



FISCAL SUSTAINABILITY OF STATES

A CASE STUDY OF OGUN STATE

Annex 4 to “Creating Learning Alliances” Update Note
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LEAP

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Acronyms and definitions

CBO	Community Based Organization
CBN	Central Bank of Nigeria
CDF	Capital Development Fund
CDSA	Consolidated Debt Service Account
CRF	Consolidated Revenue Fund
DMO	Debt Management Office
DPO	Development Policy Option
FAAC	Federation Account Allocation Committee
FIRS	Federal Inland Revenue Service
FRSC	Federal Road Safety Commission
FRA	Fiscal Responsibility Act
FSP	Fiscal Sustainability Plan
GPFS	General Purpose Financial Statements
IDA	International Development Association
IGR	Internally Generated Revenue
IPPMS	Integrated Payroll and Pensions Management System
IPSAS	International Public-Sector Accounting Standards
JTB	Joint Tax Board
MDAs	Ministries Departments and Agencies
MAN	Manufacturers Association of Nigeria
NACCIMA	Nigeria Association of Chambers of Commerce, Industry, Mines and Agriculture
NCOA	National Chart of Accounts
NIBSS	Nigeria Inter-Bank Settlement System
OGP	Open Government Partnership
OGIRS	Ogun State Internal Revenue Service
OPD	Office of Public Defender
PAYE	Pay-As-You-Earn
POS	Point of Sale
PPP	Public Private Partnership
PPA	Public Procurement Act
PPPL	Public Private Partnership Law
RMFAC	Revenue Mobilization and Fiscal Allocation Committee
SBIR	State Board of Internal Revenue
SUBEB	State Universal Basic Education Board
TSA	Treasury Single Account
VAT	Value Added Tax
WHT	With Holding Tax

Executive Summary

This study formed key material for the South West Learning event – it is not a standalone report, but instead represents part of our broader programme of work with the Nigeria Governors' Forum as previously described to DFID.

Ogun State's performance in relation to the implementation of fiscal reforms as recommended in the fiscal sustainability plan (FSP) has been variable. The State has implemented thirteen key actions, ten actions have not been implemented, while two actions are ongoing. Reforms fully implemented have targeted measures to increase public revenue and rationalise public expenditure. The recent fiscal crisis has been a major factor that has led the State to prioritise on these quick wins. Against this backdrop, the State's domestic revenue has continued to grow steadily since 2014, repositioning the State into stronger fiscal independence. Internally generated revenues (IGR) now contribute more than half of the State's total recurrent revenue and is sufficient to fund its total recurrent expenditure, including personnel and overhead costs.

Public expenditure reforms and spending controls have led to better fiscal consolidation. The State's total expenditure in 2016 only grew by 2 percent from N109 billion in 2015 to N110 billion in 2016. The State's 2017 budget estimate showed that the government plans to cut the share of civil service personnel costs from 36 percent to 27 percent of total expenditure. This controlled fiscal environment has helped the state maintain borrowing decisions that are within recommended thresholds. Nevertheless, there are rising pressures from debt service obligations from the State's federation allocation. In the last year, the State's liquidity ratio more than tripled from 11 percent in 2015 to 38 percent in 2016 – exemplifying pressures from the 2015 bailouts for salary and restructured commercial bank loans. Public financial management on the other hand, needs to be strengthened, given that it sets the legal and regulatory framework for greater accountability and transparency in fiscal operations. Passing the Fiscal Responsibility Bill will help set the parameters for expenditure management.

Although strong performances were recorded in public revenue and public expenditure reforms, with robust systems put in place to strengthen remittances and fiscal consolidation, weaknesses were recorded in accountability and transparency initiatives, with the absence of the State's 2016 budget document, financial statements and performance report online. There is poor public access to government financial statistics. Although the State has in place a public consultation mechanism during budget preparation, through its village square meeting, citizens play little role in budget evaluation and monitoring. In the light of the recent economic crisis, public demand for transparent governance of public resources is on the rise. Publishing information in an accessible, timely and comprehensible manner will increase public trust, both from the business community and citizens at large.

This skewed focus on public revenue and public expenditure reforms is a common phenomenon across States, because they ostensibly provide more tangible results that directly impact fiscal operations. More needs to be done to support stronger collaboration with citizens.

Table 1: Summary of Major Findings

S/N	FSP Objective	Action(s) implemented	Work in progress	Action(s) not implemented
1	Accountability and Transparency	Adoption of IPSAS Open competitive bidding*	Adoption of IPSAS compliant software developed by the federal government	Publication of audited financial statement Publication of budget Publication of budget implementation/performance report Establishment of public compliant and anti-corruption commission*
2	Public Revenue	Set realistic IGR target Implementation of TSA Attend quarterly financial reconciliation meeting Review of revenue related laws and tariffs		Introduction of automatic VAT/WHT issuance system
3	Public Expenditure	Set limits on personnel expenditure limit (including biometric capture) Establish efficiency unit Introduce a system of continuous audit Conduct community needs assessment to inform budget*		
4	Public Financial Management	Consider privatisation or concession of suitable state-owned enterprises	Domestication of the Fiscal Responsibility Act (FRA)	Create fixed asset and liability register Establish a capital development fund
5	Sustainable Debt Management	Compliance with debt threshold (Solvency and liquidity ratio) Full compliance with FRA		Attain and maintain good credit rating Access capital market funds Establish sinking fund and consolidated debt service account to be funded by consolidated debt reserve fund account

Notes: * Open Government Partnership action

Introduction

Nigeria's public finance landscape is experiencing protracted fiscal vulnerability at both the national and sub-national level. Since 2015, federal and state levels of government have been unable to meet their monthly financial obligations fully – including the salaries and pensions of civil service workers and other contractual obligations. Recent reports have shown that government budgets have not responded to the new reality of low oil revenues, despite the 60 percent recorded decline in federation transfers. The consensus is that there has been a lack of policy response to manage the fiscal shock. As such, the fiscal crisis has been and continues to be a major thrust of LEAP's focus.

Following targeting reforms initiated at the federal-level, the federal government established fiscal measures as common tools to enhance fiscal prudence and public expenditure transparency at the State-level. The Fiscal Sustainability Plan (FSP) was unfolded to achieve five key strategic objectives, based on 22 recommended action points. The aim was to achieve accountability and transparency in fiscal governance, increase in public revenue, rationalization of public expenditure, improvement in public financial management and sustainable debt management.

This report contributes to the government's reform process by determining the extent to which current reforms are leading to fiscal sustainability. It supports a preliminary desk review and questionnaire assessment on the implementation of the fiscal sustainability plan across the 36 States, by assessing the fiscal dynamics of Ogun State, within the framework of the FSP and relevant aspects of the Open Government Partnership (OGP).

Objective

The main objective of this study is to achieve the following:

- Access the State's performance in implementing the 22 actions of the FSP and relevant aspects of the OGP;
- Highlight practical evidence of reforms that lead to better fiscal management/performance;
- Document lessons/commendable practices on fiscal management;
- Provide evidence for mobilizing technical assistance for States around a pool of interventions.

Methodology

The evaluation procedure combines a qualitative assessment of the 22 action points of the FSP, a quantitative assessment of the State's fiscal performance based on its 2015 and 2016 fiscal performance, as well as its 2017 budget. It is carried out through interview sessions with relevant officials of the State government (see list of participants in appendix 1) over a 2-day period. The Mission was facilitated by the State's Ministry of Finance.

Overview of the State

Located in the southwest region of Nigeria, Ogun State was created on 3rd February 1976. Also referred to as “the Gateway State”, the State has a high concentration of industrial estates and is considered as a major manufacturing hub in Nigeria. Ogun State sits on a land mass of 16,409.26sq km (the second largest State in the Southwest and twenty-fourth in Nigeria) of which over 80 percent is arable. It also offers ready market and a local population of 7 million people, a window into the immediate market of Niger with a total population of 40 million people, and gateway to West Africa’s estimated population of 350 million. Agriculture and industrialisation provide the major entry points for the government’s partnership and co-operation with the private sector.

The State government believes the development of its cities and towns is of critical importance to pursuing economic growth in a sustainable manner. Consequently, the two inter-related areas open for partnerships and investments – Affordable Housing and Urban Renewal, are components of the government’s “Five-Cardinal Programme”. The goal, according to the State government, is to ensure all its citizens have access to decent, safe, and affordable housing.

Transparency and Accountability

Transparency and accountability measures as recommended in the FSP, are aimed at ensuring that governments show a true and fair representation of their budgets and financial statements to ensure better citizens engagement. These measures are also important for monitoring fiscal risks which threaten long-term sustainability.

The section also covers two elements of the OGP; namely, the institution of an open and competitive bidding system, and a public complaints and anti-corruption commission. In what follows, we provide a synopsis of the State's performance on transparency and accountability actions.

Table 2: State Performance on Accountability and Transparency Actions

S/N	QUESTIONS	STATUS	SCORE	COMMENT
1	Does your State publish its audited annual financial statements within 6 months of financial year-end?	No	D	Only financial statements for 2014 and 2015 are available online ¹ and in hard copy. The statements are also published in two national dailies.
2	Has the State introduced and complied with the International Public-Sector Accounting Standards (IPSAS)?	Yes	C	The State has complied with the IPSAS cash basis of accounting
3	Does your State publish its annual budget online?	No	D	The State's budget is not available online; only budget summary is available in hard copy. The governor's budget speech is published in the State's newspaper – Ogun Defender.
4	Does your State publish its budget implementation performance report online quarterly?	No	D	Quarterly budget performance report prepared but not accessible to the public
5	Is your State using a standard IPSAS compliant software developed by the Federal Government?	Work in Progress	N/A	The State is working with relevant authorities to adopt the IPSAS compliant software introduced by Federal Government.
6	Has your State instituted an open competitive bidding system	Yes	B	The following procurement elements are in place Legal and regulatory framework Publication of government procurement plans; Open bidding opportunities; and Publication of contract awards (purpose, contractor and value).
7	Has your State established a public complaints and anti-corruption commission	No	N/A	The State is yet to establish a public complaints and anti-corruption commission. However, a Citizens Rights Department was established under the Ministry of Justice in 2004. It is made up of a Human Rights office, an Office of the Public Defender and a Citizens Mediation Centre.

¹ <http://ogunstate.gov.ng/budget-archive/>

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

Budget documents are not available online, while 2015, 2016 and 2017 budgets summary are available in hard copy. The Governor's 2017 budget speech to State House of Assembly was published in the State's newspaper – Ogun Defender.

Only financial statements for 2014 and 2015 are available online² and in hard copy. The 2014 and 2015 audited accounts were published in two national dailies.³ However, the State is yet to complete the 2016 draft financial statements. Quarterly Budget Performance Reports are prepared but the reports are not available to public.

Compliance with the International Public-Sector Accounting Standards (IPSAS)

The State in line with the recommendations of Federation Accounts Allocation Committee as approved by the National Economic Council developed the Ogun State Chart of Accounts in 2013. The Chart of Accounts consists of fifty-two digits assigned to six main segments as indicated in the National Chart of Accounts (NCOA). The 2014, 2015, 2016 and 2017 budgets summary adopted the administrative, economic and function segments of the Chart of Accounts. However, the function segment codes are used as part of the administrative segment. This is contrary to the objective of the function segment which is to classify expenditure of government according to purposes and objectives for which they are intended. The approach adopted by the State presents agencies that incur expenditure and the purpose/objective of the expenditure as the same. It is also not possible to ascertain whether other segments (i.e. programme, fund and location) are used in the 2014, 2015, 2016 and 2017 budgets due to non-availability of detailed budget documents. The 2014 and 2015 financial statements adopted the Nigerian approved IPSAS cash General Purpose Financial Statements (GPFS) formats.

Utilization of a standard IPSAS-compliant software

The Federal Government in June 2017 introduced an IPSAS compliant software - One Book - for adoption by States. The State government is working with relevant authorities to adopt the IPSAS compliant software.

Open competitive bidding and disclosure of award contracts

The open competitive bidding and disclosure of award of contract is rated using the following elements of: i) legal and regulatory framework for procurement; ii) publication of government procurement plans; iii) open bidding opportunities; iv) publication of contract awards (purpose, contractor and value); v) data on resolution of procurement complaints, and vi) annual procurement statistics.

The State has passed the Procurement Law though public procurement is done using Procurement Guidelines approved by the State Executive Council. The Procurement Guideline provided for State Tenders Board chaired by the Commissioner of Finance, other members are the Commissioner of Justice, Commissioner of Works, Commissioner of Planning and Budget and Commissioner of Housing. Open competitive bidding process is adopted for most contracts such as building contracts and supplies. However, major road contracts and highly technical projects are done through selective tendering process. All tendering process (either through open competitive tendering process and selective tendering process) are reviewed and evaluated by the State Tenders Board. The Tenders Board will evaluate the bid, negotiate with the contractor(s) and forward its recommendation to the State Executive Council for review and approval.

Four of the six key elements of open competitive bidding and disclosure of award of contracts are in place in Ogun State, including the legal and regulatory framework, publication of government procurement plans; open bidding opportunities and publication of contract awards ('purpose, contractor and value').

² <http://ogunstate.gov.ng/budget-archive/>

³ 2015 and 2016 audited statements were published in the guardian newspaper of Monday December 5, 2016

Establishment of public complaints and anti-corruption commission

The State is yet to establish a public complaints and anti-corruption commission. However, the Citizens Rights Department was established under the Ministry of Justice in 2004. The Department was set up to ensure that the legal and human rights of members of the public in the State receive prompt attention and solution from the State government. The Department is divided into three units- the Office of the Public Defender (OPD) which provides free legal advice and representation to certain disadvantaged people (including children, women and the poor who do not have means of paying for legal services) who are resident in the State; a local mediation centre which offers means of dispute resolution without recourse to the courts; and a Human Rights Unit which protects and enforces the basic human rights of the poor and the disadvantaged. Such groups include workers (in both private and public sectors), students, retirees, the old and aged, prisoners, pensioners, HIV/AIDS patients etc.

On average, the department addresses 10 to 15 cases per month, based on referrals from Court Judges, walk-ins and prison visits. There are only two offices in the State – one in Abeokuta serviced by a team of 10 lawyers, and another in Ijebu Ode serviced by two lawyers. Capacity challenges exist in the absence of a helpline and digitalisation process for communication purposes, poor capacity for staff and limited office coverage.

Public Revenue

This section examines the State's performance on six action points of the FSP. It also evaluated in quantitative terms, the State government's revenue performance between 2014 and 2016, and revenue strategy for 2017.

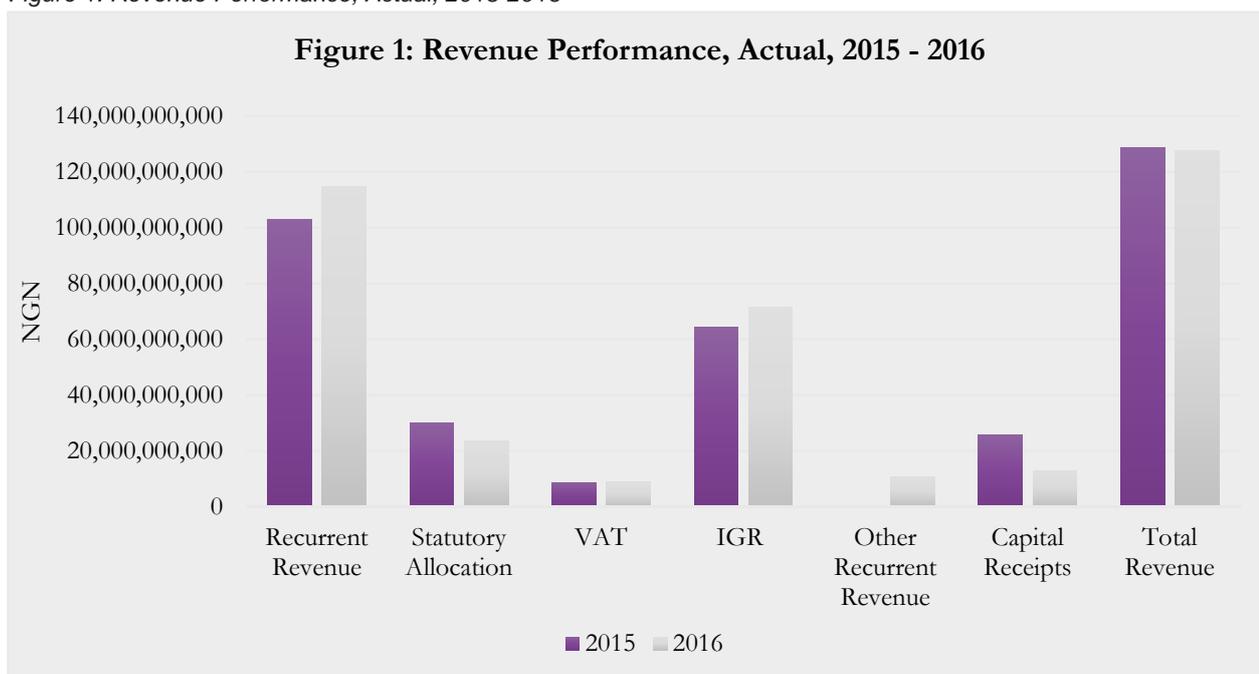
Table 3: State Performance on Public Revenue Actions

S/N	QUESTIONS	STATUS	SCORE	COMMENT
1	Has your State set realistic and achievable targets to improve independently generated revenue (from all revenue generating activities of the State in addition to tax collections). IGR out-turn compared to original approved budget	Yes	C	The State recorded 68% IGR performance in 2016. In 2017, the government plans to increase its IGR by 60% to N114.3 billion, from N71.6 billion recorded previously.
2	Has the State implemented a central Treasury Single Account? Proportion of Revenue collecting MDAs that remit all their revenue to CRF Account	Yes	A	Over 90% IGR collected by all MDAs are remitted to the CRF Account
3	Does your State operate a computerized treasury system (such as an IFMIS)? Transactions are processes within the IFMIS environment	Work in Progress	A	The State uses an IFMIS-like software called IPLUG 4G which is being implemented in partnership with NIBSS
4	Does the State hold quarterly financial reconciliation meetings with the Federal Government on VAT, PAYE remittances, refunds on government projects, Paris Club and other accounts?	Yes	N/A	Meetings are held quarterly under the JTB platform
5	Does your State share the database of companies within the State with the Federal Inland Revenue Service (FIRS)?	Yes	N/A	The State shares financial reports of companies with the FIRS among other collaborative actions.
6	Has your State introduced a system to facilitate the immediate issue of VAT and WHT certificates on payment of invoices?	No	C	The State has its system in place with a 24hrs average processing time for certificate issuance.
7	Does your State review revenue related laws and update obsolete rates / tariffs? Regular updates to non-tax rates and tariffs?	Yes	B	Some rates and tariffs have been reviewed in the last 12 months

In 2016, the State recorded a marginal decline in total revenue from N128.7 billion in 2015 to N127.7 billion. Overall budget performance for total revenue fell below the government's target of N200.2 billion for 2016, by 36 percent across all revenue components. Capital receipts recorded a 76 percent deviation from the budgeted amount (from N52.5 billion to around N12.8 billion), followed by IGR (32 percent deviation) and statutory allocation (27 percent deviation) (see table 4).

In recent times, IGR has played a major role in the State's development agenda, contributing more than half of the State's total recurrent revenue, reaching over 60 percent since 2014. In 2015 and 2016, the State's IGR could completely cover the State's total recurrent revenue, including personnel costs, overheads, and consolidate revenue charges.

Figure 1: Revenue Performance, Actual, 2015-2016



Data Source: Ogun State audited financial statements (2015), management account (2016)

Table 4: Revenue Performance, 2015 – 2017

Revenue Item	2015	Approved Budget (2016)	2016	Approved Budget (2017)
Recurrent Revenue	103,001,258,844	147,671,328,500	114,880,589,862	155,305,210,300
Statutory Allocation	29,984,046,558	32,600,000,000	23,740,950,872	30,000,000,000
VAT	8,680,220,497	9,400,000,000	8,876,553,049	11,000,000,000
IGR	64,336,991,789	105,671,328,500	71,553,413,881	114,305,210,300
Other Recurrent Revenue	-	-	10,709,672,060	-
Capital Receipts	25,717,564,178	52,529,124,852	12,825,110,550	65,785,633,717
Total Revenue	128,718,823,022	200,200,453,352	127,705,700,412	221,090,844,017

Data Source: Ogun State audited financial statements (2015), management account (2016) and budget (2017)

Setting a realistic and achievable target to improve IGR⁴

The State government recorded an Independently Generated Revenue (IGR) performance of 68 percent in the 2016 fiscal year, contributing 62 percent of the State's total recurrent revenue. Actual performance was N71.6 billion down from a projection of N105.7 billion. The government raised its IGR target for 2017 by 60 percent to N114.3 billion, from a monthly average of N6 million to over N9 million. Among ongoing measures to ensure it achieves this target includes an ongoing regularisation of certificates of occupancies and building plans, and an enumeration exercise for residents of border towns under the State's Border Tax Scheme which has expanded the government's tax coverage. The number of companies registered under the border tax net has increased from 791 companies in January 2016 to 1,036 companies as at October 2017. Monthly generation also increased from N243 million in 2014 to N685 million over the period.

⁴From all revenue generating activities of the State in addition to tax collection.

By December 2017, new plans will include a haulage harmonisation programme which will harmonise levies for the commercial transport of goods, and a utilities infrastructure levy which targets corporate bodies in the telecommunications industry. The State highlighted that the reform that had worked best in recent times was its Commercial Road Transport Workers Tax Scheme which targets informal sector transport workers. Monthly tax revenue generated from the scheme currently averages N230 million.

Implementation of a centralised Treasury Single Account (TSA)

The State centralised treasury single account is managed at three (3) different platforms – a Pay Direct system for commercial banks, an IPAY system for microfinance banks to service small and medium scale business, and points of sale (POS) at service delivery points such as hospitals and schools. Revenue payments are made to the State's accounts across banking institutions and are reconciled daily through its reemsonline.com portal. In partnership with NIBSS, the State also uses IPLUS4G to monitor and reconcile remittances.

Quarterly financial reconciliation meetings between Federal and State Governments

Financial reconciliation meetings with the Federal Inland Revenue Service (FIRS) and the State government through the Ogun State Internal Revenue Service (OGIRS) are held under the platform of the Joint Tax Board. The meetings are arranged at the instance of FIRS and they cover Value Added Tax (VAT), Pay-As-You-Earn (PAYE) remittances, refunds on government projects, Paris Club and other accounts.

The Board's membership is made up of the Federal Inland Revenue Service (FIRS), States Boards of Internal Revenue (SBIR) as well as representatives of the Federal Road Safety Commission (FRSC), Revenue Mobilization Allocation and Fiscal Commission (RMAFC), Federal Capital Territory Administration, and the Federal Ministry of Finance. The last reconciliation meeting the State participated in was the 138th meeting of the JTB held on the 14th August 2017 in Abuja.

Sharing database of companies within the State with FIRS

Through the JTB and joint audits and sensitisation drives with the FIRS, company information are shared with FIRS.

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

The State has not installed the FIRS VAT/WHT certificate issuance system. The State has its own system that facilitates deductions for VAT/WHT. Under its IPLUS 4G environment, taxes are deducted automatically while payments are carried out manually. The State's average processing time for issuing VAT/WHT certificates is 24hrs.

Review all revenue related laws and update obsolete rates/tariffs

The State is currently updating and harmonizing its rates, such as its haulage levies for the commercial transport of goods and a utilities infrastructure levy which will target corporate organisations in the telecommunications industry. In 2015, the state amended its Taxes and Levies (Approved List of Collection) Act, September 30, 1998. Others include the Ogun State roads Toll Law, 2013 which entitles the collection of toll on designated roads, establishment of a Road Toll Board; the Ogun State Regulation of sand Dealing and Dredging Law, 2013 to provide for the regulation and grant of permit to persons conducting sand dealing, dredging operation and solid minerals extraction in the State; the Ogun Lotteries Law, 2013 to establish the Ogun State Lotteries Board and regulate lotteries; and the Hotel Occupancy and Restaurant Consumption Tax Law, 2012 to impose taxes on goods and services consumed in hotels, restaurants and event centres in the State.

Public Expenditure

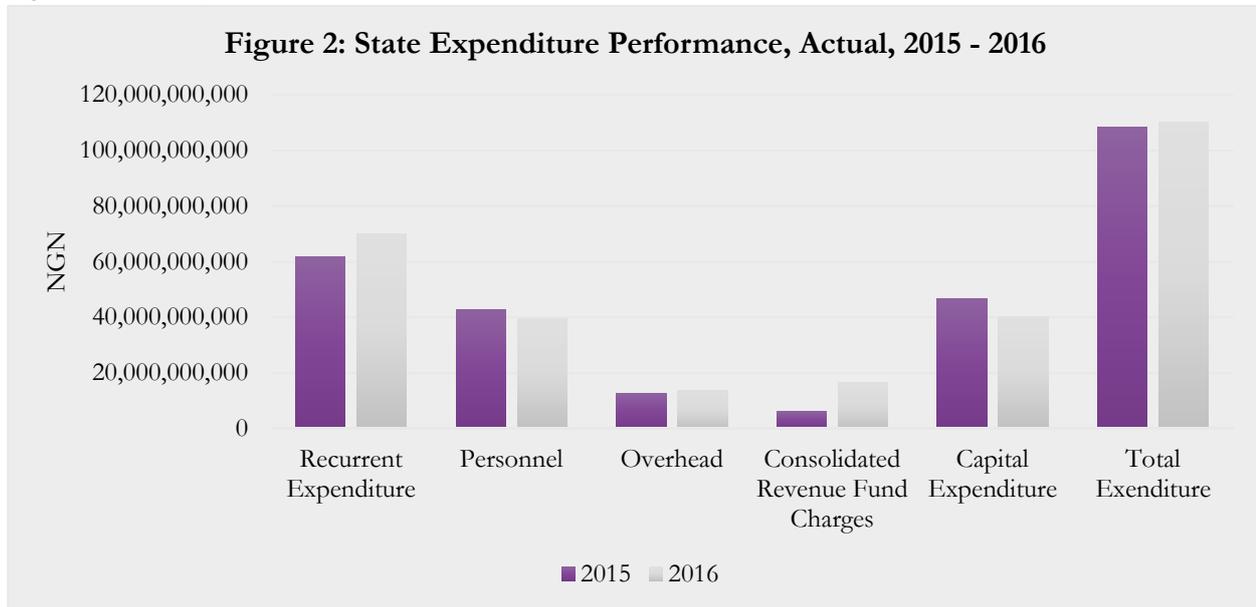
This section reviews the State's performance on the implementation of recommendation actions of the FSP and OGP to rationalize public expenditure and strengthen expenditure management. It also examines expenditure trends and performances between 2015 and 2017. A summary is provided in table 5 below:

Table 5: State Performance on Public Expenditure Actions

S/N	QUESTIONS	STATUS	SCORE	COMMENT
1	Has your State set a realistic and achievable target for its capital to recurrent expenditure ratio? Aggregate expenditure out-turn compared to original approved budget	Yes	C	In 2016, the State recorded 60% performance for aggregate expenditure, while capital to recurrent ratio was 57 percent. The State's 2017 target estimates a 157 growth in capital expenditure that will see the capital to recurrent ratio rise to 103 percent.
2	Has your State set limits on personnel expenditure as share of total budgeted expenditure?	Yes	A	Personnel expenditure was recorded as 36% of total expenditure in 2016 and set to decline to 27% in 2017
3	Has your State carried out a biometric capture of all civil servants under the State's payroll?	Yes	A	All civil servants in the State are captured in a HR database which is integrated with a payroll and pensions management system. The database is updated following the entry or exit of staff. The total number of civil servants in the State is 29,097.
4	Has your State established measures to strengthen budget credibility, for example, limiting the deviation between budgeted and actual expenditures?	Yes	C	Expenditure commitment controls are in place to effectively limit commitments to actual cash availability and approved budget allocations for expenditure heads. None of the planned expenditures for 2016 surpassed their budgeted target.
5	Has the State established an Efficiency Unit?	Yes	A	The State has a Compliance and Initiatives Department in the Ministry of Finance and an Inspectorate in the State Treasury Office which operates like the Efficiency Unit.
6	Has your State received an online price guide on reference unit costs from the Federal Government?	No	N/A	No guide has been received from the federal government. The State, through its Procurement Bureau, carries out market surveys regularly for procurement activities.
7	Has your State introduced a system of continuous internal audit? Extent of Continuous Audit	Yes	A	This is in place across at least 75% of the State's MDAs
8	Does your State conduct community needs assessments and is this included in your budget preparation process?	Yes	N/A	The State holds a village square meeting annually as part of its budget preparation process.

Total expenditure for 2016 rose marginally by 2 percent from N109 billion in 2015 to N110 billion in 2016 (see figure 2). However, the total spend was less than a budgeted target of N182 billion – recording 60 percent performance. Capital expenditure performance was expectedly lower, at 47 percent compared to 72 percent for recurrent expenditure performance.

Figure 2: State Expenditure Performance, Actual, 2015 - 2016



Data Source: Ogun State audited financial statements (2015), management account (2016)

Table 6: State Expenditure Performance by Type, 2015 - 2017

Item	2015	Original Budget (2016)	2016	Original Budget (2017)
Recurrent Expenditure	61,702,281,410	97,908,975,409	70,019,165,495	99,930,936,000
Personnel	42,780,461,694	52,339,777,000	39,567,459,292	54,187,937,000
Overhead	12,697,673,978	25,569,198,409	13,795,168,525	25,594,624,000
CRF Charges	6,224,145,738	20,000,000,000	16,656,537,678	20,148,375,000
Capital Expenditure	46,872,293,777	85,216,477,943	40,173,835,419	103,159,908,017
Total Expenditure	108,574,575,187	183,125,453,352	110,193,000,914	203,090,844,017

Data Source: Ogun State audited financial statements (2015), management account (2016) and budget (2017)

A sectoral breakdown of the State's capital expenditure in 2016 shows that the economic sector maintained the largest share (64 percent), followed by the administrative sector (22 percent). The social, regional and law and justice sectors as share of total capital spending recorded 5 percent, 9 percent and 0.9 percent respectively.

Table 7: State Expenditure Performance by Sectors, 2015 - 2017

Expenditure Category	2015	Approved Budget (2016)	2016	Approved Budget (2017)
Administrative	5,513,194,047	17,699,370,000	8,723,857,897	25,475,000,000
Economic	36,747,615,802	50,604,759,663	25,733,271,093	55,555,500,000
Social	4,279,898,749	6,266,459,000	2,117,012,864	13,637,000,000
Regional	321,585,179	9,392,959,280	3,592,423,565	7,622,000,000
Law and Justice	10,000,000	1,252,930,000	7,270,000	870,408,017

Data Source: Ogun State audited financial statements (2015), management account (2016) and budget (2017)

Setting limits for personnel expenditure as share of total budgeted expenditure

The State recorded a marginal decline in the share of personnel expenditure in total budgeted expenditure, from 39 percent in 2015 to 36 percent in 2016. The government's financial statement showed that in absolute terms, personnel expenditure slid from N42.8 billion in 2015 to N39.6 billion in 2016. The State's 2017 budget however presents a 27 percent rise to N54.2 billion. Although higher, this is expected given the impact of inflation on payroll forecasting, any accumulated arrears from the previous year, and vacancy adjustments. However, care must be taken to ensure that the government builds a potential cushion in the budget such as from the State's domestic revenues which are less volatile. The projected personnel expenditure for 2017 is 47 percent of expected inflows from IGR.

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

The State computerised personnel database covering all civil servants was developed in 1988. The computerised personnel database was upgraded in 2003 to include SUBEB and Local Government staff. In 2011, the State migrated the database to Integrated Payroll and Pension System (IPPMS). The IPPMS allowed the State to capture biometrics of all the staff in the data base. All civil servants in the State are captured in an IPPMS database which is integrated with a payroll and pensions management system. The database is updated following the entry or exit of staff. The total number of civil servants in the State is 29,097.

To admit a new entry/change into the personnel database, the staff will complete the enrolment form that will be countersigned by the Director of Administration and Permanent Secretary (or Chief Accounting Officer in case of non-ministerial office). The completed form countersigned by the Director of Administration and Permanent Secretary will be forwarded to the Auditor General for processing and approval. The Computer Services Office of the Accountant General Office on receipt of the enrolment form approved by the Auditor General will enter the staff personal information and biometric data to the IPPMS database.

Establishing of an efficiency unit

The State has a Compliance and Initiatives Unit in the Ministry of Finance. The Mandate of the Unit is to review the expenditure profile and pattern of the State Government and work with MDAs to introduce more efficient processes and procedures that will ensure that the Government's revenues are deployed in an efficient manner that translates to value for money and savings to Government. The Compliance and Initiative Unit discharges its functions in close collaborate with the Inspectorate Department of the Office of the Accountant General and the Internal Audit Units of MDAs.

Adoption of the federal government online price guide

No guide has been received from the federal government. The State, through its Procurement Bureau, carries out market surveys regularly for procurement purposes.

Implementing a system of continuous audit (internal audit)

Internal audit function is performed by Internal Auditors deployed by the Office of Accountant General to all MDAs as resident Internal Auditor. The Resident Internal Auditor carries out internal continuous audit in the MDA. The Internal Audit is a unit in the Permanent Secretary Office or the Chief Executive Office (for Parastatals). The Internal Audit Unit is in place in more than 75% of the State's MDAs. The Internal Auditor prepares monthly internal audit report which is forwarded to the Permanent Secretary (Chief Executive in case of Parastatal) and the Inspectorate Department of the Office of the Accountant General.

Conducting community needs assessments

As part of its budget preparation process, the State conducts a village square meeting annually, in one location. The meeting is facilitated by the Governor, who interacts with stakeholders from the public and private sector, including market women, Community Based Organisations (CBOs), Faith Based Organisations (FBOs), trade unions, students, the organized private sector, Manufacturers Association of Nigeria (MAN), and the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) among others. After the meeting, which typically lasts for about six hours, a communique is prepared and read in a press briefing, highlighting major policy statements and positions of the government to take forward.

Public Financial Management

This section focuses on relevant laws, rules, systems and processes that guide the use of public resources. A strong PFM system is an essential aspect of the institutional framework for an effective State, including how the government mobilises revenue, allocates public funds, undertakes public spending, accounts for funds and audits results. A summary of the State's performance on PFM reforms is shown in the table below.

Table 8: State Performance on Public Financial Management Actions

S/N	QUESTIONS	FEEDBACK	SCORE	COMMENT
1	Has your State created a fixed asset and liability register?	No	C	MDAs only have inventories of assets without proper valuation
2	Has your State considered the privatisation or concession of suitable State-owned enterprises to improve efficiency and management?	Yes	N/A	The State has a number of successfully concessioned projects, including the concession of the Gateway Hotel to Park Inn by Radisson.
3	Has your State domesticated the Nigeria National Policy on PPP? Is there a PPPL covering all 4 processes in PPP execution as enumerated in the National Policy on PPP	Work in Progress	D	The PPP Bill is yet to be presented to State House of Assembly.
4	Has your State established a Capital Development Fund?	No	B	The recurrent revenue surplus and capital receipts are appropriated each year as CDF
5	Has the State domesticated the Fiscal Responsibility Act (FRA)?	Work in progress	D	The FR Bill is currently being reviewed by the State Executive Council
6	Has the State domesticated the Public Procurement Act (PPA)?	Yes	B	The Public Procurement Law, 2014 was assented to by the Governor on 8 th June 2015. The law establishes the State Council on Public Procurement and the Bureau of Public Procurement.

Maintaining a fixed asset register

The State MDAs only have inventories of office assets. However, as prelude to the adoption of IPSAS accrual, the State has started putting in place the mechanism for documentation of assets of Ogun State.

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

Privatisation/ concession arrangements are ongoing in the State. In 2015, Radisson Hotels, a US-brand hotel chain invested N4 billion on the defunct Ogun State-owned Gateway Hotels, and transformed it to Park Inn Hotels by Radisson, under a concession agreement with the State government.

Establishment of CDF and the adoption of accounting policies for capital receipts

In the State annual budget, the recurrent revenue surplus (i.e. the difference between recurrent revenue and recurrent expenditure) are transferred to the Capital Development Fund (CDF). Its establishment aims at ring-fencing capital receipts. The recurrent revenue surplus and capital receipts (i.e. grants, loans and other capital receipt fund) are appropriated as CDF. The 2014 and 2015 audited accounts indicated that the CDF for the two years were utilized for capital projects.

Domestication of the Public Procurement Act (PPA)

On 8th June 2015, a law establishing the State Council on Public Procurement and the Bureau of Public Procurement was signed into law. The Law established the Bureau of Public Procurement and Council on Public Procurement. The Bureau is the regulatory authority responsible for the monitoring and oversight of public procurement, harmonising existing government policies and practices by regulating, setting standards and developing the legal framework and professional capacity for public procurement in the State. The Council consists of the Commissioner of Budget and Planning who serves as the Chairman, and representatives of the Commissioner for Finance, the Attorney General and Commissioner for Justice, the Secretary to the State Government, the Head of Service and the Economic Adviser to the Governor. Other members are part-time, from the Chartered Institute of Purchasing and Supply Management of Nigeria, Nigerian Bar Association in the State, Ogun State Chamber of Commerce, Industry, Mines and agriculture, the State branch of the Nigerian Society of engineers and professional accounting bodies in Nigeria. The Bureau with the approval of the Council, stipulates the code of conduct of all public officers, suppliers, contractors and service providers with regards to the standards of conduct relating

Domestication of the Fiscal Responsibility Act (FRA)

The Fiscal Responsibility Bill is currently being reviewed by the State Executive Council.

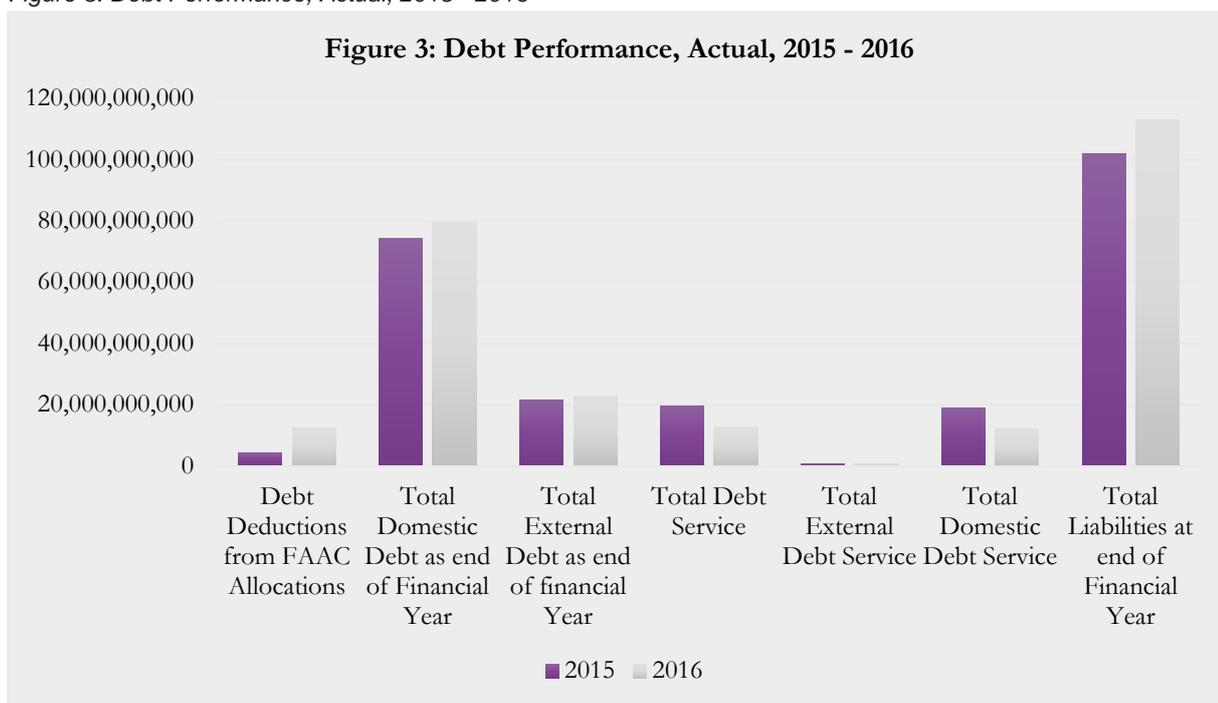
Debt Management

This section reviews the State's performance on the implementation of actions targeted at strengthening debt management. It also examines the State's debt profile between 2015 and 2017. A summary is provided in table 5 below:

Table 9: State Performance on Debt Management Actions

S/N	QUESTIONS	STATUS	SCORE	COMMENT
1	Does your State have a credit rating?	No	D	No credit rating has been undertaken in the last 36 months
2	Has your State received from the Federal Government guidelines on issuance of fast-track Municipal bonds?	No	N/A	The State has not received this guideline from the federal government.
3	Has your State accessed funds from the capital market for bankable projects through the issuance of fast track municipal bonds?	No	N/A	The State government has no plans of selling municipal bonds. The State is discussing with Federal Government and World Bank to access a \$350 million IDA facility to finance its Development Policy Operation (DPO).
4	Has your State fully complied with the FRA with respect to not undertaking of commercial bank loans since the FSP?	Yes	N/A	The State has not borrowed from any commercial bank since the FSP was developed
5	Does your State make routine submissions of updated debt profile reports to the Debt Management Office?	Yes	N/A	The State makes routine submissions to DMO quarterly. However, data from the DMO reports the latest data from the State as at December 2015
6	Has your State received a benchmark rate for municipal loans from the CBN?	No	N/A	The State has not received a benchmark rate from the CBN.
7	Has your State established measures to ensure that current total liabilities do not exceed 250% of total revenue for the preceding year (2016)? Solvency Ratio	Yes	B	The State has a debt management strategy which sets borrowing limits. Its solvency ratio was recorded as 98% in 2016.
8	Has your State established measures to ensure that monthly debt service deductions do not exceed 40% of the average FAAC allocation for the preceding 12 months?	Yes	C	Its liquidity ratio was recorded as 38% in 2016. The ratio had increased substantially from 11% recorded in 2015.
9	Does the State run currently a sinking fund for maturing loans?	No	D	The State does not operate a sinking fund
10	In addition to a sinking fund, has your State established a consolidated debt service account to be funded from the State's consolidated reserve fund account to a minimum of 5% of IGR?	Yes	B	Although a CDSA is in place, transfers are not strictly adhered to because there is no guiding framework to ensure transfers from IGR.

Figure 3: Debt Performance, Actual, 2015 - 2016



Data Source: Ogun State audited financial statements (2015), management account (2016) and budget (2017)

The State's total debt liabilities rose from N102 billion in 2015 to N113 billion in 2016. Significant service pressures were particularly recorded from FAAC allocations, as a result of bailout packages issued in 2015 including an excess crude account-backed loan facility, salary bailout, and restructured commercial bank loans. Total deductions from FAAC allocations rose by 187 percent from N4.3 billion in 2015 to N12.4 billion in 2016. Within the period, domestic debt rose by 7 percent to N79 billion while external debt rose by 6 percent to N22.7 billion (see table 10).

Table 10: Debt Performance, Actual, 2015 - 2016

Debt Category	2015	2016
Debt Deductions from FAAC Allocations	4,330,975,129	12,422,183,890
Total Domestic Debt as end of financial year	74,301,872,313	79,426,403,867
Total External Debt as end of financial year	21,445,793,764	22,726,287,949
Total Debt Service	19,662,279,447	12,810,289,168
Total External Debt Service	618,139,217	749,325,036
Total Domestic Debt Service	19,044,140,230	12,060,964,132
Total Liabilities at end of financial year	101,962,098,485	113,071,068,721

Data Source: Ogun State audited financial statements (2015), management account (2016) and budget (2017)

Attainment and maintenance of a credit rating for the State

The State has no credit rating.

Accessing funds from the capital market

The State government has no plans of selling municipal bonds. The State is discussing with Federal Government and World Bank to access a \$350 million IDA facility to finance its Development Policy Operation (DPO). The credit facility has a low financing data of 1.25 per cent interest a 25 years maturity tenure and a five-year moratorium.

Compliance with the Fiscal Responsibility Act

State officials stated that the government has not undertaken loans from any commercial bank since it signed up to the FSP. Debt management officials also noted that the States makes regular submissions of quarterly debt data to DMO, records⁵ show the latest available data for the State is as at December 2015.

Maintaining total liabilities and debt service thresholds⁶

The State has set debt sustainability thresholds for its total debt stock to GDP ratio at 20 percent and total debt service to total revenue ratio at 30 percent. The government's loan portfolio also falls below all recommended thresholds as shown in table 11. The State's IGR performance has provided strong resilience to the government's overall debt profile; however, pressures from service payments from its federation allocation are mounting. Its liquidity ratio rose dramatically from 11 percent in 2015 to 38 percent in 2016.

Table 11: Debt Ratios for 2016

Debt Sustainability Ratio	Recommended Threshold	State Ratio (2016)
Liquidity Ratio (12 months average deduction from FAAC/12 months average FAAC)	40%	38%
Solvency Ratio (total domestic debt/IGR)	92% - 167%	111%
Solvency Ratio (total liabilities /total recurrent revenue)	250%	98%

Establishment of a sinking fund and a consolidated debt service account by the State

The State does not maintain a sinking fund. Although a CDSA is managed, payments are not strictly adhered to when there are other competing needs such as salary and pension obligations.

⁵ See <https://www.dmo.gov.ng/debt-profile/sub-national-debts/2033-domestic-debt-of-the-36-states-and-fct-as-at-december-31-2016/file>. [Accessed on 11 November 2017]

⁶ The debt sustainable solvency and liquidity ratio adopted for this study were derived from the 2005 joint IMF-World Bank Debt Sustainability Framework (DSF) and FSP thresholds for solvency and liquidity ratios along with the Debt Relief International (DRI) threshold for solvency. Liquidity and solvency ratios measure a mix of ratios for domestic debt, foreign debt, IGR, and federation revenues

Next steps

LEAP will be liaising with the NGF how to disseminate the major lessons learned from all the case studies more broadly. There is the possibility of doing a national conference, potentially sponsored by the NEC, but instead we are more likely to pursue more regional events, and possibly a series of focus group discussions on specific issues. This will involve discussions with the World Bank's proposed new operation, as it will change the rules of the game; as well as with our colleagues in ARC and ECP.



Annexes

Annex 1 - List of State Officials Interviewed

Table 12: List of State Officials Interviewed

S/N	Name	Designation/Ministry
1	Mr. Wale Oshinowo	Commissioner, Ministry of Finance
2	Mr. Olayiwola Dosunmu	Accountant General, Office of the Accountant General
3	Mr. Sulaiman Ayodele	Director, Consolidated Account, Office of the Accountant General
4	Mrs. Amole Adetayo	Director, Debt Management, Office of the Accountant General
5	Mr. Abdulfattah Odusanya	IT (Computer Services), Office of the Accountant General
6	Mr. A.A Adewole	Director, Citizens Rights Department, Ministry of Justice

Annex 2 - State's Fiscal Performance

Table 13: State's Fiscal Performance, 2016

Description	Value	Score				Score GUIDE			
		A	B	C	D	A	B	C	D
Aggregate expenditure out-turn compared to original approved budget	60.2%			C		Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Composition of expenditure out-turn compared to original approved budget	47.1%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Aggregate expenditure out-turn compared to original approved budget - administrative sector	49.3%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Aggregate expenditure out-turn compared to original approved budget - economic sector	50.9%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Aggregate expenditure out-turn compared to original approved budget - social sector	33.8%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Aggregate expenditure out-turn compared to original approved budget - regional sector	38.2%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Aggregate expenditure out-turn compared to original approved budget - law and justice sector	38.2%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Aggregate Revenue Out-turn	63.8%			C		Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Federal Account Revenue out-turn compared to original approved budget	77.7%		B			Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
IGR out-turn compared to original approved budget	67.7%			C		Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Capital Receipts out-turn compared to original approved budget	24.4%				D	Less than 15% deviation (positive or negative)	Deviation of between 15% and 30% (positive or negative)	Deviation of between 30% and 45% (positive or negative)	Deviation of more than 45% (positive or negative)
Proportion of Recurrent Expenditure funded by IGR	134.1%	A				60% and above	Between 41% and 59%	Between 20% and 40%	Less than 20%
Proportion of Recurrent Expenditure funded by IGR and VAT	150.7%	A				80% and above	Between 61% and 79%	Between 41% and 60%	Less than 40%
Capital Expenditure Ratio	57.4%		B			60% and above	Between 41% and 59%	Between 20% and 40%	Less than 20%

Personnel Expenditure Ratio	35.9%		B			Less than 26% of total expenditure	Between 26% and 39%	Between 40% and 50%	more than 50%
Overhead Expenditure Ratio	12.5%	A				Less than 15% of total expenditure	Between 15% and 19%	Between 20% and 30%	More than 30%
Real IGR Growth	11.2%		B			IGR growth at 20% and above	IGR growth between 6% and 19%	IGR growth between 0% and 5%	IGR growth below 0%
Ratio of average monthly debt service deducted from FAAC revenue	38.1%			C		Less than 10% of total gross allocation	Between 10% and 25% of gross allocation	Between 25% and 40% of gross allocation	More than 40% of gross allocation
Total Liabilities as percentage of total Recurrent Revenue	98.4%		B			Less than 50%	Between 50% and 150%	Between 150% and 250%	More than 250% or no records
Stock of expenditure payment arrears	N/A					Less than 2% of aggregate actual expenditure	between 2% and 5% of actual expenditure	Between 5% and 10% of Actual Expenditure	More than 10% of actual expenditure



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