

PRELIMINARY REVIEW OF THE 2017 FEDERAL APPROPRIATION BILL BY CENTRE FOR SOCIAL JUSTICE LIMITED BY GUARANTEE

1. Introduction

The Centre for Social Justice (CSJ), a Nigerian knowledge institution welcomes the presentation of the 2017 Federal Budget by President Muhammadu Buhari on the 14th day of December 2016 in accordance with section 81 of the Constitution of the Federal Republic of Nigeria 1999, as amended. The budget expenditure is in the sum of N7.298 trillion which is 20.4% increase over the 2016 figure; retained revenue of N4.94 trillion and a deficit of N2.36 trillion. The key assumptions are the benchmark price of \$42.5 per barrel of crude oil; daily production of 2.2 mbpd and an average exchange rate N305 to 1USD.

2. Positive Notes

We welcome the following key positive points in the budget speech and the supporting budget policy statement.

- The Ministry of Agriculture and Rural Development, the Central Bank of Nigeria, the Organised Private Sector and a handful of Nigerian commercial banks, have embarked on an ambitious private sector-led N600 billion programme to push Nigeria towards self-sufficiency in three years for rice, wheat, sugar, soya, tomato and dairy products.
- The revival of the Export Expansion Grant and the expansion of existing as well as the development of new Export Processing and Special Economic Zones. However, the allocation for this can be improved upon.
- The recapitalization of the Bank of Industry and the establishment of the Development Bank with \$1.3billion to focus exclusively on small and medium sized firms.
- The signing of an Agreement with Morocco to revive abandoned Nigerian fertilizer blending plants.
- The promise to fully align fiscal, monetary and trade policies to promote import substitution.
- That the Federal Government will no longer pay for Joint Venture Cash Calls which will now be subject to a new funding mechanism that will allow for cost recovery.

- Provision to clear outstanding MDA electricity bills.
- Verification and collation of debt obligations to local contractors with a view to realistic and viable payment plan.

3. Some Challenges and Concerns

Some key challenges arising from the budget speech and the presentation include:

- Presentation of the budget on December 14, very late in the year and a few days to the start of the legislative Christmas and New Year Break.
- The fact that there is no approved Medium Term Expenditure Framework 2017-2019. Section 18 of the FRA states: *“Notwithstanding anything to the contrary contained in this Act or any other law, the Medium-Term Expenditure Framework 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”*. Thus, strictly speaking in law, there cannot be an executive budget submitted for legislative approval without the approval of the MTEF. Illegality may have occurred in the preparation and presentation of the budget.
- The proposal to use executive orders to speed government procurement and approvals. This may lead to derogations in due process for public procurements thereby denying the country of the benefits of a well planned procurement process.

4. Revenue Framework

The Revenue Framework of the Budget is as detailed in Table 1 below.

Table 1: Revenue Framework of the 2017 Appropriation Bill

Aggregate Revenue N4.94 trillion		
Revenue Head	Amount N	Percentage
Oil Revenue	1.985trillion	40.18
Non oil Revenue (CIT, VAT, C&E and Federation Account Levies)	1.373 trillion	27.79
Independent Revenue	807.57 billion	16.35
Recovered Loots	565.1 billion	11.44
Other sources	210.9 billion	4.27
Total		100

The deficit is in the sum of N2.36trillion and it is to be financed mainly by borrowing the sum of N2.32billion from external and domestic sources. This will further add to our already high debt profile. The deficit is 32.34% of the overall expenditure of N7.298 trillion.

The first challenge of the Revenue Framework is on the expected revenue from oil. The lack of a clear path for the resolution of the insurgency in the Niger Delta region will affect the realisation of the projection for oil revenue. The President indicated that disruptions in crude oil production partly contributed to significant shortfalls in projected revenue. If the country could not meet the 2016 projection, and without resolving the challenge, it is likely that the 2017 projection will not be met. But the \$42.5 benchmark price seems realistic if members of OPEC and other oil producing nations stick to the current path of cutting down on production.

The second is that it is not clear whether the N565.1billion recovered loot is already in the bag or being expected. This should be clarified by the fiscal authorities. If it is an expected sum, then it should not be made a revenue source and should only be appropriated when it has already been realized through a supplementary appropriation.

The third issue is that it is surprising that non-oil Revenue (CIT, VAT, C&E and Federation Account Levies) is expected to be much lower than oil revenue at a period the Federal Government is keen and states that it has taken steps to diversify the economy. Although the economy is in recession, the fiscal boosts and so many quasi fiscal measures undertaken by the fiscal and monetary authorities is expected to have started yielding dividends to increase this type of revenue.

The fourth issue is that from the actual revenue inflow of 2016, the President indicated that as at September 2016, we missed the prorated revenue projections by 25%. It would have made sense to use the actual figures of 2016 as a guide to the projections unless the circumstances and conditions have changed in favour of enhanced revenue generation.

5. The Expenditure Framework

The Expenditure Framework of the Budget is as detailed in Table 2 below.

Table 2: Expenditure Framework of the 2017 Appropriation Bill

Overall Allocation		N7.298trillion	
Expenditure Head	Amount N	Percentage	
Recurrent non Debt	2.98 trillion	40.83	
Capital Expenditure	2.24 trillion	30.69	
Statutory Transfers	419.02 billion	5.74	
Debt Service	1.66 trillion	22.75	

Sinking Fund to retire Maturing Bonds	177.46 billion	2.43
Total		100

The first issue is that capital expenditure is to take 30.69% of the budget. While this looks good on paper, previous experience indicates that the capital vote is very poorly implemented. For instance, out of the 2016 capital vote of about N1.6trillion, only N753.6billion had been released at the end of October. The President was however silent on how much was cash backed as at that date. It is not therefore sufficient to make proposals which may not be followed through at the end of the day. It is also imperative for the administration to ensure that the bulk of the capital expenditure is developmental rather than administrative. This is the only way it can have a direct impact on the majority of citizens.

The second issue is that the rising debt service appears to be crowding out expenditure in critical infrastructure and human development. At the end of the day, if there is a shortfall in revenue, salaries and overheads will be drawn down, debts will be serviced whilst capital projects suffer. At 22.75% of overall expenditure, the debt service is high. When the 2016 experience is used, it shows that Nigeria has already spent over a trillion in debt service at a time capital expenditure took only N753.6 billion.

The third issue is the need to resolve the seeming contradiction between the External Borrowing Plan 2016-2018 and the proposal for capital expenditure. The Borrowing Plan is seeking approval of almost \$30 billion for the 2016-2018 period. If the request is given approval, FGN may have to spend an average of \$10billion every year for the three years. \$10billion is over N3trillion naira. Has the government abandoned the borrowing plan or what has happened to the projects proposed in the plan?

The fourth issue is to resolve the contradiction between the FGN mantra of cutting down waste, improving efficiencies and removing ghost workers from the payroll and its relationship with the rising recurrent non debt expenditure. Recurrent non debt expenditure got N2.59 trillion in 2015 and moved up to N2.65trillion in 2016. Now it has gone up to N2.98trillion. These increments cannot be the sign of a system that is taking steps to remove waste and inefficiencies.

6. Expenditure Specifics

It is interesting to note the establishment of the N1trillion Family Homes Fund with a seed money of N100billion. The budget was however silent on where the remaining N900billion will come from. The Fund is a step in the right direction but it should be complimented by the revival of the National Housing Fund.

A review of the allocations to four sectors available in the President's budget speech is imperative. This is as shown in Table 3.

Table 3: Available Sectoral Allocations

MINISTRY	CAPITAL ALLOCATION (N Billion)	RECURRENT ALLOCATION (N Billion)	TOTAL ALLOCATION (N Billion)	TOTAL ALLOCATION (AS A PERCENTAGE OF THE TOTAL BUDGET)
INTERIOR	63	482.37	545.37	7.47
EDUCATION	50	398.01	448.01	6.14
DEFENCE	140	325.87	465.87	6.38
HEALTH	51	252.87	303.87	4.16

Table 3 shows that FGN failed to meet international standards specifically in education and health; the 26% UNESCO benchmark and the 15% Abuja Declaration. The poor allocation to education and health care cannot be justified in the light of critical challenges in the two sectors. NASS is expected to review the budget of the two sectors to increase the allocations. It is not clear whether the Basic Healthcare Provision Fund is part of the allocation in Statutory Transfers. The details are not yet available.

The percentages of the capital votes of key MDAs when reviewed against the overall capital vote is shown in Table 4 below.

Table 4: Capital Vote of Key MDAs as a percentage of overall Capital Vote

MINISTRY	ALLOCATION (N Billion)	ALLOCATION AS A PERCENTAGE OF CAPITAL BUDGET (%)
POWER, WORKS AND HOUSING	529	23.62
TRANSPORTATION	262	11.70
SPECIAL INTERVENTION PROGRAMME	150	6.70
DEFENCE	140	6.25
WATER RESOURCES	85	3.79
INDUSTRY, TRADE AND INVESTMENT	81	3.62
INTERIOR	63	

		2.81
EDUCATION	50	2.23
UNIVERSAL BASIC EDUCATION COMMISSION	92	4.11
HEALTH	51	2.28
FEDERAL CAPITAL TERRITORY	37	1.65
NIGER DELTA MINISTRY	33	1.47
NIGER DELTA DEVELOPMENT COMMISSION	61	2.72

Power, Works and Housing got the highest vote followed by Transportation and Special Intervention Programmes.

7. The Exchange Rate

The exchange rate of N305 to 1USD seems contentious due to the fact that there are other rates that economic agents use in exchanging the dollar. It would have made eminent sense for the Central Bank of Nigeria to work for a harmonized rate that merges both the official and parallel rates.

8. Conclusions

The National Assembly should approve the MTEF before commencing work on the budget. NASS is expected to do a thorough vetting of the proposals before their approval and forwarding for presidential assent; speed up reform bills like the Petroleum Industry and Governance bill and the use of incorporated joint ventures instead of cash calls awaiting the budget. The Presidency should continue good faith engagements and negotiations with Niger Delta militants to restore peace to the troubled region so as to increase crude oil production. NASS should also ensure that revenue projections are based on empirical evidence; consider the 2016-2018 External Borrowing Plan and come up with a position; and if possible, trim budget expenditure to be in harmony with realistic and realizable revenue projections. The budget should be realistic, implementable and in harmony with available resources. Finally, the President is enjoined to seek the amendment of the Public Procurement Act rather than use executive orders to abridge the procurement implementation process.

This preliminary review has been prepared mainly with information available to CSJ from the budget speech of President Muhammadu Buhari. The full details of the budget are not yet available on the website of the Budget Office of the Federation.