MEMORANDUM OF CITIZENS WEALTH PLATFORM SUBMITTED TO THE MINISTRY OF FINANCE AND BUDGET OFFICE OF THE FEDERATION AT THE CONSULTATIVE FORUM ON THE 2013 FEDERAL BUDGET FOR THE ORGANISED PRIVATE SECTOR AND CIVIL SOCIETY

1. INTRODUCTION

Citizens Wealth Platform (CWP) is a 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. Improving fiscal governance is our core area of interest and the budget is a very important instrument in any intervention for the improvement of fiscal governance. We therefore welcome the initiative of the Federal Ministry of Finance and the Budget Office of the Federation to consult stakeholders for inputs that will guide the preparation of the 2013 Federal Budget.

This memorandum is divided into two parts. The first part deals with our concerns whilst the second part deals with key issues and recommendations.

2. CONCERNS

CWP has a few concerns about the process leading to this forum. First is that the 2013 budget should be predicated on the 2013-2015 Medium Term Expenditure Framework (MTEF). Section 18 (1) of the Fiscal Responsibility Act (FRA) states that the MTEF shall be the basis for the preparation of the estimates of the revenue and expenditure required to be prepared and laid before the National Assembly under section 81 (1) of the 1999 Constitution, as amended. The MTEF is to be prepared and endorsed by the Federal Executive Council before the end of June every year. We are not aware that the MTEF 2013-2015 has been prepared, endorsed by the Federal Executive Council and approved by the National Assembly as required by section 14 of the FRA. Going forward with the 2013 budget consultation without an undergirding MTEF would appear to us as putting the cart before the horse and in violation of the spirit and letter of the FRA.

Secondly, 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 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 required under section 50 of the FRA. As we write, there is 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 is not available to Nigerians. 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.

Our third concern is that the notice for the forums is too short. This notice appeared in the Guardian Newspaper of Thursday July 5, 2012. This effectively gives stakeholders in Lagos only one working day being Friday the 6th to prepare for this great event. For those intending to attend the Abuja forum, this gives them only two workings days notice to prepare for the forum. The notice should have been longer, at least for one week.

The fourth concern is that fixing a consultation in Lagos and then a second in Abuja will not be enough to elicit the views of a broad spectrum of Nigerians. This consultation should at least go round the geopolitical zones.

3. KEY ISSUES AND RECOMMENDATIONS

(i) The MTEF: The Medium Term Expenditure Framework 2013-2015 which should be the basis of the 2013 budget has not been prepared and approved. Over the years, the MTEF and the budget have been prepared ***at any time*** and at the pleasure of the Minister of Finance and Budget Office of the Federation. Budgets are prepared late in the year and do not get legislative approval before the end of the first quarter of the succeeding year.

Recommendation: There is the need for a definite budget calendar and time frame so that all stakeholders will know in advance the timing of respective budget related activities. The preparation of the 2013-2015 MTEF should commence immediately and stakeholders including civil society and organized private sector should be part of the sectoral planning during the Medium Term Sector Strategies and the entire MTEF process.

(ii) MTEF and Budget Thrusts: Previous MTEFs and budgets did not establish a real nexus between them and Vision 2020, its First Implementation Plan and the

Administration's Transformation Agenda. There were no discernible goals and thrusts and how the activities and projects were linked with the Vision and the Agenda.

Recommendation: The MTEF and 2013 budget should be developed with clear objectives linked to Vision 2020 and the Transformation Agenda. These objectives must be defined upfront and made publicly available.

(iii) Basis for Cost Estimates: Previous budgets indicate that varying cost estimates were used across MDAs for similar cost heads. There was no uniformity and MDAs seem to be budgeting for the same items based on their respective estimations.

Recommendation: The Budget Office of the Federation in collaboration with relevant agencies including the Bureau of Public Procurement should provide the basis for cost estimates which must be clear, uniform and applied across board.

(iv) Recurrent and Capital Vote Ratio: Over the years, we have witnessed budgetary allocations skewed in favour of recurrent expenditure. For the current year, the recurrent vote has gulped 72.5% leaving a paltry 27.5% for capital expenditure. The MTEF 2012-2015 had targeted 29.07%, 30.6% and 31.1% as percentages of the overall budget to be spent on capital expenditure in the years 2013, 2014 and 2015. The percentage of the budget dedicated to capital expenditure will not allow the country to meet the accelerated infrastructure upgrade expected in Vision: 20:2020 and the MDGs. This capital investment pattern will deepen poverty and will result in economic stagnation. A country that seeks double digit growth rate must channel more resources to capital investment. The National Economic Empowerment and Development Strategy ("NEEDS") reforms had articulated the ratio of recurrent to capital spending to be 60%-40% from the year 2007 and onwards.

Recommendation: Increase the capital vote for 2013 to not less than 40% of the budget. There are a number of areas from which savings can be made. The first is that Government had set up the Expenditure Review Committee (Professor Anya O. Anya led Committee) and the Presidential Committee for the Rationalization and Restructuring of Federal Government MDAs (Oronsaye led Committee). The Attorney-General of the Federation led Committee charged with producing the White Paper from the Oronsaye report should expedite action and the legislature should adopt a timetable for review and harmonisation of laws necessary to make the recommendations effective. The recommendations which would reduce the bloated overhead and personnel expenses of FGN should be implemented through an informed balancing of fiscal and social concerns in the reforms they propose.

(v) The Petroleum Industry Bill: Experts indicate that the implementation of the Petroleum Industry Bill after its enactment into law would release not less than N4trillion into the Federation Account on a yearly basis. Beyond the new income, its other advantages are legion. Although, it may not start yielding resources immediately it is passed into law, but that would be a great step towards the desired end.

Recommendation: The executive should expedite action and present the Petroleum Industry Bill to NASS. It is recommended that NASS should accelerate the passage of the bill once presented.

(vi) Uncompleted Projects: Even with the little resources available for capital expenditure, the budget is suffused with thousands of projects which available resources cannot pay for in the medium term. This has led to so many abandoned and uncompleted projects. Projects under the Ministry of Works clearly illustrate this anomalous situation. A presidential committee has identified that over N10trillion will be needed to complete these projects.

Recommendation: For 2013, there should be a moratorium on new projects and the focus should be on completing projects that will contribute most to government's policy of poverty reduction, economic growth and improving industrial capacity utilisation.

(vii) Poor Capital Budget Implementation: Over the years, the appropriated capital vote has never been fully expended leading to extensions of the financial year from December to March of the new year in violation of the Financial Year Act which defines the financial year as the period between January 1 and December 31 of every year. The leadership of MDAs (Ministers and the Accounting officers) apparently treats capital budget implementation with levity. From the figures rolled out by the Minister of Finance for 2012, only N404.1b has so far been released to MDAs and not all of it has been cash backed. The utilization rate at the end of the first quarter was a paltry N94.1b. The utilization rate at the end of the second quarter is not yet publicly available. Apparently, the rate will not be encouraging. Even if the whole sum has been utilized, it is still not a good performance when pitted against the N1.5trillion capital vote for the year. The amount so far released by mid-year is a paltry 27% of the overall capital vote!

In the past, new projects have been admitted into the budget without detailed designs, drawings, specifications and feasibility studies. Votes for construction were included in the budget without acquisition of land or compensation to communities. Indeed, these were some of the challenges of budget implementation identified in the 2009 and 2010 Full Year Budget Implementation Reports.

Recommendation: In collaboration with the legislature, the executive should consider administrative and penal sanctions against accounting officers who sit on their capital votes for no identifiable reason except the well known human integrity and capacity deficit ravaging the country. The Budget Office of the Federation must commit to conduct quarterly budget performance review sessions for MDAs to demonstrate progress on budget implementation involving detailed review of actual performance against the plan. If there are major deviations, the MDA should be required to submit a remediation plan.

The executive through the President and the Minister of Finance must also give Nigerians a guarantee that they will implement the budget as passed by NASS once it is signed into law. This recommendation is coming from the background of accusations by the legislature and denials by the executive that capital budget implementation has been restricted to only those projects that were included in the original executive budget before the input of NASS.

In the exceptional event of very important new projects, they should only be admitted into the budget after detailed designs, drawings, specifications and feasibility studies have been completed. Issues relating to land acquisition should be settled before appropriation for construction.

(viii) Fuel Importation, Subsidy and Local Refining Capacity: The Minister of Finance was reported to have said that government spent over N2.19trillion in fuel subsidy for the year 2011. The Aigboje Aig-Imoukhuede Committee uncovered overpayments to fuel importers amounting to N430b while the House of Representatives Ad-hoc Committee that probed the subsidy stated the subsidy to be about N2.587trillion. And the President has set up another committee to harmonise all the reports so far. Both the government and the people recognize that there is a crisis in this sector but the difference is the disagreement on how to resolve the challenge. Assuming the figure supplied by the Coordinating Minister for the Economy is correct, devoting over N2.1trillion every year for subsidy on imported fuel is not a sustainable option.

FGN through the Minister of Trade was celebrating the signing of a memorandum of understanding for the building of modular refineries with combined capacity of 180,000 barrels a day at the cost of N697.5billion. At this rate, the N2.1 trillion used for fuel subsidy in 2011 can build refineries with daily refining capacities of 540,000 barrels which will be able to satisfy Nigeria's domestic fuel needs. The current subsidy regime exports jobs, fritters away our foreign exchange, reduces our foreign reserves and impoverishes the country.

Recommendation: FGN should invest in new refineries in 2013, even if it may privatise them shortly after they have started full production.

(ix) The Social Sector: Federal budgets over the years have not addressed the issue of adequate funding for the social sector particularly education and health. At no time have our budgets come close to the 26% and 15% of the budget recommended for education and health respectively. If less endowed African countries have been meeting these targets or come close to the targets, Nigerian has no reason for not meeting same.

Recommendation: Dedicate 26% and 15% respectively to education and health. Adequate allocations should be dedicated to women's health, girl child education and the education and health needs of vulnerable groups. Government must however make sure that the funds so appropriated are used judiciously through in-built mechanisms for transparency and accountability.

(x) Illegitimate and Wasteful Expenses: We consider it absurd that a government that wants to make optimum use of available resources should budget billions of naira in refreshment and meals for MDAs. We further consider it improper that when a budget has made provisions for legitimate earnings of civil servants, appointed and elected officers, another subheading for welfare also appears in the budget. What exactly is welfare and to what purpose are these sums applied? It is our view that such appropriation is illegal and unknown to Nigerian fiscal jurisprudence. The welfare of the staff of these agencies is already taken care of in their personnel budget. For instance, the Ministry of Finance has over N260m in refreshments and meals and over N310m in welfare packages. A situation where the Ministry of Petroleum Resources will have budgetary approval of N126m for spectacle advances beats the imagination of every reasonable person. Also, a country having funding constraints like Nigeria should not be spending scarce resources buying all sorts of exotic cars for government officials instead of patronising the local assembly plants. Hundreds of officials are driving very expensive high end Lexus, Toyota, Nissan, SUVs, BMW 7 series, etc as official vehicles. This is not only wasteful; it is immoral and unconscionable.

Travel is another area where government can save money. Almost every senior government official is either flying first class or business class when on official trip locally or overseas. Some of them even use government funds to pay for private travel. This is not sustainable in a country struggling to find money for infrastructure development. There is also the need to prune down on the number of seminars and conferences.

Recommendation: Remove all illegitimate and wasteful expenditure. If there must be a vote for refreshment and meals, it must be reasonable within the context of the level of poverty in our country and the actual needs of the office. Welfare packages must be properly defined and contextualized considering that personnel expenditure has already been included in the budget. Procurement of official vehicles should concentrate on locally made vehicles not exceeding the 2.0 engines. Travel by government officials should be in economy class except very high ranking officials who will be designated by appropriate circulars.

(xi) Budgetary Slush Funds: It appears that the federal budget is filled with apparent slush funds that any reasonable person cannot identify the use to which such votes are to be put. The budget of NAPEP in 2012 is a clear demonstration of such nebulous budgeting. Excerpts include: POVERTY REDUCTION GRANT SCHEME, OYO NORTH SENATORIAL DISTRICT- N222,266,667; POVERTY REDUCTION GRANT SCHEME, OYO SOUTH SENATORIAL DISTRICT- N150,200,000; POVERTY REDUCTION AND EMPOWERMENT SCHEME IN BAYELSA WEST SENATORIAL DISTRICT- N222,266,667; POVERTY ALLEVIATION PROGRAMME FOR CROSS RIVER CENTRAL SENATORIAL DISTRICT-N222,200,000; POVERTY ALLEVIATION PROGRAMME FOR CROSS RIVER SOUTH SENATORIAL DISTRICT - N222,266,667; POVERTY ALLEVIATION PROGRAMME FOR CROSS RIVER CENTRAL SENATORIAL DISTRICT, CROSS RIVER STATE- N250,000,000. There are no details and specific activities for these allocations and how do you monitor a vote whose purpose is unknown to you?

Recommendation: All votes in the budget must be for specific and identifiable purposes and this should not just be known to MDA officials alone but known to the public through the way and manner it is stated in the budget.

(xii) The Concept of Poverty Reduction: It appears from the 2012 and previous budgets that there is a misconceived understanding of poverty. Previous efforts like buying tricycles, pepper, corn grinding and sewing machines or sinking new boreholes in communities with a surfeit of boreholes previously sunk by agencies such as DFRRI, UNICEF, local governments, etc have not been able to lift Nigerians out of poverty. The implication of this is that the efforts are not people focused and the palliative measures are yet to respond to the needs of the people.

Recommendation: Poverty reduction should be an inclusive and holistic exercise which should address issues such as the educational system that produces graduates without skills that are relevant to the economy, empowering skilled graduates with entrepreneurial education and seed capital, harmonizing and streamlining trade, fiscal and monetary policies to spur local production of goods and services and above all plugging the leaking pipes of corruption which divert money meant for infrastructure and social services.

(xiii) Local Needs versus Federal Priorities: Previous budgets have been suffused with federal priorities which have no connection with the needs of the local population. For instance, the 2012 budget (Ogun-Osun River Basin Development Authority) has provisions for 5No hand-pump boreholes in each of the 24 federal constituencies of Lagos State. The posers are many. Did the people of Lagos State request for hand-pump boreholes when there are tens of abandoned hand pump boreholes scattered around Lagos? How do you reconcile these boreholes with the efforts of the Lagos State Water Corporation to bring portable water to the doorsteps of all Lagosians? This is clearly a waste of resources. Should it be the business of the FGN to provide solar powered street lights which will only work for less than six months, get bad and there will be no follow-up vote for maintenance? Schedule Four of the 1999 Constitution clearly leaves this task not even for state governments, but for local government councils.

Recommendation: Such local projects should either be undertaken in collaboration with state and local governments or grants should be given to the lower tiers of government to construct them. This will enable the local governments to budget for their maintenance in subsequent years.

(xiv) Debt Limitation: The Fiscal Responsibility Act in section 42 (1) provides that:

> *The President shall, within 90 days from the commencement of this Act and with advice from Minister of Finance subject to approval of National Assembly, set overall limits for the amounts of consolidated debt of the Federal, State and Local Governments pursuant to the provisions of items 7 and 50 of Part I of the Second Schedule to the Constitution and the limits and conditions approved by the National Assembly, shall be consistent with the rules set in this Act and with the fiscal policy objectives in the Medium-Term Fiscal Framework.*

Almost five years since the coming into force of the FRA, nothing has been done to activate this section and our domestic debt has been increasing in geometric proportions while the latest proposal by the President for foreign borrowing in the sum of $7.9billion will more than double our foreign debts. With total national debts in excess of N6.5trillion and likely to exceed N11trillion in the next three years, there is an urgent need for the setting of the limits. This provision of the FRA offers the nation a safe window to negotiate the limitation of indebtedness and borrowing and chart a new course towards sustainable expenditure.

Nigerians have never sighted any Cost Benefit Analysis (CBA) of projects funded through borrowing. The FRA requires a CBA to be prepared before the approval of any

borrowing for a project. Further, most of our borrowing (including domestic borrowing) has not been specifically tied to capital and developmental projects.
It is painful that government agencies take credit from IDPs like the World Bank to buy furniture, cars, laptops etc instead of putting money in projects that will enhance efficiencies or improve the lives of the people.

Recommendation: The Minister of Finance should immediately set machinery in motion for the delimitation of federal, state and local government debts. CBAs should be prepared and made available to the public for any project to be funded with the proceeds of borrowing. Indeed, new borrowing should be tied to specific identifiable projects to allow Nigerians follow up on the progress of work and be able to compare same with the quantum of resources borrowed. Borrowed funds should be invested in regenerative expenditure that will grow the economy, build capacities and enhance efficiencies so that Nigeria will be in a position to pay back when it is due.

(xv) Executive - Legislative Relationship: Every year, Nigerians are regaled with stories of projects being “smuggled” in by the legislature into the budget during the legislative budget consideration. Capital budget implementation also faces the dichotomy of projects originally conceived by the executive and those later introduced by the legislature. It appears that the engagement between the executive and the legislature does not start early enough to resolve all the grey areas before the President submits the budget to NASS.

Recommendation: Now is the time to start the executive legislative engagement so that by the time the budget is submitted to NASS, all areas of disagreement have been resolved and the budget will have a smooth passage.

(xvi) Secrecy Surrounding Statutory Transfers and Freedom of Information Issues: Unlike the estimates of other MDAs including the Presidency, the budget of agencies enjoying statutory transfers are stated as lump sums with no details showing the components of the lump sums and how the Ministry of Finance arrived at these figures. Due to the way these statutory transfers are stated as lump sums, Nigerians have been denied the opportunity of making inputs into the approval process of the budgets of these agencies of government. This is not acceptable in a constitutional democracy founded on the rule of law and the sovereignty of the people. Indeed, no agency of government, under any guise, should be allowed to spend public resources in a way and manner and for purposes not known to citizens. This is against the letters and spirit of the right to information guaranteed all Nigerians by the Freedom of Information Act and by section 48 (1) of the Fiscal Responsibility Act which requires the Federal Government to ensure that its financial and fiscal affairs are conducted in a transparent manner and accordingly ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances.

Also, the Freedom of Information Act (FoIA) mandates sixteen categories of “proactive disclosure” in the public sector, including the pay, allowances and emoluments of all public officials. This is being resisted by the public sector.

Recommendation: The budget of all agencies enjoying statutory transfers should be disaggregated. They include the National Judicial Council, National Assembly, Niger Delta Development Commission, Universal Basic Education, Independent National Electoral Commission and the National Human Rights Commission. Transparency and accountability should be the watch-word from now on.

The sixteen mandatory disclosures need to be implemented and this can be included in issues required of MDAs to report in budget implementation reports. Without it, we will be unable to know how much of public money is filched and wasted this way.

(xvii) Crude Oil Theft: FGN has acknowledged that we are losing about 180,000 barrels of crude oil a day. At an average price of $100 per barrel, this amounts to $18m a day. Converted to the naira, it amounts to N2.888b a day and in a year, over N1trillion budgetary resources is lost to a gang of criminals. This organized crime cannot be ongoing without the collaboration of government officials. The nation cannot afford the continuation of this magnitude of stealing at a time Nigerians are being asked to make sacrifices to stabilize the economy.

Recommendation: FGN should take immediate and urgent security action and steps to stop the oil theft.