# REVIEW OF THE 2022 FEDERAL APPROPRIATION BILL PARAMETRES AND KEY ISSUES

(*Public Resources Are Made To Work And Be Of Benefit To All*)


## Citizens Wealth Platform (CWP)

(A Platform of non-governmental and faith-based organizations, professional associations and other citizens groups dedicated to ensuring that public resources are made to work and be of benefit to all)

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## ABBREVIATIONS

| | |
|---|---|
| CBN | Central Bank of Nigeria |
| CIT | Companies Income Tax |
| COVID-19 | Coronavirus Disease 2019 |
| CSJ | Centre for Social Justice |
| DISCOs | Electricity Distribution Companies |
| DMO | Debt Management Office |
| ERGP | Economic Recovery and Growth Plan |
| FGN | Federal Government of Nigeria |
| FRA | Fiscal Responsibility Act |
| GDP | Gross Domestic Product |
| GOEs | Government Owned Enterprises |
| IGR | Internally Generated Revenue |
| MBPD | Millions of Barrels per Day |
| MDAs | Ministries, Departments and Agencies of Government |
| MSME | Micro Small and Medium Enterprise |
| MTEF | Medium Term Expenditure Framework |
| NASS | National Assembly |
| NLNG | Nigeria Liquefied Natural Gas |
| NNPC | Nigeria National Petroleum Corporation |
| NSIA | Nigerian Sovereign Investment Authority |
| OPEC | Organization of Petroleum Exporting Countries |
| PPT | Petroleum Profits Tax |
| SDGs | Sustainable Development Goals |
| SWV | Service Wide Vote |
| TETFUND | Tertiary Education Trust Fund |
| TSA | Treasury Single Account |
| USD | United States Dollar |
| VAT | Value Added Tax |

# EXECUTIVE SUMMARY

This is a review of the 2022 Appropriation Bill parametres and key issues. It is presented in three sections of a background to the budget estimates, the 2021 budget proposals and recommendations.

Section One presents the introduction, the positive notes and some key challenges and concerns. The review welcomed the early presentation of the estimates, the recognition of the deep revenue challenges facing the federal government and proposals to reverse the challenges. Concerns were raised on the prorated revenue and expenditure performance of the 2021 budget especially the high debt service, the low capital expenditure releases and our inability to meet or oil producing quota from OPEC+. The review noted that the estimates were not accompanied by an evaluation of results of programmes financed with budgetary resources and other developmental targets and the Fiscal Target Appendix as provided in the Fiscal Responsibility Act (FRA).

Section Two presents the macroeconomic framework and the key parametres of the estimates. The budget expenditure for 2022 - aggregate FGN expenditure (inclusive of GOEs and project-tied loans) is projected to be N16.39trillion (tn)**,** which is 12.5% higher than the revised 2021 Budget of N14.57tn.[1] The proposed retained revenue is N10.13tn (including grants and the revenues of 63 GOEs), which is 24.8% more than the 2021 Revised Budget's retained revenue of N8.12tn and a deficit of N6.26tn which represents 3.39% of GDP. The key assumptions are the benchmark price of $57 per barrel of crude oil; daily oil production of 1.88m barrels per day (mbpd) (including 300,000bpd of condensates) and an average exchange rate of N410.15 to 1USD. The real GDP is expected to grow at 4.20% while inflation rate is projected at 13%.

It raised issues with the projected exchange, inflation and growth rates, calling for a unified and harmonised exchange rate as well stemming insecurity as a precondition for growth and stability. The oil revenue projection may not be met if subsidies and production shortfalls continue. The Companies Income Tax, Value Added Tax, Customs Collection and FGN Independent Revenue were found realistic and attainable. However, stamp duties, revenue from minerals and mining need to be upwardly reviewed and leakages in their accruals plugged. The projected deficit and rising debts were reviewed and it was shown that a good part of projected new loans will be deployed to fund recurrent expenditure contrary to the provisions of the FRA. It was shown that in the period January to August, 2021, the percentage of debt service to retained revenue was 93% (excluding GOE revenue). When GOE revenue is factored in, it reduced to 73%. The review indicates that FGN is foregoing a lot through tax expenditures. Overall, FGN incurred tax expenditure up to 57% of its retained revenue in 2020.

[1] The 2021 budget and the supplementary budget.

These tax expenditures were not accompanied by countervailing measures and as such has drastically reduced available retained revenue.

The Expenditure Framework presents an MDA capital expenditure of N2.139tn which is 13.04% of the overall estimates. When GOE and other components of capital expenditure are added, it comes up to 32.7%. There are a number of challenges including the preponderance of administrative capital over developmental capital; projects without clear deliverables, locations and activities which have been running over the years and spreading available resources too thin over a plethora of projects. Issues were raised on the absence of a debt limit for the three tiers of government contrary to S.42 of the FRA, rising cost of governance and bulk votes without details. There are also challenges with zonal intervention projects focused on projects outside the legislative competence of the National Assembly as detailed in the constitutional Exclusive Legislative List.

Section Three is on recommendations and dwelt on five key areas. The recommendations are on enhancing revenue, exchange rate, debts and borrowing, raising new funds for capital projects and process and structure issues. Increased revenues are expected from operating surplus (independent revenue) through a meticulous implementation of the provisions of the 2020 Finance Act as well capping tax expenditure at 20% of revenue available from a particular tax head. It is also recommended that fuel subsidy under any guise be abolished and the savings ring-fenced and spent on education and healthcare. These three revenue enhancing recommendations can generate not less than N5trn in new revenue. The recommendations seek the provision of details of major service wide votes, statutory transfers and the reduction of frivolities as detailed in a sister budget review - *Frivolous, Inappropriate, Unclear and Wasteful Expenditure in the 2022 Federal Appropriation Bill.*

There are recommendations for reforms in support of budgetary funding including universal health coverage through a universal and compulsory health insurance scheme for its financing; a Health Bank of Nigeria, being a development bank focused on making credit available at single digit rates for building health infrastructure, funding research into development and developing competencies and capacities for the long term development of the Nigerian health sector into a world class industry. Furthermore, 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 designated commodities, etc. Special purpose vehicles to aggregate resources from institutional and retail investors will direct other resources into the sector. Finally, opening up the railways for private sector investment is imperative.

# SECTION ONE: BACKGROUND TO THE BUDGET ESTIMATES

## 1.1 INTRODUCTION

President Muhammadu Buhari on the 7th day of October 2021, in accordance with section 81 of the Constitution of the Federal Republic of Nigeria 1999 (as amended), presented the 2022 federal budget estimates to the National Assembly (NASS). The budget is tagged a "budget of economic growth and sustainability" as it is intended to diversify the economy with robust micro, small and medium enterprises (MSME) growth, invest in critical infrastructure, strengthen security and ensure good governance. Furthermore, it is to enable a vibrant, educated and healthy populace, reduce poverty and minimise regional, economic and social disparities. The budget is presented against the background of the relatively tepid Quarter 1, 2021 economic recovery of year on year gross domestic product (GDP) growth of 0.51% and Quarter 2 growth of 5.01%; high inflation (17.1% in August 2021) and unemployment and underemployment rates (33% and 22.84% respectively) and a deteriorating balance of trade position.

The budget expenditure for 2022 - aggregate FGN expenditure (inclusive of GOEs and project-tied loans) is projected at N16.39trillion (tn)**,** which is 12.5% higher than the revised 2021 Budget of N14.57tn.[2] The proposed retained revenue is N10.13tn (including grants and the revenues of 63 Government Owned Enterprises- GOEs), which is 24.8% more than the 2021 Revised Budget of N8.12tn and a deficit of N6.26tn which represents 3.39% of the GDP. The key assumptions are the benchmark price of $57 per barrel of crude oil; daily oil production of 1.88m barrels per day (mbpd) (including 300,000bpd of condensates) and an average exchange rate of N410.15 to 1 United Stated Dollar (USD). The real GDP is expected to grow at 4.20% while inflation rate is projected at 13%.

## 1.2 POSITIVE NOTES

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

- The early presentation of the budget on October 7th 2021 which gives the legislature sufficient time to conclude the approval before the New Year. However, there is the need to amend the Constitution to provide for early budget presentation and approval.

- The recognition of the deep revenue challenges facing the Federal Government of Nigeria (FGN) and the attempt to address this through the Strategic Revenue Growth Initiative which includes review of sectors eligible for Pioneer

[2] The 2021 budget and the supplementary budget.

Tax Holiday incentives under the Industrial Development Income Tax Relief Act; dimensioning the cost of tax waivers/concessions and evaluating their policy effectiveness; setting annual ceilings on tax expenditures to better manage their impact on already constrained government revenue; ensuring that Ministries, Departments and Agencies (MDAs) appropriately account for and remit their internally generated revenue (IGR); plugging fiscal drainers like subsidies on petrol price and electricity tariffs, etc.

- Revenue enhancement through the Performance Management Framework of GOEs including possible sanctions for defaulting on targets; tighter expenditure control including enforcing of the Finance Act 2020 provisions limiting GOEs cost-to-revenue ratio of 50%.

- The inclusion of the revenue plans of 63 GOEs into the 2022 estimates. This is expected to improve comprehensiveness and transparency of the overall revenue and expenditure plan.

- 34.9% of aggregate revenue is expected from oil related sources while 65.1% is to be earned from non-oil sources - this implies a step towards diversification of revenue sources away from oil.

- The target over the medium term of growing revenue to GDP ratio from 8% currently to 15% by 2025.

## 1.3 SOME CHALLENGES AND CONCERNS

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

- The poor performance of the revenue projections in 2021 (January - August) at -27.3% of aggregate revenue including GOEs and -32.2% being retained revenue excluding GOEs, which followed the trends in 2019 and 2020 financial years.

- The recurring deficit (N6.26tn which represents 3.39% of GDP) and in excess of the 3% rule in section 12 of the Fiscal Responsibility (FRA) as amended in the Finance Act of 2020, which states that aggregate expenditure can only exceed the ceiling imposed by the FRA when there is a clear and present threat to national security or sovereignty of the Federal Republic of Nigeria.

- The dependence on sovereign debts of N5.02tn to finance key infrastructure and budgetary provisions. This is the result of the failure to activate key domestic resource mobilization mechanisms, utilize existing ones, block leakages and fiscal drainers and build the fiscal architecture needed to harness the economic potentials, resources and energy of the Nigerian people for development.

- The relatively poor performance of MDAs capital expenditure over the years including the year 2021 fiscal year. As at August 2021, the capital budget has underperformed by -34%. However, the aggregate capital expenditure inclusive of GOE capital expenditure underperformed by -47.1%.

- The continued failure to provide the details of Statutory Transfers and big votes in the Service Wide Votes (SWV) and simply stating them as lump sums. This is against the rules of fiscal responsibility as no MDA or authority in a constitutional democracy, is authorized to spend public resources in a way and manner that is unknown to the citizens who are the ultimate sovereigns.

- The poor performance of crude oil production in 2021 which averaged 1.4mbpd and lower than the Organisation of Petroleum Exporting Countries (OPEC)+ quota.

## 1.4 EVALUATION OF RESULTS OF PROGRAMMES FINANCED WITH BUDGETARY RESOURCES

Section 19 (d) of the FRA demands that the executive reports to the legislature on the evaluation of the 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 immunization, number of new households that have access to portable 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 realizing or not realizing 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 in 2020 as required by section 19 (d) of the FRA.

### 1.5 OTHER DEVELOPMENTAL TARGETS AND THE FISCAL TARGET APPENDIX

Section 19 (e) of the FRA requires the Appropriation Bill to be accompanied by:

> *A Fiscal Target Appendix derived from the underlying macroeconomic framework setting out the following targets for the financial year-*
> *(i) Target inflation rate*
> *(ii) Target fiscal account balances*
> *(iii) Any other development target deemed appropriate*

The Appropriation Bill and the MTEF have provided information on the target inflation rate, target fiscal balances, GDP growth rate and exchange rate of the Naira. It however has nothing on development targets. Fiscal targets and balances are different from development targets which ideally should include targets on the right to an adequate standard of living including targets on the attainment of the Sustainable Development Goals (SGDs), job creation, targets for the rights to adequate housing, health, education, access to water, reduction of carbon emissions, etc. Considering that the FRA is anchored on section 16 of the Constitution, the explanation of the dictates of this provision appears to be the only reasonable intention of the legislature in providing for developmental targets. Section 16 of the Constitution provides inter alia that:

> *(2) The State shall direct its policies towards ensuring:*
> *(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.*

Nigeria is faced with massive unemployment and underemployment challenges. Unemployment and underemployment rates stand at 33% and 22.84% respectively. A budget of economic growth and sustainability should tie expenditure and its underlying policies to reducing unemployment and job creation. But the budget was entirely silent on how its proposals would reduce the high unemployment rate as there was no mention of these keywords in the basic assumptions. NASS should insist that the President submits these targets to inform the full consideration of the budget. The questions to be answered by the targets will include; how many new jobs will be created through budget expenditure and in which sectors?

What are the programmes and policies to facilitate inclusive growth?  These targets will also facilitate reporting on the evaluation of the results achieved through budget implementation at the end of the year.

# SECTION TWO: THE 2021 BUDGET PROPOSALS

## 2.1 KEY ASSUMPTIONS AND MACROECONOMIC FRAMEWORK

The budget expenditure for 2022 - aggregate FGN expenditure (inclusive of GOEs and project-tied loans) is projected to be N16.39trillion (tn), which is 12.5% higher than the revised 2021 Budget of N14.57tn.[3] The proposed retained revenue is N10.13tn (including grants and the revenues of 63 GOEs), which is 24.8% more than the 2021 Revised Budget's retained revenue of N8.12tn and a deficit of N6.26tn which represents 3.39% of GDP. The key assumptions are the benchmark price of $57 per barrel of crude oil; daily oil production of 1.88m barrels per day (mbpd) (including 300,000bpd of condensates) and an average exchange rate of N410.15 to 1USD. The real GDP is expected to grow at 4.20% while inflation rate is projected at 13%.

The budget was prepared on the following underlying macroeconomic assumptions as laid out in Table 1 below.

**Table 1: Assumptions of the 2021 Federal Budget**

| | | | |
|---|---|---|---|
| Oil Price Per Barrel | $57 | Inflation Rate | 13% |
| Crude Oil Production (mbpd) | 1.88mbpd | GDP Growth Rate | 4.20% |
| Exchange Rate | N410.15=1USD | Nominal Consumption | N149.349tn |
| Retained Revenue | N10.13trillion | Nominal GDP | N184.382tn |
| Deficit | 3.39% of GDP | | |

*Source:* Ministry of Finance, Budget and National Planning, NNPC, CBN, BOF and NBS

**2.1.1 The Exchange Rate:** The *Exchange Rate* of N410.15 to 1 USD seems contentious as majority of economic agents do not access foreign exchange at this rate. They access the dollar at rates far in excess of this. It would make better economic sense if the Central Bank of Nigeria (CBN) worked towards a harmonized and unified rate that would merge both the official and parallel rates as this would also release more naira to the three tiers of government who share from the Federation Account. This will also eliminate arbitrage and the distortions associated with agents who access foreign

[3] The 2021 budget and the supplementary budget.

exchange at the official rate and turn round to sell at the black market rate. Table 2 shows the difference between the available crude oil earnings at the different rates.

***Table 2: Difference in Oil Earnings at Different Exchange Rates of the Naira***

| | Quantity | $/bpd | Days | Amount ($) |
|---|---|---|---|---|
| Total Crude Oil Revenue | 1,880,000 | 57.00 | 365 | $ 39,113,400,000 |
| Converted @410.15 (NGN) | | | | 16,042,361,010,000 |
| Converted @571 (NGN) | | | | 22,333,751,400,000 |
| Difference | | | | 6,291,390,390,000 |

*Source:* Author's Calculations

The Import and Export window of the foreign currency rate was N415=1USD and the parallel market rate stood at N571=1USD.[4] The expected income from crude oil at 1.88mbpd multiplied by $57pb and 365 days at N410.15, the official rate, is N16.042tn while if the same is calculated using N571=1USD, it will come up to N22.3tn. This will release an extra N6.3tn for the Federation Account.

**2.1.2 Inflation:** With the current inflation rate at 17.01% and an unstable and depreciating national currency in an import dependent economy, it will be extremely difficult to maintain inflation at the proposed rate. Also, if FGN implements its policy target of removing fiscal drainers in petrol price and electricity subsidies, the full effect will fuel inflation due to their impact on the cost of production and transportation of goods and services. The value of Nigeria's imports has been increasing year on year and for 2022, it is projected at N33,188.8bn. Furthermore, the fact that food price is one of the main drivers of the inflation coupled with the farmers-herders crisis and unstable political situation across the North East, North West, North Central and South East geopolitical zones, this will likely ensure high levels of inflation considering diminishing productivity in the agricultural sector.[5]

**2.1.3 GDP Growth Rate:** The projected GDP growth rate of 4.20% coming on the back of the 5.01% year on year GDP growth in Quarter 2 of 2021 appears realistic. However, for a country, where the leadership has made a commitment to lift 100m persons out of poverty, 4.2% economic growth pitched against a population growth of 3% cannot drive the process

[4] As at October 28 2021.

[5] "*Current inflation is driven mainly by rise in the cost of food exacerbated by insecurity and conflict, pandemic-related shocks and market access. High inflation rates worsen poverty, depress economic activity and dampens growth"*- MTEF 2022-2024 on inflation.

of lifting 100m persons out of poverty. For the 4.2% growth to be possible, it will be imperative for FGN to take urgent and realistic steps to stem the instability and security challenges across all geopolitical zones of Nigeria.

**2.1.4 Oil Production and Benchmark Price:** The 1.88mbpd oil projection for 2022 is realistic considering Nigeria's total production capacity of 2.5mbpd, OPEC+ quota and the recovering global economy. However, there is a challenge considering that the average production (year to date) as at August 2021 inclusive of condensates and production for repayment of cash call arrears was 1.57mbpd. To meet the projection will involve the removal of bottlenecks and binding constraints on crude oil production. It is not clear whether additional volumes will be produced for the repayment of previous joint venture cash call arrears. Furthermore, the proposed benchmark price of $57 per barrel is realistic given the current price of crude oil, the expected recovery of the global economy and the geopolitics of the international oil market.

## 2.2 THE REVENUE FRAMEWORK

Table 3 shows the Revenue Framework for the year 2022.

***Table 3: Revenue Framework of the 2022 Budget Proposal***

| **Revenue Head** | **Amount (N'Bn)** | **Percentage** |
|---|---|---|
| Share of Oil Revenue | 3,153,661,606,881 | 31.12 |
| Share of Dividend | 195,716,305,950 | 1.93 |
| *NLNG* | *187,397,535* | |
| *Bank of Industry* | *8,318,770,950* | |
| Share of Minerals & Mining | 2,915,433,293 | 0.03 |
| Share of Non-Oil Taxes (CIT, VAT, Customs & Fed. Acct. Levies) | 2,132,083,163,179 | 21.04 |
| Share of Electronic Money Transfer Levy (formerly called Stamp Duty) | 29,367,152,138 | 0.29 |
| Share of Oil Price Royalty | 96,943,894,289 | 0.96 |
| Revenue from GOEs | 2,877,324,761,889 | 28.40 |

| | | |
|---|---|---|
| GOEs Operating Surplus (80% of which is captured in Independent Revenue) | -1,148,935,483,101 | -11.34 |
| Independent Revenue | 1,816,217,091,075 | 17.92 |
| FGN's Balances in Special Levies Accounts | 300,000,000,000 | 2.96 |
| Signature Bonus/ Renewals/ Early Renewals | 280,855,138,079 | 2.77 |
| Domestic Recoveries + Assets + Fines | 26,933,139,822 | 0.27 |
| Grants and Donor Funding | 63,376,918,168 | 0.63 |
| Education Tax (TETFUND) | 305,998,000,000 | 3.02 |
| **Total (including GOEs)** | **10,132,457,121,662** | **100** |

*Source:* BOF, HMFBNP's Public Presentation of 2022 FGN Budget Proposal

A review and quick comments on some of the underlying assumptions and the Revenue Framework is provided below.

**2.2.1 Actual Revenue Inflow in 2021 as a Guide for Key Oil and Non-Oil Revenue in 2021:** The actual revenue inflow from January to August 2021 was N3.934tn as against the prorated expectation of N5.414tn and this is a -27% variance. This is more specifically detailed below.

- *Oil Revenue Inflow:* FGN's share of oil revenue underperformed by 43.7% despite the oil price benchmark of $40pb which was exceeded by an average actual price of $65pb. The above performance was facilitated by shortfalls in production as well as significant cost recovery (subsidy) by NNPC to cover the shortfall between the cost of importing petroleum products and the pump price. If the trend of fuel subsidy and production shortfall continues, the revenue target may not be met particularly if the relatively high oil price is sustained as it will also require increased subsidy. Despite describing petrol subsidy as a fiscal drainer and making a generalized statement in favour of discontinuing same, there is nothing in the fiscal framework that shows that it will be discontinued.

- *Share of NLNG Dividend* was prorated at N139.03bn while the actual revenue was N78.20bn being a variance of -43.7%. This projection appears very optimistic based on the 2021 perfromance.

- *Companies Income Tax (CIT):* The performance is 120.5% of the prorated projection for the period January to August 2021. A total of N454.48bn was expected while N547.54bn was realized leading to 20.5% variance.[6] The 2022 full year projection of N909.302bn is realistic if the actuals of 2021 is the guide. Furthermore, as the economy gradually recovers from the impact of recession, COVID 19 and the associated economic shocks, more CIT will likely accrue.

- *Value Added Tax (VAT):* The expectation for the prorated period of January to August 2021 was N158.95bn while the sum of N235.77 was realized which exceeded the projection by 48.3% .[7] This is a very wide positive variance. Thus, the projection of N316.691bn for 2022 is realistic. As the economy gradually recovers from the impact of recession, COVID 19 and the associated economic shocks, more VAT will likely accrue from increased economic activities. The aforementioned challenges did not allow FGN to realise the full benefits of the recent increase in VAT.

- *Customs Collections* recorded 99% performance during the prorated period. Out of N338.85bn, N338.66bn was realized leading to a variance of -0.1%.[8] The projection of N834.116bn is realistic. Customs duties is likely to improve with the projected increased imports and gradual economic recovery in 2022.

- *Federation Account Levies*, N40.34bn was the prorated expectation while N26.38bn was realized being a -34.6% variance. Increasing the full year expectation from the N60.51bn of 2021 to N71.972bn appears overtly optimistic.[9]

- *Signature Bonus:* The estimates expected the sum of N677.02bn from signature bonus in 2021. A prorated sum of N451.34bn was projected for January to August whilst only N245.27 has been realized. Therefore, the reduced projection of N280.855 for 2022 is realistic.

- *Independent Revenue:* N1.061tn was expected from independent revenue in 2021. Out of the N707.93bn for the prorated period of January to August, N691.36bn was realized which is a -2.3% variance. This revenue head over the years has been fraught with leakages. It is a welcome development that FGN through the 2020 Finance Act had introduced some measures to improve the collection of independent revenues. These include ensuring

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[6] Public Presentation of 2022 FGN Budget Proposal - Breakdown and Highlights by the Minister of Finance, Budget and National Planning.
[7] Public Presentation of 2022 FGN Budget Proposal - Breakdown and Highlights by the Minister of Finance, Budget and National Planning.
[8] Public Presentation of 2021 FGN Budget Proposal - Breakdown and Highlights
[9] 9 Public Presentation of 2022 FGN Budget Proposal - Breakdown and Highlights by the Minister of Finance, Budget and National Planning.

automatic deduction at source of past due operating surplus remittances by GOEs; capping cost to revenue ratio of GOEs to a maximum of 50%. It is further recommended that FGN considers domiciling the accounts of relevant GOEs and agencies in sub accounts of the Treasury Single Account (TSA) and deduct the due percentages at source before transferring the residue to the GOEs and agencies. This will ensure that all due operating surplus and portions of due IGR are deducted at source. Also, the Fiscal Responsibility Commission should be strengthened by law and policy to fully implement the mandate of empirically calculating and collecting due operating surplus as provided in the FRA. Furthermore, a follow up on the recommendations of the Auditor-General for the Federation on all monies due to the treasury but held up in several MDAs will increase the independent revenue of FGN as well as the funds available for sharing at the Federation Account by the three tiers of government.

- *Revenue from Electronic Money Transfer (formerly Stamp Duties):* The budget estimates project the sum of N29.367bn as revenue from stamp duties. The prorated expectation for January to August 2021 was N333.33bn (from the full year expectation of N500bn) while the actual revenue was N9.82bn. The estimates on the face of it is in tandem with the suboptimal performance of the revenue head. However, these estimates do not tally with the empirical facts of the number of banking activities subject to electronic money transfer and the fact that the budget estimates, previous budget implementation reports and the MTEF 2022-2024 were silent on accruals from previous years which have not been accounted for. NASS should conduct proper investigations on this revenue head which will likely yield more revenue and proper accounting for previous receipts.

- *Revenue from Minerals and Mining:* The FGN's expected revenue from minerals and mining in the sum of N2.915bn is a scandal considering FGN's investments in the mining sector and the proposals for realizing revenue from the sector. When this projection is pitched against reports on the link between the insurgency/banditry and solid mineral mining, the massive short-changing of the treasury going on in the sector will be clear. The value and quantum of solid minerals mined in Nigeria on a yearly basis will be in hundreds of billions if all the resources are brought into the fiscal account. Available information from many parts of the country including the North West where mining activities have facilitated criminality shows that the revenue from this source is grossly underestimated. NASS should insist on a proper review of the royalty and revenue due from mining leases and other revenues due to the Federation Account (from which FGN will get its due share) from the exploitation of solid minerals.

**2.2.2 Budgeted versus Actual Retained Revenue:** Table 4 shows the budgeted versus actual retained revenue 2014 to August 2021.

***Table 4: Budgeted Retained Revenue vs Actual Retained Revenue 2014 – 2021***

| Year | Retained Revenue | | Variance (N Bn) |
|---|---|---|---|
| | **Budgeted (N Bn)** | **Actual (N Bn)** | |
| 2014 | 3,731.00 | 3,242.30 | 488.70 (13.10%) |
| 2015 | 3,452.36 | 2,776.36 | 676 (19.58%) |
| 2016 | 3,855.74 | 2,621.15 | 1,234.59 (32.02%) |
| 2017 | 5,084.40 | 2,377.01 | 2,707.39 (53.25%) |
| 2018 | 7,165.87 | 3,480.90 | 3,684.97 (51.42%) |
| 2019 | 6,998.49 | 4,120.09 | 2,878.40 (41.13%) |
| 2020 | 5,365.67 | 3,418.30 | 1,947.37 (36.29%) |
| 2021* | 4,515.05 | 3,061.21 | 1,453.84 (32.20) |

*Source:* BOF, Budget Implementation Reports

**2021 figures are prorated for Jan-Aug., 2021 (HMBNP's Public Presentation of the Budget)*

Table 4 shows the wide variance, over the years, between actual and proposed retained revenue. This calls for a step towards evidence based and realistic revenue projection from the executive and meticulous evidence-based approval from the legislature.

**2.2.3 The Challenge of Oil Revenue and Diversification:** Notwithstanding the prevalent mantra of economic diversification and the reduced oil revenue, the nation is still faced with the dominance of oil as the single most important revenue source and export earnings. It is expected to contribute 31.12% of FGN revenue and over 85% of export earnings. It has been stated that oil GDP growth has a strong positive correlation with real GDP growth in Nigeria. This shows that the diversification efforts have not yielded the desired dividends. Efforts need to be intensified for non-oil sources to gain ascendancy as both a source of revenue and export earnings. However, Nigeria is yet to fully explore, exploit and expound the frontiers of oil-based revenue through income from refineries, petrochemical complexes and the full value chain of the oil and gas sector. Thus, while diversifying into other sectors, we need to fully explore the potentials of the sector.

This brings to the fore the need for full (not selective) implementation of the recently enacted Petroleum Industry Act. The leadership and management of the industry should be professionalized and the new Nigerian National Petroleum Corporation and other emerging companies should not be subjected to political pressure and distortions now or at any time in the future. The current proposal by the NNPC and the approval by the Federal Executive Council for a company with a N200bn share capital to start a N621bn road construction under that Tax Credit Scheme is an unnecessary distraction to a company that has not emerged from teething problems.

There is need for full reforms in the petroleum industry to attract local and foreign investors to explore the full value chain of oil and gas products and services. The increased oil earnings should then be invested to improve revenues in non-oil sector.

**2.2.4 The Deficit:** The 2022 FGN budget deficit is in the sum of N6.26tn which represents 3.39% of GDP. This is in excess of the 3% rule in section 12 of the FRA which states that aggregate expenditure can only exceed the ceiling imposed by the FRA when there is a clear and present threat to national security or sovereignty of the Federal Republic of Nigeria. There are clear and present threats to national security and sovereignty of Nigeria of the magnitude required to trigger a deficit in excess of the 3% ceiling. But these threats are self-inflicted and could have been better managed and stopped from deteriorating to the present level.

The deficit is to be partly financed by N5.02tn new debt to be sourced from N2.51tn domestic and N2.51tn foreign borrowing respectively. This new debt comes at a time when the Debt Management Office (DMO) states that Nigeria's total debt as at June 2021 is $86.571bn.[10] When the outstanding debt of $25bn in ways and means from the Central Bank of Nigeria (CBN) is added to this figure, it gives a debt profile of $111.572bn. The new borrowing of N5.02tn is about $12.1bn (at the official rate of N410.15=1USD) which when added to existing debts will amount to a new phenomenal debt of $123.672bn. However, the FRA only authorises the use of borrowed money for capital projects and human development. Table 5 shows the relationship between the deficit financing from borrowing and capital expenditure.

[10] https://www.dmo.gov.ng/debt-profile/total-public-debt/3690-nigeria-s-total-public-debt-as-at-june-30-2021/file

*Table 5: Deficit Financing and Capital Expenditure in 2022*

| Expenditure Head | Amount (N) | Comments[11] |
|---|---|---|
| 1. Capital Supplementation | 487,916,999,949 | To be funded from the new money in the budget |
| 2. Capital Expenditure in Statutory Transfers | 462,534,376,087 | To be funded from the new money in the budget |
| 3. Capital Component of Special Intervention Programmes | 10,000,000,000 | To be funded from the new money in the budget |
| 4. MDA Capital Expenditure | 2,139,939,779,019 | To be funded from the new money in the budget |
| 5. GOEs Capital Expenditure | 647,079,937,729 | Already available from GOE sources |
| 6. TETFUND Capital Projects | 290,698,100,000 | The fund is already available from TETFUND |
| 7. Grants and Donor Funded Projects | 63,376,918,168 | Already available from the mentioned sources |
| 8. Multi-lateral and Bi-lateral Project tied Loans | 1,155,823,207,500 | Already available from the mentioned sources |
| 9. FGN share of Oil Price Royalty transferred to the NSIA. | 96,943,894,289 | Already available from the mentioned source |

*Source:* Public Presentation of the 2022 FGN Budget Proposal - Breakdown and Highlights by the Minister of Finance, Budget and National Planning.

From Table 5, the aggregate capital expenditure is N5.354tn including capital supplementation, capital expenditure in statutory transfers, capital component of special intervention programmes, MDA capital expenditure, GOEs capital expenditure, Tertiary Education Trust Fund (TETFUND) capital expenditure, grants and donor funded projects, multi-lateral and bi-lateral project tied loans and FGN share of oil price royalty transferred to the Nigerian Sovereign Investment Authority (NSIA). The total projects, as shown in the comments part of Table 5 (Nos 1-4), to be funded with new budget money which will come from the new borrowing of N5.02tn is worth N3.10tn. Thus, the remaining N1.92tn generated from the new debts will be invested in recurrent expenditure contrary to S.41 (1) of the FRA.

The deficit has implications for expenditure as the evidence of debt service as a percentage of retained revenue January to August 2021 shows in Table 6.

[11] Comments are from the author of this Review.

*Table 6: Debts Service as Percentage of Retained Revenue January to August 2021*

| Retained Revenue (N) | Debt Service (N) | Percentage of Debt Service to Retained Revenue |
|---|---|---|
| 3,934.73bn: Including GOEs | 2,868.40bn | 72.8% |
| 3,061.21bn: Excluding GOEs | 2,868.40bn | 93.7% |

*Source:* Public Presentation of the 2022 FGN Budget Proposal - Breakdown and Highlights by the Minister of Finance, Budget and National Planning.

This large deficit financing which has persisted over the years is not sustainable in the short, medium and long terms and should be discontinued in favour of raising more governmental revenue.

**2.2.5: Tax Expenditure Statement:** Under the Strategic Revenue Growth Initiative, FGN promised to evaluate the process and policy effectiveness of fiscal incentives through reviewing sectors eligible for Pioneer Tax Holiday incentives under the Industrial Development Income Tax Relief Act; dimension the cost of tax waivers/concessions and evaluate their policy effectiveness, set annual ceilings on tax expenditures to better manage their impact on already constrained government resources, etc. Tax expenditures are equivalents of appropriating public revenue for the specific use of particular individuals or class of taxpayers. Experts have defined tax expenditure as:[12]

> *Tax expenditures are usually defined as a government's estimated revenue loss that results from giving tax concessions or preferences to a particular class of taxpayer or activity. The revenue loss, or "expenditure," is calculated as the difference between whatever tax would have been paid under a defined benchmark tax law (which identifies what tax structure should normally apply to taxpayers) and the lower amount that was actually paid after the tax break. Tax expenditures are used instead of direct spending to deliver a government subsidy to a class of taxpayer or encourage a desired activity. They can take many forms, including tax exemptions; tax deductions; tax offsets (or credits); and concessional tax rates or timing rules, such as accelerated depreciation of capital assets, that either reduce or defer a taxpayer's tax liability*.

Table 7 shows the respective tax expenditures and actual revenues in 2020.

[12] Guide to Transparency in Public Finances; Looking Beyond the Budget- Tax Expenditures (at page 4) by International Budget Project.

*Table 7: Collected Revenue versus Tax Expenditure 2020*

| *Tax* | *Collected Revenue (N)* | *TE/Foregone Revenue (N)* | *TE as a Percentage of Collected Revenue* |
|---|---|---|---|
| VAT | 1.8trn | 900bn | 50% |
| CIT | 1.479tn | 457bn | 30.8% |
| PPT | Not available | 307bn | |
| Customs | 931.6bn | 780bn | 83.7% |
| Total | 4.21tn | 2.444tn | 57.9% |

*Source:* MTEF 2022-2024

According to the Medium Term Expenditure Framework (MTEF) 2022-2024, if all commodities in the Nigerian VAT system were fully taxable, the country could generate about N6trillion from the existing tax structure. But Nigeria generated only N1.8trillion in 2020 and N900 billion was foregone and attributable to exemptions contained in legislation while the balance of N3.3trillion was lost to the huge compliance gap. Thus, foregone VAT is 50% of the collected revenue. It is further reported that some firms, notably in the financial sector, are granted relief from VAT. Because this relief is not set out in the VATA, it is not captured as a tax expenditure in the current estimates.[13]

For CIT, compared to the N1.1trillion recorded in 2019 as foregone revenue, only N457billion was reported in 2020. This massive decline cannot be supported by empirical evidence and the MTEF states that this is attributable to “the inconsistencies in data formats and level of details obtained”. The collected CIT was N1.479trillion; thus, the foregone CIT was 30.8% of the collected revenue. A partial estimation of foregone PPT put the figure at N307billion.[14] Unavailability of data made it impossible to compute the entire foregone taxation under this head. The foregone customs revenue in 2020 amounted to N780 billion comprising N600 billion from waivers of import duties and NGN 180billion from VAT on import duties. The actual customs revenue collection for 2020 was N931.6 billion. The waivers amount to 83.7% of collected revenue.

Essentially, foregone revenue was 57.9% of collected revenue. Going forward, two options come to the fore, the recommendation of the MTEF is that schemes requiring the conversion of tax concessions into refundable tax credits be

[13] At page 56 of the MTEF.
[14] At page 57 of the MTEF.

set up. The second (not from the MTEF) is that tax expenditures are capped as a percentage of overall actual and collectible tax. It is recommended that not more than 20 percent of the available tax revenue be foregone as tax expenditure. The opportunity for the review of extant tax expenditures is provided by the annual Finance Act and the 2021 Finance Act should set the trend.

Furthermore, compliance with S. 29 of the FRA is imperative going forward:

> *Any proposed tax expenditure shall be accompanied by an evaluation of its budgetary and financial implications in the year it becomes effective and in the three subsequent years, and shall only be approved by the Minister, if it does not adversely impair the revenue estimates in the annual budget or if it is accompanied by countervailing measures during the period mentioned in this subsection through revenue increasing measures such as tax rate raises and expansion of the tax base.*

Even though some of these tax expenditures were not recently granted, they impair the revenue estimates of the annual budget, therefore, countervailing measures ought to be put in place. NASS is therefore called upon to amend the requisite laws and nudge the executive to take action on others to reduce the tax expenditures to not more than 20% of total estimated value of each tax category.

## 2.3 THE EXPENDITURE FRAMEWORK

The Expenditure Framework of the 2022 Appropriation Bill is as shown in Table 8 below.

***Table 8: Expenditure Framework of the 2022 Appropriation Bill***

| **Overall Expenditure N16,391,023,917,692** | | |
|---|---|---|
| **Expenditure Head** | **Amount (N'Bn)** | **Percentage** |
| 1. Recurrent Non-Debt | 6,829,015,483,447 | 41.66 |
| *a. Personnel Cost (MDAs)* | 3,494,367,075,514 | |
| *b. Personnel Cost (GOEs)* | 617,724,992,745 | |
| *c. Overheads (MDAs)* | 341,391,843,485 | |
| *d. Overheads (GOEs)* | 451,001,890,322 | |

| | | |
|---|---|---|
| *e. Pensions, Gratuities & Retirees Benefits* | 577,362,188,760 | |
| *f. Other Service wide Votes (Including GAVI/Immunisation)* | 916,867,592,621 | |
| *g. Presidential Amnesty Programme* | 65,000,000,000 | |
| h. TETFUND – Recurrent | 15,299,900,000 | |
| Special Interventions (Recurrent) | 350,000,000,000 | |
| 2. Aggregate Capital Expenditure (excluding CAPEX in Statutory Transfers) | 4,891,778,836,653 | 29.84** |
| 3. Statutory Transfers | 768,276,616,043 | 4.69 |
| 4. Debt Service | 3,609,241,188,415 | 22.02 |
| 5. Sinking Fund to Retire Maturing Bonds to Local Contractors | 292,711,793,135 | 1.79 |
| **Total (including GOEs & Project-tied Loans)** | **16,391,023,917,692** | **100.00** |

*Source*: BOF, HMFBNP's Public Presentation of 2022 FGN Budget Proposal

***Aggregate capital expenditure inclusive of the CAPEX in statutory transfers, GOEs capital and project tied loans expenditure is 32.7% of the budget.*

**2.3.1 Low Capital Vote Proposal:** The first issue is that aggregate capital expenditure is in the sum of N5.354tn which is 32.7**%** of the budget but the MDA capex of N2.139tn alone is a paltry 13.04% of the estimates. GOE capital expenditure and the capital component of statutory transfers is suffused with administrative capital to run the bureaucracy as against developmental capital that touches the life of the people. The Schedule of Multilateral and Bilateral Project Tied Loans which accompanied the 2022 estimates in the sum of N1.115tn is suffused with nebulous projects without clear deliverables, locations and activities. Some of them have been ongoing for years without any impact on peoples' lives and livelihoods. For example, the National Identification for Development Project of the National Identity Management Commission in the sum of 126.925bn raises serious posers. Why do we need to borrow so much for a national identity card scheme? Can the Commission explain why the identity cards have not reached majority of Nigerian whose identities have been captured over ten years since the scheme kicked off? This loan was not necessary.

The Federal Ministry of Agriculture and Rural Development has various Rural Access and Agricultural Marketing Projects in excess of N65.6bn. Where are the projects located and what are they delivering after being implemented for years?

What is the Nigeria for Women Project of the Ministry of Women Affairs going to deliver with N12.304bn? The same question can be asked about the Sustainable Procurement, Environmental and Social Standard Enhancement Project of the same Ministry of Women Affairs. All these unclear, deliberately poorly defined projects can only create a fertile ground for mismanagement of public resources. Pray, can anyone show Nigerians the capital projects justifying our $86bn DMO acknowledged public debt?

Previous experience indicates that the capital vote is very poorly implemented. For instance, out of the 2021 aggregate prorated (January to August 2021) capital vote of N3.323tn, only the sum of N1.759tn has so far been released which amounts to 52.9% capital budget implementation. This is a very poor record in an infrastructure starved economy. It is also imperative for the administration to ensure that in these times of lean revenue, priority is given to developmental capital expenditure rather than administrative expenditure. This will ensure that the expenditure has a direct impact on the majority of citizens.

It is imperative to note that budgetary funding alone cannot scratch the surface of Nigeria's demand for infrastructure. NASS should therefore consider alternative funding sources for key capital projects, especially in the Ministries of Health, Works, Power and Housing, Transport, Water Resources, etc. 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 Bill[15] into law.

More so, with the big picture for the 2022 budget in view, 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 Nigerian partakes in the baking of the national cake and as such, claims a right to be at the table in the sharing of the proceeds of national investments. This big picture is not found in any extant FGN policy framework. 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:

[15] The Development Planning and Projects Continuity Bill guarantees proper documentation, planning, costing and prioritization of capital projects; ensuring continuity and reducing abandonment of projects, etc.

- Universal health coverage will not be possible without a universal and compulsory health insurance scheme for its financing. Thus, making health insurance compulsory and universal is imperative.

- A Health Bank of Nigeria, being a development bank focused on making credit available at single digit rate for building health infrastructure, funding research into development and developing competencies and capacities for the long term development of the Nigerian health sector into a world class industry.

- 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 designated commodities, 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 and radar. States will also be brought into the picture. This will require an amendment of the Constitution. Even where government builds rail lines, the private sector can invest in wagons and the day to day management of rail services.

- 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 Babangida presidency, 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 do not have the technical, managerial and financial capacity to move the sector to the next level whilst FGN has no resources to improve the transmission subsector.

- The 12 River Basin Development Authorities sit on thousands of hectares of public land (for instance the estimate of N50m was requested for clearing of the 5,000ha farmland in Auchi, Edo State by the Benin Owena RBDA). They get allocations for tractors, farm equipment, implements, fish and livestock replenishment, seeds, processing machinery and implements, etc. They should be revenue centres that remit billions of Naira to FGN instead of the current approach where they gulp money without any meaningful contribution to the revenue. At a minimum, RBDAs should be compelled to fund their personnel and recurrent expenditure pending when they are fully weaned of public funding. The vast lands at their disposal should be benchmarked as commercial farms and thy should account for the proceeds of the farms.

Ultimately, these changes will relieve the treasury of, and 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. A new paradigm of fundraising should involve the traditional core and institutional investors, organized labour and workers, cooperatives, community groups, religious and faith based organisations, women and youth groups, etc. This will build a broad-based ownership of national infrastructure and capital, rather than the extant exclusive arrangements that focus on the rich few who can only invest if undue terms and conditions are met. This new paradigm will ultimately affect by way of reduction, the quantum of resources that will be provided by the public treasury for infrastructure.

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 too thin. 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 to medium term and channel the bulk of the expenditure to them. NNPC's recent plan, approved by the Federal Executive Council, to construct 21 roads with N621bn under the Tax Credit Scheme shows the inadequacy of budget funding for Works and Housing and shows the lack of prioritization at the Ministry considering that the Ministry has over 200 hundred roads penciled down in the 2022 estimates with a vote far less than the NNPC's projected vote.

In other words, NASS should prioritise the projects so that budgetary funding can achieve the desired results.

**2.3.2 Rising Debt Service:** The second issue is that the rising debt service proposal (N3.609tn) is 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% of overall projected expenditure, the debt service is high but it is lower than capital expenditure on paper. If the sinking fund is added, it increases to 23.79%. When the 2021 budget implementation experience is used, it shows that Nigeria has already spent N2.868tn (as at the end of August 2021) in debt service at a time when only N1.759tn has been released for capital expenditure. This clearly shows the prioritization of spending as capital expenditure is just 61.3% of debt service.

In accordance with S. 42 of the FRA and to guarantee a dispassionate consideration of the debt challenge, NASS should invite the President and the Minister of Finance to forward proposals for debt limits for the federal, state and local governments to it. NASS should thereafter meticulously review and approve the limits after proper consultations with experts. Setting the debt limits will be in obedience to the un-appealed judgement of the Federal High Court in ***Centre for Social Justice v The President of the Federal Republic of Nigeria & 4 Others*** (Suit No. FHC/ABJ/CS/302/2013).

**2.3.3 Recurrent Non-Debt Expenditure/Cost of Governance:** 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. Actual recurrent non debt expenditure was N2.646tn in 2016, N2.990tn in 2017, N3.516tn in 2018 and N4.065tn in 2019; the 2020 expenditure was N4.633tn.[16] The proposal for 2021 is N5.765tn and for 2022, it is N6.829tn. This increment cannot be the sign of a system that is taking steps to remove waste and inefficiencies. Efforts should be made to reduce the cost of governance through the implementation of fit and good practices contained in the Oronsaye Committee Report on the restructuring of federal MDAs.

**2.3.4 Bulk Votes Without Details:** All the agencies on statutory transfers got bulk votes of which the details are not available to Nigerians. They are the National Assembly, National Judicial Council, National Human Rights Commission, Public Complaints Commission, Independent National Electoral Commission, Niger Delta Development Commission, North East Development Commission, the Basic Health Care Fund and the National Agency for Science and Engineering Infrastructure. Again, votes for Special Intervention Programmes and Sustainable Development Goals in the SWV do not have details. This is an abnormal situation that lacks transparency and should be remedied by providing the details to the public through the electronic portals of the Budget Office of the Federation and the National Assembly.

**2.3.5 Zonal Intervention Projects:** Some of the zonal intervention projects of NASS are problematic in the sense that they are projects within the competence of states and local governments. Such projects include primary heath care centres, local water projects, town halls, etc. The federal budget can pay for the capital costs but cannot pay for the recurrent costs. Therefore, in the past, some of the projects have been completed but states and local governments left them to rot away. In the circumstances, money has been spent and no value delivered. Again, when a new legislator comes on board, he will hardly vote money to repair or make functional an existing project done by his predecessor and the resources earlier

[16] 2020 Fourth Quarter and Consolidated Budget Implementation Report at page 35.

invested will be wasted. It is therefore proposed that zonal intervention projects should focus on projects for which the federal budget will pay for both the capital and recurrent costs to ensure that resources are not wasted. It is submitted that it illegal and unconstitutional for NASS to vote money to execute a project outside its legislative competence.

Furthermore, the disbursement of the proceeds of zonal intervention projects like motorcycles, grinding and sewing machines, fridge, freezers, etc., raises fundamental jurisprudential questions about the criteria for disbursement to constituents. A senator representing over a million persons gets goods worth for instance N200m. There is no policy benchmark for the selection of beneficiaries. It becomes a matter within the exclusive discretion of the legislator and this is exercised in favour of party loyalists, supporters and relations. This is not a reasonable and sustainable way to dispense public resources. It would have made eminent sense if the yearly N100bn allocated to zonal intervention projects is pulled together and used for the fulfilment of a component of a defined right. For instance, in the right to health, the N100bn can be used to finance free medical consultation in all government hospitals for defined ailments or to provide free treatment for all persons diagnosed of malaria or even free ante-natal and post-natal service across the federation. In this scenario, the criteria to be met to become a beneficiary is clear and known to all and the beneficiaries can claim it as an entitlement, a right whose violation will be redressed through appropriate apriori defined mechanisms.

# SECTION THREE: RECOMMENDATIONS

## 3.1 REVENUE

- Full and meticulous implementation of the rules in the 2020 Finance Act requiring automatic deduction at source of past due operating surplus from GOEs and capping cost to revenue ratio of GOEs to a maximum of 50%-50%. It is further recommended that FGN considers domiciling the accounts of relevant GOEs and agencies in sub accounts of the Treasury Single Account (TSA) and deduct the due percentages of operating surplus at source before transferring the residue to the GOEs and agencies. This will ensure that all due operating surplus and portions of due IGR is deducted at source. This is estimated to guarantee FGN operating surplus revenue of not less than N2tn.

- Strengthen the Fiscal Responsibility Commission by amendments to extant law and policy so as to fully implement the mandate of empirically calculating and collecting due operating surplus as provided in the FRA.

- Expeditiously review tax expenditures through the 2021 Finance Act considering the huge deficit incurred by FGN and the states over the years and the level of public debt. It is imperative that tax expenditures be capped at not more than 20% of total estimated value of each tax category. This is estimated to free not less than N2tn for the Federation Account.

- FGN's expected revenue from minerals and mining of N2.915bn is grossly underestimated. NASS should engage the mining authorities and the Ministry of Finance to ensure that illegal and private mining of public minerals is stopped and proper accruing revenue estimates included in the budget.

- FGN's expected revenue from electronic money transfer (formerly stamp duties) is grossly underestimated. NASS should conduct detailed hearings and seek expert advice on this revenue head to ensure that the full accruable revenue is approved. NASS should also ensure that the executive accounts for the unaccounted accruals from previous years.

- The 2022 Appropriation Act should contain an explicit provision abolishing fuel subsidies, under recovery or any subsidy on petroleum motor spirit by whatever name called or under any guise whatsoever. This will save not less than N2tn and make same available for the Federation Account. Not less than 60% of the savings accruing from abolishing the subsidy should be channeled to dedicated ring fenced (statutory) expenditure in education and health.

- Full implementation of the Petroleum Industry Act for reforms in the oil and gas sector as this will also increase revenue available from oil and gas extraction in the medium term. The leadership of the industry should be professionalized and the new Nigerian National Petroleum Corporation and other emerging companies should not be subjected to political pressure and distortions now or at any time in the future.

- FGN should take urgent, targeted and realistic steps to reduce insecurity across the nation so that Nigerians especially in the rural areas can go back to work. This will increase productivity and the quantum of goods and services produced in the country, reduce the demand for imports leading to a reduction on the pressure on the Naira.

## 3.2 EXCHANGE RATE

- Consider the harmonization and unification of the different foreign exchange rates to introduce greater certainty into foreign exchange and monetary policy management. This will reduce arbitrage, facilitate a more efficient management of the foreign exchange regime as well as encourage greater inflow of foreign currency into the economy.

## 3.3 DEBTS AND BORROWING

- Increasing public private partnerships through well prepared projects involving MDAs, the Infrastructure Concession Regulatory Commission and the private sector.

- To reduce borrowing, establish special purpose vehicles that garner and aggregate resources from a plethora of sources including institutional and retail investors to fund priority capital projects.

- The President and NASS should set the Consolidated Debt Limits of the three tiers of government in accordance with section 42 of the FRA mandating these limits, as well as in obedience to the un-appealed judgement of the Federal High Court in ***Centre for Social Justice v The President of the Federal Republic of Nigeria & 4 Others*** (Suit No. FHC/ABJ/CS/302/2013).

- Consider a moratorium on new borrowing and stop funding recurrent expenditure from proceeds of borrowing.

### 3.4 RAISING NEW FUNDS FOR CAPITAL EXPENDITURE

- Universal health coverage will not be possible without a universal and compulsory health insurance scheme for its financing. Thus, NASS working in collaboration with state legislatures should make health insurance compulsory and universal.

- A Health Bank of Nigeria, being a development bank focused on making credit available at single digit rates for building health infrastructure, funding research into development and developing competencies and capacities for the long term development of the Nigerian health sector into a world class industry.

- 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 designated commodities, etc. Special purpose vehicles to aggregate resources from institutional and retail investors will direct other resources into the sector.

- Reorganize 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). Currently, this is missing from our projections and radar. States will also be brought into the picture. This will require an amendment of the Constitution. Even where government builds rail lines, the private sector can invest in wagons and the day to day management of rail services.

- 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 Babangida presidency, 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 do not have the technical, managerial and financial capacity to move the sector to the next level whilst FGN has no resources to improve the transmission subsector.

## 3.5 PROCESS AND STRUCTURE ISSUES

- Although the financial year has been returned in practice to the normal January to December, it is imperative to amend S.81 of the Constitution to fix a definite timeframe for the President and Governors to present the budget estimates by the first week of September while the legislature should conclude the approval process not later than the second week of December every year.

- NASS should demand that the executive submits the evaluation of results of programmes financed with budgetary funds in the outgone year so as to inform the meticulous consideration of the proposals for the New Year. This should be about outcomes in terms of number of people who got jobs, persons reached with services, improvements in health, education, etc.

- Separate the Ministry of Finance, Budget and National Planning into two separate ministries - the Ministry of Finance and the Ministry of National Planning. The Ministry of Finance will naturally take care of treasury issues while National Planning reverts to its former developmental planning mandate and combines it with budgeting. This recommendation is based on the importance of the ministries to the economy and the fact that combining them seems contradictory. It is evidently difficult to combine the competencies required to run these disparate ministries in one person or group of persons.

- Considering the enormous resources and the competencies required in works and housing, it may be imperative to separate the Ministry of Works and Housing into two separate ministries, one for Works and the other for Housing. This will enable the executive to give greater attention to these two important sectors.

- The details and disaggregation of all statutory transfers should be provided to Nigerians. They are the votes of the National Assembly, National Judicial Council, National Human Rights Commission, Public Complaints Commission, Independent National Electoral Commission, Niger Delta Development Commission, North East Development

Commission, Basic Health Care Provision Fund and the National Agency for Science and Engineering Infrastructure This is in accordance with the un-appealed decision of the Federal High Court in ***Centre for Social Justice v Honourable Minister of Finance*** (Suit No.FHC/ABJ/CS/301/2013).

- The details and disaggregation of votes for Sustainable Development Goals and other bulk sums in the Service Wide Votes should be provided.

- The votes in Service Wide Votes should be reduced through their allocation to specific MDAs charged with the subject matter of the votes. The aggregate SWV should not exceed 5% of the budget estimates.

- Consider voting the N100bn used on a yearly basis for zonal intervention projects for interventions that are founded on the legislative competence of the NASS in the Constitutional Exclusive Legislative List.