REVIEW OF THE 2017-2019 MEDIUM TERM EXPENDITURE FRAMEWORK

CSJ

CENTRE FOR SOCIAL JUSTICE LIMITED BY GUARANTEE (CSJ)

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TABLE OF CONTENTS

LIST OF ACRONYMS

Acronyms	Meaning
Act	Fiscal Responsibility Act
BOF	Budget Office of the Federation
CBN	Central Bank of Nigeria
CIT	Company Income Tax
CSJ	Centre for Social Justice
DSA	Debt Sustainability Analysis
ECA	Excess Crude Account
ECOWAS	Economic Community of West African States
EXCoF	Executive Council of the Federation
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
FSP	Fiscal Strategy Paper
FY	Fiscal Year
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IGR	Internally Generated Revenue
M&E	Monitoring and Evaluation
MB&NP	Ministry of Budget and National Planning
Mbpd	Millions of barrels per day
MDAs	Ministry, Department or Agencies of Government
MDG	Millennium Development Goals
MPR	Monetary Policy Rate
MTEF	Medium Term Expenditure Framework
MTSS	Medium Term Sector Strategies
NASS	National Assembly
NBS	National Bureau of Statistics
PIB	Petroleum Industry Bill
PPA	Public Procurement Act
PPP	Public Private Partnership
RMAFC	Revenue Mobilisation Allocation and Fiscal Commission
SDGs	Sustainable Development Goals
SWF	Sovereign Wealth Fund
USD	United States Dollar
VAT	Value Added Tax
ZBB	Zero Based Budgeting

LIST OF TABLES

LIST OF FIGURES

ACKNOWLEDGEMENT

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RECOMMENDATIONS

1. Preliminary Issues

(i) Future MTEFs should be submitted to the NASS immediately after endorsement and this must be done by the EXCoF in June in line with the provisions of the Act. The MTEF should be sent to the NASS in July before the commencement of the mid-year legislative recess. This will enable the legislature sufficient time to analyse and approve the MTEF and for actual preparation of budgetary estimates to start on time.

(ii) The MTSS should precede the preparation of the MTEF and all relevant stakeholders should be brought on board during the preparation process.

(iii) The MTEF should be anchored on consultations with states and designated agencies of government. The Minister of Budget and National Planning should also open up the process for consultation with diverse stakeholders including the organized private sector and civil society. The process and fact of the consultation should be documented in the MTEF as provided in the Act.

(iv) Nigeria needs a new overarching and fundamental economic policy document and vision to coordinate all sectoral activities and introduce coherence and convergence into sector policies.

2. Macroeconomic Framework

(i) The MTEF should document how it arrived at the projections for economic growth and inflation rate as well as include projections for interest rate, external reserves and access to credit, etc as required by the Act. It should document the underlying assumptions, facts and logic in support of these projections.

(ii) The MTEF's macroeconomic projections should be aligned to Vision 2020 and the Strategic Implementation Plan (SIP) or show reasons supporting that the targets in Vision 2020 cannot be met.

(iii) The MTEF should contain an evaluation and analysis of the macroeconomic projections for the preceding three years.

(iv) Considering the gravity of unemployment and underemployment, the MTEF should document the present situation; make projections for increased employment and decreased underemployment as well as strategies to attain the new projections.

(v) Consistent poor capital budget implementation over the years demands the full enforcement of the Public Procurement Act, 2007 with an emphasis on renewed capacity building and sanctions for offenders.

(vi) Accruals to ECA and or the SWF should be articulated in the MTEF. Currently, there is nothing about ECA or SWF in the extant MTEF.

3. Fiscal Strategy Paper

(i) In accordance with the FRA, the MTEF should show the link between stated priority interventions and the constitutional Fundamental Objectives and Directive Principles of State Policy.

(ii) Government should reorder its spending priorities and ensure at least a 70 per cent to 30 per cent balance between recurrent and capital expenditure in 2017 and a gradual increase to 40 per cent capital expenditure in 2019. The recommendations of the Expenditure Review Committee and the Committee on the Restructuring and Rationalization of Federal Government Parastatals, Commissions and Agencies should be once again analysed and used in the rebalancing.

(iii) Government should continue to plug the leaking pipes of corruption and waste that have led to the abuse of system. Automation cannot do it alone, there is need to send strong signals to offenders; individuals and companies found to have abused the system should face punitive criminal justice sanctions.

(iv) NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources for investments in critical sectors. It is estimated that over N3 trillion will accrue to the Federation's coffers from the implementation of the PIB. It will also free up resources tied up in Joint Venture Cash Calls.

(v) Government should review policy implementation in key areas of automobiles, oil and gas, housing, transport, electricity and health to generate jobs, new income streams and thereby diversify the economy.

(vi) Estimated oil production may be unrealistic if the challenge of militancy in the Niger Delta is not addressed. The oil price benchmark is realistic and should be retained.

(vi) The assumptions and projections for non-oil revenue comprising of CIT, VAT and Customs Duty needs to be aligned with the mantra of diversification of the economy.

4. Revenue and Expenditure Framework

(i) The MTEF should contain the sectoral envelopes which will show government's priorities and the reasons informing those priorities. The Strategic Implementation Plan (SIP) can serve as a guide.

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

(iii) For the private sector to play the role of providing funding to fill the finance gap for infrastructure and critical sectors, there is the need for government's borrowing not to crowd out the private sector. Improved access to credit for the private sector through coordinated policy implementation by the CBN, DMO and the Finance Ministry is imperative.

(iv) Giving the current situation of the country, there is the need for the 2017-2019 MTEF to have a clear path to activate the alternative funding sources of the Development Agenda as contained in Vision 20:2020. The Development Agenda identified alternative funding sources to complement budgetary and public funding of capital projects. They have been identified to include pension funds, Public-Private Partnership (PPP), long term Commercial Bonds, Export Credit Finance, oil for infrastructure, private equity and infrastructure bonds. It is high time the legislature in collaboration with the executive take steps to activate these alternative funding mechanisms instead of the current appetite for loans.

5. Contingent Liabilities and Quasi Fiscal Activities

(i) The MTEF should include the nature and quantum of contingent liabilities and quasi fiscal activities of government.

(ii) Considering the quantum of current contingent liabilities as indicated in the DSA and the projection that it will grow in the medium term (2017-2019), it is imperative to implement the recommendations of the DSA to guarantee value for money in this area.

(iii) In undertaking new PPP projects which will increase the quantum of contingent liabilities, FGN should carefully select and appraise and involve the expertise of the Infrastructure Concession and Regulatory Commission in arriving at the specific projects. Indeed the enabling law for PPPs in Nigeria is overdue for reform.

(iv) FGN interventions qualifying as quasi fiscal activities and their implications for public finances, macroeconomic stability should be carefully appraised before embarking on them. They should be fully documented in future MTEFs.

SECTION ONE: BACKGROUND

1.1 Introduction

The Fiscal Responsibility Act (FRA or the Act) in sections 11 to 18 provides for the Medium Term Expenditure Framework (MTEF) including the timing, the preparation process, contents, the minister responsible for the preparation, the Fiscal Strategy Paper (FSP) and the entities to be consulted during preparation, the process of approval, and how the MTEF will guide the annual budget process, etc. A thorough understanding of these sections suggests that the MTEF is central to the FRA's goal of prudent management of national resources, ensuring long term macroeconomic stability and securing greater transparency and accountability in fiscal operations.

The extant MTEF 2017-2019 seeks the approval of the NASS after the endorsement of the Excutive Council of the Federation (EXCoF) on Wednesday August 24, 2016**.** This current MTEF submitted to the National Assembly (NASS) on Tuesday October 04**,** 2016 for its approval is the second MTEF and Fiscal Strategy Paper (FSP) to be prepared under the current Preseident with the first one being the 2016-2018 MTEF and FSP.

Centre for Social Justice (CSJ) is a Nigerian **KNOWLEDGE INSTITUTION** with a vision of a Nigeria where social justice informs public decision making. Its mission is to mainstream issues of justice and fairness in all facets of public life. CSJ has been involved in the review of previous MTEFs and had contributed to the debate on whether MTEFs were prepared in accordance with the provisions of the FRA while remaining focused on the larger picture of the right of majority of Nigerians to an adequate standard of living, Nigeria's Vision 2020 and extant national priorities. The MTEF is to guide budget preparation in its sectoral and compositional priorities and as such, there is an inextricable link between the two documents. CSJ has also been involved in yearly budget analysis for over eight years, to ensure inter alia in the later years, the harmony between the MTEFs and the budget. The thrust of the current analysis is therefore to provide evidence based review of the MTEF to ensure respect for the enabling law and to fast-track and facilitate the realisation of the goals of the current administration in the areas of Security, Economy and Corruption (SEC).

The Terms of Reference of this Analysis are:

- To review the 2017-2019 MTEF as presented by the President highlighting areas of concern with a view to providing NASS with a clear template for its input into the legislative approval of the MTEF.
- To review the MTEF submitted by the President with a view to highlighting areas of strengths and weaknesses.

- To review the MTEF in the light of the Fiscal Responsibility Act including the procedural issues, previous macroeconomic forecasts and their results, extant macroeconomic indicators and prevailing social and economic conditions.

The specific terms of reference are:

- To review the revenue projections of the MTEF against the background of the criteria used in the projections. The revenue projections will include customs and excise, companies' income tax, value added tax, income from oil and gas, Federal Government Nigeria (FGN) independent revenue and balances in special accounts. This is in a bid to establish whether they are realisable or under-projected and how they can be reconciled with other macro-economic forecasts and policy goals.
- To review the expenditure projections including capital, recurrent, statutory transfers, debt service, etc based on their internal consistency with stated policy goals and commitments of the government. These will include reviewing these expenditures against the background of demands of Vision: 20:2020, the SDGs and the extant Debt Sustainability Analysis prepared by the Debt Management Office (DMO), etc.
- To review the links between monetary and fiscal policy especially how they impact on the macroeconomic performance of the economy.
- To review whether the conditions necessary for exiting the recession, the realisation of economic growth, employment creation and other policy goals and targets are contained in the MTEF.

The MTEF by law is to be made up of five major components namely a macroeconomic framework, a fiscal strategy paper, and an expenditure and revenue framework. It should also contain a consolidated debt statement setting out and describing the fiscal significance of the debt liability of the Federal Government and measures to reduce any such liability; and a statement describing the nature and fiscal significance of contingent liabilities and quasi fiscal activities and measures to offset the crystallization of such liabilities. The Analysis will reveal whether the extant MTEF complied with the enabling provisions of the FRA or whether it sought to explore new grounds.

1.2 Methodology

The Analysis reviewed the 2017-2019 MTEF and FSP against the background of previous MTEFs, budget implementation reports for 2015 and the half year report on the implementation of the 2016 budget, Vision 20:2020 document, the 2015 full year reports of the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). It also reviewed economic trends and forecasts from the Budget Office of the Federation (BOF), NBS, CBN, the World Bank and International Monetary Fund, emergent literature on the practice of MTEFs from different parts of the world, etc. The analysis emerging from the review indicates areas in need of further clarification, amendments and alignments with available fiscal data and trends.

SECTION TWO: PRELIMINARY ISSUES

2.1 MTEF 2017-2019

The extant MTEF is for the period 2017-2019, a period of three years. This is in line with three previous MTEFs which were for periods of three years vis: 2013-2015; 2014-2016; as well as 2015-2017. The extant MTEF is in line with the established practice and the provisions of the FRA which in section 11 specifically states that the MTEF shall be for the next three financial years.

2.2 Timing of the MTEF

The submission of the MTEF by the President to NASS on **Tuesday October 04, 2016**[1] was late. The submission came to public knowledge the next day **Wednesday 05, 2016**[2]. The FRA anticipates that the MTEF should be submitted to NASS not later than four months to the end of the financial year since the approval of the MTEF is the actual beginning of the budget formulation process. It is also clear that the EXCoF endorsed the MTEF on **Wednesday August 24, 2016** although the Act states that it should be done before the end of the second quarter which is the month of June.

The foregoing has adverse implications for the presentation and passage of the annual budget. The annual budget is drawn from the MTEF and as such awaits the approval of the MTEF by NASS so that variables like aggregate expenditure, benchmark price of oil, envelopes for MDAs etc, will be drawn from it. In the last three years, the federal budget has never been passed early before the commencement of the New Year and delays in presentation and passage of the budgets eventually lead to poor capital budget implementation[3].

Perennial requests by the executive and approvals by the legislature for the extension of the financial year for implementation of capital components of the budget to March of the following year have become the new norm. The Financial Year Act[4] clearly states the Nigerian financial year to be the period between January 1st - December 31st of every year. And such requests and approvals founded on the late passage of the budget are illegal if they are done by a resolution of the NASS. This is founded on the legal position that you cannot amend extant law by a resolution of the NASS. Also, providing in the Appropriation Act for the budget to run for one year from the date of assent as was done in 2016 misaligns other fiscal activities which have been programmed with the financial year ending in December.

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[1] http://www.vanguardngr.com/2016/10/buhari-forwards-2017-2018-2019-mtef-fsp-senate/

[2] http://breaking.com.ng/nigeria/buhari-submits-2017-2019-mtef-fsp-to-national-assembly/

[3] Vision 20:2020 projects the adoption of measures to improve budget implementation to include the timely passage of the annual budget.

[4] Financial Year Act, Cap F.27, Vol.7, Laws of the Federation of Nigeria 2004.

2.3 Preparation of Medium Term Sector Strategies

There is also no information in the MTEF about the preparation of Medium Term Sector Strategies (MTSS) for Ministries, Departments and Agencies (MDAs) of government. The EXCoF endorsed the MTEF on **Wednesday August 24, 2016** but it was **on August 16, 2016** that the Minister of Budget and National Planning (MB&NP) made a call in Abuja at a workshop to provide clarity on the concept of a Medium Term Sector Strategy (MTSS) and its relevance in budget preparation process. In the workshop at the above date, the Minister urged Ministries, Departments and Agencies (MDAs) of government to support the development of a Medium Term Sector Strategy (MTSS), for proper budgeting from 2017 to 2019[5]. MTSS preparation should be the prelude to the MTEF. If the Minister was calling for a preparation of MTSS eight (8) days before the approval of the MTEF and FSP, what was the basis for the MTEF? The obvious answer seems to be that there were no MTSS preparation sessions before the approval of the MTEF or if there were, they must have been convened secretly without the input of stakeholders, because previous MTSS sessions had other stakeholders on board.

If on the other hand, the Minister of Budget and National Planning (MB&NP) prepared the MTEF without the MTSS of MDAs, then the MTEF is flawed. The inclination to think that there were no MTSS sessions is further reinforced by the absence of sectoral envelopes and ceilings in the MTEF. An MTSS cannot be prepared without the financial envelope(s).

2.4 Consultations and Inputs

The Act in section 11 requires the Federal Government to consult the States as part of the process of formulating the MTEF. The reasons for this requirement are not far-fetched. Macroeconomic indicators like the benchmark price of oil, interest, inflation and exchange rates would definitely impact on the revenue and expenditure of States. Also, most States in the Federation depend on allocations from the Federation Account as their main source of revenue. The States are therefore partners and stakeholders who should make contributions to MTEF formulation. However, there is no indication in the MTEF as to whether States were consulted and the nature of such consultation.

The Act in S.13 (2) (b) requires the Minister to seek inputs from other key agencies of government like the Joint Planning Board, National Commission on Development Planning, National Assembly (NASS), Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) and any other relevant body as the Minister may determine. The mandatory “shall” is used by the section in directing the Minister to seek the inputs. There is no indication in the MTEF whether these inputs were sought from the listed agencies but we understood that the Minister of Budget and National Planning made a presentation on the MTEF

[5] http://thetorrent.com.ng/2016/08/16/mdas-to-support-mtss-for-proper-budgeting-from-2017-to-2019/

and FSP in a Stakeholders Consultative Forum in Banquet Hall, Aso Rock, Abuja. A copy of the presentation by the Minister (slide 3) stated thus:

> *"This consultative engagement is in line with the Act (2007) and this presentation is not comprehensive. Simply to stimulate discussion so as to elicit public contributions towards designing a Medium Term Fiscal Strategy."*

It is not clear who attended and who were not invited because of the venue of such forum. It is imperative that the MTEF details its formulation process so as to enable a dispassionate third party to determine whether there has been compliance with the law.

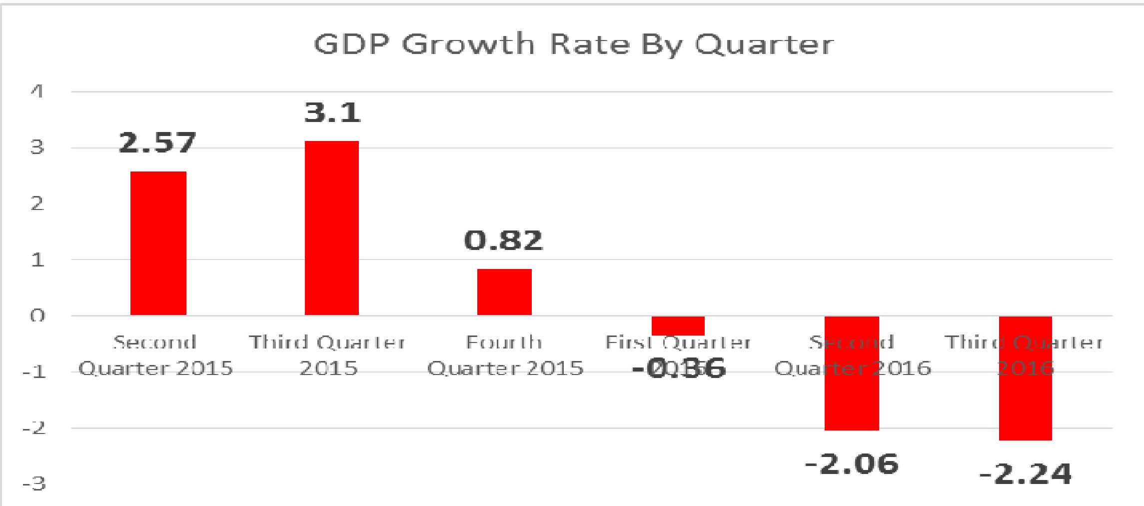
SECTION THREE: MACROECONOMIC FRAMEWORK

3.1 Unclear Projections (Growth Rate and Inflation) and Missing Interest Rates, Access to Credit, External Reserves, etc

The Macroeconomic Framework is to set out the macroeconomic projections for the next three financial years, the underlying assumptions for those projections and an evaluation and analysis of the projections for the preceding three financial years. Unlike previous MTEFs, this MTEF started with a listing of growth rates (-0.36 per cent in the first quarter of 2016 and expected to average 0.35 per cent for the full year), inflation (headline inflation index trended upwards to 16.5 per cent as at June 2016), unemployment (increased from 10.4 per cent in the fourth quarter of 2015 to 12.1 per cent) while underemployment (rose to 19.1 per cent in the first quarter of 2016 from 18.7 per cent in the last quarter of 2015). There were no attempts to analyse the implications of these major macroeconomic indicators for the next three fiscal years (2017-2019).

The Gross Domestic Product (GDP) growth target for 2017 was placed at 3.02 per cent and inflation target for 2017 placed at 12.92 per cent. Private consumption expenditure was projected to increase from N80.048 billion for 2017 to N91.955 billion for 2019. Figure 1 below presents Nigeria's GDP growth rate for second quarter 2015 to the present time, which if well analysed does not support the projection of 3.2 per cent growth rate in 2017.

Figure 1: Nigeria's GDP Growth Rate Second Quarter 2015 – Third Quarter 2016



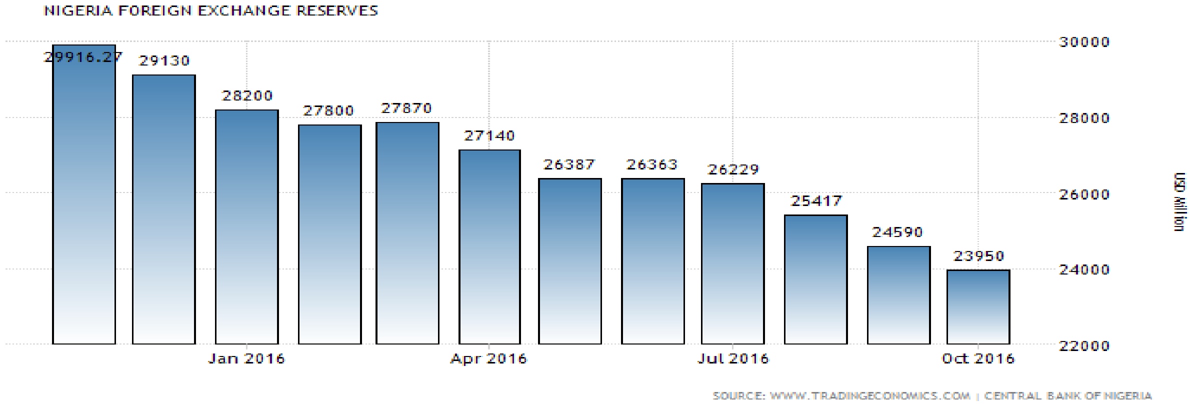
Source: National Bureau of Statistics (NBS) 2016

According to the MTEF document, economic growth will be supported by the envisaged improvement in the implementation of the capital budget, the efficiency of funds utilization to support domestic demand during the period. The MTEF however further provides that GDP figures is expected to increase from N108,734 billion in 2017 to N118,793 billion in 2018 and N129,773 billion in 2019 without any analysis of how they arrived at these figures.

The average gross fixed capital formation was projected at 9.41percent of GDP. How these targets and figures were generated is neither clear nor provided. There was no analysis of the major macroeconomic indicators for the preceding three years to learn from it for the projections as provided in the Act (2007). Again the medium term macroeconomic parametres and targets were based on an "average growth in employment and labour productivity". Pray, what does average growth in labour and productivity mean?

The macroeconomic targets and figures make no sense to an average Nigerian and can be subject to as many interpretations as there are Nigerians. It commits the government to nothing. It raises several questions: What is the inflation target in the next three fiscal years? Will interest be in the single or double digits for it to be consistent with economic growth that can move Nigeria out of recession? Essentially, there are no projections for interest rate and lending to the economy. The MTEF contained no information on the build-up in external reserves and the Excess Crude Account (ECA) or the Sovereign Wealth Fund (SWF) under the macroeconomic parameters and targets for the three fiscal years 2017-2019. Data from CBN as shown in the Figure below reveals that the country's external reserve has nosedived in the last 12 months from USD29.916billion to USD23.950billion. See Figure 2 below for details.

Figure 2: Nigeria's External Foreign Exchange Reserve Nov 2015 – Oct 2016

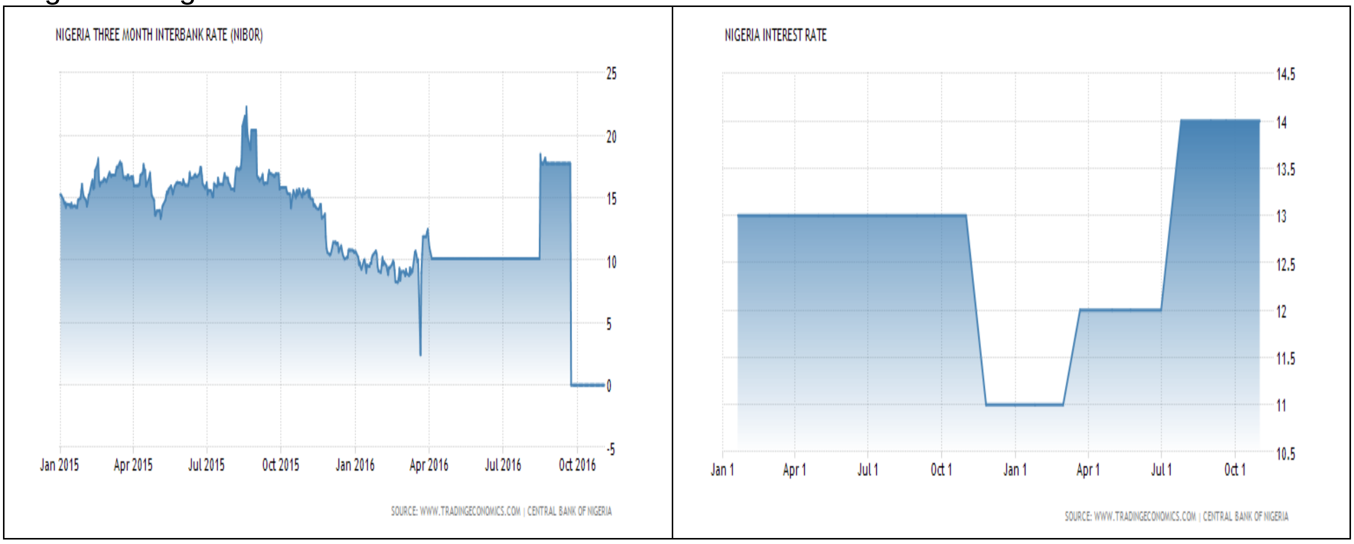


Source: Central Bank of Nigeria (CBN) 2016

There was also no attempt in this part to link up projections with policy documents such as the targets in Vision 2020. The most surprising of all was the entire omission of the link between fiscal and monetary policy. It is surprising that in an MTEF expected to drive the economy in the next three fiscal years, there was no mention of monetary aggregates including the current Monetary Policy Rate (MPR) and the current position.

Without acknowledging the current MPR and its implications for the entire macro economy, it will be difficult to understand if interest rates will be high in the next three years thereby restricting the access of the private sector to credit needed to improve capacity utilization in industries, expand production and create new jobs. The fluctuations in Nigeria's MPR (both NIBOR and interest rate) as shown in Figure 3 below raises questions for the sustenance of the real sector of the economy.

Figure 3: Nigeria's Interest Rate Jan 2016 – Oct 2016



Source: Central Bank of Nigeria (CBN) 2016

Therefore, it is important that the MTEF articulates the strategies for sustaining and improving access to credit to the real sector and encourage the financial system to perform its intermediation role at the least cost to the economy. The need for this is emphasized by available data as depicted in Figure 4 below which shows that credit to the private sector has increased by over 20 per cent between the last quarters of 2015 and second quarter of 2016.

Figure 4: Nigeria's Credit to the Private sector Oct 2015 – July 2016

Source: Central Bank of Nigeria (CBN) 2016

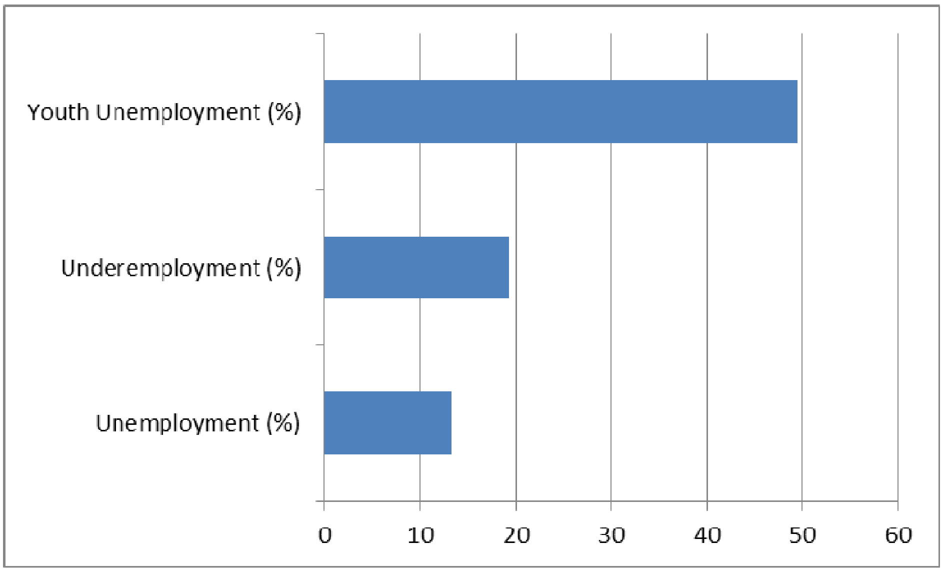
However, the increase in lending to the private sector has been met with a higher increase in terms of credit to the government which grew by more than 35 per cent according to the CBN between the fourth quarter of 2015 and the second quarter of 2016. If the trend is maintained, there is no doubt that government borrowing, to a certain extent, will crowd out private sector borrowing. The lower increase of access to credit by the private sector when compared to the government sector cannot be the hallmark of an economy that is planned to be private sector driven, with flourishing Public Private Partnerships (PPP) to fill the financing gap for critical infrastructure. There is also the need to articulate strategies for the reduction of the spread between deposit and lending rates in order to support the rejuvenation of the real sector of the economy.

The lack of projections comes against the background that one of the strong points of the MTEF in literature is that it combines governments policies, plans and fiscal and monetary targets into an actionable framework. If there are no targets and promises made by government in the macroeconomic framework, how will performance be measured and monitored? In the absence of projections, the MTEF was also bereft of underlying assumptions.

There was no evaluation and analysis of the projections for the preceding three years as no mention was made of them. This leaves a lot of questions unanswered because information about previous performance would have informed extant projections. It could have supplied information about the factors driving successes and failures to realize previous targets and identified binding constraints on growth and development.

Considering the gravity of the employment situation in Nigeria, the MTEF is expected to provide information on the level of and causes of unemployment, current government activities and interventions to check the employment crisis, interventions going forward and strategies to ensure the realization of government policy. This was missing in the MTEF. The unemployment rate stands at 13.3% whilst the underemployment rate stands at 19.3%; youth unemployment is 49.5%. The figure of youth unemployment is a bomb awaiting detonation. These figures are adjusted based on the new method introduced by the National Bureau of Statistics for calculating the employment/ unemployment rates. See Figure 5 below for details.

Figure 5: Nigeria's Unemployment, Underemployment and Youth Unemployment 2016



Source: Calculated from National Bureau of Statistics Figures

3.2 Sectoral Composition of GDP

The sectoral composition of the GDP in the MTEF was conspicuously missing except the mention of agriculture including agro business, solid minerals, building and housing playing a lead role. The MTEF was unable to anchor the GDP growth rate on any policy direction and it did not identify the drivers of growth. It is safe to assert that economic policy in Nigeria currently is at crossroads. But growth, particularly Nigeria's kind of growth and its projections, has continued to create its own challenges. First, the growth has come without attendant employment creation. This has created a paradox that continues to plague policymaking in the country. However, an infrastructure deficient country like Nigeria should have a clear projection of the contribution of building and construction in the medium term, especially when there are several attempts to borrow from different multilateral agencies to boost infrastructural development.

The MTEF should have been based on overarching national policy instrument and the extant one appears to be Vision 20:2020. If the government intended to abandon the Vision, it should have produced a replacement by now. The MTEF should have proceeded on the basis of projections in the overarching national policy instrument or in the alternative, show empirical evidence of the reasons informing the deviation. The challenging aspect of the MTEF projection is that government's investments and policy drives in the medium term will be geared towards realising those targets which are different from the targets of Vision 2020. It is not enough for the MTEF to state that the growth will be supported by the envisaged improvement in the implementation of the capital budget, the efficiency of funds utilization to support domestic demand during the period. This says nothing and makes it more difficult to understand the direction of the economy in the next three years.

It is equally disturbing that the six core areas which include: Policy Environment, National Security and Governance, Economic Diversification, Priority Critical Infrastructure, Oil and Gas Reforms, Ease of Doing Business, as well as Social Investment which were mentioned by the Minster of Budget and National Planning in June 2016 under the Strategic Implementation Plan (SIP) for implementation of the 2016 budget were no longer mentioned in the 2017-2019 MTEF. This could have been a good anchor for the next three years and could have helped the country have a clear focus on what to target and key sectors for intervention to be able to achieve the projected growth. The SIP has a summary of key sectors and possible strategies and interventions required to revive the economy in 2016. Giving that the capital budget performance is still below 50 per cent, it may have been necessary to continue on the same path with a little fine tuning. Unfortunately, the extant MTEF deviated from the SIP of 2016.

3.3 Exchange Rate and Foreign Reserves

There is a projection on exchange rates which puts the average naira dollar exchange rate at N290 throughout the period 2017-2019. However, there is no analysis of how the MTEF arrived at that rate. Recent developments in the foreign exchange market have shown that this is unsustainable and the projection cannot be met. The dollar currently exchanges at above N290 at the official exchange rate while the black market rate is over N450 to the dollar. With the already depleted foreign reserves, a depleted ECA, almost empty SWF, import led economy and the unmitigated demand for the dollar, there is the likelihood of further depreciation in the value of the naira. Thus, the exchange rate projection is dead on arrival.

To boost the value of the naira against international currencies may require the direct allocation of foreign exchange earned from oil to the three tiers of government rather than monetizing it[6]. The only envisaged challenge is that this solution may encourage capital flight. However, this challenge is not serious enough to rubbish this good option. Secondly, any serious government can always devise ways and means of tackling capital flight. The recommendation of Vision 20: 2020 in the context of a market framework and managed exchange rate regime, that there is the need to adopt an exchange rate band in order to minimize volatility should be continued by the CBN. The Figure below shows the exchange rate movement in the first two quarters of 2016 and does not in any way support the pegging of exchange rate at N290.

Figure 6: Nigeria's Exchange Rate movement (January to October 2016)

Source: http://www.tradingeconomics.com/nigeria/currency

The Combined First and Second Quarter Budget Implementation Report as presented in the MTEF is silent on the inflow of foreign exchange into the CBN. There was no mention of the value of gross external reserves but data from the CBN confirmed that foreign reserve nosedived in the last 12 months from USD29.916billion to USD23.950billion. The likelihood of growing foreign reserves in the medium term is remote if the reserves did not grow in several years of consistent high oil prices.

3.4 Review of Previous Budget Performance

The review of Financial Year 2015 which was based on certain key parameters such as benchmark oil price of $53 per barrel (pb), oil production of 2.2782 million barrels per

[6] Vision 20:2020 at page 24.

day (mbpd) and exchange rate of N190/$ revealed some interesting outcomes. The performance of the budget was undermined by major setbacks, particularly in the oil sector. Oil production was less than projected due to oil pipeline vandalism and oil theft, in addition to oil price failing below budget reference price. On average, “oil production was 2.14mbpd while oil price at $47pb which was 11.3 per cent less than the budget benchmark price of US$53 per barrel”. This resulted to slowdown in economic activities leading to lower tax yields and the insurgency in the North-East region likewise affected the non-oil revenue performance. A new government came into power in 2015 and initiated an amendment and a supplementary budget designed to cater for some expenditure exigencies including spending on security – Operation Lafiya Dole, emergency provisions for subsidy claims, and provisions for prison ration and feeding for Unity Schools, among others. The new government also introduced a TSA/e-collection pool account. The FGN share of oil revenue fell as well as aggregate share of VAT, CIT and Customs and Excise Duties. As a result of the aforementioned, expenditure outturn was affected. About 94 per cent or N4,767.37 billion, out of the N5,067.89 billion budgeted was spent with a corresponding fiscal deficit of N1,043,47billion or 1.09 per cent of GDP which was well within the 3 per cent of GDP provisions in the Act (2007).

The 2016 budget sum is N6,060,677,358,227 with details as follows: Debt Service of N1,475,320,000,000; Recurrent Cost of N2,646,389,236,196 and Capital Expenditure of N1,587,598,122,031; Pensions and service wide votes of N188,105,681,152. The percentage of capital budget in aggregate expenditure moving up to 26.19 per cent when compared with less than 10 per cent capital expenditure in 2015. Oil revenues and non-oil revenues have so far underperformed and have not met targets. Out of the prorated total expected revenue of N1,927.87 billion by June 2016, only N976.35 billion had materialized. This is a variance of -51 percent of the expected revenue.

As if the low capital budget is not enough cause to worry, the actual half year expenditure was N159.062 billion representing a shortfall of N634.64 billion from the half year prorated sum of N793.702 billion which is (80) percent variance from the appropriated capital budget. This may be partly attributable to revenue shortfall and the late delay in the enactment of the budget which was given presidential assent in May. However, current capital budget releases in October 2016 indicate that N635.77 billion has so far been released for capital expenditure[7]. Even the new figure constitutes less than 50 percent of the capital budget. This is poor and cannot facilitate the realization of Nigeria’s developmental goals especially with the country already in recession. The trend running between the two federal budgets (2015 and 2016) is decreasing oil production, oil and non-oil revenues volatility as well as poor capital budget implementation. This trend will not lead Nigeria out of her current state of recession.

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[7] http://www.budgetoffice.gov.ng/pdfs/2016/TOTAL%20CAPITAL%20RELEASE%20FOR%20UPLOADING.pdf. This is the figure released as at October 21 2016

SECTION FOUR: FISCAL STRATEGY PAPER

4.1 Overall Thrust

In accordance with the FRA, the Fiscal Strategy Paper (FSP) is supposed to contain

> *(i) The Federal Government's medium-term financial objectives,*
>
> *(ii) The policies of the Federal Government for the medium-term relating to taxation, recurrent (non-debt) expenditure, debt expenditure, capital expenditure, borrowings and other liabilities, lending and investment,*
>
> *(iii) The strategic, economic, social and developmental priorities of the Federal Government for the next three financial years,*
>
> *(iv) An explanation of how the financial objectives, strategic, economic, social and developmental priorities and fiscal measures set out pursuant to sub-paragraphs (i), (ii) and (iii) of this paragraph relate to the economic objectives set out in section 16 of the Constitution;*

The thrust of the FSP as contained in the MTEF involves the need to rebuild the macro-fiscal and economic fundamentals of the economy and ensure inclusive growth. In other words, the thrust is to "build on the 2016-2018 medium-term fiscal strategies and carefully factored new realities, appropriate adjustment mechanisms and their implications as well as potential downside risks. Against this backdrop, the fiscal strategy for the 2017-2019 medium term is framed to fundamentally restructure the economy for enhanced productivity, efficiency and accountability in the management of national resources, and unlocking the real sector and private sector potentials for bolstering inclusive growth". The 2017-2019 FSP also highlighted that this strategy recognizes the need to deliberately cushion he effects of adjustments on the poor and economically vulnerable in a manner that creates opportunists for job creation. The 2017-2019 FSP further listed other major strategies under macroeconomic stability as the following:

- Improved planning, budgeting and Monitoring and Evaluation (M&E);
- Improving the quality of expenditure;
- Oil and gas management;
- Improve revenue mobilisation from non-oil sector;
- Accountability and transparency;
- Sustainable debt management; as well as
- Intensifying economic diversification efforts of the Government and strengthening linkages in the economy.

These thrusts of the FSP, laudable as they are, do not identify any particular sector or sectors that will drive the economy in the next three years. No sector was mentioned as either strategic or a priority for reinvigorating the economy already in recession. To worsen the FSP thrust and targets, there seems to be no relationship with the economic objectives in S.16 of the Constitution. S.16 provides for a number of general issues but the most relevant and pointed part of S.16 of the Constitution provides as follows:

> *(2) (d) that suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensions, unemployment and sick benefits and welfare of the disabled are provided for all citizens.*

There is nothing in the FSP and in the whole MTEF that addresses the imperatives provided under the Fundamental Objectives and Directive Principles of State Policy found in Chapter Two (2) of the Constitution.

4.2 No Envelopes for the Sectors

The MTEF did not come with the resource envelope of each of the sectors to enable a dispassionate third party to form an opinion as to whether government is allocating money in accordance with stated priorities. NASS should demand the sectoral envelopes before approving the MTEF.

4.3 Lack of clear strategies to rebalance the distribution of Government Spending

Although the 2017-2019 FSP pointed out the importance of improved planning, budgeting and M&E as well as the need to improve the quality of expenditure but there is no deliberate effort by the FGN through the 2017-2019 FSP to rebalance the distribution of government spending which has for the past four to five years heavily skewed in favour of recurrent as against capital (development) expenditure. The mention of how a Zero Based Budgeting (ZBB) approach will help to optimize the impact of public expenditure through predetermined medium term plans; automation of the budget process as well as cost-containment measures through the Efficiency Unit can only improve the quality of expenditure but have nothing to do with rebalancing the distribution of government spending which is long overdue at the federal level and have been called for by different stakeholders (private, public and CSOs) in the economy. Even though previous MTEF's took no steps to stem the imbalance, they have recognized that the rebalancing of government spending and distribution is crucial.

It is imperative to recall that the reports of two committees set up by the FGN in the past will be very crucial in rebalancing government spending. They are the Expenditure Review Committee and the Presidential Committtee for the Restructuring and Rationalisation of Federal Government Parastatals, Commissions and Agencies[8]. It is

[8] The terms of reference of the second Committee is to study and review all previous reports/records on the restructuring of Federal Government Parastatals and advise on whether they are still relevant; to examine critically the mandates of the existing Federal Agencies, Parastatals and Commissions and

the hope that the current adminstration will look at the recommendations of these two reports in rebalancing its expenditure. The lopsided expenditure in favour of recurrent expendiutre suggests that policies that would have reduced recurrent spending such as the Monetisation Programme introduced under the authority of the *Certain Political*, *Public and Judicial Office Holders* (*Salaries and Allowances*, *etc*.) Act of 2002 and its amendment of 2008 have to a great extent been abandoned by the past administrations and all manners of frivolous expenses have been reintroduced thereby beefing up overall government expenditure.

Essentially, the MTEF should have allocated higher figures to capital budget starting with a minimum of 30 per cent of aggregate expenditure in 2017 and progressing up to 40 per cent in 2019. This was not the case because the 2017-2019 MTEF shows that in the next three years the share of capital expenditure to the total expenditure is expected to be 25.71 per cent, 26.29 per cent and 25.99 per cent for the years 2017, 2018 and 2019 respectively. It is also imperative that when considering capital expenditure, its division into administrative and developmental capital is taken into cognizance. A good part of the capital expenditure in previous years has leaned in favour of administrative capital which services the bureaucracy. In the current dispensation, developmental capital should take the greater share of capital expenditure.

4.4 National Social Development Programme

The FSP underscores the disequilibrium in macroeconomic fundamentals, and is aware of the implications of fiscal adjustments towards a steady state. To address the social challenges, the MTEF resolved to remain committed to cushioning the effects, especially on the poor and vulnerable, through an integrated social inclusive development strategy. The MTEF also noted that government will continue to pursue its gender-sensitive and inclusive job creation social intervention schemes as it recognizes that empowering women and girls is an effective way to achieve socially inclusive, pro-poor development. The major strategy identified in the MTEF for achieving this all important task is the continued support given to market women and artisans through cooperative and cheap long-term financing to support business development and entrepreneurship. As laudable as this strategy seem to be, there is lack of assessment of how effective and efficient this strategy is and has been. It is also important for the FGN through the MTEF to highlight how much is mapped out for this strategy and who is in charge as well as an assessment of what has happened so far with the strategy. Such brief analysis will help any third party to make a meaningful input to the strategy.

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determine areas of overlap or duplication of functions and make appropriate recommendations to either restructure, merge or scrap to eliminate such overlaps, duplications or redundancies. The terms of reference further include to examine the enabling Acts of all the Federal Agencies, Parastatals and Commissions and classify in various sectors and make appropriate recommendations for the review of their extant laws in line with the recommendations and to advise on any other matter(s) which are incidental to the foregoing which may be relevant to the desire of Government to prune down the cost of governance.

4.5 Infrastructure for Increased productivity and development

The FSP dwelt briefly on the diversification of the economy through infrastructure and increase in productivity and development. The thrust of this strategy is to ensure that more resources are made available for the provision of critical infrastructure to enhance productivity and job creation, create a more conducive business environment with lower cost of doing business and improve the living conditions of Nigerians. These according to the MTEF will be done using an efficient coordinated infrastructural development programme and utilizing a multi-criteria analysis approach to capital appraisal, screening and prioritization in the 2017 budget. Selected facilities for spending include: primary healthcare centres; safe drinking water; and mass housing scheme. The above is a good proposal but the issue here has to do with the “how” and where”. With a capital spending proposal of less than 30 per cent in the next three years and the volatility of not just the price of oil in the international market but with the daily production it is still confusing how these can be realized in the next three years.

Completion and exit of existing capital projects before introducing new ones is imperative because Nigeria has lots of uncompleted capital projects ongoing at various stages. Indeed, in the medium term, it is recommended that there should be a moratorium on new capital projects except they add exceptional value to the nation’s development. Budget Implementation Reports for over five to six years now have repetitively indicated that government’s resources are spread too thin over so many projects resulting in wastages and non-completion of essential projects. Therefore, what is missing in this MTEF is a clear cut strategy or plan on how to address the revenue, capacity and other deficits that have led to the perennial poor capital budget implementation in the last six to seven years. This omission is critical and needs to be addressed. The way forward is the full implementation of the Public Procurement Act (PPA) with accelerated capacity building and sanctions where necessary to address the Integrity Deficit Syndrome (IDS) which has dragged back capital budget implementation.

4.6 Attracting Private Capital for Infrastructure

Attracting private capital for infrastructure is long overdue in Nigeria for proper and sustainable implementation of infrastructural development. Having that as a strategy is a welcome development because this was a key strategy identified in Vision 20:2020. This will bridge the country’s infrastructure gap if managed well. The MTEF identified other sources of raising private resources as joint ventures and assets sale as well as government efforts at setting up a USD25 billion Infrastructure Development Fund (IDF) as a means of attracting non-budgetary resources. There are so many areas that can generate additional income to government if government’s policy formulation and implementation become more coherent. Additional income to government and citizens and economic growth can accrue from sectors as shown in Table 1. The ideas are not novel and what is required is the political will for implementation.

Table 1: Sample Sectors for the Diversification of the Nigerian Economy

<table>
<tr><th>Sector</th><th>Intervention</th></tr>
<tr><td>Automobile</td><td>Ensure that all tiers of government patronize the local automobile industry; make new regulations and enforce existing regulations to make foreign built vehicles highly uncompetitive
Energize the work of Automotive Council of Nigeria through transparent management of existing funds and additional funding for the development of the sector</td></tr>
<tr><td>Oil and Gas</td><td>Expanding and expounding the frontiers of the Petroleum and Gas industry through development of new refineries and petrochemical industries using Public Private Partnership (PPP);
Initiation and passage of the Petroleum Industry Bill reforms</td></tr>
<tr><td>Housing</td><td>Implementation of various policy reform instruments devised by previous administrations including:
• Reforms to mortgage and housing finance;
• Securitization of dead assets;
• Re-capitalisation of the mortgage industry;
• Expanding contributions to the National Housing Fund and reduce the bottlenecks for accessing the Fund.</td></tr>
<tr><td>Transport</td><td>Use Public Private Partnership (PPP) to develop new roads, railways, water transport and also use PPP to repair existing ones.</td></tr>
<tr><td>Electricity</td><td>Fast track the reforms including new investments from private sector operatives; opportunities for Nigerians to co-own the privatised entities which should be quoted on the Stock Exchange, which in turn will enable funds to be raised from the capital market, etc. This will provide the energy to drive enhanced production[9].
Special funds for mainstreaming renewable energy in the energy mix</td></tr>
<tr><td>Health</td><td>Develop facilities for medical tourism by establishing world class facilities in branches of medicine where Nigeria has requisite manpower either at home or in the diaspora.</td></tr>
<tr><td colspan="2">❖ Overall, procurement policy can be used to further stimulate the demand of made in Nigeria goods. This will increase capacity utilization in industries, create more jobs and create a larger pool of profits to industries which will lead to higher CIT accruing to government.
❖ Mainstreaming of local content across major sectors and value chains in Nigeria
❖ Float special vehicles to raise funds for investments in critical sectors
❖ Increased transparency and accountability on the part of government will also increase tax payment to governments by corporations and individuals.
❖ Reducing corruption will also increase resources available for developmental activities.</td></tr>
</table>

There is the need to activate alternate funding mechanisms as recommended by various plans. Vision 20:2020 identified alternative funding sources to complement budgetary and public funding of capital projects. They have been identified to include pension funds, Public-Private Partnership (PPP), long term Commercial Bonds, Export Credit Finance, oil

[9] This model of privatization will differ from the exclusive capitalist development of previous exercises where a few individuals mainly of the foreign hue are allowed to take over state owned enterprises and run them exclusively for their private gain.

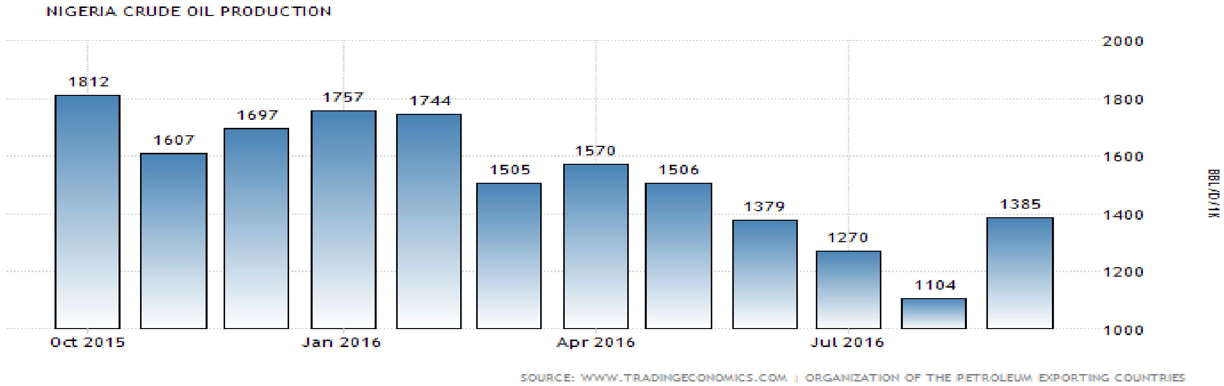
for infrastructure, private equity and infrastructure bonds. Even if they cannot be activated to fund projects in the 2017 financial year, the legislature in collaboration with the executive, can take steps to activate these alternative funding mechanisms for subsequent years. Giving the current situation of the country, there is the need for the 2017-2019 MTEF to have a clear path to activate the alternative funding sources.

4.7 Medium-Term Macroeconomic Parameters and Targets

4.7.1 Oil Production in MBPD

The target production for the medium term is 2.2mbpd, 2.3mbpd, 2.4mbpd and for the years 2017, 2018 and 2019 respectively. Table 2 below shows oil production from 2007 to the medium term projections ending in 2019. The actual figures from the period October 2015 to July 2016 figures as depicted in Figure 7 do not suggest that these projections may be met except with radical measures. None of the months in the last one year has hit the 2million barrel benchmark.

Figure 7: Actual Crude Production for Nigeria (October 2015 – July 2016)



Source: OPEC 2016

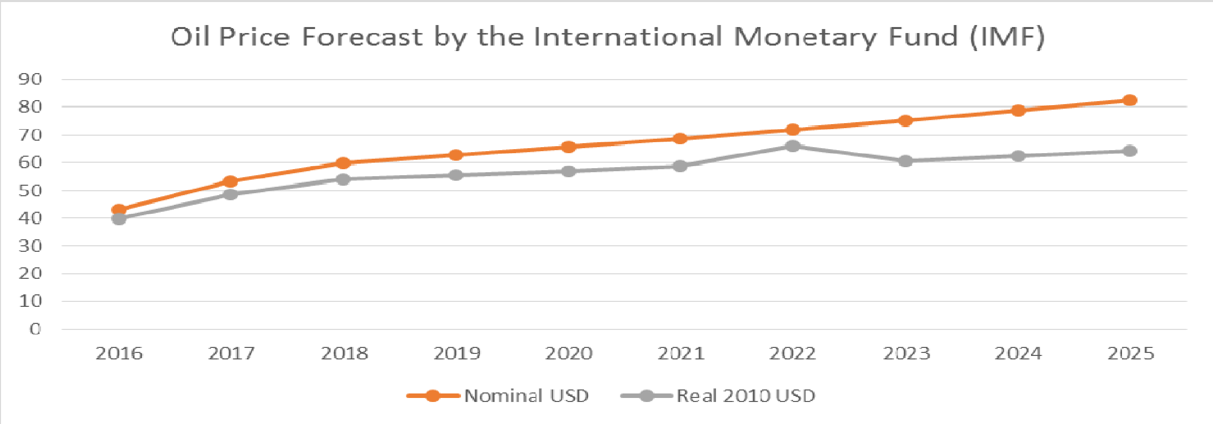
It is equally disturbing to note that the militancy in the Niger Delta was not taken into account when projecting on the millions of barrels of crude oil to be produced per day. The September 2016 oil production was still below 2 million barrels per day. The projection for crude oil production seems unrealistic as current data shows a decrease below 2 mbpd. Going by the slowdown in the Amnesty Programme in the Niger Delta and the lack of peace in the region, the projections may not be realised if peace is not guaranteed.

4.7.2 The Market and Benchmark Price of Oil

The benchmark price of US$42.5, US$45 and US$50 per barrel in the period 2017-2019 was used throughout the medium term. It is not clear how these prices were realized but they have been some forecast by international agencies thus: Leading international agencies made the following oil price predictions during the first half of this year:

- The World Bank in its July commodity forecast report estimated that the average spot price for crude oil will fall slightly further in 2016 to $43/bbl from $51/bbl in 2015. This is a revision of the Bank's earlier 2016 forecast of $41/bbl and takes into account supply disruptions in Canada and Nigeria during the second quarter as well as strong demand.
- The IMF's June report revealed a similar expected decline from $51.6/bbl in 2015 to $43.6/bbl in 2016, based on demand projections, supply outages and a modest rebound in the number of rotary rigs in the US.
- Global crude oil price forecasts from the OECD and the Economist Intelligence Unit (EIU) are also provided in our visualizations below. The OECD in June published a forecast that shows 2017 oil prices flat at $50 per barrel. In contrast, according to the April estimate from the EIU, oil prices will go up in 2017, because oil consumption will outstrip production.

Figure 8: IMF Forecast for Oil Price for the period 2016 -2025



Source: IMF (2016)

With the above forecast, the forecast in the MTEF may be realistic if all other things remain constant.

4.7.3 Accruals to ECA or the SWF

The MTEF was surprisingly silent on the quantum of resources available in the Excess Crude Account (ECA) and to be made available to the SWF and the expected accruals within the medium term. The MTEF also said nothing on the disbursals in the preceding three years and whether those disbursements were made in accordance with the stipulations of the FRA. It is a notorious fact that the ECA has been depleted and no information is there in the public as to what the balance is currently.

The central challenge is that ECA and the SWF were established to counter the boom burst cyclical nature of income from oil and gas. What will happen if the price of the commodity falls below the reference commodity price? What will Nigeria fall back upon considering the depletion of the ECA? The situation has made Nigeria vulnerable to commodity price shocks.

4.7.4 General Assumptions for Non-Oil Revenue

Calculation of non-oil revenue is based on changes in the relevant components of GDP and the underlying nominal GDP subject to CIT; for VAT, it is the share of consumption liable to VAT; and Customs Duty, the underlying base is Import CIF. Reforms in the sector were also taken into account, including efficiency factors accounting for operational improvements in the various segments of tax administration. Without identifying core drivers of economic growth in the medium term, it is still not clear how all these will be achieved within the period 2017-2019.

5. REVENUE AND EXPENDITURE FRAMEWORK

5.1 Introduction

The FRA in section 11 requires the MTEF to contain a Revenue and Expenditure Framework which sets out:

(i) Estimates of aggregate revenues for the Federation for each financial year in the next three financial years, based on the predetermined Commodity Reference Price adopted and tax revenue projections;

(ii) Aggregate expenditure projection for the Federation for each financial year in the next three financial years,

(iii) Aggregate tax expenditure projection for the Federation for each financial year in the next three financial years,

(iv) Minimum capital expenditure floor for the Federation for each financial year in the next three years;

Provided that, the estimates and expenditures provided under paragraph (d) of this subsection shall be-

(i) Based on reliable and consistent data certified in accordance with section 13(2) (b) of this Act,

(ii) Targeted at achieving the macro-economic projections set out in subsection (2) (a) of this section,

(iii) Consistent with and derive from the underlying assumptions contained in the macro-economic Framework, the objectives, policies, strategic priorities and explanations in the Fiscal Strategy Paper.

5.2 Aggregate Revenue

The MTEF 2017-2019 proposes a Revenue Framework as detailed in Table 2. The Framework is coming from the background of a proposal to diversify the economy and depend less on oil revenue whilst improving non-oil revenue. The main contributors to the Framework are the oil revenue based on the reference commodity price and the millions of barrels to be sold every day. The second is the non-oil revenue sources.

Table 2: Revenue Framework of MTEF 2017-2019

		2016 N	2017 N	2018 N	2019 N
FGN Retained Revenue (Amount available to fund Budget)		**3,855,740,432,515**	**4,169,172,496,951**	**4,357,304,026,147**	**5,437,080,736,451**
A	**Share of Oil Revenue**	**717,552,872,400**	**1,372,251,751,000**	**1,441,307,903,591**	**2,294,557,738,177**
B	**Share of Dividend (NLNG)**	**95,545,000,000**	**14,111,414,500**	**18,378,735,500**	**25,139,781,000**
C	**Share of Minerals & Mining**	**6,901,228,158**	**1,064,532,425**	**1,170,985,667**	**1,288,084,234**
D	**Share of Non-Oil**	**1,454,694,382,138**	**1,508,539,186,980**	**1,616,771,192,353**	**1,775,954,176,264**
	Share of CIT	*867,458,267,330*	*902,831,557,652*	*985,712,987,698*	*1,077,542,476,097*
	Share of VAT	*198,244,286,560*	*282,240,000,000*	*295,680,000,000*	*336,000,000,000*
	Share of Customs	*326,435,418,187*	*277,562,873,948*	*293,277,202,812*	*299,746,552,874*
	Share of Federation Acct. Levies	*62,556,410,061*	*45,904,755,379*	*42,101,001,844*	*62,665,147,293*
E	*Independent Revenue*	*1,505,880,000,000*	*1,207,570,000,000*	*1,267,948,500,000*	*1,331,345,925,000*
F	*FGN's Share of Actual Bal. in Special Accts*	*10,788,751,405*	*6,549,582,751*	*4,912,187,063*	*3,684,140,297*
G	*FGN's Balances in Special Levies Accounts*	*14,378,198,416*	*9,086,029,296*	*6,814,521,972*	*5,110,891,479*
H	*FGN's Unspent Bal. of previous Fiscal Year*	*50,000,000,000*	*50,000,000,000*	-	-

From Table 2, oil revenue will contribute 32.91 percent, 33.08 percent and 42.420 percent respectively of the revenue in 2017, 2018 and 2019. On the other hand, non oil revenue contributes 36.18 percent, 37.10 percent and 32.66 percent respectively in 2017, 2018 and 2019. The implication of the foregoing is that despite the mantra of economic diversification, projected revenues from oil are expected to increase in the outer years of the medium term at a time the diversification effort should have started yielding fruits. The oil revenue is expected to overtake the non oil revenue over the medium term. This goes to show that planning and forecasting are not in tandem with the stated objectives of government's economic policy and that FGN is not convinced that its efforts to diversify the economy will yield sufficient results to deviate from the norm of dominance of oil revenue.

Another implication is that there are no plans to increase local petroleum refining capacity, to add value to the raw and crude oil so that Nigeria can begin to earn income from other by- products of petroleum aside from crude oil. Again, the utilization of our flared and wasted gas resources is not part of the plan to increase revenue. It is submitted that apart from diversifying the economy, Nigeria has not explored and therefore needs to explore the revenue potentials of the full value chain of the oil and gas industry through local refining of crude and processing of petrochemicals; full utilization of gas through pipelines for LNG, to power electricity generating plants, industries and homes as well as exporting gas to the West African and other easily connected parts of the African sub region.

Further, the projections for non oil revenues implies that the economy is not expected to make so much progress in production and consumption, hence the low CIT and VAT projections. If there is increased production in an economy, then the CIT base ought to increase and if consumption is increasing, then VAT ought to increase dramatically.

5.3 Aggregate Expenditure

The MTEF proposes aggregate expenditure of N6,866 billion, N6,847 billion and N7,117 billion for the years 2017, 2018, 2019 respectively. The expenditure seems to be increasing but when the figures are deflated in terms of their USD value, it would emerge that the 2016 aggregate expenditure is higher than the projection for the three year medium term period. Using the value of N197 to 1USD used in computing the 2016 federal budget and the current CBN rate of N305 to 1USD, while the 2016 aggregate expenditure is $19.572billion; the aggregate expenditure for the years 2017, 2018 and 2019 amounts to $13.658billion, $14.274billion and $17.811billion respectively.

The structure of expenditure over the medium term is as follows:

Table 3: Structure of Expenditure over the Medium Term

Particulars/Items	**Year 2017**		**Year 2018**		**Year 2019**	
	Amount (Nbn)	**% of total expenditure**	**Amount (Nbn)**	**% of total expenditure**	**Amount (Nbn)**	**% of total expenditure**
Statutory Transfers	370,697	5.40	383,701	5.60	418,328	5.88
Debt Service	1,639,171	23.87	1,776,913	25.95	1,930,490	27.12
Recurrent Non Debt MDA Spending	2,563,805	37.34	2,536,955	37.05	2,568,850	36.09
Capital Spending	1,765,199	25.71	1,800,002	26.29	1,850,002	25.99
Total	6,866,335	100.00	6,847,573	100.00	7,117,671	100.00

Source: MTEF: 2017-2019

From the above Table, the percentage of the budget dedicated to recurrent spending is unduly high. Over the medium term, it is 66.61 per cent, 68.60 per cent and 69.09 per cent for the years 2017, 2018 and 2019 respectively. However, the MTEF puts it at 71.76 percent, 71.07 percent and 71.14 percent for the years 2017, 2018 and 2019 respectively and records capital expenditure as a share of total expenditure at 28.24 percent, 28.93 percent and 28.86 percent for the years 2017, 2018 and 2019 respectively.

The trajectory, over the years, of capital budget allocations and implementation leaves much to be desired. In the past six years, capital budget implementation has been less than 75 per cent of the budgeted capital expenditure. Thus, while the percentage of proposed capital expenditure to aggregate expenditure is low, it is further lowered when the actual expenditure figures emerge.

5.4 The Emergent Deficit and Sources of Financing

The proposed deficit for the medium term is -2.48 per cent of GDP, -2.09 per cent of GDP, and -1.30 per cent of GDP for 2017, 2018 and 2019. The fiscal deficits are within the 3 per cent of GDP of ECOWAS convergence criteria as well as the rule prescribed in the FRA. Specifically section 12 of the FRA provides that:

> *(1) The estimates of aggregate expenditure and the aggregate amount appropriated by the National Assembly for each financial year shall not be more than the estimated aggregate revenue plus a deficit, not exceeding three percent of the estimated Gross Domestic Product or any sustainable percentage as may be determined by the National Assembly for each financial year.*
>
> *(2) Aggregate expenditure for a financial year may exceed the ceiling imposed by the provisions of subsection (1) of this section, if in the opinion of the President, there is clear and present threat to national security or sovereignty of the Federal Republic of Nigeria*

6. CONTINGENT LIABILITIES AND QUASI FISCAL ACTIVITIES

The MTEF by S.11 (3) is to contain a statement describing the nature and fiscal significance of contingent liabilities and quasi-fiscal activities and measures to offset the crystallisation of such liabilities.

The MTEF was almost silent on the nature and fiscal significance of contingent liabilities[10]. The MTEF noted that total public debt stock stood at US$61.45 (about N16.3trillion) as at June 30th, 2016 comprising of US$11.26billion of external debt stock (or about N3.19trillion) and domestic debt stock of US$50.19billion (or about N13.11trillion). Out of the total domestic debt, the federal government was responsible for about 74.6 per cent, while the 36 States and the FCT accounted for the balance of 23.4 per cent. It is unfortunate that the MTEF failed to acknowledge the liabilities as potential obligations which crystallize at the occurrence of a future event and that they could arise where guarantees of debt, made by FGN with regard to contract agreements for capital projects entered into by MDAs crystallize into actual obligations. The MTEF contained no information on the quantum of such contingent liabilities and what measures are to be taken to ensure that they do not crystallize or how to deal with them if they crystallise.

The Debt Sustainability Analysis of 2016 failed to develop a detailed framework for the issuance of Sovereign Guarantees to private sector corporates to enable them undertake the development of commercially viable, national priority projects in the country thereby relieving government of the need to borrow such funds[11] which will further increase the quantum of FGN contingent liabilities, hence the need for careful and rigorous analysis of PPP's which was absent in the 2017-2019 MTEF.

Known contingent liabilities though not found anywhere in the 2017-2019 MTEF in Nigeria include pension arrears and contractors/procurement debts and guarantees on sub-national borrowing. The provisions of the Pensions Reform Act providing for contributory pensions and the Public Procurement Act have streamlined government's interventions in pensions and public procurement respectively.

The description of the quasi fiscal activities of the government is missing from the MTEF. The Central Bank of Nigeria has been engaged in a number of quasi fiscal activities and sees itself as an enabler acting as an intermediary and contributor to economic growth. CBN's intervention include the bailout funds it doled out to the states, specific funds targeted at sectors of the economy including small and medium enterprises, aviation, agriculture and power sector which are available at reduced single digit interest rates, etc. These funds are not yet part of any federal budget or included in

[10] It could also arise through PPP arrangements hence the need for rigorous and careful analysis of potential PPP projects. Beyond these statements, the MTEF was silent on contingent liabilities and quasi fiscal activities.
[11] Debt Sustainability Analysis 2016.

the MTEF and the source of the funds have not been identified. The expected documentation of quasi fiscal activities in the MTEF should also cover subsidies, losses in foreign exchange holdings and cost of sterilization operations.

7. CONCLUSIONS

The MTEF is a three year rolling framework according the Fiscal Responsibility Act (2007). The preparation of the MTEF, its endorsement by EXCoF and forwarding same to the NASS came late. There was no evidence to show that this current MTEF was drawn from any MTSS. The MTEF did not detail the process of its preparation. It is not clear whether the consultations with stated government agencies and states were held. The lack of MTSS is substantiated by the absence of sectoral envelopes in the extant MTEF.

The macroeconomic framework gave projections for economic growth and partly inflation without the provision of details of how these were generated. On the other hand, interest rates, access to credit and external reserves were conspicuously omitted in the extant MTEF. The extant MTEF had no consideration for monetary policy and its effect on the economy. Further, there was no analysis or evaluation of the macroeconomic projections for the preceding three years. The proposed sectoral composition of the GDP was not provided while there was no mention of any economic or policy direction including the Vision 2020. It seems that Nigeria lacks an overarching and fundamental economic policy document that guides the economic activities of this administration.

The review of the performance of the 2015 budget and the 2016 budget to date shows poor capital budget implementation. Oil revenues were not met for the entire 2015 while the MTEF states that it was met for the first two quarters of 2016. Non-oil revenues underperformed throughout the periods.

The FSP failed to identify any priority sectors and there was no mention of the Strategic Implementation Plan (SIP) with its drivers and enablers which the 2016 budget is built around. The main thrust of the FSP involves the need to rebuild the macro-fiscal and economic fundamentals of the economy and engrain inclusive growth. Major strategies highlighted by the FSP to achieve the thrust include: Macroeconomic stability; Improved planning, budgeting and Monitoring and Evaluation (M&E); Improving the quality of expenditure; Oil and gas management; Improve revenue mobilisation from non-oil sector; Accountability and transparency; Sustainable debt management; as well as Intensifying economic diversification efforts of the Government and strengthening linkages in the economy. The thrusts of the FSP as laudable as they seem failed to identify any particular sector or sectors that will drive the economy in the next three years. It is also important to underscore that no attempt was made to link the thrusts of the FSP to the Fundamental Objectives and Directive Principles of State Policy found in Chapter 2 of the 1999 Constitution as amended. There was no MDA indicative resource envelope or ceilings.

There is no clear proposal to decrease recurrent expenditure and increase capital expenditure over the medium term which aggravates the in-balance in government spending distribution. In the medium term, the extant MTEF provided for less than 30 per cent for capital expenditure for the medium-term.

The fiscal deficits in the extant MTEF were less than the 3 per cent provided in the FRA and within the requirement of the ECOWAS convergence criteria. The MTEF talks of plans to diversify the economy without going into details of the strategies and action points. It failed to propose continuation and exiting of current capital projects before starting new ones.

The projections for oil production may not be realistic but that of the benchmark price of oil seems realistic in view of the prevailing circumstances in the Niger Delta region and the world economy.

There was no projection on accruals to ECA or the SWF. The projections for CIT and VAT do not seem to tally with an economy undergoing diversification which in the outer years should generate more CIT with increased production of goods and services. If consumption increases with more disposable income of the citizens, then VAT should automatically increase in major proportions.

On the Revenue and Expenditure Framework, expenditure proposals show the dominance of recurrent expenditures (over 70 per cent). Consistent variances have been recorded in projected revenues and expenditures over the years. Debt service as a percentage of capital expenditure is still high while debt service as a percentage of retained revenue is unduly high. The sources of financing the emergent deficit were not clear in the extant MTEF.

The MTEF did not state the nature and quantum of contingent liabilities. The quasi fiscal activities of government involve a lot resources and interventions on specific sectors of the economy, although it was not mentioned in the extant MTEF. There is the need to note that these quasi-fiscal activities have inherent refinancing risks.

8. RECOMMENDATIONS

The foregoing recommendations are made with a view to bring about improvements in future MTEFs and to help the NASS approve the extant MTEF with such modifications necessary for compliance with the FRA, good and fit practices and the attainment of the goals as specified in Vision 2020 and the Sustainable Development Goals.

8.1 Preliminary Issues

(i) Future MTEFs should be submitted to the NASS immediately after endorsement and this must be done by the EXCoF in June in line with the provisions of the Act. The MTEF should be sent to the NASS in July before the commencement of the mid-year legislative recess. This will enable the legislature sufficient time to analyse and approve the MTEF and for actual preparation of budgetary estimates to start on time.

(ii) The MTSS should precede the preparation of the MTEF and all relevant stakeholders should be brought on board during the preparation process.

(iii) The MTEF should be anchored on consultations with states and designated agencies of government. The Minister of Budget and National Planning should also open up the process for consultation with diverse stakeholders including the organized private sector and civil society. The process and fact of the consultation should be documented in the MTEF as provided in the Act.

(iv) Nigeria needs a new overarching and fundamental economic policy document and vision to coordinate all sectoral activities and introduce coherence and convergence into sector policies.

8.2 Macroeconomic Framework

(i) The MTEF should document how it arrived at the projections for economic growth and inflation rate as well as include projections for interest rate, external reserves and access to credit, etc as required by the Act. It should document the underlying assumptions, facts and logic in support of these projections.

(ii) The MTEF's macroeconomic projections should be aligned to Vision 2020 and the Strategic Implementation Plan (SIP) or show reasons supporting that the targets in Vision 2020 cannot be met.

(iii) The MTEF should contain an evaluation and analysis of the macroeconomic projections for the preceding three years.

(iv) Considering the gravity of unemployment and underemployment, the MTEF should document the present situation; make projections for increased employment and decreased underemployment as well as strategies to attain the new projections.

(v) Consistent poor capital budget implementation over the years demands the full enforcement of the Public Procurement Act, 2007 with an emphasis on renewed capacity building and sanctions for offenders.

(vi) Accruals to ECA and or the SWF should be articulated in the MTEF. Currently, there is nothing about ECA or SWF in the extant MTEF.

8.3 Fiscal Strategy Paper

(i) In accordance with the FRA, the MTEF should show the link between stated priority interventions and the constitutional Fundamental Objectives and Directive Principles of State Policy.

(ii) Government should reorder its spending priorities and ensure at least a 70 per cent to 30 per cent balance between recurrent and capital expenditure in 2017 and a gradual increase to 40 per cent capital expenditure in 2019. The recommendations of the Expenditure Review Committee and the Committee on the Restructuring and Rationalization of Federal Government Parastatals, Commissions and Agencies should be once again analysed and used in the rebalancing.

(iii) Government should continue to plug the leaking pipes of corruption and waste that have led to the abuse of system. Automation cannot do it alone, there is need to send strong signals to offenders; individuals and companies found to have abused the system should face punitive criminal justice sanctions.

(iv) NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources for investments in critical sectors. It is estimated that over N3 trillion will accrue to the Federation's coffers from the implementation of the PIB. It will also free up resources tied up in Joint Venture Cash Calls.

(v) Government should review policy implementation in key areas of automobiles, oil and gas, housing, transport, electricity and health to generate jobs, new income streams and thereby diversify the economy.

(vi) Estimated oil production may be unrealistic if the challenge of militancy in the Niger Delta is not addressed. The oil price benchmark is realistic and should be retained.

(vi) The assumptions and projections for non-oil revenue comprising of CIT, VAT and Customs Duty needs to be aligned with the mantra of diversification of the economy.

8.4 Revenue and Expenditure Framework

(i) The MTEF should contain the sectoral envelopes which will show government's priorities and the reasons informing those priorities. The Strategic Implementation Plan (SIP) can serve as a guide.

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

(iii) For the private sector to play the role of providing funding to fill the finance gap for infrastructure and critical sectors, there is the need for government's borrowing not to crowd out the private sector. Improved access to credit for the private sector through coordinated policy implementation by the CBN, DMO and the Finance Ministry is imperative.

(iv) Giving the current situation of the country, there is the need for the 2017-2019 MTEF to have a clear path to activate the alternative funding sources of the Development Agenda as contained in Vision 20:2020. The Development Agenda identified alternative funding sources to complement budgetary and public funding of capital projects. They have been identified to include pension funds, Public-Private Partnership (PPP), long term Commercial Bonds, Export Credit Finance, oil for infrastructure, private equity and infrastructure bonds. It is high time the legislature in collaboration with the executive take steps to activate these alternative funding mechanisms instead of the current appetite for loans.

8.5 Contingent Liabilities and Quasi Fiscal Activities

(i) The MTEF should include the nature and quantum of contingent liabilities and quasi fiscal activities of government.

(ii) Considering the quantum of current contingent liabilities as indicated in the DSA and the projection that it will grow in the medium term (2017-2019), it is imperative to implement the recommendations of the DSA to guarantee value for money in this area.

(iii) In undertaking new PPP projects which will increase the quantum of contingent liabilities, FGN should carefully select and appraise and involve the expertise of the Infrastructure Concession and Regulatory Commission in arriving at the specific projects. Indeed the enabling law for PPPs in Nigeria is overdue for reform.

(iv) FGN interventions qualifying as quasi fiscal activities and their implications for public finances, macroeconomic stability should be carefully appraised before embarking on them. They should be fully documented in future MTEFs.