MISSING LINKS

(Report on the Implementation of the Fiscal Responsibility Act in the 2013 Financial Year)

Centre for Social Justice (CSJ)

(Mainstreaming Social Justice In Public Life)

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ABBREVIATIONS AND ACRONYMS

AMCON	*Asset Management Corporation of Nigeria*
BN	Billions
BOF	Budget Office of the Federation
BPP	Bureau of Public Procurement
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
CIT	Company Income Tax
CKD	Completely Knocked Down
CRF	Consolidated Revenue Fund
CSOs	Civil Society Organizations
CWP	Citizens Wealth Platform
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECA	Excess Crude Account
ETF	Education Trust Fund
EXCoF	Eexcutive Council of the Federation
FAAC	Federation Account Allocation Committee
FAAN	Federal Airport Authority of Nigeria
FCSC	Federal Civil Service Commission
FCT	Federal Capital Territory
FCTA	Federal Capital Territory Administration
FGN	Federal Government of Nigeria
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FRC	*Fiscal Responsibility Commission*
GDP	Gross Domestic Product
ICPC	*Independent Corrupt Practices and other Related Offences Commission*
IGR	Internally Generated Revenue
IMF	International Monetary Fund
LGAs	Local Government Areas
LIC	Low Income Countries

MBPD	Million of Barrels Per Day
MDAs	Ministries, Departments and Agencies of Government
MDGs	Millennium Development Goals
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
MTEF	Medium Term Expenditure Framework
MTSS	Medium Tem Sector Strategy
NAC	National Automotive Council
NAFDAC	National Agency for Food and Drug Administration Control
NAMA	Nigerian Airspace Management Agency
NASEI	National Agency for Science and Engineering Infrastructure
NASS	National Assembly
NBC	Nigerian Broadcasting Commission
NBS	National Bureau of Statistics
NBTEB	National Business and Technical Examination Board
NCAA	Nigerian Civil Aviation Authority
NCC	Nigerian Communication Commission
NCS	Nigerian Customs Service
NDDC	Niger Delta Development Commission
NDIC	Nigeria Deposit Insurance Corporation
NERC	Nigerian Electricity Regulatory Commission
NIMASA	Nigerian Maritime Administration and Safety Agency
NIP	National Implementation Plan
NIPOST	Nigerian Postal Service
NIS	Nigerian Immigration Service
NITEL	Nigerian Telecommunication
NJC	National Judicial Council
NNPC	Nigerian National Petroleum Commission
NOA	National Orientation Agency
NOSDRA	National Oil Spill Deletion and Response Agency
NPA	Nigerian Ports Authority
NPC	National Population Commission
NSC	Nigerian Shippers Council

NSDC	National Sugar Development Council
NSIA	Nigeria Sovereign Investment Authority
NSITF	Nigerian Social Insurance Trust Fund
NTDC	Nigerian Tourism Development Commission
OAGF	Office of the Accountant-General of the Federation
PIB	Petroleum Industry Bill
PPP	*Public Private Partnership*
RCP	Reference Commodity Price
RMRDC	Raw Material Research and Development Council
SEC	Securities and Exchange Commission
SWF	Sovereign Wealth Fund
UBE	Universal Basic Education
UBEC	Universal Basic Education Commission
USD	US Dollar
VAT	Value Added Tax

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Chapter One

INTRODUCTION

1.1 BACKGROUND

Laws and policies are made as a means to an end. They are made to protect higher societal goals and in most instances, they are enacted to enhance human welfare within the construct of the social contract. The Fiscal Responsibility Act (FRA) and its policies were made to increase transparency and accountability in fiscal governance, integrate policies, planning and the budgeting process to achieve maximum economic growth and development. The FRA as a means to an end seeks to manage prudently the fiscal risks facing the state, reduce debt to sustainable levels, maintain macroeconomic stability and predictability, and achieve levels of state net worth to provide buffers against adverse future events. It also seeks to guarantee the implementation of high level government policies in a way and manner that realises their goals.

The obvious end of sound fiscal management is the operationalisation of the axiom that the security and welfare of the people is the primary purpose of government. The quest is how to guide the budget, fiscal and monetary policies to reflect the ultimate social ends encapsulated in various domestic laws and policies and ratified regional and international standards. This will introduce a definite rights-based approach to budgeting and the need for social impact analysis of proposed programmes. Fiscal responsibility translated into social responsibility will guarantee that the state meets its minimum core obligations to satisfy at least basic subsistence rights for all.

Law as an instrument of social engineering seeks to resolve social conflicts inherent in human existence. It also has the utilitarian approach of promoting the greatest welfare and happiness for the greatest number of citizens and residents in Nigeria. Law has also been stated to be the command of the sovereign backed by sanctions. The long title to the Act states that it was made as a law to provide for the prudent management of the nation's resources, ensure long term macroeconomic stability of the national economy, secure greater transparency and accountability 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. Essentially, the Fiscal Responsibility Commission (FRC) has been established but what else has happened since then?

If per chance, the fiscal authorities fail in the realisation of the first premises of increased prudence, transparency and accountability and the resultant macroeconomic stability, then the promise of life in larger freedom promised through enhanced social goals will not materialise. It is on this premise that this Report seeks to ask pertinent questions and draw the inescapable conclusions.

1.2 OBJECTIVES

It has been six years since the FRA came into force and this Report based on the long title to the Act seeks to interrogate the following:

- Whether the nation's resources have been prudently managed within the fiscal framework;

- Whether there is long term macroeconomic stability of the national economy or whether concrete steps have been taken in that direction;

- Whether there has evolved greater transparency and accountability in government's fiscal operations;

- Whether the nation's economic objectives are being promoted in the implementation of the Act.

Specific issues for resolution by this Report include whether we have improved the quality of Medium Term Expenditure Frameworks prepared over the years. What is the state of the budgeting process? Compared to the period before the FRA, are Nigeria's debts now more sustainable over the short, medium and long terms? This Report will provide answers to these and many more posers.

1.3 METHODOLOGY

This 2013 Report promises to continue in the tradition of previous reports, to provide insights into an area of governance that is seen by the public as the farm for technocrats and very numerate academics. This is the fifth Fiscal Responsibility Report to be prepared and published by Centre for Social Justice coming after *Obedience in the Breach* (1999); *Sinking Deeper* (2010); *Continuation of the Norm* (2011); *Movement in a Barber's Chair* (2012). The basic approach is to review published literature and draw conclusions from them against the background of extant laws and policies. The literature reviewed includes those from the Ministry of Finance, Budget Office of the Federation, Central Bank of Nigeria, Debt Management Office, National Assembly, Fiscal Responsibility Commission, academics and fiscal scholars and the popular media.

1.4 BRIEF SUMMARY

Chapter One is the introduction, which discusses the basis for the Report and the objectives, methodology and brief summary. Chapter Two deals with the 2013 budget and its implementation; it starts with the budget passage and approval and the timelines and disaggregation of the budget proposals. It reviews the budget as passed by the National Assembly (NASS) and subsequent amendment of the budget. Issues of transparency, accountability and standards in the budgeting process were discussed and the absence of the Annual Cash Plan and the Budget Disbursement Schedule, timing and preparation of budget implementation reports. It further reviews accruals and disbursements from the Excess Crude Account. The Chapter also deals with oil and non-oil revenue forecasts and the actual accruals. It reviews capital budget implementation through the quarters.

Chapter Three is on borrowing and debt management, focusing on conclusions of the Debt Sustainability Analysis of 2013 and the Debt Management Office (DMO) Annual Report of the same year. It reviews the three scenarios used by the Debt Sustainability Analysis (DSA) namely, the baseline, the optimistic and the pessimistic scenarios. It reviews the outstanding debt at the end of December 2013 and questions the sustainability of Nigeria's public debts in view of the double digit growth in debt procurement. Domestic debt instruments, holders and maturity, sub-national debts and total public debt service and a few recommendations close the Chapter.

Chapter Four analyses the Medium Term Expenditure Framework (MTEF) 2014-2016. In the preliminary issues, the Report discusses the timing of the MTEF, the absence of Medium Term Sector Strategy (MTSS) and sectoral envelopes. The macroeconomic framework comes next and interrogates whether the MTEF properly articulated the key components of macroeconomic projections for the next three years and their underlying assumptions and evaluation and analysis of the macroeconomic projections for the preceding three financial years. It reviews the projected oil and non-oil revenue. The Fiscal Strategy Paper (FSP) reviews *inter alia* the constant mantra of diversification of the economy and fiscal consolidation. The revenue and expenditure framework, debt and debt service, contingent liabilities and quasi fiscal activities are reviewed in the Chapter.

Chapter Five is focused on the 2014 Appropriation Bill and its relationship with the FRA. It notes the absence of an evaluation of the results of programmes financed with budgetary resources in the previous year. It reviews the detailed components of the budget proposal, its macroeconomic framework and the propriety of the allocations to the various sectors. It reviews capital and recurrent expenditure and compares provisions for debt service, retained revenue and capital expenditure.

Chapter Six is on special issues and the challenge of fiscal governance. This deals with major fiscal issues that happened in the year aside from the MTEF and the budget. Chapter Seven is on the conclusions and recommendations.

Chapter Two

THE 2013 BUDGET AND ITS IMPLEMENTATION

2.1 INTRODUCING THE 2013 BUDGET

Recognising the fact that the 2012 budget was passed late, the Minister of Finance and Coordinating Minister for the Economy (CME), during the presentation of the 2013 budget reflected on the implementation of the 2012 budget as follows:

> *"Before I discuss the 2013 Budget, let me briefly summarize the outcomes of the 2012 Budget. As you may recall, the 2012 Budget was approved late, and so implementation occurred over a compressed time schedule. However, we succeeded in releasing N1,017 billion for the implementation of various capital projects, and successfully cash-backed N739 billion. By the end of 2012, MDAs had utilized N686 billion or 92.8 per cent of the total amount cash-backed*"[1].

The traditional delay in the presentation and approval of the federal budget negates the need for timely budgetary actions. However, the President on the 10th of October, 2012 presented the 2013 budget proposal to the National Assembly (NASS), and the Legislature passed the budget on 20th December, 2012. This was a commendable feat as it was the first time in recent years that NASS passed the budget before the beginning of the fiscal year. However, the budget did not receive presidential assent until February 26th 2013. The approved 2013 budget was reviewed and followed by an Amended Appropriation passed on 25th July, 2013 and assented to in August 2013.

2.2 THE TIME LINE AND BUDGET DETAILS

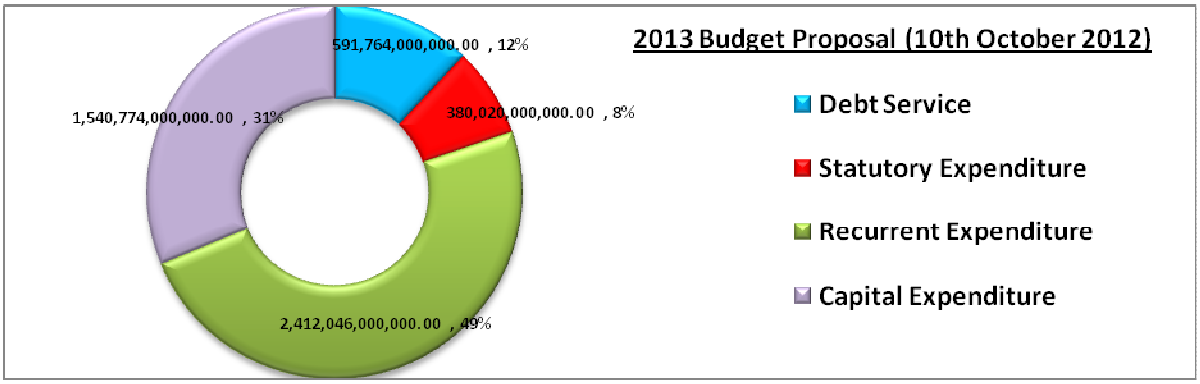
On 10th October 2012, President Goodluck Jonathan presented the 2013 budget proposal to the joint session of NASS. The 2013 Budget was designed to promote the continuity of the four main pillars on which the 2012 Budget was based namely; macroeconomic stability, structural reforms, governance and institutions and investing in priority sectors. It was captioned a budget of ***fiscal consolidation with inclusive growth***"[2]. The budget proposal had a total aggregate expenditure of

[1] Overview of the 2013 Budget by Dr. Ngozi Okonjo-Iweala on 7th March 2013.

[2] From the Public Presentation of the Federal Government 2013 Budget by Dr. Bright Okogu (DG BOF) on 7th March, 2013. The priorities of the 2013 Budget include; Reduce cost of governance; Restructuring the budget in favour of capital expenditure; Extension of IPPIS to more MDAs; Commence implementation of the Oronsaye report while we await the "White Paper"; Debt management/sinking fund – retiring maturing obligations; Focus on infrastructure especially ongoing

N4,924,604,000,000 (N4.924trillion); comprising of N380,020,000,000 (N380bn) for statutory transfers, N591,764,000,000 (N591.76bn) for debt service, N2,412,046,000,000 (N2.412 trillion) for recurrent expenditure and N1,540,774,000,000 (N1.540 trillion) for capital expenditure. On the key anchoring assumptions; the projected GDP growth rate for 2013 was 6.5%, different from the 6.85% earlier proposed in the MTEF-Fiscal Strategy Paper. Oil price benchmark was set at $75/pb; a slight increase from the $72/pb approved in 2012. Oil production was set at 2.53mbpd; an increase of 2.02% from the 2.48mbpd projected for 2012. Exchange rate was pegged at N160 per dollar. Figure 1 below shows the composition of the 2013 proposed budget:

Figure 1: Components of the Proposed 2013 Budget (N'bn)



Source: Budget Office of the Federation (BOF)

The N4.924trillion proposed for 2013 is 4.8% more than the N4.697trillion appropriated for 2012. The 2013 budget proposal conspicuously omitted the provision for fuel subsidy, an indication that suggests that perhaps the government may fully remove the subsidy in 2013. The National Assembly reviewed the 2013 budget proposal and returned the approved version to the Executive before departing for the Christmas recess. On 20th December, 2012, the NASS passed the 2013 Appropriation Bill. Despite the budget being passed by the NASS on time, presidential assent was delayed due to a misunderstanding over differences between the estimates proposed by the Executive and the one passed by the Legislature.

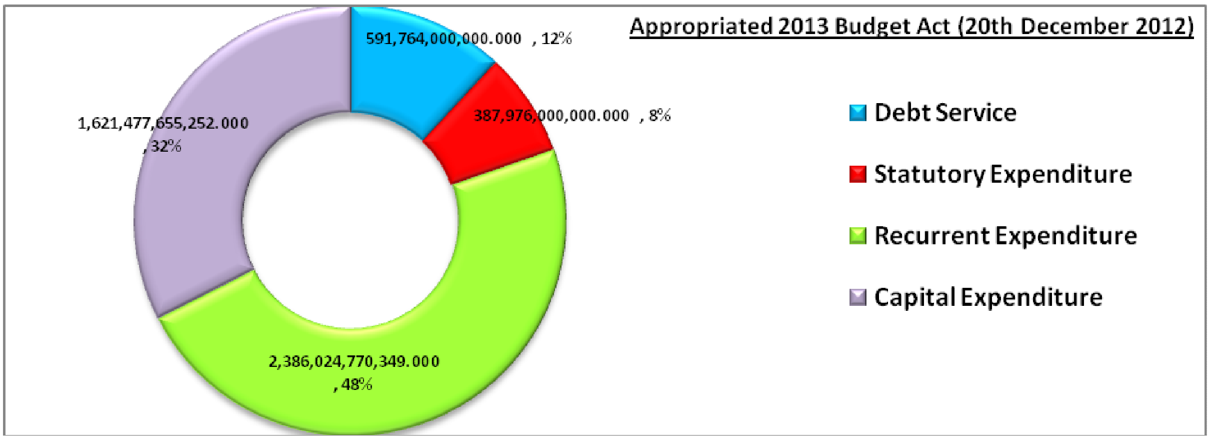
> *At the beginning of 2013, when the executive reviewed the National Assembly's version, there were several challenges which had to be revisited. There were three main challenging areas, namely: reductions in the wage bill, major capital expenditures which had been re-allocated, and reallocations of the budget for the SURE-P programme[3].*

capital projects; Job creation through (a) reducing infrastructure challenges (b) YouWin, SURE-P, etc; Fiscal measures to promote domestic industry and create employment; Supporting gender programmes and sporting activities.

[3] Overview of the 2013 Budget by Dr. Ngozi Okonjo-Iweala on the 7th of March 2013.

On 26th February 2013, President Goodluck Jonathan assented to the 2013 budget. However, the Legislature inserted some clauses in the budget to guide the Executive on its implementation. One of such clauses was that all the unutilised capital expenditure components of the 2012 Appropriation Act should be rolled over and should be construed to form part of the 2013 Appropriation Act, "provided that the unutilised capital expenditure components of 2012 budget shall lapse on the 12th day of April, 2013." The Appropriation Act of 2013 had an estimated expenditure of N4,987,220,425,601; that is 1.27% higher than the proposed budget aggregate. Of this sum, N591,764,000,000 was allocated to debt service as it was in the proposal, N387,976,000,000 was set aside for statutory expenditure; 2.09% more than the proposed figure of statutory expenses. Recurrent expenditure had a total of N2,386,024,770,349; 1.08% less than the figure in the proposal while capital expenditure in the Appropriated 2013 budget had a total allocation of N1,621,477,655,252; 5.24% higher than the proposed figure. SURE-P in the Appropriated Budget had a total allocation of N273,520,000,000[4]. The Appropriation Act was based on the following assumptions; oil price benchmark at $79/pb; 5.33% higher than the $75/pb proposed, oil production was benchmarked at 2.526million barrels per day, exchange rate at N160/$, inflation rate at 12.9%, and the GDP growth rate of 6.5%. Figure 2 below shows the composition of the 2013 Appropriation Act.

Figure 2: Components of the Appropriation Act 2013 (N'bn)



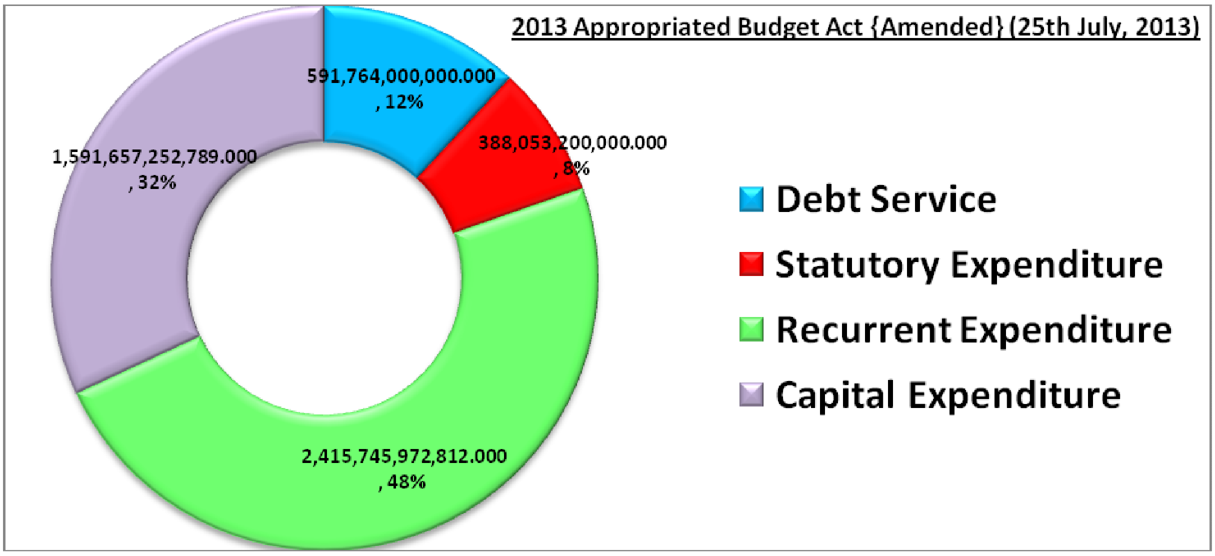
Source: Budget Office of the Federation (BOF)

On 25th July, 2013, the NASS passed the 2013 Appropriation (Amendment) Act ending the eight-month controversy surrounding the 2013 budget. The passage of the bill came the same day the Presidency reiterated its commitment to the submission of the 2014 Appropriation Bill early enough to enable NASS pass it before the end of 2014. The Amended Appropriation received presidential assent in the first week of August, 2013. The total budget of N4,987,220,425,601, as passed by both chambers, consists of N2,415,745,972,812 as recurrent expenditure and N1,591,657,252,789 as

[4] The Subsidy Reinvestment and Empowerment Programme (SURE-P) has a projected allocation of N180bn for 2013 plus N93.5bn unspent balance of 2012.

capital expenditure; debt servicing was allocated the sum of N591,764,000,000, while statutory transfers in the 2013 amended bill, was allotted N388,053,200,000. On the differences between the Amended Appropriation and the Appropriation Act; there was no difference in the allocation to debt servicing. Statutory allocation in the amended appropriation was 0.02% higher than the Appropriation Act, while recurrent expenditure increased by 1.25% in the Amended Appropriation. However, the capital expenditure dropped by -1.84%, in the Amended Act. The assumptions of the Amended 2013 Appropriation Act remained the same as the Appropriation Act for the year. Figure 3 below shows the budget composition of the 2013 Amended Appropriation Act.

Figure 3: Components of the Amended Appropriation Act 2013 (N'bn)



Source: Budget Office of the Federation (BOF)

It is important to note that capital expenditure accounted for only 32% of the entire budget. Though 1% higher than the 2012 figures, it is not sufficient for Nigeria given the existing infrastructural deficit across the country. To revamp infrastructural provision and bridge the deficits, it is expected that the allocation to capital expenditure increases to a minimum of 40% of the entire budget. Against the 11% allocated to debt service in 2012, debt service increased to 12% in 2013. The increasing allocation to debt repayment shows the need to call for a moratorium on new debts or the use of debt for only strategic economic and infrastructural investments. Statutory expenditure like in 2012, all through the 2013 budget versions remained at 8% of the entire budget; while the recurrent expenditure (non-debt) covering the personnel and overhead costs accounted for 48% of the entire budget as shown in the Figure 3 above. The recurrent (non-debt) expenditure took the bulk of the budget and remains unchecked as the cost of governance continued to escalate despite the reports of various technical committees set up by the Presidency to review the structure and operations of MDAs so as to reduce the cost of governance. To ensure that capital expenditure gets what is expected of it and to bridge the infrastructure gap, the recurrent expenditure needs to be downsized. While the recommendations of technical committees on the restructuring of MDAs are overdue for implementation, fiscal challenges reveal the lack of transparency and accountability in the budgeting process. Also, the budget needs to be sanitised against wasteful line items.

Table 1 below shows the tabular comparison between the proposed, appropriated and the amended 2013 budgets.

Table 1: Budget Appropriation, Expenditure Composition and Key Assumptions

	2013 Budget Proposal (10th October 2012) ₦	Appropriated 2013 Budget Act (1st Passed – 20th December 2012) ₦	2013 Appropriated Budget Act {Amended} (Passed by NASS – 25th July, 2013) ₦
Total Expenditure	**4,924,604,000**	**4,987,220,425,601**	**4,987,220,425,601**
Debt Service	591,764,000,000	591,764,000,000	591,764,000,000
Statutory Expenditure	380,020,000,000	387,976,000,000	388,053,200,000
Recurrent Expenditure	2,412,046,000,000	2,386,024,770,349	2,415,745,972,812
Capital Expenditure	1,540,774,000,000	1,621,477,655,252	1,591,657,252,789
SURE-P	-	*273,520,000,000*[5]	*273,520,000,000*[6]
Key Assumptions			
	2013 Budget Proposal (10th October 2012)	**Appropriated 2013 Budget Act (20th December 2012)**	**2013 Appropriated Budget Act {Amended} (25th July, 2013)**
Oil Price Benchmark *($/barrel)*	75	79	79
Oil Production Benchmark *(mbpd)*	2.526	2.526	2.526
Exchange Rate *(N/$)*	160	160	160
Inflation Rate *(%)*	12.9	12.9	12.9
Budget Deficit/GDP *(%)*	1.85	1.85	1.85
GDP Growth Rate *(%)*	6.5	6.5	6.5
Retained Revenue *(N'bn)*	4,100.18	4,100.18	4,100.18

Source: Appropriated Budgets for 2013 (BOF)

Observing the variances between the proposed, appropriated and amended budgets, no significant changes in the budget allocation is evident; aside from the omission of the SURE-P in the proposed 2013 budget, which somewhat suggests the fact that the subsidy intervention scheme was a spontaneous response to the crisis generated by the earlier attempt to remove fuel subsidy. The subsidy intervention seems to lack proper think-through, design and structural functionality. The other obvious case is the difference in the oil price benchmark; the traditional point of argument between the Executive and the Legislature. This waste of time in the budget approval process flawed the applause of the early passage on December 20th, 2012 and disrupted the reporting standard as well as the harmony in the preparation of the budget implementation report. The first and second quarter reports which spanned from January to June were based on the Appropriation Act as passed on 20th December

[5] The Subsidy Reinvestment and Empowerment Programme (SURE-P) has a projected allocation of N180bn, augmented by the 2012 unspent balances of N93.5bn

2012, while the implementation reports for the third and final quarters were based on the Amended Appropriation as passed on 25th July and signed in August 2013. Such reporting brings confusion and questions credibility of the budgeting process.

The consequence of the unnecessary delay in the arrival of the 2013 budget includes *inter alia*, poor implementation of capital projects. The first quarter of 2013 was wasted, recording a zero utilisation rate for capital projects across all the ministries, even when personnel salaries and overheads were expended. The First Quarter Budget Implementation Report states that:

> *"The implementation of recurrent expenditures in the first quarter remained largely on track. A total of N335.95 billion out of the N405.37 billion projected for capital budget implementation in the first quarter had been released to MDAs as at March 2013. Of this, N335.63 billion had been cash-backed but no utilization was made by MDAs before 31st March, 2013 which was the end of the first quarter".*[6]

2.3 ISSUES OF TRANSPARENCY, ACCOUNTABILITY, AND STANDARDS IN THE BUDGET PROCESS

2.3.1 Annual Cash Plan and Disbursement Schedule

In the appraisal of the fiscal year and budget performance in Nigeria, the absence and lack of disclosure of the Annual Cash Plan have been cited[7] as part of the major setback towards optimal budget execution. Sections 25 and 26 of the FRA require the preparation of the Annual Cash Plan by the Accountant-General of the Federation, and a Disbursement Schedule by the Minister of Finance. Subsections (1) and (2) of Section 25 state that:

> *(1) The Federal Government shall cause to be drawn up in each financial year, an Annual Cash Plan which shall be prepared by the office of the Accountant-General of the Federation.*
>
> *(2) The Annual Cash Plan shall be prepared in advance of the financial year setting out projected monthly cash flows and shall be revised periodically to reflect actual cash flows.*

Section 26 requires specifically that the Disbursement Schedule be prepared by the Minister of Finance within 30 days of the enactment of the Appropriation Act.

[6] Budget Office of the Federation (BOF): First Quarter Budget Implementation 2013 at page 30
[7] *Continuation of the Norm* (Report on the Implementation of the Fiscal Responsibility Act in the 2011 Financial Year) Pp 9; *Sinking Deeper* (Report on the Implementation of the Fiscal Responsibility Act in the 2010 Financial Year) P. 11; *Obedience in the Breach* (Report on the Implementation of the Fiscal Responsibility Act in the 2009 Financial Year) P. 17.

The Minister, shall within 30 days of the enactment of the Appropriation Act, prepare and publish a Disbursement Schedule derived from the Annual Cash Plan for the purpose of implementing the Appropriation Act.

However, after the assent to the 2013 Appropriation Act, and the Amended Appropriation in August 2013, neither the Annual Cash Plan nor the Disbursement Schedule was published or made public to the Nigerian people.

2.3.2 Timing and Preparation of Budget Implementation Reports

The FRA states as follows:

S.30 FRA. (1) The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the Annual Budget, assess the attainment of fiscal targets and report thereon on a quarterly basis to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly.
(2) The Minister of Finance shall cause the report prepared pursuant to subsection (1) of this section to be published in the mass and electronic media and on the Ministry of Finance website not later than 30 days after the end of each quarter.

The above provision of the FRA requires the Minister of Finance to conduct monitoring and evaluation exercise of budget implementation on a quarterly basis, and to make the results of the exercise available to the public. While the Ministry had overtime made efforts in preparing budget implementation reports; its content, comprehensiveness and timeliness fall short of expectations. A review of the quarterly implementation reports for 2013 shows that the BIRs were not prepared on time and were not available on the website of the MOF[8] within 30 days after the reporting quarter as required by the FRA. For instance, the Fourth Quarter and Consolidated BIR for 2013 was made available to the public through the website of the budget office in June 2014. That was six months after the implementation quarter; 180 days after the reporting quarter. Such delay in the monitoring, evaluation and reporting of the implementation of the annual budget keeps the nation in the dark as to the performance of the economy, fiscal policies and sectoral outcomes. Such delays in reporting limits the available information required for subsequent planning especially when a GDP rebasing exercise had been carried out to serve as a developmental planning compass for the nation. On the issue of content; the poor quality of budget implementation reporting in 2013 shows a lack of standards in reporting. The first quarter report was provisional, lacking any reportage on physical capital project visits. The third and fourth quarter implementation reports claimed that the MoF along with CSOs carried out field visits to capital project sites. But the reports did not state the basis of project selection.

[8] Through the website of the Budget Office of the Federation (BOF)

2.3.3 Withdrawals from the Excess Crude Account

The Excess Crude Account (ECA) was set up as a stabilisation and savings account. Nigeria experienced significant revenue reduction in the 2013 fiscal year. This led to massive withdrawals from the ECA to augment the depletion in revenue. According to the Consolidated BIR, FGN withdrew a total of N1.99trillion from the ECA in the 2013 fiscal year owing to inability to meet revenue targets. The withdrawals for 2013 were 3.86% lower than the N2.07trillion withdrawn in 2012; that is by N80bn lower. Of the N855.41bn transferred into the ECA in 2013, N1.997trillion was withdrawn setting the account for the year at a deficit of –N1.141trillion. Table 2 presents the ECA inflows and withdrawals.

Table 2: Excess Crude Account

Description	2012 Actual (N'bn)					2013 Actual (N'bn)				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Jan-Dec	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Jan-Dec
Inflows	**847.91**	**440.96**	**545.08**	**474.8**	**2,308.75**	**400.92**	**273.15**	**181.34**	**156.03**	**855.41**
Transfer to Excess Crude Oil Account	847.91	440.96	545.08	474.80	2,308.75	400.92	273.15	181.34	156.03	855.41
Outflows	**831.4**	**194.15**	**212.75**	**828.39**	**2,066.69**	**606.12**	**651.47**	**228.67**	**510.98**	**1,997.24**
Payment for Petroleum Products Subsidy	149	29	21	284	483.00	50	110	110	253	505
Augmentation Distribution among Tiers of Govt.	674.11	165.15	154.87	398.98	1,393.11	485.02	434.82	12.02	154.75	1,086.61
Transfer for Special Intervention Fund (SIF)	8.29	0	36.88	145.41	190.58	71.1	106.65	106.65	121.23	405.63
Net Excess Crude Account	**16.51**	**246.81**	**332.33**	**-353.59**	**242.06**	**-205.2**	**-378.32**	**-47.33**	**-354.95**	**-1,141.83**

Source: Office of the Accountant General of the Federation: 4th Quarter BIR

The net ECA in the first three quarters was at a negative even before the amendment of the Appropriation Act in August. Inflows into the ECA in the fourth quarter of 2013 amounted to N156.03bn. The inflow into this account in the fourth quarter was lower than the N181.34bn and N474.8bn recorded in the third quarter of 2013 and fourth quarter of 2012 by N25.31bn and N318.77bn, respectively. The total inflow for 2013 was lower than the N2.30trillion received in 2012 by N1.297tn (or 56.2%). The report stated that of the N1.99trillion withdrawn in 2013, N1.08 trillion was used to augment statutory revenue to the three tiers of government, while N505bn was used for the payment of subsidies on petroleum products. It added that the balance of N405.6bn was transferred into the Special Intervention Fund (SIF).

Giving a breakdown of how the N1.08trillion revenue was shared among the three tiers of government, the report stated that N485.02 billion was withdrawn in the first quarter of 2013. For the second, third and fourth quarters, the report put the augmentation made to the three tiers of government at N434.82bn, N12.02bn and N154.75bn, respectively. On how the payment for petroleum subsidy was made, it stated that N50bn was paid to oil marketers in the first quarter, while the second, third and fourth quarters had N110bn, N110bn and N235bn paid, respectively. For transfers into the SIF, the report stated that N71.1 billion was moved into the account in the first quarter, while N106.65bn, N106.65bn and N121.23bn were paid into the account in the second, third and fourth quarters respectively.

2.4 REVENUE FORECAST VERSUS THE ACTUAL

The sum of N4,100.18bn was projected to fund the federal budget - a quarterly share of N1,025.05 billion was anticipated. As at December 2013, the actual revenue of the federal government was N3,077.23bn, lower than the projected N4,100.18bn indicating a shortfall of N1,022.95bn. None of the quarterly budget actual inflows met the quarterly target of N1,025.06 billion.

Table 3 below shows the inflow into the Consolidated Revenue Fund.

Table 3: Inflows to the 2013 Federal Budget as at December 2013

	2013 Budget		2013 Actual				
Items	***Annual***	**Quarterly**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**4th Qtr**	***Annual***
Inflow for the Federal Budget (CRF)	***N'bn***	**N'bn**	**N'bn**	**N'bn**	**N'bn**	**N'bn**	***N'bn***
FGN Share of Oil Revenue	***2,354.77***	588.69	469.40	529.17	487.58	510.08	***1,996.24***
FGN Share of Non-Oil Revenue	***1000.46***	250.11	148.24	155.12	291.28	166.26	***760.90***
FGN Share of Value Added Tax (VAT)	***127.05***	31.76	24.94	26.03	26.13	29.84	***106.93***
FGN Share of Customs	***412.42***	103.00	49.59	43.87	43.95	57.70	***195.11***
FGN Share of Company Income TAX (CIT)	***457.04***	114.31	73.72	85.22	221.20	78.72	***458.86***
FGN Share of Actual Balance in Special A/C	***3.94***	0.99					
FGN Independent Revenue	***455.78***	113.95	65.03	17.19	150.47	41.68	***274.37***
FGN Balances of Special A/C as at Dec 2012	***28.02***	7.01		21.00			***21.00***
Unspent Balance from Previous Fiscal Year	***261.21***	65.30	22.86	0.06	0.20	1.61	***24.73***
Sub-Total	**4,100.24**	**1,025.06**	**705.53**	**722.54**	**929.53**	**719.63**	***3,077.23***

Source: 4th Quarter Budget Implementation Report, 2013

The reasons for the shortfall in the actual against the projected sums can be explained by a partitioned analysis of the oil and non-oil revenue components.

2.4.1 Oil Revenue

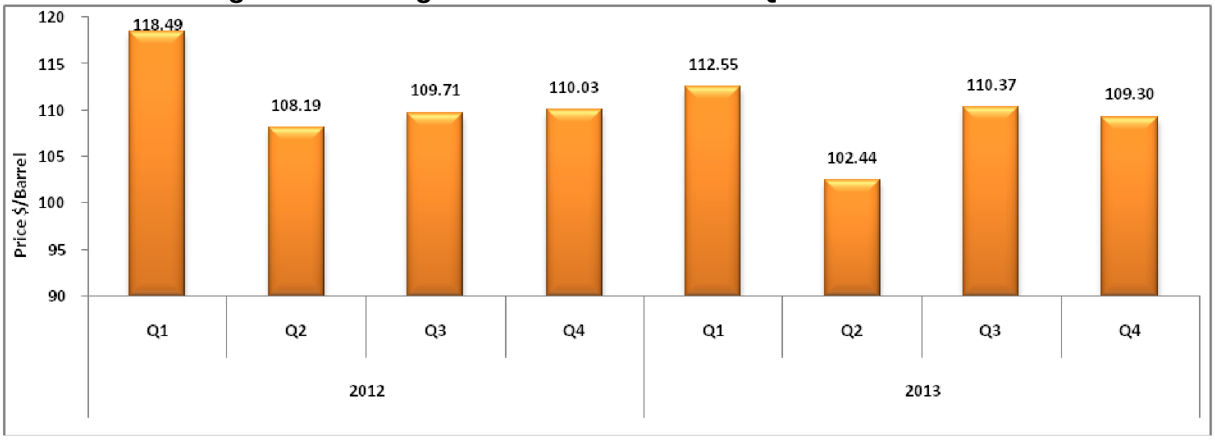
Crude oil sales which accounts for approximately 80% of Nigeria's revenue, recorded a decline of N1.43trillion or 33.7% from N4.24trillion in 2012, to N2.81 trillion in 2013. Similarly, the budget report shows that gas sales of N255.12bn and rent of N180m fell below their corresponding annual projections of N359.58bn and N880mn by N104.46bn (29.1%) and N0.70bn (or 79.7%), respectively. The drop in crude oil revenue, according to the BIR 2013 was due to massive theft, illegal bunkering and pipeline vandalism, which persisted during the period under review.

According to the 2013 Fourth Quarter BIR on the distributable oil revenue:

As at the end of December 2013, the gross Royalties (Oil & Gas) was N982.98 billion, Gas Flared Penalty of N3.19 billion, Petroleum Profit Tax of N2,735.98 billion and other Oil & Gas Revenue of N4.04 billion exceeded their respective *annual projections of N761.08 billion, N2.48 billion, N2,363.15 billion and N3.07 billion by N221.90 billion (or 29.16%), N0.71 billion (or 28.44%) , N372.82 billion (or 15.78%) and N0.97 billion (or 31.49%). On the other hand, Crude Oil Sales of N2,814.13 billion, Gas Sales of N255.12 billion and Rent of N0.18 billion fell below their corresponding annual projections of N4,243.90 billion, N359.58 billion and N0.88 billion by N1,429.77 billion (or 33.69%), N104.46 billion (or 29.05%) and N0.70 billion (or 79.67%).*

The price of crude oil in the international market averaged US$112.55 per barrel; $102.44pb; $110.37pb and $109.30pb in the first, second, third and fourth quarters of 2013 respectively. This represents an average price of $108.67pb for the year

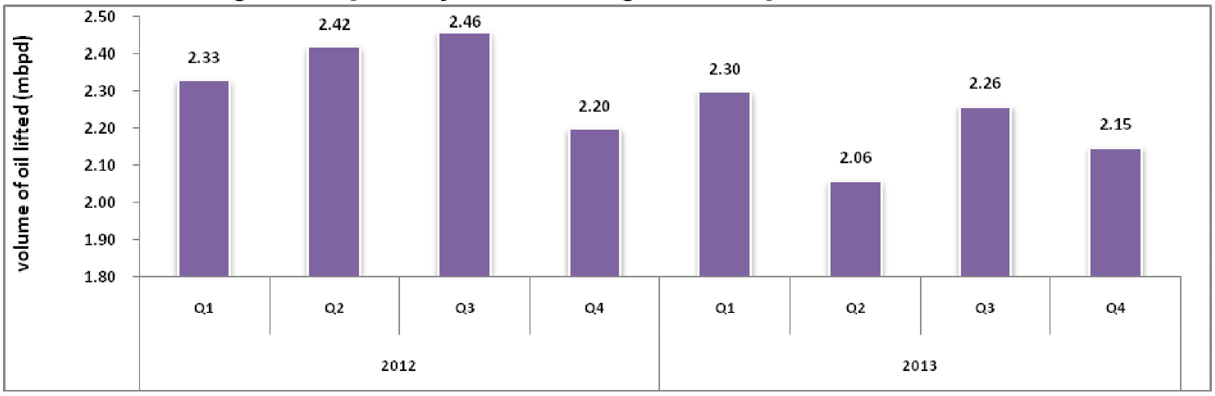
Figure 4: Average Oil Prices across the Quarters 2012-2013



Source: Budget Implementation Reports 2013

Figure 5 below shows the quantity of oil lifting through the quarters in 2013. It was 2.30mbpd, 2.06mbpd, 2.26mbpd and 2.15mbpd respectively for the first, second, third and fourth quarters of 2013. This represents average oil lifting of 2.19mbpd for the year.

Figure 5: Quantity of Oil Lifting Across Quarters 2012-2013



Source: BIRs 2013

All through the quarters, none of the actual quarterly oil revenue met the target estimates. While the total budgeted annual share of oil revenue stood at N2,354.74 bn, the actual share of oil revenue was N1,996.23 billion (a short fall of N358.51billion).

Table 4 shows the inflow into the 2013 federal budget as at December 2013

Table 4: FGN Share of Oil Revenue as at December 2013

Item	Actual Amount (N billions)	Budgeted Amount (N' billion)
Annual Share of Oil Revenue	1,996.23	2,354.74
Quarterly Share of Oil Revenue	499.06	588.69
Share in Four quarters		
Actual in Quarter 1	*469.40*	
Actual in Quarter 2	*529.17*	
Actual in Quarter 3	*487.58*	
Actual in Quarter 4	*510.08*	
Actual in All 4 quarters	**1,996.23**	

Source: Budget Implementation Reports 2013

The shortfall as earlier stated was on account of the fall in crude oil prices during the period, and this could be attributed to the challenges of a slowing world economic growth and the rising supply of oil from both conventional and non-conventional sources as well as the entry of some new regional oil producers into the international oil market. The impact of continued crude oil theft, illegal bunkering and pipeline vandalism that had persisted during the period also contributed substantially to the shortfall[9].

2.4.2 Non-Oil Revenue

According to the Fourth Quarter BIR:

> *The aggregate non-oil receipts as at December 2013 amounted to N2,213.76billion depicting a shortfall of N637.93billion (or 22.37%) below the annual projected estimate of N2,851.68billion. The performance also reveals that all the non-oil revenue items fell below their respective annual estimates. Value Added Tax of N795.60bn; Company Income Tax of N985.52 billion and Customs and Excise Duties of N432.64bn respectively fell short by N149.68bn (or 15.83%), N6.52bn (or 0.66%) and N360.31 billion (or 45.4%) when compared with their annual projections of N945.28 billion, N992.04 billion and N792.95 billion.*

Table 5 explains the non-oil revenue trajectory.

[9] According to the Managing Director of Shell Petroleum Development Company, Mutiu Sunmonu, oil theft by local groups currently results in $6bn per year in lost revenue (almost ₦1trillion at N160/1$) to the corporate giant. Source: Al Jazeera English.htm (Oil theft in Nigeria. The illicit trade is booming in Nigeria, where regulations are few. Tife Owolabi Last Modified: 28 Jun 2013)

Table 5: Federation Account Non-oil Revenue across the 2013 Quarters

	2013 Budget		2013 Actual				
	Annual	**Quarterly**	**1 Qtr**	**2 Qtr**	**3 Qtr**	**4 Qtr**	**Annual**
Value Added Tax (VAT)	945.28	236.32	185.53	193.64	194.41	222.02	795.6
Company Income Tax (CIT)	992.04	248.01	158.33	183.04	475.08	169.07	985.52
Customs & Excise Duties	792.95	198.24	109.94	97.26	97.44	128	432.64
Special Levy	121.42	30.35	0	0	0	0	0
	2,851.68	**712.92**	**453.80**	**473.94**	**766.93**	**519.09**	**2,213.76**

Source: Budget Implementation Reports 2013

For FGN, the variation in the actual collection when compared to the budget estimate is a deficit of N239.56bn as shown in Table 6 below.

Table 6: FGN Share of Non-Oil Revenue as at December 2013

Item	**Actual Amount (N billions)**	**Budgeted Amount (N' billion)**
Annual Share of Oil Revenue	760.90	1,000.46
Quarterly Share of Oil Revenue	190.23	250.11
Share in Four quarters		
Actual in Quarter 1	*148.24*	
Actual in Quarter 2	*155.12*	
Actual in Quarter 3	*291.26*	
Actual in Quarter 4	*166.26*	
Actual in All 4 quarters	**760.90**	

Source: Budget Implementation Reports 2013

2.5 CAPITAL BUDGET IMPLEMENTATION IN 2013

In 2013, a total of N1,591,657,252,789 was allocated to capital expenditure, with an addition of N273.5billion allocation from SURE-P. The quarterly review of the MDAs' capital project implementation for 2013 is as follows:

2.5.1 In the First Quarter

The First Quarter Budget Implementation Report for MDAs' capital vote utilisation states as follows:

> *A breakdown of the data from the Office of the Accountant General of the Federation (OAGF) revealed that as at 31st March, 2013, a total of N335.95 billion had been released through the first Quarter Development Capital Warrant of N207.9 billion and Authority to Incur Expenditure (AIEs) of N128.04 billion for the implementation of MDAs capital projects/programmes as contained in the 2013 Appropriation Act. Of this amount, a total of N335.63 billion (or 99.9%) of the total releases was cash backed.*

Despite the releases and cash backing for the capital projects, no utilisation was made in the first quarter. The budget implementation report puts the excuse thus:

> *It should be noted that the first quarter capital warrant was released while waiting for the conclusion and approval by the National Assembly of the 2013 Amended Budget submitted to it by the Mr. President following the reconciliations reached by both parties on the earlier submitted and approved 2013 Budget.*
>
> *Due to the short fall in projected revenue inflow and other demands for the limited resources available to the government, the first quarter of 2013 Capital Development Warrant was released around the middle of March 2013 and the cash backing was done almost immediately. However, due to the public holiday for the 2013 Easter celebration, MDAs could not access and utilize their allocations before the end of the quarter. As such no capital utilization was made within the first quarter of 2013.*

Explicitly, no capital expenditure from the 2013 budget was implemented in the first quarter of 2013, just like the first quarter of 2012. This is despite the fact that the 2013 budget was presented and first passed within record time. With the exception of the SURE-P projects, there was no capital budget implementation in the first quarter. Of the N273.5 billion from SURE-P, the First Quarter BIR states that a total of N137.55bn (or 50.29%) of the appropriated sum was released as at 31st March, 2013 while N38.3bn (or 27.84%) of the released amount was utilised as at 31st March, 2013. It is imperative to recall that the first quarter being the period between January to March ending is the dry season in Nigeria and the period best suited for outdoor construction. This period was left to waste by the managers of the budget.

2.5.2 In the Second Quarter

The Second Quarter BIR states:

> *"Data from the Office of the Accountant General of the Federation (OAGF) reveals that as at 30th June, 2013, a total of N565.66 billion had been released through the First Quarter Development Capital Warrant of N207.9 billion, Second Quarter Development Capital Warrant of N140.29 billion and Authority to Incur Expenditure (AIEs) of N217.46 billion for the implementation of MDAs capital projects/programmes as contained in the 2013 Appropriation Act. Of this amount, a total of N535.55 billion (or 94.68%) of the total releases was cash backed....The data also shows that N396.83 billion (or 74.1%) of the total amount cash-backed had been utilized by MDAs as at 30th June 2013.*

An analysis of forty-nine (49) MDAs reported upon by the Office of the Accountant General of the Federation (OAGF) reveals different levels of utilization among the MDAs. Eight (or 16.33%) of the MDAs including: Presidency, Health, Justice, Power, Niger Delta, Office of the National Security Adviser, Special Duties and Code of Conduct Tribunal had utilized more than the overall average utilization rate of 74.1% of the amount cash-backed. Three out of these, including Justice, Power and Special Duties had utilized over 80% of their respective cash-backed funds.

While the report emphasises the big percentages in utilisation derived from the cash-backed sums, the most crucial fact of the utilisation compared to the overall capital budget is missing. Table 7 shows that of the total capital appropriation, only 24.5% of the appropriated sum was utilised at the end of the second quarter of 2013.

Table 7: A Sample of MDAs' Capital budget Utilization (As at 30th June, 2013)

MDAs	Annual Appropriation	Total Amount Released	Total Amount Cash Backed	Utilization			
	N	N	N	N	As A % Of Annual Capital Appropriation	As A % Of Cash Backed	As A % Of Budgetary Releases
Power	73,159,378,866.000	19,922,684,325.000	19,922,684,325.000	15,971,036,708.000	21.83	80.17	80.17
Transportation	44,527,673,725.000	13,373,290,813.000	13,373,290,813.000	6,751,753,577.000	15.16	50.49	50.49
Health	60,082,469,275.000	23,266,962,441.000	23,266,962,441.000	18,465,786,853.000	30.73	79.37	79.37
Agriculture	50,808,871,428.000	14,646,612,784.000	14,646,612,784.000	9,159,919,100.000	18.03	62.54	62.54
Water Resource	84,228,166,366.000	22,713,763,647.000	22,713,763,647.000	12,430,922,708.000	14.76	54.73	54.73
Education	71,937,785,489.000	21,855,667,106.000	21,855,667,106.000	14,287,026,910.000	19.86	65.37	65.37
Works	168,173,800,000.000	48,065,333,640.000	48,065,333,640.000	34,023,796,009.000	20.23	70.79	70.79
Niger Delta	62,331,222,222.000	18,632,472,189.000	18,632,472,189.000	14,463,206,486.000	23.20	77.62	77.62
FCTA	57,000,000,000.000	17,000,000,000.000	17,000,000,000.000	9,715,853,947.000	17.05	57.15	57.15
Police Formation & Command	16,140,000,000.000	5,356,218,412.000	535,218,412.000	1,866,493,688.000	11.56	348.74	34.85
Total Average Utilization (By All MDAs)					24.47	74.10	70.15

Source: 2nd Qtr BIR 2013; OAGF and BOF

From the additional SURE-P funds, a total of N182.55 billion (or 66.75%) of the appropriated sum (N273.5 billion) was released while N67.78 billion (or 37.13%) of the released amount was utilised as at 30th June, 2013. From Table 7 above, only 24.47% of the total capital budget of N1,621.48bn[10] was utilised as at June 2013.

2.5.3 In the Third Quarter

According to the Third Quarter BIR of 2013:

Data from the OAGF reveals that as at 30th September, 2013, a total of N807.87 billion had been released and cash-backed through the First Quarter Development Capital Warrant of N210.48 billion, Second Quarter Development Capital Warrant of N168.27 billion, Third Quarter Development Capital Warrant of N147.33 billion and Authority to Incur Expenditure (AIEs) of N281.78 billion for the implementation of MDAs

[10] This is the appropriation for the capital expenditure for 2013, before the Amendment of the Budget Appropriation which reduced the sum to N1,591.66bn by 25th July, 2013.

capital projects/programmes as contained in the 2013 Appropriation Act. It is important to note that the first and second quarter capital warrants were released before the conclusion and approval by the National Assembly of the 2013 Amended Budget. The data also show that N545.87 billion (or 67.57%) of the total amount cash-backed had been utilized by MDAs as at 30th September 2013.

Table 8 below shows that as at September, only 34.3% of the appropriated capital budget was used. This is unreasonably small and does not show any seriousness on the part of government and the implementing ministries.

Table 8: A Sample of MDAs' Capital budget Utilization (As at 30th Sept, 2013)

MDAs	Annual Appropriation	Total Amount Released	Total Amount Cash Backed	Utilization			
	N	N	N	N	As A % Of Annual Capital Appropriation	As A % Of Cash Backed	As A % Of Budgetary Releases
Power	73,347,958,463.000	39,162,517,048.000	39,162,517,048.000	16,884,838,682.000	23.02	43.11	43.11
Transportation	44,527,673,725.000	19,575,445,044.000	19,575,445,044.000	9,022,995,694.000	20.26	46.09	46.09
Health	60,047,469,275.000	28,838,439,775.000	28,838,439,775.000	19,108,867,982.000	31.82	66.26	66.26
Agriculture	50,727,871,428.000	20,419,251,358.000	20,419,251,358.000	11,938,302,349.000	23.53	58.47	58.47
Water Resource	80,306,966,365.000	26,862,139,301.000	26,862,139,301.000	15,536,278,736.000	19.35	57.84	57.84
Education	71,230,438,355.000	29,870,164,921.000	29,870,164,921.000	15,940,847,953.000	22.38	53.37	53.37
Works	164,661,148,188.000	63,593,280,261.000	63,593,280,261.000	44,487,966,309.000	27.02	69.96	69.96
Niger Delta	62,399,922,222.000	25,563,253,618.000	25,563,253,618.000	18,692,383,982.000	29.96	73.12	73.12
FCTA	56,600,000,000.000	23,799,218,838.000	23,799,218,838.000	16,532,213,570.000	29.21	69.47	69.47
Police Formation Command	14,096,000,000.000	6,822,113,291.000	6,822,113,291.000	3,805,852,375.000	27.00	55.79	55.79
Total Average Utilization (By All MDAs)					34.30	67.57	67.57

Source: 3rd Qtr BIR 2013; OAGF and BOF

In the third quarter of 2013, N227.55 billion (or 83.2%) of the appropriated N273.5billion for SURE-P was released while N119.65 billion (or 52.58%) of the released amount was utilized as at 30th September, 2013. Thus, as at September 2013, only 43.7% of the appropriated SURE-P funds had been utilised so far.

2.5.4 In The Fourth Quarter

According to the Fourth and Final Quarter BIR:

Data from the OAGF reveals that as at 31st December, 2013, a total of N1,008.18 billion had been released through the First Quarter Development Capital Warrant of N210.48 billion, Second Quarter Development Capital Warrant of N168.45 billion, Third Quarter Development Capital Warrant of N181.44 billion, Fourth Quarter Development Capital Warrant of N111.06 billion and Authority to Incur Expenditure (AIEs) of N336.76 billion for the implementation of MDAs capital projects/programmes as contained in the 2013 Appropriation Act. Of this amount, the sum of N1,004.07 billion of the total releases had been cash-backed..The data also show that N968.93 billion (or 96.5%) of the total amount cash-backed had been utilized by MDAs as at 31st December 2013.

This position is further buttressed in Table 9.

Table 9: A Sample of MDAs' Capital Budget Utilization (as at 31st Dec. 2013)

MDAs	Annual Appropriation	Total Amount Released	Total Amount Cash Backed	Utilization			
	N	N	N	N	As A % Of Annual Capital Appropriation	As A % Of Cash Backed	As A % Of Budgetary Releases
Power	73,347,958,463.000	49,213,422,043.000	49,213,422,043.000	39,554,121,008.000	53.93	80.37	80.37
Transportation	44,527,673,725.000	23,713,533,190.000	23,713,533,190.000	19,938,710,474.000	44.78	84.08	84.08
Health	60,047,469,275.000	34,782,507,784.000	34,782,507,784.000	33,359,500,815.000	55.56	95.91	95.91
Agriculture	50,647,871,428.000	24,992,961,700.000	24,992,961,700.000	24,909,327,595.000	49.18	99.67	99.67
Water Resource	80,306,966,365.000	31,442,600,742.000	31,442,600,742.000	30,018,286,270.000	37.38	95.47	95.47
Education	71,230,438,355.000	36,166,262,144.000	36,166,262,144.000	34,049,550,059.000	47.80	94.15	94.15
Works	164,661,148,188.000	79,861,150,924.000	79,861,150,924.000	73,017,174,665.000	44.34	91.43	91.43
Niger Delta	62,399,922,222.000	30,910,107,763.000	30,910,107,763.000	30,266,407,856.000	48.50	97.92	97.92
FCTA	56,600,000,000.000	32,975,289,501.000	32,975,289,501.000	32,954,479,161.000	58.22	99.94	99.94
Police Formation Command	14,096,000,000.000	8,013,974,530.000	8,013,974,530.000	8,013,948,531.000	56.85	100.00	100.00
Total Average Utilization (By All MDAs)					60.91	96.50	96.11

Source: 4rd Qtr BIR 2013; OAGF and BOF

The Final Quarter BIR for 2013 reports that the total capital budget utilisation was N968,928,123,000, that is 96.5% of the cash backed sum of N1,004,066,004,695 and 96.11% of the total release all through the quarters of N1,008,183,373,981. This implies that of the total appropriated capital expenditure of N1,590,742,137,258, only 60.9% was utilised. If by the end of calendar year 2013, 60.91% of the appropriated capital sum had been utilised; it suggests that between the end of September and December, about 26.6% of the appropriated sum was utilised considering that only 34.3% of the appropriated sum had been utilised by the end of September. The possibility of using up 26.6% in a quarter when three quarters merely recorded 34.3% usage is in the realm of miracles. It suggests that money was simply spent just because it had been appropriated and value for money played no central role in the expenditure.

By the end of the Fourth Quarter of 2013, of the N273.5billion budgeted for SURE-P, a total of N272.55 billion (or 99.65%) of the appropriated sum was released while N181.09 billion (or 66.44%) of the released amount was utilised. This translates to an utilisation rate of 66.3% of the appropriated sum.

Chapter Three

BORROWING AND DEBT MANAGEMENT

3.1 INTRODUCTION

According to S.41 (1) (a) and (b) of the FRA:

> *(a) Government at all tiers shall only borrow for capital expenditure and human development, provided that such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortization period subject to the approval of the appropriate legislative body where necessary.*
>
> *(b) Government shall ensure that the level of public debt as a proportion of national income is held at a sustainable level as prescribed by the National Assembly from time to time on the advice of the Minister*.

This is one of the sections of the FRA that govern borrowing, debts and indebtedness. The aim of this chapter is to review the 2013 Debt Sustainability Analysis prepared by the DMO and the sustainability of Nigeria's indebtedness.

3.2 DEBT SUSTAINABILITY ANALYSIS 2013

The 2013 DSA like the predecessor 2012 report, was produced by the DMO[11] in collaboration with the Federal Ministry of Finance (FMF), Central Bank of Nigeria (CBN), National Planning Commission (NPC), Budget Office of the Federation (BOF), National Bureau of Statistics (NBS) and the Office of the Accountant-General of the Federation (OAGF). The West African Institute for Financial and Economic Management (WAIFEM) provided technical support. Like in previous DSAs, the Fiscal Responsibility Commission (FRC) was not part of the collaborating stakeholders.

According to the 2013 DMO Annual Report, the 2013 DSA presents a more robust analysis as its coverage includes the domestic and external debts of the Federal and State Governments and the Federal Capital Territory. It also includes the contingent liabilities of the FGN consisting of the guaranteed AMCON bonds, contractors' obligations and pension arrears and private sector external debt. The DSA was conducted against the background of the Medium Term Debt Management Strategy 2012-2015. The key policy objectives of the DSA exercise were:

[11] From May 8-19 2013

- analyse the current and future debt portfolio with a view to assessing its debt sustainability, detecting any potential risks and advising on mitigating measures;
- provide guidance to the Government in its borrowing decisions in order to ensure that financing needs and future repayment ability are taken into account;
- provide inputs into the national budget and information necessary for updating of the MTEF.

It was stated by the DSA that:

> *The 2013 DSA was conducted using the latest version of the Joint World Bank/IMF Debt Sustainability Framework for Low Income Countries (DSF-LICs) analytical tool. The tool is a standardised framework for conducting total public and external debt sustainability analysis under different scenarios - Baseline, Optimistic and Pessimistic – using historical, current and future debt and other macroeconomic data. The basic data were projected for 20 years under varying assumptions. The results obtained were analysed against internationally established debt burden indicators, which measure the solvency and liquidity positions of the country: NPV of Debt/GDP, NPV of Debt/Revenue, NPV of Debt/Exports, Debt Service/Revenue and Debt Service/Exports.*

3.2.1 Baseline Scenario

Under the Baseline Scenario[12] which was predicated on the assumptions of the 2013 national budget and MTEF, the DSA findings are summarised as follows:

> *The solvency and liquidity indicators under the Baseline Scenario show that Nigeria is at a very low risk of debt distress. For instance, under the Baseline Scenario for FGN, State Governments and FCT combined, the NPV of Total Public Debt/GDP is projected at 25.30 percent in 2013, as against the indicative threshold of 56 percent. This is consistent with the result of the 2012 DSA. With regard to only the FGN, that is, FGN's domestic debt plus the external debt of the Federation, the results also show that the FGN is at a low risk of debt distress. The PV of Total Debt/GDP and Total External Debt/GDP was 22.4 and 3.2 percent, respectively. (DSA, 2013)*

[12] "*The Baseline Scenario is predicated on the following macroeconomic assumptions: (a) maintains the assumptions of the 2013 national budget and MTEF, which includes stable macroeconomic environment occasioned by the on-going fiscal consolidation and tight monetary policy stance of the monetary authorities, as well as the continuation of reforms in the key sectors of the economy: agriculture, power, oil and gas, transport, housing, solid minerals, etc. It also captures the medium-term (2012-2014) external borrowing plan of US$9.65 billion approved by the National Assembly for the Federation*". It also includes oil production at 2.53mbpd, oil price at $79pb, exchange rate N160/$ and GDP growth rate at 6.5%. See page 5 of the DSA.

Tables 10, 11 and 12 present the external debt sustainability indicators in percentages; FGN's public debt sustainability and total public debt sustainability.

Table 10: External Debt Sustainability Indicators in Percent

Description		Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
Solvency Indicator	PV of Debt/GDP	40	3.2	3.8	4.3	4.7	4.9	5.0	3.2
	PV of Debt/Export	150	8.9	11	12.8	14.4	15.6	19.1	16.6
	PV of Debt/Revenue	250	34.6	30.8	38.0	45.4	50.0	56.7	63.3
Liquidity Indicator	Debt Service/Exports	20	0.5	0.4	0.6	0.6	0.7	1.1	1.5
	Debt Service/Revenue	20	1.9	1.2	1.7	2.0	2.2	3.2	5.9

Source: DSA (2013)

Table 11: FGN's Public Debt* Sustainability Indicators in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
PV of Debt/GDP	56	22.4	18.4	17.2	16.7	15.4	11.7	5.7
PV of Debt/Revenue	Na	240.6	148.2	152.9	162.6	158.4	132.7	110.1
Debt Service/Revenue	Na	34.2	24.1	26.7	21.6	27.7	19.2	15.1

* External Debt of the Federation plus FGN's Domestic Debt

Source: DSA (2013)

Table 12: Total Public Debt* Debt Sustainability Indicators in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
PV of Debt/GDP	56	25.3	20.8	18.9	17.8	16.0	12.5	7.2
PV of Debt/Revenue	Na	137.0	124.3	124.7	122.7	120.9	106.9	73.9
Debt Service/Revenue	Na	22.8	24.1	26.1	22.1	27.8	18.4	14.8

* External Debt of the Federation plus the Domestic Debt of the FGN, States and FCT.

Source: DSA (2013)

The Baseline Scenario further states thus:

> *"It is important to state that, whereas, there are three outputs under the fiscal block – PV of Debt/GDP, PV of Debt/Revenue and Debt Service/Revenue ratios – only the PV of Debt/GDP ratio has an internationally established threshold of 56 percent for Nigeria's peer group. In other words, there are no international thresholds for PV of Debt/Revenue and Debt Service/Revenue ratios with which they could be measured or compared".* (DSA, 2013. P. 6)

The reasoning that there are no international thresholds for PV of Debt/Revenue and Debt Service/Revenue ratios with which they could be measured or compared is faulty. Is this a licence to borrow more than the nation's capacity to repay? Would it make sense to dedicate about half of the retained revenue to debt service? If the solvency and liquidity indicators of external debt have thresholds, why is it difficult to fix the thresholds for the indicators in the total debt portfolio? This is really lame, especially at a point in time when the use of GDP as a measure of growth driven economic development is becoming questionable and a paradox in economic literature.

3.2.2 The Optimistic Scenario[13]:

The result from the Optimistic Scenario was not different from the "no threshold excuse" in the Baseline Scenario. The DSA reports that "with regard to external debt sustainability, the PV of Debt/GDP ratio remained below 5 percent throughout the projection period indicating a very healthy outlook". This is shown in Table 13:

Table 13: External Debt Sustainability Indicators in Percent

Description		Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
Solvency Indicator	PV of Debt/GDP	_40.0_	3.2	3.8	4.3	4.6	4.8	4.8	3.0
	PV of Debt/Export	_150.0_	9.1	11.3	14.8	15.9	17.7	18.7	15.2
	PV of Debt/Revenue	_250.0_	20.1	28.2	33.1	39.3	43.7	51.1	53.5
Liquidity Indicator	Debt Service/Exports	_20.0_	0.5	0.4	0.6	0.7	0.8	1.0	1.3
	Debt Service/Revenue	_20.0_	1.1	1.1	1.4	1.7	1.9	2.8	4.7

Source: DSA (2013)

Table 14 shows the FGN's public debt sustainability in percentages.

Table 14: FGN's Public Debt* Sustainability Indicators in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
PV of Debt/GDP	_56_	22.3	18.2	16.9	16.4	15.0	11.1	5.3
PV of Debt/Revenue	_Na_	138.5	134.3	131.2	138.8	137.4	117.0	91.8
Debt Service/Revenue	_Na_	19.5	21.8	22.8	18.3	23.9	16.7	12.1

***** External Debt of the Federation plus FGN's Domestic Debt. Source: DSA (2013)

The Optimistic Scenario further states:

> *Similarly, the PV of Debt/Revenue, though rose gradually from 20.1 percent to an average of 51.1 percent in 2018-2024, it still indicates a high degree of sustainability compared to the threshold of 250 percent. In the fiscal block and compared to the threshold of 56 percent, the PV of Debt/GDP ratio dropped*

[13] The Optimistic Scenario is hinged on the successful implementation of the present administration's Transformation Agenda, which is expected to produce robust growth in the medium to long-term. All the debt burden indicators (solvency and liquidity) under the Optimistic Scenario are far below the established thresholds.

from its highest value of 22.3 percent in 2013, to an average of 5.3 percent in 2025-2032. The PV of Debt/Revenue and Debt Service/Revenue ratios, against which there are no international thresholds, fluctuated initially before trending downward to a low average of 91.8 and 12.1 percent in 2025-2032, respectively.

Again, the Optimistic Scenario returns the verdict that Nigeria's debts are sustainable.

3.2.3 The Pessimistic Scenario[14]

This Scenario concludes that:

> *However, under the Pessimistic Scenario or customised stress test, which stimulates a persistent crude oil price shock and reduced output, all revenue indicators deteriorated when compared to the baseline results. The customized scenario also shows that without significant compensating revenue sources, a prolonged crude oil price shock, that is, a fall in price to a low level of US$50pb, or prolonged deterioration in the current account balance could undermine debt sustainability and macroeconomic stability.*

Tables 15 and 16 show the results of the Pessimistic Scenario on the external debt of the Federation and public debt of the FGN respectively:

Table 15: External Debt Sustainability Indicators in Percent

Description		Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
Solvency Indicator	PV of Debt/GDP	40	3.2	5.1	7.6	10.1	12.3	17.7	18.5
	PV of Debt/Export	150	10.6	16.8	26.0	35.5	45.5	83.5	121.0
	PV of Debt/Revenue	250	34.7	64.5	114.5	209.4	273.0	365.4	380.9
Liquidity Indicator	Debt Service/Exports	20	0.6	0.6	0.9	1.2	1.6	3.8	9.2
	Debt Service/Revenue	20	2.0	2.2	2.2	7.3	9.5	16.3	28.8

Source: DSA (2013)

Table 16: FGN's Public Debt Sustainability Indicators in Percent

Description	Threshold	2013	2014	2015	2016	2017	2018-2024 (Average)	2025-2032 (Average)
PV of Debt/GDP	56	22.8	20.7	22.5	22.5	26.7	30.6	26.0
PV of Debt/Revenue	Na	239.1	262.8	338.1	520.4	591.8	630.6	529.5
Debt Service/Revenue	Na	34.3	40.2	50.8	57.4	78.8	72.8	59.7

Source: DSA (2013)

[14] The Pessimistic Scenario is revenue specific because of the peculiar revenue structure of the country, which is mainly dependent on crude oil. It assumes a persistent shock in the price of crude oil to a low level of US$50pb and also reduced oil output throughout the projection period. Under the Pessimistic Scenario or customized stress test, which simulates a persistent crude oil price shock and reduced output, all revenue indicators deteriorated when compared to the baseline results.

The Pessimistic Scenario concludes that the debts will not be sustainable if the oil price shock happens.

3.3 OUTSTANDING PUBLIC DEBT AS AT DECEMBER 2013: IS THE DEBT REALLY SUSTAINABLE?

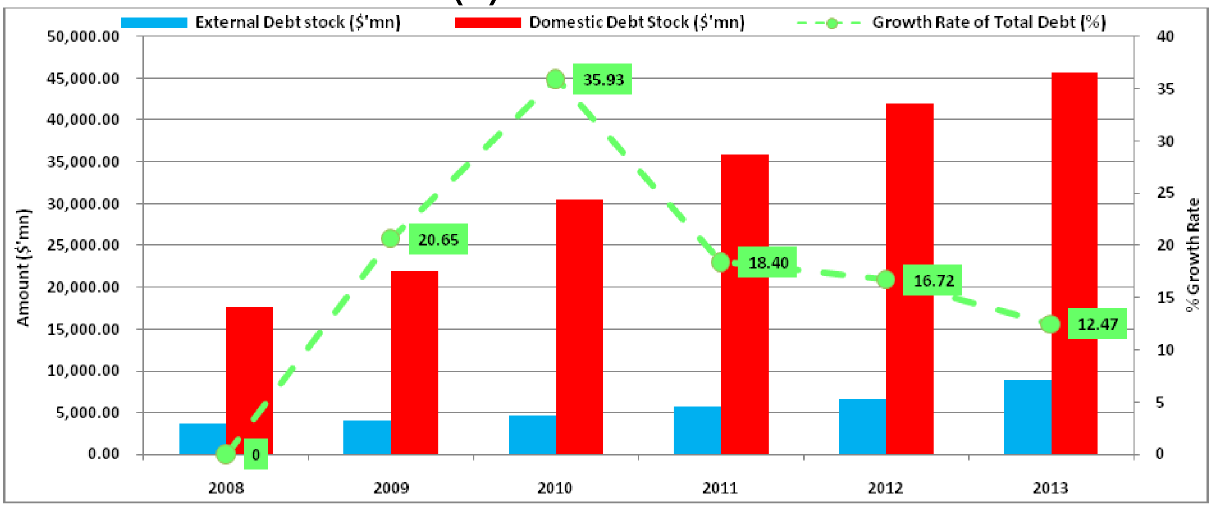
The 2013 Annual DMO Report shows that the value of total public debt outstanding as at December 2013 was $54,44.31million; this is an increase of over 12.47% from the 2012 total public debt stance of $48,496.24million. Table 17 shows the details while Figure 6 gives a clearer picture of the situation.

Table 17: Total Public Debt Outstanding, 2008-2013 (US$ Million)

Type	2009	2010	2011	2012	2013
External Debt Stock (% share of total)	3,947.30 (15.29)	4,578.77 (13.05)	5,666.58 (13.64)	6,527.07 (13.46)	8,821.90 (16.17)
Domestic Debt Stock (% share of total)	21,870.12 (84.71)	30,514.33 (86.95)	35,882.86 (86.36)	41,969.16 (86.54)	45,722.41 (83.83)
Total (% share of total)	**25,817.42 (100)**	**35,093.10 (100)**	**41,549.44 (100)**	**48,496.24 (100)**	**54,544.31 (100)**
Growth Rate of Total Debt (%)		**35.93**	**18.40**	**16.72**	**12.47**

Source: DMO, Annual Report 2013

Figure 6: Total Public (External and Domestic) Debt Outstanding (US$ Million) and the Growth Rate of Total Debt (%) from 2008-2013



Source: Extracted from the DMO Annual Report 2013

The above scenario shows that Nigeria's debts have been on the increase. Domestic borrowing contributes the largest part. Though the total growth rate indicates a declining trend in 2013; debt accumulation between 2009-2013 has grown at an average of 20.88% a year. 12.47% growth rate in debts over a period of 12 months (2013) is not a best practice worthy of replication considering the fact that crude oil sold at above $100 during the year. Accumulating debts at a time of high oil prices which should have been a time for savings and increasing the fiscal buffers in the Excess Crude Accounts and foreign reserves is fiscal recklessness.

Again when the debt service is pitched against the retained revenue and against actual capital expenditure, the percentages are not flattering. If the 2013 total debt payment of $5,397.51 is converted into Naira at the rate of N155.70 to 1USD, it will amount to N836,615.05billion. However, a total of N968,928,123,000 was utilised for capital expenditure. Thus, debt repayment is 86.03% of the amount used for the provision of capital infrastructure in the year. This is a lost opportunity for new investments in Nigeria which has a large infrastructure deficit. For 2013, the retained FGN revenue is N3.5trillion and the debt service is 23.89% of the retained revenue. This also shows the lost opportunities and the fact that the debt is becoming over-bearing. Therefore, compared to the other scenarios, the conclusions of the pessimistic scenario seem most appropriate to our solvency and liquidity circumstances.

3.4 NIGERIA'S DOMESTIC DEBT: INSTRUMENTS, HOLDERS AND MATURITY

The domestic debt outstanding in Naira terms as at the end December 2013, stood at N7,118,977.237bn, representing an increase of 8.89% over the 2012 figures and this is lower than the 16.27% increase recorded between 2011 and 2012. The increase was largely due to new borrowings being part funding of the Appropriation deficit and the refinancing of maturing debt instruments. The breakdown of the domestic debt by category of holders shows that the banks and discount houses held the largest proportion of about 46% of the total debt portfolio, while the CBN held only 6.59% as at the end December 2013. According to the DMO report for 2013:

> *It is important to note that the upward trajectory in the domestic debt stock is due to the rise in Government's expenditure occasioned by consistent increase in overheads and other recurrent expenditures, which have necessitated an increase in the proportion of the fiscal deficit funded through domestic borrowing (DMO, 2013, pg 26)*

The above statement further buttresses that the debts are not sustainable. FGN is borrowing to meet overheads and recurrent expenditure. This is contrary to the FRA which states that borrowing shall only be for capital expenditure or human development. Tables 18 and 18 (a) show the domestic debt instruments as well as their holders overtime.

Table 18: Domestic Debt Stock Outstanding by Instruments and Holder as at 2013

Instrument	2009	2010	2011	2012	2013
FGN Bond	1,974.93	2,901.60	3,541.20	4,080.05	4,222.03
NTBs	797.48	1,277.10	1,727.91	2.122.93	2,581.55
Treasury Bonds	392.07	372.90	353.73	344.56	315.39
Development Stock	0.52	0.22	-	-	-
Promissory Note	63.03	-	-	-	-
Total	**3,228.03**	**4,551.82**	**5,622.84**	**6,537.54**	**7,118.97**

Table 18 (A): Domestic Debt Outstanding by Holders as at December 2013

Instrument	CBN	Banks & Discount Houses	Non-Bank Public	Sinking Fund	Amount Outstanding
FGN Bond	68.89	1,955.51	2,197.63	-	4,222.03
NTBs	234.17	1,338.32	1,000.06	-	2,581.55
Treasury Bonds	156.8	-	-	158.59	315.39
Total	**468.86**	**3,293.83**	**3,197.69**	**158.59**	**7,118.97**
% of Total	**6.59**	**46.27**	**44.92**	**2.23**	**100%**

Source: DMO Annual Report 2013

The implication of the holding structure of domestic debts - banks and discount houses holding 46.27% of the debts is that any default in payments may lead to banking distress. Also, the fact of government borrowing crowding out the private sector is evident from the holding structure of the debts.

In terms of maturity period, the DMO target for short and long term domestic instruments is 25:75 ratio. But Table 19 below shows 54.83:45.17 ratio for short and long term debt maturity.

Table 19: Maturity Structure of Domestic Debt as at end-December, 2013

Residual Maturity (Year)	% Share of Outstanding Debt
< 1 year	43.55
≥ 1 - 3 years	11.28
> 3 years	45.17
Total	100.00

Source: DMO Annual Report 2013

From Table 19, 43.55% of the debts have a maturity period of less than one year; 11.28% have a maturity period of between one to three years whilst only 45.17% have a maturity period of more than three years. This does not portray debt sustainability. If the rules were followed and borrowing was channelled to long term capital expenditure, this would clearly produce a mismatch between the funded projects and the funding.

3.5 SUB-NATIONAL DEBT

Six states issued bonds in 2013 compared to four in 2012. The total issuance in terms of face value in 2013 was N125.90bn and this is 19.81% lower than the N157bn issued in 2012. Table 20 gives the breakdown.

Table 20: Sub-National Bond Issuances, 2012-2013

2012		2013	
Bond issuer	**Amount (N'bn)**	**Bond issuer**	**Amount (N'bn)**
Ondo State	27	Ekiti State	5
Gombe State	20	Kogi State	5
Nassarawa State	0	Nassarawa State	5
Niger State	0	Niger State	12
Lagos State	80	Lagos State	87.50
Osun State	30	Osun State	11.40
Total	**157**	**Total**	**125.90**

Source: Security and Exchange Commission; DMO Report 2013

3.6 TOTAL PUBLIC DEBT SERVICE

The DMO Annual Report for 2013 financial year indicates that the total public debt service for the year was $5,397.51 million; an increase of 9.73% from the 2012 figure of $4,918.72. Table 21 gives the detailed composition.

Table 21: Total Public Debt Service, 2009-2013 (US$'million)

Type	2009	2010	2011	2012	2013
External Debt Service (% share of total)	428.04 (18.33)	354.42 (13.00)	351.62 (9.30)	293.00 (5.96)	279.32 (5.51)
Domestic Debt Service (% share of total)	1,907.45 (81.67)	2,373.98 (87.00)	3,429.42 (90.70)	4,625.72 (94.04)	5,100.19 (94.49)
Total (% share of total)	**2,335.30 (100)**	**2,728.40 (100)**	**3,781.04 (100)**	**4,918.72 (100)**	**5,397.51 (100)**

Note: [1] Official CBN Exchange Rate of N155.70/US$ as at 31/12/13

Source: DMO, Annual Report 2013

The decline in the external debt service largely reflects the country's adherence to the debt management strategy of borrowing mainly from concessionary sources of funding with long term amortisation period, and full repayment of some existing loans. Rising domestic debt service indicates active use of the domestic debt market to meet a large part of the FGN's borrowing requirements[15].

Against the backdrop of the 2013 DMO Annual Report and the DSA, the following recommendations are imperative:

[15] DMO Report, 2013

- The Fiscal Responsibility Commission should be recognised by DMO as a stakeholder in the yearly DSA.

- FGN and the states should stop borrowing for recurrent expenditure. This is illegal under the FRA. The restructuring of the public service should be seriously considered if retained revenue including statutory allocations is not sufficient to fund recurrent expenditure.

- In consideration of the infrastructure deficit, debts should be held at a sustainable level so that debt service would not exceed 50% of the actual capital budget expenditure. Debt service should also not exceed 20% of retained revenue.

- Increased revenue generation through reforming the IGR system should be considered as a first step for increased funding of government expenditure and borrowing should be a last resort.

- All borrowing proposals must not only be tied to capital projects, with detailed cost-benefit analysis of the projects, but a realistic and feasible payment plan to meet the debt obligation in the future.

- The President with advice from the Minister of Finance should send the proposal for the debt limits of the three tiers of government to the National Assembly for approval.

- Deliberate efforts should be made to tie the source of funding to the nature of the funded projects to avoid a project/finance mismatch.

- Transparency and accountability in debt management demands that DMO should on a regular basis publish the list of projects and programmes tied to the respective loans incurred by government.

- The Legislature, through the loan approval process and its oversight responsibilities should play a more proactive role in debt management.

Chapter Four

ANALYSIS OF THE 2014-2016 MEDIUM TERM EXPENDITURE FRAMEWORK

4.1 OVERVIEW

The FRA was made as an Act to provide for the prudent management of the nation's resources, ensure long term macroeconomic 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 MTEF. 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 NASS for approval by a resolution of each House of NASS. 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.*

The MTEF consists of a Macroeconomic Framework, a Fiscal Strategy Paper, Revenue and Expenditure Framework, a Consolidated Debt Statement and a Statement on Contingent Liabilities and Quasi Fiscal Activities of Government. The goal of the current review of the MTEF is to produce a review which will facilitate the consideration and approval of the MTEF by the National Assembly. Further, it will help NASS to determine whether the 2014 budget (when presented) complies with the provisions of the FRA.

4.2 TERMS OF REFERENCE

The general terms of reference of this review are:

- ❖ To review the 2014-2016 MTEF as presented by the Executive highlighting areas of concern with a view to providing NASS with a clear template for its input into the approval of the MTEF.

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

- ❖ To review the MTEF in the light of the FRA, 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 in the MTEF against the background of the criteria used in the projections. The revenue projections will include customs and excise, companies income tax, value added tax, income from oil and gas, FGN independent revenue and balances in special accounts. This is in a bid to establish whether they are realisable 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 the demands of Vision: 20:2020, the MDGs and the extant Debt Sustainability Analysis prepared by the Debt Management Office, etc.

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

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

4.3 METHODOLOGY

This Chapter reviews the 2014-2016 MTEF against the background of previous MTEFs, previous budget implementation reports and the half year report on the implementation of the 2013 budget, Vision 20:2020 document, economic trends and forecasts from the Budget Office of the Federation, National Bureau of Statistics, Central Bank of Nigeria, DSA and annual reports of the DMO, 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.

4.4 PRELIMINARY ISSUES

4.4.1 Timing of the MTEF

Like previous MTEFs, the 2014-2016 MTEF was submitted to NASS on 17th September 2013, slightly less than four months to the end of the year. Thus, it did not get to NASS within the time anticipated in the FRA. At page 11 of the MTEF under the theme "Diversification of the Economy", there is a reference to the Presidential Workshop on Solid Minerals held in August 2013 as evidence of government's commitment to diversify the economy. The implication is that the MTEF was prepared and finalised after this workshop. Thus, it was not submitted and endorsed by EXCoF before the end of June 2013 as required by S.14 (1) of the FRA and got to NASS less than four months to the end of the year.

4.4.2 Preparation of Medium Term Sector Strategies

In normal times, the MTSS of MDAs of government precedes and forms the basis for the preparation of the MTEF. However, the current MTEF did not have the benefit of the input of MDAs through their MTSS. The MTSS normally reviews high level sectoral policy documents, ongoing programmes and projects, decides on priorities and the best and cost efficient ways of enhancing governmental service delivery commitments. It will be recalled that on 9th July, 2012 at the public consultation on the 2013 budget held in Abuja, the Director General of the BOF submitted that the MTSS of MDAs which should undergird the MTEF would amount to a waste of time and public funds as the Transformation Agenda of President Jonathan already contained such information as the MTSS sessions would have provided. This is a fundamental flaw because the Transformation Agenda has nothing in common with a functional MTSS prepared with inputs from critical stakeholders.

4.4.3 No Sectoral Envelopes

Due to the absence of MTSS, the MTEF did not contain sectoral envelopes and ceilings. MTSS cannot be prepared without the financial envelopes[16]. As such, there is no indication as to government's priorities. Rather, there are vague and nebulous phrases that indicate that government will continue to prioritise a few sectors indicated in page 11 of the MTEF vis; power, health, agriculture, solid minerals, education, housing, transport and security. Pray, with the privatisation of the components of the power sector (generation and distribution), what kind of funding prioritisation will government be doing in the power sector? Government, over the years has downgraded housing and refused to directly invest in a substantial manner in the sector; how can such a sector become a priority?

16 From the 2013-2015 MTEF memorandum.

4.4.4 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.

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.

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 is no indication in the MTEF whether such consultations were held. Although the Act used the discretionary "may" in directing the Minister to hold consultations, the intention of the Legislature was to ensure popular inputs and participation in the formulation of this very important document[17]. This position is supported by the provisions of S. 48 (1) of the FRA which requires the Federal Government to ensure that its fiscal and financial affairs are conducted in a transparent manner, ensuring full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances. Transparency is the bedrock of participation because there can be no meaningful participation and input making without access to fiscal information.

4.5 MACROECONOMIC FRAMEWORK

Section 11(3) (a) of the FRA 2007 requires that:

The Medium-Term Expenditure Framework shall contain:

[17] However, CSJ being a key member of civil society can affirm that no such consultation was held.

A Macroeconomic 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;

The two key indicators in the subsection are:

- ❖ Macroeconomic projections for the next three financial years and their underlying assumptions;

- ❖ Evaluation and analysis of the macroeconomic projections for the preceding three financial years

The analysis will *inter alia* review whether the MTEF as presented meets this requirement. The MTEF reviewed the global macro-economy. It reports the global economic recovery to be slow. Growth in the USA was forecast at 1.7 percent in 2013, a slight improvement from the preceding periods following the recovery of the housing market. The Euro Zone is experiencing a slow downturn despite efforts to reduce the Euro crisis and the forecast is a contraction of 0.6 percent. Emerging markets and developing economies are expected to experience higher growth rates at an average of 5 percent for 2013, against the 4.9 percent average in 2012. This is attributable to an expansion of consumer market demands, credible macroeconomic policies and increased exports. The same scenario of higher growth rate is expected for Sub-Saharan Africa, which is expected to grow on the average at 5.1 percent in 2013 from 4.9 percent in 2012.

The Nigerian economy was presented as resilient and experienced a robust growth of 6.58 percent in 2012 compared to the average global growth rate of 3.1 percent. The fiscal deficit as a percentage of the GDP was reported at 2.45 percent in 2012. The GDP growth was estimated at 6.5 percent in 2013 and projected at 6.75 percent for 2014, with expectations of single digit inflation below the 8.7 percent point of July 2013, declining from 9.5 percent in February 2013. Some of the key indicators in the MTEF are as shown in Table 22.

Table 22: Some Key Indicators in the MTEF

Items	**2013 budget**	**2014 budget**	**2015 budget**	**2016 budget**
Oil production (millions of barrels per day	2,5620	2,3883	2,5007	2,5497
Average price per barrel ($)	79	74	75	76
Average Exchange rate	160	160	160	160
GDP	47,843.76	48,066.29	52,355.87	57,078.67

Source: MTEF 2014-2016

4.5.1 Fundamental Challenges and Issues

The MTEF should be anchored on national planning frameworks including Vision 20: 2020 and its implementation plans. With the expiry of Vision 20:2020's First National Implementation Plan 2010-2013 and the absence of a follow up implementation plan which should have been the NIP 2014-2017, the MTEF rests on nothing. This submission is further buttressed by the fact that the projections in the MTEF have no links with the mother document being Vision 20:2020.

The foregoing raises the poser; has Nigeria abandoned Vision 20:2020? If the answer is in the affirmative, which extant plan is the replacement of the Vision? Vision 20:2020 recognises the challenges with implementation of plans when it stated that flaws in the budgeting process that result in programmes and projects not being aligned to the nation's strategic plans and priorities should be avoided.

The MTEF was silent on projected inflation and interest rates, access to credit, accretions to external reserves, broad money (M2), etc. With the high level of unemployment, the MTEF was expected to contain substantive information on what should be done to ameliorate unemployment. But it was also silent on this issue. Indeed, the MTEF contained virtually nothing on monetary policy and showed no interest on the need to harmonise monetary and fiscal policies for the stabilisation and growth of the economy. The lack of projections comes against the background that one of the strong points of the MTEF in literature is that it combines government's policies, plans, 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.

The Monetary Policy Rate (MPR) is currently at 12%, thereby exceeding the Vision 20:2020 projection of single digit MPR. With the MPR at 12%, interest rates are high, thereby restricting the access of the private sector to credit needed to improve capacity utilisation in industries, expand production and create new jobs. It is important that the MTEF articulates 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. There is nothing in the MTEF to bridge the gap between the lending and deposit rates. While the prime lending rate is about 16.5 percent and maximum lending rate at 25 percent, deposit rates are lower than 3 percent and definitely below the extant inflation rate of 8 percent. The implication is that Nigerians are discouraged or rather punished if they save their income in a bank, because they will incur a loss at the end of the year considering that deposit rates are lower than the inflation rate. Nigerians may have been compelled to keep their money in foreign currencies or jewels or other means of storing value apart from the Naira. To curb this development may require that the deposit and lending rates are tied to a corridor of not more than 500 basis points.

4.5.2 Macroeconomic Projections for the Next Three Financial Years and their Underlying Assumptions

In the few areas where projections were made, there were no underlying assumptions and explanations of how the MTEF arrived at the projections. For instance, how did the authors of the MTEF arrive at the projection that the Naira will exchange for N160=1USD for the years 2014, 2015 and 2016. Currently, the Naira officially exchanges for less than N160 to the USD, but in the parallel market, it exchanges far above the figure, yet the projection is for it to be at N160 over the medium term. Previous experiences even show a deviation from projections as shown in the Table 23 below.

Table 23: Average Exchange Rate 2010-2016 (N/USD $ 1) [18].

2010		2011		2012		2013		2014	2015	2016
Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected		
150	150.3	150	153.9	155	157.7	160	159	160	160	160

Available evidence indicates that the ability of the CBN to sustain the Naira from possible depreciation in 2014 and the medium term would be dependent on a monetary policy stance vis-à-vis global crude oil supply and capital flows in 2014[19]. The poser is the reason for the depreciation of the Naira despite our buoyant external reserves, which can provide cover for over ten months imports and our better growth rates compared to industrialised economies. Although the CBN has adopted an exchange rate band for some years now, (which is not reflected in the MTEF); to boost the value of the Naira against major international currencies would require the avoidance of the creation of new money. This would imply the direct allocation of foreign exchange earned from oil to the three tiers of government rather than monetising it. This is the recommendation of Vision 20:2020 which has since been ignored by monetary and fiscal policy[20]. Vision 20:2020 however recognises that this may facilitate capital flight,[21] but this is not a challenge that cannot be surmounted.

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[18] Dr Amakom Uzochukwu in *Review of the Macroeconomic Framework of the 2016-2016 MTEF*, being a paper presented at CSJ's Pre-budget Session in November 2013..

[19] Amakom, supra.

[20] Vision 20:2020 at page 24. Henry Boyo, an economist who writes for Punch and other newspapers has made this recommendation an article of faith in most of his writings as a solution to a number of economic problems including inflation, excess liquidity, revaluation of the naira, etc.

[21] There is a motion currently before the House of Representatives to probe the continued depreciation of the Naira and the Governor of the CBN, Alhaji Sanusi Lamido Sanusi and the Minister of Finance, Dr. Ngozi Okonjo-Iweala have been summoned to appear before the Committees on Finance, Banking and Currency, and National Planning and Economic Development to explain why the trend has persisted. Representative Odebunmi Olusegun Dokun's motion titled the 'Need to check the continuous devaluation of the Naira': *There has been a continuous decrease in the Naira value over the years against major currencies in the world. A critical look at these last few years, taking the US Dollar as a basis for comparison shows that around 1990 to 1993, it was about N28 to a Dollar; around 1994 to 1996, it was about N40 to a Dollar; around 1996 to 1999, it was about N80 to a Dollar; around 1999 to* 2007, it was about N140 to a Dollar; and around 2007 to date, it is about N158 to a

There are also no underlying assumptions for the GDP growth projected at 6.75 percent, 8.8 percent and 9.0 percent in 2014, 2015 and 2016 respectively. It is imperative to note that the projected growth is lower than the double digit growth projected by Vision 20:2020 and no explanation was offered for the divergence of the projections. How did the MTEF arrive at these figures? Which sector(s) will drive the projected growth? A mere statement in page 3 of the MTEF that growth will be driven by continued strong performance in agriculture, wholesale and retail, construction and real estate, etc is not sufficient. The last sectoral composition of GDP in the MTEF 2013-2015 showed that apart from agriculture that made substantive contributions to GDP in 2012, the other sectors did not make contributions (wholesale and retail -13.9%), (building and construction -1.2%) that can drive the projected GDP growth. With projected reduced earnings from oil and non-oil sources, decreasing growth in non-oil exports[22] and insecurity in some parts of the country leading to decreased agricultural productivity, where will the growth come from? Further, the sectoral composition of GDP contained in previous MTEFs was omitted. This would have shown the current sectoral composition and how they would be realigned in the medium term.

The MTEF was silent on growth drivers of the Nigerian economy and their impact on other sectors. It contained no sectoral composition of capital expenditure and how sectoral spending is linked with the enhancement of growth drivers. It is recommended that considering the dominance of agriculture's contribution to the GDP and the fact that it is the highest employer of labour and its potentials to create further employment, it should be identified, funded and streamlined as one of the major drivers of growth.

4.5.3 Evaluation and Analysis of the Macroeconomic Projections for the Preceding Three Financial Years

As has been the practice in previous MTEFs, the evaluation and analysis of the macroeconomic projections for the preceding three years was missing and no mention was made of it. Reviewing the implementation of the 2012 and 2013 budgets and their respective revenue and expenditure outturns is not the same as a three year macroeconomic evaluation and analysis including fiscal and monetary policy targets.

To achieve such a review would have required collaboration between the fiscal and monetary policy authorities which transcends the extant practice of MTEF preparation by MOF and BOF. The model of such collaboration is the preparation of the yearly Debt Sustainability Analysis, which involves the Debt Management Office as lead, MOF, BOF, CBN, National Planning Commission, National Bureau of Statistics and technical collaboration from the West African Institute for Financial and Economic Management (WAIFEM).

Dollar. *This has shown a continuous devaluation in Naira without any improvement, and if this downward trend persists, it will affect Nigeria's economy and the future of the nation in general.*"

[22] Growth in non oil exports was 27.25 percent in 2010, 22 percent in 2011 and -4.70 in 2012 - CBN.

It is therefore our recommendation that future MTEFs should be prepared by MOF/BOF as lead with collaboration from National Planning Commission, National Bureau of Statistics, CBN, FRC and any other relevant agency that may be co-opted. NPC is relevant for planning the capital budget component of MTEF while NBS provides relevant statistics and data; CBN will anchor the monetary policy components whilst the FRC provides technical expertise and best practices in MTEF.

The absence of analysis and evaluation of previous macroeconomic projections 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.

4.5.4 Revenue Projections

The revenue projections for the medium term are detailed in Table 24 below.

Table 24: 2014-2016 MTEF Projections and the 2013 Budget

MTEF Assumptions	2013 Budget	2014-2016 MTEF		
		2014*	2015*	2016*
Oil production (mbpd)	2.5260	2.3883	2.5007	2.5497
Oil Price ($/pb)	79	74	75	76
Gross Oil Revenue (N' billion)	7,734.15	6,814.43	7,137.74	7,201.04
Gross Non Oil Revenue (N' billion)	3,307.46	3,288.58	3,488.651	3,743.284
Total of Oil and Non-Oil Revenue	11,041.61	10,103.01	10,626.39	10,944.32

Source: 2014-2016MTEF. Note: * Implies projections

4.5.5 Projections for Oil Production and Revenue

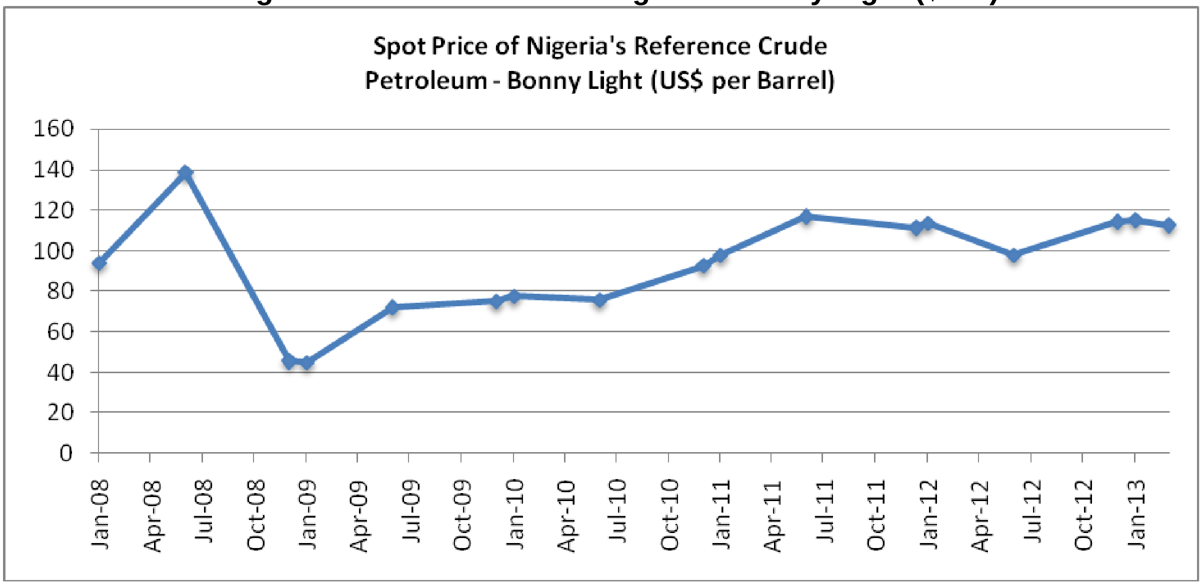
Oil production is projected at 2.3883mbpd in 2014, 2.5007mbpd in 2015 and 2.5497mbpd in 2016. The projection for 2014 is less than the 2.5260mbpd projected for 2013. The principal reason for lowering the projection is crude oil theft and illegal bunkering projected at 400,000bpd. At an average price of $100 per barrel, this amounts to the loss of $40million per day. This is not right for an economy that is mainly dependent on oil. Government exists to maintain law and order, protect lives and property as it controls the security apparatus of the state. Government should not be seen to be retreating from criminals. Instead of attacking the challenge through the effective policing of oil installations, the government by lowering the production benchmark is surrendering to criminals. The production volume for 2014 should be increased to a minimum of the 2013 estimates and thereafter progressively increased. The security apparatus should be mobilised by the President to perform their basic duties and criminals should be arrested, prosecuted and sent to jail[23]. If the above

[23] The security forces include the Nigerian Army, Navy, Airforce, NIMASA, Police, the State Security Services, NIA and the companies contracted to secure the pipelines and other oil installations.

recommendation is implemented, this would definitely lead to improved production and oil revenue.

The use of 15-year and 10-year moving average to set the benchmark price of crude oil which produced a figure of $71.96, but was adjusted to $74 is realistic and should be retained. Figure 7 shows the price of Nigeria's Bonny Light Crude Oil.

Figure 7: Actual Prices for Nigeria's Bonny Light ($/PB)



Source: CBN Statistical Bulletin, First Quarter Report 2013

Previous experience has shown that the perennial Executive-Legislature feud over the benchmark price of crude oil produces no tangible results because the central challenge lies more in ensuring that projected millions of barrels per day are met. Moreover, the sums saved in the Excess Crude Account or Sovereign Wealth Fund will still be available for use either during the year or at a later date.

Missing in the macroeconomic framework is a projection based on the passage of the Petroleum Industry Bill (PIB) which when it becomes law would lead to enhanced revenue for the government under the new fiscal arrangements. The MTEF also reports that the non passage of the PIB is delaying the auctioning of new oil acreages. It is estimated that the passage of the Bill into law can release over N3trillion in new revenue to the Federation Account. Therefore, the Executive and Legislature should collaborate to ensure the passage of the Bill at the earliest opportunity in 2014, preferably before the end of the first quarter of 2014.

4.5.6 Projections for Non-Oil Revenue

On the non-oil revenue side, the MTEF appears rather pessimistic in the projection for 2014, as the expected revenue fell to N3, 288.584 billion from the 2013 projection of N3, 307.46billion. 2015 and 2016 had more impressive projections of N3, 488.651

billion and N3, 743.284 billion, respectively. Non-oil revenue consists of VAT, Customs/Excise Duty, Special Levies, Corporate Tax and FGN Independent Revenue. Although there are plausible reasons for the contraction of non oil revenue in 2014, it is a contradiction in terms that while the real GDP is growing at 6.75 percent, the tax bases are assumed to be contracting. Table 25 shows the trend in core non-oil revenue receipts from 2010 up till the medium term projections.

Table 25: Core Non Oil Receipts, 2010-2016

Non-Oil Revenue	2010 (N'bn)		2011 (N'bn)		2012 (N'bn)		2013[1] (N'bn)		2014[P] (N'bn)	2015 [P] (N'bn)	2016 [P] (N'bn)
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Projected	projected
Corporate Tax (CIT) Stamp duties, WHT, Capital Gains)	587.00	657.29	702.24	716.92	828.15	848.57	248.01	158.33	986.250	1,069.212	1,153.470
Value Added Tax (VAT)	580.00	562.86	770.09	649.50	802.86	710.15	236.32	180.41	845.449	875.966	963.886
Custom duties, Excise & Fees	400.00	309.06	450.00	422.09	600.58	474.92	198.24	109.94	782.381	821.499	862.574

Note: [1] - Implies Quarterly Figures for Budget and Actual:
Budgeted Annual Corporate Tax, VAT, and Customs Duties for 2013 are N992.04bn, N945.28bn, and N792.95 bn respectively.
[P] - Implies projections from the 2014-2016MTEF
Source: 2010-2013 figures are derived from Budget Implementation Reports 2010-Q1 2013, while 2014-2016 are derived from 2014-2016 MTEF

The non oil revenue projections are realistic and should be retained. But this is subject to a caveat that FGN should vigorously improve the non-oil revenue base through the growth of the real sector of the economy.

4.5.7 Any Lessons from the Review of the 2012 and First Half of 2013

The revenue outturn in 2012 showed that crude oil price averaged $113.47pb with a production of 2.32mbpd, below the benchmark of 2.48mbpd. Gross oil revenue outturns for the Federation stood at N8.026 trillion and non-oil receipts stood at N949.8b. The 2012 expenditure outturns showed that out of the N4.697trillion appropriated by FGN, N4.131trillion was utilised; N1.071trillion was released for capital expenditure and N766.836b was utilised at the end of the year. This brings the effective percentage of capital to recurrent expenditures at 18.24% and 81.76% respectively. The 2012 budget was passed late and effective implementation began in April 2012. Out of the N180b SURE-P budget, only N72.44b was utilised at the end of the year which is a utilisation rate of 40.2%. The 2013 budget outturns indicate that so far, only N421.21 billion has been utilised in the capital budget of N1.621trillion by the end of July with a further release of N250b for the third quarter. Assuming the third release is fully utilised, we should have utilised 41.41% of the capital budget by the end of the third quarter. The MTEF confirmed the poor capital budget implementation culture that has been prevalent over the years. The implication is that capital budget implementation continues to be relegated as in previous years. Of the N273.5b programmed for SURE-P, the MTEF reports that N104.1 has been so far expended in 2013[24].

The review of outturns for 2012 and the first half of 2013 shows a constant factor – poor capital budget implementation. However, no lesson was drawn from the review and no recommendations were made towards solving the problem. The Tables below show the actual versus projected expenditures for the years 2010, 2011, 2012 and the first quarter of 2013.

Table 26: FGN Budget Expenditure: Budgeted vs. Actual from 2010

2010				
Fiscal Items	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**
Non debt Recurrent	2,669.01	2,546.16	-122.85	-4.60
Debt	542.38	415.62	-126.76	-23.37
Statutory Transfers	183.58	201.33	17.75	9.67
Capital Expenditure	1,764.69	883.87	-880.82	-49.91
Aggregate Expenditure	**5.159.66**	**4,046.98**	**-1,112.68**	**-21.56**

Source: Consolidated Budget Implementation Reports for 2010

Table 27: FGN Budget Expenditure: Budgeted vs. Actual from 2011

2011				
Fiscal Items	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**
Non debt Recurrent	2,425.07	2,527.26	102.19	4.21
Debt	495.1	527.09	31.99	6.46
Statutory Transfers	417.83	329.18	-88.65	-21.22
Capital Expenditure	1,146.75	713.3	-433.45	-37.80
Aggregate Expenditure	**4,484.75**	**4,302.08**	**-182.67**	**-4.07**

Source: Consolidated Budget Implementation Reports for 2011

[24] For the 2011 budget, which was not reviewed by the MTEF; from a capital budget of N1,146.75trillion, only N713billion was utilised after the extension of the capital budget year to March 2012. This is only a 62.9% utilisation rate and would have been lower if the capital budget year was not extended to the first quarter of the New Year.

Table 28: FGN Budget Expenditure: Budgeted vs. Actual from 2012

2012				
Fiscal Items	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**
Non debt Recurrent	2,425.05	2,400.30	-24.75	-1.02
Debt	559.58	679.28	119.70	21.39
Statutory Transfers	272.59	307.23	34.64	12.71
Capital Expenditure	1,339.99	744.42	-595.57	-44.45
Aggregate Expenditure	**4,697.21**	**4,131.23**	**-565.98**	**-12.05**

Source: Consolidated Budget Implementation Reports 2012

Table 29: FGN Budget Expenditure: Budgeted vs. Actual from 2013 (First Quarter)

2013					
Fiscal Items	**Budget N'bn (Annual)**	**Quarterly Budget**	**First Quarter Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**
Non debt Recurrent	2,386.03	596.51	537.67	-58.84	-9.86
Debt	591.76	147.94	135.99	-11.95	-8.08
Statutory Transfers	387.98	96.99	79.21	-17.78	-18.33
Capital Expenditure	1,621.48	405.37	210.88	-194.49	-47.98
Aggregate Expenditure	**4,987.24**	**1,246.81**	**963.76**	**-283.05**	**-22.70**

Source: First Quarter Budget Implementation Report 2013

The recurring decimal in all these Tables is poor capital budget expenditure.

4.6 FISCAL STRATEGY PAPER

In accordance with the Act, 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 MTEF predicates the Fiscal Strategy on four major pillars vis; macroeconomic stability, structural reforms, governance and institutions and investing in priority sectors. The main focus is stated to be job creation, reduced unemployment especially among women and youths, creating enabling environment for economic diversification and growth. It identifies the agriculture sector as a strategic sector where progress has been made and efforts should be intensified. However, the issue of the four pillars has simply become a repetitive mantra every year, with no substance attached. What are the priority sectors and where is their investment plan? The efforts to create jobs through the Youth Enterprise with Innovation in Nigeria (YouWIN), Graduate Internship Scheme (GIS), the Community Service, Women and Youth Employment Scheme (CSWYE) of SURE-P and the Public Works and Women/Youth Employment (PW/WYE) cannot pass a value for money test because the resources going into them are not commensurate with the number of jobs being created. The impression is one of a contest for the creation of new jaw-breaking acronyms.

It is however admitted that power sector reforms have the potential of increasing electricity supply and activating the economy for enhanced growth and development. But electricity reforms will require additional sums of money to settle outstanding liabilities. The money realised from the privatisation exercise will not be enough to settle the liabilities[25]. In the housing sector, where government claims to have embarked on reforms with the establishment of a mortgage refinancing company, the core issues have been left unaddressed. These include amendments to National Housing Fund Act, and Federal Mortgage Bank of Nigeria Act, the laws relating to Insurance, Investment and Securities, Mortgage Institutions Act, Social Insurance Trust Fund and amendments to and removing the Land Use Act from the Constitution. If the National Housing Fund Act is enforced in its current state, and every Nigerian is made to pay 2.5percent of his income to the Fund, a large pool of resources will be available to finance the demands of the sector. Despite reform Bills pending in the NASS since 2007, nothing has changed and the Bills have not been passed. Thus, there is no political will to reform the housing sector; a fiscal strategy without an accompanying political strategy will be a labour in vain. The Extract of the Fiscal Framework from the MTEF is stated as follows in Table 30.

[25] The Director-General of the BPE indicated in a press release dated October 23 2013, that over N384b has been spent in paying the entitlements of workers and more sums are needed and in Vanguard Newspaper of October 28 2013, PHCN is stated to owe creditors over N450b. Thus, while about N530b has been earned from the privatization exercise, over N850b is required to settle liabilities.

Table 30: Extract of Fiscal Framework (2014-2016)

Fiscal Items	2013 Budget	Projections		
		2014	2015	2016
Oil Production (Mbpd)	2.5260	2.3883	2.5007	2.5497
Average Budget Price Per Barrel (in US$)	79.00	74.00	75.00	76.00
Average Exchange Rate	160.00	160.00	160.00	160.00
	N'bns	N'bns	N'bns	N'bns
Net Federation Account (Distributable)	6.655.915	5,929.517	6,247.913	6,434.714
New VAT (Distributable)	907.466	811.631	840.928	925.331
Total FGN's Retained Revenue	4,100.176	3,583.158	3,852.608	3,980.658
FGN Expenditure (Regular Budget)	**4,987.243**	**4,495.115**	**4,743.573**	**4,839.031**
Statutory Transfers	***387.976***	***390.527***	***409.223***	***410.889***
Debt Service	***591.764***	***712.000***	***684.000***	***684.000***
Recurrent (Non Debt)	***2,386.025***	***2,372.291***	***2,480.667***	***2,533.786***
Personnel Cost (MDAs)	*1,688.110*	*1,719.055*	*1,770.627*	*1,823.746*
Overheads	*237.874*	*220.000*	*240.000*	*240.000*
CRF Pensions	*143.236*	*153.236*	*153.236*	*153.236*
Other Service Wide Votes	*316.804*	*280.000*	*316.804*	*316.804*
Capital Expenditure (incl. Of Trfs component)	***1,786.614***	***1,178.445***	***1,346.179***	***1,388.389***
Share of Capital as % of total expenditure	*35.82%*	*26.22%*	*28.38%*	*28.69%*
Share of recurrent as % of total expenditure	*64.18%*	*73.78%*	*71.62%*	*71.31%*
Fiscal Deficit (Based on Regular Budget)	**-887.067**	**-911.958**	**-890.966**	**-858.372**
GDP	**47,843.76**	**48,066.29**	**52,355.87**	**57,078.67**
Deficit as a % of GDP	*-1.85%*	*-1.90%*	*-1.70%*	*-1.50%*
SUBSIDY REINVESTMENT PROGRAM (SURE-P)	**273.522**	**274.340**	**180.000**	**180.000**
Estimated Capital Component	*272.522*	*273.140*	*179.000*	*179.000*
Capital Expenditure (incl. of Trfs. & SURE-P component)	*2,059.136*	*1,451.585*	*1,525.179*	*1,567.389*
Agg. FGN expenditure (Regular & SURE-P)	**5,260.765**	**4,769.455**	**4,923.573**	**5,019.031**
Share of Capital as % of total expenditure	*39.14%*	*30.44%*	*30.98%*	*31.23%*
Share of recurrent as % of total expenditure	*60.86%*	*69.56%*	*69.02%*	*68.77%*

Source: MTEF 2014-2016

4.6.1 The Objectives of the FSP and the Directive Principles of State Policy

The above thrusts of the FSP do not have any relationship with the economic objectives in S.16 of the Constitution under the Fundamental Objectives and Directive Principles of State Policy. S.16 provides for a number of general issues but the most relevant and pointed parts of S.16 of the Constitution provide 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. Even when general policy statements are made, such as the objective of enhancing job creation, no targets are set and no clear cut strategies are enunciated.

4.6.2 Recurrent Versus Capital Expenditure Policy and the Challenge of the Cost of Governance

The MTEF notes the previous fiscal policy of correcting the imbalance between recurrent and capital expenditure in the last two years. But it is imperative to mention that FGN never actually meant business with the pledge to increase capital spending while reducing recurrent expenditure. For instance, in the year 2012, the expenditure outturns showed that out of the N4.697trillion appropriated by FGN, N4.131trillion was utilised; N1.071trillion was released for capital expenditure and N744.42bn was utilised at the end of the year. This brings the effective percentage of capital to recurrent expenditure at 18.24% and 81.76% respectively. According to the MTEF:

> *However, because of the new challenges occasioned by the projected significant reduction of revenue in 2014, there will be a temporary dip in the share of capital spending to about 26.22% (inclusive of the capital component of statutory transfer entities). This is because the brunt of the shortfall in revenue is to be borne by capital expenditure. It is essential to note that the level of outlay of personnel cost is crowding out expenditure on capital spending needed to develop the nation and constitutes a major drain on public resources.*

The proposal for capital expenditure inclusive of SURE-P is 30.44%, 30.98% and 31.23% of the budget in 2014, 2015 and 2016 respectively. The MTEF statement indicates a continuation and even deterioration of the old order. This has not improved on funding available for capital budget implementation in an infrastructure deficient economy. The MTEF indicates the pressure for increases to recurrent expenditure, especially personnel expenditure, while acknowledging official lethargy in taking steps to reduce the recurrent expenditure. Biometric verification of government employees and institutionalisation of IPPIS which has been ongoing for over seven years is yet to be completed while no official white paper has come out of the Oronsaye Committee's recommendations. This cannot be the hallmark of a government that intends to reduce recurrent expenditure.

Essentially, what is required is the political will to change the recurrent capital expenditure mix. For instance, the White Paper of the Orosanye Report should be released without delay and considering that the Executive and Legislature are controlled by the same political party, there is no reason holding back the Legislature from fast-tracking repeal and amendment Bills to be sent by the Executive to implement the report.

According to the mid-term report on the implementation of the Transformation Agenda; for the Integrated Payroll and Personnel Information System (IPPIS), a total of 215 MDAs comprising 153,019 staff have been enrolled as at January 2013 with a further 312 MDAs to be included within the year. The report states that:

> *The system has helped to enhance efficient personnel cost planning and budgeting, ensuring that the cost is based on actual verified numbers and not estimates, thereby saving the government substantial resources*.

Pray, where are the savings made under IPPIS when the wage bill is still over-bloated? Where is the evidence of the updates of enrolment into the IPPIS? In the above report, there is also a claim that:

> *Government Integrated Financial Management and Information System (GIMFIS) has greatly improved the efficiency of government expenditure. The system is currently being used to manage the financial transactions of government in MDAs and has reduced wastages in the system.*

Again, there is no evidence of reduction in wastages to support this claim. More troubling is the provision of N150bn for each of the three years for NASS. Since 2010, NASS has been allocating N150bn to itself. This is now a matter of right which cannot be changed by macroeconomic fundamentals or the expressed wishes of Nigerians. In all the foregoing, what is required is the political will for action especially between the Executive and the Legislature and leadership by example; reduce the perks of office and the demand for increased remuneration by other public officers will reduce. Most demands for wage and salary increase have been benchmarked against the scandalous earnings of political office holders.

4.6.3 The Mantra of Fiscal Consolidation

The MTEF promises to tighten fiscal policy as government prioritises spending and focuses on completion of ongoing projects. There is also a promise to rationalise recurrent spending and freeze overheads. Stating the foregoing in an MTEF that has promised that the brunt of lower revenue projections will be borne by capital expenditure appears contradictory. There is evidently no workable plan to reduce recurrent expenditure. The MTEF plans to use Pubic Private Partnership (PPPs) arrangements to increase the capital stock and cited the Second Niger Bridge and the Lekki Port as examples. These projects have been in the pipeline since the return to civil rule in 1999 and indeed, the Obasanjo administration claimed to have awarded the concession of the Second Niger Bridge to a company and even did a ceremony to flag off the project. It is clear that the Infrastructure Concession and Regulatory Commission and the MDAs lack the capacity to midwife credible PPPs. The few that were working have been unilaterally sabotaged by government without recourse to the due process of law; the aviation sector PPPs are examples. Essentially, referring to PPPs as part of the fiscal consolidation agenda when the support mechanisms do not exist compounds the national infrastructure deficit.

The MTEF's silence on the education sector is surprising considering that the strike action by members of the Academic Staff Union of Universities started before the submission of the MTEF. A nation where the public universities have been on strike for four months, without teaching and learning, cannot be a nation destined for greatness.

4.6.4 Petroleum Subsidy

THE MTEF projects the continuation of the petroleum subsidy regime indicating a lack of out-of-the-box thinking to stop this bleeding of the treasury. The expectation is that programmes and funds should have been made available for the enhancement of local refining capacity through the private sector. This would have reduced subsidy costs, created new jobs for Nigerians and improved returns from company income tax to the treasury.

4.7 DIVERSIFICATION OF THE ECONOMY

In terms of revenue contribution to the Federation Account, Table 31 still reveals the dominance of oil revenue.

Table 31: Federally Collectible Revenue

Revenue	**2013**		**2014**		**2015**		**2016**	
	N'billion	%	N'billion	%	N'billion	%	N'billion	%
Gross Oil Revenue	7,734.15	68.2	6,814.43	64.78	7,137.74	64.14	7,213.04	62.76
Gross Non Oil Revenue	3,307.46	29.17	3,288.58	31.26	3,488.65	31.35	3,743.28	32.57
Non Federation Account Levies for Targeted Expenditure	162.73	1.44	250.71	2.38	263.25	2.37	276.41	2.4
Education Tax	125.42	1.11	156.16	1.48	228.85	2.06	249.69	2.17
National Information Technology Development Fund	10.02	0.09	9.39	0.09	10.04	0.09	10.7	0.09
Gross Federally Collected Revenue	**11,339.77**	**100**	**10,519.27**	**100**	**11,128.53**	**100**	**11,493.12**	**100**

Source: MTEF 2014-2016

From the above Table, oil and gas will still provide the bulk of the revenue over the medium term.

The MTEF claims that government will continue to diversify the economy aimed at creating jobs and reducing unemployment through supporting the real sector of the economy. It listed agriculture, education, health, manufacturing, solid minerals, power, housing, transport and security as priority sectors. With the exception of agriculture and power sectors, nothing concrete has been done in any other sector. This section is vacuous and devoid of specificity in terms of policy objectives, programmes, projects, activities, financing and expected impacts tied to outputs and outcomes. While the mantra of diversifying the economy is repeated every year, proposed programmes and activities do not seem supportive of this and the share of oil to non-oil revenue remains on the high side. The MTEF project seems to be an exercise in repeating the same clichés every year and offering empty slogans devoid of specific action to improve the economy and living standards. This trend needs to change as the MTEF should form the springboard for effective developmental action.

4.7.1 Fiscal Balance

Table 32 shows the fiscal deficit based on the regular budget, the GDP and Deficit/GDP.

Table 32: Fiscal Balance Indicators

	2013	2014	2015	2016
Fiscal deficit based on regular budget	-887.067	-911.958	-890.966	-858.372
GDP	47,843.76	48,066.29	52,355.87	57,078.67
Deficit/GDP	-1.85%	-1.90%	-1.70%	-1.50%

Source: MTEF 2014-2016

The section on fiscal balance further states:

> *As our concerted efforts to increase oil and non-oil revenue begin to yield benefits, government will redouble its efforts to reduce the fiscal deficit. This will create long-term economic gains because it will increase the pool of national savings and boost investment, thereby creating jobs and raising economic growth. It also yields near-term benefits by engendering lower interest rates, and increasing consumer and business confidence.*

The above statement is hanging and cannot be supported by empirical evidence of previous performance of the fiscal balance.

4.7.2 Other Supporting Fiscal Policies

Some other supporting fiscal policy targets of the FSP include; implementation of the Integrated Tax Administration System and commencement of full self-assessment regime for all taxpayers; increased deployment of ICT; stepping up of anti smuggling activities by Customs Service and continued government fiscal policies that have reduced the importation of goods like rice; and zero duty for equipment for agriculture and power. As has been the practice in previous MTEFs, these proposals have been repeated without concrete implementation mechanisms.

4.8 THE REVENUE AND EXPENDITURE FRAMEWORK

4.8.1 Estimates of Aggregate Revenues for the Federation 2014-2016

Section 11(3) (c) (i) of the FRA, requires the MTEF to provide a Revenue and Expenditure Framework, setting out:

> *the estimates of aggregate revenues for the Federation for each of the financial years in the next three financial years, based on the predetermined Commodity Reference Price adopted and tax revenue projections.*

Upon this demand, the MTEF draft bases its revenue projections on oil price and production as well as non-oil revenue baseline assumptions, most of which are tax based.

Tables 33 and 34 show the revenue projections for the medium term.

Table 33: Basic Revenue Framework (N'Billion)

BASIC REVENUE FRAMEWORK (N'BILLION)				
	2013 Budget	**2014 P**	**2015 P**	**2016P**
Gross oil revenue	7,734.15	6,814.43	7,137.74	7,213.04
% of Oil Revenue to Overall Collectable FGN Revenue	***68.3***	***64.9***	***64.19***	***62.82***
Gross non oil revenue	3,307.46	3,288.58	3,488.65	3,743.28
% of Non-oil Revenue to Overall Collectable FGN Revenue	***29.19***	***31.28***	***31.38***	***32.60***
Non Federation Account Levies for target expenditure	162.73	250.71	263.245	276.407
Education Tax	125.42	156.16	228.849	249.689
National Information Technology Development Fund	10.020	9.390	10.040	10.700
GROSS FEDERAL GOVERNMENT COLLECTABLE REVENUE	**11,329.76**	**10,513.88**	**11,118.49**	**11,482.42**
Federal Government Retained Revenue	4,100.176	3,583.158	3,852.608	3,980.658

MTEF: 2014-2016

Table 34: Projection of Oil Revenue into the Federation Account (N'billion)

	2013 Budget	2014 P	2015 P	2016 P
Crude oil Sales	4,243.901	3,659.910	3,924.269	3,737.194
Gas Sales	359.582	550.231	553.268	636.979
Petroleum Profit Tax	2,280.188	1,789.747	1,814.188	1,897.412
Gas Income @30% CITA	82.965	96.338	89.030	94.930
Oil Royalties	743.425	671.650	710.362	793.819
Gas Royalties	17.652	40.119	40.191	46.272
Concessional Rental	0.880	0.880	0.880	0.880
Gas Flared Penalty	2.480	2.480	2.480	2.480
Miscellaneous (Pipe Fees)	3.072	3.072	3.072	3.072
Total Oil and Gas Revenue	**7,734.145**	**6,814.427**	**7,137.740**	**7,213.038**

Source: MTEF 2014-2016

An important point to note from the above Tables is that FGN is not planning to stop gas flaring in the medium term. The second point is that there appears to be no hope that the PIB would soon be passed into law because the projections for the other years would have been based on its enhanced revenue framework. The third is the dominance of oil revenue in the medium term (68.3percent, 64.9percent, 64.19percent, 62.82percent for 2013, 2014, 2015 and 2016 respectively). This implies that FGN is not convinced that its efforts to diversify the sources of revenue would yield sufficient fruits to deviate from the norm. The fourth is that FGN has no plans to improve refining capacity, to add value to the raw crude so that Nigeria can begin to earn more income from other petroleum products apart from the crude oil. It is recommended that efforts must be intensified to stop gas flaring in the medium term; the PIB ought to be passed before the end of the first quarter of 2014; FGN should support Nigerian entrepreneurs to increase local refining capacity and to produce other products from crude oil and in the near future, to reduce crude exports in favour of refined products.

Table 35: Projection of Non-Oil Revenue (N'billion)

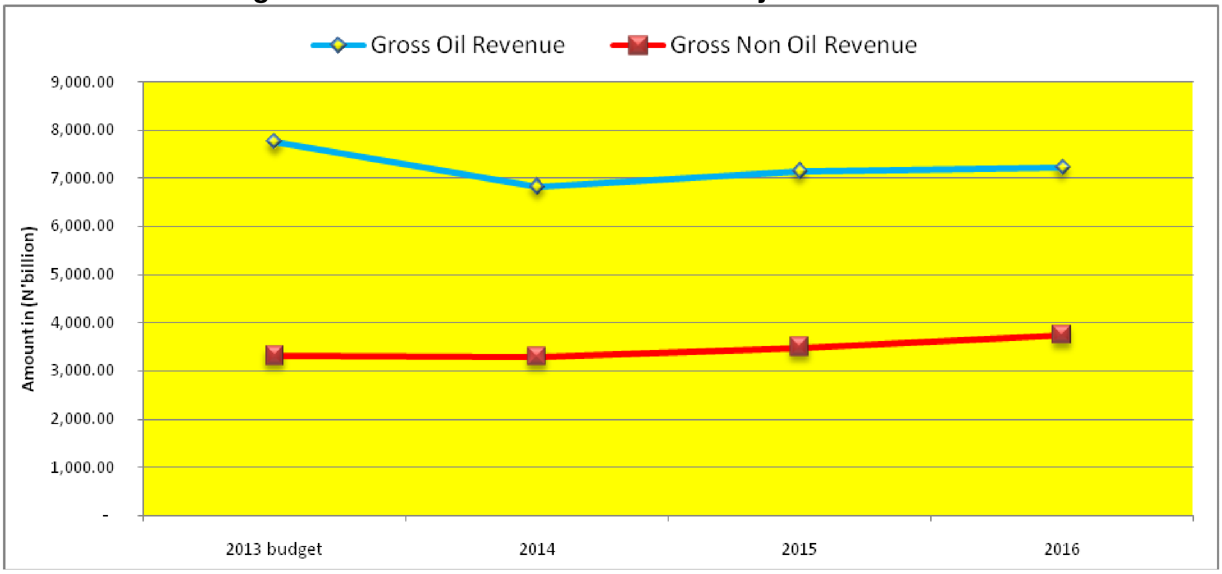
	2013 Budget	2014^P	2015^P	2016^P
Corporate Tax (CIT, Stamp Duties, WHT, Capital Gains)	992.038	986.250	1,069.212	1,153.470
Value Added Tax	945.277	845.449	875.966	963.886
Customs Duties, Excise and Fees	792.949	782.381	821.499	862.574
Special Levies (Federation Account)	121.418	222.469	233.592	245.272
FGN Independent Revenue	455.781	452.035	488.381	518.082
Total Non-Oil Revenue	**3,307.463**	**3,288.584**	**3,488.651**	**3,743.284**

Source: 2014-2016 MTEF

The underlying tax bases according to the MTEF are as follows: (1) Customs collections are predicated on the CIF value of imports, applicable tariffs and an efficiency factor; (2) Value Added Tax (VAT) is based on aggregate national consumption, but taking account of *vatable* items and collection efficiency set at 5% (3) Companies Income Tax (CIT) is based on nominal non-oil GDP, Companies' Profitability Ratio and an efficiency factor; set at 30% (4) FGN Independent Revenue is derived largely on a new government policy of restricting the expenditure of Government-Owned Enterprises to a maximum of 75% of their gross revenue. The implication is that 25% of such revenues are benchmarked as Government Revenue.

The implication of the above Table is that the reforms that would have expanded and diversified the economy so as to bring in more non-oil revenue have not started to yield fruit. If there is increased production in an economy, then the CIT base ought to increase and if consumption is increasing, then VAT ought to have a dramatic increase. The projected revenues when compared with projections from earlier years paint a picture of economic stagnation. These projections cannot be the hallmark of an economy which has sustained a growth rate of over 6 percent in the last decade.

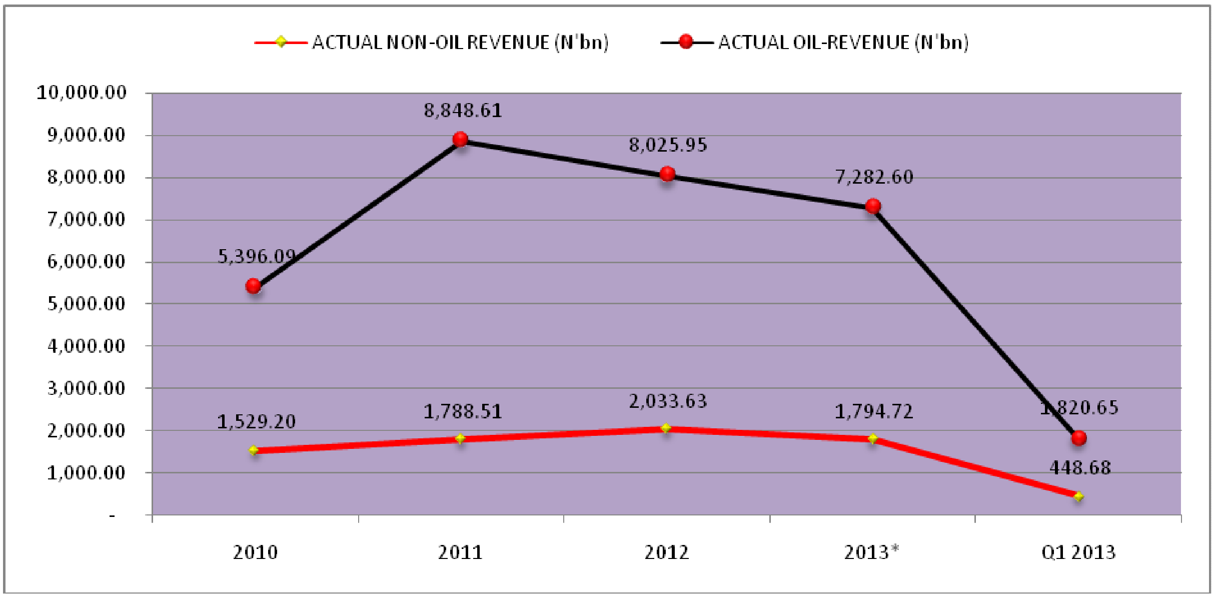
Figure 8: Oil and Non-Oil Revenue Projection 2014-2016



Source: 2014-2016 MTEF

Essentially, it cannot be confidently stated, based on the projections of non-oil revenue that FGN is making significant efforts at diversifying the economy. The growth rate in the non-oil revenue is rather insignificant. The trend in the actual and estimated non-oil revenue and oil revenue is presented in Figure 9.

Figure 9: Trend of Actual Non-Oil & Oil Revenue Overtime 2010-2013 (n' billion)



Source: Budget Implementation Reports for 2010 to Q1 of 2013. Note the 2013 figure was on the assumption that the yearly earning was based on the figures of First Quarter (this is done for the sake of avoiding misinterpretation of the trend).

4.8.2 FGN Expenditure Projection 2014-2016

The MTEF is also expected to set out the aggregate expenditure projection for the Federation for each financial year in the next three financial years. FGN through the

2014-2016 MTEF proposes a budget of N4, 495.115bn for 2014, 9.87percent less than the 2013 figure of N4, 987.243bn. The figure was reviewed upward to N4, 743.573bn for 2015, and increased to N4, 839.031bn in 2016. Table 36 tells the story:

Table 36: Aggregate Expenditures Projected for 2014-2016 (N' billion)

Year	2011	2012	2013	2014	2015	2016
Aggregate Expenditure	4,629.9	4,797.6	4,987.243	4,495.115	4,743.573	4,839.031
Aggregate Expenditure inclusive of SURE-P			5,260.765	4,769.455	4,923.573	5,019.031

Source: Previous MTEFs and the 2014-2016 MTEF

On the composition of projected aggregate expenditure, the 2014-2016 MTEF proposed a reduction in capital expenditure and a rise in the recurrent non-debt expenditure composition in 2014. Capital expenditure has been pegged at 26.2 percent in 2014. See Table 37 for the full composition.

Table 37: Projected Composition of Expenditure (Amount in N' billion)

MTEF Assumptions	2013 Budget	% of Agg	2014*	% of Agg	2015*	% of Agg	2016*	% of Agg
Statutory Transfer	387.9	**7.8%**	390.527	**8.7%**	409.223	**8.6%**	410.889	**8.5%**
Debt Servicing	591.8	**11.9%**	712	**15.8%**	684	**14.4%**	684	**14.1%**
Recurrent (non-debt)	2,386.0	**47.8%**	2,372.3	**52.8%**	2,480.7	**52.3%**	2,533.8	**52.4%**
Capital Expenditure	1,786.6	**35.8%**	1,178.5	**26.2%**	1,346.2	**28.38%**	1,388.4	**28.69%**
Aggregate Expenditure	4,987.2	**100**	4,495.115	**100**	4,743.573	**100**	4,839.031	**100%**

Source: 2014 - 2016 MTEF

If SURE-P funds are taken into cognisance, the capital expenditure comes up to 30.44percent, 30.98percent and 31.23percent in the years 2014, 2015 and 2016 respectively. According to the expenditure framework, the reduction in the capital spending in 2014 is the fall out of projected reduction in revenue. The projections of capital expenditure in 2015 and 2016 did not dramatically increase and are still less than the 40percent projection in the earlier development plan - the National Economic Empowerment and Development Strategy (NEEDS). Considering the level of infrastructural deficit in the country, and the poor level of capital budget implementation overtime, the implication of this projection is that Nigeria will still be lacking basic infrastructure at the end of the medium term. From experience, there is even no guarantee that the funds projected will be available and released to MDAs to implement the capital budget.

In disaggregating capital expenditure between administrative and developmental capital, the picture that emerges over the years is that up to 30% of capital expenditure has been dedicated to administrative capital such as cars, office buildings for MDAs, furniture and equipment. This has narrowed the band of capital expenditure that directly impacts on the citizens.

For recurrent non-debt expenditure, the bulk of the provisions go to the outlay on personnel cost. Table 38 shows the picture of the extent of personnel costs.

Table 38: Disaggregation of Recurrent (Non Debt) Expenditure

	2013		2014		2015		2016	
Recurrent (Non Debt)	**2,386.025**	**%**	**2,372.291**	**%**	**2,480.667**	**%**	**2,533.786**	**%**
Personnel Cost (MDAs)	1,688.110	70.7	1,719.055	72.5	1,770.627	71.4	1,823.746	72.0
Overheads	237.874	10.0	220.000	9.3	240.000	9.7	240.000	9.5
CRF Pensions	143.236	6.0	153.236	6.5	153.236	6.2	153.236	6.0
Other Service Wide Vote	316.804	13.3	280.000	11.8	316.804	12.8	316.804	12.5
TOTAL	**2,386.025**	**100**	**2,372.291**	**100**	**2,480.667**	**100**	**2,533.786**	**100**

Source: CSJ's Analysis from MTEF 2014-2016

An average of 72% of recurrent expenditure is dedicated to personnel expenditure over the medium term. From the projection, it may be increasing after 2016. Another cause for concern is the bulk figures the MTEF allocated to Service Wide Votes, which are usually not disaggregated in the annual budget. These votes are the second largest after personnel in the recurrent (non debt) category. It is imperative that the Legislature, after approving the MTEF insists on a disaggregation of the Service Wide Votes in the annual budget.

With reduced capital expenditure projections within the medium term, during which elections will be held (with its lopsided claims to the recurrent budget), it is clear that Nigeria has abandoned Vision 20:2020. The clear solutions are to reduce the cost of governance through producing a White Paper of the Oronsanye report and implementing the recommendations; implementation of the IPPIS, GIMFIS and TSA; reduction in the remuneration of political office holders; recovery of stolen monies through the prosecution of felons, including recovery of funds earned by over 45,000 ghost workers and plugging the pipes of corruption through the full implementation of the Public Procurement Act and other relevant laws.

4.9 RETAINED REVENUE AND DEFICIT

The MTEF proposes prudence, fiscal consolidation and the improvement of the fiscal balance. Although, there are funding challenges, the implementation of budgetary projects should not unduly increase the deficit and lead to unnecessary borrowing. Table 39 shows the projected expenditure, retained revenue of FGN vis-à-vis the deficit.

Table 39: Projections of Retained Revenue and Expenditure for 2014 - 2016 MTEF (N'Bn)

	2013 budget	2014	2015	2016
Aggregate Expenditure	4,987.243	4,495.115	4,743.573	4,839.031
Federal Government Retained Revenue	4,100.176	3,583.158	3,852.608	3,980.658
Fiscal Deficit	-887.067	-911.958	-890.966	-858.372
Fiscal Deficit/GDP (%)	-1.85	-1.90	-1.70	-1.50
Retained FGN Revenue as % of Aggregate Expenditure (%)	82.21	79.71	81.22	82.26

Source: 2014-2016 MTEF

The fiscal deficit appears relatively stable over the medium term. The fiscal balance is expected to move positively from -1.9percent of the GDP in 2014, to -1.5percent by 2016. This however requires discipline on the part of FGN. But considering the value of our debts which requires budgetary outlays for servicing, it is better to tread on the path of caution and further reduce the deficit. The implication of Table 39 is that if revenues can increase by 20percent in the medium term, it is possible to run a balanced budget in the not too distant future.

4.10 DEBT AND DEBT SERVICE

Table 40 shows debt service versus retained revenue.

Table 40: Debt Servicing as a Percentage of Retained Revenue in the Medium Term

	2013	2014*	2015*	2016*
Debt Servicing (N'bn)	591.764	712	684	684
FGN Retained Revenue (N'bn)	4,100.176	3,583.158	3,852.608	3,980.658
Debt Servicing/FGN Retained Revenue (%)	***14.4%***	***19.9%***	***17.8%***	***17.2%***

Source: 2014-2016 MTEF

From Table 40, when we calculate the amount required for debt service as a percentage of the retained revenue in the medium term, we note that in 2014, 2015 and 2016, the amount is 19.9 percent, 17.8 percent and 17.2percent respectively of the total retained revenue. These figures could have been lower if FGN adhered to the FRA by borrowing only for infrastructure and human development. Previous borrowing had been used to supplement recurrent expenditure. These figures for debt service represent lost opportunities for improving human capital and infrastructure. Table 41 shows the relationship between debt service and capital expenditure in the medium term whilst table 41A shows the 2010-2013 relationship.

Table 41: Projected Debt Service as a Percentage of Capital Expenditure

	2013	2014*	2015*	2016*
Debt Servicing (N'bn)	591.764	712	684	684
Capital Expenditure (N'bn)	1,786.61	1,178.45	1,346.18	1,388.39
Debt Servicing as a % of the Capital Expenditure (%)	33.12	60.42	50.81	49.27

Source: 2014-2016 MTEF

Table 41A: Projected Debt Service as a Percentage of Actual Capital Expenditure: 2010-2013

Actual Expenditures	2010	2011	2012	2013*
Debt Servicing (N'bn)	415.62	527.07	679.28	135.99
Capital Expenditure (N'bn)	883.87	918.55	744.42	210.88
Debt Servicing as a % of the Capital Expenditure (%)	47.02	57.38	91.25	64.49

Source: 2014-2016 MTEF

In the 2014-2016 period, the average projected percentage of debt service to capital expenditure is 53.5percent whilst for the former period 2010-2013 (which is based on actual expenditure), it averaged 65.04percent. This is incredible! For Nigeria to lay a solid foundation for development, this ought to be reversed.

4.11 CONSOLIDATED DEBT STATEMENT, CONTINGENT LIABILITIES AND QUASI-FISCAL ACTIVITIES

Section 11, (3) (d) and (e) of the FRA states that the MTEF shall contain:

> *d. 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*
>
> *e. Statement describing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallization of such liabilities.*

The Consolidated Debt Statement merely stated the external and domestic debt of Federation and FGN’s share in it. It went on to state that:

> *Government will continue to exercise fiscal prudence and limit its borrowing requirements in compliance with the Fiscal Responsibility Act 2007. In this regard, new borrowing in 2014 will be N572billion slightly down from N577billion in 2013.*

The section consists of only five sentences and did not explain how it arrived at the new figure of N572 billion to be borrowed in 2014. There was no description of the fiscal significance of the debt liability or any measures to reduce such liability. This section reinforces the belief that the MTEF was compiled in a hurry without in-depth research and merely to satisfy the formality of producing a document for submission to NASS.

Table 42 shows the trends in increases in national debt between 2008-2012.

Table 42: Total Public Debt Outstanding, 2007-2012 (US$ Million)

Type	2008	2009	2010	2011	2012
External Debt stock (% share of total)	3,720.63 (17.39)	3,947.30 (15.29)	4,578.77 (13.05)	5,666.58 (13.64)	6,527.07 (3.46)
Domestic Debt Stock (% share of total)	17,678.55 (82.6)	21,870.12 (84.71)	30,514.33 (86.95)	35,882.86 (86.36)	41,969.16 (86.54)
Total (%)	21, 398.91 (100)	25,817.42 (100)	35,093.10 (100)	41,549.44 (100)	48,496.24 (1000)
% Growth Rate of Total Debt	-	20.65	35.93	18.40	16.72

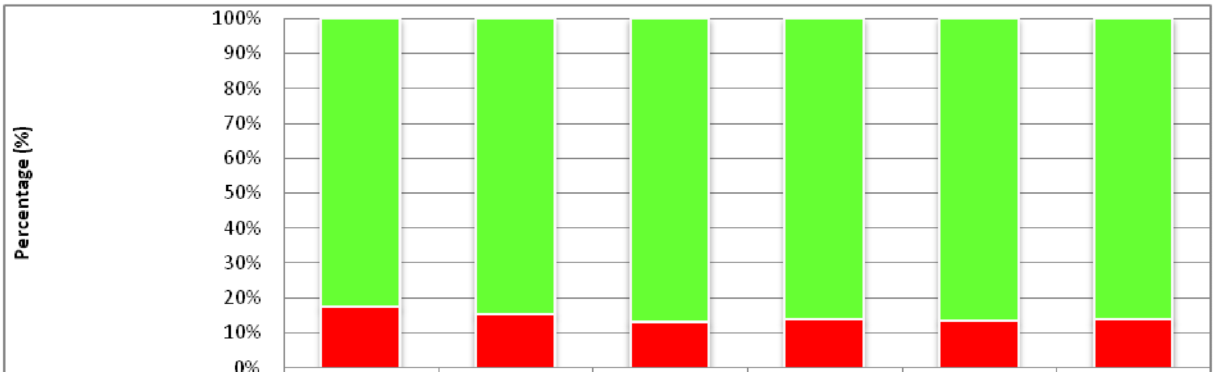
Source: DMO, Annual Report 2012: Note - Official CBN Exchange Rate is N155.77/1USD as at 31/12/2012

Further, figures from the DMO for June 2013, reveals that the total debt stock outstanding for the country has increased from $48.5billion in 2012 to $50.9billion (Naira equivalent of N7.93trillion) at the end of first half of 2013; that is a growth rate of 4.97%. From Table 42 above, the debts have geometrically increased by 20.65percent, 35.93percent, 18.40percent and 16.72percent for the years 2009, 2010, 2011 and 2012. However, our income and revenue have not progressively increased within these years but seems to have added not more than 6percent increment. With these figures, it is worrisome that the DSA 2013 still concludes that:

> *The outcome of the 2013 DSA, has further buttressed the robustness and resilience of the Nigerian economy, as it exhibits low debt distress over the projection period of twenty years, if the current initiatives and reforms of the present administration in the key sectors of the economy are sustained*..."

Figure 10 shows the composition of total debt stock - 2008-June 2013.

Figure 10: Composition of Total Debt Stock Outstanding (2008 - June 2013)



	2008	2009	2010	2011	2012	June 2013
Domestic Debt ($million)	17,678.55	21,870.12	30,514.33	35,882.86	41,969.16	43,985.55
External Debt ($million)	3,720.63	3,978.55	4,578.77	5,666.58	6,527.07	6,920.10

Source: DMO , 2013

Taking cognisance of the above analysis and the dangers posed to the economy by reckless borrowing, it is recommended that NASS should send back this part of the MTEF to the Minister to be reworked in accordance with the law.

4.12 CONTINGENT LIABILITIES AND QUASI FISCAL ACTIVITIES

The MTEF by Section 11(3 (e) should 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. However, S.7.2 of the MTEF briefly touched on AMCON, CBN and banking sector liabilities and the policy of not embarking on new projects to minimise the risk of contractor arrears. Assuming without conceding that these are the only outstanding contingent liabilities, the MTEF was silent on the quantum, timing, redemption and fiscal significance of AMCON bonds and the outstanding contractor arrears. There was no presentation on measures to offset any liabilities if they crystallise. Contingent liabilities are potential obligations that may crystallise at a future date at the happening of definite event i.e. this could arise where guarantees of debt have been made by FGN with regard to contract agreements for capital projects, aid, or unplanned provisions to cover unpredictable expenses from disaster or sudden obliged development needs.

The MTEF totally ignored the Quasi Fiscal Activities of FGN which include the fiscal activities of government agencies that add to the attainment of the broad macroeconomic goals of the economy. Some of the 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 guarantees agricultural loans; the SME/Manufacturing Refinancing and Restructuring Fund, the Small and Medium Enterprises Credit Guarantee Scheme, the Power and Airline Intervention Funds, Developmental Funds Disbursed to Universities and Research Institutes, etc. It is recommended that this section of the MTEF should have been sent back to the Minister to be updated and re-worked.

Chapter Five

THE 2014 APPROPRIATION BILL AND THE FRA

5.1. INTRODUCTION: THE 2014 BUDGET BILL

The 2014 federal budget is tagged a budget of ***job creation and inclusive growth***. The name appears to be a response to the criticism that Nigeria has been recording a jobless growth and the growth has accentuated inequality and widened the income gulf of the different strata of Nigerians. However, whether the budget will create jobs and reduce inequality is a matter of fact that will become clear when it is analysed. The budget was laid before the two chambers of the NASS by the Minister of Finance and Coordinating Minister for the Economy on December 19, 2013. There was no accompanying budget speech and address. By the refusal of the President to address the Joint Sitting of the NASS in accordance with tradition, the nation lost the opportunity of the President giving an account of his fiscal and economic stewardship in 2013 and throwing light on the policy thrust of the 2014 federal budget. By the 19th of December when the budget was laid, it was very late in the year and NASS merely received the budget and proceeded on their Christmas and New Year vacation the following day. The implication was that the budget will not be approved by NASS before the end of the first quarter of 2014. This development cannot in any way accelerate the implementation of fiscal reforms and this laid a strong foundation for the failure of the 2014 budget implementation, especially the capital vote.

5.2 LEGISLATIVE CONSIDERATION AND APPROVAL OF THE MTEF

The Appropriation Bill 2014 is anchored on the MTEF 2014-2016. It appears however that NASS has not fully understood its role and what it should do in the consideration and approval of the MTEF. First, NASS restricted itself to the consideration and approval of the following; benchmark oil price and daily production benchmark, non-oil revenue assumptions, exchange rates and general expenditure projections. This is not the full picture of the MTEF. Growth projections, interest rate, inflation rate, sectoral indicative envelopes, etc., should be part of the issues to be reviewed. However, the MTEF did not contain sectoral envelopes following the failure of the Executive to prepare MTSS. Also, NASS did not hold extensive consultations with stakeholders and experts before the approval of the MTEF. As such, NASS did not satisfy the requirement of section 48 (2) of the FRA to ensure transparency during the consideration of the MTEF.

5.3 EVALUATION OF RESULTS OF PROGRAMMES FINANCED WITH BUDGETARY RESOURCES

Section 19 (d) of the FRA demands the Executive to report to the Legislature on measures on cost, cost control and the evaluation of results of programmes financed with budgetary resources, The word evaluation is defined to mean; to form an opinion of the amount, value or quality of something after thinking about it carefully – some form of assessment. This would essentially involve an analysis of the impact of the programmes on the population or segments of the population targeted by specific programmes. It should deal with such issues as increase in school enrolment and improvements in learning outcomes, greater number of mothers and children reached with maternal and child health services, increased access to immunisation, number of new households that have access to potable water, etc. The evaluation of results is not about the fiscal projections in terms of revenue and expenditure projected versus the actual(s) and the reasons for realising or not realising the forecasts which the quarterly budget reports are assigned to do. The evaluation should lead us to what has changed positively or negatively through the expenditure of government resources. However, neither the Appropriation Bill nor the accompanying documents provided the evaluation of results of programmes financed through budgetary resources as required by section 19 (d) of the FRA. The budget was also silent on measures on cost control.

5.4 THE 2014 APPROPRIATION PROVISIONS

The budget is for a total sum of N4,642,960,000,000 (Four Trillion, Six Hundred and Forty-Two Billion, Nine Hundred and Sixty Million Naira) only, of which N399,687,801,891 (Three Hundred and Ninety Nine Billion, Six Hundred and Eighty-Seven Million, Eight Hundred and One Thousand, Eight Hundred and Ninety-One Naira) only is for Statutory Transfers; N712,000,000,000 (Seven Hundred and Twelve Billion Naira) only is for Debt Service; N2,430,665,361,597 (Two Trillion, Four Hundred and Thirty Billion, Six Hundred and Sixty-Five Million, Three Hundred and Sixty-One Thousand, Five Hundred and Ninety-Seven Naira) only is for Recurrent (Non-Debt) Expenditure while the balance of N1,100,606,836,512 (One Trillion, One Hundred Billion, Six Hundred and Six Million, Eight Hundred and Thirty-Six Thousand, Five Hundred and Twelve Naira) only is for contribution to the Development Fund as Capital Expenditure.

Table 43 shows the details and percentages.

Table 43: Proposed Budget Expenditure, Allocation and Percentages

PROPOSED BUDGET EXPENDITURE	ALLOCATION (N)	% OF AGGREGATE EXPENDITURE
Recurrent Expenditure (Non-Debt)	2,430,665,361,597	52.35%
Statutory Expenditure	399,687,801,891	8.61%
Debt Servicing: *(Domestic: N663,610,000,000)* *(Foreign: N48,390,000,000)*	712,000,000,000	15.34%
Capital Expenditure	1,100,606,836,512	23.70%
AGGREGATE BUDGET	**4,642,960,000,000**	**100**

Source: 2014 Budget Proposal

Table 44 is a comparison of the votes for 2013 and 2014.

Table 44: 2013-2014 Budget in Comparison

	2014 PROPOSED BUDGET EXPENDITURE		**2013 APPROVED BUDGET EXPENDITURE**	
	ALLOCATION (N)	**% OF AGGREGATE EXPENDITURE**	**ALLOCATION (N)**	**% OF AGGREGATE EXPENDITURE**
Recurrent Expenditure (Non-Debt)	**2,430,665,361,597**	**52.35**	**2,386,024,770,349**	**47.84**
Statutory Expenditure	**399,687,801,891**	**8.61**	**387,976,000,000**	**7.78**
Debt Servicing	**712,000,000,000**	**15.34**	**591,764,000,000**	**11.87**
	(Domestic: N663,610,000,000 or 93.2% of the Total Debt Service)		(Domestic: N543,376,000,000 or 91.8% of the Total Debt Service)	
	(Foreign: N48,390,000,000 or 6.8% of the Total Debt Service)		(Foreign: 48,388,000,000 or 8.2% of the Total Debt Service)	
Capital Expenditure	**1,100,606,836,512**	**23.7**	**1,621,477,655,252**	**32.51**
AGGREGATE BUDGET	**4,642,960,000,000**	**100**	**4,987,220,425,601**	**100**

Source: 2014 Appropriation Bill and Budget Act 2013

Table 44 above shows that the 2014 proposal is a 6.97% decline compared to the approved budget of 2013. Capital budget declined from 32.51% to 23.7% of overall budget. Statutory and debt expenditure increased, all leading to an increase in recurrent (non debt) expenditure. However, if the vote for Subsidy Reinvestment and Empowerment Programme (SURE-P, which is focused on capital expenditure) is added, the new Table for 2013 and 2014 will be as follows.

Table 45: Comparison of the 2013 and 2014 Votes with SURE-P

	2014 PROPOSED BUDGET EXPENDITURE		2013 APPROVED BUDGET EXPENDITURE	
	ALLOCATION (N)	% OF AGGREGATE EXPENDITURE	ALLOCATION (N)	% OF AGGREGATE EXPENDITURE
Recurrent Expenditure (Non-Debt)	2,430,665,361,597	49.49	2,386,024,770,349	45.35
Statutory Expenditure	399,687,801,891	8.14	387,976,000,000	7.37
Debt Servicing	712,000,000,000	14.50	591,764,000,000	11.24
	(Domestic: N663,610,000,000 or 93.2% of the Total Debt Service)		(Domestic: N543,376,000,000 or 91.8% of the Total Debt Service)	
	(Foreign: N48,390,000,000 or 6.8% of the Total Debt Service)		(Foreign: 48,388,000,000 or 8.2% of the Total Debt Service)	
Capital Expenditure	1,100,606,836,512	22.41	1,621,477,655,252	30.82
SURE-P	268,370,000,000	5.46	273,522,000,000	5.20
AGGREGATE BUDGET	4,911,330,000,000.00	100	5,260,764,425,601	100

Source: 2014 Budget Proposal and the Budget Act 2013

5.5 MACROECONOMIC ASSUMPTIONS

The budget is predicated on the following macroeconomic assumptions as shown in Table 46.

Table 46: Macroeconomic Assumptions of the 2014 Budget Proposal

MACROECONOMIC ASSUMPTIONS OF THE 2014 BUDGET PROPOSALS	
OIL PRICE (PER BARREL)	$77.5
CRUDE OIL PRODUCTION (mbpd)	2.388
EXCHANGE RATE (N/$)	160
GDP GROWTH RATE (%)	6.75
RETAINED REVENUE	N3.73 Trillion
BUDGET DEFICIT (-)	N0.91 Trillion
JOINT VENTURE CASH CALL	858.588

Source: 2014 Budget Proposal

5.5.1 Crude Oil Production and Proper Metering

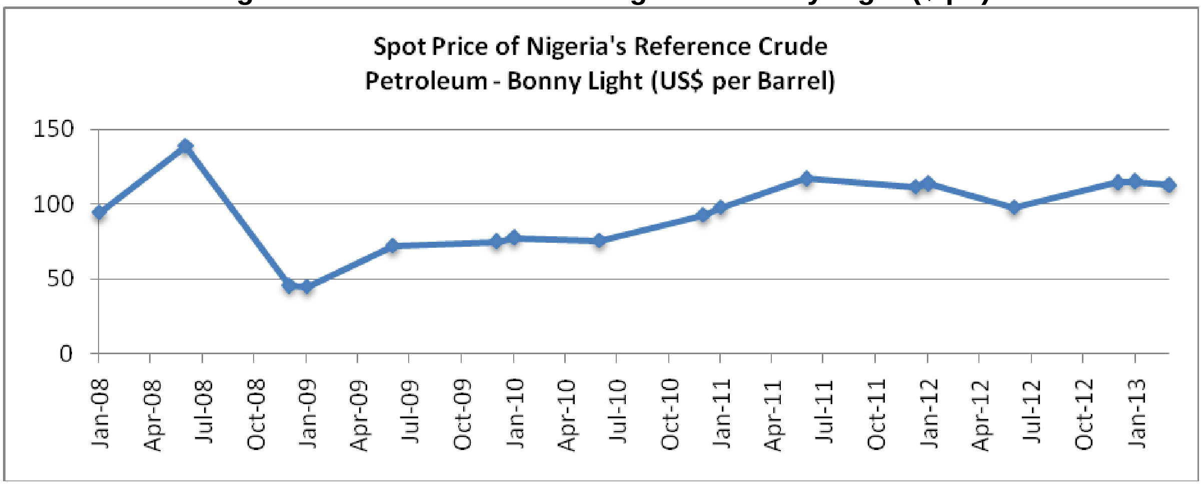
Oil production is projected at 2.3883mbpd in 2014 (including condensates) which is less than the 2,5260mbpd projected for 2013. The principal reason for lowering the projection is crude oil theft and illegal bunkering projected at 400,000bpd. At an average price of $100 per barrel, this amounts to the loss of $40million per day. This is not right for an economy that is mainly dependent on oil. Government exists to maintain law and order, protect lives and property as it controls the security apparatus of the state. Government should not be seen to be retreating from criminals. Instead of attacking the challenge through the effective policing of oil installations, the government by lowering the production benchmark is surrendering to criminals. FGN should work towards increasing the production volume for 2014 even if the estimates are retained as they are. The security apparatus should be mobilised by the President to perform their basic duties, and criminals should be arrested, prosecuted and sent to jail[26]. If the above recommendation is implemented, this would definitely lead to improved production and oil revenue. For a country that has spent hundreds of billions of naira prosecuting the Amnesty Programme which is supposed to reduce criminality and militancy in the Niger Delta region to be retreating from criminals in 2014 presupposes the failure of the Amnesty Programme.

The second point is that the production figures released on a yearly basis by the NNPC do not seem reliable due to the lack of a proper metering system for the measurement of oil production and lifting in Nigeria. A situation where Nigeria continues to rely on figures released by international oil companies who are in business for profit, to determine quantity of crude produced is inappropriate and unacceptable. Recently, the Department of Weights and Measures in the Ministry of Trade and Investment disclosed that Nigeria conservatively lost about N2.2 trillion annually to inaccurate measurement systems adopted across all sectors of the economy, especially in the oil and gas sector which accounts for a large part of the country's total annual earning. It has therefore become imperative for NASS to appropriate funds for a new and appropriate metering system. It is apparent that the Executive that should champion this cause is not forthcoming.

5.5.2 The Benchmark Oil Price

The benchmark price set by the National Assembly in the MTEF 2014-2016 which was a slight deviation from the Executive proposal (of $72 per barrel) appears reasonable. Figure 11 shows the movement of crude oil prices.

Figure 11: Actual Prices for Nigeria's Bonny Light ($/pb)



Source: NNPC Annual Report 2013.

[26] The security forces include the Nigerian Army, Navy, Air force, NIMASA, Police, the SSS, NIA and the companies contracted to secure the pipelines and other oil installations.

5.5.3 Exchange Rate

Nigeria imports virtually all her needs resulting in unfavourable trade balances. Lately, Nigerians have been exporting a lot of resources for education and health services outside our shores. With the depleting external reserves, reduction in inflows of portfolio and foreign investments and possibility of reduced oil prices in the international market, it may be difficult to sustain the Naira at N160 to the USD for the whole year.

5.5.4 Joint Venture Cash Call

The provision of the sum of N858.588b for Joint Venture Cash Call brings to the fore the delay in the passage of the Petroleum Industry Bill by the National Assembly. Joint Venture Cash Calls will be history after the passage of the Bill into law. Nigeria should not be spending monies than can be saved and channelled to more productive ventures. NASS is called upon to prioritise the passage of the Bill before the end of the second quarter of 2014.

5.5.5 The Allocations and Priorities

Table 46 shows the allocations detailing the priorities of government in the recurrent (personnel and overhead) and capital votes.

Table 47: Summary of MDA Votes

2014 FGN BUDGET PROPOSAL – SUMMARY (N)						
S/N	MDA	PERSONNEL COST	OVERHEAD COST	TOTAL RECURRENT	CAPITAL ALLOCATION	TOTAL ALLOCATION
1	PRESIDENCY	12,799,956,849	12,216,763,911	25,016,720,760	8,390,001,806	**33,406,722,566**
2	OFFICE OF THE SECRETARY TO THE GOVERNMENT OF THE FEDERATION	39,485,744,325	6,715,238,763	46,200,983,088	16,986,206,242	**63,187,189,330**
3	YOUTH DEVELOPMENT	67,649,154,543	8,308,453,788	75,957,608,331	4,926,186,656	**80,883,794,987**
4	POLICE AFFAIRS	3,992,901,634	486,850,266	4,479,751,900	2,789,131,188	**7,268,883,088**
5	POLICE FORMATION AND COMMANDS	279,061,950,772	6,499,861,312	285,561,812,085	6,790,000,000	**292,351,812,085**
6	WOMEN AFFAIRS	926,000,948	612,262,602	1,538,263,550	2,992,311,641	**4,530,575,191**
7	AGRICULTURE & RURAL DEVELOPMENT	28,975,633,261	2,517,870,095	31,493,503,356	35,151,172,583	**66,644,675,939**
8	WATER RESOURCES	6,453,723,291	1,253,507,355	7,707,230,646	30,673,743,742	**38,380,974,388**
9	AUDITOR-GENERAL FOR THE FEDERATION	2,255,896,616	939,389,688	3,195,286,304	1,943,134,021	**5,138,420,325**
10	INDEPENDENT CORRUPT PRACTICES AND OTHER RELATED OFFENCES COMMISSION	3,565,887,517	977,102,357	4,542,989,874	132,897,643	**4,675,887,517**
11	DEFENCE/MOD/ARMY/AIR FORCE/NAVY	273,813,411,323	32,228,928,549	306,042,339,871	34,290,000,000	**340,332,339,871**
12	EDUCATION INCLUDING UBEC	421,032,329,092	22,889,765,945	443,922,095,037	49,536,035,231	**493,458,130,268**
13	FEDERAL CAPITAL TERRITORY ADMINISTRATION			0	30,410,000,000	**30,410,000,000**
14	FOREIGN AFFAIRS	23,337,646,327	23,258,098,677	46,595,745,004	16,081,563,540	**62,677,308,544**
15	FINANCE INCLUDING SERVICE-WIDE VOTES	125,183,318,581	1,091,124,939,734	1,216,308,258,314	437,115,888,625	**1,653,424,146,940**
16	HEALTH	210,519,482,396	5,883,484,772	216,402,967,168	46,339,384,706	**262,742,351,874**
17	TRADE AND INVESTMENT	10,190,815,483	2,658,178,299	12,848,993,782	2,209,994,962	**15,058,988,744**
18	INFORMATION	19,326,341,367	3,110,802,017	22,437,143,384	3,620,414,506	**26,057,557,890**
19	COMMUNICATION TECHNOLOGY	10,110,600,707	516,331,786	10,626,932,493	4,020,032,066	**14,646,964,559**
20	INTERIOR	133,426,189,087	11,295,039,276	144,721,228,363	6,299,311,467	**151,020,539,830**
21	OFFICE OF THE HEAD OF SERVICE OF THE FEDERATION	5,176,932,158	2,249,911,343	7,426,843,501	4,139,125,454	**11,565,968,955**
22	JUSTICE INCLUDING NHRC	16,117,996,825	4,726,784,074	20,844,780,899	1,073,500,135	**21,918,281,033**
23	LABOUR AND PRODUCTIVITY	7,392,816,838	1,176,359,786	8,569,176,624	1,551,548,597	**10,120,725,221**
24	POWER	2,527,357,603	870,452,641	3,397,810,244	59,051,290,389	**62,449,100,632**
25	SCIENCE AND TECHNOLOGY	19,948,794,239	4,110,715,629	24,059,509,868	6,787,308,701	**30,846,818,569**
26	TRANSPORT	7,417,430,665	749,975,595	8,167,406,260	29,334,108,913	**37,501,515,172**
27	PETROLEUM RESOURCES	53,846,744,188	1,859,430,269	55,706,174,457	6,221,948,219	**61,928,122,676**
28	WORKS	7,635,187,673	20,865,168,258	28,500,355,931	100,146,203,055	**128,646,558,986**
29	LANDS & HOUSING	5,208,486,928	416,168,478	5,624,655,406	12,888,821,003	**18,513,476,409**
30	MINES & STEEL DEVELOPMENT	8,884,567,332	1,695,389,458	10,579,956,791	2,026,868,615	**12,606,825,405**
31	AVIATION	5,015,079,393	1,135,779,358	6,150,858,752	26,157,892,040	**32,308,750,792**
32	NATIONAL SALARIES, INCOMES & WAGES COMMISSION	566,978,022	149,831,003	716,809,025	173,438,793	**890,247,818**
33	ENVIRONMENT	11,928,955,076	2,336,008,400	14,264,963,475	7,395,898,681	**21,660,862,156**
34	CULTURE & NOA	14,480,646,551	3,239,448,755	17,720,095,306	3,708,941,052	**21,429,036,358**

S/N	MDA	PERSONNEL COST	OVERHEAD COST	TOTAL RECURRENT	CAPITAL ALLOCATION	TOTAL ALLOCATION
35	NATIONAL PLANNING COMMISSION	5,405,461,598	913,670,222	6,319,131,820	1,868,068,871	**8,187,200,691**
36	NATIONAL SPORTS COMMISSION	1,585,898,504	4,490,209,269	6,076,107,773	1,534,028,442	**7,610,136,215**
37	OFFICE OF THE NATIONAL SECURITY ADVISER	53,155,144,175	13,469,928,732	66,625,072,907	44,100,000,000	**110,725,072,907**
38	NIGER-DELTA INCLUDING NDDC	63,070,143,399	1,159,471,538	64,229,614,937	46,903,704,194	**111,133,319,131**
39	SPECIAL DUTIES	0	104,591,265	104,591,265	53,212,473	**157,803,738**
40	SPECIAL DUTIES AND INTERGOVERNMENTAL AFFAIRS	263,497,424	312,159,180	575,656,604	200,405,367	**776,061,971**
41	FISCAL RESPONSIBILITY COMMISSION	244,266,691	296,959,830	541,226,521	53,835,005	**595,061,526**
42	INFRASTUCTURAL CONCESSION REGULATORY COMMISSION	581,538,998	280,731,567	862,270,565	47,878,526	**910,149,091**
	SUB-TOTAL: EXECUTIVE	**1,962,560,908,397**	**1,300,102,013,844**	**3,262,662,922,241**	**1,096,115,437,149**	**4,358,778,359,390**

In terms of numbers, Table 47 reveals that the Ministry of Finance and Service Wide Votes takes the lead with N1.653trillion, followed by Education with N493b, Defence got N340b; the Police N299.6b and Health received N262b. However, the reason behind the huge allocation to Service Wide Votes is not clear.

Table 48 further shows the percentage allocations for all the MDAs.

Table 48: MDA Votes as Percentages of Overall Vote

2014 FGN BUDGET PROPOSAL - MDA Allocations as a Percentage to The Aggregate Budget Expenditure {N4, 642,960,000,000} (%)											
S/N	MDA	PERSONNEL COST	% of AGG. EXP	OVERHEAD COST	% of AGG. EXP	TOTAL RECURRENT	% of AGG. EXP	CAPITAL ALLOCATION	% of AGG. EXP	TOTAL ALLOCATION	% of AGG. EXP
1	PRESIDENCY	12,799,956,849	0.28	12,216,763,911	0.26	25,016,720,760	0.54	8,390,001,806	0.18	**33,406,722,566**	0.72
2	OFFICE OF THE SECRETARY TO THE GOVERNMENT OF THE FEDERATION	39,485,744,325	0.85	6,715,238,763	0.14	46,200,983,088	1.00	16,986,206,242	0.37	**63,187,189,330**	1.36
3	YOUTH DEVELOPMENT	67,649,154,543	1.46	8,308,453,788	0.18	75,957,608,331	1.64	4,926,186,656	0.11	**80,883,794,987**	1.74
4	POLICE AFFAIRS	3,992,901,634	0.09	486,850,266	0.01	4,479,751,900	0.10	2,789,131,188	0.06	**7,268,883,088**	0.16
5	POLICE FORMATION AND COMMANDS	279,061,950,772	6.01	6,499,861,312	0.14	285,561,812,085	6.15	6,790,000,000	0.15	**292,351,812,085**	6.30
6	WOMEN AFFAIRS	926,000,948	0.02	612,262,602	0.01	1,538,263,550	0.03	2,992,311,641	0.06	**4,530,575,191**	0.10
7	AGRICULTURE & RURAL DEVELOPMENT	28,975,633,261	0.62	2,517,870,095	0.05	31,493,503,356	0.68	35,151,172,583	0.76	**66,644,675,939**	1.44
8	WATER RESOURCES	6,453,723,291	0.14	1,253,507,355	0.03	7,707,230,646	0.17	30,673,743,742	0.66	**38,380,974,388**	0.83
9	AUDITOR-GENERAL FOR THE FEDERATION	2,255,896,616	0.05	939,389,688	0.02	3,195,286,304	0.07	1,943,134,021	0.04	**5,138,420,325**	0.11
10	INDEPENDENT CORRUPT PRACTICES AND OTHER RELATED OFFENCES COMMISSION	3,565,887,517	0.08	977,102,357	0.02	4,542,989,874	0.10	132,897,643	0.00	**4,675,887,517**	0.10
11	DEFENCE/MOD/ARMY/AIR FORCE/NAVY	273,813,411,323	5.90	32,228,928,549	0.69	306,042,339,871	6.59	34,290,000,000	0.74	**340,332,339,871**	7.33

12	EDUCATION INCLUDING UBEC	421,032,329,092	9.07	22,889,765,945	0.49	443,922,095,037	9.56	49,536,035,231	1.07	**493,458,130,268**	10.63
13	FEDERAL CAPITAL TERRITORY ADMINISTRATION		0.00		0.00	0	0.00	30,410,000,000	0.65	**30,410,000,000**	0.65
14	FOREIGN AFFAIRS	23,337,646,327	0.50	23,258,098,677	0.50	46,595,745,004	1.00	16,081,563,540	0.35	**62,677,308,544**	1.35
15	FINANCE INCLUDING SERVICE-WIDE VOTES	125,183,318,581	2.70	1,091,124,939,734	23.50	1,216,308,258,314	26.20	437,115,888,625	9.41	**1,653,424,146,940**	35.61
16	HEALTH	210,519,482,396	4.53	5,883,484,772	0.13	216,402,967,168	4.66	46,339,384,706	1.00	**262,742,351,874**	5.66
17	TRADE AND INVESTMENT	10,190,815,483	0.22	2,658,178,299	0.06	12,848,993,782	0.28	2,209,994,962	0.05	**15,058,988,744**	0.32
18	INFORMATION	19,326,341,367	0.42	3,110,802,017	0.07	22,437,143,384	0.48	3,620,414,506	0.08	**26,057,557,890**	0.56
19	COMMUNICATION TECHNOLOGY	10,110,600,707	0.22	516,331,786	0.01	10,626,932,493	0.23	4,020,032,066	0.09	**14,646,964,559**	0.32
20	INTERIOR	133,426,189,087	2.87	11,295,039,276	0.24	144,721,228,363	3.12	6,299,311,467	0.14	**151,020,539,830**	3.25
21	OFFICE OF THE HEAD OF SERVICE OF THE FEDERATION	5,176,932,158	0.11	2,249,911,343	0.05	7,426,843,501	0.16	4,139,125,454	0.09	**11,565,968,955**	0.25
22	JUSTICE INCLUDING NHRC	16,117,996,825	0.35	4,726,784,074	0.10	20,844,780,899	0.45	1,073,500,135	0.02	**21,918,281,033**	0.47
23	LABOUR AND PRODUCTIVITY	7,392,816,838	0.16	1,176,359,786	0.03	8,569,176,624	0.18	1,551,548,597	0.03	**10,120,725,221**	0.22
24	POWER	2,527,357,603	0.05	870,452,641	0.02	3,397,810,244	0.07	59,051,290,389	1.27	**62,449,100,632**	1.35
25	SCIENCE AND TECHNOLOGY	19,948,794,239	0.43	4,110,715,629	0.09	24,059,509,868	0.52	6,787,308,701	0.15	**30,846,818,569**	0.66
26	TRANSPORT	7,417,430,665	0.16	749,975,595	0.02	8,167,406,260	0.18	29,334,108,913	0.63	**37,501,515,172**	0.81
27	PETROLEUM RESOURCES	53,846,744,188	1.16	1,859,430,269	0.04	55,706,174,457	1.20	6,221,948,219	0.13	**61,928,122,676**	1.33
28	WORKS	7,635,187,673	0.16	20,865,168,258	0.45	28,500,355,931	0.61	100,146,203,055	2.16	**128,646,558,986**	2.77
29	LANDS & HOUSING	5,208,486,928	0.11	416,168,478	0.01	5,624,655,406	0.12	12,888,821,003	0.28	**18,513,476,409**	0.40
30	MINES & STEEL DEVELOPMENT	8,884,567,332	0.19	1,695,389,458	0.04	10,579,956,791	0.23	2,026,868,615	0.04	**12,606,825,405**	0.27
31	AVIATION	5,015,079,393	0.11	1,135,779,358	0.02	6,150,858,752	0.13	26,157,892,040	0.56	**32,308,750,792**	0.70
32	NATIONAL SALARIES, INCOMES & WAGES COMMISSION	566,978,022	0.01	149,831,003	0.00	716,809,025	0.02	173,438,793	0.00	**890,247,818**	0.02
33	ENVIRONMENT	11,928,955,076	0.26	2,336,008,400	0.05	14,264,963,475	0.31	7,395,898,681	0.16	**21,660,862,156**	0.47
34	CULTURE & NOA	14,480,646,551	0.31	3,239,448,755	0.07	17,720,095,306	0.38	3,708,941,052	0.08	**21,429,036,358**	0.46
35	NATIONAL PLANNING COMMISSION	5,405,461,598	0.12	913,670,222	0.02	6,319,131,820	0.14	1,868,068,871	0.04	**8,187,200,691**	0.18
36	NATIONAL SPORTS COMMISSION	1,585,898,504	0.03	4,490,209,269	0.10	6,076,107,773	0.13	1,534,028,442	0.03	**7,610,136,215**	0.16
37	OFFICE OF THE NATIONAL SECURITY ADVISER	53,155,144,175	1.14	13,469,928,732	0.29	66,625,072,907	1.43	44,100,000,000	0.95	**110,725,072,907**	2.38
38	NIGER-DELTA INCLUDING NDDC	63,070,143,399	1.36	1,159,471,538	0.02	64,229,614,937	1.38	46,903,704,194	1.01	**111,133,319,131**	2.39
39	SPECIAL DUTIES	0	0.00	104,591,265	0.00	104,591,265	0.00	53,212,473	0.00	**157,803,738**	0.00
40	SPECIAL DUTIES AND INTERGOVERNMENTAL AFFAIRS	263,497,424	0.01	312,159,180	0.01	575,656,604	0.01	200,405,367	0.00	**776,061,971**	0.02
41	FISCAL RESPONSIBILITY COMMISSION	244,266,691	0.01	296,959,830	0.01	541,226,521	0.01	53,835,005	0.00	**595,061,526**	0.01
42	INFRASTUCTURAL CONCESSION REGULATORY COMMISSION	581,538,998	0.01	280,731,567	0.01	862,270,565	0.02	47,878,526	0.00	**910,149,091**	0.02
	SUB-TOTAL: EXECUTIVE	**1,962,560,908,397**	**42.27**	**1,300,102,013,844**	**28.00**	**3,262,662,922,241**	**70.27**	**1,096,115,437,149**	**23.61**	**4,358,778,359,390**	**93.88**
	FEDERAL EXECUTIVE BODIES										
43	NATIONAL POPULATION COMMISSION	4,788,894,615	0.10	502,311,183	0.01	**5,291,205,798**	0.11	1,003,588,087	0.02	**6,294,793,885**	0.14
44	CODE OF CONDUCT BUREAU	1,497,315,123	0.03	358,843,437	0.01	**1,856,158,560**	0.04	1,006,147,091	0.02	**2,862,305,651**	0.06

45	CODE OF CONDUCT TRIBUNAL	295,156,583	0.01	165,072,841	0.00	**460,229,424**	0.01	52,440,642	0.00	**512,670,066**	0.01
46	REVENUE MOBILISATION ALLOCATION & FISCAL COMMISSION	1,410,063,061	0.03	549,642,242	0.01	**1,959,705,303**	0.04	1,100,722,408	0.02	**3,060,427,711**	0.07
47	FEDERAL CIVIL SERVICE COMMISSION	641,791,390	0.01	597,296,013	0.01	**1,239,087,404**	0.03	254,136,819	0.01	**1,493,224,223**	0.03
48	POLICE SERVICE COMMISSION	445,647,261	0.01	336,975,890	0.01	**782,623,151**	0.02	1,013,220,850	0.02	**1,795,844,001**	0.04
49	FEDERAL CHARACTER COMMISSION	1,778,626,811	0.04	394,802,904	0.01	**2,173,429,715**	0.05	61,143,466	0.00	**2,234,573,181**	0.05
	SUB-TOTAL: FEDERAL EXECUTIVE	**10,857,494,844**	**0.23**	**2,904,944,511**	**0.06**	**13,762,439,355**	**0.30**	**4,491,399,363**	**0.10**	**18,253,838,719**	**0.39**
	MDAs EXPENDITURE	**1,973,418,403,241**	**42.50**	**1,303,006,958,355**	**28.06**	**3,276,425,361,597**	**70.57**	**1,100,606,836,512**	**23.70**	**4,377,032,198,109**	**94.27**

Source: 2014 Budget Proposal Bill

In terms of percentages, Table 48 reveals that the Ministry of Finance and Service Wide Votes takes the lead with 35.61%, followed by Education with 10.63%, Defence got 7.33%; Police Affairs and Command got 6.46% and Health received 5.66%.

Table 49 shows MDA allocations in personnel, overhead and capital as percentages of their overall vote.

Table 49: MDA Allocations as a Percentage to their Total Allocation (%)

2014 FGN BUDGET PROPOSAL – MDA Allocations as a Percentage to Their Total Allocation (%)										
S/N	**MDA**	**PERSONNEL COST**	**% of MDA Total Allocation**	**OVERHEAD COST**	**% of MDA Total Allocation**	**TOTAL RECURRENT**	**% of MDA Total Allocation**	**CAPITAL ALLOCATION**	**% of MDA Total Allocatio n**	**TOTAL ALLOCATION**
1	PRESIDENCY	12,799,956,849	38	12,216,763,911	37	25,016,720,760	75	8,390,001,806	25	**33,406,722,566**
2	OFFICE OF THE SECRETARY TO THE GOVERNMENT OF THE FEDERATION	39,485,744,325	62	6,715,238,763	11	46,200,983,088	73	16,986,206,242	27	**63,187,189,330**
3	YOUTH DEVELOPMENT	67,649,154,543	84	8,308,453,788	10	75,957,608,331	94	4,926,186,656	6	**80,883,794,987**
4	POLICE AFFAIRS	3,992,901,634	55	486,850,266	7	4,479,751,900	62	2,789,131,188	38	**7,268,883,088**
5	POLICE FORMATION AND COMMANDS	279,061,950,772	95	6,499,861,312	2	285,561,812,085	98	6,790,000,000	2	**292,351,812,085**
6	WOMEN AFFAIRS	926,000,948	20	612,262,602	14	1,538,263,550	34	2,992,311,641	66	**4,530,575,191**
7	AGRICULTURE & RURAL DEVELOPMENT	28,975,633,261	43	2,517,870,095	4	31,493,503,356	47	35,151,172,583	53	**66,644,675,939**
8	WATER RESOURCES	6,453,723,291	17	1,253,507,355	3	7,707,230,646	20	30,673,743,742	80	**38,380,974,388**
9	AUDITOR-GENERAL FOR THE FEDERATION	2,255,896,616	44	939,389,688	18	3,195,286,304	62	1,943,134,021	38	**5,138,420,325**
10	INDEPENDENT CORRUPT PRACTICES AND OTHER RELATED OFFENCES COMMISSION	3,565,887,517	76	977,102,357	21	4,542,989,874	97	132,897,643	3	**4,675,887,517**
11	DEFENCE/MOD/ARMY/AIR FORCE/NAVY	273,813,411,323	80	32,228,928,549	9	306,042,339,871	90	34,290,000,000	10	**340,332,339,871**
12	EDUCATION INCLUDING UBEC	421,032,329,092	85	22,889,765,945	5	443,922,095,037	90	49,536,035,231	10	**493,458,130,268**
13	FEDERAL CAPITAL TERRITORY ADMINISTRATION		0		0	0	0	30,410,000,000	100	**30,410,000,000**
14	FOREIGN AFFAIRS	23,337,646,327	37	23,258,098,677	37	46,595,745,004	74	16,081,563,540	26	**62,677,308,544**
15	FINANCE INCLUDING SERVICE-WIDE VOTES	125,183,318,581	8	1,091,124,939,734	66	1,216,308,258,314	74	437,115,888,625	26	**1,653,424,146,940**
16	HEALTH	210,519,482,396	80	5,883,484,772	2	216,402,967,168	82	46,339,384,706	18	**262,742,351,874**
17	TRADE AND INVESTMENT	10,190,815,483	68	2,658,178,299	18	12,848,993,782	85	2,209,994,962	15	**15,058,988,744**
18	INFORMATION	19,326,341,367	74	3,110,802,017	12	22,437,143,384	86	3,620,414,506	14	**26,057,557,890**
19	COMMUNICATION TECHNOLOGY	10,110,600,707	69	516,331,786	4	10,626,932,493	73	4,020,032,066	27	**14,646,964,559**
20	INTERIOR	133,426,189,087	88	11,295,039,276	7	144,721,228,363	96	6,299,311,467	4	**151,020,539,830**

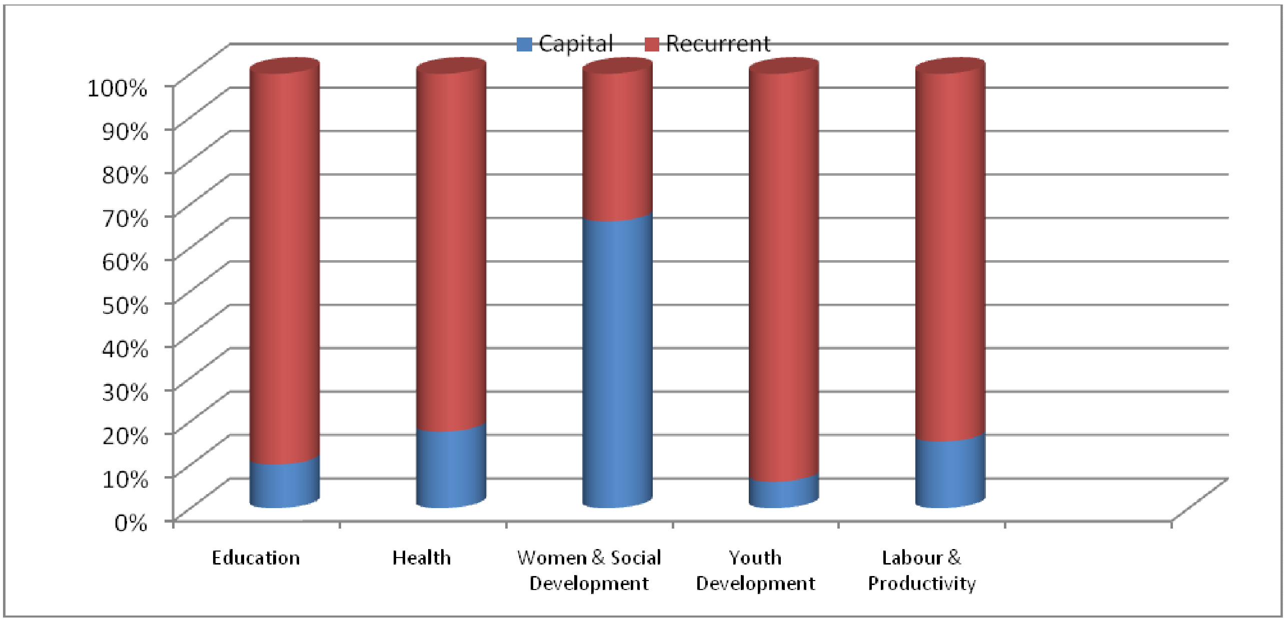
21	OFFICE OF THE HEAD OF SERVICE OF THE FEDERATION	5,176,932,158	45	2,249,911,343	19	7,426,843,501	64	4,139,125,454	36	**11,565,968,955**
22	JUSTICE INCLUDING NHRC	16,117,996,825	74	4,726,784,074	22	20,844,780,899	95	1,073,500,135	5	**21,918,281,033**
23	LABOUR AND PRODUCTIVITY	7,392,816,838	73	1,176,359,786	12	8,569,176,624	85	1,551,548,597	15	**10,120,725,221**
24	POWER	2,527,357,603	4	870,452,641	1	3,397,810,244	5	59,051,290,389	95	**62,449,100,632**
25	SCIENCE AND TECHNOLOGY	19,948,794,239	65	4,110,715,629	13	24,059,509,868	78	6,787,308,701	22	**30,846,818,569**
26	TRANSPORT	7,417,430,665	20	749,975,595	2	8,167,406,260	22	29,334,108,913	78	**37,501,515,172**
27	PETROLEUM RESOURCES	53,846,744,188	87	1,859,430,269	3	55,706,174,457	90	6,221,948,219	10	**61,928,122,676**
28	WORKS	7,635,187,673	6	20,865,168,258	16	28,500,355,931	22	100,146,203,055	78	**128,646,558,986**
29	LANDS & HOUSING	5,208,486,928	28	416,168,478	2	5,624,655,406	30	12,888,821,003	70	**18,513,476,409**
30	MINES & STEEL DEVELOPMENT	8,884,567,332	70	1,695,389,458	13	10,579,956,791	84	2,026,868,615	16	**12,606,825,405**
31	AVIATION	5,015,079,393	16	1,135,779,358	4	6,150,858,752	19	26,157,892,040	81	**32,308,750,792**
32	NATIONAL SALARIES, INCOMES & WAGES COMMISSION	566,978,022	64	149,831,003	17	716,809,025	81	173,438,793	19	**890,247,818**
33	ENVIRONMENT	11,928,955,076	55	2,336,008,400	11	14,264,963,475	66	7,395,898,681	34	**21,660,862,156**
34	CULTURE & NOA	14,480,646,551	68	3,239,448,755	15	17,720,095,306	83	3,708,941,052	17	**21,429,036,358**
35	NATIONAL PLANNING COMMISSION	5,405,461,598	66	913,670,222	11	6,319,131,820	77	1,868,068,871	23	**8,187,200,691**
36	NATIONAL SPORTS COMMISSION	1,585,898,504	21	4,490,209,269	59	6,076,107,773	80	1,534,028,442	20	**7,610,136,215**
37	OFFICE OF THE NATIONAL SECURITY ADVISER	53,155,144,175	48	13,469,928,732	12	66,625,072,907	60	44,100,000,000	40	**110,725,072,907**
38	NIGER-DELTA INCLUDING NDDC	63,070,143,399	57	1,159,471,538	1	64,229,614,937	58	46,903,704,194	42	**111,133,319,131**
39	SPECIAL DUTIES	0	0	104,591,265	66	104,591,265	66	53,212,473	34	**157,803,738**
40	SPECIAL DUTIES AND INTERGOVERNMENTAL AFFAIRS	263,497,424	34	312,159,180	40	575,656,604	74	200,405,367	26	**776,061,971**
41	FISCAL RESPONSIBILITY COMMISSION	244,266,691	41	296,959,830	50	541,226,521	91	53,835,005	9	**595,061,526**
42	INFRASTUCTURAL CONCESSION REGULATORY COMMISSION	581,538,998	64	280,731,567	31	862,270,565	95	47,878,526	5	**910,149,091**
	SUB-TOTAL: EXECUTIVE	**1,962,560,908,397**	**45**	**1,300,102,013,844**	**30**	**3,262,662,922,241**	**75**	**1,096,115,437,149**	**25**	**4,358,778,359,390**
				FEDERAL EXECUTIVE BODIES						
43	NATIONAL POPULATION COMMISSION	4,788,894,615	76	502,311,183	8	**5,291,205,798**	84	1,003,588,087	16	**6,294,793,885**
44	CODE OF CONDUCT BUREAU	1,497,315,123	52	358,843,437	13	**1,856,158,560**	65	1,006,147,091	35	**2,862,305,651**
45	CODE OF CONDUCT TRIBUNAL	295,156,583	58	165,072,841	32	**460,229,424**	90	52,440,642	10	**512,670,066**
46	REVENUE MOBILISATION ALLOCATION & FISCAL COMMISSION	1,410,063,061	46	549,642,242	18	**1,959,705,303**	64	1,100,722,408	36	**3,060,427,711**
47	FEDERAL CIVIL SERVICE COMMISSION	641,791,390	43	597,296,013	40	**1,239,087,404**	83	254,136,819	17	**1,493,224,223**
48	POLICE SERVICE COMMISSION	445,647,261	25	336,975,890	19	**782,623,151**	44	1,013,220,850	56	**1,795,844,001**
49	FEDERAL CHARACTER COMMISSION	1,778,626,811	80	394,802,904	18	**2,173,429,715**	97	61,143,466	3	**2,234,573,181**
	SUB-TOTAL: FEDERAL EXECUTIVE	**10,857,494,844**	**59**	**2,904,944,511**	**16**	**13,762,439,355**	75	**4,491,399,363**	**25**	**18,253,838,719**
	MDAs EXPENDITURE	**1,973,418,403,241**	45	**1,303,006,958,355**	30	**3,276,425,361,597**	75	**1,100,606,836,512**	25	**4,377,032,198,109**

Source: 2014 Budget Proposal

5.5.6 Human Capital Development

Human capital development in this analysis comprises education, health, women and social development, youth development and labour and productivity. All the sub-sectors with the exception of the women and social development have their recurrent budget higher than the capital budget which may not be faulty owing to the fact that they are focused on service delivery which requires a lot of human efforts. See Figure 12 for details of the subsectors.

Figure 12: Human Capital Development - 2014 Budget Breakdown



Source: Computed from the 2014 FGN proposed Budget

5.5.6.1 Education

It is interesting to note that the N100bn capital funding agreed for the next four years between ASUU and the FGN is yet to be factored into the budget because the total capital vote for all federal universities in the 2014 budget proposal was less than N50 billion. But this capital vote is paltry considering the dearth of equipment, books and infrastructure necessary to upgrade the quality of education rendered in these tertiary institutions. It is also a fact that polytechnic lecturers have been on strike for over four months and the budget seems to be silent on the funds that will resolve the industrial action. A vote of 10.63% of the overall budget to education including UBEC will not meet the demands of the sector. It falls short of the 26% demanded by international standards. Even if we do not meet the standards, the capital allocation to education should be beefed up from savings made in the relevant MDAs and it should not be less than N150b[27]. The children of the Nigerian elite have abandoned Nigerian tertiary institutions due to poor quality education rendered in these institutions and Nigeria is

[27] See *Recommendations on the 2014 Federal Budget Estimates (Inappropriate, Unclear and Frivolous Expenditure)* by Citizens Wealth Platform.

reported to spend about N1.5trillion abroad every year on education[28]. Thus, the call for increased funding is based on *res ipsa loquitor* - the thing speaks for itself.

It is imperative for the relevant NASS committees to exercise oversight over the expenditure of budgetary allocations and huge internally generated revenue of tertiary institutions. Many universities charge all manner of fees and monies are also raised from alumni associations and from corporate social responsibility of blue chip companies. This will enhance value for money and accountability in the system.

5.5.6.2 Health

The vote is a paltry 5.66% of the overall budget. This also misses the international standard of 15% of the budget. The demands of resident physicians in December 2013 which led to a warning strike were conspicuously omitted. Medical tourism is costing the nation hundreds of millions of dollars every year and high ranking public officials do not treat their ailments in Nigerian hospitals. Thus, the case for increased funding to the sector is also another one based on *res ipsa loquitor* - the thing speaks for itself. The capital vote for health should be increased by not less than 100%. Considering that many Nigerians are willing to pay for overpriced medical services in medical institutions outside Nigeria, it is imperative that public private partnership as a tool for new investments in the health sector be encouraged. NASS can play a key role through nudging the Ministry of Health and institutions under it to develop frameworks and models for bankable PPPs. It is reported that Nigerians spend over N78b annually for foreign medical services[29]. This shows that some Nigerians have the resources to pay for good quality healthcare.

Further, the paucity of funds for health makes a case for universal health insurance for all Nigerians. The coverage of the National Health Insurance Scheme is limited. It is imperative that NASS considers a new Bill that makes it mandatory and compulsory for all to contribute to a large pool of funds that can be used to take care of the basic health needs of the majority of the population.

5.5.6.3 Labour and Productivity

Job creation is not a stand-alone project or programme. It requires the harmonisation of a number of sectoral policies including policies on trade, industry, education, housing, procurement, etc. Job creation should be treated as a cross-cutting issue to be mainstreamed in virtually all sectors of the economy. Evaluating and streamlining the activities of several agencies involved in job creation; from the National Directorate of Employment, NAPEP, and the SURE-P interventions, etc has become necessary. And this is a role reserved for NASS under its oversight powers. Every job creation agency must pass a value-for-money test. Distribution of tricycles and pepper grinding machines cannot be the same as poverty reduction. NASS should review the

[28] Exam Ethics International Nigeria; Premium Times Online Newspaper, November 14, 2012; Sunday Trust, November 20, 2011 and Punch Newspaper September 9, 2012.

[29] Dr Osahon Enebulele, President Nigerian Medical Association reported in Daily Trust Newspaper of 23rd October 2012; See also Punch Newspaper February 20, 2013.

implementation of the circular requiring all memos submitted to EXCoF for approval regarding procurements to indicate the local employment content. There is no one recommendation or sets of recommendations that will solve the challenge of job creation. It needs a comprehensive and multi-sectoral approach. But key recommendations will include the intensification of power sector reforms, the buy-made-in-Nigeria procurement policy, improvement of infrastructure, reduced interest rates, improved business environment and linking education to industry. While there are millions of unemployed Nigerians, the critical skills needed in key sectors of the economy are not locally available. Thus, in as much as palliatives are needed in the short term, NASS should take a long term view and support institutions, structures, laws and policies that will stabilise the economy to create private sector jobs.

The unemployed population is at present, dominated by the youth who are mostly school leavers with senior secondary school qualifications and graduates of tertiary institutions. The composite employment data showed that the rate of unemployment surged from 11.9 per cent in 2006 to 14.6 per cent in 2007 and 21.1 per cent by January 2010 and has deteriorated to over 35 per cent in 2013. The Transformation Agenda has as its target, the implementation of a youth employment safety net support programme that includes conditional cash transfer and vocational training; the development of Industrial Clusters; reviewing of university curricula to align with industry job requirements and promotion of apprenticeship/work experience programmes and joint ventures; enforcement of mandatory sub-contracting and partnering with locals by foreign construction companies; as well as the implementation of mandatory skills transfer to Nigerians by foreign construction companies as part of effort towards reducing unemployment especially youth unemployment[30].

NASS is therefore enjoined to request that all agencies seeking a vote for job creation should provide key performance and measurable indicators in terms of the number of jobs to be created, the sectors where the jobs will be created, linkages with other sectors of the economy, the sustainability of the jobs, etc.

5.5.7 Service Wide Votes

Service Wide Votes contain a lot of unclear expenditures. Funds that are centralised under this vote need to be disaggregated and reprogrammed to the respective MDAs that will spend them. These include personnel votes of N118bn, non regular allowances of N28.8bn, election logistics support of N21bn, sports development of N5bn. Adjustment to capital cost of N5bn and margin for increase in costs of N5.2bn seem to be addressing one and the same issue.

5.5.8 Agriculture[31]

Agriculture is reputed to be a major contributor to Nigeria's GDP and contributes significantly to employment generation and poverty reduction. Production is dominated by rain-fed agriculture which is subject to the vagaries of the weather. It got a paltry vote of 1.44% of the overall budget and falls short of the Maputo commitments of

[30] See Dr Amakom Uzochukwu's Analysis of the Macroeconomic Framework of the 2014 Budget undertaken for CWP.
[31] See Ken Ukaoha's Review of the Agriculture Sector in 2014 undertaken for CWP.

African states. The new approach in the Ministry is to treat agriculture like a business with the value chain approach. Thus, it is expected that the private sector will drive the growth of the sector hence the reduced budget for the sector. However, even industrialised countries with far higher agricultural productivity still budget huge resources for not just farming alone, but for subsidies to keep farm jobs. There are numerous funding gaps in the sector exemplified below.

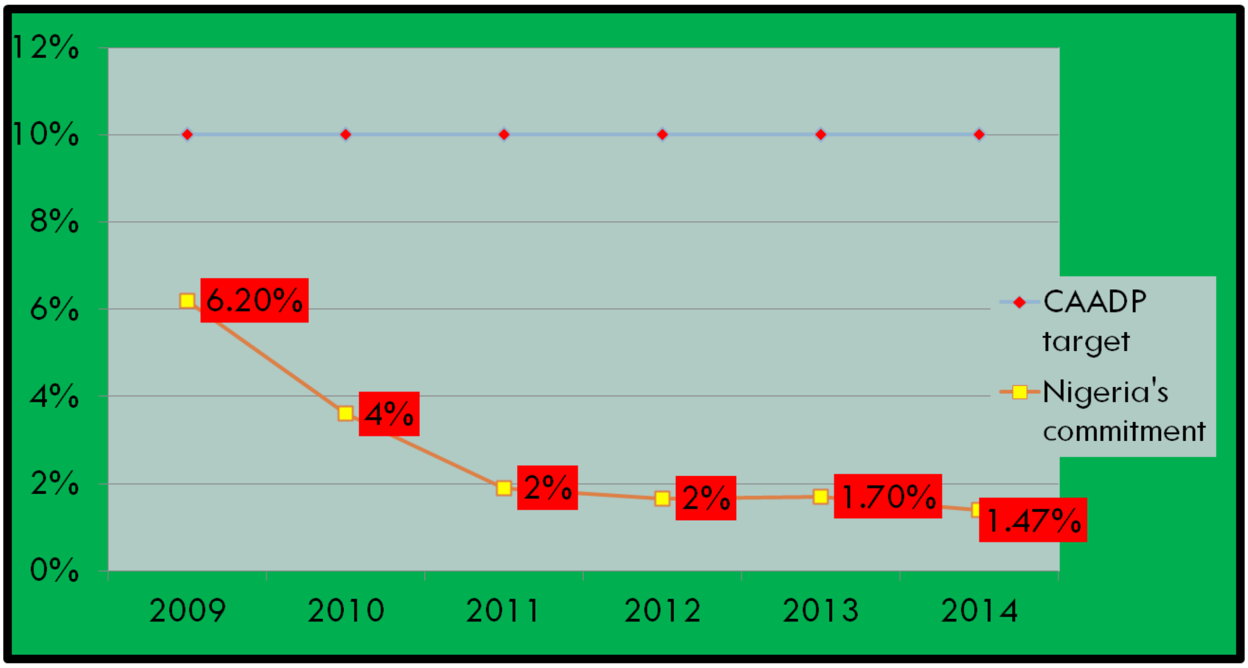
Table 50: Examples of Funding Gaps in the Agriculture Budget

	Required	Budgeted	Funding Gap
KPPPs in the ATA	100,159.118million	45million	55,159,118,000
FERTILIZER	480billion	2.704billion	About 477billion

Source: Review of Agricultural Sector Budget in 2014 – (Ukaoha, 2014)

Over the years, the budget for agriculture shows a declining trend. This is shown in Figure 13.

Figure 13: Declining Trend of the Agriculture Vote in Relation to CAADP



Source: Ukaoha (2014)

A review of the funding requirements for the Transformation Agenda reveals that projected overall public sector investment is N24.46 trillion with N607, 296.10m for 327 agricultural sector projects and N500,795.59m for key policies, programmes and projects (KPPP). If this amount is spread over the 5-year period of the Transformation Agenda, 2014 total budget for KPPPs should be N100,159.118million. Using fertiliser as an example:

- Nigeria requires about 12 million metric tonnes annually for food production.
- That quantity amounts to 240 million bags of 50kg and a bag costs an average of N2000 and therefore fertilizer costs for the country for the year 2014 should be about N480billion.

- Presently, the proposed budget for fertilizer (all relations) in 2014 is N2,704,861,250 and that represents a huge gap (about N477billion) in resource allocation.

- Others such as planting materials and agrochemicals have proposed budgets that need to be beefed up to ensure that the basic inputs are sufficiently provided for Nigerian farming needs.

- The average fertilizer use in Nigeria is 13Kg/hectare compared to World average of 100Kg/hectare and 150Kg/hectare for Asia. Only 5% of Nigerian farmers could access the improved seeds, and they operate with only 10 tractors per 100 hectares compared to 241 tractors per 100 hectares in Indonesia.

The agriculture budget contains a number of ambiguous items. These include the details in Table 51.

Table 51: Ambiguous Items in the Agriculture Vote

Items (as they appear in the List)	Frequency of Appearance in the Budget	Combined Proposed Amount
Seeds	3	1,702,875,000
Seeds and Seedlings	1	288,750,000
Improved seeds	8	1,375,200,000
Access to Seeds/Feeds	2	27,500,000
Inorganic fertilizer	14	2,193,748,750
Organic fertilizer	14	474,112,500
Access to fertilizer	2	37,000,000
School feeding program and feeding less privileged members of the public in six poverty stricken states of the federation	1	172,000,000

Source (Ukaoha, 2014)

On the positive side, within the budget, the capital budget (52.74%) is greater than the recurrent (47.26%). There is a greater allocation to planting materials, fertiliser and agrochemicals over other supporting activities such as monitoring and evaluation. Perhaps, for the first time, the FMARD has made provisions specifically for women. N60,000,000 and N87,500,000 are proposed for ‘training of 3,000 women in ten agricultural value chains including planting, storage, processing and marketing’ and ‘start-up pack’ for 2,500 women in the ten value chains respectively. The recommendations include increased funding to the sector; clarification of unclear and apparently frivolous expenditure and early release of the agriculture vote is critical for the 2014 farming season.

5.5.9 The Presidency

The allocation of the sum of N33.4bn to the Presidency can be reduced by about 50% to save funds for investment in critical sectors. Not less than N9bn can be saved from the vote of the Presidency and rechanneled[32].

[32] See CWP's Pull-Out of *Inappropriate, Unclear and Frivolous Expenditure* in the 2014 Budget Proposals.

5.5.10 National Assembly

The allocation of the sum of N150bn as statutory transfer to the National Assembly and a further commitment of N100bn for Constituency Projects in Service Wide Votes is on the high side. At N150bn, the vote of NASS amounts to 3.23% of the budget and at N250bn, it amounts to 5.38%. NASS can run its affairs with no more than N75bn. Drawing the sum of N150bn yearly from the budget in the past three years is abnormal and does not show prudence.

5.6 EMERGENT ISSUES

5.6.1 Recurrent Vote

If the SURE-P votes are added to the capital expenditure, the 2014 budget provides for 27.87% capital expenditure compared to 36% in 2013. However, the impression given in the MTEF 2014-2016 is that capital expenditure is bearing the brunt of decreased revenue. Tables 43 and 44 above show that capital expenditure is reducing due to increased recurrent (non debt) and other expenditures, and not necessarily as a result of diminished revenue. According to the Federal Ministry of Finance, personnel expenditure is gulping 71% of the recurrent vote and 37% of aggregate expenditure. It is the fastest growing head of expenditure. The Ministry in justifying the reduced capital expenditure further states[33]:

> *Most elements of the recurrent spending are not easy to adjust downward overnight. You cannot reduce the wage bill unless you sack workers, and Government does not like to fire people. So, if revenue goes down, items such as salaries, debt service, etc. must still be accommodated before any other expenditure item. The expenditure ceiling for capital is the balance after key elements of recurrent type expenditure have been accommodated…..In the recent years, the wage bill has been rising steadily; from about N857 billion in 2009, it has doubled to about N1.72 trillion in 2013 following continued demands for wage increases.*

One of the steps FGN is taking to control the growth of the wage bill is to weed out ghost workers and the Integrated Personnel and Payroll Information System (IPPIS). The IPPIS reforms have been ongoing since 2007. However, not much appears to have been achieved considering the fact the ghost workers have been purportedly weeded out of service and over N108bn saved. But it is clear that since no one was held responsible and prosecuted for the loss of the said sum of money, new ghosts are bound to emerge. Table 52 shows the pre and post verification status of MDAs.

[33] Citizens Guide to the 2014 Federal Budget.

Table 52: Comparative Analysis of Pre and Post IIPIS Nominal Roll of IPPIS MDAs

	MDAs	NORMINAL ROLL PRE-IPPIS	NORMINAL ROLL POST-IPPIS	VARIANCE	% CHANGE
	PHASE 1 PILOT MDAs (APRIL, 2007)				
1	National Planning Commission	1,000	251	749	74.90
2	Federal Ministry Of Education	29,000	19,537	9,463	32.63
3	Ministry Of Foreign Affairs	5,000	2,066	2,934	58.68
3	Federal Ministry Of Finance	2,000	633	1,367	68.35
4	Budget Office Of The Federation	1,500	340	1,160	77.33
5	Federal Ministry Of Information	6,500	2,785	3,715	57.15
6	Federal Ministry Of Works	10,000	4,833	5,167	51.67
	Sub Total	**55,000**	**30,445**	**24,555**	**44.65**
	PHASE 1B PILOT MDAs (JULY, 2009)				
8	Office Of The Accountant General Of The Federation	2,405	2,150	255	10.60
9	Federal Ministry Of Transport	424	367	57	13.44
10	Federal Ministry Of Health	3,849	2,545	1,304	33.88
11	Federal Ministry Of Agriculture, Rural Development & Water Resources	7,329	5,647	1,682	22.95
12	Federal Ministry Of Petroleum Resources	303	241	62	20.46
13	Federal Ministry Of Aviation	383	344	39	10.18
14	Federal Civil Service Commission	472	421	51	10.81
15	Office Of The Secretary To The Government Federation	1,773	449	1,324	74.68
16	Office Of The Head Of Civil Service Of The Federation	2,317	1,914	403	17.39
17	Federal Ministry Of Information (Communication)	392	255	137	34.95
18	Federal Ministry Of Works (Housing & Urban Dev.)	4,080	3,200	880	21.57
	Sub Total	**23,727**	**17,533**	**6,194**	**26.11**
	PHASE 2- BATCH 1 (SEPTEMBER, 2011)				
	MDAs	**NORMINAL ROLL PRE-IPPIS**	**NORMINAL ROLL POST-IPPIS**	**VARIANCE**	**% CHANGE**
19	Federal Ministry Of Trade & Investment	2,011	1,714	297	14.77
20	Federal Ministry Of Culture, Tourism And National Orientation	359	270	89	24.79
21	Federal Ministry Of Environment	1,965	1,292	673	34.25
22	Federal Ministry Of Interior	930	621	309	33.23
23	Federal Ministry Of Justice	1,032	780	252	24.42
24	Federal Ministry Of Labour & Productivity	1,137	970	167	14.69
25	Federal Ministry Of Mines & Steel Development	599	467	132	22.04
26	Federal Ministry Of Niger Delta Affairs	501	176	325	64.87
27	Federal Ministry Of Police Affairs	2,524	1,597	927	36.73
28	Federal Ministry Of Power	640	467	173	27.03
29	Federal Ministry Of Science & Technology	411	254	157	38.20
30	Federal Ministry Of Women Affairs	516	417	99	19.19
31	Federal Ministry Of Youth Development	343	317	26	7.58
32	Federal Ministry Of Defence – MOD	14,627	10,170	4,457	30.47
33	National Population Commission	3,893	3,512	381	9.79
34	National Sports Commission + Nigeria Football Federation	1,148	984	164	14.29
35	Office Of The Auditor General Of The Federation-OAUGF	1,299	1,148	151	11.62
36	Police Service Commission	303	303	0	0.00
	Sub Total	**34,238**	**25,459**	**8,779**	**25.64**
	PHASE 2- BATCH 2 (NOVEMBER, 2011)				

MDAs	NORMINAL ROLL PRE-IPPIS	NORMINAL ROLL POST-IPPIS	VARIANCE	% CHANGE	MDAs
37	African Regional Centre For Space Science & Tech. Ed	56	64	-8	-14.29
38	Agricultural Research Council Of Nigeria (ARCN)	250	234	16	6.40
39	Centre For Basic Space Science (CBSS) Nsukka	55	55	0	0.00
40	Centre For Geodyesy And Geo-Dynamics, Bauchi	92	85	7	7.61
41	Centre For Satellite Technology Development, Abuja	198	166	32	16.16
42	Centre For Space Transport And Propulsion, Epe Lagos	131	132	-1	-0.76
43	Community Health Practitioners Registration Board Of Nigeria	37	37	0	0.00
44	Consumer Protection Council	180	166	14	7.78
45	Cooperative Information Network (COPINE)	76	106	-30	-39.47
46	Electronics Development Institute (ELDI), Awka	124	122	2	1.61
47	Hydraulic Equipment Development Institute Kano	93	92	1	1.08
48	Institute For Peace And Conflict Resolution	165	162	3	1.82
49	Investment And Securities Tribunal, Abuja	152	130	22	14.47
50	National Agency For Food And Drug Administration Control (NAFDAC)	1,505	1,426	79	5.25
51	National Boundary Commission	338	304	34	10.06
52	National Centre For Remote Sensing, Jos	185	184	1	0.54
53	National Emergency Management Agency (NEMA)	408	388	20	4.90
54	National Engineering Design Development Institute (NEDDI)	122	115	7	5.74
55	National Hajj Commission Of Nigeria (NAHCON), Abuja.	135	55	80	59.26
56	National Information Technology Development Agency (NITD)	105	98	7	6.67
57	National Institute For Pharmaceutical Research & Development	203	197	6	2.96
58	National Human Rights Commission (NHRC)	297	243	54	18.18
59	National Office For Technology Acquisition & Promotion	135	137	-2	-1.48
60	National Primary Health Care Development Agency (NPHCDA)	635	507	128	20.16
61	National Space Research And Development Agency (NASRDA)	298	304	-6	-2.01
62	News Agency Of Nigeria (NAN)	662	631	31	4.68
63	Nigeria Communication Satellite Limited (NIGCOMSAT)	274	218	56	20.44
64	Nigerian Inst Of Advanced Legal Studies	219	201	18	8.22
65	Nigeria Meteorological Agency	1,201	1,181	20	1.67
66	Nigeria Press Council	126	118	8	6.35
67	Pharmacists Council Of Nigeria	258	234	24	9.30
68	Prototype Engineering Development Institute (PEDI) Ilesa	120	107	13	10.83
69	Public Service Institute Of Nigeria	69	23	46	66.67
70	Scientific Equipment Development Institute (SEDI) Enugu	378	399	-21	-5.56
71	Scientific Equipment Development Institute, Minna	149	120	29	19.46
72	Sheda Science And Tech Complex (SHESTCO)	179	158	21	11.73
73	Standard Organisation Of Nigeria (SON)	1,063	904	159	14.96

74	State House	1,134	947	187	16.49
75	Tertiary Education Trust Fund	130	127	3	2.31
76	Voice Of Nigeria (VON)	689	685	4	0.58
	Sub Total	**12,626**	**11,562**	**1,064**	**8.43**
	PHASE 2-BATCH 3 (APRIL TO JULY 2012)				
MDAs	**NORMINAL ROLL PRE-IPPIS**	**NORMINAL ROLL POST-IPPIS**	**VARIANCE**	**% CHANGE**	**MDAs**
77	Ajaokuta Steel Company Limited	3,092	2,946	146	4.72
78	Debt Management Office (DMO)	130	116	14	10.77
79	Federal Government Staff Housing Loans Board	142	127	15	10.56
80	Federal Institute Of Industrial Research	500	393	107	21.40
81	Federal Radio Corporation Of Nigeria	4,153	3,372	781	18.81
82	Lagos International Trade Fair Complex Management Board	63	60	3	4.76
83	Legal Aid Council Of Nigeria	426	297	129	30.28
84	National Agency For Science And Engineering Infrastructure	256	308	-52	-20.31
85	National Biotechnology Development Agency (NABDA)	735	696	39	5.31
86	National Broadcasting Commission	277	302	-25	-9.03
87	National Food Reserve Agency	485	512	-27	-5.57
88	National Park Headquarters + 7 Parks	1,850	1,578	272	14.70
89	National Universities Commission	676	629	47	6.95
90	National Youth Service Corps	6,258	4,991	1,267	20.25
91	Nigerian Copyright Commission	263	337	-74	-28.14
92	Nigerian Postal Service	9,760	8,526	1,234	12.64
93	Nigerian Television Authority	4,387	3,522	865	19.72
94	Police Pension Offices	225	161	64	28.44
95	Power Equipment And Electrical Machinery Development Institute	106	70	36	33.96
96	Small And Medium Enterprise Development Agency (SMEDAN)	291	243	48	16.49
	Sub Total	**34,075**	**29,186**	**4,889**	**14.35**
	PHASE 2 – BATCH 3 ADD. (OCTOBER, 2012)				
MDAs	**NORMINAL ROLL PRE-IPPIS**	**NORMINAL ROLL POST-IPPIS**	**VARIANCE**	**% CHANGE**	**MDAs**
97	Federal Road Safety Corps	18,834	17,695	1,139	6.05
98	National Institute For Sports	152	179	-27	-17.76
99	National Iron Ore Mining Company Limited	1,260	1,205	55	4.37
100	National Library Of Nigeria	671	667	4	0.60
101	Nigeria Football Federation	78	78	0	0.00
102	Nigeria Institute Of Science Laboratory Technology	103	103	0	0.00
103	Tafawa Balewa Square Management Board	25	38	-13	-52.00
	Sub Total	**21,123**	**19,965**	**1,158**	**5.48**
	GRAND TOTAL	**180,789**	**134,150**	**46,639**	**25.80**

Source: Office of the Accountant-General of the Federation in response to CSJ's Freedom of Information Request

Table 52 shows fiscal rascality at its height with an average of 25.80% decrease in the number of workers post verification.

The IPPIS reform has a vote of N1.5bn under Service Wide Votes in the current proposal and votes have been made for the reform in the past seven years. Getting

MDAs to subscribe to the IPPIS must not be a perpetual reform. It must have a terminal date for all to subscribe while the system continues to manage the payroll and personnel efficiently. NASS is therefore enjoined to use its oversight powers to ensure the prosecution of the accounting officers and all officers responsible for this huge loss to the Treasury through ghost workers.

The second part of the personnel challenge is that the recommendations of the Oronsaye Committee are gathering dust on the shelves. FGN is yet to release a white paper on the subject while the report contains concrete and achievable targets for reducing personnel and other recurrent votes. NASS is also enjoined to take steps through Bills that would implement the recommendations of the Committee.

5.6.2 Capital Expenditure

Considering the poor capital budget implementation record of FGN over the years and the paltry sum allocated to it, it is imperative for NASS to consider alternative sources of funding infrastructure projects. Considering that revenues will be dedicated to capital expenditure only after meeting other expenses and federal revenues may not improve in the short term, alternative sources of funding are needed. The decision on the sources of funding particularly where they involve creation of new indebtedness should not be left to the Executive alone. NASS should streamline the number of projects being funded, continue with existing projects and discountenance new ones unless they are absolutely necessary. Essentially, NASS should take steps to ensure that capital resources are not spread so thinly. Especially in the Ministry of Works with so many projects that cannot be completed with available resources, NASS should seek to build consensus with the Executive and other stakeholders and decide on key national infrastructure projects that should be completed in the short term and channel the bulk of the expenditure to them. In other words, NASS should prioritise the projects so that budgetary funding can achieve the desired results.

Further, NASS should play an active role in collaboration with MDAs and the Infrastructure Concession Regulatory Commission in designing the modalities for funding existing projects through public private partnerships, dedicated bonds, etc. This brings to the fore the need to expeditiously consider and pass Bills such as the Federal Road Fund Bill and the Development Planning and Projects Continuity Bills into law.

5.6.3 Subsidy Reinvestment and Empowerment Programme

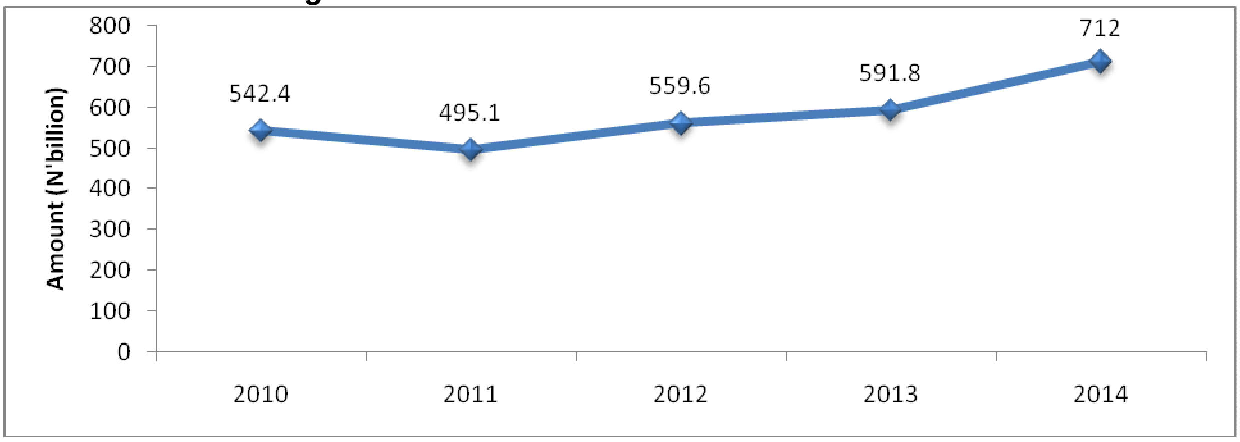
The proposal for SURE-P is for the sum of N268.37bn made up of N180bn in expected inflow for 12 months while N88.370bn is the carry-over from 2013. Funds were also carried over from 2012 to 2013 and the excuse was that the secretariat commenced work within the year. Considering that a good part of SURE-P funds is invested as augmentation of ongoing infrastructure projects, it is unimaginable that the sum of N88.370bn is being carried over. Why is it being carried over? Is it about the absorptive capacity of the implementing MDAs or the contractors handling the projects? Is it possible the funds were not released and cash-backed to the implementing agencies when they needed the funds? NASS is enjoined to find out the true state of affairs and take remedial measures for 2014.

Further, the proposed specific expenses of N2bn for the Federal Ministry of Information-public enlightenment on SURE-P is frivolous and makes no economic sense considering that the Ministry has a generous vote for sensitization in the main budget. Also, the N1.2bn for the Programme Board and N500m for monitoring and evaluation are on the high side. There is a vote for a nebulous special presidential intervention in the sum of N12bn. This should not be allowed to scale through unless the details are provided and they constitute a reasonable expenditure proposal. The ongoing probe in the National Assembly should get to the root of the matter to avoid misapplication of resources meant for SURE-P.

5.6.4 Debt Service and the Deficit

Figure 14 shows the progression of debt service over the past four years. The trend is an increase in the resources set aside for debt service as the national debt grows. Despite assurances by the Debt Management Office and the Ministry of Finance that Nigeria's debt is sustainable, the picture below is not good for the economy. It speaks of opportunities lost to invest in critical sectors of the economy.

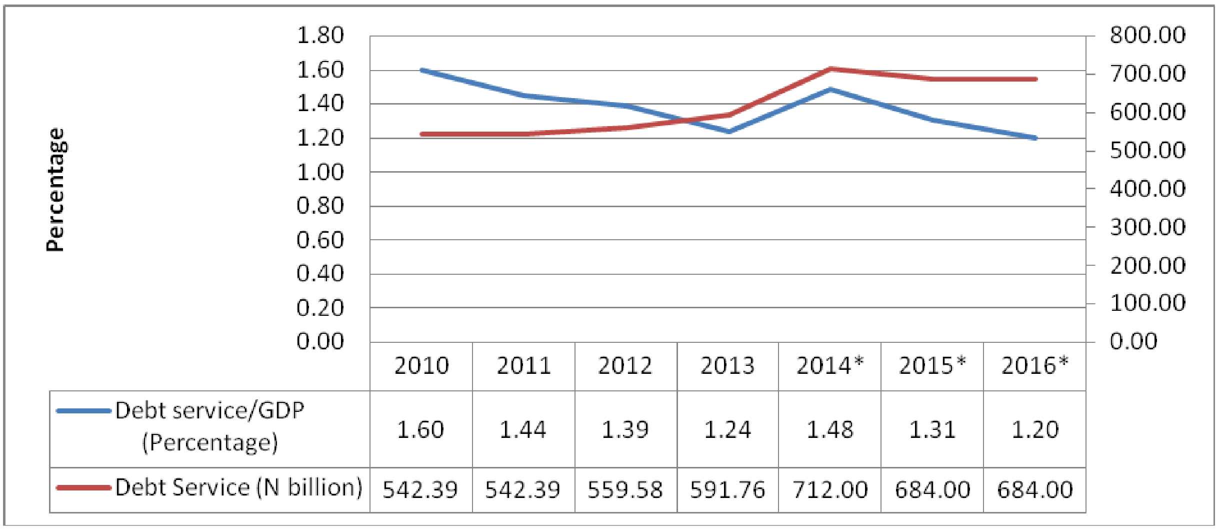
Figure 14: Debt Service in Billions 2010-2014



Source: Various Budgets 2010-2014

Figure 14 shows that using 2010 as the base year; in 2011, debt service decreased by 8.72% in 2011; and increased by 13.03% in 2012. It increased by 5.75% in 2013 and further soared by 20.36% in 2014. The following Tables speak to the growing increase in debt service. Figure 15 shows debt service and debt service as a percentage of GDP.

Figure 15: Debt Service and Debt Service as a Percentage of GDP (2010 – 2016)



Source: Computed from various MTEFs & FSPs and Approved FGN Budgets

The projected debt service of N712bn in the 2014 budget proposal would increase debt service as a percentage of GDP compared to rates recorded in the past 3 years. Total debt service in 2014 is projected to increase from N591.764bn budgeted in 2013 to N712bn in 2014. Of this amount, debt service on domestic debt is projected to increase in 2014 while the service on foreign debts would remain the same with the amount in the 2013 FGN budget. While the projection expresses the willingness of FGN to service its debt in 2014 fiscal year, it would increase the debt service percentage to GDP to 1.48 percent. Debt service as a percentage of GDP stood at 1.44 percent in 2011 and dropped to 1.39 percent in 2012. With the projected increase of budget deficit from -1.85 percent in 2013 to -1.90 percent in 2014, it would be important to channel borrowing into productive activities that would generate employment and address poverty[34].

There is also a relationship between debt service and availability of funds to invest in regenerating capital expenditure.

Table 53: Debt Service as a Percentage of Capital Expenditure

2014 BUDGET CAPITAL EXPENDITURE	DEBT SERVICING
N1,100,606,836,512	N 712,000,000,000
DEBT SERVICING AS A PERCENTAGE OF CAPITAL EXPENDITURE (%)	**64.69%**

Source: 2014 Proposed Budget

[34] Dr. Amakom Uzochukwu (supra).

Table 54: Capital Votes 2013 and 2014 of Key Ministries Versus Debt Service

2013 APPROVED BUDGET		2014 PROPOSED BUDGET	
CAPITAL VOTES OF MDA	**CAPITAL ALLOCATION (N)**	**CAPITAL VOTES OF MDA**	**CAPITAL ALLOCATION (N)**
AGRICULTURE & RURAL DEVELOPMENT	50,808,871,428	AGRICULTURE & RURAL DEVELOPMENT	35,151,172,583
EDUCATION	71,937,785,489	EDUCATION INCLUDING UBEC	49,536,035,231
HEALTH	60,082,469,275	HEALTH	46,339,384,706
POWER	73,159,378,866	POWER	59,051,290,389
TRANSPORT	44,527,673,725	TRANSPORT	29,334,108,913
WORKS	168,173,800,000	WORKS	100,146,203,055
MINES & STEEL DEVELOPMENT	3,400,000,000	MINES & STEEL DEVELOPMENT	2,026,868,615
AVIATION	48,500,000,000	AVIATION	26,157,892,040
NIGER-DELTA	62,331,222,222	NIGER-DELTA INCLUDING NDDC	46,903,704,194
DEFENCE/MOD/ARMY/AIR FORCE/NAVY	64,013,000,000	DEFENCE/MOD/ARMY/AIR FORCE/NAVY	34,290,000,000
KEY CAPITAL VOTES	**646,934,201,005**	**KEY CAPITAL VOTES**	**428,936,659,726**
DEBT SERVICE	**591,764,000,000**	**DEBT SERVICE**	**712,000,000,000**
KEY CAPITAL VOTES AS A % OF DEBT SERVICE	**109.3%**	**KEY CAPITAL VOTES AS A % OF DEBT SERVICE**	**60.24%**

Source: Appropriated 2013 Budget and 2014 Proposed Budget

Table 53 shows that the resources set aside for debt service is 64.69% of the money set aside for capital expenditure. In our usual tradition of utilising not more than 60% of appropriated capital vote, we may end up spending more on debt service compared to capital expenditure. The resources for debt service could have been channelled to capital investments in needed infrastructure. But when the capital votes of 13 key ministries are compared with the resources set aside for debt service, the picture is not flattering. These are ministries necessary for the realisation of Vision 20:2020 and the Transformation Agenda of the Administration. They are the ministries to drive job creation, reduction of the infrastructure deficit, eradicating insecurity for development to proceed in the North East, etc. Table 54 shows the details. In 2013, the capital votes of 13 key ministries were more that the debt service vote at 109.35% but in 2014, the capital vote of these key ministries amounts to only 60.24% of the debt service.

Table 55: Debt Service as a Percentage of Retained Revenue

RETAINED REVENUE	DEBT SERVICING
N3.73 Trillion	N 712 Billion
PERCENTAGE OF DEBT SERVICE TO RETAINED REVENUE (%)	**19.09%**

Table 55 shows that debt service will take 19.09% of retained revenue while we are still incurring new indebtedness.

The fiscal deficit of N911.96bn is to be financed from the following sources - privatisation proceeds (N15bn), Excess Crude Account (324.97bn), and new borrowing (571.99bn). All the financing sources are realistic and would eventually accrue for use. However, the new borrowing of N571.99bn is not predicated or supported by any Consolidated Debt Limit as required by the provisions of Section 42 (1) of the Fiscal Responsibility Act. Therefore, the approval of the 2014 budget provides a good opportunity for the NASS to insist on the President proposing a Consolidated Debt Limit for the three tiers of government which it will approve.

5.6.5 Request for New Borrowing and Absence of Cost Benefit Analysis (CBA)

The request for new borrowing in the sum of N571bn is also submitted without a list of projects and their cost benefit analysis as required by the FRA. According to sections 41 (1) and 44 (1) of the FRA:

> *41 (1): Government at all tiers shall only borrow for capital expenditure and human development, provided that such borrowing shall be on concessional terms with low interest rate and with a reasonably long amortization period subject to the approval of the appropriate legislative body where necessary.*
>
> *44 (1): Any Government in the Federation or its agencies and corporations desirous of borrowing shall, specify the purpose for which the borrowing is intended and present a cost-benefit analysis, detailing the economic and social benefits of the purpose to which the intended borrowing is to be applied.*

Borrowed monies are only to be used for capital expenditure and human development and the borrowing request should be accompanied by a CBA. Borrowing should be on concessional terms defined to mean an interest rate below 3 percent per annum. NASS should therefore insist on a review of the CBA and the terms of the borrowing before approving the new borrowing, otherwise they will be approving borrowing for recurrent expenditure and on terms which are not concessional.

5.6.6 Contingent Liabilities

There is nothing in the MTEF 2014-2016 or in the body of the 2014 Budget stating the contingent liabilities that will arise in the implementation of the budget. For instance, despite the provisions for the Lagos-Ibadan Expressway and the augmentation in the SURE-P budget, FGN through the Ministry of Works has announced the plan to raise funds from the private sector to speed up the completion of the project. How will the funds raised from the private sector be repaid and on what terms and through which means? It is therefore imperative for the budget to state the quantum of such contingent liabilities and what measures are to be taken to ensure that they do not crystallise and or how to deal with them if they crystallise.

Chapter Six

SPECIFIC ISSUES AND THE CHALLENGES OF FISCAL GOVERNANCE

6.1 FRIVOLOUS AND WASTEFUL SPENDING DISCOVERED IN THE 2013 BUDGET ESTIMATES

The 2013 budget estimates contained a lot of requests for frivolous and unwarranted expenditure and had room for a lot of savings that could be channelled to infrastructure and improvement of livelihoods. The frivolous estimates were identified by Citizens Wealth Platform, 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. Some of these frivolous estimates are repeated requests for purchase of computers and acquisition of software, bloated figures for travel and transport, sporting activities, drugs and medical expenses as well as capacity building[35].

There were duplications of estimates in the Ministry of Petroleum Resources and its parastatals. There is a sum of N254,710,986 for the renovation of 7 Kofo Abayomi Street Victoria Island in the estimates of the Nigeria Nuclear Regulatory Authority (Code 23020118) and the same sum is also demanded for the same address in the proposal of the Department of Petroleum Resources (Code 23020118). Further, the same amount is demanded for the same address and activity in the proposal of Nigeria Content Development and Monitoring Board (Code 23020118)[36].

The Department of Petroleum Resources, Nigeria Nuclear Regulatory Authority and the Nigeria Content Development and Monitoring Board have the following duplications in their proposals: Real Time Monitoring of Gas Facilities, Production and Operations for N150,000,000; Construction of National Laboratory in Owerri for N300,000,000. Further duplications include Construction/Provision of office buildings DPR HQTS, Abuja for N500,000,000; Implementation of Trucking Policy for N150,000,000; Gas Flaredown Monitoring Facilities and Services for N100,000,000 and Instruments for Gas Pipeline Surveillance (Real Time) for N100,000,000 etc. The three agencies further have the following in their proposal vis, Lease of 3 Number 7 - Seater Helicopter for Inspection and Monitoring of Offshore Terminals (fpso/fso) for N200,000,000; Monitoring and Evaluation for N50,000,000; Pilot Project on Novel Oil

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[35] Recommendations on the Line Items of the 2013 Budget published by the Citizens Wealth Platform at page 1.
[36] Ibid at page 25.

and Gas Exploration Technology for N365,289,014. Are the three agencies supposed to be doing exactly the same set of things? If the answer is in the affirmative, then approval of the sum for only one agency will suffice[37].

6.2 SPENDING WITHOUT APPROPRIATION: THE STORY OF THE BULLET PROOF CARS

In October 2013, Nigeria's former Minister of Aviation, Stella Oduah made headlines for acquiring two black BMW 760 Li HSS bullet-proof cars[38]. The cars valued at $1.6 million (N255 million) were purchased by the Nigerian Civil Aviation Authority (NCAA) for Stella Oduah out of the ministry's budget which violated the 2013 Appropriation Act. The bulletproof car scandal known as *Oduahgate*, heightens the cases of spending without appropriation in Nigeria. Prior to her exit from the Federal Executive Council, the House of Representatives Committee on Aviation had come up with a report which was endorsed by the House on December 19, 2013. The committee had recommended a review of Oduah's appointment for approving the expenditure of N643m for the NCAA to buy 54 vehicles last year beyond her limit of N100m. The committee also stated that no budgetary appropriation was made for the purchase of the two BMW cars. This contravenes section 27 of the FRA:

> *27. – (1) The sums appropriated for a specific purpose shall be used solely for the purpose specified in the Appropriation Act.*
>
> *(2) Without prejudice to subsection (1) of this section, the Minister may in exceptional circumstances and in the overall public interest, recommend for the approval of the National Assembly virements from sub-heads under heads of account, without exceeding the amount appropriated to such head of account.*

6.3 MISSING OR UNREMITTED REVENUE AND FUEL SUBSIDIES

The Governor of the Central Bank of Nigeria, Mr Sanusi Lamido Sanusi described the kerosene subsidy claim by NNPC as a scam; the claim by NNPC of spending money on kerosene subsidy is not credible. Sanusi made the declaration at the resumed Senate Investigative Public Hearing on un-remitted oil revenue, stressing that the sum of $20bn was un-remitted to the Federation Account by NNPC, between January 2012 and July 2013. He noted that the burden of proof was on the NNPC to substantiate

[37] Ibid at page 25-26.

[38] The transaction for the purchase of the two BMW cars started in June, 2013 but the request for the delivery of and payment for the cars was fast-tracked between 13 and 15 August, 2013. The transaction involved the NCAA, First Bank of Nigeria and Coscharis Motors Limited. The two black BMW Li HSS vehicles have chasis numbers WBAHP41050DW68032 and WBAHP41010DW68044. Note that the bulletproof cars attracted an import waiver to the tune of N10.13m by the Nigerian Customs under the hand of the MOF. However, the MOF stated that it did not grant the waiver.

that the $20bn unremitted sum either did not belong to the Federation or that it was legally and constitutionally spent.

According to the CBN Governor, the NNPC, by paying kerosene subsidy, confessed to a number of serious infractions. Referring to the data provided by the National Bureau of Statistics, he stressed that kerosene was not a subsidised product, adding that the so-called subsidy was rent generated for the benefit of those in the kerosene business. Producing evidence that former President Yar'Adua had issued a presidential directive eliminating subsidy payment on kerosene as from July 2009, Sanusi reported that the huge losses inflicted on the Federation Account have not been approved by the National Assembly. The CBN Governor pushed the burden of proof to the NNPC to show where it obtained authorisation to purchase kerosene at N150/litre from Federation funds and sell at about N40/litre, when the product sells in the market at N170-N220/litre.

Citing records from the Nigeria Ports Authority, Sanusi stated that the records suggest that NNPC imports about four to six vessels of kerosene a month. Similarly, he noted that based on industry sources, the Federation Account loses $100 million monthly due to racketeering in the industry. The Governor of the CBN also faulted the NNPC's claim that 80% of the $10.8bn it admitted were unremitted to the Federation Account was used for petrol and kerosene subsidy. He urged the Senate Committee not to accept the argument since a presidential directive from former President Umar Yar'adua had in 2009 barred payment of subsidy on kerosene. His study showed that in January 2012, kerosene, which should go for N50 per litre, sold for as much as N300 in some major towns and cities, which represents about 500 per cent hike, while the prevailing price for the month of February and March 2012 was N250, representing 400 per cent increase. Since April 2012, where available, the price of kerosene till date has continued to oscillate variously between N150, N175, and N225 per litre[39].

6.4 WAIVERS AND LOSSES: REVENUE LOSS THROUGH WAIVERS

The Chartered Institute of Taxation of Nigeria lamented the huge amount being lost as a result of import duty waivers and exemptions granted to companies by the Federal Government noting that it is affecting the implementation of the budget. A breakdown of the figure showed that import duty waivers and exemptions of N55.96bn were given in 2011, N55.34bn in 2012 and the 2013 fiscal year had N59.42bn waivers. The government could not justify the waivers, especially when they were granted to items with little or no benefit to the economy.

The waivers sabotage the efforts of the FIRS and other agencies to increase revenue earning via the non-oil sector and stresses the neglect of the critical role of tax

[39] See more at: http://www.premiumtimesng.com/news/154840-exclusive-documents-show-nnpcs-claims-on-kerosene-subsidy-a-massive-scam.html#sthash.EfrfGTWM.dpuf

revenue in achieving the goals of any budget. CITN urged the Federal Government to stop its dependence on oil revenue to finance the budget, noting that efforts should be made to optimise revenue from taxes. However, it cautioned against multiple taxation and stated that waivers should be sparingly used in matters of great national economic or social interest.

6.5 THE IPPIS: THE GHOSTS WORKERS

The FGN had so far identified 46,821 ghost workers in 215 of its MDAs where it had introduced the IPPIS. The IPPIS is a programme of government that is meant to enhance efficient personnel cost planning and management by making personnel cost to be based on actual verified numbers and not estimates. As at January 2013, the IPPIS had verified 153,019 members of staff for 215 MDAs. Work is ongoing to bring in other 321 MDAs not yet on the IPPIS. FGN claims it has saved about N119bn from ghost workers through the IPPIS[40]. However, FGN's target of ensuring full implementation of the IPPIS and the Government Integrated Financial Management Information System (GIFMIS) in all MDAs by December 2013 has been delayed by the inability of the Implementation Committee on IPPIS/GIFMIS to establish a full list of MDAs yet to be incorporated on the platforms due to logistics difficulties. However, some MDAs are stalling the completion of the exercise through the opposition of organised labour to the scheme.

The task of fishing out ghost workers should not be an end in itself but should extend to recovering the stolen sums, prosecution of offenders, sanctions and guarantees of non-repetition. Otherwise, new ghost workers will emerge as old ones are weeded out.

6.6 THE ORANSANYE REPORT - FG MAY SCRAP BPE, NAPEP, NEPC, 217 OTHER AGENCIES

FGN is in the process of considering the report of the Committee on the Restructuring and Rationalisation of Federal Government Parastatals and Agencies, which has recommended the scrapping of the Bureau of Public Enterprises (BPE), National Poverty Eradication Programme (NAPEP), National Export Promotion Council (NEPC) and 217 federal government parastatals, commissions and agencies[41]. Other key parastatals recommended by the Committee for either consolidation or scrapping are the Public Complaints Commission (PCC), which shall be merged with Human Rights Commission; merger of the Economic and Financial Crimes Commission (EFCC) with Independent Corrupt Practices and Other Related Offences Commission (ICPC); and the axing of the National Salaries, Incomes and Wages Commission (NSIWC), Utilities

[40] Vanguard Newspaper (July 23, 2013): FG eliminates ghost workers, saves N119bn

[41] ThisDay Newspaper July 2nd 2013: FG May Scrap BPE, NAPEP, NEPC, 217 Other Agencies

Charges Commission (UCC), Fiscal Responsibility Commission (FRC), and National Economic Intelligence Committee (NEIC). The Oronsaye Committee set up in late 2011 had recommended that 220 of the 541 parastatals, commissions and agencies of FGN be scrapped while 321 be retained, as part of measures to reduce the rising cost of governance.

6.7 VANDALISATION OF GAS PIPELINES: AN ACT OF SABOTAGE

The Group Manager Director of the NNPC Andrew Yakubu briefed journalists on 20th January 2014 that about 480 metric million standard cubic feet of gas supply per day (mmsf/d) which is equivalent to 160 megawatts (MW) of power, was lost to acts of vandalisation of gas pipelines. The most affected part of the pipelines were the Escarvos – Warri ELPS Pipeline which lost about 190mmcf/d and Trans-Forcados Pipeline which lost 230mmcf/d. According to the GMD, both pipelines are approximately 60 kilometers and 50 kilometers long respectively.

When crude oil pipelines are vandalised, the perpetrators of the crime often intend to steal the crude oil and make money out of it. But this is not the case with the vandalisation of gas pipelines. It is extremely difficult to collect the gas and most times, it is just an act to waste the resource and cause environmental damage. And the equipment needed to cause the damage is not available at the roadsides but costly technical equipment. The activities of the vandals incur loss for the country as funds are needed for the repair of the damaged gas pipelines. The NNPC also disclosed that it has discovered wilful damage and 20 ruptured points along the gas pipelines which will be requiring the sum of N800m to repair. The sub-optimal supply of electricity in Nigeria is in part traceable to this vandalisation[42].

6.8 THE CHALLENGE OF HOUSING DEFICIT IN NIGERIA

Nigeria currently suffers from a housing deficit of 17million units, with the total estimated cost needed to address the deficit put at N59trillion. The challenge therefore has been on how the nation could generate the funds to address its housing challenges. The Managing Director of the Federal Mortgage Bank of Nigeria (FMBN) Gimba Ya'u traced the problem impeding the housing sector in Nigeria to the dearth of long term financing for housing, mortgage and infrastructure. However, the FGN plans to set up a Mortgage Utility Refinancing Company which the managing director of the FMBN believes would attract investments that would boost the sector. In another development, contributors to the National Housing Fund (NHF) have expressed their displeasure with the Fund, due to their inability to access loans despite regular contribution to the NHF. The Nigerian Police Force is one of the

[42] This day Newspapers, Tuesday, January 21, 2014 *NNPC to spend N800m on repair of ruptured gas pipelines*

agencies that have contributed largely to the Fund and they have also come out openly to express their dissatisfaction with the NHF. The Acting Assistant Inspector General of Police (AIG) in charge of Zone 11, Osogbo, Mr. Mohammed Indabawa lamented that despite the NPF contribution of N8bn into the NHF, members of the Police Force could not access loans for their housing needs. To address this challenge, there is need to overhaul the NHF to bring more stakeholders into the payment net and liberalise access to loans for contributors[43].

6.9 NIGERIA TOPS LIST OF FOREIGN REMITTANCE IN SUB-SAHARAN AFRICA

Nigeria has been described as the highest receiver of foreign remittance in Sub-Saharan Africa with an expected flow of $21bn by the end of 2013. According to the report titled "*Migration and Remittance Flows: Recent Trends and Outlook, 2013-2016"* other countries with large remittances in Sub-Saharan Africa include Senegal ($1.4bn), Kenya ($1.2bn), South Africa ($1bn) and Uganda ($700million). The report also states that Nigeria and other Sub-Saharan African countries are expected to see an increase of 6.2 percent in officially recorded remittances from citizens in Diaspora in 2013 to reach the $32bn mark, compared to $30bn in 2012. The report states that Nigeria is the largest recipient, accounting for more than half of the total remittances in the region. But calculating remittances as a share of gross domestic product (GDP), the largest recipients are Lesotho, Togo, Cape Verde, Senegal and the Gambia.

Remittance flows to developing countries are expected to reach $414bn in 2013, up 6.3 percent over 2012, and $540bn by 2016. Worldwide, remittance flows may reach $550bn in 2013 and over $700bn by 2016. According to new estimates, the top recipients of officially recorded remittances for 2013 are India ($71bn), China ($60bn), the Philippines ($26bn), Mexico ($22bn), Nigeria ($21bn), and Egypt ($20bn)[44]. The large remittance to Nigeria shows that Diaspora Bonds could be a source of funding development projects in Nigeria.

[43] Nigerian Tribune Newspapers, Wednesday, 6 November, 2013 *Nigeria has N59trn housing deficit*, Thisday Newspapers, Tuesday October 8, 2013, *Police Contributes N8bn to NHF, Float Mortgage bank.*

[44] Business Day Newspapers, Monday 07 October 2013. *Remittance flows to Nigeria to reach $21bn this year.*

Chapter Seven

CONCLUSIONS AND RECOMMENDATIONS

7.1 CONCLUSIONS

The 2013 budget proposal was presented early to NASS on October 10, 2013, and it was approved by the Legislature in record time, leading to its passage on December 20, 2013. However, the budget did not receive presidential assent until February 26, 2014. The budget was further reviewed by the Executive, leading to an amendment Bill sent to NASS and this was passed on the 25th of July, 2014 and assented to by the President in August 2014. The Executive-Legislative bickering denied the budgeting process the benefits of early presentation and passage of the federal budget.

The amended budget was composed of N2.415trillion (48%) for recurrent non-debt expenditure, N1.591trillion (32%) for capital expenditure, N591.7bn (12%) for debt service and N388bn (8%) for statutory transfers. It was based on the following macroeconomic assumptions; oil price benchmark of $79pb; oil production of 2.526mbpd; exchange rate of N160 to 1USD; inflation rate of 12.9%; budget deficit/GDP of 1.85%; GDP growth rate of 6.5% and retained revenue of N4.1trillion.

As has been the practice over the years, the Accountant General of the Federation did not prepare the Annual Cash Plan while the Minister failed to prepare the Budget Disbursement Schedule and BIRs were not prepared on time. Government withdrew a total of N1.997trillion from the ECA to augment distributable revenue, pay for petroleum subsidy and transfers to Special Intervention Funds. The withdrawals for augmentation were made in a year the price of crude oil was far higher than the benchmark price by $29. Instead of reporting on the daily production as stated in the budget assumptions, the BIRs reported on crude oil lifting. The two terms represent different realities. The average crude oil lifting was 2.19mbpd which is at variance with the daily production estimate of 2.526mbpd. The projected oil revenue inflow was N2.534trillion while the actual inflow stood at N1.996trillion representing a shortfall of N358.51bn. The shortfall in oil revenue was attributed to crude oil theft, illegal bunkering and pipeline vandalisation. Non-oil revenue was projected to yield N1,006.46bn to the federal treasury, but only N760.90bn came in and this led to a deficit of N239.56bn.

60.9% of the funds voted for capital budget implementation was utilised at the end of the year. This is an N968.9bn out of a vote of N1.590trillion. Out of the 60%, 34.3% was spent in the first three quarters whilst 26.6% was spent in the last quarter, suggesting that money was spent in the last quarter simply because it was appropriated and value for money played no central role. For SURE-P, only 63.3% of the appropriated sum of N273.5bn was utilised. This is an unjustifiable position considering that SURE-P funds are meant for augmentation of existing projects and what is required is the disbursement of funds upon completion of the different stages of work and verification by MDAs.

The DSA 2013 and the 2013 Annual Report of DMO indicate that Nigeria's debts are sustainable and the economy is resilient. The DSA was conducted under three main scenarios vis, the baseline, optimistic and pessimistic scenarios. The documentations relied mainly on the debt to GDP ratio to arrive at the conclusion. However, the pessimistic scenario stated that a persistent crude oil price shock and diminished revenues over a long period of time could undermine debt sustainability and macroeconomic stability. The public debt of the Federation as at December 31, 2013 stood at $54,44.31million, being a 12.47% increase over the 2012 figure. The debt payment for the year stood at N836.615billion while capital budget expenditure stood at N968.928. Thus, debt repayment was 86.03% of the capital expenditure and this signifies lost opportunities for new investment to bridge the nation's infrastructure gap.

The holding structure of domestic debts shows that banks and discount houses held 46.27%; non bank public 44.92%, CBN 6.59% whilst sinking funds held 2.23%. The holding structure suggests that any default in repayment might lead to banking distress and crisis. 43.55% of the domestic debts had a maturity period of less than one year; 11.28% had a maturity period of between one to three years whilst only 45.17% had a maturity period of more than three years. This does not portray debt sustainability. If the rules were followed and borrowing was channelled to long term capital expenditure, this would clearly produce a mismatch between the funded projects and the funding.

The 2014-2017 MTEF was submitted to NASS on September 17, 2013. It was not supported by MTSS and there were no indicative sectoral envelopes. There was no indication as to whether the statutory consultations were held. The macro-economic framework and fiscal strategy were not aligned to the national development plan and strategy in Vision 20:2020. The macroeconomic projections for the next three financial years were scanty and were not supported by underlying assumptions. The MTEF did not contain the evaluation and analysis of the macro-economic projections for the last three financial years. The oil and non-oil revenue projections in the MTEF were realistic. The FSP was not linked to the Fundamental Objectives and Directive Principles of State Policy as demanded by law. Despite the repeated mantra of diversification of the economy, the FSP contained nothing in that direction. Also, despite the repeated mantra of fiscal consolidation and increase to capital expenditure, the projections for recurrent and capital expenditures remained as in previous years. The MTEF was silent on contingent liabilities and quasi-fiscal activities of government.

The 2014 federal budget submitted by the President to the NASS on the 19th of December, 2013 was tagged a budget of job creation and inclusive growth. The budget was for a total sum of N4.462trillion made up as follows: N2.430trillion for recurrent non-debt expenditure; N399.6bn for statutory transfers; N712bn for debt service and N1.1trillion for capital expenditure. The underlying assumptions are oil price benchmark of $77.5pb; crude oil production of 2.388mbpd; exchange rate of N169 to 1USD; GDP growth rate of 6.75%; retained revenue of N3.73trillion; budget deficit of N0.91trillion and Joint Venture Cash Call of N858.588bn.

The Ministry of Finance and Service Wide Votes takes the lead with N1.653trillion, followed by Education with N493b, Defence got N340b; the Police N299.6b and Health received N262b. However, the reason behind the huge allocation to Service Wide Votes is not clear. The votes to the social sectors of education and health did not meet the demands of regional and international standards and there were a lot of frivolous and ambiguous votes in the budget proposal.

A number of fiscal scandals arose within the financial year. They include the fact of spending without appropriation in the purchase of bullet-proof cars by the Minister of Aviation, Stella Odua; missing or unremitted revenue from the NNPC related to fuel subsidies and unmerited import duty waivers that resulted in revenue deficits for the treasury. On the other hand, the introduction of IPPIS seemed to offer a hope for improved personnel and payment management in MDAs. The recommendations of the Oronsaye Committee still reverberated within the year with the hopes that the Government will issue a white paper which will be implemented to reduce the cost of governance.

Essentially, transparency and accountability has improved since the coming on board of the FRA, but there is still room for more improvement. However, the debt management strategy has led to borrowing in an unsustainable manner. The country has borrowed to fund recurrent expenditure in salaries and overheads. The fiscal buffers have been depleted and long term macroeconomic stability cannot be guaranteed considering *inter alia*, the economy's reliance on a single export commodity. The economy cannot survive a fiscal oil price shock; this will lead to huge deficits. National resources have not been managed prudently in view of the fact that the bulk of expenditure is invested in recurrent costs while capital investments over the years get a little less than 20% of the budget. The MTEF has not been able to focus policies, plans and the budget to deliver enhanced economic growth and development. Apparently, there are missing links that have been identified.

7.2 RECOMMENDATIONS

On the basis of the facts contained in this Report, the following recommendations are imperative.

1. Annual Budget

1.1 The Legislature should amend the 1999 Constitution to fix a calendar for budget presentation and approval. Preferably, the budget should be presented in the first week of September and should be passed on or before the first week of December of the same financial year.

1.2 The perennial bickering between the Executive and the Legislature should be resolved through amendments to the Constitution or the Fiscal Responsibility Act or by a comprehensive budget law.

1.3 To avoid frivolous and wasteful spending, the budget preparation template should be MDA–specific, taking cognisance of the functions and duties of particular MDAs instead of being a general template applicable across board to all MDAs.

1.4 Revenue forecasts should be realistic and based on the actuals of the preceding year with a reasonable margin of appreciation for efficiency gains.

2. Annual Cash Plan and Budget Disbursement Schedule

2.1 The Accountant-General of the Federation should ensure the preparation of the Annual Cash Plan in accordance with S.25 of the FRA.

2.2 The Minister of Finance should guarantee the preparation of the Budget Disbursement Schedule as required by S.26 of the FRA.

2.3 The Fiscal Responsibility Commission should proactively demand the performance of these duties by the respective offices and officials.

3. Capital Budget Implementation

3.1 To encourage MDAs to improve on the efficiency of capital budget implementation, the Bureau of Public Procurement may consider a benchmarking exercise to recognise and promote best practices among MDAs in capital budget implementation.

3.2 The BPP should work for the full implementation of the Public Procurement Act through the activation of the sanctions mechanism.

3.3 The President should immediately set up the National Council on Public Procurement.

4. Budget Implementation Reports

4.1 In accordance with the FRA, Budget Implementation Reports should be prepared and disseminated on time by the Budget Office of the Federation and the Ministry of Finance.

4.2 The Fiscal Responsibility Commission should liaise with these offices to fine-tune the template for the preparation of the BIRs and proactively demand the timely performance of this duty.

5. Withdrawals from ECA

This should strictly follow the provisions of S.35 of the FRA. Withdrawing monies from ECA at a time when the price of oil exceeds the benchmark price is not in accordance with the provisions of the law. It is rather a time to build up the fiscal buffers for the rainy day.

6. Debts and Borrowing

6.1 The Fiscal Responsibility Commission should be recognised as a stakeholder in the yearly DSA.

6.2 FGN and the states should stop borrowing for recurrent expenditure. This is illegal under the FRA. The restructuring of the public service should be seriously considered if retained revenue including statutory allocations is not sufficient to fund recurrent expenditure.

6.3 In consideration of the infrastructure deficit, debts should be held at a sustainable level so that debt service would not exceed 50% of the actual capital budget expenditure. Debt service should also not exceed 20% of retained revenue.

6.4 Increased revenue generation through reforming the IGR system should be considered as a first step for increased funding of government expenditure and borrowing should be a last resort.

6.5 All borrowing proposals must not only be tied to capital projects, with detailed cost-benefit analysis of the projects, but a realistic and feasible payment plan to meet the debt obligation in the future.

6.6 The President with advice from the Minister of Finance should send the proposal for the debt limits of the three tiers of government to the National Assembly for approval.

6.7 Deliberate efforts should be made to tie the source of funding to the nature of the funded projects to avoid a project/finance mismatch.

6.8 Transparency and accountability in debt management demands that DMO should on a regular basis publish the list of projects and programmes tied to the respective loans incurred by government.

6.9 The Legislature, through the loan approval process and its oversight responsibilities should play a more proactive role in debt management. The

Legislature should conduct public hearings on requests for borrowing and invite the contributions of all Nigerians, especially knowledgeable stakeholders in the sector.

6.10 The Debt Management Office should work towards securing long term maturing debt obligations rather than the short term debts which form the greater part of national domestic debts.

7. Preparation of the MTEF and Budget

7.1 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 give the Legislature sufficient time to approve the MTEF and for actual preparation of budgetary estimates to start on time.

7.2 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.

7.3 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.

7.4 To avoid the yearly challenges associated with the contents of the MTEF, the FRC should initiate the preparation of an MTEF template which it will develop and finalise in collaboration with the Ministry of Finance and other relevant agencies.

8. Macroeconomic Framework

8.1 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.

8.2 The MTEF's macroeconomic projections should be aligned with Vision 20:2020 and its National Implementation Plans or show reasons supporting that the targets in Vision 2020 cannot be met.

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

8.4 Considering the gravity of unemployment, the MTEF should document the present situation; make projections for increased employment and strategies to attain the new projections.

8.5 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 500 basis points.

9. Fiscal Strategy Paper

9.1 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.

9.2 Government should reorder its spending priorities and ensure a 60% - 40% ratio 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).

9.3 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 turnaround maintenance operations. Individuals and companies found to have abused the oil subsidy system should face diligent criminal prosecution.

9.4 The NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources from Joint Venture Cash Calls for investment in critical sectors. It is estimated that over N3 trillion will accrue to the Federation Account from the implementation of the PIB.

10. Revenue and Expenditure Framework

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

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

10.3 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.

10.4 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.

Consolidated Debt Statement

11.1 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.

11.2 The DSA and MTEF should take cognisance of contingent liabilities in building scenarios about risks and debt sustainability.

12. Contingent Liabilities and Quasi-Fiscal Activities

12.1 The MTEF should include the nature and quantum of contingent liabilities and quasi-fiscal activities of government.

12.2 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.

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