks to slow the pace of monetary tightening and, eventually, shift gears to a more accommodative monetary policy stance. The near-term economic outlook remains highly uncertain, as countless of economic, financial, geopolitical, and environmental risks persist.

Figure 3: Selected Consumer Price Inflation in % 2023



*Source: Focus Economist June 2023*

1. However, the rise in central bank rates to fight inflation and Russia’s war in Ukraine continue to weigh on economic activity. COVID-19 in China dampened growth in 2022, but the recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall from 8.8% in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic levels of about 3.5%.
2. The balance of risks remains tilted to the downside, but adverse risks have moderated since the October 2022 Global Economic Outlook (GEO). On the upside, a stronger boost from pent-up demand or a faster fall in inflation are plausible, while on the downside, severe health outcomes in China could hold back the recovery, Russia’s war in Ukraine could escalate, and tighter global financing costs could worsen debt distress.
3. Global inflation has been pushed higher by demand pressures, including those from the lagged effects of earlier policy support, and supply shocks, including disruptions to both global supply chains and the availability of key commodities. In some countries, inflation has also been spurred by large currency depreciations relative to the U.S. dollar, as well as tight labor market conditions.
4. Inflation remains high worldwide and well above central bank targets in almost all inflation-targeting economies. Although inflation is likely to gradually moderate over the course of the year, there are signs that underlying inflation pressures could be becoming more persistent. In response, central banks around the world have been tightening policy faster than previously expected. Monetary policy tightening in advanced economies, a strong U.S. dollar, geopolitical tensions, and high inflation have dampened risk appetite and led to widespread capital outflows and slowing bond issuance across emerging markets and developing economies (EMDEs). Financial conditions have particularly worsened for less creditworthy EMDEs, especially if they are also energy.
5. Fiscal space has narrowed considerably, and concerns over debt sustainability in many countries have risen as global financial conditions have made it more difficult to service debt loads that have accumulated rapidly in recent years, particularly during the pandemic. Nonetheless, many governments have announced new support measures to shield households and firms from the effects of sharply rising prices, slowing the pace of fiscal Strengthening as pandemic-related stimulus is withdrawn.
6. Crude oil prices have steadily declined from their mid-2022 peak; meanwhile, natural gas prices in Europe soared to an all-time high in August but have since fallen back toward pre-invasion levels. Non-energy prices, particularly metal prices, have declined alongside weak demand. While food prices have eased from earlier peaks, food price inflation remains very high in some EMDEs.

### Commodities

1. The world oil demand growth estimate for June 2022 remains unchanged with y-o-y growth of 2.5 mb/d. For 2023, the forecast for world oil demand growth remains broadly unchanged at 2.3 mb/d. China, Latin America, and the Middle East have been revised up slightly, while OECD Europe, Other Asia and Africa have been adjusted slightly lower. The OECD is expected to grow by about 50 tb/d and the non-OECD by about 2.3 mb/d in 2023.
2. In May, the OPEC Reference Basket (ORB) value declined by 9.9% to $75.82/b, largely offset by a rise in official selling prices in all regions. Crude oil futures prices experienced a heavy selloff, with hedge funds and money managers cutting net long positions by about 120 mb. This led to price volatility and a drop in futures prices. The front end of major futures contracts ICE Brent, NYMEX WTI, and DME Oman weakened, signalling a deteriorating economic and oil demand outlook. Selling pressure was more pronounced in nearest futures contracts compared to forwards contracts. The premium of light sweet (e.g. Nigeria’s Bonny Light) to medium sour crudes continued to narrow in all major regions, with weaker light sweet crude market fundamentals and a narrower spread between light/medium distillates and heavy distillate product margins.
3. Crude spot prices fell sharply in May, with the North Sea Dated benchmark dropping the most. Selloffs, high oil supply availability, uncertain demand, and mixed refining margins impacted North Sea Dated value. Soft buying interest from Asian buyers and declining diesel margins contributed to weakening oil prices.

Figure 4: Historical Bonny Light Crude Price



*Source: OPEC MOMR*

1. Despite the overall bearish sentiment, however, some factors provided support to spot prices. A large drop in US crude oil stocks in the week of 16 May provided some relief to the market. Additionally, renewed demand from French refiners and a wildfire outbreak in Canada, which reduced exports to the US, contributed to putting a floor under spot prices.
2. In May, North Sea Dated's value narrowed by $1.41 to a 12¢/b premium, indicating softer market fundamentals. All physical crude oil benchmarks declined, with North Sea Dated falling the most, dropping by 10.7% to $75.82/b.
3. Crude oil differentials were mixed in May due to softer European and Asian demand and west-to-east arbitrage. North Sea crude differentials weakened due to lower European demand, higher availability, and light distillate product margins. Forties and Ekofisk crude differentials declined, while Johan Sverdrup's differential strengthened against North Sea Dated due to firm demand.
4. West African crude differentials rose in May due to strong Asian demand and improved west-to-east arbitrage. Brent-related crude became more attractive in the east-Suez market, with Bonny Light, Forcados, and Qua Iboe crude differentials at premiums of 38¢/b, 66¢/b, and 43¢/b. Saharan Blend crude differentials strengthened, while Caspian light sour CPC Blend crude rose by 6¢ to a $2.67/b discount in Sub-Saharan Africa.

Source: MOMR June 2023.

### Sub-Saharan Africa Economic Overview

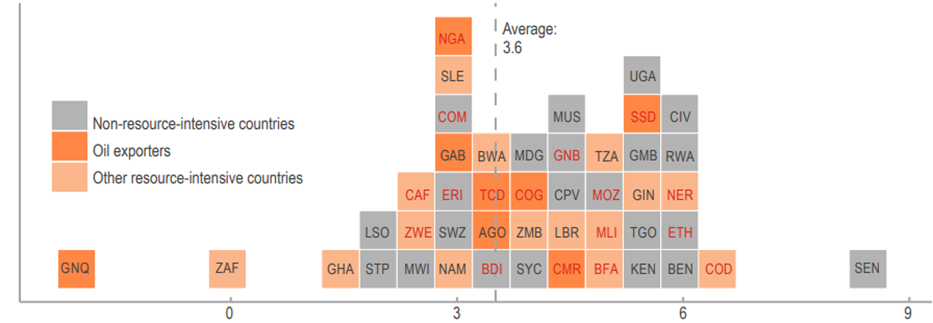
1. A funding squeeze has hit the region hard. Persistent global inflation and tighter monetary policies have led to higher borrowing costs for sub-Saharan African countries and have placed greater pressure on exchange rates. Indeed, no country has been able to issue a Eurobond since spring 2022. The funding squeeze aggravates a protracted trend that has been years in the making. The interest burden on public debt is rising, because of a greater reliance on expensive market-based funding combined with a long-term decline in aid budgets.
2. The lack of financing affects a region that is already struggling with elevated macroeconomic imbalances. Public debt and inflation are at levels not seen in decades, with double-digit inflation present in half of countries—eroding household purchasing power, striking at the most vulnerable, and adding to social pressures. Estimates suggest that 132 million people were acutely food-insecure in 2022. In this context, the economic recovery has been interrupted. Growth in sub-Saharan Africa will decline to 3.6 percent.
3. in 2023. Amid a global slowdown, activity is expected to decelerate for a second year in a row. Still, this headline figure masks significant variation across the region. Many countries will register a small pickup in growth this year, especially non-resource-intensive economies, but the regional average will be weighed down by sluggish growth in some key economies, such as South Africa.
4. The funding squeeze will also impact the region’s longer-term outlook. A shortage of funding may force countries to reduce resources for critical development sectors like health, education, and infrastructure, weakening the region’s growth potential. Four policy priorities can help address the macroeconomic imbalances in the context of current financing constraints: Consolidating public finances and strengthening public financial management amid difficult funding conditions. This will rely on continued revenue mobilization, better management of fiscal risks, and more proactive debt management. International assistance remains also critical to alleviating governments’ financing constraints. For countries that require debt reprofiling or restructuring, a well-functioning debt-resolution framework is vital to creating fiscal space. Containing inflation. Monetary policy should be steered cautiously until inflation is firmly on a downward trajectory and projected to return to the central bank’s target range. Allowing the exchange rate to adjust, while mitigating the adverse effects on the economy, including the rise in inflation and debt due to the currency depreciations. Ensuring that important efforts to fund and address climate change do not crowd out basic needs, like health and education. Climate finance provided by the international community must come on top of current aid flows.
5. A separate series of analytical notes are provided on topics of current interest. “Geo-Economic Fragmentation: Sub-Saharan Africa Caught Between the Fault Lines” demonstrates that sub-Saharan Africa stands to lose the most in a severely fragmented world and stresses the need for building resilience. “Managing Exchange Rate Pressures in Sub-Saharan Africa: Adapting to New Realities” outlines the drivers and consequences of recent exchange-rate pressures and discusses policies to help soften the impact on the region’s economies. “Closing the Gap: Concessional Climate Finance and Sub-Saharan Africa” considers the critical need for concessional finance in helping the region address climate change and explores ways in which additional flows might be unlocked.
6. Most currencies in the region depreciated against the US dollar in 2022. For those already grappling with high inflation, the weakening of the currency relative to the dollar made matters even worse because the region is highly dependent on imports with a significant share of them invoiced in dollars. Currency depreciations also contributed to higher general government debt because about 40 percent of sub-Saharan Africa’s debt is external as of 2021. Although exchange rate pressures have eased since November 2022—in some cases because significant depreciations have already taken place—they remain elevated and volatile.

### Disruption of Economic Recovery

1. Given this challenging environment, the region’s growth will decline to 3.6 percent in 2023 from 3.9 percent in 2022 following the strong rebound of 2021. This subdued outlook in sub-Saharan Africa marks a growth slowdown, the second year in a row. Some common factors explain the growth underperformance, including the rise in central bank rates to fight inflation and the war in Ukraine dampening global economic activity and thus, export demand for the region. Nonetheless, there are large variations across the region. Niger, the Democratic Republic of the Congo, and Senegal are on the higher end of the region’s growth distribution, with this year’s coming online of oil and gas in those countries expected to contribute significantly to higher GDP growth.
2. On the opposite end, the significant economic contraction in Equatorial Guinea is a result of a decline in oil production. Meanwhile, South Africa’s growth is projected to decelerate sharply to 0.1 percent in 2023, weighed down by an intensification of power outages, a weaker external environment, and a negative carry-over effect from the growth slowdown at the end of 2022.

Figure 5: Sub-Saharan Africa: Real GDP Growth, 2023

(Percent, fragile countries in red)



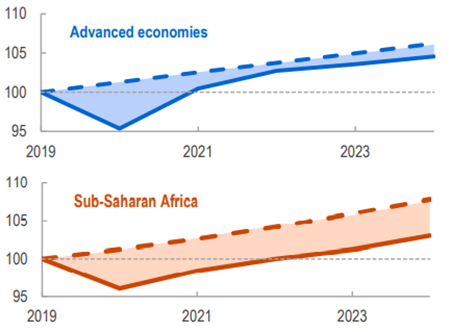
*Source: IMF, World Economic Outlook database, April 2023*

### **Undermining Economic and Development Prospects**

1. Unlike many major advanced economies, countries in sub-Saharan Africa had limited fiscal space entering the pandemic recession, hampering policymakers’ ability to mount an effective response. This has resulted in larger scarring effects on the economy, including from disruptions to education. The current funding squeeze is constraining many countries’ ability to address these scars, contributing to the muted recovery.
2. Moreover, authorities are forced to reduce resources for critical development sectors such as health, education, and infrastructure, weakening the region’s medium-term growth prospects. Partly for these reasons, the catch-up in growth has remained elusive, with GDP per capita remaining stubbornly below the pre-pandemic trend.

Figure 6: Real GDP per Capita, 2019–24

(2019 = 100, the dashed line indicates pre-crisis trend)



*Source: IMF, World Economic Outlook data*

1. The lack of fiscal space has also made it challenging for countries to address the vast social needs, especially those in the most vulnerable segments of the population. Insufficient funding meant that the authorities struggled to scale up targeted support when the region faced record-high food, fuel, and fertilizer prices in 2022. In fact, the cost-of-living crisis remains a major concern for sub-Saharan Africa given the high incidence of poverty—35 percent of the population in sub-Saharan Africa was estimated to live under $2.15 a day as of 2019 (latest available data from the World Bank Low-Income Dataset). About 132 million people were estimated to be acutely food-insecure in 2022, an upward revision from the estimate of 123 million in the October 2022 Regional Economic Outlook: Sub-Saharan Africa.

### Outlook for 2023

1. Policymakers in sub-Saharan Africa are looking at yet at another difficult year, facing tighter financing conditions on top of the ongoing repercussions from a recent cascading series of shocks. Despite serious financing constraints, there are still a few policy levers available to alleviate the situation. For instance, domestic revenue mobilization offers a potential source of financing.
2. Moreover, improving domestic legal and regulatory frameworks and undertaking financial systems reforms would not only attract much needed climate finance but also other types of private finance to the region that can help address basic needs and development goals in addition to those arising from climate change. Above all, sub-Saharan Africa will require international assistance in addressing the funding squeeze.
3. The IMF also stands ready to support the region. As of March 2023, the IMF has lending arrangements with 21 countries in the region and has received many program requests. The disbursements associated with IMF programs, emergency financing facilities, and the special drawing rights allocation represented $50 billion between 2020 and 2022.

## Nigerian Economy

### Nigerian Economy

1. The General Elections to elect a new President, Federal and State Legislators and Governors were held in February and March 2023 respectively, and President Muhammadu Buhari has handed power over to the New Elected President Bola Ahmed Tinubu on May 29, 2023. Since 2011, the security landscape has been shaped by the war against Boko Haram and other terrorist groups in the northeast in addition to incessant cases of banditry and kidnappings in the north-west and parts of the south-west and northcentral. The southeast continues to witness unrest resulting from separatist agitations.
2. The key feature of Nigeria’s economy in the last seven years has been the shift of economic activity towards agriculture and a slowdown of the manufacturing sector. As a share of GDP, agriculture expanded from 23% in 2015 to 26% in 2022, while manufacturing declined from 9.5% to 9% respectively. During this period, non-oil exports as a share of non-oil GDP averaged 1.3% while manufactured goods as a share of total exports remained low at 5.2% in 2022. Part of the problem facing the economy is the neglect of the manufacturing sector. Essentially, Nigeria is not producing enough, for both local consumption and export. The consequences of having a weak manufacturing base for a country with such a large population are evident in its foreign exchange shortages, limited number of jobs created to accommodate workforce entrants, and an import bill that can hardly be met (nor sustained) by current export earnings.
3. Growth decelerates, averaging 3.2% during 2022–2023, due to persistently low oil production and rising insecurity. Inflation is projected to remain elevated at 16.9% in 2022 and to stay above pre-pandemic levels in 2023, fuelled mainly the removal of Petroleum Subsidies which impacted the prices of food, diesel, and gas and persistent supply disruptions amplified by the Russia– Ukraine conflict.
4. The economy is projected to grow by an average of 2.9% per year between 2023 and 2025, only slightly above the estimated population growth rate of 2.4%. Growth will likely be driven by services, trade, and manufacturing. Downside risks to this growth outlook have intensified, with most of the risks coming from domestic policies, continued low (albeit recently rising) oil production, and scarcity of both foreign exchange and local currency.
5. While Nigeria has made some progress in socio-economic terms in recent years, its human capital development ranked only 150 of 157 countries in the World Bank’s 2020 Human Capital Index. The country continues to face massive development challenges, including the need to reduce the dependence on oil for exports and revenues, diversify its foreign exchange sources, close the infrastructure gap, build strong and effective institutions, as well as address governance issues and strengthen public financial management systems.

### Naira Redesign and Monetary Policy on Nigeria’s Economy

1. The Central Bank of Nigeria (CBN) announced that the bank would release re-designed naira notes by December 15, 2022, while existing notes would cease to be regarded as legal tender by January 31, 2023. Through this policy, the apex bank's aims were to control the money supply, and inflation, as well as curb counterfeit currency.

Figure 7: Historical CBN FX Rates and Foreign Reserves



*Source: CBN*

1. As seen in Figure 6 above, the naira from 31st of May 2023, has been fluctuating from N461.1 /$1, but slowly depreciating daily to N752.51/$1 as of 22nd June 2023. This can be attributed to the recent change of government in the country that led to the swift economic decisions taken by the new administration, which includes the removal of fuel subsidy, and exchange rate reform. The economy is expected to experience a slow but drastic change in the coming weeks, months and even years, as the exchange rate will continue to fluctuate, and the naira will continue to appreciate against the dollar.
2. The new foreign exchange policy despite some negative effects that came with it, also has some interesting positive expectations too. These could be in a form of;

* It should reduce Nigeria’s bloated parallel market for foreign exchange.
* Discourage rent-seeking.
* Foster a stable macroeconomic environment.
* Attract foreign investment.
* Boost exports.
* Stabilise the exchange rate and prevent the dollarization of the economy.

1. These would all improve the investment climate and spur economic growth.
2. Currency redesign is an activity of a sovereign nation to either change or modify the existing currency in a country. This can be done for several reasons like; improving the security features of the new currency, reducing the money supply, reducing inflation, investigating incomes from nefarious sources, and many other economic indicators that affect financial stability.
3. A significant implication is that the redesign is anticipated to cause an economic upswing, which will frustrate and keep businesses in Nigeria under stress. The brief window for the issuance of the revised notes is primarily to blame for this expected economic flurry. The growing crowds anticipated at banking halls are predicted to overwhelm commercial banks.
4. Those who live in rural areas may be the most affected. It is disappointing to learn that some communities in Nigeria, particularly rural communities, do not have a bank within 70 kilometres of them. There will likely be a transport rush in these areas once the redesigned currencies are available, as people will travel to the cities to exchange their old currencies.
5. Additionally, with an already high inflation rate of over 20%, the strengthening dollar, and Moody’s downgrading of Nigeria’s economic growth forecast from B2 to B3, choosing to spend billions on printing new currencies may cause untold hardship to the country’s economy.

### Macroeconomy

1. Data from the National Bureau of Statistics, show that Nigeria’s GDP growth in 2023 will be lower than that of 2022. The deceleration of growth will stem from the impact of the Naira scarcity on aggregate demand, uncertainties about the new administration and existing structural problems. In terms of the growth drivers, the services sector led by trade, ICT and finance will play a major role.
2. Since the last Macroeconomic Review of 1st Quarter 2023, Nigeria’s oil production has been trending upwards. Oil production increased from 1.27 million barrels per day (mbpd) in December 2022 to 1.38 mbpd in February 2023. While this is a significant improvement, oil production is still below the budget benchmark of 1.69 mbpd. The government must continue efforts to curb oil theft and vandalism to ensure oil sales are reflected in government accounts.
3. For the exchange rate, we expect a slow and steady depreciation as experienced in recent years. The currency will continue to face pressure from high import costs and demand for foreign currency for services, but the CBN will continue to intervene in the FX market to limit the pace of depreciation. The possibility for crucial exchange rate reform in H1 2023 is limited and such reform can only happen in the second half of 2023 on the insistence of a new President. Currently at US$36 billion, external reserves which can finance about 6-7 of imports of goods and services will also face pressure in 2023.

### Crude Oil Production

1. Despite its perennial underproduction in the last two years, Nigeria has been able to ramp up its crude oil output compared to its budget benchmark from an average of about 60% to 75% between Half year of 2022 and Q1, 2023, data released by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) has revealed.

Figure 8: CRUDE OIL PRODUCTION



*Source: NNPC, EIA, OPEC, MTEF*

1. Crude Oil Production in Nigeria increased to 1.184 mbpd in June 2023 from its previous month of 0.999 mbpd. The maximum level from December 2020 to June 2023 was 1.399 mbpd and minimum was 0.938 mbpd. Analysis of production data showed that with a projection of 1.88 million barrels per day crude oil production in the 2022 federal budget, Nigeria under-produced to the tune of over 277 million barrels of the commodity between January and December 2022, leaving average production at 60%.

Figure 9: Crude Oil Price



*Source****:*** *OPEC, EIA*

### Crude Oil Sales and Proceeds

1. Following the passage of the N21.8 trillion 2023 Budget by Nigeria’s National Assembly, the country has increased its crude oil benchmark to $75 per barrel from the previous $70 per barrel. Crude oil production for 2023 has been pegged at 1.69 million barrels per day.
2. Nigerian National Petroleum Company (NNPC) Limited, the country has not been able to reach its OPEC quota of 1.8 million barrels per day or even its 2023 budget benchmark of 1.6 million barrels per day. This is because of certain challenges – lack of investments, economic, political and security risks, continuous crude production sabotage as well as the shift to renewable energy which has prompted many financial institutions and firms to abandon fossil fuel projects.
3. The current situation could be long-term, despite efforts to reverse the trend. The World Bank said that the Nigerian economy is set to grow by 2.8% in 2023, down from 3.3% in 2022, while oil production will remain subdued in 2023.
4. Nigeria’s crude oil sales rose by 46.41 per cent to push Nigeria’s total export to N26.79tn in 2022. This is as total trade rose by 31.79 per cent from N39.75tn in 2021 to N52.39tn in 2022. In 2022, crude oil sales totaled N21.09tn, a 46.41 per cent increase from N14.41tn in 2021. In 2022, crude oil accounted for 78.74 per cent of total export.

### Broader Mineral Sector Performance Outlook

1. According to data from Nigeria Mining Sector Watch report 2022, The non-oil sector has continued to be the lifeblood of the Nigerian economy. As at the third quarter of 2022, the non-oil sector contributed 94.34% (in real terms) to the nation’s Gross Domestic product (GDP), higher than the share recorded in the third quarter of 2021 which was 92.51% and higher than the second quarter of 2022 recorded as 93.67%1. However, the Nigerian mining sector (“the Sector”) only contributed a meagre 0.3% to Nigeria’s GDP in Q3 of 2022, although higher than the GDP contribution recorded in Q3 of 2021 i.e., 0.2%
2. High grade lithium deposits have been discovered in different parts of the country, thereby enlisting Nigeria as one of the Lithium-rich countries in the world. The mineral has so far been discovered in the northern states of Kogi, Nasarawa, Kwara and Plateau, as well as Oyo, Ekiti and Cross River in the south.
3. According to the Nigerian Geological Survey Agency, Nigeria’s lithium is acclaimed to be of high grade given its lithium oxide content which ranges from 1 percent up
4. to 13 percent, whereas the global standard for Lithium exploration and mining starts from 0.4 percent lithium oxide content.
5. The Nigerian mining sector is no doubt, capable of providing a wide array of opportunities for the overall development and industrialization of the economy. However, the actualization of this objective depends on the FG’s political will to revitalize the Sector. *(Nigeria Mining Sector Watch report 2022)*

## Kaduna State Economy

1. Kaduna State will witness a transition in Government in 2023. After eight years of continuity in policy, reforms, and other achievements, it is the desire of the current administration for a high level of continuity in governance and policy so that the reforms achieved are not lost. Over the years, the economy of Kaduna State has grown strongly, albeit with a with slight dip to 2.78% growth in 2017 and a recession of -1.33% in 2020 because of COVID-19. However, the economy recovered significantly in 2021, with growth bouncing back to an impressive 7.4%, which more than recaptured the losses experienced in 2020. The strong growth over recent years has been positively influenced by transformations in the areas of Capital Projects and other Institutional Reforms.

### Kaduna GDP

1. It is anticipated that the economy will see higher levels of growth in the agriculture sector, especially in the area of crop production as security improves. It is also anticipated that Kaduna State is also looking increase economic activity around Information and communication technology as people will be compelled to use modern technology in all aspects of life – the State Government is making investments to help foster growth in this area. Whilst the outgoing administration is desirous to complete all ongoing capital projects, particularly those under the urban renewal programme, before handing over to the new administration, the current fiscal challenges and the time taken to procure, mobilise and complete major economic infrastructure projects means there will inevitably be an element of carried forward. It should be incumbent on the new administration to finish such projects to realise the vast economic benefits associated.

### Kaduna CPI and IGR

1. Kaduna State’s Inflation Rate persistently increased throughout the year 2022. Food prices and other basic commodities are on the increase. Though the State recorded 20.32% in December 2022 as against National figures of 21.34%, we foresee double digits of inflation figures in the State by 2023, even higher than 2022 average of 17.51%. This is due to fuel scarcity, subsidy removal and insecurity. The inflationary pressures are being generated by multiple demand and supply side shocks including the global increase in commodity prices and the continued devaluation of the naira. Associated containment measures have eased, but security issues, partial border closures and limited access to markets continue to fuel inflation. If double-digit inflation persists during 2023-2024, rising prices will distort consumption, investment, and saving decisions of the government, households, and firms, with adverse ramifications for long-term borrowing and lending.

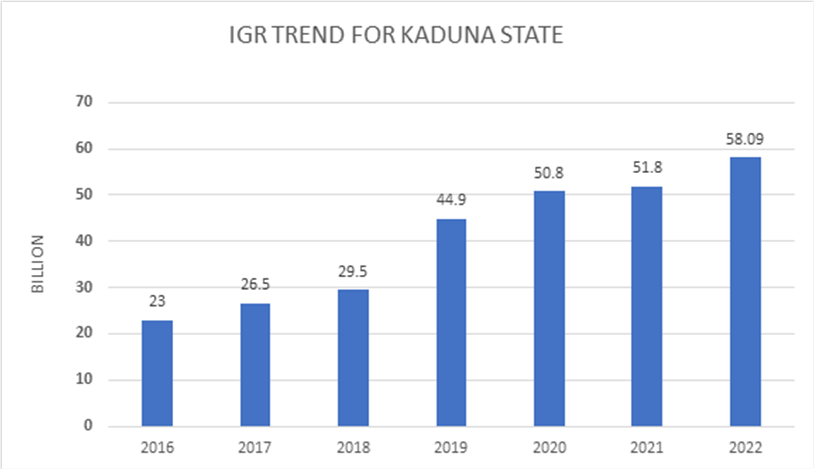
Figure 10: Kaduna State and Nigeria Inflation Trend 12 Month Series



*Source: KDBS CPI report 2022*

1. Internally Generated Revenue (IGR) remains an important revenue source for Kaduna State, with the Kaduna Internal Revenue Service (KADIRS) marshaling the progressive rise of the State’s IGR from N23bn in 2016, to N58.09bn recorded in 2022. This has been achieved largely by carrying out sweeping reforms geared towards improving productivity, blocking leakages, and diversifying revenue sources, even though taxation remains the main source of revenue collected.

Figure 11: IGR Trend in Kaduna

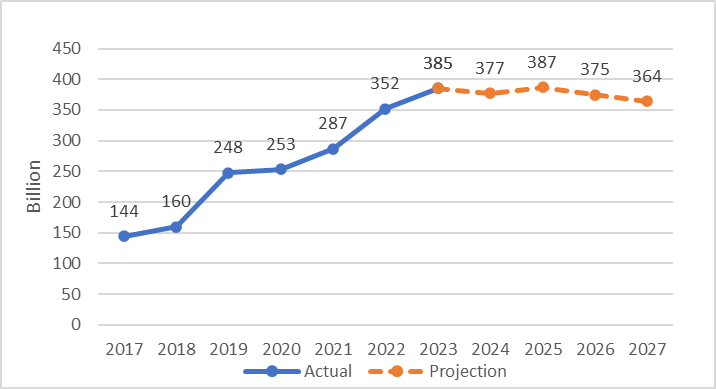


*Source: EIU 2023 Macroeconomic Outlook*

### Kaduna State Debt Profile

1. Kaduna was ranked the 2nd most indebted state in Nigeria in terms of foreign debt with a total foreign debt of ₦269bn as of January 2023 and domestic debt of ₦83bn which amounted to ₦352bn as the total debt stock. The State’s debt stock has risen steadily over the years with the highest increase of 55% - from ₦160bn to ₦248bn – witnessed in 2019. Foreign debt makes up the bulk of Kaduna’s total debt stock with the foreign debt to domestic debt ratio being 3.24:1, meaning that Kaduna State’s foreign debt is more than 3 times its domestic debt stock.

Figure 12: Kaduna State Total Debt Stock Actuals and Projections



*Source: EIU 2023 Macroeconomic Outlook*

1. The above figure shows that the debt stock of the state has increased from 2017 – 2022. The projection shows an increase in the debt stock if there is a higher-than-expected expenditure. But with a lower expenditure and a boost in revenue, the debt stock may reduce in the coming years.

Figure 13: Kaduna State Domestic and External Debts



*Source: Kad-DSA*

1. The graph above is a presentation of both Kaduna state’s domestic and external debts. It shows that the state has more external debts than domestic. The implication of Excessive levels of foreign debt can hamper Kaduna’s' ability to invest in their economic future—whether it be via infrastructure, education, or health care—as their limited revenue goes to servicing their loans. This could equally thwart long-term economic growth of the state.

Table 5: Kaduna State Domestic and External Debts/Servicing 2017-2022



*Source: Kad-DSA, 2022*

Figure 14: Kaduna State Domestic and External Debts



*Source: Kad-DSA, 2022*

1. Kaduna state government spent about 13.50 billion Nigeria Naira in debt service in 2022 out of total revenue of N255.17 billion or 5% debt service to revenue ratio. The rising cost of Kaduna’s debt profile breached a new milestone with the state's debt service as 25.25 billion in 2019 from 9.84 in 2017. Though debt service took only 5% of the state’s revenue in 2022. however, its implication, in the long run, crowding out fiscal projects for development in the state.

## Fiscal Update

### Revenue Side

1. On the Revenue side, the document looks at Statutory Allocation, VAT, IGR, Excess Crude, and Capital Receipts – original budget versus actual for the period 2017-2023 (Six years historic) and 2022 budget.

Figure 15: Statutory Allocation Budget vs Actuals 2017 - 2023



*Source: Kad Financial Statement*

1. Statutory Allocation constitutes all Federal Transfers excluding Value Added Tax (VAT) and other Federal Accounts Transfers (albeit KDSG generally includes Other FAAC as part of Statutory Allocation reporting). Statutory Allocation are mainly Crude Oil, Gas proceeds, Company Income Tax (CIT), and Custom and Excise Duty (C&E). Figure 11 shows there has been a steady rise in Statutory Allocation from 2017 – 2018, this was because of global economic growth. In 2019 and 2020 there was a slight fall because of elections and the emergence of COVID-19 which led to lockdowns that disrupted economic activities. In 2021 the allocation increased because of improved economic activities after the lockdowns, this continued in 2022. The Ukraine and Russia War impacted on crude oil prices, sending prices to more $120/barrel.
2. We expect year 2024 – 2026 to be better in terms of Statutory Allocation due to the removal fuel subsidy, devaluation of the Naira, commencement of operations of Dangote refinery and the rehabilitation of one of the country’s refineries before the end of 2023 will reduce the cost of importing PMS will be eliminated which will have a huge positive impact on FAAC .

Figure 16: VAT Budget vs Actuals 2017 - 2023



*Source: Kad Financial Statements 2017-2022*

1. From 2017 when the Country exited recession, VAT continued to surge passing budget targets. This trend is expected to continue as the Finance Act 2019 has raised VAT from 5% to 7.5%, the Act seeks to improve revenue by various fiscal measures, and reforming domestic tax laws to align with global best practices. This means that the Governments will receive more revenue in VAT especially the States and Local Governments (50% and 35% respectively).
2. Recently, The Nigerian Senate had approved the funding of the Northeast Development Commission (NEDC) from the VAT realised in the Country. A total of 3% deductions from VAT will be done monthly for a period of ten years. This will also affect the projected amount for VAT in Kaduna State from 2023 and beyond.

Figure 17: IGR



*Source: Kad Financial Statements 2017-2022*

1. The Kaduna State Tax Codification and Consolidation Law has greatly enhanced collections and blocked leakages. Since its passage into law in 2016 (amended in 2020). According to the National Bureau of Statistics (NBS) 2022 full-year report, the state was ranked the 6th highest in the country and 1st in the North and has continued to witness a steep rise in its IGR from 2017 to 2022.
2. The implementation of fiscal sustainability plans provided a steady increase in IGR collections in 2021, and the strengthening of KADIRS which has remained pivotal to the needed upscale in the revenue generation agenda in the State accounted for the increase in 2022. Kaduna State generated more than ₦77 billion in 2022. This is more than its budget of N70 billion.
3. We expect the revenue to increase in 2023 and 2024 because of sustaining the already existing revenue reforms, policies, and new initiatives to improve revenue generation by the new administration.

Figure 18: Grants



*Source: Kad Financial Statements 2017-2022*

1. Grants have been a major challenge in providing realistic data that will enable the State to budget and forecast further. This is mainly attributed to funds coming in directly from donor partners to implementing agencies without the full knowledge of the Office of the Accountant General of the State.
2. Other reasons for poor performance include delays in the negotiations with Implementing Partners and non-timely payment of counterpart funds and other requirements from the State Government.
3. The launch of the Kaduna State International Development Coordination Framework (2017- 2020) has greatly contributed to addressing the challenges. This can be seen in the figure 15 above where the State recorded an overperformance of Grants in 2018 and 2019. However, in 2020 – 2022 there was an increase in performance.

Figure 19: Other Capital Receipts



*Source: Kad Financial Statements 2017-2022*

1. Over the years, Capital Receipts have been consistently budgeted, however no performance was recorded except for 2017, 2018, 2021 and 2022 largely due to government commitments in accessing and implementing in line with the agreed terms. Other Capital Receipts comprise revenue from sales of capital assets dedicated for capital expenditure, survey and demarcation of layouts, development levy by land allottees, Ecological Fund, etc.

Figure 20: Loans / Financing



*Source: Kad 2024-2026 MTEF*

1. The loans include internal and external loans. Internal Loans comprise Capital Market receipts and Commercial Bank Loans (including Nigerian Export-Import Bank (NEXIM)), Central Bank of Nigeria, etc. External Loans are receipts from World Bank, Islamic Development Bank (IsDB), and African Development Bank (AfDB).
2. There was underperformance of loans as a result of the inability to finalize the processes of- accessing the loans in 2019 and 2020 fiscal years. However, in 2021 – 2022 there was an increase in the performance because the state was able to access the World Bank Performance for Result Loan (P4R).

### Expenditure Side

1. On the expenditure side, the document looks at Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital Expenditure – original budget versus actual for the period 2017-2022 (six years) and 2023 budget.

Figure 21: Personnel



*Source: Kad Financial Statements 2017-2022*

1. There was a significant increase in budgeted and actual Personnel Expenditure in 2017 which was due to the capture of 60% contribution from Local Government Councils for the Primary Health Care Personnel cost. Also, plans for additional staff into the service (mostly health and education workers) have informed the increase in the Budgeted Personnel figure of 2017 to 2021. In 2022 the payment of 8 months’ salary arrears to secondary school teachers that were employed in 2021 accounted for the increase in actual performance.
2. In 2023 the personnel cost may likely increase significantly due possible increase in the minimum wage because of the removal of fuel subsidy. We expect to see increases in 2023 and 2024, all things being equal.

Figure 22: Overheads



*Source: Kad Financial Statements 2017-2022*

1. The State witnessed a steep rise in Overhead Cost Expenditure from 2017 to 2022 due to its decision to implement IPSAS which necessitated the transfer of gratuity from Personnel Costs to Overhead Cost.
2. In 2020, Overhead Costs increased due to COVID-19 containment measures because of State border control, mobile court, and security personnel engagement etc. However, 2021-2022 overhead expenditure witnessed slight increase due to the centralization policy on some expenditures mainly stationeries, motors and generating plants fuelling, Domestic Tour Allowance (DTA) etc. We expect an improved performance in 2023.

Figure 23: Capital Expenditure



*Source: Kad Financial Statements 2017-2022*

1. The drawdown of World Bank Loan led to an increase in Actual Capital Expenditure in 2019 and 2020 which recorded 157.26% and 89.68% performance respectively. The decline in 2019 budgeted figure as compared with previous years is consistent with a realistic approach, capturing only undisputable revenues that are set to accrue to the State. This was because of the State’s resolve to make a modest revenue projection in line with the actual trend to avoid a mismatch between the budget and the actual.
2. There was more realistic budgeting in 2020, 2021, and 2022 where budget and actual expenditure almost equated. This was because of a modest revenue and expenditure projection coupled with the State’s Urban Renewal Programme which prioritizes projects under it for better Budget Performance.

Figure 24: Social Benefits Budget VS Actual 2017 - 2023

*Source: Kad 2024-2026 MTEF*

1. The immediate past administration commenced a holistic review of minimum pensions receivable by pensioneers under the Defined Benefits Scheme in the State. However, the exercise was not completed before the end of the administration’s tenure, but given the cost-of-living realities, it is very likely the new government will consider an upward review of pensions, and other programmes and activities that will mitigate the effect of social risks.

Figure 25: Capital Expenditure Ratio



*Source: Kad 2024-2026 MTEF*

1. Political considerations negatively affected budget realism in 2017, 2018 and 2019. The 60:40 Budget ratio is being adhered to during budget allocation; however, this is not the case in terms of actual expenditure except in 2016 when both budgeted and actuals reflected the 60:40 ratio.
2. In 2019 the State accessed the first tranche of the World Bank PforR Loan, this significantly increase capital expenditure as 80% of the funds are allocated to capital. This trend is expected to continue through to 2021. This means Capital expenditure performance will be at a minimum of 60% in 2021 and 2022. There is a risk of reversing this trend in 2023 when the P4R loan is exhausted.

Figure 26 Fiscal Performance Summary of Expenditure



*Source: Kad Financial Statements 2017-2022*

1. Kaduna State has recorded an overperformance of 139.88% in 2019 mainly due to stable revenue sources. Crude Oil Prices was stable in 2019 averaging $66 per barrel, other non-mineral revenue such as CIT, C&E and VAT were all on the increase. An over performance of IGR (the State budgeted N41.72 billion but realised N44.9 billion in 2019) and the PforR World Bank Loan Funds which were not part of the 2019 budget but was approved around July 2019. All of these led to an overperformance in 2019. Capital Budget recorded an actual budget of N148.6 billion in 2019 the highest in recent years.
2. 2020 - 2022 also recorded a very good performance of the budget recording 97.87%, 93.52% overall performance, respectively. The PforR Loan and over performance of IGR in 2020 which the State recorded N50.1 billion all contributed to the excellent performance of the 2020 budget.

### By Sector

1. The budget and actual expenditure of the sectors and sub-sectors in terms of personnel, overhead and capital expenditure are presented in Tables 6. The sub-sectors can be further categorized into the major sectors of Governance, Social, Economic and Law and Justice.

Table 6: Personnel Expenditure by Sector



**Table 7: Overhead Expenditure by Sector**



Table 8: Capital Expenditure by Sector



### Debt Position

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

Table 9: Debt Position as of 31st December 2022



1. **External Loans:** External Loans are loans sourced from multinational institutions such as the World Bank, International Monetary Fund (IMF), Islamic Development Bank (IsDB), African Development Bank (AfDB) etc. The Federal Ministry of Finance, Budget and National Planning obtain these loans and lends them to State Government through the Subsidiary Loan Agreement.
2. **Internal Loans:** These are loans obtained from within the Country and consist of Commercial Bank Loans, Budget Support Loan Facility, Salary Bailouts, Loans from Federal Government, Central Bank of Nigeria (CBN) etc. As of December 2020, the State has a total of N61.7 billion.
3. **Solvency:** This is the capacity or ability of the State Government to pay back the loans obtained. As seen above, the State has passed all its debt sustainability thresholds but within the liquidity ratios.
4. **External Debt Service to Total Revenue:** The External debt servicing to Total revenue for Kaduna State as of 31st December 2020 is 3.06%. The State is far below the threshold of 10%. This is comparing the total revenue of the State which comprises IGR, FAAC, and other major revenue sources to service its external debt.
5. **Total Debt Service to Total Revenue**: The Total debt service to Total revenue of Kaduna State stands at 5.46%. This is also below the liquidity threshold of 15%. The threshold assesses the total revenue inflow of the state in repaying its total debt both external and internal.
6. **Domestic Debt Service to IGR:** This threshold assesses the State’s capacity in using its Internally Generated Revenue to meet its internal or domestic debt obligations. The State is within the liquidity ratio threshold, currently at 5.84% with a threshold of 10%. It should be noted that the debt servicing figures do not include payment of contracts liability arrears. If these were included, both the Total Debt Service to Total Revenue and Domestic Debt Service to IGR would increase substantially.

# Fiscal Strategy Paper

## Macroeconomic Framework

1. Gross Domestic Product (GDP) grew by 2.31% (year-on-year) in real terms in the first quarter of 2023. This growth rate declined from 3.11% recorded in the first quarter of 2022, and 3.52% in the fourth quarter of 2022. The Government attributed the cash crunch suffered by Nigerians in the first quarter of 2023 as the reason for the growth of the Gross Domestic Product (GDP) by 2.31% (year-on-year) in real terms. The growth rate declined from 3.11%t recorded in the first quarter of 2022 and 3.52% in the fourth quarter of 2022. The reduction in growth is attributed to the adverse effects of the cash crunch experienced during the quarter.
2. The performance of Nigeria’s GDP in the first quarter of 2023 was driven mainly by the services sector, which recorded a growth of 4.35% and contributed 57.29% to the aggregate GDP. The agriculture sector also grew by -0.90%, lower than the growth of 3.16% recorded in the first quarter of 2022.
3. Although, the growth of the industry sector improved to 0.31% relative to – 6.81% recorded in the first quarter of 2022, agriculture, and the industry sectors contributed less to the aggregate GDP in the quarter under review compared to the first quarter of 2022.
4. In May 2023, Nigeria’s headline inflation rate increased to 22.41% relative to April 2023 headline inflation rate which was 22.22%. Looking at the movement, the May 2023 inflation rate showed an increase of 0.19% points when compared to April 2023 headline inflation rate.
5. Similarly, on a year-on-year basis, Nigeria’s headline inflation rate was 4.70% points higher compared to the rate recorded in May 2022, which was (17.71%). This shows that the headline inflation rate (year-on-year basis) increased in the month of May 2023 when compared to the same month in the preceding year (i.e., May 2022).
6. In most years since 1980, global GDP growth has been relatively consistent, generally fluctuating between two and five percent growth from year to year. The most notable exceptions to this were during the Great Recession in 2009, and again in 2020 during the Covid-19 pandemic, when the global economy shrank in both years. As the world economy continues to deal with the economic impact of the pandemic, as well as the fallout from Russia's invasion of Ukraine in 2022, the future remains uncertain, however, current estimates suggest that annual growth will return to steady figures of around 3 percent in 2028.
7. While headline inflation is expected to recede gradually through 2023 in most G20 countries, core inflation remains persistent. This is due to strong service price increases and cost pressures from tight labour markets. This means that inflationary pressures will require many central banks to maintain high policy rates well into 2024.
8. Headline inflation is declining, but core inflation remains elevated due to strong service price increases, higher margins in some sectors, and cost pressures from tight labour markets. Inflation is projected to moderate gradually over 2023 and 2024 but remains above central bank objectives until the latter half of 2024 in most countries.
9. Side effects from the fast rise in policy rates are becoming apparent, as banking sector vulnerabilities have come into focus and fears of contagion have risen across the broader financial sector, including nonbank financial institutions. Risks to the outlook are heavily skewed to the downside, with the chances of a hard landing has risen sharply.
10. The natural rate of interest—the real interest rate that neither stimulates nor contracts the economy—is important for both monetary and fiscal policy; it is a reference level to gauge the stance of monetary policy and a key determinant of the sustainability of public debt.
11. Global oil markets are gradually recalibrating after three turbulent years in which they were upended first by the Covid-19 pandemic and then by the Russian Federation’s (hereafter “Russia”) invasion of Ukraine. Benchmark crude oil prices are back below pre-war levels and refined product cracks have now come off all-time highs after rising supplies coincided with a marked slowdown in oil demand growth in advanced economies. Moreover, an unprecedented reshuffling of global trade flows and two consecutive emergency stock releases by IEA member countries in 2022 allowed industry inventories to rebuild, easing market tensions.
12. Global oil demand is projected to reach almost 107 million barrels a day (mb/d) in 2027, representing a robust increase of 10 mb/d compared to 2021. Most of this increase will materialize in the non-OECD region, which accounts for 8.6 mb/d of the medium-term growth. Of this, however, more than 5 mb/d will be realized in the period to 2024. OECD oil demand is expected to see an increase of 1.4 mb/d by 2027, with the 2.4 mb/d expansion in the period to 2024, offset by a decline of 1 mb/d during the rest of the medium-term.
13. However, OPEC expects that oil demand will hit 110 million barrels per day in 2045. Global oil demand will rise to 110 million barrels a day in two decades, bringing the world's energy demand up 23%, said OPEC.
14. Nigeria's economy experienced a higher net foreign exchange inflow in February, mainly due to increased CBN inflow. Autonomous sources experienced a decrease in inflow. Aggregate foreign exchange inflow increased by 7.2% to $5.66 billion, while outflows rose by 9.0% to $3.02 billion.
15. Foreign exchange inflow and outflow increased by 37.7% and 2.6%, respectively, while autonomous inflow decreased by 9.1% and outflow increased by 0.5%. A net inflow of US$2.56 billion was recorded through autonomous sources, compared with US$2.97 billion in January. The CBN recorded a net inflow of US$0.075 billion, compared with a net outflow of US$0.46 billion in the preceding month.
16. The exchange rate of the naira appreciated at the I&E window relative to the preceding month. The average exchange rate of the naira per US dollar at the I&E window appreciated by 0.03% to ₦460.84/US$, relative to ₦460.99/US$ in the preceding month. The average foreign exchange turnover at the Investors’ and Exporters’ window decreased by 13.7% to US$85.80 million in February, relative to US$99.47 million in January.

Table 10: Kaduna State Macroeconomic Framework



## Fiscal Strategy and Assumptions

### Policy Statement

1. The overall policy of government when considering its budget remains along the line of the State Development Plan 2021-2025 with the following key criteria:

* Sustaining the productivity and diversification of the economy of the State.
* Promoting a conducive business environment that will improve opportunities for trade and investment in the state (agriculture, ICT, SMEs, tourism).
* Continuous investment in infrastructure that will accelerate economic growth and development.
* Continuous improvement in the State’s prospects to achieve the relevant aspects of the SDGs.
* Redesigning and improving security strategies for the protection of lives and properties.
* Ensure continuous institutional strengthening for achieving effective, efficient, transparent, and accountable government for improved service delivery.
* Ensure investment in Human Capital Development in the State.
* Sustain citizens participation in governance.

### Objectives and Targets

1. The key targets from a fiscal perspective are:

* Ensuring the actualization of the development priorities of the government as articulated in the State Development Plan (SDP) 2021 – 2025.
* Maintaining a favourable proportion of Capital to Recurrent expenditure (at least a target of 60:40 ratio).
* Maintain a sustainable debt position in line with Federal Debt Management Office (FDMO) criteria and State Debt Clearance Framework.
* Expand the revenue base of the State by exploring untapped sources.
* Improve economic growth through investment in infrastructure in urban and rural areas.
* Eliminating wastages and other unjustifiable expenditure that are not clearly linked to policy objectives.
* Ensuring adequate provision for 2023 projects not likely to be completed in 2023 or over the period of 2024 – 2026; and
* Ensure the inclusion of sector wide public works programs with significant potential for job creation across all Local Government of the State.

## Indicative Three-Year Fiscal Framework

1. The indicative three-year fiscal framework for the period 2024 - 2026 is presented below.

Table 11: Kaduna State Medium Term Fiscal Framework



Assumptions

1. **Statutory Allocation** – Statutory Allocation’s forecast is based on the elasticity of non-mineral revenue (Custom and Excise Duty & Company Income Tax) using historical data from 2013 to 2022 and forecast for the period of 2024 – 2026 using GDP growth rate and inflation. Mineral revenues are based on the benchmarks and the current proportion of crude oil sales proceeds that are converted into fiscal resources. The budgeted figures for Statutory Allocation do not include any excess crude or other Federation Account receipts. It has taken into cognizance the 0.005% deduction of the Police Trust Fund from both the Mineral and Non-Mineral Revenue.
2. **VAT** - The estimate for VAT is based on elasticity using 2013-2022 actuals and 2024-2026 real GDP growth and inflation. Historical elasticities are calculated for the period 2013-2022. The 2020 Finance Bill increasing VAT from 5% to 7.5% and an additional 3% deduction from VAT for Northeast Development Company is recognized.
3. **Excess Crude** - There are no provisions for revenue from excess crude because Excess Crude is a kind of stabilization fund that is distributed at discretion to the Federal Government and States or when the economy needs to be supported to cushion the effect of recession or economic downturn. This makes it not reasonable to budget or forecast excess crude.
4. **Internally Generated Revenue (IGR)** – The actual IGR collections for 2021 was used to project for 2024 to 2026. The State’s IGR has grown by more than 300% since 2015. The State recorded an increase of 45% in its 2022 IGR as compared with 2021 actual collections. The State has continually outperformed its budget figures for IGR in recent years. This is mainly due to the political will of the government to increase IGR over time and be independent of Statutory Allocation in the long run.
5. **Grants** – Budgeting and forecasting Grants are usually very challenging because most of the receipts and expenditures for grants are off-budget. They hardly go through the Office of the Accountant General of the State, usually, they go directly to Implementing Partners. The Budget for 2024 to 2026 is based on bilateral engagement with the PFM Office. The grants captured are mostly BMGF, UN Systems, World Bank, and FCDO, who have forwarded their commitments. The grants are mostly non-discretional, these funds are tied to the implementation of specific programs/projects. If the funds are not forthcoming, the programs/projects will not be implemented.
6. **Miscellaneous Capital Receipts** - Based on the sale of non-essential government houses, the State still expects a negligible amount in the year 2023 mostly based on non-compliance to the payment policy of the Government or some houses that were confiscated and removed based on breaching some law of the State.
7. **Financing (Loans)** - The 2020 and 2021 budgets are greatly influenced by the World Bank PforR credit facility. Priority Projects especially from the Kaduna State Urban Renewal Programme are financed from the World Bank Loan which will spill over to 2023 and even 2025 as some contracts were recently signed. Other Loans apart from the World Bank Loan are expected to finance the Budget. A schedule of estimated capital receipts is captured in Annex 1.
8. **Personnel** – The sudden removal of fuel subsidy on May 29, 2023, one month ahead of the planned removal date of June 30, 2023, has led to a sharp increase in the costs of transportation and other consumer goods. This has triggered agitations by the leading Labour Unions for an increase in the national minimum wage, as well as the provision of other palliatives to cushion the effects of the subsidy removal on citizens, especially workers. Hence, Personnel costs will be higher in 2024 in view of an imminent upward review of the minimum wage.
9. **Overheads** – With the Kaduna State MoM inflation rate at an all-time high of 22.49% as at May 2023, as well as the impact removal of energy subsidies (PMS and electricity from July 1, 2023) have had on consumer prices, the operational costs of government have increased significantly. Thus, 2024 will certainly see a very high increase in overheads compared to previous years.
10. **Social Benefits –** The immediate past administration commenced a holistic review of minimum pensions receivable by pensioners under the Defined Benefits Scheme in the State. However, the exercise was not completed before the end of the administration’s tenure, but given the cost-of-living realities, it is very likely the new government will consider an upward review of pensions, which will also impact overhead costs.
11. **Debt Service –** Kaduna's ability to cover debt service with its operating balance may weaken unexpectedly. This may be due to lower-than-expected revenue, higher-than-expected expenditure, or an unexpected rise in liabilities or debt-service requirements.

Figure 27: Kaduna State Total Debt Service Actuals and Projections



*Source: 2022 DSA Projection*

Kaduna's revenue structure is influenced by the state's weak socioeconomic profile and reliance on volatile transfers from the federal government. The State has broad responsibilities and high spending needs, and capital expenditure plays a key role in developing the local economy. **Contingency and Planning Reserves** - No provision is made for contingency and Planning Reserves.

1. **Capital Expenditure** - This is based on recurrent account surplus plus Capital receipts, i.e., internal and external grants, internal and external loans as well as other capital receipts. Capital expenditure as budgeted is more than 60% of total expenditure in 2022. Priority to CAPEX will continue into 2024 – 2026 as we see a ratio of at least 60% for CAPEX and 40% for Recurrent Expenditure.

S

## Fiscal Trend

**Figure 28: Kaduna State Revenue Trend**



Figure 29: Kaduna State Expenditure Trend



## Fiscal Risks

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

Table 12: Fiscal Risks

|  |  |  |  |
| --- | --- | --- | --- |
| **Risk** | **Likelihood** | **Impact** | **Reaction** |
| Russia-Ukraine war threat to high cost of imported goods | High | Shortfall in Statutory Allocation from FAAC  (High) | In the long term, Kaduna State would have to be less dependent on Statutory Allocation to fund its expenditure. This would be achieved through higher IGR collections. In the short term, capital projects would be prioritized, and overhead expenditure should be made flexible for reduction if short-term falls are further experienced. Also, the use of prudent mineral assumptions in the budget (below those used by the Federal Government) would be helpful. |
| High Security Tension in West Africa Sub-region (ECOWAS) | High | Shortfall in FAAC and IGR  (High) | The recent build-up of tension in West Africa Sub-region (ECOWAS) as a result of the Coup in Niger Republic and other Countries in the Sub-region such as Mali, Burkina Faso if further escalated will deteriorate security and result in loss of lives, livelihood and economic activities. |
| Threat to security in Kaduna and neighbouring States which could reduce economic activity by taxpayers. | Medium | Reduced IGR and increased Overhead  (Medium) | Proactive engagement with Communities in the State and neighbouring States - through a collaborative effort with the Ministry of Internal Security and Home Affairs, Northern Governor’s Forum, etc. – to reduce risk as well as  “Pooling of resources” to combat insecurity |
| Floods and other natural disasters could adversely affect farming and other economic activity | Low | Reduced IGR and increased Overhead  (Low) | Increased investment to raise the level of climate resilience (flood control and irrigation) adaptation and awareness. |
| Security situation nationwide deteriorates causing reductions in Federal transfers | Medium | Reduced Statutory Allocation and VAT from FAAC  (High) | In the long term, Kaduna State would have to be less dependent on Statutory Allocation and VAT to fund its expenditure. This would be achieved through higher IGR collections. In the short term, capital projects would be prioritized, and Overhead expenditure should be made flexible for reduction if short-term revenue falls are further experienced. |
| Removal of fuel subsidy | High | Increase Statutory allocation (FAAC) inflow to the state.  (High) | In the short-run it increases inflation while in the long-run it would provide opportunities in the establishment of new businesses there by increasing lGR base of the state. |
| Merger of multiple exchange rate | High | Increase Statutory allocation (FAAC) inflow to the state. (High) | In the short-run it increases inflation while in the long-run it would provide opportunities in the establishment of new businesses there by increasing lGR base of the state. |

1. It should be noted that no budget is without risk. The ongoing implementation of the 2023 budget should be closely monitored to mitigate the impact of the risks on the economy.

## Local Government Forecasts

1. Based on the Macroeconomic assumptions in section 3.A, the forecasting techniques noted in section 3.B, the Federation Account revenues have been forecasted for the 23 Local Governments (LGs) of Kaduna State. In addition, LG share of IGR (LG receive 60% of Land Use Charge) is estimated to constitute 2.5% of the IGR estimate as contained in the State Fiscal Framework (Table 13Table 12 above).
2. The forecasts for the period 2024-2026 are provided in Table 13 below.

Table 13 Local Government FAAC and Share of State IGR Estimates







1. Additional Grants are also available to Local Governments as identified in the Local Government Fiscal Transparency, Accountability and Sustainability (LFTAS) programme. There is an annual incentive in the sum of Twenty Million Naira only for the participating LGAs who had made the minimum performance indicators as listed below:

* Budget preparation Process - Increased Citizen engagement in Budget processes
* Adherence to Policy Documents - Strengthen Plan-Budget link.
* Internally Revenue Generation (IGR) -Improved revenue generation
* Procurement and nominal roll fraud - Increased Transparency and value for money
* Tracking Absenteeism and nonchalant attitude of Primary School Teachers and Health personnel - Improved service delivery and Improved quality of education

1. More information is available in the Memorandum issued by the Commissioner of the Planning and Budget Commission in June 2018.

# Budget Policy Statement

## Budget Policy Thrust

1. Kaduna State in its 2021-2025 State Development Plan (SDP) intends to transform the economy of the State into a Knowledge-Based Economy. The 2021-2025 SDP is a five-year plan, designed as a coherent platform for continued economic development and social progress in the State. Amidst a focus on diversifying the resources of economic growth, this plan particularly seeks to establish the State as a knowledge-based economy.
2. The targets of the State as contained in the 2021-2025 SDP are:

* Economic Value Addition,
* Infrastructural Development,
* Governance, Security and Justice, Innovation System and
* Entrepreneurship, Information Infrastructure, and Financial Inclusion.

1. The ushering of a new dispensation on May 29th, 2023, necessitated that its campaign promises as contained in the Manifestos - which is the SUSTAIN AGENDA – are carefully integrated in the State Plans and implemented from mid-2023 and beyond. The main focus of the SUSTAIN Manifesto are Agriculture, Regional/Rural Economic Development, Security, Infrastructure, Human Capital Development etc.
2. The Multi-Year Budgeting Framework will be utilized, and the 2024-2026 multi-year budget will emphasize the following:

* Serve strictly as the financial implementation plan of the new State Development Plan 2021 - 2025.
* Cover the three-year period, 2024 - 2026.

1. The 2024 Budget will also adhere to key fiscal objectives outlined by the current administration which focus on the following:

* Ensuring the actualization of the development priorities of the government as articulated in the State Development Plan and respective Sector Implementation Plans (SIPs).
* Maintaining a favourable proportion of Capital to Recurrent Expenditure (at least a target of 60:40 ratio).
* Ensuring adequate provision is made to complete 2023 projects in 2024.
* Expanding the revenue generation capacity of the State; and
* Eliminating wastages and other unjustifiable expenditures that are not clearly linked to policy objectives.
* Prioritizing capital projects under the Urban Renewal Programme.

## Sector Allocations (3 Year)

1. Presented in the Table 14 below are the indicative three envelopes for sectors and sub-sectors. The basis for 2024-2026 recurrent expenditure envelopes (Personnel, Overheads) is an average for the period 2017-2023 budget allocations.
2. For Capital Expenditure, non-discretional resources have automatically been allocated to their relevant sectors. The main premise for overall allocation is to maintain to a large extent the percentage allocations from 2020. The reason for this is that there is likely to be a carryover of projects from 2023 into 2024. It is assumed that funding of projects in 2022 has been uniform across sectors and MDAs – therefore each sector/MDA should carry over a similar proportion of their projects to 2024. If it is the case that some sectors have enjoyed more funding in 2023 than others, these sectors may not get such a high level of funding in 2024.
3. Other considerations include:

* Commitment of Kaduna State Government to spend 45% on Education and Health.
* Creation of Kaduna State Enterprise Development Agency (KADEDA)
* Maintaining the 60:40 ratio for Capital and Recurrent Expenditure

Table 14: Indicative Sector Personnel Expenditure Ceilings 2024-2026



Table 15: Indicative Sector Overhead Expenditure Ceilings 2024-2026



Table 16: Indicative Sector Capital Expenditure Ceilings 2024-2026



## Considerations for the Annual Budget Process

1. Each MDA should follow the steps below in preparing its 2024 budget:

* Prioritization of 2023 Ongoing Projects
* Ensure New Projects emerge from SIP/SDP
* Allocate Resources

1. Capital Expenditure: MDAs are advised to ensure that all ongoing projects that are unlikely to be completed and paid for in 2023 are captured in their 2024 Budget. Where ongoing projects exceed ceilings, the MDA’s 2024 budget is to be limited to the value of ongoing projects only. Ensure New Projects emerge only from SIP/SDP: For new projects, each Ministry should work with its respective MDAs to reassess its Sector Implementation Plan (SIP) against the State Development Plan (SDP). Sector development priorities should then be prioritized based on MDA capital ceilings allocated. MDAs may wish to hold internal management meetings to ensure a coherent strategy, but these must be aligned with overall sector priorities as defined in the SIP.
2. Allocate resources: Resources should be allocated starting from the highest priority activities and continuing in sequence down to lower priority activities until the budget ceiling is reached. This becomes the cut-off point for resource allocations for that year, except for projects with special funding arrangements (e.g., grant allocations). Projects that do not make the cut for 2023 can then be moved to 2024 and 2026 respectively.
3. The following will be helpful to keep in mind as you assess each activity within the budget:

* General - Budget estimates should be prepared for all units, sub-units and facilities in the organizations for which the MDA is responsible.
* Personnel Costs - All staff on the payroll, including Political, Public office holders must be properly reflected in a Staff List that should accompany the proposal submission. The Staff list must be updated versions from the biometric verification exercise and should be signed off by the Chief Executives who assume responsibility for ensuring the veracity of the information provided. Chief Executives are also expected to perform an independent assessment of the true staff position of their MDAs and ensure this is reflected in the staff list to be sent to the PBC.
* Personnel cost estimates should consider any changes in staffing levels including annual increments, promotions, leave grants, retirement, implementation of the minimum wage and other forms of attrition. It should also consider implications for annual salary and all other approved allowances.
* Recruitment that is not approved by the Government before the submission of this estimate should not be captured.
* For approved recruitment, approval authorization should be included with the submission.
* Capital Expenditure - Capital expenditure estimates must be consistent with Kaduna State Development Plan. Capital projects that are tied to specific sources of funds (grants, loans, etc.), should be matched with the expected drawdown schedule of those specific funds and any Counterpart funds provided by the State.
* Where the drawdown of the specified funds is conditional on the provision of Counterpart funds, it should be clearly indicated in the submission.

# Summary of Key Points and Recommendations

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

* The Commissioner, Planning and Budget Commission (PBC) should present the draft MTEF document to the Executive Council (ExCo), and the Governor should present the final MTEF to the State House of Assembly (SHoA) for their buy-in and approval in accordance with the Fiscal Responsibility Law (FRL).
* The State budget estimates should be based on the MTEF document, which has historically provided more realistic estimates than have been included in the Annual Budget.
* Loans expected to be drawn as capital receipts should be captured in the budget only when they have been approved and commitment fees are paid, and documentation is lodged with Debt Management Department (DMD).
* For all loans, the precise impact on debt sustainability ratios should be assessed, and a detailed analysis of the impact of the associated expenditure (for example, Economic & Financial Analysis) is also undertaken to help justify the funding to the Senate Committee on Foreign Loans (this should be undertaken for the World Bank P4R loan).
* A full assessment of 2023 Capital Project implementation (funding) should be undertaken prior to the finalisation of the 2024 budget so as adequate provisions are made to complete all ongoing projects.
* The Accountant General's Report format should be harmonized with the budgeting system.
* PBC and the Ministry of Finance (MoF) to hold harmonization meetings on quarterly basis.
* PBC and MoF to ensure the sustainability of the MTEF Working Group.

# Annex 1 – Detailed Capital Receipts

Table 17 Capital Receipts



