ANALYSIS OF THE 2013-2015 MEDIUM TERM EXPENDITURE FRAMEWORK

(Centre for Social Justice [CSJ] for Citizens Wealth Platform [CWP])

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Table of Contents

ABBREVIATIONS

Act	Fiscal Responsibility Act
AMCOM	Assets Management Company of Nigeria
BOF	Budget Office of the Federation
CBN	Central Bank of Nigeria
CIT	Company Income Tax
CSJ	Centre for Social Justice
CWP	Citizens Wealth Platform
DSA	Debt Sustainability Analysis
DMO	Debt Management Office
ECA	Excess Crude Account
EXCoF	Executive Council of the Federation
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial Management Information System
ICT	Information and Communications Technology
IGR	Internally Generated Revenue
Implementation Plan	First National Implementation Plan of Vision 2020 (2010-2013)
Mbpd	millions of barrels per day
MDA	Ministry, Department or Agency of Government
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTSS	Medium Term Sector Strategies
MPR	Monetary Policy Rate
NASS	National Assembly
NBS	National Bureau of Statistics
NEEDS	National Economic Empowerment and Development Strategy
PIB	Petroleum Industry Bill
PPP	Public Private Partnership
SWF	Sovereign Wealth Fund
TSA	Treasury Single Account
VAT	Value Added Tax

LIST OF TABLES

LIST OF FIGURES

EXECUTIVE SUMMARY

Part One is the Introduction which contains the overview, the terms of reference and the methodology of the analysis. Essentially, the major goal of the terms of reference is to benchmark the MTEF against the parameters of the Fiscal Responsibility Act and sound fiscal governance practices. This part also contains the preliminary issues in the timing of the MTEF which shows that it did not meet the demands of the law; there were no undergirding medium term sector strategies and the MTEF did not address whether consultations were held and inputs sought from stakeholders.

Part Two is the Macroeconomic Framework. It restates the position of the enabling Fiscal Responsibility Act. There were missing projections and analysis on such issues as the inflation rate, key interest rates and credit policy, external reserves, etc. The growth projections had no synergy with Vision 2020 and its First National Implementation Plan. There was no evaluation and analysis of the projections for the preceding three years. With the ravaging unemployment situation, the MTEF maintained a deafening silence on the existing figures and projections for the medium term.

The Fiscal Strategy Paper which is Part Three identified the key sectoral priorities of FGN over the medium term and they are security, power, agriculture, water resources, health, education, works, transport, aviation, FCT and Niger Delta. Government plans reforms to reduce recurrent expenditure including the TSA and GIMFIS and the thrust of the FSP is fiscal consolidation with growth. However, the manner of articulating the thrusts of the FSP fails to link it with the economic objectives found in the constitutional Fundamental Objectives and Directive Principles of State Policy- a link demanded by the enabling FRA.

The benchmark price of crude oil and oil production in millions of barrels a day are realistic and will move Nigeria away from the volatilities of the international crude oil market and thus prevent a price shock in the event of falling prices. Projections for non oil revenue specifically Company Income Tax, Customs and Excise, Value Added Tax, Education Tax and FGN Independent Revenue are realistic. For the first three, considering the reforms in the efficiency of revenue collection, the targets should be met if the executive and legislature collaborate for the common good to exercise intensive oversight on the activities of the revenue agencies. The mantra of diversifying the economy found in the FSP attracts recommendations from the analysis. Other issues reviewed in the FSP include the lack of envelopes for the sectors, the neutral policy on petroleum subsidy, fiscal balance and lack of projections for accrual to the ECA or SWF.

Part Four is the Expenditure and Revenue Framework. It reviews the aggregate expenditure, recurrent and capital expenditure, debt servicing and retained revenue. It notes the dominance of recurrent revenue and paltry capital expenditure projections and the fact that over the years, the capital allocations have never been fully expended but records an average of 50-60% capital budget implementation. The projections of Vision 2020 and its First National Implementation Plan in terms of funding of capital budgets and the infrastructure deficit were not met by the MTEF and previous budgets.

Part Five is on the Consolidated Debt Statement. The rate of debt accumulation moderated to 24.4% in 2011, from 37.3% in 2010. It notes that Nigeria's debts have been growing in geometric proportions and there is no sustainability in such growth where the realized funds are not channeled to the growth drivers or infrastructure critical to economic growth. The maturity of domestic debts showed that about 55% of them are instruments of two years and below and these are short tenured instruments. This shows a mismatch if the borrowing was done to finance capital projects (as we are told) which are generally long term gestation projects.

Part Six which is Contingent Liabilities and Quasi Fiscal Activities fell short of its name as there was nothing in that Part to show that the authors of the MTEF understood what this terms mean. The MTEF ended with conclusions and the following recommendations.

Preliminary Issues

(i) Future MTEFs should be prepared early for the endorsement of the EXCoF before the end of June and submitted to NASS immediately after endorsement by the EXCoF. This should be in late June or early July before the commencement of the mid-year legislative recess. This will enable the legislature sufficient time to approve the MTEF and for actual preparation of budgetary estimates to start on time.

(ii) The MTSS should precede the preparation of the MTEF and all relevant stakeholders should be brought on board the preparation process. The Transformation Agenda cannot take the place of the MTSS.

(iii) The MTEF should be anchored on consultations with states, designated agencies of government, organised private sector, civil society and other stakeholders. For the consultations to be effective, the Minister of Finance should make available to stakeholders quarterly budget implementation reports, end of year budget implementation reports for the preceding year and a consultation paper detailing the contours of the proposed MTEF. These documents should be available at least two weeks before the consultation. The process and fact of the consultation should be documented in the MTEF.

(iv) The Minister of Finance should devise a calendar for the entire MTEF exercise and make same public so that all stakeholders can prepare in advance of the various activities of the MTEF.

Macroeconomic Framework

(i) The MTEF should document the projections for economic growth, inflation, interest rate, external reserves and access to credit, etc. It should document the underlying assumptions, facts and logic in support of these projections.

(ii) The MTEF's macroeconomic projections should be aligned with Vision 2020 and its First National Implementation Plan or show reasons supporting that the targets in Vision 2020 cannot be met.

(iii) The MTEF should contain an evaluation and analysis of the performance of macroeconomic projections for the preceding three years.

(iv) Considering the gravity of unemployment, the MTEF should document the present situation; make projections for increased employment and strategies to attain the new projections. Firms should be offered corporate tax rebates to enhance increased creation of new jobs.

(v) Consistent poor capital budget implementation over the years demands the full enforcement of the Public Procurement Act, 2007 with an emphasis on renewed capacity building and sanctions for offenders.

(vi) Estimated accruals to ECA and or the SWF should be articulated in the MTEF.

(vii) The credit policy should provide incentives for savings to ensure that the deposit rate is not less than the inflation rate. Further, the spread between the lending and deposit rate should not exceed 400 points.

Fiscal Strategy Paper

(i) In accordance with the FRA, the MTEF should show the link between stated priority interventions and the constitutional Fundamental Objectives and Directive Principles of State Policy.

(ii) Government should reorder its spending priorities and ensure a 60%-40% balance between recurrent and capital expenditure in the medium term. This can be achieved through the meticulous implementation of the Monetisation Programme, the recommendations of the Expenditure Review Committee and the Committee on the Restructuring and Rationalization of Federal Government Parastatals, Commissions and Agencies (Oronsaye Committee Report).

(iii) Government should provide incentives for the private sector to invest in new refineries - the Public Private Partnership model is recommended. FGN should privatise existing refineries to plug the leaking pipes of corruption and waste that have led to incredible sums being spent on perpetual turn around maintenance operations. Individuals and companies found to have abused the oil subsidy system should face diligent criminal prosecution.

(iv) NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources for investments in critical sectors. It is estimated that over N3 trillion will accrue to the Federation Account from the implementation of the PIB.

(v) Government should exercise fiscal restraint to ensure that the projected fiscal balance of -2.17% of GDP is not exceeded in actual expenditure within the year 2013.

(vi) Estimated oil production in millions of barrels per day and the benchmark price for 2013 are realistic and should be retained. However, Nigeria has no capacity to determine the actual quantity of crude oil produced or exported per day. Metering of crude oil produced and exported should be an irreducible minimum task of FGN on behalf of the Nigerian people in 2013.

(vi) The assumptions and projections for non oil revenue comprising of CIT, VAT, Customs Duty, Education Tax and FGN Independent Revenue are realistic and should be retained.

Revenue and Expenditure Framework

(i) The MTEF should contain the sectoral envelopes which will show government's priorities and the reasons informing those priorities. And there should be consistency between the policy thrusts stated in the FSP and the actual votes in the revenue and expenditure framework.

(ii) In the capital expenditure provisions, more emphasis should be placed on developmental capital as against administrative capital.

(iii) For the private sector to play the role of providing funding to fill the financing gap for infrastructure and critical sectors, there is the need for government borrowing not to crowd out the private sector. Improved access to credit through coordinated policy implementation by the CBN, DMO and the Finance Ministry is imperative.

(iv) Personnel expenditure should be pruned to no more than 20% of overall budget in the medium term. The implementation of the White Paper of the Oronsaye Committee Report is imperative.

(v) The proposal contained in the MTEF 2011-2013 to engage project portfolio managers to work with MDAs should be reviewed and implemented. However, its design and implementation should avoid being an unnecessary and expensive layer of bureaucracy with no value added.

Consolidated Debt Statement

(i) MTEF's borrowing projections should be such as not to exceed the debt-GDP country specific threshold of 25% for the 2013-2015 period. Pruning down recurrent expenditure and reduction of corruption may reduce the need for governmental borrowing.

(ii) The MTEF should take cognizance of the contingent liabilities in building scenarios about risks and debt sustainability.

(iii) Borrowing should not be for the omnibus purpose of financing the deficit. In accordance with the FRA, it must be tied to specific capital or human development projects and be backed with a cost benefit analysis before NASS approval.

Contingent Liabilities and Quasi Fiscal Activities

(i) The MTEF should include the nature and quantum of contingent liabilities and quasi fiscal activities of government.

(ii) In undertaking new PPP projects which will increase the quantum of contingent liabilities, FGN should carefully select, appraise and involve the expertise of the Infrastructure Concession and Regulatory Commission in arriving at the specific projects.

(iii) FGN interventions qualifying as quasi fiscal activities and their implications for public finances and macroeconomic stability should be carefully appraised before embarking on them.

Part One

INTRODUCTION

1.1 Overview

The Fiscal Responsibility Act (FRA or Act) was made as an Act to provide for the prudent management of the nation's resources, ensure long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within a medium term fiscal policy framework, and the establishment of the Fiscal Responsibility Commission to ensure the promotion and enforcement of the nation's economic objectives and for related matters. The fiscal policy framework envisaged by the Act is the Medium Term Expenditure Framework (MTEF).

The MTEF is made up of five major components namely a macroeconomic framework, a fiscal strategy paper, an expenditure and revenue framework, a consolidated debt statement setting out and describing the fiscal significance of the debt liability of the Federal Government and measures to reduce any such liability; and a statement describing the nature and fiscal significance of contingent liabilities and quasi fiscal activities and measures to offset the crystallization of such liabilities.

The MTEF is to be prepared by the Minister of Finance and presented to the Executive Council of the Federation (EXCoF) for its consideration and endorsement after which it will be laid before the National Assembly (NASS) for approval by a resolution of each House of the National Assembly. The MTEF in accordance with S. 18 of the Act shall:

> *(1) be the basis for the preparation of the estimates of revenue and expenditure required to be prepared and laid before the National Assembly under section 81 (1) of the Constitution.*
>
> *(2) The sectoral and compositional distribution of the estimates of expenditure referred to in subsection (1) of this section shall be consistent with the medium-term developmental priorities set out in the Medium-Term Expenditure Framework.*

Centre for Social Justice (CSJ) is a Nigerian civil society organization with a *vision* of a Nigeria where social justice informs public decision making. Its *mission* is to mainstream issues of justice and fairness in all facets of public life. CSJ has been involved in the review of previous MTEFs and had contributed to the debate on whether MTEFs were prepared in accordance with the provisions of the FRA while remaining focussed on the larger picture of the right of majority of Nigerians to an adequate standard of living, the realisation of the goals of Nigeria's Vision 2020 and extant national priorities. This is the fourth MTEF to be so laid for the approval of the National Assembly. Previous ones were the MTEFs 2010-2012, 2011-2013 and 2012-2014[1]. The MTEF is to guide budget preparation in its sectoral and compositional priorities and as such, there is an inxtricable link between the two documents. CSJ has also been involved in yearly budget analysis for the last four years, to ensure inter alia in the later years, the harmony between the MTEF and the budget. The thrust of the current Analysis is therefore to provide evidence based review of the MTEF to ensure respect for the enabling law and to fast-track and facilitate the realisation of the Transformation Agenda of the current administration.

This Analysis is prepared in furtherance of the work of Citizens Wealth Platform, an umbrella group of non governmental and faith based organisations, professional associations and other citizens groups dedicated to ensuring that public resources are made to work and be of benefit to all. CWP actively intervened in the 2012 budget approval process and is currently involved in monitoring and reporting on the implementation of the said budget. CWP also laid out the frameowrk for the enhanced implementation of the accountability and transparency provisions of the Fiscal Responsibility Act, Public Procurement Act, Freedom of Information Act and the Extractive Industries Transparency Initiative. CWP participated in the 2013 budget consultation forums in Lagos and Abuja and also plans to actively engage the 2013 budget approval process.

1.2 Terms of Reference

The general terms of reference of this Review are:

- ❖ To review the 2013-2015 MTEF as presented by the Executive highlighting areas of concern with a view to providing a clear template for inputs into the legislative approval of the MTEF.

- ❖ To review the MTEF submitted by the Executive with a view to highlighting areas of strength and weaknesses.

- ❖ To review the MTEF in the light of the Fiscal Responsibility Act including the procedural issues, previous macroeconomic forecasts and their results, extant macroeconomic indicators and prevailing social and economic conditions.

The specific terms of reference are:

- ❖ To review the revenue projections of the MTEF against the background of the criteria used in the projections. The revenue projections will include Customs and Excise, Company Income Tax, Value Added Tax, income from oil and gas, FGN Independent Revenue and balances in special accounts. This is in a bid to

[1] The Minister however erroneously presented this MTEF to NASS as 2012-2015 MTEF- a time frame outside the contemplation of the FRA.

establish whether they are realizable or under-projected and how they can be reconciled with other macro-economic forecasts and policy goals.

- ❖ To review the expenditure projections including capital, recurrent, statutory transfers, debt service, etc based on their internal consistency with stated policy goals and commitments of the government. These will include reviewing these expenditures against the background of demands of Vision: 20:2020, the MDGs and the extant Debt Sustainability Analysis prepared by the Debt Management Office, etc.

- ❖ To review the memorandum items including nominal GDP, overall balance as a percentage of GDP, total spending as a percentage of GDP, total spending as a percentage of non-oil revenue, capital expenditure as a percentage of total expenditure, non oil revenue as a percentage of total revenue, etc.

- ❖ To review the links between monetary and fiscal policy especially how they impact on the macroeconomic performance of the economy.

- ❖ To review the indicative envelopes to the sectors.

- ❖ To review the conditions necessary for the realization of economic growth, employment creation and other policy goals and targets.

1.3 Methodology

The Analysis reviewed the 2013-2015 MTEF against the background of previous MTEFs, budget implementation reports 2008, 2009, 2010, 2011, Vision 20:2020 document, the 2010 and 2011 Full Year Reports of the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). It also reviewed economic trends and forecasts from the Budget Office of the Federation (BOF), NBS, CBN, Millennium Development Goals Office, the World Bank and International Monetary Fund, emergent literature on the practice of MTEFs from different parts of the world, etc. The analysis emerging from the Review indicates areas in need of further clarification, amendments and alignments with available fiscal data and trends.

1.4 Preliminary Issues

1.4.1 Timing of the MTEF

The President submitted the MTEF to NASS through a communication dated August 17 2012, a time that NASS was on mid-year vacation. NASS did not resume from its vacation until the third week of September. The submission was read on the floor of the House of Representatives in the last week of September. The FRA anticipates that the MTEF should be submitted to NASS not later than four months to the end of the financial year[2] since the approval of the MTEF is the actual beginning of the budget formulation process. As such, the MTEF did not meet the time frame provided by the FRA. It is also not clear when the EXCoF endorsed the MTEF although the Act states that it should be done before the end of the second quarter which is the month of June. From available information, the timeframe was not met considering that consultations for the 2013 Budget and MTEF only took place in Lagos and Abuja on July 9 and 10, 2012.

The foregoing has adverse implications for the presentation and passage of the annual budget. The annual budget is drawn from the MTEF and as such awaits the approval of the MTEF by NASS so that variables like aggregate expenditure, benchmark price of oil, envelopes for MDAs etc, will be drawn from it. In the last four years, the federal budget has never been passed early before the commencement of the New Year and delays in presentation and passage of the budgets eventually lead to poor capital budget implementation[3].

Perennial requests by the Executive and approvals by the legislature for the extension of the financial year for implementation of capital components of the budget to March of the following year have become the norm. The Financial Year Act[4] clearly states the Nigerian financial year to be the period between January 1st to December 31st of every year. Such requests and approvals founded on the late passage of the budget are illegal if they are done by a resolution of the NASS. This is founded on the legal position that you cannot amend extant law by a resolution of the NASS.

1.4.2 Preparation of Medium Term Sector Strategies

There is also no information in the MTEF about the preparation of Medium Term Sector Strategies (MTSS) for Ministries, Departments and Agencies (MDAs) of government[5]. This should be the prelude to the MTEF. At the 2013 Budget Consultation Forum in Abuja, the Director-General of the Budget Office of the Federation in response to a question about the MTSS disclosed that there would be no need for MTSS, that the Transformation Agenda has taken the place of MTSS. This is a fundamental flaw because the Transformation Agenda has nothing in common with functional MTSS

[2] Section 11 (1) (b) of the FRA.
[3] Vision 20:2020 projects the adoption of measures to improve budget implementation to include the timely passage of the annual budget.
[4] Financial Year Act, Cap F.27, Vol.7, Laws of the Federation of Nigeria, 2004.
[5] The 2011-2013 MTEF was based on the MTSS of 13 key MDAs and was described in our former Analysis as not comprehensive enough. There were no MTSS sessions for the 2012-2014 MTEF.

prepared with inputs by critical stakeholders. The confirmation by the DG of the Budget Office that there is no MTSS is further reinforced by the absence of sectoral envelopes and ceilings in the MTEF. A MTSS cannot be prepared without the financial envelopes.

1.4.3 Consultations and Inputs

The Act in section 11 requires the Federal Government to consult States as part of the process of formulating the MTEF. The reasons for this requirement are not far-fetched. Macroeconomic indicators like the benchmark price of oil, interest, inflation and exchange rates would definitely impact on the revenue and expenditure of States. Also, most States in the Federation depend on allocations from the Federation Account as their main source of revenue. The States are therefore partners and stakeholders who should make contributions to MTEF formulation. However, there is no indication in the MTEF as to whether States were consulted and the nature of such consultation.

By S.13 (2) (a), in preparing the MTEF, the Minister may hold consultations on the Macroeconomic Framework, the Fiscal Strategy Paper, the Revenue and Expenditure Framework, the strategic economic, social and developmental priorities of government and such other matters as the Minister deems necessary. There were consultations in Lagos and Abuja for the organized private sector and civil society on the 2013 budget but later clarified to include the MTEF. However, the concern is that for a consultation of this nature to be meaningful and genuine, it should be based on a consultation paper which provides the contours of the major macroeconomic indicators upon which the MTEF and budget will be based, budget implementation reports including the quarterly reports stipulated by section 30 of the FRA and the end of year budget implementation report of the preceding financial year required under section 50 of the FRA. As at the time of the consultation, there was no single budget implementation report for the year 2012 on the website of the Budget Office of the Federation and the 2011 Full Year Report was only uploaded on the site after the Lagos consultation and in the morning of the Abuja consultation. Best practices further demand mid-year review of the 2012 budget. The mid-year review of the budget discusses the changes in economic outlook since the budget was enacted, updated revenue and expenditure estimates and a revised forecast for the full fiscal year and its effects on the budget. The availability of these documents to the public would have facilitated dialogue, informed and meaningful contributions from stakeholders at the forums. Essentially, the consultations were perfunctory and merely meant to fulfill all righteousness.

The Act in S.13 (2) (b) further requires the Minister to seek inputs from the National Planning Commission, Joint Planning Board, National Commission on Development Planning, National Assembly, Central Bank of Nigeria, National Bureau of Statistics, Revenue Mobilisation Allocation and Fiscal Commission and any other relevant body as the Minister may determine. The mandatory “shall” is used by the section in directing the Minister to seek the inputs. There is no indication in the MTEF whether these inputs were sought from the listed agencies. It is imperative that the MTEF details its formulation process so as to enable a dispassionate third party to determine whether there has been compliance with the law.

Part Two

MACROECONOMIC FRAMEWORK

2.1 Background

In accordance with the FRA, the Medium-Term Expenditure Framework shall contain-

> *a Macro-economic Framework setting out the macro-economic projections, for the next three financial years, the underlying assumptions for those projections and an evaluation and analysis of the macroeconomic projections for the preceding three financial years.*

It has been stated of the MTEF as follows:

> *The purpose of the Macroeconomic Framework (MEF) is to review past trends and current economic developments and provide an outlook for the global, regional and domestic economy upon which recommendations for the future course of macroeconomic and fiscal policy are made. The analysis of macroeconomic developments and projections of economic variables for the future are of key importance for fiscal policy formulation. It presents a macroeconomic outlook for the MTEF period. By identifying the factors that present opportunities for economic growth as well as those that pose downside risks to sustainable growth in the global, regional and domestic economies, the MTEF facilitates the work of policy makers in designing macroeconomic and fiscal policies. It guides policy makers in their pursuit of macroeconomic stability and fiscal prudence for the realisation of national development objectives that aim at high economic growth, enhanced job creation, poverty reduction and reduced inequality[6].*

2.2 Budgetary Reviews

The MTEF reviewed the performance of the 2011 federal budget and the performance so far of the 2012 budget. This does not qualify as a review of the budgetary performance of the preceding three years as anticipated by the FRA. The performance for the years 2009, 2010 and 2011 should have been reviewed. In the evaluation and analysis of the 2011 budget performance, the MTEF showed inter alia that capital budget implementation amounted to 62% of the budgeted figure after the capital budget year has been extended to the end of the first quarter of 2012. For 2012, it also showed the poor capital budget performance, which was below 15% of the appropriated sum by July 2012. However, no lessons were drawn from this poor performance in terms of recommendations for improving capital budget implementation.

[6] This is taken from the Foreword to the MTEF of the Republic of Namibia 2012/2013 to 2014/2014.

2.3 Missing Projections and Analysis

There were no projections on economic growth, inflation rate, interest rate and credit policy which should galvanise the private sector to create wealth and jobs to improve the economy. The figures merely showed the following without analysing them and using them as a basis for projections:

- Figure 2.4 showed Exchange Rates Movement (January 2011 to June 2012)
- Figure 2.5 showed External Reserves Position from (January 2009 to July 2012)
- Figure 2.6 showed Inflation Rates from (January 2009 to June 2012)
- Figure 2.7 showed key Interest Rates (January 2009 to June 2012)

The time frames of the statistics were not uniform – the Exchange Rate had a shorter period of reckoning.

There was also no attempt in this part of the MTEF to present projections that are in tandem with the targets in Vision 2020. For instance, the Vision 2020 First National Implementation Plan 2010-2013 (Implementation Plan) targets an average growth rate of 11% over the four year period 2010-2013. Specifically, the Implementation Plan targets 13.1% real GDP growth for the year 2013. According to the MTEF, the economy grew by 7.32% in 2011; and 6.17% in Quarter 1 2012. The economy grew by 6.28% in Quarter 2 of 2012. Yes, there are nominal GDP projections of N47,843.76, N56,312.11 and N66,403.242 over the years 2013, 2014 and 2015 respectively and there are figures for nominal non oil GDP. But how the MTEF arrived at these GDP figures is left hanging.

Vision 2020 had identified the need to ensure that the Vision is clearly linked to existing mechanisms for execution (medium term developmental plans and expenditure frameworks, medium term sector strategies and annual budgets). If there is no link between the Vision and these mechanisms, then the goals of the Vision will be hanging in the air. This lack of projections comes against the background that one of the strong points of the MTEF in literature is that it combines governments policies, plans and fiscal and monetary targets into an actionable framework. If there are no targets and promises made by government in the macroeconomic framework, how will performance be measured and monitored? In the absence of projections, the MTEF was also bereft of underlying assumptions. There was no evaluation and analysis of the projections for the preceding three years as no mention was made of them. This leaves a lot of questions unanswered because information about previous performance would have informed extant projections. It could have supplied information about the factors driving successes and failures to realize previous targets and identified binding constraints on growth and development.

2.4 Sectoral Composition of the GDP

This is the projection for the sectoral composition of GDP in the medium term.

Table 1: Sectoral Composition of GDP

Sectoral Contribution to GDP (%)	**2013f**	**2014f**	**2015f**
	100%	100%	100%
Agriculture	38.4%	38.4%	38.4%
Solid Minerals	0.6%	0.6%	0.6%
Crude Petroleum and Natural Gas	29.1%	29.1%	29.1%
Manufacturing	3.0%	3.0%	3.0%
Telecommunications and Post	8.0%	8.0%	8.0%
Finance and Insurance	3.5%	3.5%	3.5%
Wholesale and Retail Trade	13.9%	13.9%	13.9%
Building and Construction	1.2%	1.2%	1.2%
Others	2.3%	2.3%	23%

Source: NBS reproduced in MTEF 2013-2015

The worrying aspect of this projection is that FGN is not contemplating steps that will move the country in the direction of Vision 2020. For Nigeria's agriculture, which has a much lower productivity when compared to the bottom 5 members of the current top 20 economies, to have a projection of 38.4% of the GDP over the medium term indicates a poverty of ideas. In countries like Netherlands, Belgium, Poland, Turkey and Indonesia, agriculture contributes 4%, 3%, 5%, 10% and 13% respectively to their GDP[7]. Further, to make a projection that manufacturing will only contribute 3% of the GDP is clearly a retrogressive step. It implies that no steps are being taken to remove the binding constraints on industrialization and increased capacity utilisation. Also, for a country bogged down by poor and decaying infrastructure, building and construction should have a larger than 1.2% contribution to the GDP. Solid minerals which abound in Nigeria should also be primed as a sector to make larger contributions to the GDP. By the projections of Vision 2020, agriculture should contribute between 3-15%; manufacturing 15-30%; Industry 30-50% while services would contribute between 45-75%[8] by 2020. MTEF projections should be seen to be moving Nigeria progressively towards the 2020 targets.

[7] See page 22 of Vision 20:20.
[8] See page 22 of Vision 2020.

2.5 Exchange Rate

Exchange Rate was stated to be N160 to 1USD over the medium term but there was no analysis on how the monetary authorities arrived at the figure. The Central Bank of Nigeria should be invited to clarify the rates.

2.6 Credit Policy

The Monetary Policy Committee retained the Monetary Policy Rate (MPR) at 12%[9]. This exceeds the 6% projection, over the medium term, of the First National Implementation Plan of Vision 2020. The CRR is at 12% which has encouraged banks to shun lending to the private sector. Interest rates are high averaging 25% per annum; this restricts the access of the private sector to credit needed to improve capacity utilization in industries, expand production and create new jobs. It is important that the MTEF articulates the strategies for reviving access to credit to the real sector and encourage the financial system to perform its intermediation role at the least cost to the economy. The need for this is emphasized by 2011 data which shows that[10]:

> *Credit to the private sector (including states and local governments and non financial public enterprises) grew by 31.6 per cent, in contrast to the decline of 3.8 per cent at end December 2010. Credit to the core private sector increased by 31.3 per cent, in contrast to the decline of 4.4 per cent at end December 2010. The significant growth in credit to the private sector reflected the injection of funds by AMCON into intervened banks.(underlining supplied)*

The injection of funds by AMCOM is indeed responsible for the purported growth of credit to the private sector. Between December 2011 to July 2012, Renaissance Capital indicates that credit to the private sector grew by 4.7%. Year on year calculations as at December 2010 shows that credit to the private sector decreased by 4.92% below the indicative benchmark of 31.54%[11]. However, credit to government grew from 7.16% to 7.28% between the third and fourth quarters of 2010 and on a year to year basis, increased by 67.8%. Accordingly the full year Budget Implementation Report 2010 states:

> *These trends showed that lending to the Government had, to a certain extent, crowded out private sector borrowing..*[12]

The diminishing access to credit by the private sector cannot be the hallmark of an economy that is planned to be private sector driven, with flourishing public private

[9] See Communique of the Monetary Policy Committee meeting held September 17-18, 2012.
[10] Central Bank of Nigeria Annual Report 2011 at page 87.
[11] 2010 Fourth Quarter and Consolidated Budget Implementation Report by the BOF.
[12] Supra, at page 6.

partnerships to fill the financing gap for critical infrastructure. On the other hand, ordinary savings deposits attract an average of 2% per annum. This presents the need to articulate strategies for the reduction of the spread between deposit and lending rates in order to encourage savings and support the rejuvenation of the real sector of the economy[13]. The current deposit rate is a perverse incentive to saving considering that the inflation rate in excess of 11%.

2.7 Where is Employment?

Considering the gravity of the employment situation in Nigeria, the MTEF is expected to provide information on the level of, and causes of unemployment, current government activities and interventions to check the employment crisis, interventions going forward and strategies to ensure the realization of government policy. This was missing in the MTEF.

[13] See page 53 of the Implementation Plan.

Part Three

FISCAL STRATEGY PAPER

3. 1 Overall Thrust

In accordance with the FRA, the Fiscal Strategy Paper (FSP) is supposed to contain

(i) the Federal Government's medium-term financial objectives,

(ii) the policies of the Federal Government for the medium-term relating to taxation, recurrent (non-debt) expenditure, debt expenditure, capital expenditure, borrowings and other liabilities, lending and investment,

(iii) the strategic, economic, social and developmental priorities of the Federal Government for the next three financial years,

(iv) an explanation of how the financial objectives, strategic, economic, social and developmental priorities and fiscal measures set out pursuant to sub-paragraphs (i), (ii) and (iii) of this paragraph relate to the economic objectives set out in section 16 of the Constitution;

The thrust of the FSP as contained in the MTEF is to maintain macroeconomic stability envisaged in the Transformation Agenda. It is a strategy of fiscal consolidation with growth which will involve restructuring the expenditure profile of government to tilt in favour of capital expenditure. It involves the delineation of priority sectors for government's investment (security, power, agriculture, water resources, health, education, works, transport, aviation, FCT and Niger Delta). Investments in these sectors will foster greater and diversified economic growth as they are the most productive and growth enhancing sectors. This projection for diversified economic growth is not in tandem with the projections for sectoral growth which continues in the tradition of the mono product economy with little value added from other sectors. And the list of the priorities is a virtual rehash of the list in previous years which has not improved the economy in any substantial manner.

Governmental revenues will also be enhanced whilst government expenditure as a share of the GDP will be reduced over the medium term. The FSP states government's intention to implement the Oronsaye Committee Report to rationalize the number of MDAs. Government intends to defer the procurement of administrative capital; establish a Treasury Single Account (TSA) for more efficient management of cash balances; mainstream the Government Integrated Financial Management Information System (GIFMIS) to make the process of budget preparation and execution more efficient. The TSA and GIFMIS reforms have been on government's agenda in the last seven years and no concrete benefits have been achieved over these years. Benefits will only accrue if there is a clear political resolve to implement them to the letter.

These thrusts of the FSP, laudable as they are, do not seem to build any relationship with the economic objectives in S.16 of the Constitution. S.16 provides for a number of general issues but the most relevant and pointed part of S.16 of the Constitution provides as follows:

> *(2) (d) that suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensions, unemployment and sick benefits and welfare of the disabled are provided for all citizens.*

There is nothing in the FSP and in the whole MTEF that addresses the imperatives provided under the Fundamental Objectives and Directive Principles of State Policy found in Chapter Two of the Constitution. What is required to ensure compliance with section 16 of the Constitution should be located in the MTEF providing a road map for improvements in real and diversified economic growth that comes with new jobs, local value addition and enhanced investments in the social sectors.

Furthermore, any plan to improve the standard of living of the people as envisaged in Chapter 2 of the Constitution must tackle the most serious binding constraint on the realisation of budgetary objectives. That binding constraint is corruption. If corruption in public procurement is unchecked, Nigeria will not get value for money from capital expenditure. Issues such as the biometric verification of staff of MDAs will become an exercise in perpetuity if no one is punished for padding up the personnel bill with ghost workers.

3.2 The Benchmark Price of Crude Oil

The adoption of the oil price based fiscal rule based on 5 years to 10 years moving average prices with some adjustments[14] in accordance with the FRA is a positive development for fiscal management. In 2009, crude oil prices averaged $63 per barrel; in 2010, it averaged $81 per barrel while in 2011, it averaged $111.28 per barrel[15]. For the first six months of 2012, crude oil prices have averaged $116.23 per barrel. Considering the need to delink the budget from the volatilities of the international oil market, the projection of $75 per barrel is realistic.

3.3 Oil Production in MBPD

[14] The spikes of $148 per barrel recorded in parts of 2008 may have been treated as an outlier for the purposes of adjustments to the moving average.
[15] See Annual Budget Implementation Reports of the Budget Office of the Federation 2009, 2010 and 2011 respectively.

The MTEF pegs oil production at 2.53mbpd, 2.61mbpd and 2.65mbpd for the years 2013, 2014 and 2015 respectively. Considering the relative peace in the Niger Delta and the success of the Presidential Amnesty Programme, these projections are realistic. Table 2 shows oil production from 2007 to the medium term. The figures from 2007 to 2011 are actual figures, the 2012 figures is for the first six months of the year while the others are projections.

Table 2: Crude Oil Production 2007 - 2015

Year	Output in mbpd	Year	Output in mbpd
2007	2.15	2012	2.34
2008	2.10	2013	2.53
2009	2.13	2014	2.61
2010	2.462	2015	2.65
2011	2.38		

Source: Annual Budget Implementation Reports, various MTEFs and CBN Annual Reports

However, the indication of NEITI and the CBN governor that Nigeria does not have a metering system to show the quantity of crude oil produced and exported undermines transparency and accountability in the oil sector.

3.4 Non Oil Revenue

3.4.1 Overview

FGN intends to increase the contribution of non oil revenue to overall collectible revenue and seeks to modernize and improve tax collection. Table 3 shows the trend from the years 2005-2011 and it depicts the slow but progressive increase in these revenues.

Table 3: Non-Oil Revenue Trend (2005-2011)

Description	2005 N'm	2006 N'm	2007 N'm	2008 N'm	2009 N'm	2010 N'm	2011 N'm	7-Year Average N'm
Customs Duties & Excise	228,645	176,298	248,941	274,408	278,940	309,193	422,090	276,931
Company Income Tax	162,166	244,808	327,040	416,826	564,950	657,278	716,920	441,427
Value Added Tax	189,969	230,370	301,710	404,528	468,389	562,857	649,500	401,046
Education Tax	21,849	23,950	50,650	59,387	61,058	-	-	30,985
FGN Independent Revenue	52,483	106,600	152,290	198,234	64,115	153,552	182,490	129,966
Total	**655,113**	**782,026**	**1,080,631**	**1,353,382**	**1,437,452**	**1,682,880**	**1,971,000**	**1,280,355**

Source: Full Year Budget Implementation Report 2011 - Budget Office of the Federation

Table 4: Percent Growth in Non-Oil Revenues (2006-2011)

Description	2006	2007	2008	2009	2010	2011	6-Year Average
Customs Duties & Excise	-22.89%	41.20%	10.23%	8.41%	10.85%	36.51%	14.05%
Company Income Tax	50.96%	33.59%	27.45%	37.01%	16.34%	9.07%	29.07%
Value Added Tax	21.27%	30.97%	34.08%	15.79%	20.17%	15.39%	22.95%
Education Tax	9.62%	111.48%	17.25%	2.81%	-100%	0.00%	6.86%
FGN Independent Revenue	103.11%	42.86%	30.17%	-67.66%	139.50%	18.85%	44.47%
Aggregate	**32.41%**	**52.02%**	**23.84%**	**-0.73%**	**17.37%**	**17.12%**	**23.67%**

Source: Full Year Budget Implementation Report 2011 - Budget Office of the Federation

Table 4 also shows progressive increase over the years 2006 to 2011 with FGN Independent Revenue recording the highest average growth of 44.47% whilst Education Tax recorded the lowest growth of 6.86%. Tables 5 and 6 below show the projections for the medium term and the respective averages and percentage growth estimations.

Table 5: Projected Non Oil Revenue Trend (2012 – 2015)

Description	2012 N'bn	2013 N'bn	2014 N'bn	2015 N'bn	Average
Customs Duties & Excise	600.581	792.949	954.246	1,076.628	856.10
Company Income Tax	828.182	992.038	1,134.416	1,233.993	1,047.16
Value Added Tax	802.863	945.277	1,171.851	1,357.943	1,069.48
Education Tax	96.833	118.157	121.748	125.827	115.64
FGN Independent Revenue	446.780	446.781	486.438	498.039	469.51
Total	**2,775.24**	**3,295.20**	**3,868.70**	**4,292.43**	**3,557.89**

Table 6: Projected Percentage Growth in Non Oil Revenue Trend (2013 – 2015)

Description	2013 %	2014 %	2015 %	Average %
Customs Duties & Excise	32.03	20.34	12.82	21.73
Company Income Tax	19.79	14.35	8.78	14.31
Value Added Tax	17.74	23.97	15.88	19.20
Education Tax	22.02	3.04	3.35	9.47
FGN Independent Revenue	0.00	3.04	3.35	2.13
Total	**91.58**	**64.74**	**44.18**	**66.83**

3.4.2 Company Income Tax (CIT)

The MTEF projects CIT collection of N99.2.04billion for 2013, N1,134.42 for 2014 and N1,233.99 for 2015. The 2009 Full Year Budget Implementation Report indicated that the 2009 projections were not met and the projected revenues were based on overly optimistic assumptions regarding increases in efficiency of the operations of the relevant tax collection agencies. In 2009, CIT fell short by 3.7% or N21.93bn. This figure for 2009 was however in excess of the actual receipts for 2008 by 35.6% or N148.24bn. The 2008 CIT projections were exceeded by 14.5% or N24.6bn. However, the 2010 CIT projection of N587billion was overshot at year end by N70.28billion representing 11.97%. In 2011, CIT at N716.92 billion exceeded its annual estimate of N702.24 billion by N14.68 billion or 2.09%. Considering average growth rate of 29.07% from the years 2006-2011 and a growth 9.07% in 2011[16], the projection for CIT to grow by 19.79% in 2013 and other medium term projections are realizable.

3.4.3 Customs and Excise (C&E)

The MTEF projects C & E collections of N792.949 in 2013, N954.267 for 2014 and N1,076.628 for 2015. In the year 2008, when CIT and VAT exceeded their targets, Customs Duty collected fell short of its target by 1%, while in the year 2009, it fell short by 40%. The actual collection of 2010 was short of the years' projection of N400 billion by 22.73%. In 2011, the data indicates that the gross collection of C & E - N422.09 billion was lower than its annual projection of N450 billion by N27.91 billion or 6.2%. For 2012, the projection is N600.581b. Considering the quantum leap of 36.51% growth recorded in 2011, the projection for 2013 which is 32.03% growth is realizable if the Custom authorities intensify reforms.

3.4.4 Value Added Tax (VAT)

The MTEF projects VAT collection of N945.28 billion for 2013, N1,171.85 billion for 2014 and N1,357.94 billion for 2015. N802.863 billion is the estimated VAT collection for 2012 which represents an increase of 45.49% over the 2010 actual collection of N562.86 billion. The collection for 2010 represents a 2.96% shortfall over the projection of N580billion. This is however a 20.17% improvement over the actual collection of 2009. In 2011, the gross collection of VAT - N649.50 billion was lower than the projected figure of N770.09 billion by N120.59 billion or 15.66%. In 2008, VAT exceeded its target by N10.96bn or 25.52% while in 2009, there was a shortfall of 19.2%. However, this shortfall exceeded the 2008 figures by 15.8%. The VAT rate is still 5%

[16] 2011 Fourth Quarter and Consolidated Budget Implementation Report- Budget Office of the Federation.

and percentage growth in VAT over the five years period - 2006 to 2010 stood at 22.95%. Considering the growth pattern, the increase of 17.74% in 2013 is realizable.

3.4.5 Education Tax and FGN Independent Revenue

For Education Tax, the average growth rate of 6.86% in the years 2006 - 2011 is lower than the projected 9.47% growth over the medium term. Unless there are other supporting facts which will facilitate the growth rate of this tax but was not reported in the MTEF, the 2013 projection of 22.02% growth appears overtly optimistic.

For FGN Independent Revenue, it recorded the highest 6 year (2006-2011) growth rate of 44.47%, the projection of 2.13% growth over the medium term appears conservative. However, it is realistic and can be realised.

3.5 Diversification of the Economy

In line with previous MTEFs, the mantra of economic diversification, away from our over-reliance on oil revenue runs through the FSP. As usual, this projection is short on specific interventions that will drive the process of diversification. When general projections are made in the FSP, one expects a more detailed analysis on the sectors for growth drivers to facilitate the diversification and this will also tally with projections for income to the Federation Account and the Consolidated Revenue Fund of the Federal Government. But there is no such corroboration as shown in Table 7.

Table 7: Non Oil Revenue as a Percent of Grossly Collectible Federal Revenue

Revenue	**2013**	**%**	**2014**	**%**	**2015**	**%**
Total Non Oil	3,298.464	30.43	3,878.707	32.26	4,308.788	34.73
Grossly Collectible Federal Revenue	10,839.884		11,661.707		12,406.538	

Source: MTEF 2013-2015

In 2013, non oil revenue as a percentage of overall revenue will be 30.43%, 32.26% in 2014 and 34.73% in 2015. Evidently, the projections are not based on a movement away from oil revenue dependency. While diversification of the economy is desirable, but a focus on key growth drivers to harvest low hanging fruits may see more policy action and investments in oil and gas particularly, the harvesting of gas which is flared, through new liquefied petroleum gas projects; incentives for the private sector to develop new refineries and petrochemical industries to reduce the demand for subsidies on petroleum products; passage and implementation of the Petroleum Industry Bill. Other sectors outside petroleum will include continued use of tariff and non tariff measures to increase agricultural productivity and processing of agro products into secondary goods; unleashing the potentials in land and housing sector through reforms to the Land Use Act and re-organising mortgage finance and the National Housing Fund; continuation and enhancement of reforms in the electricity industry, etc.

3.6 No Envelopes of the Sectors

Considering that MTSS did not anchor the MTEF, there was no envelope for the sectors which could have allowed a reconciliation between the stated priority sectors and the allocations. NASS should demand the sectoral envelopes before approving the MTEF.

3.7 Petroleum Subsidy

The MTEF fails to take a definite position on the issue of petroleum subsidy because government is continuing consultations regarding future policy on subsidy. Although the amount paid out so far in 2012 is far lower than the sum paid out for 2011 and there is a clear indication that the subsidies for 2011 were inflated, government needs to plan to take steps that will make the subsidy unnecessary in the first place. The way forward is either for government to build new refineries or use incentives to encourage private investors to build. The benefits to the economy will be legion. New jobs will be created, foreign exchange spent on importation of fuel will be saved thereby putting less pressure on the exchange rate, government will get enhanced corporate taxation, etc. The private investors could use the PPP model to build and source for funding. Existing refineries should be privatized to stop the waste involved in endless turn around maintenance contracts. But the bottom line of such an arrangement will be that Nigeria will stop incurring costs for freight, insurance, demurrage and associated importation costs.

3.8 Fiscal Balance

The FSP projects a reduction in the deficit over the medium term. For 2013, the projection is -2.17%, -1.60% for 2014 and -1.11% for 2015. This is a positive projection in line with the intendments of the FRA. However, experience shows that FGN does not stick to its fiscal balance projections. The fiscal operations of the FGN resulted in an overall deficit of N1,158.5 billion or 3.3 % of the GDP in the year 2011[17]. The important consideration for the MTEF should be for FGN to exercise discipline it its fiscal management.

3.9 Accruals to ECA/SWF

The MTEF was surprisingly silent on the quantum of resources available in the ECA and to be made available to the SWF and the expected accruals within the medium term. The MTEF also said nothing on the disbursals in the preceding three years and whether those disbursements were made in accordance with the stipulations of the FRA. It is a notorious fact that the ECA has been depleted by the current administration.

[17] Central Bank of Nigeria Annual Report 2011 at page 119.

Part Four

REVENUE AND EXPENDITURE FRAMEWORK

4.1 The Legal Provision

The FRA requires the MTEF to contain a revenue and expenditure framework which sets out:

(i) estimates of aggregate revenues for the Federation for each financial year in the next three financial years, based on the predetermined Commodity Reference Price adopted and tax revenue projections;

(ii) aggregate expenditure projection for the Federation for each financial year in the next three financial years,

(iii) aggregate tax expenditure floor for the Federation for each financial year in the next three financial years,

(iv) minimum capital expenditure floor for the Federation for each financial year in the next three years;

Provided that, the estimates and expenditures provided under paragraph (d) of this subsection shall be-

(i) based on reliable and consistent data certified in accordance with section 13(2) (b) of this Act,

(ii) targeted at achieving the macro-economic projections set out in subsection (2) (a) of this section,

(iii) consistent with and derive from the underlying assumptions contained in the Macro-economic framework, the objectives, policies, strategic priorities and explanations in the Fiscal Strategy Paper;

4.2 Aggregate Expenditure

The aggregate expenditure of the Federal Government for the medium term is projected as follows: N4,928.566, N5,158.726 and N5,311.476 for the years 2013, 2014 and 20915 respectively. These figures are slightly higher than the projections in MTEF 2012-2014 which projected N4,861.18 for 2013, N4,967.88 for 2014 and N5,068.99 for 2015. Table 8 and Figure 1 shows the structure of expenditure over the medium term.

Table 8: Structure of Expenditure over the Medium Term

Particulars/Items	Year 2013		Year 2014		Year 2015	
	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%
Statutory Transfers	380.539	7.72	424.681	8.23	450.002	8.47
Debt Service	591.763	12.01	592.681	11.49	593.608	11.18
Recurrent Non Debt MDA Spending	2,411.486	48.93	2,488.570	48.24	2,563.432	48.26
Total Recurrent		68.7		68		67.9
Capital Spending	1,544.778	31.34	1,652.794	32.04	1,704.434	32.09
Total	4,928.566	100	5,158.726	100	5,311.476	100

MTEF: 2013-2015

Figure 1: Structure of Expenditure over the Medium Term

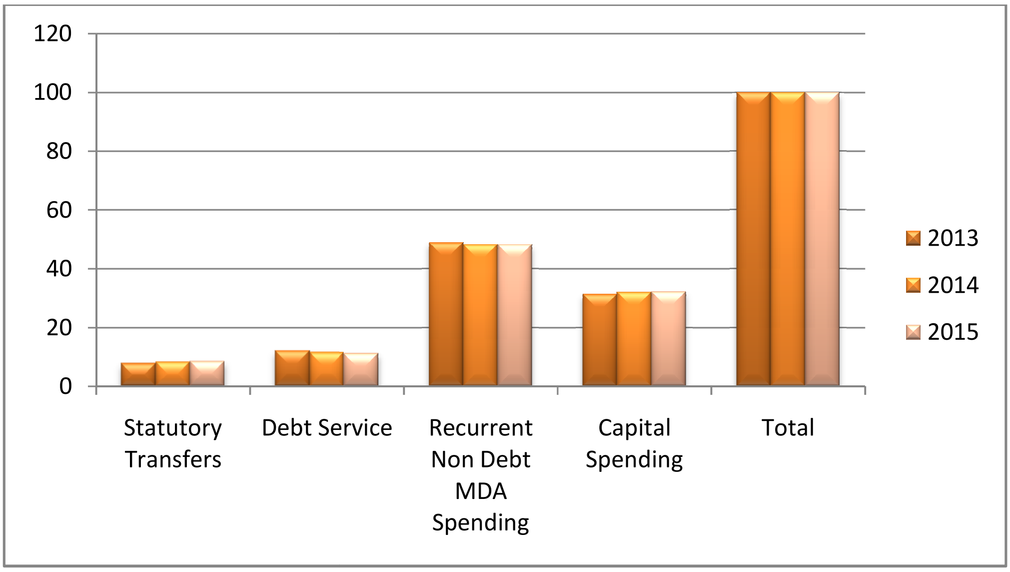

Table 9 shows the budgeted and actual expenditure in the years 2010 and 2011.

Table 9: FGN Budget Expenditure: Budget vs. Actual

2010					2011			
Fiscal Items	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**Variance %**	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**Variance %**
Non debt Recurrent	2,669.01	2,546.24	(122.77)	-4.61	2,425.07	2,527.26	102.19	4.21
Debt	542.38	415.62	(126.76)	-23.37	495.10	527.09	31.99	6.46
Statutory Transfers	183.58	201.32	17.74	9.67	417.83	329.18	(88.65)	(21.22)
Capital Expenditure	1,764.69	935.61	(829.08)[18]	-46.98	1,146.75	713.3	(433.45)	(37.80)
Aggregate Expenditure	5,159.66	4,098.79	(1,060.87)	-20.56	4,484.75	4302.08	(182.67)	(4.07)

Consolidated Budget Implementation Report 2010, MTEF 2012-2015 and Consolidated Budget Implementation Report 2011

4.3 Recurrent Expenditure

From Table 8 above, recurrent expenditure is steady at an average of 68.2% over the medium term. Also, Recurrent Non Debt MDA expenditure is steady at approximately 48% over the medium term. This cannot be reconciled with the projection in the FSP for rebalancing the structure of government spending. This rebalancing ought to be titled towards priority projects that make an impact on the lives of the majority of the population and this can only be achieved by dramatically increasing capital expenditure. If the Oronsaye Committee Report is to be implemented, then this projection will not represent the new developments after the implementation of the Government White Paper. Admitted, that the process may take time especially for laws to be repealed and other administrative components to come into place, however, this can be achieved in the medium term. Tables 10 and 11 provide a further breakdown of MDA Non Recurrent Spending.

Table 10: Personnel Expenditure as a Percentage of MDA Recurrent Expenditure

Particulars/ Item	**Year 2013**		**Year 2014**		**Year 2015**	
	Amount (Nbn)	**%**	**Amount (Nbn)**	**%**	**Amount (Nbn)**	**%**
Personnel Costs	1,741.666	72.22	1,828.749	73.49	1,903.611	74.27
Total MDA Recurrent Expenditure	2,411.486		2,488.570		2,563.432	

[18] The figures for capital expenditure recorded here are drawn from the MTEF 2012-2014 and they differ from the figures in the Fourth Quarter and Consolidated Budget Implementation Report for 2010 published by the BOF.

Table 11: Personnel Expenditure as a Percentage of Overall Budget

Particulars/ Item	Year 2013		Year 2014		Year 2015	
	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%
Overall Budget	4,928.566		5,158.726		5,311.476	
Personnel Costs	1,741.666	35.34	1,828.749	35.45	1,903.611	35.84

Table 10 demonstrates that personnel expenditure is the major item, averaging 73% in MDA Recurrent Non Debt Expenditure over the medium term. Table 11 above shows the relationship between personnel costs and the overall budget. The implication of these Tables is that it is impossible to substantially improve capital spending without reducing personnel expenditure. Considering that Personnel Expenditure is dedicated to less than 1% of the overall population, it is not sustainable in the short, medium and long term to continue to bear such expenditure. When the service delivery of this huge bureaucracy is benchmarked against the quantum of public resources being spent on them, it will be clear to all discerning minds that a change in policy direction has become imperative. In the medium term, the target should be to reduce personnel expenditure to no more than 20% of overall expenditure.

4.4 Capital Expenditure

Capital expenditure is projected at 31.34%, 32.04% and 32.09% of overall budget for the years 2013, 2014 and 2015. This is essentially inadequate to meet Nigeria's infrastructure and other needs. The First Implementation Plan of Vision 2020 envisages a resource profile of N32 trillion for its implementation. With the FGN investing N10trillion, States and LGAs providing N9trillion while N13trillion is expected from private sources. Already, the FGN has for the first two years of the Implementation Plan (2010 and 2011) spent a total of N1,648.91billion and for the years 2012 and 2013, the projection is N2,884billion bringing the total to N4,532billion thereby leaving a deficit of N5,468 billion. When the actual capital expenditure for 2012 and 2013 are brought into the picture, the deficit will most likely increase.

Further, the trend, over the years, of capital budget allocations and implementation leaves much to be desired. In the year 2009, out of an actual aggregate expenditure of N2,697,229.55, the actual capital expenditure was N562.373billion which represents 20.85% of the budget. Again, in 2010, out of actual expenditure of N4.047 trillion, capital expenditure stood at N935.51billion representing 23.12% of the total expenditure. In the year 2011, actual capital budget utilization was N713.3billion out of a total budget of N4.485trillion representing 15.9**%** of the budget. And this level of utilization was reached after the extension of the capital budget year to the end of the first quarter of 2012. In the current year 2012, as at the end of September 2012, only 23.94% of the capital budget has been utilized by MDAs. The implication of the foregoing is that Nigeria is violating its obligations under the International Covenant on Economic, Social and Cultural Rights specifically in article 2 (1) which states as follows:

> *Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and cooperation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realisation of the rights recognized in the present Covenant..*

We are not using the maximum of available resources to meet the rights and needs of our people. Therefore, there are two challenges. The first is in the inadequacy of the funds budgeted for capital expenditure whilst the second is on the inability of the bloated bureaucracy to expend sums budgeted for the public welfare. For the first challenge, the Federal Government needs to:

- Prioritise expenditure in favour of capital expenditure while pruning the recurrent non debt expenditure;

- Prioritize among ongoing capital projects in favour of those directed to the enhancement of growth drivers. The FGN should also consider divesting from sundry matters and services that states and local governments are in a better position to deliver so as to focus on the most critical infrastructure needs. The ongoing Constitution Review in the NASS provides an opportunity to amend the constitutional schedules;

- Reduce administrative capital in favour of developmental capital expenditure;

- Facilitate public private partnerships to draw in private sector funding for capital expenditure. The earlier proposal of the Debt Management Office to develop a framework for the issuance of Sovereign Guarantees to private sector corporates to enable them undertake the development of commercially viable, national priority projects in the country thereby relieving government of the need to borrow such funds[19]. However, this will further increase the quantum of FGN contingent liabilities and therefore needs to be managed with great care and caution;

- Implementation of private sector led reforms in electricity and other relevant sectors.

[19] Debt Sustainability Analysis 2011 at page 5.

On the second challenge which is the inability of the public service to invest budgeted funds, the recommendation is the full implementation of the Public Procurement Act of 2007 including enhanced capacity building and the full sanctions regime. The proposal contained in the MTEF 2011-2013 to engage project portfolio managers to work with MDAs should be reviewed and implemented. However, its design and implementation should avoid being an unnecessary layer of bureaucracy with no value added.

4.5 Retained Revenue

Table 12 shows the movement of retained revenue and the fiscal deficit over the medium term.

Table 12: Percentage of Retained Revenue to Overall Budget 2013 – 2015

2013			2014			2015		
Overall Budget (₦)	Retained Revenue (₦)	% of Retained Revenue to Overall Budget	Overall Budget (₦)	Retained Revenue (₦)	% of Retained Revenue to Overall Budget	Overall Budget (₦)	Retained Revenue (₦)	% Retained Revenue to Overall Budget
4,928.566	3,891.376	78.96	5,158.726	4,257.973	82.54	5,311.476	4,573.123	86.10

The fiscal balance is moving in the positive direction and slowing to -1.11% of the GDP in the last outer year of the MTEF and the fiscal deficit is also improving over the medium term. For 2013, FGN will require to raise 21.04% of its overall budget to fund the deficit; for 2014, it will need to raise 17.46% of its overall budget to fund the deficit. Finally in 2015, it will raise 13.90% of the overall budget to fund the deficit. This amounts to N1,037.190trillion in 2013, N900.754billion in 2014 and N738.354billion in 2015.

4.6 Debt Service

Table 13 and Figure 2 shows that FGN will be servicing debts with 15.21%, 13.92%, 12.98% of actual earnings (retained revenue before borrowing) in the years 2013, 2014 and 2015 respectively. Ordinarily, this should be low, but considering that some of these debts went into consumption and funding of recurrent expenditure instead of capital projects and human development, it is a lost opportunity for development. For previous years, the debt service/revenue ratio moved from 13.2% in 2010 to 16.6% in 2011 which means that a higher proportion of total revenue was devoted to debt servicing[20].

[20] CBN Annual report 2011 at page 140.

Table 13: Debt Service as a Percentage of Retained Revenue 2013-2015

Particulars	Year 2013		Year 2014		Year 2015	
	Amount (Nbn)	**%**	**Amount (Nbn)**	**%**	**Amount (Nbn)**	**%**
Debt Service	591.763	15.21	592.681	13.92	593.608	12.98
Retained Revenue	3,891.376		4,257.973		4,573.123	

Figure 2: Debt Service as a Percentage of Retained Revenue (2013-2015)

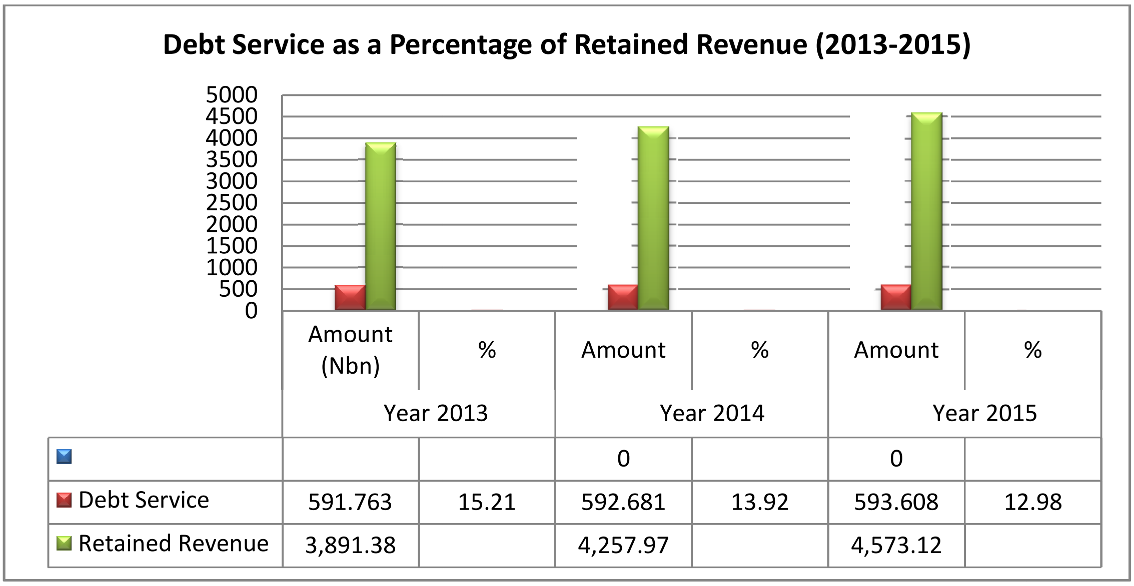

Table 14: Debt Service as a Percentage of Capital Expenditure 2013-2015

Particulars	Year 2012		Year 2013		Year 2014	
	Amount (Nbn)	**%**	**Amount (Nbn)**	**%**	**Amount (Nbn)**	**%**
Debt Service	591.763	38.31	592.681	35.86	593.608	34.83
Capital Expenditure	1,544.778		1,652.794		1,704.434	

The figures for debt service on Table 14 shows what would have gone to fund capital expenditure and other pressing needs but now diverted to debt service. If these figures for debt service are added to capital votes, they would have been substantially increased. The MTEF acknowledges this when it stated that:

These amounts to be spent on debt servicing and the retirement of future debt obligations will reduce the amount available for capital expenditure in 2013[21].

The most troubling aspect of these debts is that most of them were incurred in violation of the letters and spirit of the FRA.

4.7 Statutory Transfers

The basis for the determination of certain statutory transfers seem not to be founded on any logic but some hunch and apriori decisions, for instance, the allocation of N150bilion to NASS in each of the three years of the MTEF. Is it that the budgetary needs of NASS are constant over the years and not affected by inflationary or deflationary spirals? Apparently, NASS has been funded to the tune of N150 in the last two years and will be so funded for the next three years. So N150b is now a yearly ritual which is not subject to change or interrogation.

[21] MTEF 2013-2015 at page 10.

Part Five

CONSOLIDATED DEBT STATEMENT

The MTEF states that the result of the 2012 Debt Sustainability Analysis (DSA) indicates that Nigeria is well within the threshold of low level of debt. It states Nigeria's total debt as at June 2012 to be N7.11 trillion representing 17.8% of the GDP. The debt is composed of N6.15 trillion domestic debt and $6billion external debt. External debt at the end of 2011 grew by 23.8% from its level in 2010[22]. It proposes no foreign borrowing in the medium term while the proposal for domestic borrowing is N727.190 in 2013, N625.759 in 2014 and N503.359 in 2015.

However, there is a major concern. The Central Bank of Nigeria in its 2011 Annual Report indicates as follows[23]:

> *Federal Government consolidated debt stood was N6,519.6 billion, or 18.4% of GDP, at end 2011, compared with N5,214.7 billion, or 17.8 per cent of GDP, at end 2010. External debt stock rose by US$5.7billion following additional disbursement of concessional loans by multilateral institutions and other non-Paris bilateral and commercial debts. Domestic debts grew by 23.55 to N5,622.8 billion as a result of borrowing to finance critical infrastructure by the Federal; government. Over all, in accordance with the fiscal consolidation strategy of the Federal Government, the rate of debt accumulation moderated to 24.4 per cent in 2011, from 37.3 per cent in 2010.*

The concern is that Nigeria's debt grew by 37.3% in 2010 and "moderated" to 24.45% in 2011. The domestic debt stood at N5,622.8 billion at the end of 2011 and has added over N530 billion in the six months ending June 2012 representing 9.37% debt accumulation. When it is reckoned in accordance with the figures released by the Ministry of Finance that at the end of June 2012, less than N200 billion has been utilized for capital expenditure by MDAs under the 2012 federal budget, it would be clear that these borrowing are not channeled to capital expenditure but for recurrent purposes. There is no sustainability in such geometric growth of debts which are not channeled to stimulate growth drivers or infrastructure critical to economic growth. Pray, what have these sums been spent on? Can the Debt Management Office give the details of projects where these sums have been invested considering the poor capital budget utilization record of the bureaucracy? The central poser is not about whether borrowing is right or wrong; but what are we borrowing to achieve?

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[22] CBN Annual Report 2011 at page 138.
[23] At page 119.

Again, the CBN states[24]:

> *The banking system remained the dominant holder of the outstanding debt instruments with 76.2 per cent and the non-bank public accounted for the balance of 23.8 per cent. Disaggregation of the banking systems holdings indicate that N3,790.8 billion or 88.4 per cent is held by DMBs and DHs and N495.2billion or 11.6 per cent is held by the CBN and the Sinking Fund.*
>
> *Analysis of the maturity structure of the domestic debt showed that instruments of two years and below accounted for N3,124.9 billion or 55.6 percent followed by instruments of above two to five years at N1,064.4 billion or 18.8 per cent; those with tenors of five to ten years totaled N715.2 billion or 12.7 per cent and tenors of over ten years at N718.3 or 12.8%*

Implicit in this disaggregation is that the financial health of the banks is tied to the ability of the government to continuously honor its payment obligations. Any default may lead to systemic distress in the banking sector. The second is that the short tenured debts (2 years and below) constitute the larger chunk of the indebtedness. Therefore, they represent a mismatch between capital project financing and the projects which have a long gestation period for their completion and eventual contribution to economic growth. The forgoing contradicts the earlier claims of the DMO to have restructured the debt portfolio in favour of long tenor instruments. It is recommended that borrowing should be tied to specific capital projects to ensure they are spent in accordance with the FRA.

The MTEF proposes the establishment of a Sinking Fund to be used for repaying maturing debt obligations and curb the rising domestic debt profile. While this is a good initiative, curbing the rising domestic debt profile can only be attained by reduced or minimal borrowing in the medium to the long term.

[24] CBN Annual Report, 2011 at page 139.

Part Six

CONTINGENT LIABILITIES AND QUASI FISCAL ACTIVITIES

The MTEF by S.11 (3) is to contain a statement describing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallisation of such liabilities.

On page 10 of the MTEF, under "Nature and Fiscal Implication of Contingent Liabilities", it is stated that:

> *Given budgetary constraints, Government will as much as possible sustain its 2012 policy of not embarking on new capital projects in 2013. As earlier stated, priority will be given to ongoing projects with high internal rate of return as well as those already nearing completion.*

The above issues addressed in this quote are not matters related to contingent liabilities. Thus, the MTEF was silent on the nature and fiscal significance of contingent liabilities. Such liabilities are potential obligations which crystallize at the occurrence of a future event and that they could arise where guarantees of debt, made by FGN with regard to contract agreements for capital projects entered into by MDAs crystallize into actual obligations. It could also arise through PPP arrangements hence the need for rigorous and careful analysis of potential PPP projects. Beyond these statements, the MTEF was silent on contingent liabilities and quasi fiscal activities. The MTEF contained no information on the quantum of such contingent liabilities and what measures are to be taken to ensure that they do not crystallize or how to deal with them if they crystallise.

However, some developmental functions of the CBN are quasi fiscal in nature and should have been captured in the MTEF. They include:

- The Agricultural Credit Guarantee Scheme that guaranteed loans valued at N10.19billion in 2011;
- Agricultural Credit Support Scheme;
- The Commercial Agriculture Credit Scheme that disbursed N56.75 billion in 2011;
- The SME/Manufacturing Refinancing and Restructuring Fund of N235 billion;
- The Small and Medium Enterprises Credit Guarantee Scheme;

- The Power and Airline Intervention Fund of N158.87billion.

The FGN securities (Assets Management Company of Nigeria bonds) maturing in 2013 and beyond which have inherent refinancing risks also form part of the quasi fiscal activities of government that are not reported in the MTEF.

Part Seven

CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

The preparation of the MTEF by the Minister of Finance was late and its approval by EXCoF was also late. The submission of the MTEF to the legislature did not meet the time frame anticipated by the FRA. Medium Term Sector Strategies which would have preceded the MTEF were not prepared while civil society and organized private sector were perfunctorily consulted. However, the MTEF contains no information on consultations with other stakeholders designated in the FRA.

The macroeconomic framework contained no projections on economic growth, employment rate and options, inflation rate, interest rate and credit policy which should galvanise the private sector to create wealth and jobs to improve the economy. There was no evaluation and analysis of the projections for the preceding three years as no mention was made of them. This leaves a lot of questions unanswered because information about previous performance would have informed extant projections. It could have supplied information about the factors driving successes and failures to realize previous targets and identified binding constraints on growth and development. The few projections that were contained in the Framework had no link to the overarching Vision 2020 and were stated without indicating how the MTEF arrived at them. For instance, the sectoral contributions to GDP had nothing in common with the goals of the structure of the economy towards 2020.

Priority sectors were identified in the FSP and they are security, power, agriculture, water resources, health, education, works, transport, aviation, FCT and Niger Delta. Governmental revenues will be enhanced whilst government expenditure as a share of the GDP will be reduced over the medium term. The FSP states government's intention to implement the Oronsaye Committee Report to rationalize the number of MDAs. Government also intends to defer the procurement of administrative capital; establish a Treasury Single Account (TSA) for more efficient management of cash balances; mainstream the Government Integrated Financial Management Information System (GIFMIS) to make the process of budget preparation and execution more efficient. However, the TSA and GIFMIS reforms have been on government's agenda in the last seven years and no concrete benefits have been achieved over these years. Benefits will only accrue if there is a clear political resolve to implement them to the letter. These thrusts of the FSP, laudable as they are, do not seem to build any relationship with the economic objectives in S.16 of the Constitution.

The benchmark price of crude oil which seeks to delink the budget from the volatilities of the international oil market is a positive development. The production in millions of barrels per day is also realizable in view of the relative peace in the Niger Delta and the success of the Amnesty Programme. Projections for non oil revenue are realizable as they follow the trends in recent years and the fact that FGN is reforming the structures and processes that will enhance non oil revenue collection.

The FSP projects fiscal balances over the medium term, that are in tandem with the FRA but the challenge is for FGN to exercise fiscal discipline because previous experiences shows a lot of deviations from projections. For instance, the fiscal operations of the FGN resulted in an overall deficit of N1,158.5 billion or 3.3 % of the GDP in the year 2011 despite the beautiful projections in the undergirding MTEF.

The revenue and expenditure framework shows the dominance of recurrent expenditure averaging 68% over the medium term. This comes against the proposal to rebalance government spending in favour of capital expenditure. Personnel expenditure is 73% of the MDA recurrent expenditure while it is an average of 35% of the overall expenditure. Capital expenditure is projected at 31.34%, 32.04% and 32.09% of overall budget for the years 2013, 2014 and 2015. This is essentially inadequate to meet Nigeria's infrastructure and other needs. The First Implementation Plan of Vision 2020 envisages a resource profile of N32 trillion for its implementation. With the FGN investing N10trillion, States and LGAs providing N9trillion while N13trillion is expected from private sources. Already, the FGN has for the first two years of the Implementation Plan (2010 and 2011) spent a total of N1,648.91billion and for the years 2012 and 2013, the projection is N2,884billion bringing the total to N4,532billion thereby leaving a deficit of N5,468 billion. When the actual capital expenditure for 2012 and 2013 are brought into the picture, the deficit will most likely increase. The MTEF did not address the challenge of poor capital budget implementation.

The consolidated debt statement shows that our debts are increasing in geometric proportions. It grew by 37.3% in 2010 and 24.5% in 2011 and will need 15.21%, 13.925 and 12.98% of retained revenue to service in the medium term. The domestic debts have added over N530billion between the six months December 2011 to June 2012. The largest chunk of domestic debts (88.4%) is held by DMBs and DHs. And short term maturing instruments constitute about 55.6% of the domestic debts.

The MTEF was virtually silent on the quantum of contingent liabilities and what measures are to be taken to ensure that they do not crystallize or how to deal with them if they crystallise. It also did not deal with quasi fiscal activities.

7.2 Recommendations

7.2.1 Preliminary Issues

(i) Future MTEFs should be prepared early for the endorsement of the EXCoF before the end of June and submitted to NASS immediately after endorsement by the EXCoF. This should be in late June or early July before the commencement of the mid-year legislative recess. This will enable the legislature sufficient time to approve the MTEF and for actual preparation of budgetary estimates to start on time.

(ii) The MTSS should precede the preparation of the MTEF and all relevant stakeholders should be brought on board the preparation process. The Transformation Agenda cannot take the place of the MTSS.

(iii) The MTEF should be anchored on consultations with states, designated agencies of government, organised private sector, civil society and other stakeholders. For the consultations to be effective, the Minister of Finance should make available to stakeholders quarterly budget implementation reports, end of year budget implementation reports for the preceding year and a consultation paper detailing the contours of the proposed MTEF. These documents should be available at least two weeks before the consultation. The process and fact of the consultation should be documented in the MTEF.

(iv) The Minister of Finance should devise a calendar for the entire MTEF exercise and make same public so that all stakeholders can prepare in advance of the various activities of the MTEF.

7.2.2 Macroeconomic Framework

(i) The MTEF should document the projections for economic growth, inflation, interest rate, external reserves and access to credit, etc. It should document the underlying assumptions, facts and logic in support of these projections.

(ii) The MTEF's macroeconomic projections should be aligned with Vision 2020 and its First National Implementation Plan or show reasons supporting that the targets in Vision 2020 cannot be met.

(iii) The MTEF should contain an evaluation and analysis of the performance of macroeconomic projections for the preceding three years.

(iv) Considering the gravity of unemployment, the MTEF should document the present situation; make projections for increased employment and strategies to attain the new projections. Firms should be offered corporate tax rebates to enhance increased creation of new jobs.

(v) Consistent poor capital budget implementation over the years demands the full enforcement of the Public Procurement Act, 2007 with an emphasis on renewed capacity building and sanctions for offenders.

(vi) Estimated accruals to ECA and or the SWF should be articulated in the MTEF.

(vii) The credit policy should provide incentives for savings to ensure that the deposit rate is not less than the inflation rate. Further, the spread between the lending and deposit rate should not exceed 400 points.

7.2.3 Fiscal Strategy Paper

(i) In accordance with the FRA, the MTEF should show the link between stated priority interventions and the constitutional Fundamental Objectives and Directive Principles of State Policy.

(ii) Government should reorder its spending priorities and ensure a 60%-40% balance between recurrent and capital expenditure in the medium term. This can be achieved through the meticulous implementation of the Monetisation Programme, the recommendations of the Expenditure Review Committee and the Committee on the Restructuring and Rationalization of Federal Government Parastatals, Commissions and Agencies (Oronsaye Committee Report).

(iii) Government should provide incentives for the private sector to invest in new refineries - the Public Private Partnership model is recommended. FGN should privatise existing refineries to plug the leaking pipes of corruption and waste that have led to incredible sums being spent on perpetual turn around maintenance operations. Individuals and companies found to have abused the oil subsidy system should face diligent criminal prosecution.

(iv) NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources for investments in critical sectors. It is estimated that over N3 trillion will accrue to the Federation Account from the implementation of the PIB.

(v) Government should exercise fiscal restraint to ensure that the projected fiscal balance of -2.17% of GDP is not exceeded in actual expenditure within the year 2013.

(vi) Estimated oil production in millions of barrels per day and the benchmark price for 2013 are realistic and should be retained. However, Nigeria has no capacity to determine the actual quantity of crude oil produced or exported per day. Metering of crude oil produced and exported should be an irreducible minimum task of FGN on behalf of the Nigerian people in 2013.

(vi) The assumptions and projections for non oil revenue comprising of CIT, VAT, Customs Duty, Education Tax and FGN Independent Revenue are realistic and should be retained.

7.2.4 Revenue and Expenditure Framework

(i) The MTEF should contain the sectoral envelopes which will show government's priorities and the reasons informing those priorities. And there should be consistency between the policy thrusts stated in the FSP and the actual votes in the revenue and expenditure framework.

(ii) In the capital expenditure provisions, more emphasis should be placed on developmental capital as against administrative capital.

(iii) For the private sector to play the role of providing funding to fill the financing gap for infrastructure and critical sectors, there is the need for government borrowing not to crowd out the private sector. Improved access to credit through coordinated policy implementation by the CBN, DMO and the Finance Ministry is imperative.

(iv) Personnel expenditure should be pruned to no more than 20% of overall budget in the medium term. The implementation of the White Paper of the Oronsaye Committee Report is imperative.

(v) The proposal contained in the MTEF 2011-2013 to engage project portfolio managers to work with MDAs should be reviewed and implemented. However, its design and implementation should avoid being an unnecessary and expensive layer of bureaucracy with no value added.

7.2.5 Consolidated Debt Statement

(i) MTEF's borrowing projections should be such as not to exceed the debt-GDP country specific threshold of 25% for the 2013-2015 period. Pruning down recurrent expenditure and reduction of corruption may reduce the need for governmental borrowing.

(ii) The MTEF should take cognizance of the contingent liabilities in building scenarios about risks and debt sustainability.

(iii) Borrowing should not be for the omnibus purpose of financing the deficit. In accordance with the FRA, it must be tied to specific capital or human development projects and be backed with a cost benefit analysis before NASS approval.

7.2.6 Contingent Liabilities and Quasi Fiscal Activities

(i) The MTEF should include the nature and quantum of contingent liabilities and quasi fiscal activities of government.

(ii) In undertaking new PPP projects which will increase the quantum of contingent liabilities, FGN should carefully select, appraise and involve the expertise of the Infrastructure Concession and Regulatory Commission in arriving at the specific projects.

(iii) FGN interventions qualifying as quasi fiscal activities and their implications for public finances and macroeconomic stability should be carefully appraised before embarking on them.