REVIEW OF THE 2020 FEDERAL APPROPRIATION BILL AND ESTIMATES

Centre for Social Justice

Citizens Wealth Platform

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

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Citizens Wealth Platform (CWP)

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

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TABLE OF CONTENTS

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

CBN	Central Bank of Nigeria
CIT	Companies Income Tax
CSJ	Centre for Social Justice Limited by Guarantee
DISCO	Electricity Distribution Co9mpany
DPR	Department of Petroleum Resources
ECA	Excess Crude Account
GDP	Gross Domestic Product
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
MTEF	Medium Term Expenditure Framework
NASS	National Assembly
NLNG	Nigeria Liquefied Natural Gas
NNPC	Nigeria National Petroleum Company
OPL	Oil Prospecting License
OML	Oil Mining License
SDG	Sustainable Development Goal
VAT	Value Added Tax
USD	United States Dollar

SECTION ONE: BACKGROUND TO THE BUDGET ESTIMATES

1. 1 INTRODUCTION

Centre for Social Justice (CSJ), a Nigerian Knowledge Institution welcomes the presentation of the 2020 Federal Budget Estimates by President Muhammadu Buhari on the 8th day of October 2019 to the National Assembly (NASS) in accordance with section 81 of the Constitution of the Federal Republic of Nigeria 1999, as amended. The budget of *sustaining growth and job creation* projects expenditure in the sum of N10.330 trillion. The 2020 proposal represents an 11% increase when compared to the 2019 appropriation of N9.12trillion. The proposed retained revenue is N8.155 trillion and a deficit of N2.18 trillion which is 1.52% of the GDP. The key assumptions are the benchmark price of $57 per barrel of crude oil; daily oil production of 2.18 million barrels per day (mbpd) and an exchange rate of N305 to 1USD. The real GDP is expected to grow at 2.93% while inflation rate is projected at 10.81%.

Essentially, the estimate is in the sum of N10,330,416,607,347 (Ten Trillion, Three Hundred and Thirty Billion, Four Hundred and Sixteen Million, Six Hundred and Seven Thousand, Three Hundred and Forty-Seven Naira) only, of which N556,700,827,235 (Five Hundred and Fifty - Six Billion, Seven Hundred Million, Eight Hundred and Twenty - Seven Thousand, Two Hundred and Thirty – Five Naira) only is for Statutory Transfers, N2,748,598,930,000 (Two Trillion, Seven Hundred and Forty - Eight Billion, Five Hundred and Ninety - Eight Million, Nine Hundred and Thirty Thousand, Naira) only is for Debt Service, N4,880,309,549,778 (Four Trillion, Eight Hundred and Eighty Billion, Three Hundred and Nine Million, Five Hundred and Forty-Nine Thousand, Seven Hundred and Seventy-Eight Naira) only is for Recurrent (Non-Debt) Expenditure while the sum of N2,144,807,300,334 (Two Trillion, One Hundred and Forty-Four Billion, Eight Hundred and Seven Million, Three Hundred Thousand, Three Hundred and Thirty Four Naira) only is for contribution to the Development Fund for Capital Expenditure for the year ending on the 31st day of December, 2020.

1.2 POSITIVE NOTES

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

- The early presentation of the budget estimates by the President and the National Assembly's decision to approve the budget before the middle of December 2019 to ensure the restoration of the fiscal year to the 1st January to 31st December provision in the Financial Year Act.

- The emphasis on the completion of existing capital projects instead of starting new ones and abandoning the existing ones. These would lead to faster completion of capital projects.

- The fact that capture of personnel in the Integrated Payroll and Personnel Information System (IPPIS) will be the basis for the payment of all personnel salaries and remuneration. This would help streamline personnel expenditure.

- Continued expenditure on Social Intervention Projects (SIP), Presidential Amnesty Programme in the Niger Delta and the North East Intervention Fund.

- Steps taken to renegotiate and increase revenue accruals to the treasury on production sharing contracts under the Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Act through the amendment of the Act by the National Assembly. This is expected to fetch by the estimation of the Nigerian Extractive Industries Transparency Initiative, a minimum of N576billion ($1.6billion) in the year 2020.

- The commitment of the President to represent the Petroleum Industry Bills to NASS to facilitate reforms in the oil and gas sector.

1.3 SOME CHALLENGES AND CONCERNS

- The N10.33trillion budget figure is paltry sum of $28.6billion and as such cannot scratch the surface of the enormous challenges facing the country at the federal level. It is not even enough to put measures on ground through improving the ease of doing business and to incentivize the private sector for massive investments in the economy.

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

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

- The budget fails to provide the details of releases in previous years for specific capital projects. This would have given greater insight into the appropriateness of the estimates. Merely stating that a project is ongoing reveals nothing as to what has been invested and what is required to complete the project.

- The poor performance of the 2019 capital budget which follows the trend on previous years. As the date of the presentation of the budget, only N294.63billion had been released which represents 11% of the overall capital vote for the year. An additional N600billion has been released for capital expenditure in accordance with presidential directives. This has taken the total for 2019 to N894.63billion which represents 33.7% of the overall capital vote.

1.4 EVALUATION OF RESULTS OF PROGRAMMES FINANCED WITH BUDGETARY RESOURCES

Section 19 (d) of the FRA demands inter alia that the executive reports to the legislature on the evaluation of the results of programmes financed with budgetary resources. The word evaluation is defined to mean; to form an opinion of the amount, value or quality of something after thinking about it carefully – some form of assessment. This would essentially involve an analysis of the impact of the programmes on the population or segments of the population targeted by specific programmes. It should deal with such issues as increase in school enrolment and improvements in learning outcomes, greater number of mothers and children reached with maternal and child health services, increased access to immunization, number of new households that have access to portable water, etc. The evaluation of results is not about the fiscal projections in terms of revenue and expenditure projected versus the actual(s) and the reasons for realizing or not realizing the forecasts which the quarterly budget reports are assigned to do. The evaluation should lead us to what has changed positively or negatively through the expenditure of government resources. However, neither the Appropriation Bill nor the accompanying documents provided the evaluation of results of programmes financed through budgetary resources in 2019 as required by section 19 (d) of the FRA.

1.5 OTHER DEVELOPMENTAL TARGETS AND THE FISCAL TARGET APPENDIX

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

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

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

> *(2) The State shall direct its policies towards ensuring:*
>
> *(d) that suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensions, unemployment and sick benefits and welfare of the disabled are provided for all citizens.*

Nigeria is faced with massive unemployment and underemployment challenges. Unemployment as at Quarter 3 2018 stood at 23.1% while underemployment was 20.1% and youth unemployment/underemployment stood at 29.72%. A budget of *Sustaining Growth and Job Creation* should specifically tie expenditure and its underlying policies to reducing unemployment and job creation. But the budget was entirely silent on how its proposals would reduce the high unemployment rate as there was no mention of these keywords in the basic assumptions and projections.

NASS should insist that the President submits these targets to inform the full consideration of the budget. The questions to be answered by the targets will include; how many new jobs will be created through budget expenditure and in which sectors? What are the programmes and policies to facilitate inclusive growth? These targets will also facilitate reporting on the evaluation of the results achieved through budget implementation at the end of the year.

SECTION TWO: THE KEY ASSUMPTIONS AND ESTIMATES

2.1 KEY ASSUMPTIONS

The estimates were prepared with the following underlying macroeconomic assumption as laid out in Table 1.

Table 1: Assumptions of the 2020 Federal Budget Estimates

Oil Price Per Barrel	$57
Crude Oil Production (mbpd)	2.18mbpd
Retained Revenue	N8.155
Deficit	N2.18Trillion
Exchange Rate	N305
Inflation Rate	10.82%
GDP Growth rate	2.93%
Nominal GDP	N142.96Trillion

2.1.1 Exchange Rate: The exchange rate of N305 to 1 USD is contentious as economic agents in Nigeria do not access foreign exchange at this rate. They access the dollar at about N360 to 1USD depending on the prevailing market rate. It would make better economic sense if the Central Bank of Nigeria (CBN) worked towards a harmonized rate that would merge both the official and parallel rates as this would also release more naira to the three tiers of government who share from the Federation Account. The expected income from crude oil amounts to (at the proposed exchange rate) N2,367 trillion. But if it is converted at N360=1USD, it will amount to N3.113trillion. This will release an extra N475billion for the Federal Government to spend. The exchange rate differential in the sum of N125.479billion proposed in the 2020 estimates is without empirical foundation and there is no information on the exchange rate backgrounding the differential. It is arbitrary and contradicts the N305 to 1USD assumption. Multiple exchange rates impact on the economy negatively[1].

[1] Multiple exchange rates affects the economy negatively through mis-allocation of resources - key sectors may not obtain foreign exchange at a favourable rate while other non-key sectors continue to obtain at a more favourable rate; economic rents and corruption - issues of round-tripping, some connected persons in government may obtain foreign exchange at lower rate and re-sell at a higher rate within the same economy. Hence revenue is lost without any value addition to the economy. Other negative effects include revenue losses in foreign currency transactions where government could have earned more and distortion of the economy - some successes in companies or sectors that obtain foreign exchange at a much lower rate may be artificial and cannot be sustained when exposed to market-based allocation of foreign exchange.

2.1.2 GDP Growth Rate: Nigeria needs to sustain economic growth at not less than 8% per annum over a period of about ten years, if it has to lift about 100million persons out of poverty as projected by President Muhammadu Buhari. The growth has to be inclusive and people centred, attacking vulnerabilities, increasing the use of local content- building a Nigerian economy for Nigerians in Nigeria and in the Diaspora. Therefore, the current projection lacks ambition and it is tepid. The projection should be higher provided it is backed by the right enabling policy frameworks to support inclusive people and job centred growth.

2.1.3 The Deficit and Borrowing: The deficit is in the sum of N2.175 trillion and it is to be financed mainly by new foreign and domestic borrowing, privatisation proceeds, signature bonuses and draw-downs on loans secured for specific purposes. This will further add to our already high debt profile of $81.274billion[2]. The deficit is 21.10% of the overall expenditure of N10.33 trillion. Also, the deficit is 26.7**%** of the projected revenue of N8.155 trillion. When it is considered that by the end of June 2019, a deficit of N1.35trillion had been recorded in the implementation of the 2019 budget, representing 70% of the budgeted deficit for the full year, and the deficit was recorded at a time not a single kobo has been spent of capital expenditure for the year, then the extent of the proposed deficit financing for 2020 raises very critical challenges. It is like sinking further into a slippery hole. But we need to take cognizance of the fact that in 2018, the ratio of debt repayment to retained revenue was 54.3%. This is not sustainable either in the short, medium or long term as the capacity to repay is diminishing.

[2] As at March 2019; See https://www.dmo.gov.ng/debt-profile/total-public-debt/2849-nigeria-s-total-public-debt-portfolio-as-at-march-31-2019/file.

2.2 THE REVENUE FRAMEWORK

The key assumptions are supported by the Revenue Framework as shown in Table 2.

Table 2: Revenue Framework of the 2020 Federal Budget Estimates

Total Proposed Revenue: N8,155,218,722,115		
Revenue Head	Amount N'Billion	Percentage (%)
Share of Oil Revenue	2,367,609,314, 988	32.34
Share of Dividend (NLNG)	124,269,200,000	1.52
Share of Minerals & Mining	1,895,673,251	0.02
Share of Non-Oil(CIT, VAT, Customs, Federation Account Levies	1,805,115,823,875	22.13
Revenue from GOEs	553,175,042,465	6.78
Independent Revenue	849,968,442,768	10.42
FGN's Balances in Special Levies Accounts	300,000,000,000	3.68
FGN's Share of Actual Bal. in Special Accts	345,000,000,000	4.23
Signature Bonus / Renewals / Early Renewals	939,300,022,585	11.52
Domestic Recoveries + Assets + Fines	237,12,653,161	2.91
Earmarked Funds (Proceeds of Oil Assets Ownership Restructuring)	0	0.00
Stamp Duty	200,000,000,000	2.45
Exchange Rate Differentials (Non-FAAC)	125,479,949,022	1.54
Grants and Donor Funding	36,392,600,000	0.45
Total	**8,155,218,722,115**	**100.00**

Source: Breakdown of the 2020 Budget Proposal by the Minister of Finance

2.2.1 Oil Assets Ownership Restructuring: In the 2018 and 2019 federal budgets, Nigeria proposed to earn revenue from the proceeds of oil assets ownership restructuring. But in the two years, not a kobo was earned as no steps were taken to kickstart the process of restructuring. Surprisingly, in the MTEF 2020-2022 and in the 2020 estimates, this revenue head was omitted. Has FGN abandoned the idea? There should be clarity and consistency in policy implementation considering that Nigeria's extant Petroleum Policy canvasses this divestment. Again, is it reasonable to expect the divestment process to be concluded before the end of 2019 when it is yet to start by October 2019; considering that the process of restructuring and divestment will take a fairly long period of time.

2.2.2 Signature Bonus/Renewals and Early Renewals: The estimates expect a total sum of N939.3billion from this revenue head in 2020. But the expectation is fraught with challenges which have been itemized by civil society as follows[3]:

> *According to the Department of Petroleum Resources (DPR) 2017 Oil and Gas Industry Annual Report,[4] a total of 42 oil block licenses held by international and indigenous oil companies are due for renewal in the year 2019. The licenses consist of 35 Oil Mining Licenses (OML) and seven Oil Prospecting Licenses (OPL), some of which have already expired between August and September, while others are due to expire this October.*
>
> *We note that in the past, eagerness to encourage investment had led the Federal Government to negotiate lower rates for taxes and royalties which shortchanged Nigeria of enormous revenues. Therefore, while we support statements from government sources indicating that the Federal Government is in no hurry to renew or re-award the expired oil block licenses, we request that the Federal Government of Nigeria applies the highest standards of transparency, fairness and accountability across the entire process of re-awarding the licenses for these expired blocks. This should cover all stages of the contracting process, namely the planning, allocation and award, as well as information about contract terms and their implementation.*
>
> *Nigeria has lost billions of dollars in potential revenue due to the continued refusal of government to conduct an open and competitive bid round for oil blocs in the country. The country especially missed the opportunity of conducting a licensing round during the oil boom years of 2010 to 2014. In the last 12 years, no competitive oil licensing round has been held for Nigeria's oil blocs, and even those before that period were riddled with controversy. The executive discretion, cronyism and lack of openness that have characterized decision-making around the award of blocks over the years have driven down competition, fueled massive corruption and adversely affected returns to Nigeria from the sector.*

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[3] See Joint Press Statement signed by Tijah Bolton-Akpan of Policy Alert; Olarewaju Suraj of Human and Environmental Development Agenda (HEDA) and Gabriel Okeowo of BudgIT Foundation, Nigeria.

[4] https://www.dpr.gov.ng/wp-content/uploads/2018/10/2017-NOGIAR-WEB.pdf

The expiration of these licenses therefore provides a critical opportunity to emplace mechanisms that will guide the future management of the sector so that Nigeria can begin to benefit fully from her natural resource wealth and translate same to better development outcomes for citizens.

Therefore, the greatest transparency and accountability should be the norm if the estimated revenue is to be realised. CSJ adopts the recommendations of the civil society experts[5]:

Publish overall rules for the various license award processes including timelines and application requirements, and clear technical and financial criteria against which companies are being assessed, and information about appeal processes.

Publish the names of all the companies applying for the oil and gas prospecting and mining licenses, including during prequalification.

Request and publicly disclose information on the Beneficial Owners of bidding companies and use this information to screen applicants for conflicts of interest and corruption risks at the point of prequalification or prior to license award.

Insist on and disclose information about consultative processes with communities (including Free Prior and Informed Consent processes) around the awarding of oil and gas prospecting and mining licenses, especially on matters that directly concern the community, including community development agreements, and make publicly available all documents on Environmental and Social Impact Assessments (ESIAs) and Environmental and Social Management Plans (ESMPs) for all future licenses.

Publish the current and historic owners and operators of all oil blocks, including marginal fields and transferred licenses, and the total reserves of oil and gas, including total amounts recovered thus far and total revenues outstanding.

Disclose for each oil block license awarded, the full text of the main agreements/contracts, as well as annexes and amendments in user-friendly and machine-readable formats in line with Nigeria's open contracting commitments at the 2016 UK Anti-Corruption Summit[6] and via the Open Government Partnership (OGP).

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[5] See Joint Press Statement, Supra.

[6]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/523799/NIGERIA-_FINAL_COUNTRY_STATEMENT-UK_SUMMIT.pdf

These are minimum demands for Nigeria to reap adequately from her natural resource endowments.

2.2.3 Oil Revenue Framework: There is a challenge of the Revenue Framework. It is on the expected revenue from oil. The $57 benchmark seems overtly optimistic considering the projected dynamics of the international oil market. The MTEF 2020-2022 had stated that:

> *"A lower benchmark oil price of $55/b (against $60/b for 2019) is assumed considering the expected oil glut in 2020, as well as the need to cushion against unexpected price shock. There are strong indications of an oversupplied market in 2020. All three of the major forecasters – Organization of the Petroleum Exporting Countries (OPEC), International Energy Association (IEA) and the U.S Energy Information Administration (EIA) generally see non-OPEC production growing by around 2mbpd this year, and by even more next year. U.S. shale oil accounts for most of the total supply increase, but new projects in Norway, Brazil and Australia will also contribute to the increase in non-OPEC supply. Also, market sentiments do not support an expansion in demand. In fact, the growth in demand for OPEC oil specifically is projected to slow down next year".*

Thus, the oil price projection was not guided by the cautionary approach to plan on the conservative side and if the price is exceeded, to save same in the Excess Crude Account (ECA) and later budget for it. The fact that ECA has little or no funds left in it shows that the country has no buffer to fall back upon. The Revenue Framework projects that Nigeria will produce 2.18mbpd. This is less than projections in previous years of 2.3mbpd. However, in 2018, the actual was 1.86mbpd while data from the first half of 2019 indicates actual production as at June 2019 of the same 1.86mbpd[7]. Further, Nigeria's quota from the Organisation of Petroleum Exporting Countries (OPEC) is currently 1.774mbpd. This projection of 2.18mbpd also seems overtly optimistic and may not materialize. There has been no change in circumstance to warrant the new production volume.

[7] It comes up to 1.96mbpd if the incremental production for the repayment of arrears of joint venture cash calls is taken into account.

Oil revenue was below target by 41% as at June 2019 and in 2017, it had a negative variance of 47% and in 2018, it fell short by 23%[8]. Thus, the expectation from oil revenue (based on extant circumstances, laws and policies) seems not to be founded on empirical evidence and may need to be downwardly reviewed. However, the reviewed Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Act would increase Nigeria's take from production sharing contracts entered into with oil companies. This is expected to fetch, by the estimation of the Nigerian Extractive Industries Transparency Initiative, a minimum of N576billion ($1.6billion) in the year 2020.

2.2.4 Under Recovery as Illegality: The fifth issue is the President's acknowledgement that the poor performance of oil revenue reflects inter alia, deductions for cost under-recovery in the supply of premium motor spirit. Allowing the Nigeria National Petroleum Corporation (NNPC) to deduct monies due for the Federation Account under the guise of under recovery is an affront on S.80 of the Constitution because expenditure without appropriation is beyond the contemplation of the Constitution. It is illegal as well as unconstitutional. NASS should take steps to stop this illegality by directing the President to bring estimates for fuel subsidy for approval. Further, during the years preceding 2015 and at a time of about 6% economic growth, NNPC reported that Nigeria was consuming about 35litres of PMS every day. During the recession and after the recession when many companies had closed down, jobs lost and the economy greatly slowed down, NNPC claims that Nigeria is now consuming between 55-65million litres per day. Such a wild claim cannot be supported by empirical evidence. It is most likely to be false. NNPC should come forward with the evidence in support of such claim beyond their mere declaration.

2.2.5 Share of NLNG Dividend: The Revenue Profile estimates that the sum of N124.269billion is to accrue from the FGN share of dividends from the 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 is expected from the same source and there are no clear indicators that nothing will come in[9]. It would have been better to include the NLNG dividend as a source of revenue

[8] See the draft MTEF 2020-2022 - https://www.budgetoffice.gov.ng.
[9] See the MTEF 2020-2022.

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[10].

2.2.6 Revenue from Minerals and Mining: The FGN's expected revenue from minerals and mining in the sum of N1.895billion is a scandal considering FGN's investments in the mining sector and the proposals for realizing revenue from the sector. Available information from many parts of the country including the North West where mining activities have facilitated criminality shows that the revenue from this source is grossly underestimated. NASS should insist on a proper review of the royalty and revenue due from mining leases and other revenues due to the Federation Account (from which FGN will get its due share) from the exploitation of solid minerals.

2.2.7 General Revenue Projections: Generally, our revenue projections have severally missed the mark over the years. The projections and forecasts suffer from lack of realism. In 2016, revenue projections fell short by 23%; in 2017, it fell short by 47.73%[11] and in 2018 by 45%[12]. This indicates that overall, a good part of our revenue projections has not been based on empirical evidence. Further, if projected revenue in 2018 was N7.1trillion and we missed the mark by 45% and have also missed the mark by 30% in the half year of 2019, the further increase in projected revenue to N8.155trillion in 2020 seems to be hanging in the air. The revenue projections for 2020 should have been greatly influenced by the trend and actuals of 2018 and 2019 except there has been a dramatic change in economic circumstances warranting the new projection.

2.2.8 Non-Oil Revenue: There is a bundle of issues about non-oil revenue/tax. The increase in Value Added Tax from 5% to 7.5% is a welcome development considering that Nigeria has one of the lowest VAT rates in the whole world and the need to increase available revenue. It is however imperative for the tax authorities to expand the tax net to improve compliance and increase revenue due from this source. Some key non-oil tax estimates will be reviewed[13].

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[10] The 2017 Fourth Quarter and Consolidated Budget Implementation Report shows that there was a projection of FGN Share of Investments funded by FAAC in the sum of N29.59billion. However, not a single kobo came into treasury.
[11] Fourth Quarter and Consolidated Budget Implementation Report 2017 by Budget Office of the Federation - https://www.budgetoffice.gov.ng.
[12] MTEF 2020-2022 and 2018 Consolidated Budget Implementation Report -- https://www.budgetoffice.gov.ng.
[13] The data for non-oil revenue is taken from the Consolidated and Fourth Quarter Budget Implementation Reports of the respective years and the MTEF 2020-2022.

- For VAT, FGN's share underperformed by 46% in 2017, by 28% in 2018 and for the half year in 2019, it has underperformed by 29%. However, the projection of N292.5billion for 2020 is realistic considering the increase of the rate from 5% - 7.5%.

- For CIT, FGN's share underperformed by 47% in 2016, 32% in 2017, by 20% in 2018 and for the half year of 2019 by 14%. Thus, the projected increase from N813billion in 2019 to N839billion in 2020 is realistic.

- For Customs, FGN's share underperformed by 30% in 2016, 6% in 2017, 6% in 2018 and for the first half of 2019, it raised an extra 11% more than the expected revenue. Therefore, the increase of the expected revenue to the Federation Account from customs by NASS from N942.6billion to N1.5trillion is a step in the right direction.

- Independent Revenue underperformed by 84% in 2016, 63% in 2017, by 46% in 2018 and for the half year 2019 by 31%. The increased revenue expectation from N631billion to N849billion looks overtly optimistic.

2.2.9 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 as at June 2019, not a single kobo has accrued. Earlier in 2017, the sum of N565billion was expected from recoveries and nothing came into treasury[14]. 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 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. 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 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.

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

2.2.10 Revenue from Stamp Duties: The MTEF 2020-2022 and the 2020 budget estimates projects the sum of N200bilion as revenue from stamp duties. It was however silent on accruals from previous years which have not been accounted for. Nigerians suffered deductions from their bank accounts and the money seems to have been lost in a black hole as no one accounted for the previous years. At a time of poor revenues, the country can ill afford this humungous leakage of funds. NASS must insist on full accounting of all previously accrued stamp duties. It is projected that from past unaccounted for stamp duties, the nation can raise not less than N5trillion while a proper projection for 2020 can fetch not less than N1.2trillion. The Senate in approving the MTEF had earlier recommended that proper investigations be carried out on the electronic collection of stamp duties domiciled with the Central Bank of Nigeria to ensure accountability and increase revenue base.

2.3. THE EXPENDITURE FRAMEWORK

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

Table 3: Expenditure Framework of the 2020 Appropriation Bill

Overall Allocation	N10.33trillion	
Expenditure Head	**Amount N**	**Percentage**
Recurrent Non-Debt made up of:	4.88 trillion	47.27%
Personnel Cost of MDAs	2.841trillion	
Personnel cost of GOEs	218.8billion	
Overhead Cost of MDAs	280.5billion	
Overhead Cost of GOEs	146.1billion	
Pensions, Gratuities and Retirees benefits	536.7billion	
Other Service Wide Votes (including GAVI immunization)	441.2billion	
Presidential Amnesty Programme	65billion	
Capital Expenditure	2.14 trillion	20.73%
Statutory Transfers	556.7 billion	5.39%
Debt Service	2.45 trillion	23.74

Sinking Fund to retire Maturing Bonds	296 billion	2.87%
Total (%)		100

Source: Breakdown of the 2020 Budget Proposal by Hon. Minister of Finance

2.3.1 Low Capital Vote Proposal: The first issue is that capital expenditure is to take 20.73**%** of the budget. This is not good enough; previous experience indicates that the capital vote is very poorly implemented. For instance, out of the 2019 capital vote of about N2.650trillion, only N294.63billion had been released as at 30th September 2019 which represents 11% of the overall capital vote for the year. The President has directed that an additional N600billion be released for capital expenditure before the end of the year. If this directive is carried out, it will take the total for 2019 to N894.63billion which represents 33.7% of the overall capital vote. This is still a very poor record. It is also imperative for the administration to ensure that the bulk of the capital expenditure is developmental rather than administrative. This will ensure that the expenditure has a direct impact on the majority of citizens.

It is imperative to note that budgetary funding alone cannot scratch the surface of Nigeria's demand for infrastructure. NASS should therefore consider alternative funding sources for key capital projects, especially in the Ministries of Works, Power and Housing, Transport, Water Resources, etc. NASS should play an active role in collaboration with MDAs and the Infrastructure Concession Regulatory Commission in designing the modalities for funding existing projects through public private partnerships, dedicated bonds, etc. This brings to the fore the need to expeditiously consider and pass bills such as the Federal Road Fund Bill and the Development Planning and Projects Continuity Bill into law.

More so, with the big picture for the 2020 budget in view, the budget needs to be anchored on a robust and realistic economic, fiscal and developmental framework which emphasizes domestic resource mobilization and popular capitalism driven by the commitment of all members of society; where every ready and willing Nigerian partakes in the baking of the national cake and as such, claims a right to be at the table in the sharing of the proceeds of national investments. This big picture is not found in the Economic Recovery and Growth Plan. In this direction, a number of sectors can benefit from funds raised to support their development. A few examples can point in the direction of needed change and transformation:

- Universal health coverage will not be possible without a universal and compulsory health insurance scheme for its financing. 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 so as 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 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.

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

NASS should streamline the number of projects being funded, continue with existing projects and discountenance new ones unless they are absolutely necessary. Essentially, NASS should take steps to ensure that capital resources are not spread too thin. NASS should seek to build consensus with the executive and other stakeholders and decide on key national infrastructure projects that should be completed in the short term and channel the bulk of the expenditure to them. In other words, NASS should prioritise the projects so that budgetary funding can achieve the desired results.

2.3.2 Rising Debt Service: The second issue is that the rising debt service (N2.45trillion) appears to be crowding out expenditure in critical infrastructure and human development. At the end of the day, if there is a shortfall in revenue, salaries and overheads will be drawn down, debts will be serviced whilst capital projects suffer. At 23.74% of overall expenditure, the debt service is high and it is higher than capital expenditure. When the Sinking Fund of N296billion is added to debt service, it comes up to N2.746trillion which is 26.61**%** of the overall budget. When the 2019 experience is used, it shows that Nigeria has already spent N1.109 trillion (as at the second quarter) in debt service at a time when only N294billion has been released for capital expenditure in the third quarter.

2.3.3 Recurrent Non-Debt Expenditure/Cost of Governance: The third issue is to resolve the contradiction between the FGN mantra of cutting down waste, improving efficiencies and removing ghost workers from the payroll and its relationship with the rising recurrent non debt expenditure. Actual recurrent non debt expenditure was N2.511trillion in 2016, N2.76 trillion in 2017 and N3.103trillion in 2018. For the half year in 2019, it has reached N2.050trillion which is 21% more than the pro-rated value of recurrent non-debt expenditure in the 2019 budget. This increment to N4.88trillion in 2020 cannot be the sign of a system that is taking steps to remove waste and inefficiencies[15]. 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.

2.3.4 Alignment of Capital Provisions and other Policies: A number of budgetary provisions for poverty reduction, empowerment and wealth creation such as skills acquisition, purchase of tricycles and foreign made vehicles do not align with our trade and local content policies. Acquiring non-competitive skills in a sector that is buffeted by dumped imports would not lead to sustainable employment or value addition in the economy. The National Automobile Policy which seeks

[15] See Consolidated Budget Implementation Reports for the years in question and the MTEF 2020-2023.

to build local capacity and value added in the automobile industry is undermined by constant budgetary requests for foreign vehicle brands which on its own is contrary to the provisions of the Public Procurement Act 2007 (PPA). The PPA simply demands general functional specifications to be stated in the budget against the prevalent brand specifications.

Capital budget provisions should facilitate local value addition, employment creation, capacity building and increasing the retention capacity of the local economy. A situation where more than 70% of budgeted capital funds end up putting pressure on the Naira by fueling the demand for foreign currencies is a recipe for underdevelopment.

2.3.5 Bulk Votes Without Details: All the agencies on statutory transfers got bulk votes of which the details are not available to Nigerians. They are the National Assembly, National Judicial Council, National Human Rights Commission, Public Complaints Commission, Independent National Electoral Commission, Niger Delta Development Commission. Again, votes for Sustainable Development Goals in the SWV do not have details. It appears that public attention is focused on the vote of the NASS and these other agencies do not feature in the demand for transparent budgeting. This is an abnormal situation that should be remedied by providing the details.

2.3.6 Fuel Subsidy is Outdated: Fuel subsidy under whatever guise is outdated, anachronistic and has no place in modern economic thought process. In the main expenditure projections, fuel subsidy is missing but we are still subsidising fuel and there are no policy pronouncements on the removal of the subsidy. Nigeria can save a minimum of N1trillion every year if the subsidy/under recovery is stopped. And this will be channeled to infrastructure and social spending.

SECTION THREE: CONCLUSIONS AND RECOMMENDATIONS

3. CONCLUSIONS AND RECOMMENDATIONS

- Expeditious steps taken by the President and NASS for the upward review and increase in accruals to the Federation Account from production sharing contracts under the Deep Offshore and Inland Basins Production Sharing Contract Act is very commendable.

- The President and NASS must show sufficient political will to expeditiously reform the oil and gas sector through the Petroleum Industry Bills. This can be done before the end of the first quarter of 2020.

- Clear and transparent rules encompassing best practices should be deployed for the oil assets ownership restructuring, signature bonuses and renewal of oil licenses and this should be done expeditiously.

- Revenue projections should be based on empirical evidence, trends from recent years; take into considerations innovations from revenue collection agencies as wells as change in social, environmental and economic circumstances.

- The deduction of monies due to the Federation Account by NNPC under the guise of under recovery is illegal and unconstitutional and should be stopped immediately. If the executive desires to continue the petroleum subsidy regime, they should do so through appropriation.

- Fuel subsidy is outdated and has no place in modern economic processes. It is a subsidy on consumption supporting industries abroad while any meaningful subsidy should target production done by our local industries. Fuel subsidy under any guise fuels fraud, criminality and mismanagement of public resources. The claim that Nigeria consumes 55-60million litres of petrol a day is false and cannot be supported by empirical evidence.

- NASS should insist on a proper review of the royalty and revenue due from mining leases and other revenues due to the Federation Account (from which FGN will get its due share) from the exploitation of solid minerals.

- NASS should ensure that proper accounts are rendered of recoveries of proceeds of crime from the anti-corruption agencies and the proceeds remitted to the appropriate accounts.

- NASS should conduct proper investigations on the electronic collection of stamp duties domiciled with the Central Bank of Nigeria to ensure accountability and increase of revenue. It should insist on remittance of accrued stamp duties from previous years to the treasury.

- CBN should seriously consider abolishing the dual exchange rate for a unified rate applicable across board for all transactions.

- Any extra monies accruing from any of the recommendations made above should be channeled to capital expenditure.

- NASS should insist on the executive providing details of all statutory transfers and bulk sum in service wide votes and this should be made available to Nigerians through the website of the Budget Office of the Federation.

- Future budgets should contain details of monies so far spent on ongoing capital projects so as to give citizens a good picture of what has been invested and what is required to complete same.

- Executive budgets should come with an evaluation of results of programmes from the outgoing year financed with budgetary resources.

- FGN should broaden the sources of revenue for budget and programme funding. Ultimately, these changes will relieve the Treasury of and or reduce the undue burden of funding key infrastructure projects and as such, reduce the need for borrowing whilst the infrastructure still gets built. It will also reduce the demand for funds to pay back and service debts. A new paradigm of fundraising should involve the traditional core and institutional investors, organized labour and workers, cooperatives, community groups, religious and faith based organisations, women and youth groups, etc. This will build a broad-based ownership of national infrastructure and capital, rather than the extant exclusive arrangements that focus on the rich few who can only invest if undue terms and conditions are met. This new paradigm will ultimately affect by way of reduction, the quantum of resources that will be provided by the public Treasury for infrastructure. This should include:

- 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.

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