Review of the Proposed Amendments to the 2020 Federal Budget

Centre for Social Justice

(Mainstreaming Social Justice in Public Life)

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ACRONYMS

CBN	Central Bank of Nigeria
USD	United States Dollar
FGN	Federal Government of Nigeria
MDAs	Ministry, Departments and Agencies of Government
NLNG	Nigerian Liquified Natural Gas
NASS	National Assembly
COVID-19	Coronavirus 2019
MTEF	Medium Term Expenditure Framework
GDP	Gross Domestic Product
FRA	Fiscal Responsibility Act
BDC's	Bureau De Change
CIT	Company Income Tax
VAT	Value Added Tax
NNPC	Nigerian National Petroleum Corporation
DISCOs	Electricity Distribution Companies

1. EXECUTIVE SUMMARY

This Review is divided into eight parts. Part one is the executive summary containing the recommendations. Part two reviews the key assumptions including the oil benchmark price and production, GDP growth rate, the deficit, exchange rate and proposals for strengthening the Naira with diaspora remittances. Part three is on the revenue framework. The issues reviewed are independent revenue, minerals and mining, recoveries and fines, share of NLNG dividend and the debt challenge. Part four discusses petroleum related fiscal measures. These are the fuel subsidy, sourcing refined petroleum products, cost of oil production, outstanding $62.191billion Deep Offshore and Inland Basin Production Sharing Contract arrears as well as petroleum industry bills.

Part five is the expenditure framework which reviews low capital budget projection, rising debt service and rising recurrent non debt expenditure. Part 6 is about blocking leakages in the system. It reviewed outstanding sums from the 2016 and 2017 federal audit reports in excess of N1.5trillion and how public procurement can be used to grow the economy through job creation, taxation and local capacity building. Part seven reviewed the priority sectors of agriculture, education and health and postulates that their votes should not be cut. Rather, the expectation is that their votes should be increased from savings in other sectors. Part eight is on recommendations and conclusions.

The recommendations are reproduced below.

- The oil production volume of 1.9mbpd and benchmark price of USD$25 is realistic and should be retained.

- The deficit should be used to stimulate the economy, create jobs, spur productivity in goods and services as well as improve infrastructure.

- There is need for CBN to move towards full convergence of the segmented foreign exchange windows into one which is market determined and eliminates arbitrage. Unnecessary foreign exchange subsidies, which is a product of the segmented foreign exchange windows, distorts economic planning and dampens the confidence of investors and other economic players.

- CBN should strive to capture the full value of diaspora remittances that come into Nigeria and design a process of using the foreign exchange component to shore up the value of the Naira.

- To meet the enhanced projection of N932.842bn in Independent Revenue, the Accountant General of the Federation and the Ministry of Finance should finetune the Treasury Single Account or any other special account of the Federal Government to sweep all due revenues from the scheduled agencies and at the end of every month or quarter, reconciliations will take place and FGN keeps its 80% while releasing 20% to the respective Agencies.

- NASS should beam a searchlight on the minerals and mining sector to ensure that all due revenue is paid into the Federation Account for sharing by the three tiers of government. The Auditor-General for the Federation reported in the 2017 Federal Audit that the Ministry of Mines and Solid Minerals is holding on to N8.5bn due to the Federation Account. This sum should be remitted to the Federation Account.

- Recoveries should only be included as a revenue/funding source if the proceedings have already been concluded and the money is already in the treasury. If it is an expected sum, then it should not be made a revenue source as there is no certainty that it will be realized.

- Only include the NLNG as a source of revenue when the dividends have been declared and have come into treasury. This recommendation is supported by previous years' experience when nothing came in from this source of funding.

- NASS should consider a moratorium on new debts, especially debts to be used for recurrent non debt expenditure. The details and terms of our indebtedness, on a loan by loan basis, including the terms in the event of default, beyond the aggregate figures should be available to the public to avoid the negotiation and build-up of grossly unfavourable terms that may hurt the economy in future.

- The abolition/elimination of fuel subsidy should be backed by law and savings from the under-recovery (which was illegal) should be channeled to critical sectors of the economy, especially to agriculture, education and health.

- CBN should not subsidise the foreign exchange used by importers to procure petroleum products. Importing fuel using subsidized foreign exchange should now be consigned to Nigeria's history.

- Considering government's inability to run the public refineries and petrochemical complexes at their installed capacity and the fact that they are being run at a loss, NASS should nudge FGN to privatize these refineries to improve local production of petroleum products and reduce the pressure on the Naira for fuel imports.

- FGN should also consider policy support to Dangote Refineries so that it can come on stream at the earliest opportunity. This will reduce petroleum imports, lessen the pressure on the Naira, create jobs, etc.

- NASS should engage the executive at the highest level to ensure that the cost of crude oil production is reduced to levels prevailing among comparator countries. If Nigeria is producing at lowered rates below USD10 per barrel, Nigeria would have been able to raise more revenue at current crude oil prices.

- NASS should as a matter of urgent national interest engage the President and the Attorney General of the Federation for the recovery of the USD$62.191bn Deep Offshore and Inland Basins Production Sharing arrears due from international oil companies.

- NASS should expedite action on various parts of the Petroleum Industry Bill and guarantee that the bill on governance, administration, fiscals, community and environment issues are passed before the end of the year.

- Savings from reprogramming of funds in the budget should be channeled towards increased MDA capital expenditure.

- Considering the paucity of resources, NASS should prioritise the passage of the following bills. NASS should also contribute to the reorganization of the sectors to mobilise funds to improve their performance. The bills are detailed in the next five bullet points:

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

- Road sector financing can be improved through a Road Fund and Road Management Authority that will raise funds from a plethora of sources including toll gates, special surcharge on some commodities including fuel, etc. Special purpose vehicles to aggregate resources from institutional and retail investors will direct other resources into the sector.

- Reorganizing railway development to remove it as a federal monopoly, to bring in private sector investments, especially from those already operating in the transport sector is missing from our projection and radar. This will require an amendment of the Constitution and other extant laws.

- The National Housing Fund needs to be reorganized to mobilise funds that will benefit contributors over the short, medium and long term. If the Fund had been well managed since inception during the Ibrahim Babangida days, it could have garnered trillions of naira in its kitty.

- Opening the window of investments into the electricity sector especially in transmission and distribution is overdue. The current managers and operators of the DISCOs 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.

- Support the executive for the implementation of relevant components of the Oronsaye Committee report.

- NASS through the relevant Committees including the Public Accounts Committee should take steps to recover sums due to the treasury as found in the 2016 and 2017 Federal Audit Reports. The due sums are in excess of N1.5trillion.

- A specific section can be written into the Appropriation Amendment Act 2020 by NASS making it mandatory for the norms contained in Executive Orders on Local Content to be implemented to the letter by all MDAs. This will increase capacity utilization in local industries, enhance job creation and corporate income tax due to government.

- Allocations to agriculture, education and health should not be reduced. Rather, savings from reprogrammed funds should be dedicated to enhance their allocations.

2. KEY ASSUMPTIONS OF BUDGET REVIEW

Table 1 shows the key assumptions submitted by the Executive for the revision of the 2020 federal Budget.

Table 1: Assumptions of the Revised 2020 Federal Budget

	As Passed	**Revised**
Oil Price Per Barrel	$57	$25
Crude Oil Production	2.18mbpd	1.9mbpd
Exchange Rate	N305=1US$	N360=1US$
Retained Revenue	N7.865trn	N5.089trn[1]
Deficit	N1.85 trillion	N4.58 trillion[2]
Inflation	10.81%	14.13%
GDP Growth Rate	2.93%	-4.42%
Nominal Consumption	N122.75 trillion	N118.74 trillion
Nominal GDP	N142.96 trillion	N139.52 trillion

Source: BoF, Addendum to the 2020-2022 MTEF & FSP

Key issues of interest will be briefly reviewed.

2.1 Crude Oil Production and Price: The projection of 1.9 million barrels per day (mbpd) at $25per barrel (pb) is realistic in the present circumstances of the worldwide disruption

[1] The two figures exclude the revenue of GOEs.
[2] Excluding GOEs and project tied loans.

of economic activities and supply chains occasioned by the COVID-19 pandemic and the decline in crude oil prices.

2.2 GDP Growth Rate: The projection is for negative economic growth of -4.42% and indeed that Nigeria will soon enter a recession. This is a realistic forecast in the circumstances. However, Nigeria needs to sustain economic growth at not less than 8% per annum over a period of about ten years, if it must lift about 100million persons out of poverty as projected by President Muhammadu Buhari. The growth must be inclusive and people centred, attacking vulnerabilities, increasing local capacity, innovation driven and spurring growth in our areas of comparative advantage. Nigeria is at a zero point where there is no room for further loss of the momentum of growth, but the only available option is to grow. Thus, the economic and fiscal crisis offer an opportunity for a fresh growth inspired economic policy encompassing fiscal, industrial, monetary, labour, trade, etc. policies.

2.3 The Deficit: The revised fiscal deficit is N4.58trillion from N1.85trillion originally estimated in the 2020 federal budget. This is 3.29% of the GDP and exceeds the threshold set by the Fiscal Responsibility Act (FRA) for normal times. The aggregate fiscal deficit will be N4.95 trillion representing 3.55% of the GDP.[3] This has been justified by the MTEF in the statement that COVID-19 poses a threat to national security within the contemplation of the FRA. With Nigeria projected to lose about 40% of her revenue and oil revenue being a major part of the loss, and the fact that oil price and revenue is not rebounding to former levels any time soon, the federal budget should not contain this size of deficit. N4.58trillion in an expenditure estimate of N10.509trillion is 43.61% of the estimate.

As shall be shown later in the analysis of the expenditure estimates, losing 40% of a country's revenue and cutting expenditure by less than 1% is not prudent and may not be in consonance with the principles of fiscal responsibility. Even though experts agree on the need to inject more resources to stimulate the economy and aggregate demand, the central issue of concern is on the components of the expenditure. Stimulating the economy should not promote waste, conspicuous consumption tied to demand for foreign goods and services which can be produced locally, inappropriate expenditures and lifestyles, etc. The deficit should be reduced and if it must remain at this level, the expenditure items need to be reprogrammed.

2.4 Exchange Rate: With diminished foreign reserves, we welcome the upward adjustment of the exchange rate from N305/US$1 to N360/US$1 and the Importers and Exporters foreign exchange window from N362/US$1 in January to the current N385/US$1. However, there is the need for CBN to move towards full convergence of the various foreign exchange windows for a well-functioning market. As at April 2020, there were several windows in the segmented foreign exchange market including the official rate, investors and export window, retail secondary market intervention window, BDC's invisibles and travel window. Unnecessary foreign exchange subsidies create

[3] This includes project tied loans and GOE expenditure.

opportunities for arbitrage, distorts economic planning and dampens investor and economic players' confidence. Converging the exchange rates into one which is market determined will also free up more Naira for the Federation Account to be shared by the three tiers of government.

2.5 Strengthening the Naira Value/Exchange Rate with Diaspora Remittances: The present practice where money transfer companies pay recipients of foreign exchange transfers made by their relatives abroad in Naira while holding back the foreign currency is not in the overall interest of the Nigerian economy. The CBN should design a process for remittances to come into Nigeria in the currency of the remitter. This will facilitate greater access to foreign currency available for use for the procurement of necessary imports. The current practice denies Nigeria of resources remitted to her by citizens as well as shortchanges the recipients of the true value of the money sent to them. If the recommendation is accepted, it would involve the injection of not less than $20bn annually into the Nigerian economy from diaspora remittances. In 2017, 2018 and 2019, migrant remittance flows to Nigeria stood at US$22bn, US$25.081bn and US$17.57bn respectively.[4] The 2018 remittance was equivalent of 83% of the 2018 federal budget, 11 times the foreign direct investment flow for the year and 7.4 times larger than the net official development assistance received in 2017.[5]

If these diaspora remittances are injected into the Nigerian economy through CBN capturing the foreign exchange component, the aphorism that the oil sector contributes over 90% of Nigeria's foreign exchange earnings cannot hold true.

3. THE REVENUE FRAMEWORK

Table 2 shows the Revenue Framework for the proposed budget amendment.

Table 2: Revenue Framework of the Revised 2020 Federal Budget Estimates

Total Proposed Revenue: N5,559,123,316,422		
Revenue Head	**Amount (N'Bn)**	**Percentage**
Share of Oil Revenue	924,002,130,442	16.62
Share of Dividend (NLNG)	80,377,200,000	1.45
Share of Minerals & Mining	1,895,673,251	0.03
Share of Non-Oil (CIT, VAT, Customs and Fed. Acct. Levies)	1,624,934,376,103	29.23
Revenue from GOEs	990,113,888,722	17.81
Top 10 GOEs Operating Surplus (80% of which is captured in Independent Rev.)	-520,531,126,098[6]	-9.36
Independent Revenue	932,842,266,640	16.78
FGN's Balances in Special Levies Accounts	300,000,000,000	5.40

[4] file:///C:/Users/user/Documents/the-economic-power-of-nigerias-diaspora.pdf
[5] file:///C:/Users/user/Documents/the-economic-power-of-nigerias-diaspora.pdf
[6] To get the overall total of N5,559,123,316,421, the N520.531bn of Top Ten GOEs Operating Surplus should be deducted from Independent Revenue.

FGN's Share of Actual Bal. in Special Accounts	345,000,000,000	6.21
FGN's Share of Signature Bonus	350,521,054,200	6.31
Domestic Recoveries + Assets + Fines	237,012,653,161	4.26
Stamp Duty	200,000,000,000	3.60
Grants and Donor Funding	42,955,200,000	0.77
Grants and Donations for Covid-19 Crisis Intervention Fund	50,000,000,000	0.90
Total	**5,559,123,316,421**	**100.00**

Source: *BoF, Addendum to the 2020-2022 MTEF & FSP*

3.1 Independent Revenue and Operating Surplus: The yearly reports of the Auditor-General for the Federation are rife with agencies failing to remit their due operating surplus as provided in section 22 of the FRA to the treasury. This is also reflected in budget implementation reports which show that actuals have been short of projections. To meet the enhanced projection of N932.842bn, the Accountant General of the Federation and the Ministry of Finance should finetune the Treasury Single Account or any other special account of the Federal Government to sweep all due revenues from the scheduled agencies and at the end of every month or quarter, reconciliations will take place and FGN keeps its 80% while releasing 20% to the respective Agencies. This will greatly reduce revenue leakages due to the Consolidated Revenue Fund of the FG.

3.2 Minerals and Mining: The contribution of solid minerals and mining over the years to the Federation Account and FGN's revenue has been very low. At N1.895bn as FGN's share from N3.908bn Federation revenue, it raises questions of accountability in terms of whether all the due revenue has been brought to the table. The revenue seems to have been grossly underestimated. This revenue pales when contrasted with the yearly votes to the Ministry of Solid Minerals which has averaged N21.7bn yearly in the last three years.[7] The Auditor-General for the Federation reported in the 2017 Federal Audit that the Ministry is holding on to N8.5bn due to the Federation Account and this sum is yet to be remitted. This outstanding should be recovered and paid into the Federation Account while NASS critically reviews the income from the sector.

3.3 Recoveries and Fines: In 2018, N374billion was the revenue expected from domestic recoveries, assets and fines. Nothing came to the treasury from that source. In 2019, the sum of N203.38billion was expected and only N55.78billion accrued.[8] Earlier in 2017, the sum of N565billion was expected from recoveries and nothing came into the treasury[9]. Therefore, providing the sum of N237billion as revenue from the same source in 2020 may be an exercise in futility. Recoveries should only be included as funding source if the proceedings have already been concluded and the money is in the treasury. If it is an expected sum, then it should not be made a revenue source as there is no

[7] In 2017, 2018 and 2019, the Ministry received votes in the sum of N22.8bn, N22.9bn and N20.17bn respectively.

[8] See addendum to the MTEF 2020-2022.

[9] See the MTEF 2020-2022 and Consolidated and Fourth Quarter Budget Implementation Reports for the years in question.

certainty that it will be realized. It should only be appropriated when it has already been realized through a supplementary appropriation. The foregoing development questions the veracity of media reportage and the declarations of the Economic and Financial Crimes Commission (EFCC) and other anti-corruption agencies on forfeitures in judicial proceedings, of assets suspected to have been proceeds of crime. NASS should do the needful by excluding this as a revenue source. However, it should use its oversight to monitor when actual forfeitures have been made by the anti-corruption agencies and demand for remittances to the treasury of the proceeds of crime. It is projected that if the proceeds of recoveries as reported in the media through judicial proceedings are properly accounted for, FGN can get about N200billion to fund the budget.

3.4 Share of NLNG Dividend: The Revenue Profile estimates that the sum of 80.377billion is to accrue from the FGN share of dividends from NLNG. However, in 2018, the sum of N31.25billion was expected from the NLNG source and not a single kobo came into treasury. In 2019, the sum of N39.89billion was expected from the same source and not a single kobo accrued and there are no clear indicators that anything will come in 2020[10]. It would have been better to include the NLNG dividend as a source of revenue when the money has come into treasury - thus making it available for use in subsequent years. This is better than projecting expenditure based on an expectation that is not likely to materialize.

3.5 The Debt Challenge: Inbuilt into the deficit earlier reviewed is the debt challenge. The International Monetary Fund (IMF) recently approved USD$3.4bn for Nigeria under the Rapid Financing Response Facility. There is a presidential request pending at NASS for the approval of new debt in the sum of USD$5.5bn inclusive of the IMF facility. NASS had approved N850bn (USD$2.36bn) in the first quarter 2020.[11] The revised new borrowing plan for 2020 is in the sum of N4.173trillion. Furthermore, a loan for infrastructure projects in the sum of USD$22.7bn has just been approved by NASS. It is imperative to recall that Nigeria's indebtedness as at December 31, 2019 stood at USD$84.053bn.[12] Where are the investments that will spur the economy to generate the resources needed to pay back these debts at a time of diminishing public revenue and depreciating Naira? 58% of retained revenue was dedicated to debt service in 2019, and given the growing debt stock, the year 2020 and onwards will witness a greater massive outlay of retained revenue for debt service.[13]

Contrary to the FRA, the details and terms of these loans procured by Nigeria are not in the public domain.[14] NASS should ensure that these loan agreements are published, and

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[10] See the MTEF 2020-2022 and the proposed amendment to the MTEF.
[11] Using the official exchange rate of N360/USD$1.
[12] https://www.dmo.gov.ng/debt-profile/total-public-debt
[13] See the Rapid Finance Approval Documentation of Nigeria's USD3.4bn drawdown from IMF.
[14] See S.48 (10 of the FRA which states that: "*The Federal Government shall ensure that its fiscal and financial affairs are conducted in a transparent manner and accordingly ensure full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances".*

Nigerians made aware of its contents including the terms and conditions attached to the loans in the event of default.

4. PETROLEUM RELATED FISCAL MEASURES

4.1 Fuel Subsidy: The transitioning to a PMS price modulation mechanism to be driven by underlying international oil and gas market prices which eliminates the under-recovery costs of NNPC in providing petroleum products is a welcome development. This is simply stated about removing fuel subsidy. This will guarantee savings of not less than N475.53bn yearly for the treasury.[15] The fuel importation regime should be open for all corporate organisations that have the capacity to import. The removal of subsidy should be backed by an enabling law and should not just be for this period of low oil prices.

Furthermore, FGN through the CBN should not subsidize the foreign exchange used by importers. They should source foreign exchange at market determined rates. This is to eliminate the foreign exchange subsidy inherent in the present practice of importing refined petroleum products using subsidised foreign currency. This will also save costs.

Considering the very low price of crude oil, it is imperative that the current pump price be made to reflect the reduced price. PPRA should be compelled to publish the empirical basis and details of how it arrived at current pump price of petrol, kerosene and other products.

4.2 Sourcing Refined Petroleum Products: It is clear FGN has no capacity to profitably operate the refineries at their full installed capacity. The refineries have become loss making enterprises. The available option is to privatise these enterprises to competent private sector investors under terms and conditions that will guarantee that they are turned around and start producing petroleum products for local use in the next six months to one year. The privatisation process should not be the business as usual type or an all-comers affair. It should guarantee that investors with the technical, managerial and financial capacity are shortlisted and eventually selected as core investors. It must be transparent and competitive.

Also, even though the Dangote Refinery and Petrochemical Complex under construction is a private enterprise, FGN needs to take all reasonable steps to support the final stages of constructing this refinery to come on stream at the shortest possible time. This recommendation is imperative for obvious reasons. The first is that it will save the foreign exchange required for fuel importation and reduce the pressure on the Naira as well as being a new source of private sector foreign exchange earning once it starts export of refined products. Nigeria spent a total of N6.63trillion for motor spirit importation for the years 2017-2019 which averages N2.21trillion a year or US$7.24bn yearly.[16] The second is the volume of local jobs it will create along its entire value chain. The third is the corporate income and personal income taxes that will accrue to government from its operations.

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[15] For the years 2017, 2018 and 2019, under-recovery gulped N144.53bn, 730.830bn and 551.21bn respectively which averages N475.53bn every year. See NNPC Monthly Financial and Operations Report January 2018, 2019 and 2020 respectively.
[16] See NBS, Quarter Four 2019 Foreign Trade Statistics.

4.3 Cost of Oil Production: The production cost per barrel of Nigerian oil remains one of the highest in the world. The revised MTEF notes that the lower production volume has enabled the NNPC to shut in some very high cost oil wells and hence lowered the average production cost from USD$33 to under USD$28 per barrel. This high cost is unacceptable and is not in tandem with international best practices. Table 3 shows the production cost per barrel among selected countries.

Table: Cost per Barrel of Crude Oil Production in Selected Countries

S/No	Country	Cost per Barrel (USD)	S/No	Country	Cost per Barrel (USD)
1.	Nigeria	28.99	5.	Russia	19.21
2.	Norway	21.31	6.	Iraq	10.57
3.	U.S.Non Shale	20.99	7.	Iran	9.09
4.	Indonesia	19.71	8.	Saudi Arabia	8.98

Source: http://graphics.wsj.com/oil-barrel-breakdown/

Table 3 shows that there is room for reduction of the cost of crude oil extraction in Nigeria. The advantage of the reduction of cost of production is that it will increase the margins that will accrue to the Federation Account as revenue to the three tiers of government.

It has therefore become imperative for NASS to engage the executive at the highest level to ensure that the cost of production is reduced to levels prevailing among comparator countries. If Nigeria is producing at lowered rates below USD10 per barrel, Nigeria would have been able to raise more revenue at current crude oil prices.

4.4 Outstanding $62.191billion Deep Offshore and Inland Basins Production Sharing Contract Arrears: Oil revenue which was due to the Federation Account over the years under the Old Deep Offshore and Inland Basins Production Sharing Contract regime from international companies amounts to USD$62.191billion. FGN should use all legal and legitimate means at its disposal to get the companies to pay the due sum. At a time of grave fiscal crisis, the collection of this arrears should be a national priority. The current controversy arising from a claim by a company named Trobell International Ltd for fees in respect of services rendered towards the collection of the due sum should be investigated by NASS and the contract (if any) terminated. Recovering money due to the Federation Account should be the primary responsibility of the Ministry of Finance and Attorney General of the Federation supported by the Attorney-Generals of the States. It is not a task to be delegated or assigned to any company. Recovering this money will go a very long way in stabilizing the Nigerian economy and provide a big fund for infrastructure investment that will spur accelerated economic growth.

4.5 Petroleum Industry Bills: Nigeria has missed several opportunities to reform her petroleum sector due to long drawn and entrenched political interests that failed to take advantage of the tide when the sector was enjoying full patronage around the world. There is no more time to waste as oil is gradually and clearly becoming a sector where today's asset and investments may be stranded in the next couple of years. We need to get as much out of the sector before the bubble finally bursts. Therefore, the next couple of months is the time for NASS to work closely with the executive to reform the sector in its governance, administration, fiscals, community and environmental issues.

5. THE EXPENDITURE FRAMEWORK

Table 4 below presents the proposals for amendment of the Expenditure Framework. Ideally, this should respond to the diminished resources available to the government to execute the budget. It should also prioritise the expenditure and focus on sectors that will facilitate the early exit from the projected economic recession.

Table 4: Expenditure Framework of the Revised 2020 Federal Budget Estimates

Overall Allocation	**N10,509,654,033,054**	
Expenditure Head	**Amount (N'Bn)**	**Percentage**
RECURRENT NON-DEBT	4,928,525,467,849	46.90
a. Personnel Cost (MDAs)	2,827,648,399,908	-
b. Personnel Cost (GOEs)	218,805,923,102	-
c. Overheads (MDAs)	240,914,647,747	-
d. Overheads (GOEs)	89,606,753,712	-
e. Pensions, Gratuities & Retirees Benefits	536,717,450,127	-
f. Other Service wide Votes (Including GAVI/Immunisation)	386,234,412,586	-
g. Other Service Wide Votes (Covid-19 Crisis Intervention Fund)	213,597,880,667	-
h. Presidential Amnesty Programme	65,000,000,000	-
AGGREGATE CAPITAL EXPENDITURE (EXCLUDING CAPEX IN STATUTORY TRANSFERS)	2,230,912,585,843; out of which only 1.264trillion is available for MDAs capital expenditure	21.23
STATUTORY TRANSFERS	398,505,979,362	3.79
DEBT SERVICE	2,678,810,000,000	25.49
SINKING FUND TO RETIRE MATURING BONDS	272,900,000,000	2.60
Total (N'Bn)	**10,509,654,033,054**	**100.00**

Source: Source: BoF, Addendum to the 2020-2022 MTEF & FSP

5.1 Low Capital Budget Projection: At 21.23% of the expenditure proposal, the capital vote is very low. Indeed, the MDA component of the vote which is the part that has a greater percentage of developmental capital at N1.264trillion is a mere 12% of the expenditure proposal. The others are funds to be spent at the discretion of the authorities. This vote cannot scratch the surface of Nigeria's infrastructure needs which is estimated to require an investment of over US$50billion annually. Moreover, the capital vote awaits expenditure in recurrent, overheads and debts and only gets released and spent after revenue has been deployed to the foregoing and there is a remainder. The actual expenditure sum between January and March 2020 shows that capital expenditure got a vote of N139.70bn out of a yearly prorated amount of N487.27. This translates to a paltry 28.66% of the due capital expenditure.

The extant situation replicates the trajectory of capital budget votes and performance over the years and therefore calls for innovative executive and legislative action to speed up action on infrastructure. A few examples can point in the direction of needed change and transformation:

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

- Road sector financing can be improved through a Road Fund and Road Management Authority that will raise funds from a plethora of sources including toll gates, special surcharge on some commodities including fuel, etc. Special purpose vehicles to aggregate resources from institutional and retail investors will direct other resources into the sector.

- Reorganizing railway development to remove it as a federal monopoly, to bring in private sector investments, especially from those already operating in the transport sector is missing from our projection and radar. This will require an amendment of the Constitution and other extant laws.[17]

- 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 days, it could have garnered trillions of naira in its kitty.

- Opening the window of investments into the electricity sector especially in transmission and distribution is overdue. The current managers and operators of the DISCOs 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 delayed passage and assent to the Petroleum Industry Bill has denied the treasury of improved revenue. This reform in the oil and gas sector should have happened some years ago.

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

[17] Railways is item No.55 of the Exclusive Legislative List.

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.

5.2 Rising Debt Service: The rising debt service of N2.678trillion will crowd 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 25.49% of overall expenditure, the debt service is high, and it is higher than capital expenditure. When the Sinking Fund of N272.9billion is added to debt service, it comes up to N2.950trillion which is 28**%** of the overall expenditure. If the first quarter 2020 experience is used, it shows that Nigeria has already spent N943.12 billion in debt service at a time when only N139.70billion has been released for capital expenditure.

With the depreciation of the Naira and increased borrowing in foreign currency, the quantum of resources required to service debts will continue to increase. Nigeria spent 58% of her retained revenue in 2019 for debt service.[18] This shows that in 2020, ceteris paribus, with a diminished projected retained revenue of N5.559trilloon and a debt service of N2.950trillion, the country will spend not less than 53% of retained revenue on debt service. However, like in previous years, the revenue projections appear optimistic and may not be met. This implies that the outlay of retained revenue to be dedicated to debt service may increase. This is not sustainable, and it is evident that we have entered a debt bondage.

5.3 Recurrent Non-Debt Expenditure/Cost of Governance: Actual recurrent non debt expenditure was N2.511trillion in 2016, N2.76 trillion in 2017, N3.238trillion in 2018 and N4.251 in 2019.[19] The increment to N4.928 trillion in 2020 cannot be the sign of a system that is taking steps to remove waste and inefficiencies[20]. Even though a new minimum wage is kicking in, 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. NASS should support the executive through amendment and restructuring of relevant laws establishing the agencies recommended for restructuring.

[18] See Nigeria's IMF Rapid Financing Facility Approval Papers 2020.
[19] See Fourth Quarter Budget Implementation Reports for 2017, 2018 and the Addendum or Amendment of the MTEF 2020-2022.
[20] See Consolidated Budget Implementation Reports for the years in question and the MTEF 2020-2023.

6. BLOCKING LEAKAGES IN THE SYSTEM

6.1 Recoveries from the 2016 and 2017 Audit Reports of Federation: The 2017 Report of the Auditor General of the Federation indicated that some key revenues are outstanding with MDAs and have not been recovered. Nigeria cannot be going through a fiscal crisis while MDAs and corporate organisations and MDAs sit on sums of money due to the treasury. Two of the major due sums are listed in Table 4.

Table 4: Outstanding sums from 2017 Federal Audit Report

Agency	Amount Outstanding	Source of Withheld Fund
Department of Petroleum Resources	$3.214bn	Being oil royalty, gas royalty, gas flared penalty and concession rental.
Bureau of Public Enterprises	$679. 403m	Bring proceeds of the concession of Nigeria Ports Authority
Total	$3.893bn	

Source: 2017 Auditor-General's Report

At current exchange rates, this is about N1.5trillion which is in excess of the proposed MDA capital expenditure of N1.264trillion.

There are taxes not collected/remitted in 2016 and 2017 as shown in the Audit Reports. While the sum of ₦4.1bn was not collected/remitted by 37 Federal MDAs as detailed in 2016 Audit Report of the Federation, 2017 audit document revealed how 14 agencies of government refused to collect/ remit the sum of ₦43.1 bn. The 2017 Audit Report of the Federation also revealed how 18 federal agencies failed to remit a total of ₦44.6bn generated internally.[21] NASS owes Nigerians a duty to recover all these monies kept away from the treasury at a time of grave fiscal crisis.

6.2 Procurement: FGN needs to start using public procurement to stimulate economic growth through a local content policy that is implemented across board in various sectors. In Executive Order 3, "Made in Nigeria" products shall be given preference in the procurement of the following items and at least 40% of the procurement expenditure on these items in all MDAs of the FGN shall be locally manufactured goods or local service providers. The products are uniforms and footwear; food and beverages; furniture and fittings; stationery; motor vehicles; pharmaceuticals; construction materials; and information and communication technology, etc. The threshold should be 100% as against the extant 40%.

Furthermore, Executive Order 5 to improve local content in public procurement with science, engineering and technology components seeks to promote the application of science, technology and innovation towards achieving the nation's development goals

[21] See Summary of Audit Reports by Paradigm Leadership Support Initiative, Premium Times Centre for Investigative Journalism, Step Up Nigeria, DATAPHYTE, and Centre for Social Justice.

across all sectors of the economy. It states that all procuring authorities shall give preference to Nigerian companies and firms in the award of contracts, in line with the Public Procurement Act 2007. It prohibits the Ministry of Interior from issuing visas to foreign nationals whose skills are readily available in Nigeria. However, where expertise is lacking, procuring entities will give preference to foreign companies and firms with a demonstrable and verifiable plan for indigenous development prior to the award of such contracts.

A specific section can be written into the Appropriation Act by NASS making it mandatory for the norms contained in these Executive Orders to be implemented to the letter by all MDAs. This will increase capacity utilization in local industries, enhance job creation and corporate income tax due to government.

7. PRIORITY SECTORS

7.1 Agriculture: We welcome the additional N50bn Small Holder Farmers Programme allocated to agriculture under the COVID-19 Crisis Intervention Fund. Nigeria's food imports rose by 45.6% between 2016 and 2019. With diminished federal revenue and reserves, food importation is not an option. Therefore, the proposal for a N721million and N45.382billion cut in the recurrent and capital budget of the Ministry of Agriculture and Rural Development is not in line with the reality of our time. In the review and prioritization of programmes for the 2020 Federal Budget, it is imperative that FGN should not reduce the appropriation to the Ministry of Agriculture. At 1.73% of the budget against the Maputo Declarations'10%; any further reduction will lead to decreased food productivity. Sustainable funding of agriculture would lead to increased food production, jobs and poverty reduction.

NASS needs to reprioritize some of the expenditure items in the 2020 vote for agriculture to make them functional and specific to the needs of Nigerians. This is especially needed in agriculture constituency projects. Specifically, budget funded programmes and projects must have locations, clear deliverables; must not be vague and should be tied to identifiable stakeholders. All these will facilitate monitoring and evaluation of agriculture spending.

The reprogramming of funds should prioritise:

- Extension services including meteorological information through various platforms including print and electronic media especially radio and television as well as digital media and training of trainers.

- Promotion of climate smart agriculture through the mainstreaming of organic farming, organic fertilizers, resilience building and adaptation.

- Steps to organize Small Scale Farmers into groups of registered business names and companies to give them formal visibility to participate in formal business activities as well as benefitting from government programmes such as access to cheap credit. This should be done across all the states of the Federation.

- Gender friendly machinery and equipment such as hand sprayers, power tillers, ploughs, planters etc., especially low cost and locally fabricated equipment which can be easily maintained by local artisans.

- Seeds, fertilisers, pesticides, feeds, animal stock, storage facilities, rural road networks, irrigation facilities, etc.

- Small scale processing equipment for products preservation and value addition as well as capacity building to minimise post-harvest losses.

- Promote the concentric circle of local content in provisioning of goods, services and construction considering that procurement options are most of the time crafted into the budget.

Gender blind projects should be discarded in favour of strategic targeting of women in agriculture through affirmative action programmes and special funds/projects targeted at women. The budget should promote a commitment to equality of results for the male and female gender. Also, clear mandates supported by funds should be given to the research institutes under the Ministry of Agriculture. Selection of research subjects should be demand driven - on the request of farmers. The institutes should be mandated to find off-takers and farmers to use the findings of already concluded research. They should liaise and collaborate with local farmers.

7.2 Education: Education has suffered a huge set back due to the lockdown orders. New investments are needed in distant learning facilities and infrastructure needed for improved learning outcomes. The vote to education should not be reduced. The proposal to remove N10.735billion in the recurrent vote and N16.86billion in the capital vote[22] of the Ministry will worsen the already dire situation. The huge number of out of school children needs creative programming from the Universal Basic Education Commission in collaboration with states to ensure that states access all their backlog of funds with the Commission and utilize same in the best value for money. Reducing the vote to education at a time of the *"Almajari"* crisis appears insensitive.

7.3 Health: In view of the COVID-19 health crisis, the funding of health can only be increased and not reduced. Therefore, the proposal in this period of COVID-19 to remove the sum of N15.177bn from the capital vote of the Ministry contradicts common sense and reason. This is a reduction of the capital vote by 25.33%.

We welcome the allocation of N25.26billion being 1% of the Consolidated Revenue Fund to the Basic Healthcare Provision Find as envisaged in S.11 of the National Health Act. It is imperative to state that available resources should be utilized in the best value for money approach. This will inter alia involve expanding and renovating existing health facilities rather than building new ones from the scratch; investments in promotional

[22] The reduction is 19.90% of earlier programmed capital vote in the 2020 Appropriation.

health services; collaboration with states and local governments to strengthen primary health facilities and services; investments in local manufacture and production of health goods, medicines and consumables; incentivizing the human resources for health as well as improving secondary and tertiary healthcare.

For long term sustainability, NASS should expeditiously consider enacting a universal compulsory health insurance bill to pool funds for the sector as well as establishing a Health Bank of Nigeria to provide single digit long term funding for health infrastructure, start-up ventures, capital intensive equipment, etc.

8. CONCLUSIONS AND RECOMMENDATIONS

8.1 Conclusions: COVID-19 has raised the challenge of prioritization of expenditure and best value for money in the utilization of available resources. NASS in amending the budget should seek to block all leakages, reduce the cost of governance; increase productivity and value addition; ensure that our economy is strengthened through creating demand for local goods and services; invest more in the pillars that will facilitate a quick recovery from the impending recession and boost the value of the Naira. It should also review the revenue forecast and make it more realistic as against the overly optimistic posture.

8.2 Recommendations: In the light of the foregoing, the following recommendations are imperative.

- The oil production volume of 1.9mbpd and benchmark price of USD$25 is realistic and should be retained.

- The deficit financing should be used to stimulate the economy, create jobs, spur productivity in goods and services as well as improve infrastructure.

- There is need for CBN to move towards full convergence of the segmented foreign exchange windows into one which is market determined and eliminates arbitrage. Unnecessary foreign exchange subsidies, which is a product of the segmented foreign exchange windows, distorts economic planning and dampens the confidence of investors and other economic players.

- CBN should strive to capture the full value of diaspora remittances that come into Nigeria and design a process of using the foreign exchange component to shore up the value of the Naira.

- To meet the enhanced projection of N932.842bn in Independent Revenue, the Accountant General of the Federation and the Ministry of Finance should finetune the Treasury Single Account or any other special account of the Federal Government to sweep all due revenues from the scheduled agencies and at the end of every month or quarter, reconciliations will take place and FGN keeps its 80% while releasing 20% to the respective Agencies.

- NASS should beam a searchlight on the minerals and mining sector to ensure that all due revenue is paid into the Federation Account for sharing by the three tiers of government. The Auditor-General for the Federation reported in the 2017 Federal Audit that the Ministry of Mines and Solid Minerals is holding on to N8.5bn due to the Federation Account. This sum should be remitted to the Federation Account.

- Recoveries should only be included as a revenue/funding source if the proceedings have already been concluded and the money is already in the treasury. If it is an expected sum, then it should not be made a revenue source as there is no certainty that it will be realized.

- Only include the NLNG as a source of revenue when the dividends have been declared and have come into treasury. This recommendation is supported by previous years' experience when nothing came in from this source of funding.

- NASS should consider a moratorium on new debts, especially debts to be used for recurrent non debt expenditure. The details and terms of our indebtedness, on a loan by loan basis, including the terms in the event of default, beyond the aggregate figures should be available to the public to avoid the negotiation and build-up of grossly unfavourable terms that may hurt the economy in future.

- The abolition/elimination of fuel subsidy should be backed by law and savings from the under-recovery (which was illegal) should be channeled to critical sectors of the economy, especially to agriculture, education and health.

- CBN should not subsidise the foreign exchange used by importers to procure petroleum products. Importing fuel using subsidized foreign exchange should now be consigned to Nigeria's history.

- Considering government's inability to run the public refineries and petrochemical complexes at their installed capacity and the fact that they are being run at a loss, NASS should nudge FGN to privatize these refineries to improve local production of petroleum products and reduce the pressure on the Naira for fuel imports.

- FGN should also consider policy support to Dangote Refineries so that it can come on stream at the earliest opportunity. This will reduce petroleum imports, lessen the pressure on the Naira, create jobs, etc.

- NASS should engage the executive at the highest level to ensure that the cost of crude oil production is reduced to levels prevailing among comparator countries. If Nigeria is producing at lowered rates below USD10 per barrel, Nigeria would have been able to raise more revenue at current crude oil prices.

- NASS should as a matter of urgent national interest engage the President and the Attorney General of the Federation for the recovery of the USD$62.191bn Deep Offshore and Inland Basins Production Sharing arrears due from international oil companies.

- NASS should expedite action on various parts of the Petroleum Industry Bill and guarantee that the bill on governance, administration, fiscals, community and environment issues are passed before the end of the year.

- Savings from reprogramming of funds in the budget should be channeled towards increased MDA capital expenditure and considering the paucity of resources, NASS should prioritise the passage of the following bills. NASS should also contribute to the reorganization of the sectors to mobilise funds to improve their performance. The bills are detailed in the next five bullet points:

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

- Road sector financing can be improved through a Road Fund and Road Management Authority that will raise funds from a plethora of sources including toll gates, special surcharge on some commodities including fuel, etc. Special purpose vehicles to aggregate resources from institutional and retail investors will direct other resources into the sector.

- Reorganizing railway development to remove it as a federal monopoly, to bring in private sector investments, especially from those already operating in the transport sector is missing from our projection and radar. This will require an amendment of the Constitution and other extant laws.

- The National Housing Fund needs to be reorganized to mobilise funds that will benefit contributors over the short, medium and long term. If the Fund had been well managed since inception during the Ibrahim Babangida days, it could have garnered trillions of naira in its kitty.

- Opening the window of investments into the electricity sector especially in transmission and distribution is overdue. The current managers and operators of the DISCOs 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.

- Support the executive for the implementation of relevant components of the Oronsaye Committee report.

- NASS, through the relevant Committees including the Public Accounts Committee, should take steps to recover sums due to the treasury as found in the 2016 and 2017 Federal Audit Reports. The due sums are in excess of N.5trillion.

- A specific section can be written into the Appropriation Amendment Act 2020 by NASS making it mandatory for the norms contained in Executive Orders on Local Content to be implemented to the letter by all MDAs. This will increase capacity utilization in local industries, enhance job creation and corporate income tax due to government.

- Allocations to agriculture, education and health should not be reduced. Rather, savings from reprogrammed funds should be dedicated to enhance their allocations.