PRELIMINARY REVIEW OF THE 2018 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 2018 Federal Budget by President Muhammadu Buhari on the 7th day of November 2017 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 N8.612 trillion which is a 16% increase over the 2017 figure; retained revenue of N6.607 trillion being 30% above the 2017 estimates and a deficit of N2.005 trillion. The key assumptions are the benchmark price of $45 per barrel of crude oil; daily production of 2.3 mbpd and an average exchange rate N305 to 1USD. The real GDP growth is projected at 3.5% and inflation rate of 12.4%.

The projected expenditure of N8.612 trillion even though it is high in Naira terms amounts to a paltry $28.24 billion[1]; and when divided by 180 million Nigerians amounts to a per capita federal expenditure of N47,844.44k (forty seven thousand, eight hundred and forty four naira, forty four kobo)

2. Positive Notes

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

- The early presentation of the budget estimates which is a departure from previous years when the budget was presented very late in December. This gives the legislature ample time to work on the budget and get it ready early in the New Year. This will also restore the certainty of the financial year as anticipated in S.318 of the Constitution of the Federal Republic of Nigeria 1999, as amended and the Financial Year Act.

- The promise of improvements in the Ease of Doing Business Reforms and Nigeria having moved 24 places to the 145th position in 2017.

[1] At the official exchange rate of N305 to $1. But when the real exchange rate of N360 to $1 is used, it amounts to $23.92 billion.

- The promise to improve tax administration and move our Tax-GDP-Ratio above the current 6% which is one of the lowest in the world.

- Steps being taken for improvements in the productivity of Agriculture and reduction of the food import bill.

- Continued implementation of the Social Investment Programme

3. Some Challenges and Concerns

Some key challenges arising from the Budget Speech and the presentation include:

- That the Medium Term Expenditure Framework 2018-2020 (MTEF) has not been approved and as such, could not have been the basis for the preparation of the 2018 budget as required by S.18 of the Fiscal Responsibility Act (FRA). S.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".* The available MTEF is still a proposal that is subject to legislative alteration before approval.

- The poor implementation of the capital component of the 2017 federal budget which followed the trends in 2014. 2015 and 2016 financial years. Only N450 billion has been released in a capital vote of N2.174 trillion. This amounts to a paltry 20.70% of the capital vote, just one month before the end of the financial year by December 31, 2017. The released sum of N450 billion does not necessarily mean that the full sum has been cash backed and even if cash backed, could not have been fully utilized by the appropriate MDAs.

- The poor performance of the revenue framework in 2017 which followed the trends in 2014, 2015 and 2016 financial years.

- The recurring deficit and dependence on sovereign debts to finance key infrastructure and budgetary provisions. This is the result of the refusal to activate key domestic resource mobilization mechanisms and the economic and to build the fiscal architecture needed to harness the resources and energy of our people for development.

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

Federal Government's Estimated Total Revenue

Sources of Revenue	Amount (Trillion)	As a % of Total Revenue
Oil and Gas	2.442	37%
Non-Oil as well as other Revenues	4.165	63%
Total Revenue	**6.607**	**100%**

Breakdown of Non-Oil and Other Revenue Sources of Federal Government

Sources of Revenue	Amount	As a % of Total Revenue	As a % of Non-Oil Revenue
Share of Companies Income Tax (CIT)	794.70	12%	19%
Share of Value Added Tax (VAT)	207.90	3%	5%
Customs & Excise Receipts	324.90	5%	8%
FGN Independently Generated Revenues (IGR)	847.90	13%	20%
FGN's Share of Tax Amnesty Income	87.80	1%	2%
Various Recoveries	512.40	8%	12%

Proceeds from the restructuring of government's equity in Joint Ventures	710.00	11%	17%
Other Sundry Incomes	678.40	10%	16%
Total Non-Oil Revenue	**4.165.00**	**63%**	**100%**

The deficit as a percentage of Retained Revenue and as a percentage of Overall Expenditure is shown in Table 2

Table 2: Deficit as a % of Retained Revenue and as a % of Overall Expenditure

Analysis of the 2.005 Trillion Deficit	%
Deficit as a % of Retained Revenue	30%
Deficit as a % of Total Expenditure	23%

The deficit is in the sum of N2.005 trillion and it is to be financed mainly by borrowing the sum of N1.699 trillion from external and domestic sources. The balance of the deficit in the sum of N306 billion will be financed from the proceeds of privatization of some non-oil assets by the Bureau of Public Enterprises. The proposed borrowing will further add to our already high debt profile. The deficit is 23.27% of the overall expenditure of N8.612 trillion. Again, the deficit is 30.35% of the retained revenue.

The first challenge of the Revenue Framework is on the expected revenue from oil. The projected oil production of 2.3mbpd is unrealistic considering the actual production in recent years and the 2017 half year figures of 1.9mbpd. What has changed that will shoot up production to 2.3mbpd in the next couple of months? Also, the President in the Budget Speech acknowledged that OPEC exempted Nigeria in the production cuts in January 2017 and renewed same in September 2017. It must be acknowledged that the exemption was based on the recession in our economy. There is therefore no guarantee that this exemption will continue in 2018.

The second challenge is that going by the performance of the 2017 Revenue Framework which showed that nothing had come in from recoveries at the end of the Second Quarter of 2017, the sum of N512 billion projected from recoveries may be an expectancy which may not materialise[2]. Since it is an expected sum, it should not be made a revenue source and should only be appropriated when it has already been realised through a supplementary appropriation. Again, proceeds from the restructuring of government's equity in joint ventures and other sundry incomes are not resources that have the certainty of realization. They may or may not be realized and FGN is not in control of the circumstances that will guarantee their realisation. As such, they should not be made a part of the foundation revenue framework of the federal budget.

The third challenge is the very poor performance of independent revenue in 2017. The President in the Budget Speech indicated that only N155.14 billion has been remitted as at September 2017 out of a prorated expected sum of N605.87 billion which represents a 74% shortfall. So, upon what basis is the projection of N847.90 billion for 2018 based?

5. The Expenditure Framework

The Expenditure Framework of the Budget is as detailed in Table 3 below.

Table 3: Expenditure Framework of the 2018 Appropriation Bill

Breakdown of 2018 Proposed Expenditure	Amount (Trillion)	As a % of Total Expenditure
Capital Expenditure	2.428	28%
Recurrent Expenditure	3.494	41%
Debt Service	2.014	23%
Statutory Transfers	0.456	5%
Sinking Fund	0.22	3%
Total Expenditure	**8.612**	**100%**

[2] See Table 4.2 on the Revenue Performance (January to June) 2017 at page 12 of the MTEF 2018-2020.

The first issue is that capital expenditure is to take 28% of the budget. But when capital expenditure in statutory transfers is included, it will come up to 30.8%. While this looks good on paper, previous experience indicates that the capital vote is very poorly implemented. For instance, out of the 2017 capital vote, only N450 billion has been released in a capital vote of N2.174 trillion. This amounts to a paltry 20.70% of the capital expenditure. 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 23% of overall expenditure, the debt service is high. When the 2016 experience is used, it shows that Nigeria used N1.385 trillion to service debts while deploying N1.219 trillion for capital expenditure. By the end of the Second Quarter of 2017, Nigeria had used over N900 billion to service debts at a time it had not invested a kobo into capital expenditure. It will end up expending over N1.8 trillion for debt service and under N800 billion for capital expenditure at the end of the year[3].

The third 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 N2.65 trillion in 2016; N2.99 trillion in 2017 and now a proposal for N3.494 trillion. These increments cannot be the sign of a system that is taking steps to remove waste and inefficiencies.

The fourth issue is that statutory transfers indicate that FGN failed, refused and neglected to provide for the Basic Health Care Provision Fund which is one percent of the Consolidated Revenue Fund. This is clearly an act of bad faith, an illegality and outright contempt for the rule of law, constitutionalism and the rights to life and health of the poorest of the poor.

[3] MTEF 2018-2020.

The fifth issue is that projects for CIT, VAT and Customs and Excise are realistic and can even be surpassed if the relevant agencies do their work diligently.

6. Expenditure Specifics

A review of the allocations to four sectors available in the President's budget speech is imperative. This is as shown in Table 4.

Table 4: Available Sectoral Allocations

S/NO	SECTOR	CAPITAL (₦Billion)	RECURRENT (₦Billion)	TOTAL (₦Billion)	AS A % OF OVERALL BUDGET
1	Interior	63.26	510.87	574.13	6.67
2	Education	61.73	435.01	496.74	5.77
3	Defence	145.00	422.43	567.43	6.59
4	Health	71.11	269.34	340.45	3.95

Table 4 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.

The percentages of the capital votes of key MDAs when reviewed against the overall capital vote is shown in Table 5 below.

Table 5: Capital Vote of Key MDAs as a Percentage of Overall Capital Vote

S/No	SECTOR	ALLOCATION TO CAPEX (₦ BILLION)	ALLOCATION AS A PERCENT OF OVERALL CAPEX
1	Power, Works and Housing	555.88	22.89
2	Transportation	263.10	10.84
3	Special Intervention Programmes	150.00	6.18
4	Defence	145.00	5.97
5	Agriculture and Rural Development	118.98	4.90
6	Water Resources	95.11	3.92
7	Industry, Trade and Investment	82.92	3.42
8	Interior	63.26	2.61
9	Education	61.73	2.54
10	Health	71.11	2.93
11	Federal Capital Territory	40.30	1.66
12	Zonal Intervention Projects	100.00	4.12
13	Niger Delta Ministry	53.89	2.22
		1,801.28	74

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. The Big Picture is Missing!

The budget needs to be anchored on a robust and realistic economic, fiscal and developmental framework which emphasizes domestic resource mobilization and popular capitalism driven by the commitment of all members of society, where every ready and willing Nigeria partakes in the baking of the cake and as such, claims a right to be at the table in the sharing of the proceeds of national investments. In this direction, a number of sectors can benefit from funds raised to support their development. A few examples can point in the direction of needed change and transformation:

- Universal health coverage will not be possible without a universal and compulsory health insurance scheme for its financing.
- Road sector financing can be improved through a Road Fund and Road Management Authority that will raise funds from a plethora of sources including toll gates, special surcharge on some commodities including fuel, etc. Special purpose vehicles to aggregate resources from institutional and retail investors will direct other resources into the sector.
- Reorganizing railway development to remove it as a federal monopoly so as to bring in private sector investments especially from those already operating in the transport sector is missing from our projection radar. This will require an amendment of extant laws.
- The National Housing Fund needs to be reorganized to mobilise funds that will benefit contributors over the short, medium and long term. If the Fund had been well managed since inception during the Ibrahim Babaginda days, it could have garnered trillions of naira in its kitty.
- Opening the window of investments into the electricity sector especially in transmission and distribution is overdue. The current managers and operators of the DISCOs have neither the technical, managerial and financial capacity to move the sector to the next level whilst government has no resources to improve the transmission subsector.
- Consideration, passage and assent to the Petroleum Industry Bill for reforms in the oil and gas sector.

Ultimately, these changes will relive the treasury of or reduce the undue burden of funding key infrastructure projects and as such, reduce the need for borrowing whilst the infrastructure still gets built. It will also reduce the demand for funds to pay back and service debts.

9. Conclusion

The National Assembly should approve the MTEF 2018-2020 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 other relevant bills.

NASS should also ensure that revenue projections are based on empirical evidence; approve any necessary borrowing plans on time (along with the budget), 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, NASS needs to restore the financial year back to the period January 1 to December 31 every year.

This Preliminary Review has been prepared mainly from 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.