

KWARA STATE BUDGET PERFORMANCE FLASH REPORT

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RECONSTRUCTING PROCESSES
AND REPOSITIONING PEOPLE
FOR BUDGET ESTIMATES AND
IMPLEMENTATIONS TOWARDS
SUSTAINABLE INCLUSIVE
GROWTH IN KWARA STATE

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PREFACE



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SITUATION ANALYSIS

Kwara state is one of the states established by the military administration in 1975. From the year till present period, the state has had both military administrators and politicians as leaders, governing affairs of the state towards social and economic development.

Budget is one of the instruments being used for management of material and human resources every year. In each year, significant amounts are budgeted for development of infrastructure and non-infrastructure projects. From the military to civilian

administrations, budget is dubbed different names. The names were in consonance with socioeconomic and political realities in most cases. In 2019, the state budget was

themed “Budget of Consolidation and Prosperity” by the administration of Alhaji Abdulfatai Ahmed. While presenting the budget to the citizens and residents, Alhaji

Ahmed described the budget as “a blueprint for sustaining on-going infrastructural development and improvement in the living standard of citizens; as well as increased reliance on Internally Generated Revenue (IGR) for sustainable budget implementation.”

In what appears as a fresh idea after 8 years of Ahmed administration, the incumbent Governor Abdulrasaq Abdulrahman positioned his first budget as “Budget of Reconstruction and Reformation” with the intent to use it as template for changing the fortunes of the citizens, residents and businesses in the state. According to him, the budget will be used as “a blue print of the government with a view to rebuilding the ruins of the past while reforming the future of the citizens.”

Apart from using different themes for the budgets, our analyst observes that the two governors have had the course to let the public know that the budgets will be implemented in line with their policy thrusts and objectives. Over the years, expanding

internally generated revenue of the state has been one of the main policy objectives. This has been pursued in addition to provision of infrastructure, qualitative healthcare, job and wealth creation for the citizenry. When it is obvious that the current administration needs to benefit from the State Fiscal Transparency, Accountability and Sustainability Programme for Result (SFTAS), 2019 budget was revised from the initial N157,802,032,561 to N130,380,403,956 representing 17.4% decrease¹. In line with this needs to benefit from the State Fiscal Transparency, Accountability and Sustainability Programme for Result (SFTAS), 2019 budget was revised from the initial N157,802,032,561 to N130,380,403,956 representing 17.4% decrease . In line with this background, this report aims at evaluating performance of 2019 budget in relation to 2020 budget. Specific attention has been paid to performance of Q1-Q4, 2019 and Q1, 2020 quarterly budget.

¹ Vanguard (2019) Kwara Assembly Approves N130,380,403,956 Revised Budget for the State Vanguard; Lagos [Lagos] 16 Oct 2019. This is the sequel to the report of the House Committee on Finance and Appropriation on the Year 2019 Revised Appropriation Bill presented to the House by the Chairman of the Committee Hon Ambali Olatunji Ibrahim. The Committee arrived at the sum yesterday after perusing and scrutinizing the 2019 Budget of the Kwara State Government.

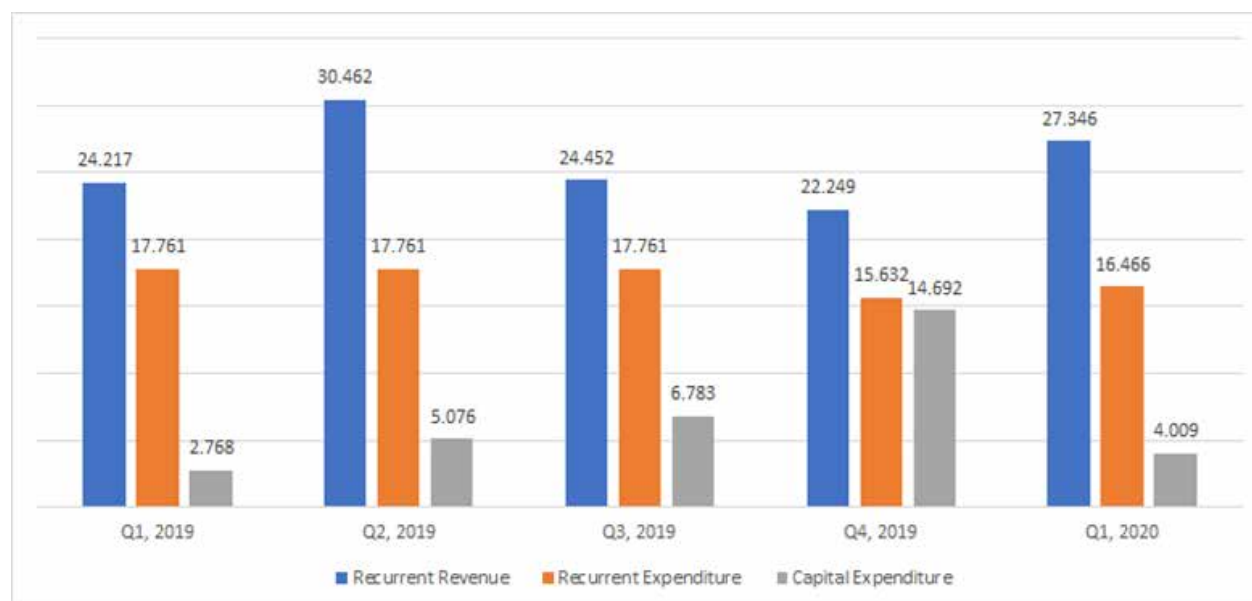


BUDGET PERFORMANCE: HINDSIGHT, INSIGHT AND FORESIGHT

Having understood the context in which the two governors want citizens and residents to understand the effectiveness of the budgets in their social and economic life, our analysts take a look at the estimates from Q1, 2019 to Q1, 2020. According to the state government's quarterly budget performance report, recurrent revenue exhibited cyclic increase. Our analysts observe that the increase is cyclic because the revenue estimates were not steady during the period. Over N24 billion was expected in Q1, 2019. This was increased to N30.4 billion in Q2, 2019, an increase of over N6 billion. The growth in expected recurrent revenue was dipped in Q3, 2019 (N24.4 billion) and further reduced to N22.2 billion in Q4, 2019 and increased to N27.3 billion in Q1, 2020. The variation in increase could be linked with the government's understanding of varied national and global economic indices capable of impacting sources of revenue to the state. This position is further reinforced with the recurrent and capital expenditure estimates during the period investigated by our analysts. Looking at Exhibit 1 again, it is clear that the administration of Alhaji Abdulfatai Ahmed was frazzled of possible influence of negativities on the state sources of revenue with likely impacts on the realisation of 2019 budget's objectives. From Q1 to Q3, 2019, his administration maintained over N17 billion recurrent expenditure estimates. Based on the earlier argument of the current administration, the estimates for Q4, 2019 was reduced to N15.6 billion, signifying consideration of national and global economic indices. However, the estimates were increased to N16.4 billion in Q1, 2020. According to our analysts, this could be associated with the increase in recurrent revenue in 2019. Based on the apparent economic realities, it appears that the two administrations were cautious in their capital expenditure estimates. The thoughtfulness was more pronounced in the capital expenditure estimates of Q1, 2020.

The administration of Abdulrasaq Abdulrahman reduced the estimated capital expenditure from N14.6 billion in Q4, 2019 to N4.0 billion in Q1, 2020 [see Exhibit 1].

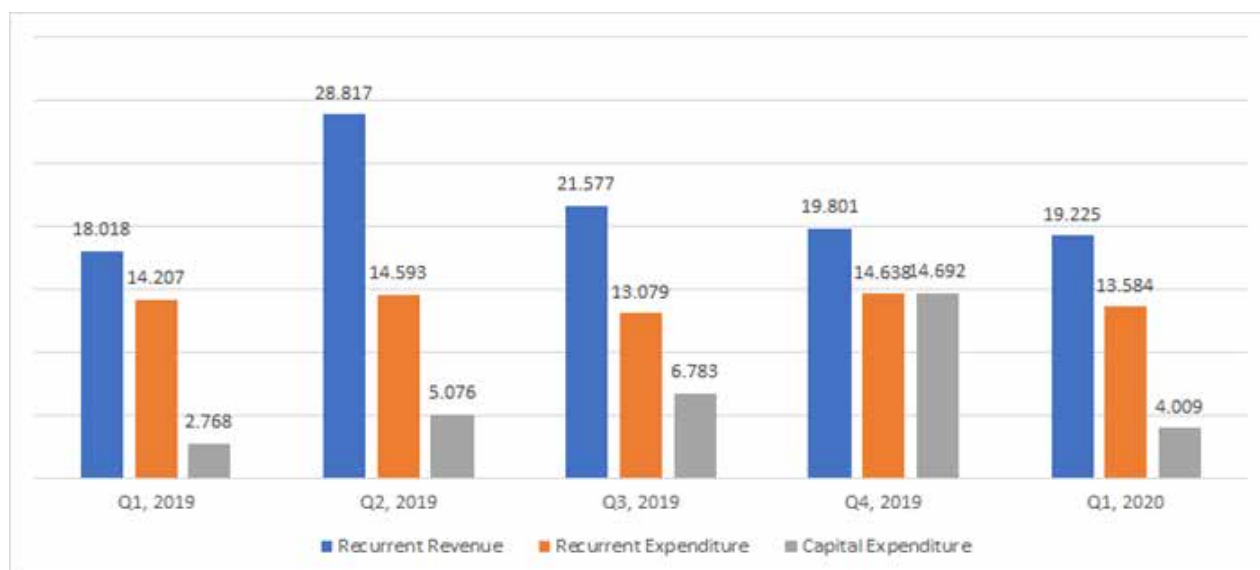
Exhibit 1: Estimates Recurrent Revenue, Expenditure and Capital Expenditure (N billion)



Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Our analysts were more curious about the attainment of the actual estimates and beyond. This is imperative considering the fact that a government that praises itself as efficient in terms of human, material and monetary resources management must have appropriate mechanisms or tools for significant attainment of the estimates and more than them. Our postulation becomes more clearer when one looks at Exhibit 2. Like what is obtainable in recurrent revenue estimates, the state government budget performance report shows that the actual recurrent revenue for Q1, 2019 was N18 billion against estimated N24. 2 billion. From Q2, 2019 to Q1, 2020, data establish good performance based on attainment of above 50% of the estimates.

Exhibit 2: Actual Recurrent Revenue, Expenditure and Capital Expenditure (N billion)



Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

On Exhibit 3, we present a trending analysis of how the state government has been able to generate revenue from Q1, 2019 to Q1, 2020. From the data, it is clear that Kwara's main source of revenue during the period was statutory allocation from the Federal Government. This has further reinstated the fact that most state governments cannot survive without federal allocation. The second main source of revenue to the state was Internally Generated Revenue. The data indicate intermittent growth of the source. From N6.2 billion in Q1, 2019 to N9.8 billion in Q2, 2019, the source dipped to N7.9 billion in Q3, 2019 with a further decline in Q4, 2019 (N6.6 billion) before picking in Q1, 2020 by less than N1 billion. Surprisingly, the Value Added Tax, the third main source of revenue maintained over N2 billion growth during the period. This, according to our analysts, indicates that the state government did not perform well and that the current approaches to the generation of VAT are not sufficient. This observation is further examined with the analysis of ratio of sources of revenue to the total revenue generated between Q1, 2019 and Q1, 2020.

Exhibit 3: Trends Analysis of Kwara State Revenue Sources and Capital Expenditure from Q1 to Q4, 2019 and Q1, 2020 (N billion)

Period	Statutory Allocation	Value Added Tax	Other Sundry Revenue	Internally Generated Revenue	LGAs Salary Bailout	Extra Expected Revenue from FGN road refund	Total Revenue	Capital Expenditure
Q1, 2019	8.442	2.798	0.502	6.276	0	0	18.018	2.768
Q2, 2019	8.528	2.756	0.441	9.808	0.159	7.125	28.817	5.076
Q3, 2019	10.32	2.716	0.138	7.913	0.49	0	21.577	6.783
Q4, 2019	9.363	2.66	1.138	6.64	0	0	19.801	14.692
Q1, 2020	8.687	2.89	0.205	7.395	0.048	0	19.225	4.009

Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Again, analysis reveals that statutory allocation was much better during the period than others though less than 50% was attained in each quarter. Systematic examination of the ratio shows that Ahmed administration recorded mixed percentages in Q1, 2019 and some months of Q2, 2019. While the total ratio of statutory allocation to total revenue was 46.85% in Q1, 2019, it reduced significantly to 29.59% in Q2, 2019. The current administration pushed the percent further in Q3, 2019, attaining 47.82% and 47.28% in Q4, 2019. In what appears as a sleep off, the percent dipped by 2.1%. On the Internally Generated Revenue, both administrations maintained over 30%, signifying inability to effectively implement a number of measures for improved revenue during the period. The ratio performance of Value Added Tax was equally not encouraging. Analysis establishes that its performance reduced from 15.52% recorded in Q1, 2019 to 15.03% attained in Q1, 2020. During these periods, management of economic and social resources of the state were under two different governors and political parties. Out of the investigated five quarters, the ratio performance was poor in Q2, 2019, the quarter in which 9.56% was attained [see Exhibit 4].

Exhibit 4: Ratio of Revenue Sources to Total Revenue

Period	Statutory Allocation	Value Added Tax	Other Sundry Revenue	Internally Generated Revenue	LGAs Salary Bailout	Extra Expected Revenue from FGN road refund
Q1, 2019	46.85%	15.52%	2.78%	34.83%	0.0%	0.0%
Q2, 2019	29.59%	9.56%	1.53%	34.03%	0.55%	24.72%
Q3, 2019	47.82%	12.58%	0.63%	36.67%	2.27%	0.0%
Q4, 2019	47.28%	13.43%	5.74%	33.53%	0.0%	0.0%
Q1, 2020	45.18%	15.03%	1.06%	38.46%	0.24%	0.0%

Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Since these sources are essential to the realisation of budget policy thrusts and objectives, our analysts further examined the extent to which the two administrations spent each of the source on capital expenditure. Like the previous analyses, staggering results emerged. The data on Exhibit 5 indicate that significant amounts from statutory allocation, Internally Generated Revenue and Value Added Tax were spent on capital expenditure between Q1, 2019 and Q1, 2020. According to the data, over 300% of statutory allocation were spent on capital expenditure in Q1, 2019 and more than 200% in Q1, 2020. The highest amounts were equally expended in Q2 and Q3, 2019. This is not quite different from what were spent in Q1, 2019 (101.08%) and Q1, 2020 (72.08%) through Value Added Tax and Internally Generated Revenue (Q1, 2019=226.73% and Q1, 2020=184.45%).

Exhibit 5: Ratio of Revenue Sources to Capital Expenditure

Period	Statutory Allocation	Value Added Tax	Other Sundry Revenue	Internally Generated Revenue	LGAs Salary Bailout	Extra Revenue FGN refund	Expected from road
Q1, 2019	304.98%	101.08%	18.13%	226.73%	0.0%	0.0%	
Q2, 2019	168.00%	54.29%	8.68%	193.22%	3.13%		140.36%
Q3, 2019	152.14%	40.04%	2.03%	116.65%	7.22%		0.0%
Q4, 2019	63.72%	18.10%	7.74%	45.19%	0.0%		0.0%
Q1, 2020	216.68%	72.08%	5.11%	184.45%	1.19%		0.0%

Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

FUND ADEQUACY

What is the difference between Ahmed and Abdulrahman administration's ability of factoring national and global economic situations into their budget estimates? Which of these quarters did available funds from the sources were sufficient for recurrent and capital expenditure?

Specifically, our analysts asked these questions with the intent of knowing the two administrations' management competence in line with the yearly budget policy thrusts and objectives. Analysis suggests that recurrent revenue in Q1, 2020 of Abdulrahman administration connected with Ahmed administration by 66.6%. The connection reduced to 17.1% in Q2, 2019 and increased to 99.4% in Q3, 2019 and dropped to 68.4% in Q4, 2019. We used Q1, 2019 as the index because of the need to understand how the current administration factored inadequacy in revenue estimates during the quarters (Q1-Q4, 2019). These results have established that the current administration only considered the deficiency in projecting recurrent revenue of the previous administration in three quarters out of the four quarters [see Exhibit 6]. Analysis further reveals little difference between Ahmed and Abdulrahman's recurrent expenditure estimates. There was perfect linkage between what was budgeted as recurrent expenditure in Q1, 2020 and those in Q1-Q4, 2019. Over 99% connection was found for all the quarters [see Exhibit 7]. The kinds of connection discovered in the recurrent revenue permeated in the capital expenditure. The two administrations clearly failed to disperse in their capital

expenditure estimates. The estimates of Abdulrahman administration succinctly connected with Ahmed's estimates in Q4, 2019 and Q3, 2019. Significant variation in estimates was only discovered in Q2, 2019 [see Exhibit 8]. This indicates that the current administration is yet to see the reasons for either increasing capital expenditure estimates for rapid socioeconomic development and enabling environment for businesses or reducing frivolous spending on projects that have less direct impacts and immediate benefits to the citizens and residents.

Exhibit 6: Recurrent Revenue of Q1, 2020 with Q1-Q4, 2019



Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Exhibit 7: Recurrent Expenditure of Q1, 2020 with Q1-Q4, 2019



Exhibit 8: Capital Expenditure of Q1, 2020 with Q1-Q4, 2019

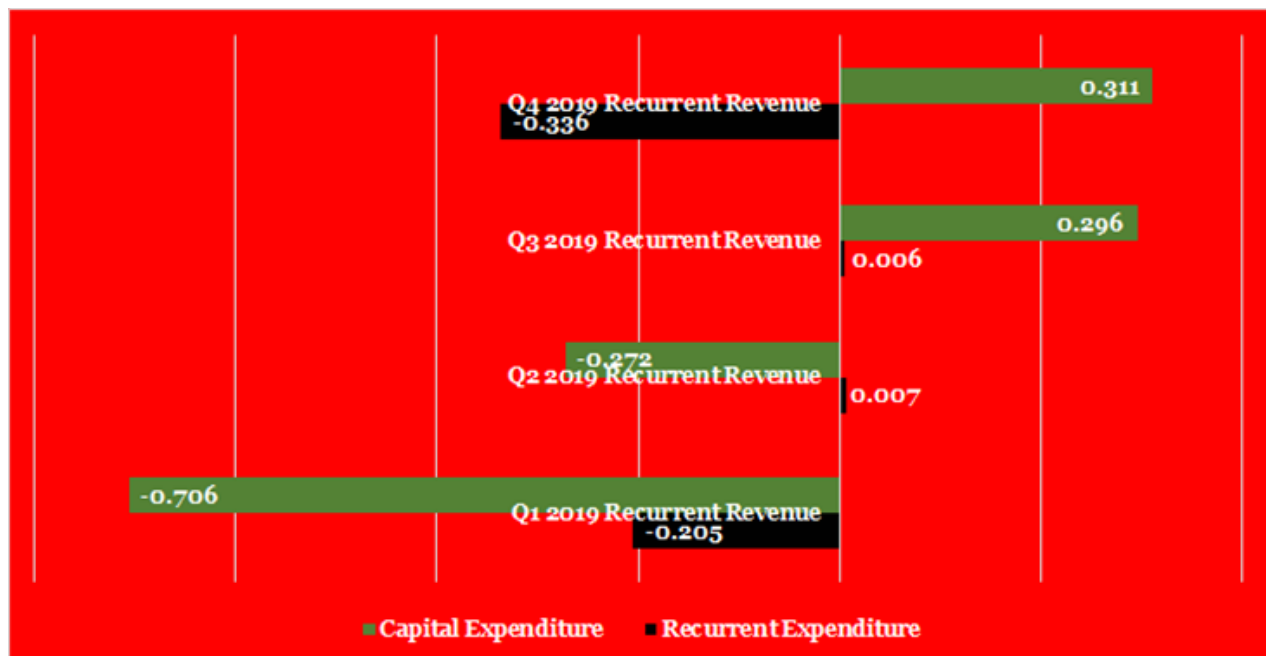


Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Our position is further confirmed with analysis that shows how the two administrations expended available funds on recurrent and capital projects. Analysis shows that recurrent revenue was only better off on capital expenditure during Q4 and Q3, 2019. It was negative on the expenditure during Q1 and Q2, 2019. In Q4, 2019, analysis shows that N1 billion increase in recurrent revenue translated to 31.1% of increase in spending the total revenue on capital expenditure, while the spending on recurrent expenditure was dipped by 33.6%. In Q3, 2019, it was 29.6%, while it was 0.6% increase in spending on recurrent expenditure. It is sufficient to report that the performance during Q1, 2019 and Q2, 2019 was not encouraging as the results indicate that N1 billion increase in recurrent revenue led to 27.2% reduction in spending on capital expenditure in Q2, 2019 and 70.6% and 20.5% reduction in spending on both recurrent and capital expenditure in Q1, 2019 [see Exhibit 9]. These results have many implications. One of the implications is that during the two quarters with high level of negativity, the administrations failed to spend adequately on recurrent and capital expenditure, which further casts doubts on the administrations' policy thrusts and objectives usually pronounced while laying budget estimates to the State House of Assembly and signing the approved budgets into law. Examination of Q1, 2020, part of the current

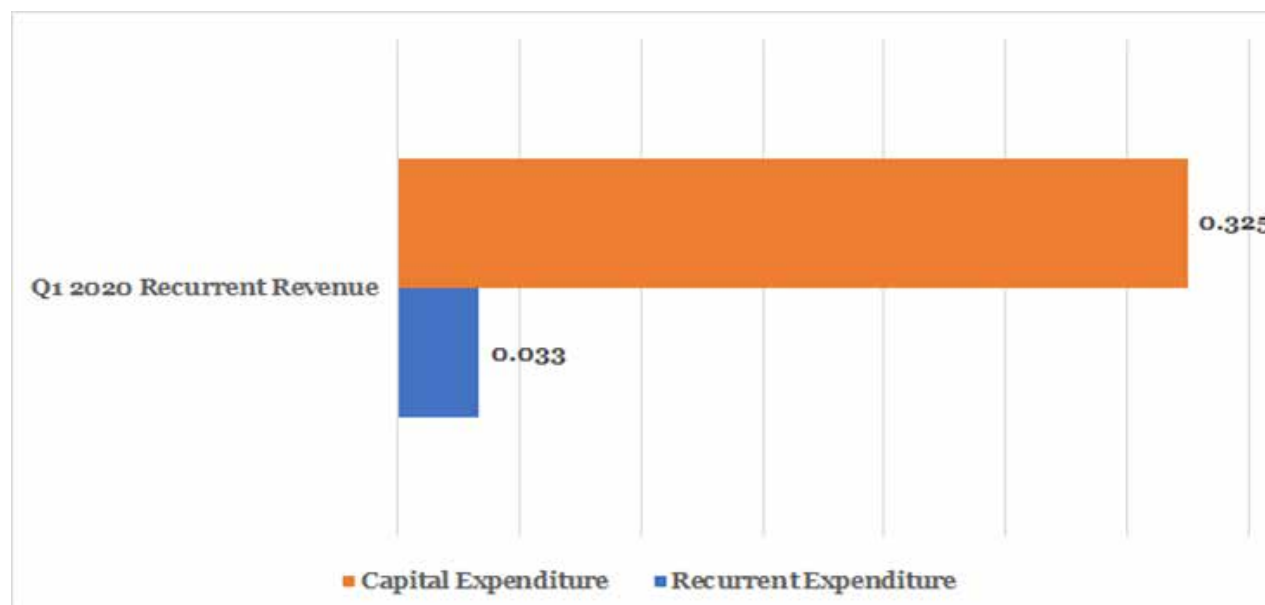
administration's first budget, shows positive influence of recurrent revenue on recurrent and capital expenditure. Analysis indicates that N1 billion increase in recurrent revenue led to 32.5% spending from the sources of revenue on capital expenditure and 3.3% on recurrent expenditure [see Exhibit 10]. Going by this result, the administration of Alhaji Abdulrasaq Abdulrahman has clearly demonstrated that it could generate revenue sufficiently and increase spending on capital and recurrent expenditure than his predecessor.

Exhibit 9: Coefficient Correlation of Recurrent Revenue and Recurrent and Capital Expenditure in 2019



Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Exhibit 10: Coefficient Correlation of Recurrent Revenue and Recurrent and Capital Expenditure in 2020



Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

How severe is the generation and spending of the actual revenue? This is another critical question our analysts asked. The question is critical because of the need to pinpoint resource management acumen of the two administrations. To get the right answers to the question, our analysts modelled recurrent revenue in each quarter along with the recurrent revenue and capital expenditure. Surprising results emerged. Analysis establishes that average N2.96 billion revenue generation of Abdulrasaq Abdulrahman in Q1, 2019 was much better than N4.50 billion generated by Ahmed administration in Q1, 2019. In Q1, 2019, the average recurrent expenditure (N2.84 billion) performance of Ahmed administration in spending from recurrent revenue was better than over N2 billion expended by the current administration in Q1, 2020. On the capital expenditure, average spending of N0.45 billion by the current administration exerted significant influence on capital projects of the general public service sector, public order and safety sector, economic affairs sector, housing and community amenities, health and education sectors more than N0.31 billion spent by administration of Alhaji Abdulfatai Ahmed in Q1, 2019 [see Exhibit 11].

Exhibit 10: Coefficient Correlation of Recurrent Revenue and Recurrent and Capital Expenditure in 2020

	Relativity of Recurrent Revenue and Expenditure, and Capital Expenditure Per Quarter	Average Revenue Expenditure (Billion Naira)	Actual and (Standard Deviation)
Model 1	Q1, 2019 Recurrent Revenue	4.50	3.539
	Q1, 2020 Recurrent Revenue	2.96	4.036
Model 2	Q1, 2019 Recurrent Expenditure	2.84	3.470
	Q1, 2020 Recurrent Expenditure	2.72	3.104
Model 3	Q1, 2019 Capital Expenditure	.31	.528
	Q1, 2020 Capital Expenditure	.45	.698

Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

Despite this, the current administration policy thrusts and objectives regarding spending on capital projects remain questionable considering its first budget's theme "Budget of Reconstruction and Reformation". A budget template or blue print for reconstruction and reformation ought to have spent significant part of its recurrent revenue on capital expenditure not what the analysis establishes, our analysts observe. The current performance of the Kwara State government has further reiterated the fact that state governments in Nigeria divert their stator allocation to recurrent expenditure instead of focusing on capital expenditure towards improved life and sustainable development as promoted during electioneering campaigns and budget presentation to the citizens and other stakeholders. How does the public see these results and others earlier presented? Answers to this question were found from the views of citizens and residents in the state through a survey conducted by our analysts in the first quarter of 2020.

PUBLIC PERCEPTIONS OF ATTAINMENT OF BUDGET OBJECTIVES

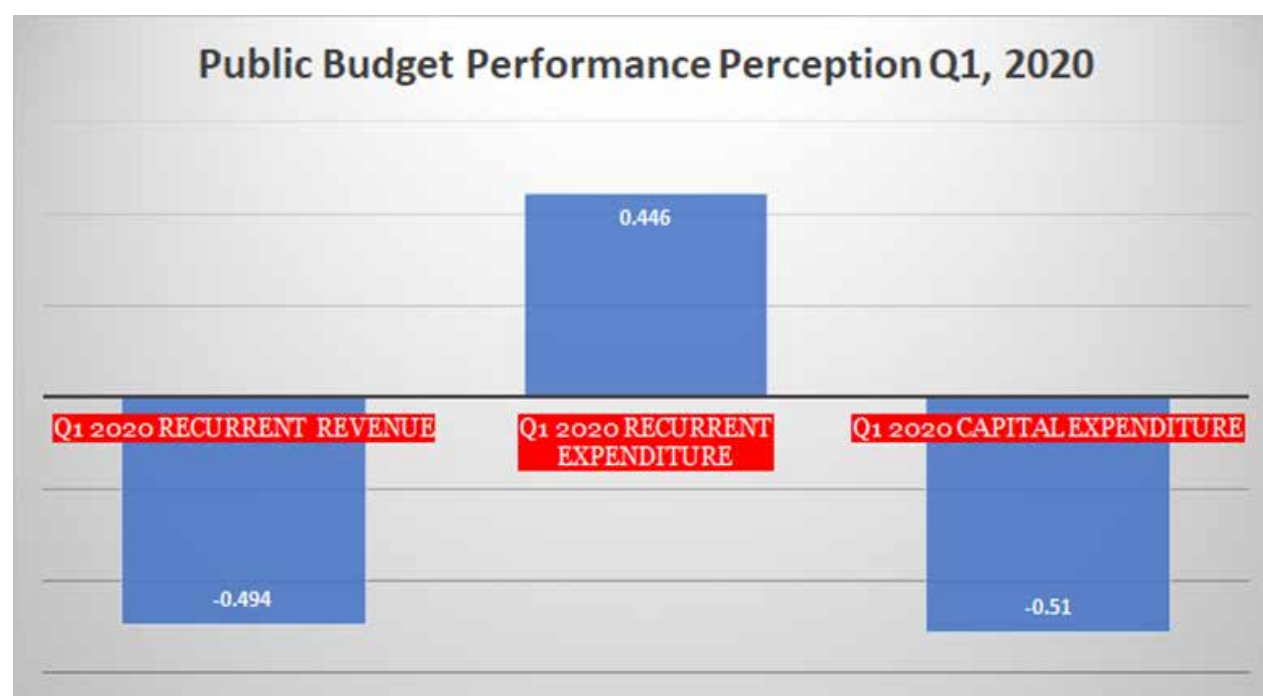
From the survey, it is obvious that sampled Kwarans² and residents are 2.1 times believe attainment of improved internal revenue generation in Q3, 2019, while they are 1.8 times believe realization of improved business environment through infrastructure development in Q1, 2019. The belief about improved business environment occasioned by adequate provision of the needed infrastructure was reduced to 1.6 times in Q4, 2019 and 1.1 times in Q3, 2019. They are 2 times believe attainment of enhanced human capacity in education and health sectors in Q4, 2019. On the management of available human and material resources such as IGR, statutory allocation and other sources of revenue, they are more than 4 times attuned to the accomplishment of the objective in Q1, 2019, 2.7 and 1.4 times in Q2, 2019 and Q3, 2019 respectively. This believability further increased in Q4, 2019 to **7.8 times**. On the mobilization of resources for human capital development, they are 3.1 and 4.5 times believe the realisation of this objective in Q3, 2019 and Q1 2020 accordingly.

Analysis also indicates that Kwarans and residents are 5.5 times greatly believe job and wealth creation were not created adequately in Q1 2020, but were created to reasonable extent in Q2, 2019 (3.6 times), Q1, 2019 (2.2 times) and Q4, 2019 (1.7 times). When the analysis was done on geographical basis, it was found that Kwarans and residents in Kwara North are 6 times believe performance of Q3, 2019 budget and 4.8 times for Q3, 2019, 5.1 times for Q5, 2020 budget and 2 times for Q2 2019 budget. Those in Kwara South and Kwara Central are 3.8 times believe performance of Q1 2020 budget. In all, the results suggest poor public trust in the budget performance from Q1-Q4, 2019 and Q1, 2020 based on the analysed policy thrusts and objectives. The best public trust in the performance was on the management of available human and material resources in Q4, 2019, which garnered 7.8 times believability score.

² Citizens of Kwara

Though, it is less than 10 times expected thrust and objective could be pronounced as attained during the quarter. In spite of this, sufficient spending on capital expenditure was not found [see Exhibit 11]. Data on Exhibit 12 further justifies this position, where the views of the public were modelled along with the performance of Q1, 2020 budget. Analysis reveals that one unit of perceiving the budget's policy thrusts and objectives of capital expenditure as being achieved diminished performance of the component during the quarter by 51%. It was 49.4% for recurrent revenue. While it was reduction for recurrent revenue and capital expenditure, analysis clearly indicates that one unit of seeing the quarter budget's thrust and objectives being attained translated to 44.6% of concurring with the performance of recurrent expenditure during the quarter.

Exhibit 12: Public Budget Performance Perception Q1, 2020



Source: Kwara State Budget Performance Reports 2019-2020; Brain Builders Youth Development Initiative Analysis, 2020

EMERGING CRITICAL ISSUES

Evidently, Kwara State government is struggling to generate adequate revenue from Internally Generated Revenue, Value Added Tax and other sources to cater for her needs. In 2010, Fitch Ratings³ had noted that the state needs to increase sources of revenue to provide more budget flexibility in combination with debt growth below Fitch's expectations. The agency stressed that between 2008 and 2009, IGR lacked dynamism and stabilized at 15% of operating revenues during the years. In 2010, the agency further reinforced that “Kwara's budgetary performance weakened as overheads and other costs increased by about 30% to recoup the compression incurred in 2009 due to concerns about falling oil prices. These insights still permeate till today despite the assurance of the current administration to turnaround the state's sources within short period of time.

POLICY AND MANAGERIAL RECOMMENDATIONS

Based on the results and emerging insights, the following recommendations are necessary and concerned stakeholders in the government need to institute actions towards their effective implementations.

1. There is a need to revisit the yearly budget's policy thrusts and objectives. From the analysis, it has been established that the thrusts and objectives are not in consonance with the budget provisions as expected. They are muddled up. They must be simplified into units. Instead of having only central policy thrust and objective, strategic goal needs to be formulated as well. This will go in a long way of allocating fund appropriately and monitor its usage. If need be, government should seek support of professionals in the private sector within and outside the state.

³ PRESS RELEASE: Fitch: Nigeria's Kwara State B+/AA-(nga); Outlook Stable Dow Jones Institutional News; New York [New York]27 May 2010.

2. The main objective of Human Capital is to improve corporate value either for people, firms or government. To enhance it, education (this includes early childhood education), entrepreneurship and empowerment, improved social protection, creating fiscal space for private and public financing, advanced social behavioral skills, etc. The issue of health, water supply and sanitation, women and social development should be stepped down. They are all ancillary activities.
3. To expand the revenue generation, government should look at how to expand the revenue base or net. That is, creating rooms for more activities that will generate revenue to support its earnings. Also, look at the activities which were neglected or dormant and reactivate them for possible revenue generation. Blockage of the leakages is a mean to improve.
4. The reduction of the budget was simply as a result of its inability to fund the budget as anticipated. Does SFTAS affect the size of a budget from the outset? Going forward, government should look at manners to diversify the economy and its sources of revenue in order to rely lesser on external source for funds.
5. Ratings have many factors to consider. The main challenge here is the quality of the people handling the budget from conceiving it to the implementation and monitoring. Hence, the state government under the leadership of Alhaji Abdulrasaq Abdulrahman should leave up to its promises by engaging the right people for the right places for the delivery of sustainable socioeconomic benefits to the citizens and residents.

⁴ PRESS RELEASE: Fitch Affirms Nigerian Kwara State at 'B+'/'AA-(nga)'; Outlook Stable Dow Jones Institutional News; New York [New York]15 June 2011.

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