CONTINUATION OF THE NORM

(Report on the Implementation of the Fiscal Responsibility Act in the 2011 Financial Year)

CSJ

Centre for Social Justice (CSJ)

(Mainstreaming Social Justice In Public Life)

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ABBREVIATIONS AND ACRONYMS

AMCON	Asset Management Corporation of Nigeria
BOF	Budget Office of the Federation
BN	Billions
BPP	Bureau of Public Procurement
CBN	Central Bank of Nigeria
CIF	Cost, Insurance and Freight
CIT	Company Income Tax
CKD	Completely Knocked Down
CNPP	Conference of Nigerian Political Parties
CRF	Consolidated Revenue Fund
CSOs	Civil Society Organizations
CWP	Citizens Wealth Platform
DDC	Direct Data Capture
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECA	Excess Crude Account
ETF	Education Trust Fund
EXCoF	Eexcutive Council of the Federation
FAAC	Federation Account Allocation Committee
FCSC	Federal Civil Service Commission
FCT	Federal Capital Territory
FCTA	Federal Capital Territory Administration
FGN	Federal Government of Nigeria
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FRC	Fiscal Responsibility Commission
GDP	Gross Domestic Product
ICPC	Independent Corrupt Practices Commission
IGR	Internally Generated Revenue
IMF	International Monetary Fund

INEC	Independent National Electoral Commission
ISPO	Irrevocable Standing Payment Order
LGAs	Local Government Areas
LIC	Low Income Countries
MBPD	Million of Barrels Per Day
MDAs	Ministries, Departments and Agencies of Government
MDGs	Millennium Development Goals
MENA	Middle-East and North Africa
MPR	Monetary Policy Rate
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
MTSS	Medium Tem Sector Strategy
NASS	National Assembly
NBS	National Bureau of Statistics
NERC	Nigeria Electricity Regulatory Commission
NHIS	National Health Insurance Scheme
NIMC	National Identity Management Commission
NIP	National Implementation Plan
NJC	National Judicial Council
NNPC	Nigerian National Petroleum Commission
NOA	National Orientation Agency
NPC	National Population Commission
NSHDP	National Strategic Health Development Plan
NSIA	Nigeria Sovereign Investment Authority
OAGF	Office of the Accountant-General of the Federation
PHCN	Power Holding Company of Nigeria
PIB	Petroleum Industry Bill
PPP	Public Private Partnership
PV	Present Value
RCP	Reference Commodity Price
SAN	Senior Advocate of Nigeria
SBMCs	School-Based Management Committees
SEC	Securities and Exchange Commission

SIM	Subscriber Identity Module
SWF	Sovereign Wealth Fund
TCN	Transmission Company of Nigeria
UBE	Universal Basic Education
UBEC	Universal Basic Education Commission
USD	US Dollar
VAT	Value Added Tax
WAMZ	West African Monetary Zone

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Chapter One

INTRODUCTION

1.1 CONTINUATION OF THE NORM?

Fiscal governance issues impact on the life of everyone and determines who gets what out of societal resources. However, the paradox of the situation is that despite the fact that everyone will be affected by fiscal decisions, management and decision making in the sector is done by a closed circle of government functionaries and technical experts. In the current administration, such decision making is further taken away from the day to day bureaucracy of the Civil Service to a much narrower band of staffers of the Ministry of Finance and the Budget Office of the Federation. Finally, fiscal policies including the budget arrive in the legislature for their approval without embodying the views of the majority of Nigerians. Despite legal provisions in the Fiscal Responsibility Act (FRA), other laws and policy frameworks[1], demanding increased transparency and popular participation, the Medium Term Expenditure Framework (MTEF), budget and its accompanying fiscal policies are still being treated as technical issues that do not fit the bill for popular debates and participation in their conceptualization and management. But empirical evidence indicates that the objectives of fiscal policies and fiscal sector reforms are best implemented and realized under a framework where clear public preferences are reflected in their operating and decision making structure.

Capital budget implementation at the federal level (and indeed most of the states in Nigeria) is so inadequate that it has held back economic development and social well-being. It averages about 55% every year. This could be traceable to the fact that the majority of citizens are not involved in the conceptualization and identification of priorities for the budget. Indeed, many citizens do not know about projects located in their communities. Legislators allocate huge and undue sums of money to themselves; sums beyond the stipulations of Revenue Mobilization Allocation and Fiscal Commission which is constitutionally charged with determining the remuneration of legislators and other political office holders. There are hardly any opportunities for citizens participation in the fiscal process.

Also, the current dire straits of the standard of living of the majority in Nigeria is caused in part by the lack of popular, focused and coordinated attention to the design and implementation of fiscal programmes which have been left to government functionaries and experts. The current poverty level in Nigeria provides an opportunity for bringing the diversity of Nigerian voices together and having a structured approach for making inputs to fiscal policies and implementation with a

[1]These include Public Procurement Act of 2007, FOIA and various aspects of Vision 20:2020.

special focus on the federal budget. This is anchored on the need to build a model of fiscal reforms based on social consensus in which diverse elements of society can participate in decision making on capital and recurrent expenditure, debts and statutory transfers, taxation, technological development, environmental and social goals relating to the budget and other fiscal policies. When participation of all stakeholders, not only from government and business sectors, but also from civil society is institutionally encouraged and supported, and diverse concerns of different stakeholders are discussed in an open and transparent manner, the needs and aims of society concerning governmental service delivery can be clarified and the possibility of reaching the goals advanced.

Against the background of the foregoing, the challenge is to ensure dialogue and exchange on a continuous basis of demand and supply side actors in fiscal governance; to ensure that the fiscal authorities are more accountable to the Nigerian people and that appropriated sums achieve their objectives after disbursement. The further challenge is to mainstream popular participation by bringing together the diversity of actors under a platform that will work for institutional and long lasting change in fiscal governance.

But the central question is whether we are moving in the direction of change or continuing the norm of the practice of previous years where laws were more obeyed in the breach and we were sinking deeper into the morass of fiscal irresponsibility. This report has the central purpose of monitoring, documenting and reporting observations of fiscal responsibility and budgeting practice at the federal level in the year 2011 with a view to strengthening regulatory practices, laws, and ensuring greater compliance to the FRA and other relevant laws. It seeks to hold the federal government accountable for the implementation of the FRA.

This Report is designed to facilitate popular participation and to provide alternative strategies, action points and recommendations to accelerate the realisation of the intendments of the FRA and other sunshine laws that promote fiscal discipline. Specifically, the objectives of the report are to:

- Determine the level of transparency and accountability in the fiscal dealings of FGN in 2011.
- Evaluate how realistic the FRA is.
- Determine the level of compliance with the FRA and any regulations made thereunder.
- Provide information and evidence upon which advocacy for proper budgeting and fiscal responsibility can be built.
- Make feasible recommendations for the enhancement of fiscal responsibility.

The Report is divided into seven chapters with Chapter 1 as the introduction. Chapter 2 deals with the 2011 Budget and its Implementation while Chapter 3 is on Borrowing and Debt Management. Chapter 4 reviews the MTEF 2012-2015. Chapter 5 is on the 2012 Appropriation Bill while Chapter 6 is on Specific Issues and the Challenges to Fiscal Governance. The final Chapter 7 is on Conclusions and Recommendations.

1.2 RECOMMENDATIONS

The Report makes the following recommendation:

1.2.1 Preparation of the MTEF

- The MTEF should be prepared for the statutory tenor of three years.
- The Minister of Finance and the BOF should start the preparation of the MTEF by February of every year. This will give ample time for the MTSS sessions, consultation with states, legislature, relevant stakeholders, CSOs and the relevant federal MDAs. Early presentation of budgetary and other policies before attaching figures to them provides good opportunity for rigorous discussions and debates around their feasibility. This will eventually lead to the enactment of very well nuanced fiscal policies.
- The consultations leading to the preparation of the MTEF should no longer be perfunctory. The consultation and engagement of the legislature should be in-depth such that the legislature develops a sense of ownership of the MTEF. Such arrangement will serve as a lubricant against the frequent legislature-executive friction in the budget process; ensuring a quick passage of the MTEF and proposed budget.
- The macroeconomic framework of the MTEF in accordance with the FRA should contain projections and the underlying assumptions for key indicators including growth rate, inflation rate, interest rate; access to credit by the private sector, accretion to external reserves, etc.
- The MTEF should seek a convergence and harmony between monetary and fiscal policies. This will lead to the realisation of government's key economic objectives. Without this convergence, budgetary and other policies will always fail.
- The sectoral composition of GDP and other key indicators of the MTEF should be made to align with Vision 20:2020 or in the alternative show empirical evidence for the reasons informing the deviation. The MTEF should be an instrument for planning to achieve the Vision. If the MTEF is merely

reaffirming and accepting the binding constraints on development without proffering alternative policies and actionable strategies leading to change, then it worth no more than the paper on which it was printed.

- The next MTEFs should go beyond a statement of forecast revenue and expenditure. It should contain frameworks for the diversification of the economy, improving the revenue base and creation of jobs. The framework should systematically show the effect of economic and budget policies on key growth drivers which should be clearly specified.

- The MTEF should contain measurable targets for improvements in key economic and social conditions including the number of new jobs to be created, improved learning outcomes, kilometres of roads to be tarred, etc.

- The MTEF should be submitted to the EXCoF for endorsement before the end of June every year. The EXCoF should endorse the MTEF and forward it to NASS not later than July every year.

- NASS should hold public hearings and allow popular input into the MTEF before its approval in accordance with Section 48(2) of the FRA. NASS should consider all provisions of the MTEF and not merely limit itself to the benchmark price and oil production in millions of barrels per day, etc.

- The two chambers of NASS should after their respective consideration of the MTEF, harmonise their positions and produce a clean copy of the MTEF and make same available to Nigerians.

- Budget preparation should commence as soon as the MTEF is approved by NASS and the Appropriation Bill should be presented by the President to NASS not later than the first week of September every year.

1.2.2 The Budget Year, Capital Budget and legislative capacity

- Section 81 of the 1999 Constitution should be amended to mandate the President to present the Appropriation Bill to NASS not later than the first week of September every year. The same section should also mandate NASS to approve the budget before proceeding on their Christmas and New Year vacation. The commencement of budget implementation early in the year will lead to increased capital budget implementation and minimize the request for capital budget roll over to the next year.

- NASS should stop acceding to executive requests to extend the budget year for capital budget implementation to March of the following year.

- NASS should consider the idea of a Capital Budget Roll-Over Bill which automatically moves unexpended but available resources for capital projects to the next succeeding year as part of the New Year's budget.

- NASS should seriously consider the passage of a Legislative Budget Office Act to facilitate its capacity for well researched and sound budgetary interventions.

1.2.3 Contents of the Appropriation Bill and Accompanying Documents

- The Appropriation Bill and its schedules should be fully aligned to the approved MTEF. In compliance with section 19 (d) of the FRA, the Minister of Finance should submit with the estimates, or NASS should insist on a document evaluating the results of programmes financed with previous budgetary resources. NASS should also insist that the Minister submits other developmental targets as required in the Fiscal Target Appendix. This should include targets on the right to an adequate standard of living including targets on the attainment of the MDGs, job creation, targets for the rights to adequate housing, education, access to water, etc.

1.2.4 Expenditure Framework

- The expenditure pattern should be re-ordered by NASS and the President to ensure that at least 40% of the budget is voted for capital expenditure every year. NASS and the Presidency should lead the way in reducing their recurrent expenditure particularly the bloated overheads. NASS and the Presidency can run effectively with 50% of their current proposals. The allocations to education and health sectors should be increased incrementally by at least 25% every year until the international standards are met.

1.2.5 Diversification of the economy

- The quick passage of the proposed Petroleum Industry Bill and creating the enabling environment for the development of new refineries and petrochemical industries is imperative. Fast track the reforms in the Electricity Industry through privatisation and effective regulation of the Industry by the Nigeria Electricity Regulatory Commission. This will provide the much needed energy to drive industrialisation. Use public private partnerships and special purpose vehicles to develop infrastructure in new roads, railways, water transport, etc. The PPPs should have high level local content and participation of a broad section of the Nigerian population. Re-engineer housing policy and its implementation especially the National Housing Fund and its management to generate a large pool of funds for housing which will in turn be available to create new housing construction jobs. This process will also involve recapitalisation of the mortgage system, securitisation of dead assets, amendments to the Land Use Act and removing the same from the Constitution. Procurement policy can be used to stimulate the demand for made in Nigeria goods and services. This will increase capacity utilisation in industries, create more jobs and create a larger pool of profits for industries which will lead to higher CIT accruing to government.

1.2.6 Capital Budget Implementation

- Good procurement plans should precede capital budget implementation. The BPP should intensify capacity building and opening up of the public procurement process to more stakeholders who can hold public officers accountable. BPP should also consider activating the sanctions mechanism of the Public Procurement Act to deal with the challenge of procurement impunity. The oversight mechanisms of NASS should become more evidence-based to expose corruption, inefficiency and inertia in government.

1.2.7 Debt, Deficit and Contingent Liabilities

- NASS and the President should initiate steps towards the approval of the Consolidated Debt Limit for the Federal, State and Local governments in accordance with Section 42 of the FRA. FGN should reorder its expenditure to ensure that the proceeds of borrowing are channelled towards capital expenditure and human development as against recurrent expenses. Cost benefit analysis should be presented by the executive as anchor to requests for legislative approval of borrowing. Borrowing should be restricted to the DSA approved limits. The possibility that contingent liabilities may crystallise into actual liabilities should always be considered before new debts are incurred.

1.2.8 The need for popular participation

- It is imperative to conclude with a clear message to the larger Nigerian society. The message is that fiscal governance is too important to be left to technocrats and politicians in the executive and legislature. Keen interest, contributions and participation in the fiscal governance process is essential. If we fail to participate, then our priorities will continue to be determined by others who may not necessarily have the overall interest of the nation at heart.

Chapter Two

THE 2011 BUDGET AND ITS IMPLEMENTATION

2.1 THE 2011 BUDGET: LATE PRESENTATION AND PASSAGE - AMENDMENTS AND RE-ESTIMATIONS

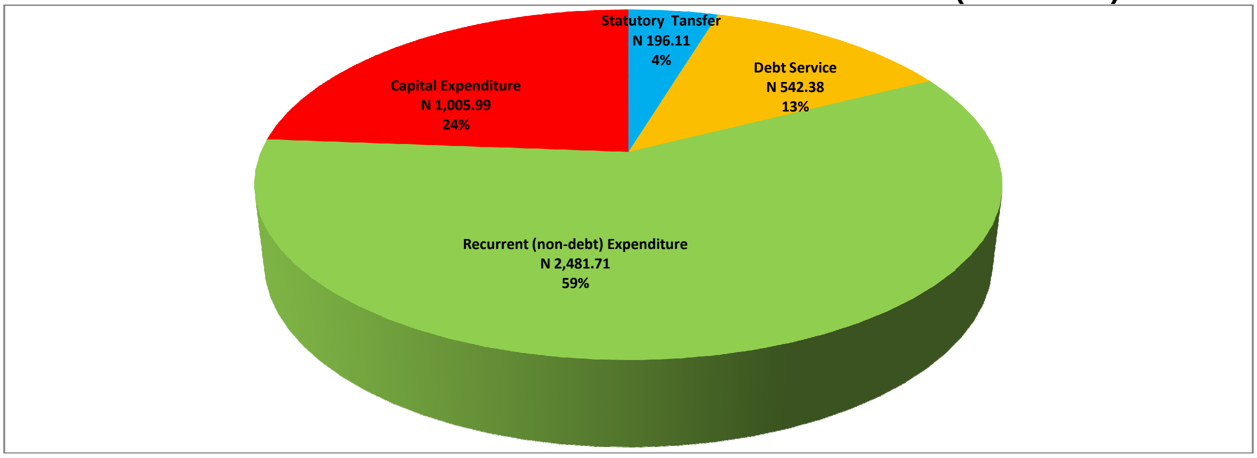
The Federal Appropriation Bill 2011, like the previous year[2], was presented late by the President to the National Assembly (NASS) for legislative approval. Specifically, it was presented on Wednesday, 15th December 2010 to the joint session of the NASS. It passed through legislative scrutiny and received presidential assent for implementation on the 27th May, 2011 – in the fifth month of the budget year. The 2011 budget marked the commencement of the implementation of the First National Implementation Plan (NIP) of the Vision 20:2020 economic blueprint. The First NIP focuses on laying the foundation for achieving the Vision and contains medium-term strategic policy directions and development priorities; implementation strategies and expected deliverables; and detailed strategies for action by the Federal, State and Local Governments, as well as the private sector.

The thrust of the 2011 budget policy - the Fiscal Consolidation Budget is the promotion of job creation and economic growth through the pursuance of sound macro-economic programmes and reforms. The 2011 budget was designed to ensure macroeconomic stability specifically through fiscal consolidation and improving the efficiency of government's expenditure in view of scarce resource. The Appropriation Bill was based on the following macroeconomic assumptions: oil production of 2.3mbpd and benchmark oil price of $65pb; Joint Venture Cash Calls of US$5.4billion; a real GDP growth rate of 7%; target inflation rate of 10% and exchange rate of N150 to 1$USD; a fiscal deficit of N1,389.76 billion amounting to a deficit of -3.62% of the GDP resulting from a projected expenditure of N4,226.19billion and a retained revenue of N2,836.43billion. The projected expenditure comprises of N196.12billion for Statutory Transfers, N542.38billion for Debt Service, N2,481.71billion for Recurrent (Non-Debt) Expenditure and N1,005.99billion for Capital Expenditure. This represents an 18.1% contraction from the N5,159.66billion budgeted in the 2010 Amended and Supplementary Budgets.

The Appropriation Bill was accompanied by the Fiscal Target Appendix containing 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 MDGs, job creation, targets for the rights to adequate housing, health, education, access to water, etc. Figure 1 shows the components of the budget proposal.

[2] The 2010 budget was presented in late November 2009 to NASS and was not approved until April 2010.

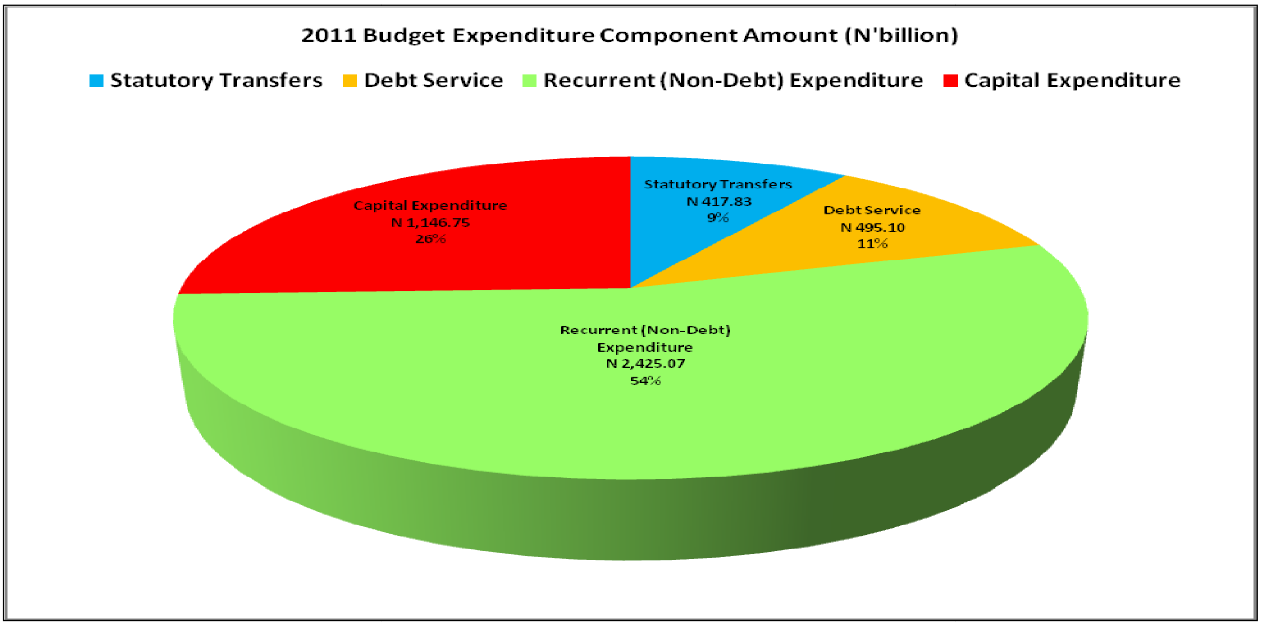
FIGURE 1: COMPONENTS OF THE PROPOSED 2011 BUDGET (N'BILLION)



Source: Budget Office of the Federation (BOF); Official Website Documentation[3]

NASS approved a total figure N4.97trillion which was N745billion in excess of what was initially submitted by the President. However, in a subsequent amendment, NASS retained the production benchmark at 2.3mbpd while increasing the RCP to $75pb; an expenditure profile of N4,484.75billion made up of N2,425.07billion for recurrent (non-debt) expenditure, N495.1billion for recurrent (debt service) expenditure, N417.83 billion for Statutory Transfers and an allocation of N1, 146.75 billion for Capital expenditure. Figure 2 shows the components of the approved budget.

FIGURE 2: COMPONENTS OF THE 2011 BUDGET AMENDED AND APPROVED



Source: Data Extract from the Budget Office of the Federation: 2011 Budget Implementation Report.

[3] BOF Website:
http://www.budgetoffice.gov.ng/2011_budget/proposal_2011/2011_Appropriation%20Bill.pdf

2.2 LATENESS IN BUDGET IMPLEMETATION REPORTING

According to Section 30 (1) and (2**)** of the Fiscal Responsibility Act 2007:

> (*1) The Minister of Finance, through the Budget Office of the Federation, shall monitor and evaluate the implementation of the Annual Budget, assess the attainment of fiscal targets and report thereon on a quarterly basis to the Fiscal Responsibility Commission and the Joint Finance Committee of the National Assembly.*
>
> *(2) The Minister of Finance shall, cause the report prepared pursuant to subsection (1) of this section to be published in the mass and electronic media and on the Ministry of Finance website, not later than 30 days after the end of each quarter.*

However, going by the situation in 2011**,** the publication of the implementation reports were delayed. The Budget Office of the Federation published the Combined First and Second Quarter Budget Implementation Report after the end of the second quarter. Even as at the end of February 2012, only the first and second quarter budget implementation reports were available on the website of the Federal Ministry of Finance. The Third and Fourth quarter reports came out after the end of the first quarter of 2012.

2.3 CONTINUED FAILURE TO PREPARE ANNUAL CASH PLAN AND BUDGET DISBURSEMENT SCHEDULE

The 2011 budget, like previous budgets was prepared and implemented without a Cash Plan. Section 25 of the FRA mandates the Accountant-General of the Federation to draw up the Annual Cash Plan which is supposed to come in advance of the financial year. This Cash Plan sets out the projected monthly cash flows for the fiscal year. This responsibility has remained unfulfilled by the Accountant General of the Federation since the enactment of the FRA. The Annual Cash Plan is to be built up from the requests of MDAs and the cash flow projections as made available by revenue agencies, all these put together will determine the Annual Cash Plan.

Again, according to Section 26 of the FRA, the Minister of Finance is mandated to prepare a Budget Disbursement Schedule. This provision is imperative for the realization of the objectives set in the annual budget. The absence of this Schedule has continued to distort smooth and easy access to budgeted funds and eventual spending by MDAs. The above section of the Act mandates the Minister to prepare and publish a Disbursement Schedule derived from the Annual Cash Plan for the purpose of implementing the Appropriation Act.

2.4 EXCESS CRUDE ACCOUNT

The sum of N795.07billion accrued to ECA at the end of 2010. ECA was meant to stabilise the revenue streams of government arising from oil price volatility, warehouse savings in excess of the benchmark price and provide buffers in times of low revenue streams. Table 1 shows the accruals to ECA in the year 2011.

TABLE 1: INFLOWS AND OUTFLOWS INTO THE EXCESS CRUDE ACCOUNT IN 2011

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
INFLOWS: *Transfers To The Excess Crude Oil Account*	739.40	628.71	911.41	789.32	**3,068.84**
OUTFLOWS: P*ayment for petroleum product subsidy*	41.40	35.10	150.82	42.00	269.32
***Augmentation: Distribution among tiers of government*	8.01	265.99	793.67	707.07	1,774.74
Trf: Pet. Equity. Fund Management		4.50			4.50
**Trf: Int trf –SWF*				0.14	0.14
Total Outflow					**2,048.69**

**US$3b converted at N150/US$, * US$901,527.77 converted at N150/US$

Source: 2011 Fourth Quarter and Consolidated Budget Implementation Report

Accruals to the ECA in the first quarter of 2011 were based on the benchmark price of oil in 2010, which was $60pb considering that the 2011 budget had not been enacted.

Records reveal that most of the drawings from the ECA were made in contravention of the FRA. Withdrawals by section 36 of the FRA are to be made from ECA when the RCP falls below the predetermined level for a period of three consecutive months or may be appropriated in the following year for capital projects and programmes. For there to be inflows into ECA, it meant that oil was selling above the RCP which was fixed at $75. In the second quarter, the international market price averaged $117.36 and $113.46 in the third quarter. The price of oil was always above the RCP but there were no agreements between the three tiers of government to allocate such withdrawn resources to specific capital projects.

The President signed into law the Sovereign Wealth Fund on May 27, 2011 and a seed capital of $1 billion was set aside for its commencement.

2.5 CAPITAL BUDGET IMPLEMENTATION

The half year review of MDAs capital project implementation for 2011 reveals lapses in the implementation of capital projects. The scenario of poor capital budget implementation has become the norm. It is no longer unusual. The apologies this time is that 2011 is an election and transition year which requires the inauguration of a new cabinet. Also, the issues around the amendment of the 2011 budget added to the problem that culminated in the passage of the budget at the end of May 2011.

As at the end of June, an aggregate of N227.81billion had been released. Out of this amount, a total of N196.69 billion (or 86.34%) of the total releases had been cash-backed. Only N128.72 billion (or 65.44%) of the total amount cash-backed had been utilized by MDAs[4]. Further, comparing the total amount utilized to the actual capital released, only about 56.50% of the entire capital released for the quarter had been utilized.

However, the extent of utilisation varied across MDAs. The poorest performance came from about 11 MDAs (or 20.37%) that were yet to utilise any of their funds. Among them are: Women Affairs, Justice, Petroleum, Revenue Mobilization, ICRC and Special Duties. On the other hand, twenty-one (or 38.89%) of the MDAs including Works, Housing, Foreign Affairs, Commerce and Industry, Defence, Federal Capital Territory Administration (FCTA), Niger-Delta and Interior, each had utilization rates above the overall average utilization rate of 65.44%. Fifteen out of these (or 27.78% of the MDAs) including ICPC, Office of the Auditor General, Defence, FCTA, Interior, Works, Housing, Niger-Delta and FCSC had utilization rates of over 80% of their respective cash-backed releases[5]. The utilization report also shows that 28 MDAs (or 51.85%) which includes OSGF, Youth Development, Agriculture, Education, Finance, Health, Information & Communication, Science & Technology, Transport and Environment had below 50% utilisation rate.

TABLE 2: A SAMPLE OF MDAs CAPITAL BUDGET UTILIZATION (AS AT 30TH JUNE, 2011)

MDA	TOTAL AMOUNT RELEASED HALF YEAR	AMOUNT CASH BACKED	UTILIZATION		
	N	N	AMOUNT (N)	As % of Cash-backed Funds	As % of Total Budgetary Releases
Power	18,134,267,275	18,134,267,275	9,346,543,040	51.54	51.54
Transport	10,945,768,176	10,919,741,656	3,667,094,656	33.58	33.50
Heath	8,230,338,637	8,230,338,637	3,784,254,567	45.98	45.98
Agriculture	8,065,797,534	8,011,586,653	2,416,730,892	30.17	29.96
Water Resources	7,461,319,043	7,461,319,043	4,895,427,288	65.61	65.61
Education	6,015,954,256	6,015,954,256	2,048,241,226	34.05	34.05
Works	31,775,680,646	31,775,680,646	27,090,421,201	85.26	85.26
Niger Delta	16,899,179,340	16,899,179,340	15,937,470,257	94.31	94.31
FCTA	10,518,067,101	10,518,067,101	10,511,893,493	99.94	99.94
Police Formation & Commands	2,779,297,659	2,779,297,659	1,473,560,706	53.02	53.02
Total Average Utilization (by all MDAs)				**65.44**	**56.5**

Source: OAGF and Budget Office of the Federation

[4] 2011 Combined First and Second Budget Implementation Report, Budget Office of the Federation, Ministry of Finance, Abuja at page 19.
[5] 2011 Combined First and Second Quarter Budget Implementation Report, Budget Office of the Federation, Federal Ministry of Finance, Abuja at page 19.

Looking beyond the percentages, it is clear that if a total of N128.72billion has been utilized, it means that only 11.2% of the total N1, 146.75billion had been utilized at the end of the Second Quarter.

The Third Quarter, however, witnessed an encouraging increase over the two previous quarters. The implementation report for the Third Quarter states the following:

> *As at 30th September, 2011 an aggregate of N705.16 billion had been released..Of this amount, a total of N594.15 billion (or 84.26%) of the total releases had been cash-backed as at the period. It is noteworthy that only N333.07 billion (or 56.06%) of the total amount cash-backed amount had been utilized by MDAs as at 30th September 2011...*
>
> *A review of the fifty-four (54) MDAs reported upon by the Office of the Accountant-General of the Federation (OAGF) indicates varied levels of utilization. Twenty-one (or 38.89%) of the MDAs including Defence, Health, Education, Works, Federal Capital Territory Administration (FCTA), Niger-Delta and Science each utilized more than the overall average utilization rate of 56.06%. Eight out of these (or 14.81% of the MDAs) including Defence and FCTA had utilization rates of over 70% of their respective cash-backed releases. The report also shows that 28 MDAs (or 51.85%) which include Agriculture, Transport, Aviation, Housing, Power, Mines & Steel, Petroleum, Water Resources, Justice and Foreign Affairs had utilized less than 50% of their funds as at end of the period.*

TABLE 3: A SAMPLE OF MDAs' CAPITAL BUDGET UTILISATION (AS AT 30TH SEPTEMBER, 2011)

MDA	TOTAL AMOUNT RELEASED	AMOUNT CASH BACKED	UTILIZATION		
	N'BN	N'BN	AMOUNT N'BN	As % of Budgetary Releases	As % of Cash-backed Funds
Power	54,053,873,526	54,053,873,526	19,000,712,321	35.15%	35.15%
Transport	31,995,455,188	31,995,455,188	15,209,133,771	47.54%	47.54%
Heath	31,409,546,206	31,351,347,988	19,663,142,836	62.60%	62.72%
Agriculture	18,525,473,478	18,525,473,478	6,220,811,289	33.58%	33.58%
Water Resources	35,308,909,559	35,308,909,559	14,097,216,390	39.93%	39.93%
Education	25,448,546,608	25,448,546,608	14,882,439,560	58.48%	58.48%
Works	90,972,792,935	90,972,792,935	56,591,492,984	62.21%	62.21%
Niger Delta	31,238,240,231	31,238,240,231	21,765,512,505	69.68%	69.68%
FCTA	26,022,112,404	26,022,112,404	25,327,654,620	97.33%	97.33%
Police Formation & Commands	6,000,000,000	6,000,000,000	3,489,350,192	58.16%	58.16%
Total Average Utilization (by all MDAs)				**47.23%**	**56.06%**

Source: OAGF and Budget Office of the Federation

The Fourth Quarter Budget Implementation Report unlike the Third Quarter figuratively enjoyed a more impressive performance in capital utilization, given the extended period of implementation that exhausted in the First Quarter of 2012. The implementation report for the Fourth Quarter states the following:

> *A breakdown of the data from the Office of the Accountant General of the Federation (OAGF) revealed that as at 31st December, 2011 an aggregate of N864.32 billion had been released…. for the implementation of MDAs' capital projects/programmes as contained in the 2011 Appropriation Act. Of this amount, a total of N811 billion (or 93.87%) of the total releases was cash backed.*
>
> *The implementation of the capital budget in 2011 was extended to 31 March 2012 in order to give MDAs the opportunity to improve on the implementation of their capital projects. Data from the OAGF indicate a significant improvement in MDAs' utilization of funds as at 31 March 2012. The data also showed that only N713.14 billion (or 87.9%) of the total cash-backed amount had been utilized by MDAs as at 31st March 2012.*
>
> *An analysis of the fifty MDAs reported upon by the Office of the Accountant-General of the Federation (OAGF) indicates varied levels of capital votes utilization. Forty-three (or 86%) of the MDAs including: Agriculture, Education Water Resources, Works, Transport, Niger Delta, Defence, Federal Capital Territory Administration, Presidency, Trade & Investment and Information & Communication, each utilized more than the overall average utilization rate of 87.9% while thirty-eight out of these including Agriculture, Works, Power and Water Resources utilized more than 95% of their respective cash-backed releases. The utilization report further indicated that seven MDAs including Women Affairs and Petroleum Resources utilized less than 87.9%.*

TABLE 4: A SAMPLE OF MDAs CAPITAL EXPENDITURE (AS AT 31 MARCH 2012)

MDA	AMOUNT RELEASED	AMOUNT CASH BACKED	UTILIZATION (As at 31 March 2012)		
	N'BN	N'BN	AMOUNT (N)	As % of Cash-backed Funds	As % of Budgetary Releases
Power	61,147,181,783	61,147,181,783	58,530,660,168	95.72	95.72
Transport	36,770,357,001	36,770,357,001	33,017,394,991	89.79	89.79
Heath	38,784,861,735	38,716,448,282	32,165,117,841	83.08	82.93
Agriculture	21,500,826,679	21,500,826,679	21,427,365,648	99.66	99.66

Water Resources	41,044,420,516	41,044,420,516	40,891,264,274	99.63	99.63
Education	29,762,874,479	29,762,874,479	28,514,938,419	95.81	95.81
Works	114,034,179,411	114,034,179,411	113,511,176,356	99.54	99.54
Niger Delta	35,670,233,866	35,670,233,866	35,668,343,774	99.99	99.99
FCTA	29,999,108,890	29,999,108,890	29,998,145.00	100	100
Police Formation & Commands	6,453,387,238	6,453,387,238	246,049,271.00	99.99	99.99
Total Average Utilization (by all MDAs)				**87.90**	**82.51**

Source: 2011 Fourth Quarter and Consolidated Budget Implementation Report

Essentially, from a capital budget of N1,146.75billion, only N713.14billion was utilised after the extension of the capital budget year to the end of March, 2012. This is only 62.19% utilisation rate; this is very poor and would have been worse if the financial year was not extended.

Through a field assessment of a number of capital projects, the Implementation Reports reveal that MDAs still face some of the challenges that have become recurring constraints in the implementation of capital projects. The predominant of these challenges are:

- A large number of ongoing capital projects resulting in insufficient funding for individual projects were observed;

- There were indications that a number of capital projects are being implemented without final project designs;

- There were several outstanding requests for the variation of contract terms and conditions suggesting a need for better conceptualization, design and implementation of MDAs’ capital projects;

- The monitoring exercise, in some cases, was hampered by lack of cooperation from project staff of some MDAs. Where the projects are located in obscure and very distant locations, it became impossible to locate the projects for monitoring.

2.6 REVENUE FORECAST VERSUS THE ACTUALS

2.6.1 OIL REVENUE

The benchmark oil production level for the 2011 budget was 2.30 mbpd while the RCP was put at US$75 per barrel. Crude oil price averaged US$117.36 per barrel in the second quarter, indicating an increase of 11.8% over what was recorded in the first quarter and representing a 56.48% increase over the budget benchmark price of US$75 per barrel. The second quarter oil production level was 2.36 mbpd being a decrease of 0.07 mbpd (or 2.88%) compared with the first quarter figure of 2.43 mbpd; and an improvement of 0.06 mbpd (or 2.61%) over the budget benchmark oil production level of 2.30 mbpd[6]. Though the Federal Government's expected share of oil revenue in the first quarter was put at N586.66, the actual recorded share was N360.95.

From reports, as at June 2011, the gross crude oil sales of N2,004.98 billion, royalties of N505.44 billion and petroleum profit tax of N1,190.98 billion exceeded their respective projected estimates by N95.05 billion (or 4.98%), N188.17 billion (or 59.31%) and N227.22 billion (or 23.58%). All other oil revenue items like gas and other related receipts underperformed. The Federal Government's Share of Oil Revenue for the second quarter was N352.23 as against the expected quarterly share of N586.68. It is important to point that due to the late passage of the 2011 Budget; distributable oil revenue in the first half of the year was provisionally computed using the 2010 Oil benchmark assumptions of $60pb which was lower than the $75pb subsequently approved in the 2011 budget. Consequently, while gross oil revenue receipts have exceeded the estimates, net-oil revenue inflow into the Federation Account in the second quarter was N726.44 billion. This is lower than N1,209.62 billion projected for the quarter by N483.17 billion (or 39.94%).

By the third quarter, crude oil price averaged US$113.46 per barrel in the international market, indicating a decline of US$3.9 (or 3.32%) per barrel below US$117.36 recorded in the second quarter. This is however, higher than the benchmark price of US$75 per barrel by US$38.46 (or 51.28%) per barrel. There was also an improvement of 0.15 mbpd (or 6.52%) over the benchmark oil production level of 2.3 mbpd.

In the fourth quarter of 2011, data from the NNPC indicates that crude oil price averaged US$109.31pb in the international market. During the year, crude oil price oscillated between US$93.70 and US$126.64pb and averaged US$111.28 pb, an increase of US$30.36 (or 37.52%) over the average price of US$80.92 per barrel recorded in 2010. The rise in oil prices in the international market was largely attributable to global socio-political crises particularly in the Middle-East and North Africa (MENA) region. A report from the NNPC indicates an average oil lifting (Condensates inclusive) for the fourth quarter of 2011 as 2.33 mbpd. This was lower than the production of 2.38mbpd in the third quarter of 2011 by 0.05 mbpd and exceeds the benchmark target by 0.03 mbpd. In view of the gradual recovery of the global economy, the FGN received N469.61 billion as its share of oil revenue. This however, was lower than the quarterly estimate of N586.66, billion by N117.06 billion (or 19.95%). Table 5 shows the inflow to FGN through all four quarters.

[6] Combined First and Second Quarter Budget Implementation Report at page 7.

TABLE 5: INFLOWS OF OIL REVENUE INTO THE FEDERAL BUDGET, 2011

Item	Amount (N billions)
Annual Share of Oil Revenue	2,346.66
Quarterly Share of Oil Revenue	586.66
Share in three quarters	1,759.99
Actual in Quarter 1	360.95
Actual in Quarter 2	352.86
Actual in Quarter 3	510.94
Actual in Quarter 4	469.61
Actual in All 4 quarters	**1,694.35**

Budget Implementation Reports 2011

2.6.2 NON OIL REVENUE

Non-oil revenue of the FGN includes Company Income Tax (CIT), Value Added Tax (VAT), Customs and Excise, independent revenue, balance in special accounts and the unspent balance from previous year. Table 6 shows the accruals from non oil revenue over the four quarters.

TABLE 6: INFLOWS OF NON-OIL REVENUE INTO THE FEDERAL BUDGET, 2011

Item	Amount (N billions)
Annual Share of Non- Oil Revenue	860.27
Quarterly Share of Non- Oil Revenue	215.07
Actual in Quarter 1	153.18
Actual in Quarter 2	189.50
Actual in Quarter 3	239.49
Actual in Quarter 4	211.80
Actual in All 4 quarters	**793.97**

Source: Budget Implementation Reports 2011

The Combined First and Second Quarter Budget Implementation Report indicate the following:

> *Cumulatively, the gross non-oil receipts in the first half of 2011 amounted to N760.94 billion depicting a shortfall of N200.23 billion (or 20.83%) below the half year projected estimate of N961.17 billion. The performance also revealed that all the non-oil revenue items fell short of their respective projected half year estimates. Value Added Tax of N307.11 billion, Customs & Excise Duties of N194.34 billion and Company Income Tax of N259.50 billion fell short by 20.24%, 13.63% and 26.09% when compared with their respective half year projections. It is noteworthy that some of these items often come in later in the year when remittances pick up, so we expect improvements, going forward.*

Looking through the Third Quarter Budget Implementation Report, the following was revealed:

> *In the third quarter of 2011, the actual gross non-oil revenue was N547.52 billion indicating an improvement of N66.94 billion (or 13.93%) over the*

projected quarterly estimate of N480.58 billion. The breakdown of the non-oil revenues revealed that Customs & Excise Duties (N112.87 billion) and Company Income Tax (N256.96 billion) were higher than their respective quarterly budgeted estimates of N112.50 billion and N175.56 billion by N0.37 billion (or 0.33%) and N81.40 billion (or 46.36%). On the other hand, Value Added Tax (N177.7 billion) had a negative variance of N14.83 billion (or 7.7%) when compared with its quarterly estimate of N192.52 billion. This may be linked to the dip in non-oil output. Comparing these performances with their second quarter performance of N159.7 billion, N102.92 billion and N133.46 billion showed that receipts on Value Added Tax, Customs & Excise Duties and Company Income Tax improved by N18 billion (or 11.27%), N9.95 billion (or 9.67%) and N123.50 billion (or 92.54%) respectively.

The Federal Government's expectation from non-oil revenue was N860.27 billion at a quarterly inflow of N215.07billion. By the end of the year, the actual receipt was N793.97bn representing a shortfall of N66.3bn. Although FGN did not meet the projections, the variance is not substantial.

Chapter Three

BORROWING AND DEBT MANAGEMENT

3.1 DEBT SUSTAINABILITY ANALYSIS 2011- THE SCENARIOS

The Debt Sustainability Analysis (DSA) 2011 was carried out by the National Debt Sustainability Analysis Team led by the Debt Management Office. The Team includes representatives from the Federal Ministry of Finance, National Bureau of Statistics, Central Bank of Nigeria, National Planning Commission and the Budget Office of the Federation. The analysis, just like that of the previous year, was carried out without any representative of the FRC. The reason(s) for excluding a representative of the FRC in the Team appears a bit tenuous considering the tasks assigned to the FRC in debt matters under the FRA.

However, a landmark achievement of the 2011 analysis is the inclusion of the debt data of some states. The data from twenty-two states were actual while the remaining (14 plus Abuja) were staff estimates. This new development may have arisen from the need to comply with the provisions of Section 44 (5) of the FRA which, mandates the DMO to maintain comprehensive, reliable and current electronic database of internal and external debts, guaranteeing public access to the information. Thus, total public debt in this report refers to both domestic and external debts of the Federal and State Governments of Nigeria except where the context otherwise refers. The 2011 DSA was conducted using the updated World Bank/IMF Debt Sustainability Framework (DSF) Template for Low Income Countries (LIC) - DSF LIC Template release in February, 2011[7]. The purpose of the DSA is reported as follows:

- Provide an update of the preceding year's DSA;
- Identify government's new borrowing requirements and funding options;
- Provide inputs into the 2012-2014 Medium Term Expenditure Framework (MTEF)
- Make recommendations on how to improve public finance management; and
- Provide a training platform for debt managers

The DSA used three Scenarios – the Baseline, Optimistic and Pessimistic Scenarios. The Baseline Scenario applied the approved key parameters of the 2011 Federal Budget; the Optimistic Scenario evaluated debt sustainability within the context of

[7] See the report of the Annual Debt Sustainability Analysis 2011, Debt Management Office, 2011 at page 3.

Vision 20:2020; while the Pessimistic Scenario assumed some extreme shocks on key macroeconomic indices of Nigeria's economy.

In the Baseline Scenario[8]:

> *Under the Baseline Scenario, the DSA shows that the present value (PV) of the debt-to-GDP, debt-to-export and debt-to-revenue ratios did not violate the thresholds throughout the projection period. Similarly, the debt service-to-export and debt-service-to-revenue ratios were maintained below the thresholds within the projection period. In addition, the debt-burden indicators remain well below the thresholds for 2011-2030. Specifically, the PV of total (Federal and States external and domestic) debt-to-GDP ratio stood at 25.7% in 2011, and thereafter, fell over the rest of the projection period to just 2% up to 2030.*

Under the Optimistic Scenario[9]:

> *The Optimistic Scenario, including the standardised stress test shows relatively robust result. The total debt-to-GDP ratio dropped from 25.6% in 2012 to 6.8% for 2030. These are well below the 40% threshold. The PV of debt-to-revenue ratio also remained sustainable, except in 2012 when the*

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[8] (a) The Baseline Scenario is predicated on the following macroeconomic assumption: **Average GDP Growth Rate:** Assumed a GDP growth rate of 7% for 2011 and an average of 7.6% for 2012-2030. The growth would be driven mainly by the non-oil sector, with agriculture playing the leading role; (b) ***Inflation Rate*****:** using a double digit rate of 11.5% for 2011 and a single digit rate of 9.54%, thereafter for the remaining projection periods of 2012-2030. This is in accordance with the West African Monetary Zone (WAMZ) performance criteria; (c) **Oil Price:** projected at $65/pb for 2011, and to average $70/pb over 2012-2030. Other assumptions include (d) **Crude Oil Production :** estimated at 2.3mbpd for 2011, and an average of 2.4mbpd for 2012-2030. This is anchored in the continued effective implementation of the federal government's Amnesty Programme for the Niger Delta region and the successful implementation of the Petroleum Industry Bill (PIB) when passed; (e) **Budget Deficit for the Federal Government:** projected at 2.96% in 2011, and to average 1.28% for 2012-2020 and 0.26% for 2021-2030 respectively (f) **Consolidated State Government Deficit/GDP Ratio:** projected to rise by 0.5% in 2011, and to average 0.25 and 0.44% for 2012-2020 and 2021-2030 respectively.

[9] The Optimistic Scenario used the following macroeconomic indicators: (a) **Average GDP Growth Rate:** Assumed a real GDP growth rate of 10.9% for 2011 and 13.4% for 2012-2030. Growth is to be driven mainly by the non-oil sector, particularly manufacturing and the service sectors; (b) **Inflation Rate:** a single digit rate of 9% for 2011 and an average of 6.8% over 2012-2030 were used for the analysis; (c) **Oil Price:** projected average of $86.67/pb for 2011, and a range between $75 -$86.67/pb over 2012-2030; (d) **Crude Oil Production:** assumed 2.3mbpd for 2011, and an average of 3.4mbpd over 2012-2030. Other indicators include (e) **Budget Deficit for the Federal Government:** estimated at 3.62% of the GDP in 2011, an average of 1.11% over 2012-2020 and 0.16% for 2021-2030 and (f) **Consolidated State Government Deficit/GDP Ratio:** projected to rise by 5.3% in 2011, and to average 1.57% and 0.18% for 2012-2020 and 2021-2030 respectively.

ratio briefly exceeded the target of 250% by 400 basis points. The PV of debt to revenue fluctuated in 2012 through 2023, (three years after the terminal date of Nigeria Vision 20:2020) after which it moved steadily downwards. The relatively high debt-to-revenue ratio is attributable to the huge financial resources required to fund Nigeria's Vision 20:2020, the bulk of which is expected to be through debt.

Under the Pessimistic Scenario[10]:

The Pessimistic Scenario proceeds from the premise that the fiscal position of the government will be weak. In the absence of an appropriate fiscal policy response to a prolonged oil price shock, government spending is expected to deplete foreign reserve. As a result, the country's public debt-to-GDP ratio will be 21.7%, 17% and 9.9% in 2011, 2012 and 2013, respectively and thereafter drop to 0.9% up to 2030. The total debt service-to-revenue ratio is projected to fluctuate sustainably in the first half of the programme period to 32.9% by 2021 and then drop steadily by more than half to 14.5% up to 2030. The breaching of the 30% global benchmark in the early years of the projection period is due to the current account deficit occasioned by low oil price on federal revenue coupled with the delay in developing other sources of revenue. These notwithstanding, the outcome of the pessimistic scenario showed that Nigeria's debt profile remained robust and are within the global thresholds.

The key recommendations of the DSA 2011 are that Nigeria is currently at a low risk of debt distress. In order to sustain this position, additional policy initiatives are recommended as follows:

- ❖ Nigeria's Country-Specific Debt Burden Indicator threshold of 25% debt to GDP ratio for total public debts set for 2010 to 2014, relative to the recommended international threshold of 40% for medium performers, should be sustained.

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[10] The Pessimistic Scenario is based on the following macroeconomic indicators (a) **Average GDP Growth Rate:** Assumed a real GDP growth rate of 4.5% for 2011 and 3.9% for 2012-2030. It is also assumed that the collapse of government's amnesty programme for the Niger Delta militant will renew hostility in the region and lead to a drop in oil output; (b) **Inflation Rate: projected at 15%** for 2011 and an average of 18% over 2012-2030; (c) **Oil Price:** a conservative price of $42.5/pb was used for the whole of 2011-2030. This is based on the assumption that the crisis in the Middle-East would abate and thereby, help the region to increase oil supply to the market to levels that more than compensate for shortfall(s) in output that may arise in the event that hostilities in the Niger Delta region of the country re-emerges. In addition, it is taken the global oil supply would exceed demand causing price to fall, and the OPEC will not be able to regulate supply to the market effectively; (d) **Crude Oil Production:** this is projected at 2.3mbpd for 2011, and an average of 1.7mbpd over 2012-2030 in the event that global economic growth relapses to 2007 and 2008 levels. Other indicators include (e) **Budget Deficit for the Federal Government** projected at 3.62% in 2011, average 4.02% over 2012-2020 and 1.04% from 2021-2030 respectively and (f) **Consolidated State Government Deficit/GDP Ratio:** it is assumed to rise by 5% in 2011 and average 4.93% and 2% for 2012-2020 and 2012-2030 respectively.

- Since the FGN alone cannot fund the infrastructural projects and programmes under the Vision 20:2020, given the huge size of capital outlay (N6.7trillion 2010-2013) required, there is need to expand the sources of funding in order to maintain debt sustainability. The DMO is fine-tuning a framework for the issuance of sovereign guarantee to private sector corporates to enable them undertake the development of commercially viable, national priority projects in the country and relieve the government of the need to borrow to fund such projects.

- Government's contingent liabilities outstanding as at end 2010 was N2.59trillion or 8.86% of GDP. This is projected to rise to 9.16% of the GDP in 2011 and should be kept at not more than 15% of GDP over 2011 to 2020, so that the consolidated total public and publicly guaranteed debts to GDP ratio does not exceed the 40% international threshold. By the end of 2011, the contingent liabilities stood at N3,478.38 trillion which is 9.32% of the GDP[11]. This exceeded the projections of the 2011 DSA.

- The 3.0trillion FGN securities (AMCON bonds) maturing in 2011 through 2013 have inherent refinancing risks. The DMO will have to employ the strategies of debt-buy-back and switching to help the refinancing risks.

- In addition, the FGN will be encouraged to introduce sinking funds for new issuance of FGN bonds to minimize future redemption and refinancing risks of maturing obligations.

- Under the Optimistic Scenario, Nigeria could borrow $9.5billion in 2012. This was however considered to be too ambitious in view of the assumptions under which the simulations were undertaken vis-a vis the prevailing local and global economic conditions. It was therefore, deemed appropriate to estimate the borrowing limit for 2012 within the context of the Country Specific Debt to GDP threshold of 25% prescribed for 2010-2-014 and utilise part of the available borrowing space left at the end of 2011. It is expected that the Debt to GDP ratio will reach 22.2% by the end of 2011 thereby leaving a borrowing space of 2.8% for the next three years[12].

The general conclusions of the DSA is that Nigeria's debts are sustainable and within the threshold recommended for medium term performing countries which is Nigeria's rating under the World Bank Country Policy and Institutional Assessment Index[13]. However, a review of the debt tables showing the actual debt situation and debt repayments will throw more light on the sustainability of the debts especially when payments are compared with what is being spent on infrastructure and capital projects. This is in view of the fact that the infrastructure deficit has been acclaimed as holding back Nigeria's development strides.

3.2 OUTSTANDING PUBLIC DEBT AS AT DECEMBER 2011

[11] DSA 2012 at page 47.
[12] All the bulleted points are taken 2011 DSA at pages 5-6 except where otherwise indicated.
[13] Nigeria has a rating of 3.44 under the Index.

According to the 2012 DSA:

> *Nigeria's total public debt stock rose sharply in the last three years up to 2011. The external and securitized domestic debt of the Federal and State Governments was US$47,898.11 million at the end of 2011, representing an increase of US$7,798.11 million or 19.45 percent over the level at the end of 2010. The total domestic debt stock of the FGN was US$35,882.86 million or 74.92 per cent of the total public debt stock, while the total domestic debt of the sub-nationals was US$6,348.57 million or 13.25 per cent. Altogether, the total domestic debt of the Federal and State governments was US$42,231.43 million or 88.17 per cent of total debt, while the remaining 11.83 per cent of the total represent external debt. The share of the domestic debt has continued to dominate the trend in the total public debt since 2007.*

Table 7 shows the trend, the trajectory of the country's indebtedness and the Total Public Debt Stock Outstanding 2007- 2011

TABLE 7: TOTAL PUBLIC DEBT OUTSTANDING, 2007-2011 (US$ MILLION)

Type	2007	2008	2009	2010	2011
External Debt Stock	3,654.21	3,720.36	3,847.30	4,578.77	5,666.58
% share of Total Debt	*(16.44)*	*(17.39)*	*(15.29)*	*(11.42)*	*(11.83)*
As % of GDP	*(2.23)*	*(1.82)*	*(2.37)*	*(2.01)*	*(2.38)*
Domestic Debt Stock	18,575.67	17,678.55	21,870.12	30,514.33	35,882.86
% share of Total Debt	*(83.56)*	*(82.61)*	*(84.71)*	*(76.10)*	*(74.92)*
As % of GDP	*(11.31)*	*(8.65)*	*(13.13)*	*(13.39)*	*(15.07)*
States Domestic Debt	NA	NA	NA	5,006.90	6,348.57
% share of Total Debt	*0*	*0*	*0*	*(12.48)*	*(13.25)*
As % of GDP				*(2.20)*	*(2.67)*
TOTAL	**22,229.88**	**21,398.91**	**25,817.42**	**40,100.00**	**47,898.11**
As % of GDP	***(13.54)***	***(10.47)***	***(15.50)***	***(17.20)***	***(20.12)***

Source: DSA 2012

The sustainability of a 19.45% increase in public debts over a 12 months period is doubtful and the quantum of increase seems not to be best a practice or a practice worthy of replication.

TABLE 8: TOTAL PUBLIC DEBT SERVICE PAYMENTS, 2007-2011 (US$ MILLION)

Type	2007	2008	2009	2010	2011[1]
External Debt Stock *% share of Total Debt*	1,022.04 (32.09)	464.63 (11.46)	428.04 (18.33)	354.42 (8.53)	351.62 (6.68)
Domestic Debt Stock *% share of Total Debt*	2,162.91 (67.91)	3,590.67 (88.54)	1,907.45 (81.67)	2,373.98 (57.16)	3,429.42 (65.16)
States Domestic Debt *% share of Total Debt*	*NA* *0*	*NA* *0*	*NA* *0*	1,424.94 (34.31)	1,481.81 (28.16)
TOTAL	**3,184.95** **(100)**	**4,055.30** **(100)**	**2,335.30** **(100)**	**4,153.34** **(100)**	**5,262.85** **(100)**

[1] Official CBN Exchange Rate of N156.7/US$ as at 31/12/11. Source: DSA 2012

If the total debt payment of $5,262.85 is converted into Naira at the above rate of N156.7 to 1USD, it will amount to N824.688b. However, a total of N864.32b was released for capital expenditure while N811b was cash backed. Actual utilisation after the extension of the 2011 fiscal year to March of 2012 was N713.14b. Thus, debt repayment exceeded capital expenditure by N111.54b. This questions the sustainability theory as postulated in the DSA for an economy held back by infrastructure deficit.

The fact that a good number of these loans are not tied down to specific projects as contemplated by the FRA questions their legality and propriety. We have a situation where borrowed monies are not invested in regenerating projects that can facilitate repayment at a future time. For a country running an economy dependent on a commodity (oil - which it has no control over its price) to pretend that it is using international standards to gauge its debt sustainability is indeed embarking on an exercise in self deception. A strong oil shock will send all these scenario assumptions to the cleaners and the country will find it difficult to pay the salaries of public servants and will likely default on these debt obligations.

The 2011 DSA recommended a maximum government borrowing for 2012 as follows:

> *In the final analysis, the borrowing limit for 2012 is estimated at N186.14billion and $0.90billion for domestic and external sources respectively. This will add a marginal increase of 0.87% to debt to GDP ratio of 22.2% expected by end 2011, to attain a new debt/GDP ratio of 23.07% at the end of 2012 in order to remain within the*

Country-Specific threshold of 25% and also leave some borrowing space for 2013 and 2014[14].

However, the FGN on Tuesday 14 February 2012 presented before NASS a request for approval of pipeline projects of US$7.9 billion under the Medium Term (2012-2014) External Borrowing Plan. The details consist of about US$2.64 billion per year for the said period. This is clearly in breach of the recommendations of the DSA.

3.3 FEDERAL GOVERNMENT'S DOMESTIC BORROWING

The ever growing domestic debt of the country has continued to be a major source of concern to many. The worry now is not only on the quantum of the debt stock but on its crowding out effect on the private sector of the economy. Domestic credit to private sector refers to financial resources provided to the private sector, such as loans, purchases of non equity securities, and trade credits and other accounts receivable that establish a claim for repayment. The domestic credit to the private sector as a percentage of the GDP is reported to be on the decline over the past five years. According to a World Bank report, domestic credit to private sector (as a percent of GDP) in Nigeria was reported at 33.91 in 2008, 38.59 in 2009 and 29.43 in 2010.[15] This decline in the private sector share of domestic credit is not unconnected to the increase in the government's share of the credit. Though the 2011 Half Year Report of the Central Bank of Nigeria shows that direct credit to the government has decreased over the preceding year, this decrease is, however, more than offset by the increased investment in treasury securities by the banking system. This investment is reflected mainly in FGN bonds, which rose by 6.9 per cent as at end-June 2011, compared with 26.8 per cent at the end of the corresponding period of 2010[16].

TABLES 9: TREND OF DOMESTIC DEBT OUTSTANDING BY INSTRUMENT, 2007-2011 (=N= BILLION)

INSTRUMENT	2007	2008	2009	2010	2011
FGN BONDS	1,186.16	1,445.60	1,974.93	2,901.60	3,541.20
NIGERIA TREASURY BILLS	574.92	471.93	797.48	1,277.10	1,727.91
TREASURY BONDS	407.93	402.26	392.07	372.90	353.73
DEVELOPMENT STOCK	0.62	0.52	0.52	0.22	-
PROMISSORY NOTE	-	-	63.03	-	-
TOTAL	**2,169. 63**	**2,320.31**	**3,228.03**	**4,551.82**	**5,622.84**

Source: DSA 2012 at page 21

[14] DSA 2011 at page 6.
[15] See Trading Economics, an online magazine on http://www.tradingeconomics.com/nigeria/| WORLD BANK
[16] 2011 Half Year Report of the Central Bank of Nigeria

According to the 2012 DSA[17]:

> *The total domestic debt service payments was N537,390.57 million in 2011. Comparative analysis …shows that this is about 51.75 percent higher than the level in 2010. The total domestic debt service payments as a percentage of the total domestic debt stock outstanding was 9.56 percent in 2011, which was higher than the 7.78 percent recorded in 2010. The increase in debt service-to debt stock ratio is due to the rise in the cost of borrowing in the domestic debt market, following successive increases in the CBN's benchmark monetary policy rate (MPR) in the course of the year. The CBN raised the MPR from 6.25% to 12% in 2011.*

The Monetary Policy Committee of the CBN at its meeting held on March 19 and 20, 2012 in Communiqué No. 82 states inter alia[18]:

> *The Committee is also concerned about the rising level of domestic debt and its sustainability, as shown by the average debt service to revenue ratio of 17.6 per cent in the last three years. This would likely have a negative impact on domestic interest rates and the flow of credit to the core private sector, among others. Although debt to GDP ratio in 2011 stood at 17.8 per cent, the Committee noted that the percentage of debt service to government revenue was a high 19.1 per cent in the same year. In view of the high interest rate environment occasioned by tight monetary policy stance, a moderation in government borrowing would be positive not just for the fiscal position but for access to finance by the private sector. After reviewing the overall fiscal position, the Committee commended the fiscal authorities for the discipline being introduced into government spending, the tightening of fiscal controls and the renewed focus on spending on capital projects.*

Significant moderation in government borrowing has become inevitable in the light of the present situation. The crowding out effect on the private sector of the economy has become unprecedented as interest rates increases have lead to rising cost of doing business in recent times. As pointed out by the Committee, such moderation on the part of the FGN is also necessary for the fiscal health of the government. This admonition is appropriate since the enlarged budget deficit of the federal government is mainly financed through the sale of FGN bonds and Treasury bills (T-bills) at higher rates of between 15 and 19 percent as against riskier and less attractive rates offered in the money market.

3.4 SUBNATIONAL DEBTS

[17] DSA 2012 at page 21.
[18] Under the sub-heading;"*The Committee's Considerations*".

Previous DSA reports recounted steps that have been taken by the DMO, National Planning Commission and the National Bureau of Statistic to reverse the challenge of lack of data on the domestic debt of sub-national governments. Such efforts have certainly paid off as the 2011 DSA recorded an improvement over the previous years' exercise due to the availability of States' debt data. The 2011 DSA report of the DMO presented the domestic debt of the States of the Federation for the first time. The states' domestic debt as a share of the overall public debt for the Federation was 12.48% while that of the Federal Government was 76.10%. The rest 11.42% was for the total external debt of the federation. By the 2012 DSA, FGN domestic debts stood at $3,429.42 being 65.16% of the overall debt position while state domestic debts stood at 1,481.81 being 28.16%. The remaining $351.62 being 6.68% is for external debts.

According to the 2012 DSA[19]:

> *The total domestic debt of the 36 States in 2011 was N994.82 billion as against N796.19 billion in 2010, indicating an increase of 24.95 percent. The increase was due to accumulation of arrears and new issuance of bonds in the capital market by some State Governments. Data analysis show that there was a notable change in tenor as the share of short-term debt dropped from 86 per cent in 2010 to 68 per cent in 2011, while the share of the medium/long-term debts increased from 14 per cent in 2010 to 32 per cent in 2011. This is an indication of some of the positive results of the DMO's capacity building efforts towards effective debt management at the sub-national levels over the years.*

Table 10 shows States Domestic Debts by Maturity.

TABLE 10: STATES' DOMESTIC DEBT BY MATURITY (IN NAIRA)

DESCRIPTION	2010	2011
SHORT - TERM DEBT	684,685,106,586.66	680,836,846,573.59
MEDIUM/LONG-TERM	111,500,000,000.00	313,984,328,626.84
TOTAL	796,185,106,586.66	994,821,175,200.43
% of Short-term debt to Total	86%	68%
% of Med/Long-term debt to Total	14%	32%

Source: DSA 2012

No matter the justification, an increase of 24.95% in States Domestic Debts in one year is outrageous and not a best practice worthy of replication. Also, a high rate of short term debts shows a likely mismatch between the debts and purposes for which

[19] See page 22 of the 2012 DSA.

they have been procured. Most states would have borrowed for long term capital projects like roads and schools while the terms of the loan are short.

Another important point on the borrowing of these sub-national entities is that it is done in contravention of the FRA. This is because the short-term loans, which constitute 68% of total sub-national domestic debt, would not have come on concessional rate from the commercial banks[20]. Reports from the CBN show that the average lending rate of Commercial banks never went below 15% in 2011. Perhaps in realization of the very high cost of borrowing from the commercial banks, State Governments are beginning to lean more towards the capital market to raise capital for their spending obligations.

Throughout 2011, commercial banks' credit to government has continued to decline. The move towards the bonds market has become very obvious. According to reports from the Nigerian Securities and Exchange Commission, State Governments alone issued bonds worth N97billion in 2011, while quoted companies and corporate organizations raised bonds worth N87bn. Findings reveal that four states got approval to raise bonds in the year under consideration. Delta State issued a N50bn bond after receiving approval from the Securities and Exchange Commission on September 29, 2011. In addition, late last year, SEC approved the N25bn Ekiti State Government bond, which the government later said was oversubscribed. The Benue State Government got SEC's approval on May 26, 2011 to issue a bond worth N13bn; while the Niger State Government got regulatory approval on September 22, 2011 to issue a bond valued at N9bn. Currently listed on the Nigerian Stock Exchange are 53 fixed income securities divided into 27 Federal Government bonds; 11 State Government bonds and 15 corporate bonds.

Table 11 shows the States 2011 Bond Applications/SEC Approvals as at 31st October, 2011.

TABLE 11: STATES' 2011 BOND APPLICATIONS/SEC APPROVALS AS AT 31ST OCTOBER, 2011

S/N	ISSUER	ISSUE TYPE	COST OF ISSUE	ISSUE RATING & FEE	USE OF PROCEEDS	STATUS
1	Ondo State Government Application filed on September 30, 2011	Proposed offer for subscription of N27 Billion Fixed Rate Infrastructure Development Bond under the N50 Billion	To be Determined	To be determined	Infrastructural development	Incomplete filing. Yet to file Rating Report and ISPO

[20] Concessional term is defined in the interpretative section of the FRA to mean that the terms of the loan must be an interest rate not exceeding 3 percent.

		debt issuance programme (Series 1) 2011/2018				
2	Ekiti State Government Application filed on July 25, 2011	Proposed Shelf Registration of N25 Billion debt issuance programme of Ekiti State Government	3.15% of gross proceeds	'A' Agusto & Co. 'A-' Global Credit Rating N15 Million (0.08%)	To finance road constructions, water works expansion and an International market	Confirmation on ISPO from the Ministry of Finance is Outstanding
3	Delta State Government Application filed on August 23, 2011	Proposed offer for subscription of N50 Billion at 14% Fixed Rate Infrastructure Development Bond under the N100 Billion Debt Issuance Programme (Series 1) 2011/2018	4.3% of Gross Proceeds plus 2.5% Underwriting Fee	'A+' Agusto & Co	Infrastructural development	Approved on September 29, 2011.
4	Niger State Government Application filed on January 4, 2011	Proposed offer for subscription of N9 Billion at 14% Fixed Rate Infrastructure Development Bond under the N30 Billion Debt Issuance Programme (Series 1) 2011/2017	4.3% of gross proceeds Plus 2.75% Underwriting Fee	'A-' Agusto & Co. N10 million (0.11%)	Infrastructural development	Approved on September 22, 2011
5	Benue State Government Application filed on November 11, 2010	Proposed offer for subscription of N13 Billion at 14% Fixed Rate Development Bonds – 2010/2015	2.86% of gross proceeds plus 5% Underwriting Fee	'A-' Agusto & Co. N5.2 Million (0.04%)	To fund on-going projects and re-finance existing debt obligations	Approved on May 26, 2011

Source: SEC Website

3.5 THE FISCAL RESPONSIBILITY COMMISSION AND DEBT MANAGEMENT

Section 42 of the FRA mandates the Fiscal Responsibility Commission as follows:

(3) For the purpose of verifying compliance with the limits specified pursuant to this section, the Commission shall at the end of each quarter, determine the amount of the Consolidated debt of each tier of government;

(4) The Commission shall publish, on a quarterly basis, a list of the Governments in the Federation that have exceeded the limits of consolidated debt, indicating the amount by which the limit was exceeded.

(5) Where at the end of any quarter, the consolidated debt of the Federal, State or Local Governments exceeds the respective limits, it shall be brought within the limit not later than the end of the three subsequent quarters with a minimum of 25% reduction in the first quarter,

(6) Violators of the limits specified pursuant to this section shall-

> *(a) be prohibited from borrowing from internal or external sources, except for the refinancing of existing debts; and*
>
> *(b) bring the debt within the established limit by restricting funding commitments accordingly.*

Reports from the FRC reveals that it has made some efforts to get the three tiers of government to comply with this provision. The 2010 Report of the FRC reveals some of its efforts in this direction:

In 2010, all the tiers of government engaged in domestic borrowing. The Federal Government borrowed mainly from the capital market. The State Governments borrowed from the capital and money (commercial banks) markets, while the Local Governments borrowed from the money market or commercial banks. No tier of government complied fully with the conditions for borrowing in the domestic markets as stipulated by the FRA, 2007. Since 2009, many requests have been placed on the DMO by the FRC to provide it with database of the external and domestic debts of the federal State and Local Governments…

Not satisfied with the response from the DMO over the years, the FRC, in 2010, addressed a letter to the 36 States and FCT to furnish the Commission with database on their consolidated financial positions, clearly stating their outstanding external and domestic debts as at 30 June 2010, respectively. Early in 2011, officials of the FRC were sent to the states and FCT to obtain the same data earlier called for in a letter. As at today, only 6 States have responded, out of which 2 States disclosed their domestic debts. The other States were either silent on, or reported nil, domestic debt. The remaining *thirty states and the FCT are yet to make any response. FRC will continue to press until all respond.*[21]

The foregoing reflects the efforts of the FRC in ensuring compliance with the consolidated debt provisions of the FRA. But the good news is that the 2011 DSA has disclosed the overall debt situation of the Federal Government and the States. While 22 States provided actual data, 14 were based on staff estimates. Thus, the FRC can begin its work on ensuring compliance with the available information in 22 States while pressing for more.

3.6 LIMITS ON CONSOLIDATED DEBT OF THE FEDERAL, STATE AND LOCAL GOVERNMENTS

The President has consistently failed and refused to comply with the provisions of the FRA as it concerns setting the overall limits for the amounts of consolidated debt of the Federal, State and Local Governments. The Act, in Section 42 (1) mandates the President within 90 days from the commencement of the Act, with advice from the Minister of Finance and subject to the approval of NASS to set the overall limits for the consolidated debt of the Federal, State and Local Governments pursuant to the provisions of Items 7 and 50 of Part 1 of the Second Schedule to the Constitution. However, the President has not set such limits. The absence of this limit has made it practically impossible for the FRC to carry out the provision on section 42(3), which requires the Commission to verify compliance with the set limit. From the foregoing, it is clear that the responsibility of the Commission in this regard is only relevant to the extent that the limits are set by the authorities. It is obvious that from the experiences of previous years that the political will to set such limits is lacking.

The Commission in its 2010 Report had explained its efforts over the past years to get the respective authorities to set the limits on consolidated debt of Federal, State and Local Governments:

Section 42(1) of the FRA, 2007 requires the President and National Assembly (NASS) to fix limits of consolidated debt for the three tiers of Government. Since 2009, no fewer than three letters have been addressed to the Minister of Finance to initiate action in this regard. The Minister once replied to the Commission's letters to the effect that he was taking action and that as soon as the NASS approved limits of consolidated debt of the tiers of Government, the information would be made available to the Commission. As at present, no further correspondence from the Minister on limits on consolidated debt had reached the FRC.

It was suggested in the 2010 edition of this Report that the Commission can take steps to facilitate the setting of the consolidated debt limit through a comparative and

[21] Annual Report and Statement of Account for the Year Ended 31 December 2010, Fiscal Responsibility Commission.

empirical study of countries with legislations similar to our FRA[22]. Such studies should be carried out in collaboration with the Debt Management Office with the aim of recommending limits to both the President and NASS. Apparently, this suggestion appears to be the most feasible way out of this problem. This is in view of the fact the President may not be inclined to set such limits in view of present state of federal borrowing. A pro-active NASS would have nudged the President to set the limits; the implementation of this section eminently qualifies as a matter to be tabled before the President as a resolution of NASS.

3.7 VERIFICATION OF COMPLIANCE WITH THE CONDITIONS OF BORROWING

The Act in section 44 (4) mandates the Commission to verify, on quarterly basis, the compliance with the set limits and conditions of borrowing by each tier of government in the Federation. Details of all the issues regarding compliance with conditions of borrowing are spelt out in Sections 41, 42 and 43 of the Act. Section 44, subsection 1 and 2 gives the following guidelines on the requirements for borrowing;

> *(1) Any Government in the Federation or its agencies and corporations desirous of borrowing shall, specify the purpose for which the borrowing is intended and present a cost-benefit analysis, detailing the economic and social benefits of the purpose to which the intended borrowing is to be applied.*
>
> *(2) Without prejudice to subsection (1) of this section, each borrowing shall comply with the following conditions:*
>
>> *(a). the existence of prior authorization in the Appropriation or other Act or Law for the purpose for which the borrowing is to be utilized; and*
>>
>> *(b) the proceeds of such borrowing shall solely be applied towards long-term capital expenditures.*

Considering that limits for borrowing are yet to be set, the Commission can beam its searchlight on compliance issues pending when limits are set. The 2011 Report of the Commission enumerates the compliance challenges as follows:

> *The Federal Government rarely specified the purpose for which the external loans were meant. The cost/benefit analyses as well as the feasibility study for the external loans were hardly done. If done at all, it was perfunctorily carried out, merely by listing or enumerating some benefits of the loans. Although, the NASS approved the external loans, such loans were scarcely authorized in the previous or current Appropriation Acts.*

[22] *Sinking Deeper*, (*Report on the Implementation of the Fiscal Responsibility Act in the 2010 Fiscal Year*), published by the Centre for Social Justice, Abuja, pp 32.

> *At the sub-national levels, the external debts were treated in the same way as the federal external loans. Although legislative approvals were obtained, the loan projects were hardly reflected in the past or present Appropriation Acts. They were not subject to serious cost/benefit analysis or feasibility study.*

In matters of complying with borrowing conditions, the Commission appears handicapped on enforcement. The foregoing revelation of the Commission in its report did not give any indication that the Commission is preparing to, or has made any efforts to enforce compliance with the provisions of the Act. It was suggested in the 2010 edition of this Report that the Commission can establish a Borrowing Clearing Centre mandating all the governments in the federation to submit information about their intended borrowing activities to the Commission[23]. Specifically, we had recommended that the Commission can develop jurisprudence in this regard through the issuance of *cease orders* in fulfilment of its powers and functions under sections 2 and 3 of the Act and where the *cease order* is disobeyed, the Commission can follow up with court ordered injunctions. Alternatively, it can prod its civil society friends and partners to institute cases in court under section 51 of the Act to stop infringements and reduce impunity.

[23] *Sinking Deeper*, Report on the Implementation of the Fiscal Responsibility Act in the 2010 Fiscal Year, published by the Centre for Social Justice, Abuja, page 33.

Chapter Four

THE MTEF 2012-2015: ANCHORING THE 2012 APPROPRIATION BILL

4.1 INTRODUCTION

The FRA in sections 11 to 18 provides for the Medium Term Expenditure Framework (MTEF) including the timing, the preparation process, contents, the Minister responsible for the preparation, and the entities to be consulted during preparation, the process of approval, and how the MTEF will guide the annual budget process, etc. The MTEF is central to the FRA's goal of prudent management of national resources, ensuring long term macroeconomic stability and securing greater transparency and accountability in fiscal operations.

The first MTEF laid before NASS for its approval was the MTEF 2010-2012 while the MTEF 2011-2013 was the second MTEF to be so laid. The extant MTEF 2012-2015 is the third and seeks the approval of NASS after the endorsement of the Eexcutive Council of the Federation (EXCoF). The MTEF is to guide budget preparation in its sectoral and compositional priorities and as such, there is aninextricable link between the two documents. The thrust of this section is to provide an evidence based review of the MTEF to ensure respect for the enabling law and to fast-track and facilitate the realisation of the Transformation Agenda of the current administration.

The terms of reference of this analysis are:

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

- To review the MTEF in the light of the provisions of Vision 20:2020 and the Transformation Agenda of the current administration and the need to mainstream pro-poor concerns and improve standards of living;

- To make evidence based recommendations to guide NASS and other stakeholders in their contributions and approval of the MTEF.

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

4.2 METHODOLOGY

The Analysis reviewed the 2012-2015 MTEF against the background of previous MTEFs, budget implementation reports 2008, 2009, 2010 and the half year report on the implementation of the 2011 budget, Vision 20:2020 document, the 2010 full year reports of the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS). It also reviewed economic trends and forecasts from the Budget Office of the Federation (BOF), NBS, CBN, MDG Office, the World Bank and International Monetary Fund, emergent literature on the practice of MTEFs from different parts of the world, etc. The analysis emerging from the review indicates areas in need of further clarification, amendments and alignments with available fiscal data and trends.

4.3 PRELIMINARY ISSUES

4.3.1 MTEF 2012-2015?

The extant MTEF is for the period 2012-2015, a period of four years. Previous MTEFs were for periods of three years via, 2010-2012 and 2011-2013. The extant MTEF is a deviation from the established practice and the provisions of the FRA which in section 11 specifically states that the MTEF shall be for the next three financial years. In this respect, NASS should restrict its approval to the three year time frame stipulated by the Act. The four year time frame is unknown to the law.

4.3.2 TIMING OF THE MTEF

The submission of the MTEF by the President to NASS through a communication dated September 22[24] was late. The submission however came to public knowledge in early October. The FRA anticipates that the MTEF should be submitted to NASS not later than four months to the end of the financial year since the approval of the MTEF is the actual beginning of the budget formulation process. It is also not clear when the EXCoF endorsed the MTEF although the Act states that it should be done before the end of the second quarter which is the month of June. From available

[24] Daily Sun Newspaper of October 5 2011.

information, the timeframe was not met considering that the Minister of Finance had not resumed duty by that date.

The foregoing had adverse implications for the presentation and passage of the annual budget. The annual budget is drawn from the MTEF and as such awaits the approval of the MTEF by NASS so that variables like aggregate expenditure, benchmark price of oil, envelopes for MDAs etc, will be drawn from it. In the last three years, the federal budget has never been passed early before the commencement of the New Year and delays in presentation and passage of the budgets eventually lead to poor capital budget implementation[25].

Perennial requests by the executive and approvals by the legislature for the extension of the financial year for implementation of capital components of the budget to March of the following year have become the norm. The Financial Year Act[26] clearly states the Nigerian financial year to be the period between January 1 to December 31 of every year. And such requests and approvals founded on the late passage of the budget are illegal if they are done by a resolution of the NASS. This is founded on the legal position that you cannot amend extant law by a resolution of NASS.

4.3.3 PREPARATION OF MEDIUM TERM SECTOR STRATEGIES

There is also no information in the MTEF about the preparation of Medium Term Sector Strategies (MTSS) for MDAs[27]. This should be the prelude to the MTEF. If there were MTSS preparation sessions, they must have been convened secretly without the input of stakeholders, because previous MTSS sessions had other stakeholders on board. If on the other hand, the Minister of Finance (Minister) prepared the MTEF without the MTSS of MDAs, then the MTEF is fundamentally flawed. The inclination to think that there were no MTSS sessions is further reinforced by the absence of sectoral envelopes and ceilings in the MTEF. MTSS cannot be prepared without the financial envelope.

4.3.4 CONSULTATIONS AND INPUTS

The Act in section 11 requires the Federal Government to consult the States as part of the process of formulating the MTEF. The reasons for this requirement are not far-fetched. Macroeconomic indicators like the benchmark price of oil; interest, inflation and exchange rates would definitely impact on the revenue and expenditure of States. Also, most States in the Federation depend on allocations from the Federation Account as their main source of revenue. The States are therefore partners and stakeholders who should make contributions to MTEF formulation.

[25] Vision 20:2020 projects the adoption of measures to improve budget implementation to include the timely passage of the annual budget.
[26] Financial Year Act, Cap F.27, Vol.7, Laws of the Federation of Nigeria 2004.
[27] The 2011-2013 MTEF was based on the MTSS of 13 key MDAS and was described in our former analysis as not comprehensive enough.

However, there is no indication in the MTEF as to whether States were consulted and the nature of such consultation.

By S.13 (2) (a), in preparing the MTEF, the Minister may hold consultations on the Macroeconomic Framework, the Fiscal Strategy Paper, the Revenue and Expenditure Framework, the strategic economic, social and developmental priorities of government and such other matters as the Minister deems necessary. There is no indication in the MTEF whether such consultations were held. Although the Act used the discretionary "may" in directing the Minister to hold consultations, the intention of the legislature was to ensure popular inputs and participation in the formulation of this very important document. This position is supported by the provisions of S. 48 (1) of the FRA which requires the Federal Government to ensure that its fiscal and financial affairs are conducted in a transparent manner, ensuring full and timely disclosure and wide publication of all transactions and decisions involving public revenues and expenditures and their implications for its finances. Transparency is the bedrock of participation because there can be no meaningful participation and input making without access to fiscal information.

The Act in S.13 (2) (b) further requires the Minister to seek inputs from the National Planning Commission, Joint Planning Board, National Commission on Development Planning, National Assembly, Central Bank of Nigeria, National Bureau of Statistics, Revenue Mobilisation Allocation and Fiscal Commission and any other relevant body as the Minister may determine. The mandatory "shall" is used by the section in directing the Minister to seek the inputs. There is no indication in the MTEF whether these inputs were sought from the listed agencies. It is imperative that the MTEF details its formulation process so as to enable a dispassionate third party to determine whether there has been compliance with the law.

4.4 MACROECONOMIC FRAMEWORK

4.4.1 MISSING PROJECTIONS – GROWTH RATE, INFLATION, INTEREST RATES, ACCESS TO CREDIT, EXTERNAL RESERVES, ETC

The Macroeconomic Framework is to set out the macroeconomic projections for the next three financial years, the underlying assumptions for those projections and an evaluation and analysis of the projections for the preceding three financial years. Unlike previous MTEFs, there were no targets on growth, inflation, interest and exchange rates and accretion to external reserves. Rather, there was an omnibus statement to the effect that- *the goal of low inflation, interest rates consistent with strong and sustained economic growth, a stable exchange rate reflective of real market conditions and a build-up in external reserves in the presence of high oil prices* will be pursued.

The above statement is vague and fluid and can be subject to as many interpretations as there are Nigerians. It commits the government to nothing. It raises several questions: What is low inflation? Is it the same as single digit inflation? Will interest rates be in the single or double digit for it to be consistent with strong and sustained economic growth? Essentially, there are no projections for economic growth, interest rate and lending to the economy, inflation and build up in external reserves and the Excess Crude Account (ECA) or the Sovereign Wealth Fund (SWF). The annex to the MTEF however provides GDP figures of N41,101.88billion, N48,116.33billion, N56,432.75billion and N66,309.61billion without any analysis of how the Ministry of Finance arrived at the figures.

There was also no attempt in this part to link up this statement with the targets in Vision 20:2020. For instance, the Vision 20:2020's First National Implementation Plan 2010-2013 (Implementation Plan or NIP) targets an average growth rate of 11% over the four year period 2010-2013. Specifically, the Implementation Plan targets 8.2%, 10.9%, 11.8% and 13.1% real GDP growth for the years 2010, 2011, 2012 and 2013 respectively[28].

The Monetary Policy Rate (MPR) is currently at 12%, thereby exceeding the Implementation Plans 6% over the medium term. With the MPR at 12%, interest rates are high thereby restricting the access of the private sector to credit needed to improve capacity utilization in industries, expand production and create new jobs. It is important that the MTEF articulates the strategies for reviving access to credit to the real sector and encourage the financial system to perform its intermediation role at the least cost to the economy. The need for this is emphasized by available data which shows that credit to the private sector decreased from 1.92% to 0.78% between the third and fourth quarter of 2010. Year on year calculations as at December 2010 shows that credit to the private sector decreased by 4.92% below the indicative benchmark of 31.54%[29]. However, credit to government grew from 7.16% to 7.28% between the third and fourth quarter of 2010 and on a year to year basis, increased by 67.8%. Accordingly, the full year Budget Implementation Report 2010 states:

> *These trends showed that lending to the Government had, to a certain extent, crowded out private sector borrowing..*[30]

The diminishing access to credit by the private sector cannot be the hallmark of an economy that is planned to be private sector driven, with flourishing public private partnerships to fill the financing gap for critical infrastructure. There is also the need

[28] These targets are up against the 7% growth rate of 7% recorded in 2009.
[29] 2010 Fourth Quarter and Consolidated Budget Implementation Report by the BOF.
[30] Supra, at page 6.

to articulate strategies for the reduction of the spread between deposit and lending rates in order to support the rejuvenation of the real sector of the economy[31].

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

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

Considering the gravity of the employment situation in Nigeria, the MTEF is expected to provide information on the level of and causes of unemployment, current government activities and interventions to check the employment crisis, interventions going forward and strategies to ensure the realization of government policy. This was missing in the MTEF.

4.4.2 SECTORAL COMPOSITION OF GDP

Although, there were no GDP growth figures, the sectoral composition of the GDP in the MTEF simply replicated those adverse figures that Vision 2020 sought to change. Table 12 details the MTEF projections.

TABLE 12: SECTORAL COMPOSITION OF GDP

Sectoral Contribution to GDP (%)	2010b	2011b	2012f	2013f	2014f	2015f
	100%	100%	100%	100%	100%	100%
Agriculture	37.9	40.6	37.9	37.9	33.0	30.0
Solid Minerals	0.4	0.4	0.4	0.5	0.7	0.8
Crude Petroleum and Natural Gas	29.1	26.4	29.1	32.0	36.8	38.6
Manufacturing	3.0	4.5	3.0	3.3	3.8	4.6
Telecommunications and Post	8.2	7.6	8.2	8.6	9.0	9.5
Finance and Insurance	4.0	2.5	4.0	4.4	4.9	5.4
Wholesale and Retail Trade	13.9	14.4	13.9	10.0	8.5	7.4
Building and Construction	1.2	1.2	1.2	1.3	1.5	1.8
Others	2.3	2.3	2.3	2.0	1.8	2.0

Source: NBS

[31] See page 53 of the Implementation Plan.

A country that seeks to be in the top twenty bracket in about eight years time still projects manufacturing to contribute 4.6% of the GDP in 2015. An infrastructure deficient country still expects building and construction to contribute 1.8% of GDP in 2015. The Implementation Plan had projected[32] non oil GDP at 88.2% in 2013 while oil and gas is to contribute 11.8%. Table 13 below shows selected contributions to the sectoral composition of GDP 2012-2103 in the Implementation Plan.

TABLE 13: PROJECTED SECTORAL COMPOSITION OF GDP-IMPLEMENTATION PLAN

	2012	**2013**
GDP	100	100
Agriculture	36.9	34.3
Building and Construction	6.5	7.8
Oil and Gas	13.0	11.8
Health	0.1	0.1
Finance and Insurance	3.2	3.0
Manufacturing	6.9	8.3
Mining and Quarrying	13.3	12.1
Other Services	1.5	1.5
Public Administration	0.7	0.8
Telecommunication and Postal services	6.0	6.9
Transportation	2.4	2.3
Utilities	4.2	4.7
Wholesale and Retail Trade	18.3	18.2
Total Non Oil	87.0	88.2

Source: Implementation Plan

If the targets in Vision 2020 and its First National Implementation Plan 2010-2013 do not inform the MTEF, why did government waste money to prepare the Plan? The MTEF should have proceeded on the basis of projections in the Implementation Plan or in the alternative, show empirical evidence of the reasons informing the deviation. The challenging aspect of the MTEF projection is that government's investments and policy drives in the medium term will be geared towards realising targets which are different from the targets of Vision 20:2020.

4.4.3 EXCHANGE RATE AND FOREIGN RESERVES

There is a projection on exchange rate which puts the average naira dollar exchange rate at N153 throughout the period 2012-2015. However, there is no analysis of how the MTEF arrived at that rate. Recent developments in the foreign exchange market have shown that this is not sustainable and the projection cannot be met. The dollar currently exchanges at N154 at the official exchange rate while the black market rate is about N160 to the dollar. With our depleting foreign reserves, a depleted ECA, opposition by governors to the take off of the SWF, import led economy and the

[32] At 1990 Constant Prices.

unmitigated demand for the dollar, there is the likelihood of depreciation in the value of the naira which the CBN has even acknowledged[33].

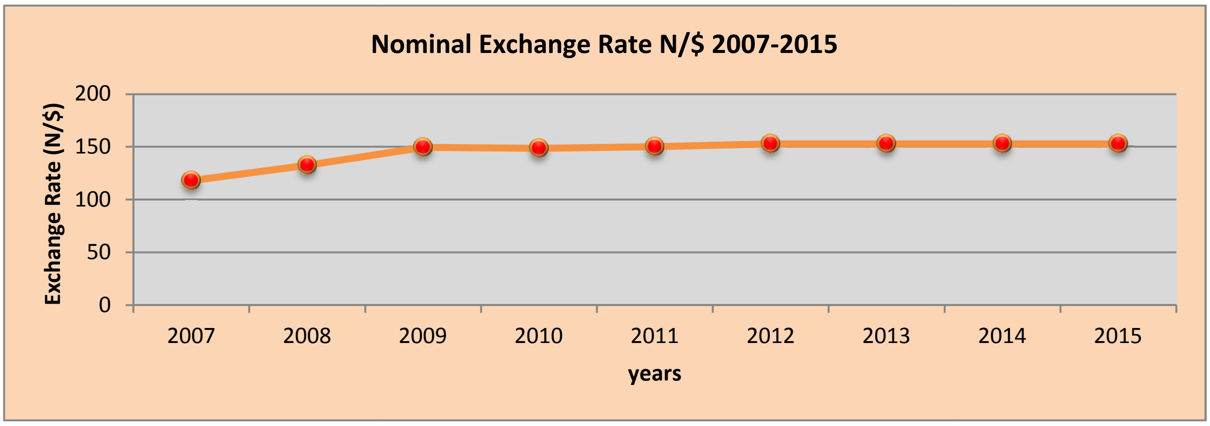
Table 14 and Figure 3 show the nominal exchange rate from 2007 and the various projections by previous MTEFs.

TABLE 14: NIGERIA - NOMINAL EXCHANGE RATE (N/$) 2007-2015

	EXCHANGE RATE			
YEAR	ACTUAL	2010-2012 MTEF	2011-2013 MTEF	MTEF 2012-2015
2007	117.90			
2008	132.50			
2009	149.58			
2010	148.50	147		
2011		147	150.00	
2012		147	150.00	153
2013			150.00	153
2014				153
2015				153

CBN and BOF Statistics[34]

Figure 3: Nominal Exchange Rate (N/$) 2007-2015



CBN and BOF Statistics

To boost the value of the naira against international currencies may require the direct allocation of foreign exchange earned from oil to the three tiers of government rather than monetizing it[35]. The only envisaged challenge is that this solution may encourage capital flight. However, this challenge is not serious enough to rubbish this good option. Secondly, any serious government can always devise ways and

[33] THISDAY Newspaper, November 1 2011 at page 1; this position was reinforced by Renaissance Capital in its release on September 2 2011.
[34] These rates differ from the First Implementation Plan's projections of N145 to 1USD in 2013.
[35] Vision 20:2020 at page 24.

means of tackling capital flight. Nigeria is already experiencing capital flight. The recommendation of Vision 20:2020 in the context of a market framework and managed exchange rate regime, that there is the need to adopt an exchange rate band in order to minimize volatility should be continued by the CBN.

The Combined First and Second Quarter Budget Implementation Report 2011 observes that the inflow of foreign exchange into the CBN was not in tune with the high oil prices and this underscores the need for tighter fiscal controls and more flexibility in the management of the existing rate[36]. Gross external reserves stood at N31.89billion in June 2011 and currently stands at about $32billion. According to Renaissance Capital:

> *The conundrum is that this increase in net forex inflows is not reflected in the official forex reserves, which have essentially moved sideways between year end 2010 and August 2011. This implies that there are additional, unknown pressures on forex reserves, which explains why the naira has only traded in the top half of the N150/$1 (+/-3%) trading band year to date.*

The likelihood of growing foreign reserves in the medium term is remote if the reserves did not grow in about two years of consistent high oil prices.

4.4.4 REVIEW OF PREVIOUS BUDGET PERFORMANCE

The year 2010 witnessed a budget, an amended budget and two supplementary budgets with the following breakdown; recurrent (non-debt) expenditure of N2,669.01 billion; capital spending of N1,764.69 billion; debt service of N542.38 billion and statutory transfers of N183.58 billion. These represent 52%, 34%, 10% and 4% of aggregate expenditure respectively. The revenue performance indicated higher than budgeted oil revenue (10%). However, FGN share of oil revenue fell short by 6.95%; aggregate share of VAT, CIT and Customs and Excise Duties fell short by 1.70%. The hall mark of implementation was the travails of the capital budget which utilised only N935.61 billion out of N1,765 billion.

The year 2011 also witnessed a budget and an amendment, bringing the aggregate expenditure to N4,485billion detailed as follows; Debt Service of N495.1billion; Personnel Cost of N1,503 billion; Overheads of N288.05 billion; Capital Expenditure of N1,148 billion; pensions of N154.75 billion; Multi Year Tariff Order of N37 billion and other Service Wide Votes of N439.16 billion. The percentage of capital budget in aggregate expenditure came down from 34% in 2010 to 26% in 2011. At the time of preparing this analysis, oil revenues had met and exceeded targets but non oil revenues did not met targets.

[36] Pages 5-6 of the Report.

As if the reduced allocation to capital budget is not enough cause to worry, figures coming out from the First and Second Quarter 2011 Budget Implementation Report of the Budget Office of the Federation is worrisome. According to the Report, as at June 30 2011, the sum of N227.81 billion had been released, out of which N196.69 billion has been cash backed being 86.34% of the released sum. Only N128.72 billion or 65.44% of this sum has been utilized by MDAs at 30th June. Essentially, one would have expected the release, cash backing and utilization of not less than N550 billion by the end of the second quarter. Thus, the sum so far utilized for capital expenditure, by June 2011 amounts to 11.21% of the entire capital budget.

As at October 2011, the report from the Ministry of Finance indicates that 66% of the capital budget has been approved for release while MDAs have utilized 57% of the sum. The Minister of State Finance, Yerima Ngama, stated that some MDAs failed to meet the conditions and financial regulations required for cash backing and as such could not secure the full amount of money approved to be released[37]. In essence 66% of the sum of N1,148 billion amounts to N757.68 billion while the utilized 57% of this sum comes up to N431.88 billion. Essentially what has been utilized is 37.62% of the overall capital budget of N1,148 billion. This is too poor and cannot facilitate the realization of Nigeria's developmental goals.

The trend running between the two budgets is increasing oil production and revenue and poor capital budget implementation. While the first is positive for the development of the country, the second is negative for development.

4.5 FISCAL STRATEGY PAPER

4.5.1 OVERALL THRUST

In accordance with Section 11 (2) (b) of the Act, the Fiscal Strategy Paper (FSP) is supposed to contain:

(i) The Federal Government's medium-term financial objectives,

(ii) The policies of the Federal Government for the medium-term relating to taxation, recurrent (non-debt) expenditure, debt expenditure, capital expenditure, borrowings and other liabilities, lending and investment,

(iii) The strategic, economic, social and developmental priorities of the Federal Government for the next three financial years,

(iv) An explanation of how the financial objectives, strategic, economic, social and developmental priorities and fiscal measures set out pursuant to sub-paragraphs (i), (ii) and (iii) of this paragraph relate to the economic objectives set out in section 16 of the Constitution;

[37] News Agency of Nigeria, October 27 2011.

The thrust of the FSP as contained in the MTEF involves the delineation of priority sectors for government's investment (security, infrastructure including power, agriculture, manufacturing, housing and construction, entertainment, education, health and ICT); fiscal consolidation; rebalancing the distribution of government spending; diversification of the economy and four year capital budget planning. Investments in these sectors will foster greater and diversified economic growth as they are the most productive and growth enhancing sectors. Governmental revenues will also be enhanced.

These thrusts of the FSP, laudable as they are, do not seem to build any relationship with the economic objectives in S.16 of the Constitution. S.16 provides for a number of general issues but the most relevant and pointed part of S.16 of the Constitution provides as follows:

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

There is nothing in the FSP and in the whole MTEF that addresses the imperatives provided under the Fundamental Objectives and Directive Principles of State Policy found in Chapter 2 of the Constitution. Rather, the proposal for the removal of fuel subsidy will likely deteriorate the quality of life for the poor who constitute the bulk of the population.

4.5.1.2 NO ENVELOPES FOR THE SECTORS

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

4.5.1.3 RE-BALANCING THE DISTRIBUTION OF GOVERNMENT SPENDING

In rebalancing the distribution of government spending, the proposal is to reduce the recurrent expenditure from 74.4% in 2011 to 72.5% in 2012. From the fiscal tables, government targets 29.07%, 30.6% and 31.1% capital expenditure in the outer years of 2013, 2014 and 2015 respectively. This is a far cry from the target of NEEDS 1 that was almost met – 60% recurrent and 40% capital. This also deviates from the Implementation Plan's target of capital expenditure rising from 34% of overall expenditure in 2012 to 44% in 2013. Thus in 2015, the MTEF's planned capital expenditure would not have met the percentage of projected capital expenditure for 2010 in the Implementation Plan.

The reports of two committees set up by the FGN will be very crucial in rebalancing government spending. They are the Expenditure Review Committee and the Presidential Committtee for the Restructuring and Rationalisation of Federal

Government Parastatals, Commissions and Agencies[38]. It is hoped that government will make use of these two reports in rebalancing its expenditure. Increases in recurrent expendiutre also suggest that policies that would have reduced recurrent spending such as the Monetisation Programme introduced under the authority of the *Certain Political*, *Public and Judicial Office Holders* (*Salaries and Allowances*, *etc*.) Act of 2002 and its amendment of 2008 have been abandoned by the administration and all manners of frivolous expenses have been reintroduced thereby beefing up overall government expenditure.

Essentially, the MTEF should allocate higher figures to capital budget starting with a minimum of 30% of aggregate expenditure in 2012 and progressing up to 40% in 2014.

4.5.1.4 FISCAL CONSOLIDATION

The highlights of fiscal consolidation are government's policy to roll back expansionary budgeting and to allow for progressive increases over the medium term. There will be savings from overheads to be frozen over the medium term and capital spending will improve marginally from N1.32 trillion in 2012 to N1.64 trillion in 2015. Fiscal deficit will decline from -2.69% of GDP in 2010 to -1.08% of GDP in 2015. Domestic borrowing is expected to decline over the medium term. Government also intends to phase out estimated N1.2 trillion in petroleum subsidy commencing from the 2012 fiscal year.

However, FGN recognizes the attendant hardship consequent upon the removal of the fuel subsidy and promises social safety nets for the poor. But the details and modalities of these safety nets have not been worked out. With this tokenistic approach to the reduction of recurrent spending and increasing the capital vote, the implication is that apart from proposed savings in the SWF, the administration plans to free up resources for further investment in recurrent expenditure.

Plans to increase available revenue in the MTEF ignored the increased income that would accrue to the nation if the Petroleum Industry Bill (PIB) is passed into law and the fact that the burden of Joint Venture Cash Calls may be removed from the Treasury. Expert projections indicate that Nigeria will realise additional revenue of over N3trillion annually if the PIB is passed into law. Thus, the larger picture of getting more resources into the Treasury should supersede the immediate

[38] The terms of reference of the second Committee is to study and review all previous reports/records on the restructuring of Federal Government Parastatals and advise on whether they are still relevant; to examine critically the mandates of the existing Federal Agencies, Parastatals and Commissions and determine areas of overlap or duplication of functions and make appropriate recommendations to either restructure, merge or scrap to eliminate such overlaps, duplications or redundancies. The terms of reference further include to examine the enabling Acts of all the Federal Agencies, Parastatals and Commissions and classify in various sectors and make appropriate recommendations for the review of their extant laws in line with the recommendations and to advise on any other matter(s) which are incidental to the foregoing which may be relevant to the desire of Government to prune down the cost of governance.

gratification of removing fuel subsidy. The recommendation is that additional income to be derived from the passage of the PIB should be factored into government spending from the year 2013. NASS should take urgent and targeted steps to pass the bill to become law.

4.5.1.5 DIVERSIFICATION OF THE ECONOMY

The FSP talked in general terms about the diversification of the economy through targeted investments to boost the non oil sector. Table 15 shows that there is no real attempt at diversifying the sources of national income.

TABLE 15: OIL AND GAS REVENUE VS NON OIL REVENUE

Revenue	2012 %	2013 %	2014 %	2015 %
Gross Federally Collected Revenue	9,905.64	10,604.39	11,271.29	11,923.60
Total Oil and Gas	6,896.04	7,006.24	6,953.08	7,272.37
Total Non Oil	2,741.15	3,300.31	3,998.48	4,329.15
Special Levies for Targeted Expenditure	164.67	187.07	209.06	211.33
Other Federation Account Items - Education Tax	103.77	110.77	110.66	110.74

Source: MTEF 2012-2015

From the above Table, Oil and Gas revenue will therefore provide the bulk of the revenue over the medium term.

The MTEF states that the drive for increased receipts will be intensified and this is expected from better management of Internally Generated Revenue (IGR), Companies Income Tax (CIT) and Customs collections. This generalised statement is short on specifics and strategies. There are so many areas that can generate additional income to government if government's policy formulation and implementation become more coherent. Additional income to government and citizens and economic growth can accrue from sectors as shown in Table 16. The ideas are not novel and what is required is the political will for implementation.

TABLE 16: SAMPLE SECTORS FOR THE DIVERSIFICATION OF THE NIGERIAN ECONOMY

Sector	Intervention
Automobile	Increase tariff differentiation between CKDs and fully built units to enhance local production; Energize the work of the Automotive Council of Nigeria through transparent management of existing funds and additional funding for the development of the sector
Oil and Gas	Development of new refineries and petrochemical industries through PPP; Passage of the Petroleum Industry Bill
Housing	Implementation of various policy reform instruments devised by previous administrations including:

	Reforms to mortgage and housing finance; Securitization of dead assets; Re-capitalisation of the mortgage industry; Expanding contributions to the National Housing Fund and reduce the bottlenecks for accessing the Fund.
Transport	Use PPP to develop new roads, railways, water transport and also use PPP to repair existing ones.
Electricity	Fast track the reforms including privatization; new investments from private sector operatives; opportunities for Nigerians to co-own the privatised entities which should be quoted on the Stock Exchange, which in turn will enable funds to be raised from the capital market, etc. This will provide the energy to drive enhanced production[39].
Health	Develop facilities for medical tourism by establishing world class facilities in branches of medicine where Nigeria has requisite manpower either at home or in the Diaspora.
❖ Overall, procurement policy can be used to further stimulate the demand of made in Nigeria goods. This will increase capacity utilization in industries, create more jobs and create a larger pool of profits to industries which will lead to higher CIT accruing to government. ❖ Increased transparency and accountability on the part of government will also increase tax payment to governments by corporations and individuals. ❖ Reducing corruption will also increase resources available for developmental activities.	

4.5.1.6 FOUR YEAR CAPITAL BUDGET PLANNING

The focus on completion and exit of existing capital projects before introducing new ones is a welcome development. Indeed, in the medium term, it is recommended that there should be a moratorium on new capital projects except they add exceptional value to the nation's development. Budget Implementation Reports since 2009 have repeatedly indicated that government's resources are spread too thin over so many projects resulting in wastages and non completion of essential projects. However, what is missing in this plan is how to address the capacity and other deficits that have led to the perennial poor capital budget implementation. The proposal contained in MTEF 2011-2013 to engage capital budget and project portfolio managers to work with MDAs to improve the quality and efficiency of capital budget implementation has not been implemented and it appears that it would be an addition of another layer of bureaucracy which will add to transaction costs without actually adding value for money. The way forward is the full implementation of the Public Procurement Act with accelerated capacity building and sanctions where necessary to address the *Integrity Deficit Syndrome* which has dragged back capital budget implementation.

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

4.5.2 ASSUMPTIONS UNDERLYING PROJECTIONS OF REVENUE

4.5.2.1 OIL PRODUCTION IN MBPD

The target production for the medium term is 2.480mbpd, 2.550mbpd, 2.570mbpd and 2.600mbpd for the years 2012, 2013, 2014 and 2015 respectively. Table 17 shows oil production from 2007 to the medium term projections. 2007 to 2010 are actual figures while the others are projections.

TABLE 17: CRUDE OIL PRODUCTION 2007 - 2015

Year	Output (mbpd)
2007	2.15
2008	2.10
2009	2.13
2010	2.462
2011	2.30
2012	2.480
2013	2.550
2014	2.575
2015	2.600

Source: BOF/FMF: First and Second Quarter Budget Implementation Report and MTEF 2012-2015

This projection appears realistic as current data shows increased output compared to previous years. Indeed, the Combined Budget Implementation Report for the First and Second Quarters of 2011 reported production figures of 2.43mbpd and 2.36 mbpd for the first and second quarters of 2011 respectively. This brings the average for the half year to 2.40mbpd. These figures are above the budget figure of 2.30mbpd. Going by the success of the Amnesty Programme in the Niger Delta and the peace pervading the region, the projections are realistic and achievable.

4.5.2.2 THE MARKET AND BENCHMARK PRICE OF OIL

The benchmark price of $75 per barrel was used throughout the medium term. This is the baseline scenario based on a combination of a 5 year to 10 year moving average. The MTEF states that it has prepared a less optimistic scenario of $65 to $70 per barrel in recognition of the volatilities in the oil market. However, the Minister later amended the MTEF to read $70 per barrel. International oil prices averaged $81 per barrel in 2010. It has been above $100 per barrel since February 2011; indeed in the second quarter of 2011, it averaged $117.36 in the international market. Considering the need to delink the budget from the volatilities of the oil market, the projections are realistic.

4.5.3 ACCRUALS TO ECA OR THE SWF

The MTEF was surprisingly silent on the quantum of resources available in the ECA which will be made available to the SWF and the expected accruals within the medium term. However, it stated the projections for funds to accrue from ECA for stabilization of FGN's revenue in the medium term. They are N225 billion, N150 billion, N150 billion and N150 billion for the years 2012, 2013, 2014 and 2015 respectively. The Combined First and Second Quarter Budget Implementation Report of 2011 indicate that the total amount accruing to the ECA in 2010 was N795.07 billion. As at half year 2011, the total transfers to ECA amounted to N1,368.11billion. The MTEF also said nothing on the disbursals in the preceding three years and whether those disbursements were made in accordance with the stipulations of the Act. It is a notorious fact that the ECA has been depleted by the current administration.

The depletion of the ECA without concrete improvements in the living conditions of Nigerians questions the prudence of fiscal administration. From an all time high of over $20billion in 2007, to an all time low of under $500m as at December 2010 does not show sound economic management. Most of the withdrawals were made in contravention of the Act considering that they were done when the reference commodity price did not fall below the predetermined level for three consecutive months and there was no agreement between the Federal and State Government to appropriate and channel the withdrawals to capital projects. The MTEF should inform Nigerians about the specific projects where the proceeds of the Federal Governments share of ECA were invested.

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

4.5.4 GENERAL ASSUMPTIONS FOR NON OIL REVENUE

Calculation of non oil revenue is based on changes in the relevant components of GDP and the underlying nominal GDP subject to CIT; for VAT, it is the share of consumption liable to VAT; and for Customs Duty, the underlying base is Import CIF. Reforms in the sector were also taken into account, including efficiency factors accounting for operational improvements in the various segments of tax administration.

4.5.4.1 COMPANIES INCOME TAX

A 28.51% increase over the 2010 actual figure of N657.3 billion is targeted for CIT thereby bringing the forecast for 2012 to N844.7bn. For the outer years of 2013, 2014 and 2015, the projection are N930.7billion, N1,121.2 billion and N1220.4 billion respectively. The 2011 Combined First and Second Quarter Budget Implementation Report indicates that the quarterly projection for CIT fell short by 26.09%. The shortfall was attributed to the fact that CIT over the years performs poorly in the first half of the year and gradually picks up in the second half of the year. Thus, improvements are expected going forward. However, the 2010 CIT projection of N587billion was overshot at year end by N70.28billion representing 11.97%. And average percentage growth in CIT from 2006 to 2010 stood at 33.07%[40].

The 2009 Full Year Budget Implementation Report indicated that the 2009 projections were not met and the projected revenues were based on overly optimistic assumptions regarding increases in efficiency of the operations of the relevant tax collection agencies. In 2009, CIT fell short by 3.7% or N21.93bn. This figure for 2009 was however in excess of the actual receipts for 2008 by 35.6% or N148.24bn. The 2008 CIT projections were exceeded by 14.5% or N24.6bn.

From this trajectory of collections and the reasons proffered as informing them, the CIT projections are realizable if FIRS improves the efficiency of collection thereby reducing tax avoidance and evasion. The realization of these projections would be further dependent on the growth of the economy since the GDP estimate liable to CIT is higher than was projected in 2010. The CIT rate is retained at 30%.

4.5.4.2 VALUE ADDED TAX (VAT)

N818.9 billion is the estimated VAT collection for 2012 which represents an increase of 45.49% over the 2010 actual collection of N562.86 billion. The collection for 2010 represents a 2.96% shortfall over the projection of N580billion. This is however a 20.17% improvement over the actual collection of 2009. For the outer years of 2013, 2014 and 2015, the projection is N984.4billion, N1,217.7 billion and N1,397.5 billion respectively. The projections for 2012 and the outer years are based on increased aggregate consumption in the medium term. The 2011 Combined First and Second Quarter Budget Implementation Report indicates that VAT fell short of projection by 20.24%. In 2008, VAT exceeded its target by N10.96bn or 25.52% while in 2009, there was a shortfall of 19.2%. However, this shortfall exceeded the 2008 figures by 15.8%. The VAT rate is still 5% and percentage growth in VAT over the five years period - 2006 to 2010 stood at 24.45%. Although the projections appear optimistic, it should be retained while the VAT Office should work hard to meet the targets.

4.5.4.3 CUSTOMS DUTY COLLECTION

Customs Duty collection has been projected at N600.6billion, 809.8billion, N988.8billion and N1,085.8 billion for the years 2012, 2013, 2014 and 2015

[40] 2010 Fourth Quarter and Consolidated Budget Implementation Report.

respectively[41]. The projection for 2012 represents an increase of 94.25% over the 2010 actual collection of N309.19 billion. The actual collection of 2010 was short of the years' projection of N400 billion by 22.73%. The 2011 Combined First and Second Quarter Budget Implementation Report indicates that Customs Duty collection fell short of its target by 13.69%. Generally, collections are expected to pick up in the second half of the year. The five year (2006-2010) percentage growth in Customs Duty collection has been 9.56%. In the year 2008, when CIT and VAT exceeded their targets, Customs Duty collected fell short of its target by 1%, while in the year 2009, it fell short by 40%. Considering the trajectory of customs duty collection missing targets even in a good year like 2008, the Customs authorities should be made to work extra hard to meet the projections. One of the hallmarks of the MTEF is predictability and the stability to plan ahead over the medium term horizon. This will mean little or no variations in major forecasts to fund the budget. A major underperformance will distort and upset the equilibrium needed for achievement of policy results. The projection should be retained.

4.6. REVENUE AND EXPENDITURE FRAMEWORK

The Act requires the MTEF to contain a Revenue and Expenditure Framework which sets out:

> *(i) estimates of aggregate revenues for the Federation for each financial year in the next three financial years, based on the predetermined Commodity Reference Price adopted and tax revenue projections;*
>
> *(ii) aggregate expenditure projection for the Federation for each financial year in the next three financial years,*
>
> *(iii) aggregate tax expenditure projection for the Federation for each financial year in the next three financial years,*
>
> *(iv) minimum capital expenditure floor for the Federation for each financial year in the next three years;*
>
> *Provided that, the estimates and expenditures provided under paragraph (d) of this subsection shall be-*
>
> *(i) based on reliable and consistent data certified in accordance with section 13(2) (b) of this Act,*
>
> *(ii) targeted at achieving the macro-economic projections set out in subsection (2) (a) of this section,*
>
> *(iii) consistent with and derive from the underlying assumptions contained in the Macro-economic Framework, the objectives, policies, strategic priorities and explanations in the Fiscal Strategy Paper.*

4.6.1 AGGREGATE EXPENDITURE

[41] Real Customs Duty after Adjustment Factor.

The MTEF proposes aggregate expenditure of N4,797.61billion, N4,921.55billion, N5,032.49billion and N5,117.89billion for the years 2012, 2013, 2014 and 2015 respectively. These figures are slightly lower than the figures proposed in the MTEF 2011-2013 of N5,013.26 billion in 2012 and N5,465.03 billion in 2013. The budgeted and actual figures in 2010 give a clue on whether the projections in the extant MTEF are realistic. Table 18 below demonstrates the variance between budgeted figures and actual expenditures in the year 2010.

TABLE 18: FGN BUDGET EXPENDITURE: BUDGET VS. ACTUAL (2010)

Fiscal Items	Budget Nbn (Annual)	Actual Nbn	Variance (diff) Nbn	Variance %
Non debt Recurrent	2,669.01	2,546.24	(122.77)	-4.61
Debt	542.38	415.62	(126.76)	-23.37
Statutory Transfers	183.58	201.32	17.74	9.67
Capital Expenditure	1,764.69	935.61	(829.08)[42]	-46.98
Aggregate Expenditure	5,159.66	4,098.79	(1,060.87)	-20.56

Source: Consolidated Budget Implementation Report 2010 and MTEF 2012-2015

The 2010 aggregate expenditure recorded a variance of N1,060.87 billion which arose mainly from the failure to implement capital expenditure. The MTEF did not provide indicative envelopes for MDAs and the respective sectors. As such, it does not provide any opportunity for review of the envelopes against stated policy objectives contained in the MTEF.

4.6.2 Recurrent, Capital and Other Expenditures

The 2012 aggregate expenditure projection of N4,797.61 billion is broken down as follows: recurrent non debt expenditure got N2,581.99; capital expenditure got a vote of N1,319.89; statutory transfers N345.72 while debt service got a vote N550.01 This shows that the largest chunk of expenditure went to recurrent non debt expenditure. Personnel costs will gulp 34.53% of the overall budget while capital investments will get 27.5% of the expenditure. From previous experience, there is no guarantee that the entire capital vote will be fully disbursed. The picture over the medium term is as follows:

TABLE 19: STRUCTURE OF EXPENDITURE OVER THE MEDIUM TERM

Particulars/Items	Year 2012	Year 2013	Year 2014	Year 2015

[42] The figures for capital expenditure recorded here are drawn from the MTEF 2012-2015 and they differ from the figures in the Fourth Quarter and Consolidated Budget Implementation Report for 2010 published by the BOF.

	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%
Statutory Transfers	345.72	7.21	344.44	7.00	341.81	6.79	352.28	6.88
Debt Service	550.01	11.46	522.51	10.62	480.70	9.55	442.25	8.64
Recurrent Non Debt MDA Spending	2,581.99	53.82	2,623.72	53.31	2,670.04	53.06	2,679.85	52.36
Capital Spending	1,319,89	27.51	1,430.89	29.07	1,539.93	30.60	1,643.51	32.11
Total	4,797.61	100	4,921.55	100	5,032.49	100	5,117.89	100

Source: MTEF: 2012-2015

From the Table 18, the percentage of the budget dedicated to recurrent spending is unduly high and unsustainable. Over the medium term, it is 53.82%, 53.31%, 53.06% and 52.36% for the years 2012, 2013, 2014 and 2015 respectively.

The trajectory, over the years, of capital budget allocations and implementation leaves much to be desired. In the year 2009, out of an actual aggregate expenditure of N2,697,229.55, the actual capital expenditure was N562.373billion which represents 20.85% of the budget. Again, in 2010, out of actual expenditure of N4.047 trillion, capital expenditure stood at N935.51billion representing 23.12% of the total expenditure. As at October 2011, the report from the Ministry of Finance indicates that 66% of the capital budget has been approved for release while MDAs have utilized 57% of the sum. The Minister of State Finance, Yerima Ngama, stated that some MDAs failed to meet the conditions and financial regulations required for cash backing and as such could not secure the full amount of money approved to be released[43]. In essence, 66% of the sum of N1,148 billion amounts to N757.68 billion while the utilized 57% of this sum comes up to N431.88 billion. Essentially what has been utilized is 37.62% of the overall capital budget of N1,148 billion as at October 2011. Thus, while the percentage of proposed capital expenditure to aggregate expenditure is low, it is further lowered when the actual expenditure figures emerge.

In disaggregating capital expenditure between administrative and developmental capital, the picture that emerges over the years is that up to 30% of capital expenditure has been dedicated to administrative capital such as cars, office buildings for MDAs, furniture and equipment. This has narrowed the band of capital expenditure that directly impacts on the citizens.

From the foregoing, the following issues come to the fore:

- This is not the way for an infrastructure deficient country to go in a bid to develop or rectify the deficit. More resources are needed to bridge the gap.

- The private sector has been crowded out of funds and credit to position it as an active PPP player. Thus, the MTEF's position that PPPs will be pursued

[43] News Agency of Nigeria, October 27 2011.

aggressively may not yield the desired fruits. The only silver lining is the proposal of the Debt Management Office to develop a framework for the issuance of Sovereign Guarantees to private sector corporates to enable them undertake the development of commercially viable, national priority projects in the country thereby relieving government of the need to borrow such funds[44]. However, this will further increase the quantum of FGN contingent liabilities.

- The First Implementation Plan of Vision 20:2020 envisages a resource profile of N32 trillion for its implementation. With the FGN investing N10trillion, States and LGAs providing N9trillion while N13trillion is expected from private sources. However, the investments by FGN would be frustrated by poor capital budget implementation capacity.

- FGN needs to reorder its priorities in favour of increased capital expenditure.

It is also pertinent to compare the allocations for debt service in the medium term with the allocations to capital expenditure and also debt service with retained revenue.

TABLE 20: DEBT SERVICE AS A PERCENTAGE OF CAPITAL EXPENDITURE 2012-2015

Particulars	Year 2012		Year 2013		Year 2014		Year 2015	
	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%
Debt Service	550.01	41.67	522.51	36.52	480.70	31.22	442.25	26.91
Capital Expenditure	1,319.89		1,430.89		1,539.93		1,643.51	

The figures for debt service in Table 20 shows what would have gone to fund capital expenditure and other pressing needs but now diverted to debt service. If these figures for debt service are added to capital votes, they would have been substantially increased. The most troubling aspect of these debts is that most of them were incurred in violation of the letters and spirit of the FRA.

TABLE 21: DEBT SERVICE AS A PERCENTAGE OF RETAINED REVENUE 2012-2015

Particulars	Year 2012		Year 2013		Year 2014		Year 2015	
	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%	Amount (Nbn)	%
Debt Service	550.01	14.89	522.51	13.16	480.70	11.52	442.25	10.04
Retained Revenue	3,693.17		3,970.14		4,171.77		4,403.86	

Table 21 shows that FGN will be servicing debts with 14.89%, 13.16%, 11.52% and 10.04% of actual earnings (retained revenue before borrowing) in the years, 2012,

[44] Debt Sustainability Analysis 2011 at page 5.

2013, 2014 and 2015 respectively. Ordinarily, this should be low, but considering that some of these debts went into consumption and funding of recurrent expenditure instead of capital projects and human development, it is a lost opportunity for development.

4.6.3 THE EMERGENT DEFICIT AND SOURCES OF FINANCING

The proposed deficit for the medium term is -2.69% of GDP, -1.98% of GDP, -1.53% of GDP and -1.08% of GDP for 2012, 2013, 2014 and 2015. The fiscal deficits are within the 3% of GDP rule prescribed in the FRA. Specifically section 12 of the FRA provides that:

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

In Table 22, the percentage of Retained Revenue to Overall Budget 2012 – 2014 is shown as follows.

TABLE 22: PERCENTAGE OF RETAINED REVENUE TO OVERALL BUDGET 2012 – 2014

2012			2013			2014		
Overall Budget (₦)	Retained Revenue (₦)	% of Retained Revenue to Overall Budget (₦)	Overall Budget (₦)	Retained Revenue (₦)	% of Retained Revenue to Overall Budget (₦)	Overall Budget (₦)	Retained Revenue (₦)	% Retained Revenue to Overall Budget (₦)
4,797.61	3,693.17	76.98	4,921.55	3,970.14	80.67	5,032.49	4,171.77	82.90

For the year 2015, the aggregate expenditure is N5,117.89billion, while the retained revenue of N4,403.86billion. This amounts to 86.05% of the overall budget. The foregoing shows that the retained revenue needs augmentation through deficit financing of N1,104.44billion, N951.41billion, N860.72 billion and N714.03 billion for the years 2012, 2013 and 2014 and 2015 respectively. Conversely, the percentage of deficit financing to overall budget comes up to 23.02% in 2012, 19.33% in 2013, 17.1% in 2014 and 13.94% in 2015. If these projections are realized, they are steps in the right direction for Nigeria's budgeting system considering previous MTEFs and forecasts where the deficits were very high.

The sources of financing the deficit include privatization proceeds, FGN's share of signature bonus, sharing from ECA and new borrowings. Privatization proceeds have been estimated at N10 billion for the year 2012. This appears to be an understatement considering that generation and distribution companies under the Power Holding Company of Nigeria will be privatized in the year. FGN has not received a kobo from signature bonus in the last two years and the reasons informing this development are not about to change considering that the unnecessary controversies surrounding the Petroleum Industry Bill are yet to abate.

New domestic borrowing in the sum N794.44billion, N751.41billion, N660.72billion and N514.03billion is proposed for the years 2012, 2013, 2014 and 2015 respectively. The proposals are lower than N852.27 billion for 2011 and appear to be progressively reducing over the medium term. However, even at this quantum, it will continue to crowd out the private sector's access to credit. But the major cause for worry is that the new proposal for domestic borrowing exceeds the DSA recommendation by N608.3 billion. The DSA 2011 recommends as follows:

> *In the final analysis, the borrowing limit for 2012 is estimated at N186.14billion and $0.90billion for domestic and external sources respectively. This will add a marginal increase of 0.87% to debt to GDP ratio of 22.2% expected by end 2011, to attain a new debt/GDP ratio of 23.07% at the end of 2012 in order to remain within the Country-Specific threshold of 25% and also leave some borrowing space for 2013 and 2014[45].*

If the FGN cannot abide by the recommendation of its DSA, then it is obvious that there is no coordination in fiscal policy. It may be imperative to curtail the quantum of domestic borrowing as new sources of revenue begin to emerge and leakages are plugged.

4.6.4 Revenue Projections

Table 23 below shows the revenue projects for the medium term.

TABLE 23: FEDERATION ACCOUNT REVENUE PROJECTIONS, 2012-2015

Revenue	2012	%	2013	%	2014	%	2015	%
Gross Federally Collected Revenue	9,905.64		10,604.39		11,271.29		11,923.60	
Total Oil and Gas	6,896.04		7,006.24		6,953.08		7,272.37	
Total Non Oil	2,741.15		3,300.31		3,998.48		4,329.15	
Special Levies for Targeted Expenditure	164.67		187.07		209.06		211.33	
Other Federation Account Items - Education Tax	103.77		110.77		110.66		110.74	

Source: MTEF 2012-2015

[45] DSA 2011 at page 6.

The above framework shows that despite many years of the mantra of diversifying the economy away from oil, the fiscal authorities still lack the imagination and creativity of raising non oil revenue through the stimulation of appropriate growth drivers that will lead to enhanced taxation to fund the national budget. The hope is that if government sticks to its promises of refocusing and revamping the power sector and making the operating environment more hospitable for the private sector to create wealth, add value and grow jobs, then, non oil revenue will increase its contribution to overall revenue. It is recommended that the overall thrust of the Framework is retained with necessary modifications.

For FGN's revenues, if more corporations are made to return their operating surplus to the Treasury, then more funds will likely accrue to FGN. The report of the FRC for 2010 indicates a reluctance and lack of compliance by many scheduled corporations in returning four fifths of their operating surplus to the Treasury. It is also apparent that at the pace of the implementation of the 2011 capital budget, there will be over N400billion left over which should be carried over to the 2012 budget.

4.7 CONSOLIDATED DEBT STATEMENT

By the FRA, the MTEF should contain a Consolidated Debt Statement setting out and describing the fiscal significance of the debt liability of the Federal Government and measures to reduce any such liability. The MTEF recalls the global economic crisis and specifically the Euro Zone debt crisis and notes that Nigeria was lucky to have escaped the global economic crisis due to the structural reforms she embarked upon leading to the debt relief in 2006. The DMO usually embarks on a Debt Sustainability Analysis every year. The 2011 DSA done between 3rd and 13th of May 2011 had participation from the Federal Ministry of Finance, CBN, NPC, BOF and NBS and the West African Institute for Financial and Economic Management provided technical support. The 2011 DSA had the advantage of data from state level debts which were consolidated with the federal debt position to produce the overall country debt analysis.

The Public Debt of the Federation 2006-2010 is shown in Table 24 while the Total Public Debt Service Payments is shown in Table 25 below.

TABLE 24: TOTAL PUBLIC DEBT OUTSTANDING, 2006-2010 (US$ MILLION)

Debt Category	2006	2007	2008	2009	2010
External Debt (% of share total)	3,544.49 (20.43)	3,654.21 (16.44)	3,720.36 (17.39)	3,947.30 (15.29)	4,578.77 (11.42)
Federal Domestic Debt Service (% of share total)	13,805.20 (79.57)	18575.67 (83.56)	17,678.55 (82.61)	21,870.12 (84.71)	30,514.33 (76.10)
State Domestic Debt Service (% of share total)	NA -	NA -	NA -	NA -	5006.90 (12.48)
TOTAL	**17,349.69**	**22,229.88**	**21,398.91**	**25,817.42**	**40,100.00**

Source: DSA 2011

The increase in the debt portfolio from 2009 to 2010 was scandalous although the DSA states that this was due to the rise in the domestic debt component of the FGN and the inclusion of the State Government's domestic debt in the overall debt portfolio.

Table 25 below shows progressive increase in the total public debt service payments over the five year period. Although, it came down from the all period high of 2006, which was the year of the debt relief, it has been increasing since then.

TABLE 25: TOTAL PUBLIC DEBT SERVICE PAYMENT, 2006-2010 (US$ MILLION)

Type	2006	2007	2008	2009	2010
External Debt (% of share total)	6,729.20 (83.67)	1,022.04 (32.09)	464.63 (11.46)	428.04 (18.33)	354.42 (8.53)
Federal Domestic Debt Service (% of share total)	1,313.70 (16.33)	2,162.91 (67.91)	3,590.67 (88.54)	1,907.45 (81.67)	2,373.98 (57.16)
State Domestic Debt Service (% of share total)	NA -	NA -	NA -	NA -	1,424.94 (34.31)
TOTAL	**8,042.90 (100)**	**3,184.95 (100)**	**4,055.30 (100)**	**2,335.49 (100)**	**4,153.34 (100)**

However, while the MTEF states that the Net Present Value (NPV) of debt to GDP is 18%, the DSA states it at 25.7% in 2011 (inclusive of the federal and state government debts). The DMO projects debt to GDP ratio of the FGN at 22.2% at the end of 2011 and 23.07% at the end of 2012. The 2011 debt-GDP ratio leaves a borrowing space of 2.8% of GDP for the next three years. However what is not clear in the MTEF and the DSA is whether contingent liabilities of N2.59trillion have been taken into cognizance in calculating these ratios. It appears not to have been taken into consideration. The recommended debt-GDP threshold for countries similar to Nigeria is 40%. But, despite the international standard of 40%, the DMO's country specific debt-GDP threshold is fixed at 25% for the 2010-2014 period, which is also the period of the medium term - MTEF. The foregoing raises questions; is the MTEF deliberately trying to mislead the public? Why would the DSA and the MTEF issue conflicting information and data about a verifiable debt status and its ratios? By law, the DSA is the authentic statement of the Nigerian debt situation and this analysis will be predicated on its figures and ratios.

The DSA 2011 recommends as follows:

> *In the final analysis, the borrowing limit for 2012 is estimated at N186.14billion and $0.90billion for domestic and external sources respectively. This will add a marginal increase of 0.87% to debt to GDP ratio of 22.2% expected by end 2011, to attain a new debt/GDP ratio of 23.07% at*

the end of 2012 in order to remain within the Country-Specific threshold of 25% and also leave some borrowing space for 2013 and 2014[46].

But the MTEF proposes borrowing in the sum of N794.44 for 2012. If the FGN cannot abide by the recommendation of its DSA, then it is obvious that there is no coordination of fiscal policy. Therefore the MTEFs proposal is not sustainable and should be reversed to fall in line with the DSA's position. It may be imperative to curtail the quantum of domestic borrowing as new sources of revenue begin to emerge and leakages are controlled.

The MTEFs borrowing provisions contradict the FRA because they are not tied to any specific capital or human development projects but are omnibus in nature and could be used for recurrent expenditure. Thus, NASS should insist on specifics of the projects and the cost benefit analysis before approving the borrowing in the Appropriation Act of 2012. They could give a general approval of the MTEF but insist on specifics at the appropriation stage.

4.8 CONTINGENT LIABILITIES AND QUASI FISCAL ACTIVITIES

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

The MTEF was almost silent on the nature and fiscal significance of contingent liabilities. It generally offered a definition of the term. It acknowledged the liabilities as potential obligations which crystallize at the occurrence of a future event and that they could arise where guarantees of debt made by FGN with regard to contract agreements for capital projects entered into by MDAs crystallize into actual obligations. It could also arise through PPP arrangements hence the need for rigorous and careful analysis of potential PPP projects. Beyond these statements, the MTEF was silent on contingent liabilities and quasi fiscal activities. The MTEF contained no information on the quantum of such contingent liabilities and what measures are to be taken to ensure that they do not crystallize or how to deal with them if they crystallise.

The Debt Sustainability Analysis 2011[47] states Government's contingent liabilities outstanding at the end of the year 2010 at N2.59trillion or 8.86% of the GDP. This is projected to rise to 9.16% of GDP in 2011. The DSA advises that it should be kept at no more than 15% of the GDP over the 2011-2020 periods, so that the consolidated total public and publicly guaranteed debt-to-GDP ratio does not exceed the 40% international threshold. The proposal of the Debt Management Office to develop a framework for the issuance of Sovereign Guarantees to private sector corporates to

[46] DSA 2011 at page 6.
[47] Report of the Annual Debt Sustainability Analysis 2011, Debt Management Office at page 5.

enable them undertake the development of commercially viable, national priority projects in the country thereby relieving government of the need to borrow such funds[48] will further increase the quantum of FGN contingent liabilities, hence the need for careful and rigorous analysis of PPPs as stated in the MTEF.

Known contingent liabilities in Nigeria include pension arrears and contractor's/procurement debts and guarantees on sub-national borrowing. The provisions of the Pensions Reform Act providing for contributory pensions and the Public Procurement Act have streamlined government's interventions in pensions and public procurement respectively.

The description of the quasi fiscal activities of the government is missing from the MTEF. The Central Bank of Nigeria has been engaged in a number of quasi fiscal activities and sees itself as an enabler acting as an intermediary and contributor to economic growth. And the CBN Governor reaffirmed that given the current situation of the economy, its role cannot be limited to occasional interventions but requires sustained intervention to realize the desired results[49]. CBN's intervention include the bailout funds it doled out to the rescued banks last year, specific funds targeted at sectors of the economy including small and medium enterprises, aviation, agriculture and power sector which are available at reduced single digit interest rates, etc. Even the President announced the establishment of a special fund worth $200m for the entertainment industry. These funds are not yet part of any federal budget or MTEF and the source of the funds have not been identified. The expected documentation of quasi fiscal activities in the MTEF should also cover subsidies, losses in foreign exchange holdings and cost of sterilization operations.

The N3trillion FGN securities (Assets Management Company of Nigeria bonds) maturing in 2011 through 2013 also form part of the quasi fiscal activities of government that are not reported in the MTEF. They have inherent refinancing risks and the DSA recommends that government adopts the strategies of debt buy back and switching to help the refinancing risks[50].

[48] Debt Sustainability Analysis 2011 at page 5.

[49] Communique of the Second Bankers Committee National Retreat held in Calabar, Cross River State, and published in THISDAY Newspaper of Tuesday December 7 2010 at page 56.

[50] DSA 2011, at pages 5-6.

Chapter Five

THE 2012 APPROPRIATION BILL AND THE FRA

5.1 THE APPROPRIATION BILL AT FIRST GLANCE

The 2012 Appropriation Bill was tagged a budget of *fiscal consolidation, inclusive growth and job creation.* It was anchored on four major pillars namely: macroeconomic stability, structural reforms; governance and institutions and investing in priority sectors. It is based on the following macroeconomic indicators: oil production of 2.48million barrels per day; a benchmark price of $70 per barrel; exchange rate of N155/US$; projected growth rate of 7.2% and inflation rate of 9.5%. The aggregate expenditure is N4.749trillion which is a 6% increase over the N4.484trillion appropriated in 2011. It is broken down as follows; N398billion for statutory transfers, N560billion for debt service; N2.472trillion for recurrent (non debt) expenditure and N1.32trillion for capital expenditure. The capital budget represents 28% of the overall proposal as against the 26% for the year 2011 while the recurrent expenditure came down from 74.4% to 72 % of the overall proposal. The fiscal deficit is projected at 2.77% of the GDP as against 2.96% in 2011. The budget is coming at a time Nigeria's economic outlook had been upgraded by Fitch Ratings from negative to stable, based on the country's "strong growth, low public debt and strong external balance sheet." Table 26 tells the story.

TABLE 26: THE EXPENDITURE STRUCTURE OF THE 2012 BUDGET

Description	**AMOUNT (₦ BILLIONS)**	**PERCENTAGE (%)**
Statutory Transfers	N397,929,101,917	8.38
Debt Service	N559,580,000,000	11.78
Recurrent (Non Debt) Expenditure	N2,471,814,067,335	52.05
Capital Expenditure	N1,319,777,651,919	27.79
TOTAL	**N4,749,100,821,170**	**100**

Source: BOF and FMF Report: 2012 Appropriation Bill

5.2 LATE PRESENTATION OF THE BUDGET

The President presented the 2012 budget to NASS on the 13th of December 2011. The presentation came very late in the year, only a few days to the regular legislative Christmas and New Year recess. This has become typical of the Federal Government as the 2011 budget was also presented late in the year-15th December 2010. It will be recalled that the late submission also led to the late passage of the budget. The 2011 budget was only assented into law by the President in late May 2011. However, due to the cooperation of the NASS, the 2012 Bill scaled through legislative scrutiny in March 2012. The late presentation of the budget may not be unrelated to the late preparation and presentation of the MTEF by the executive.

5.3 NO APPROVED MTEF

According to section 18 of the FRA, the MTEF should form the basis for the preparation of the estimates of revenue and expenditure of the Federal Government which is required to be laid before the National Assembly under section 81 (1) of the Constitution. It is also required that the sectoral and compositional distribution of the estimates of expenditure shall be consistent with the medium term development priorities of the MTEF. The MTEF is to be approved by a resolution of the NASS. The House of Representatives actually concluded deliberations on the MTEF 2012-2015 before the budget was presented, while the Senate was not as fast. In other words, deliberations on the MTEF, which was supposed to serve as the basis for the approval of the budget was not concluded before the budget was laid on the floor of NASS. The only MTEF document available before the presentation of the budget is the MTEF proposal as submitted by the executive.

The foregoing is undesirable for the presentation and passage of the annual budget. The annual budget should be drawn from the MTEF and it must pass through legislative approval. Legislative approval of the MTEF is also necessary because key variables like the aggregate expenditure, benchmark price of oil, indicative envelopes for the MDAs, exchange rate, etc, will be drawn from it. In the past three years, the federal budget has never been passed early before the commencement of the new fiscal year. This anomaly has invariably led to the consequent poor implementation of the capital budget. For instance, the 2009 budget was passed in March 2009; the original 2010 budget was passed in April 2010, while the 2011 budget was passed in May 2011. The result of all the delays has been requests by the executive for and approvals by the legislature for the extension of the period for the implementation of the capital component of the budget to March of the next financial year. The Financial Year Act is clear on this matter. The Nigerian financial year is defined to be between January 1 and December 31 of every year.

5.4 EVALUATION OF RESULTS OF PROGRAMMES FINANCED WITH BUDGETARY RESOURCES

The executive arm of government is mandated by section 19 of the FRA to present to the legislature a report on the evaluation of the results of programmes financed with budgetary resources. The word evaluation often connotes an opinion of the amount, value or quality of something after thorough thinking. This would require an assessment that will involve an analysis of the impact of the programmes on the population or segments of the population that is targeted. Such issues will normally address issues like school enrolment, identifiable improvements in learning outcomes, increase in both the quality and access of mothers and children to health services, improvements in immunization coverage, improvements in access to portable water and electricity, etc. Furthermore, this evaluation is not about mere revenue and expenditure projections and the resulting actual spending. It should go beyond comparison of targets on projected fiscal variables as expected to be revealed in the quarterly budget implementation report. Such evaluation reports should bring to the table what has changed either positively or negatively as a result of the public expenditure. However, in the 2012 budget process, neither the Appropriation Bill nor the accompanying documents provided the evaluation of results of programmes financed through budgetary resources as required by section 19 (d) of the FRA.

5.5 OTHER DEVELOPMENTAL TARGETS AND THE FISCAL TARGET APPENDIX

According to Section 19 (e) of the FRA, the Appropriation Bill is 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*

Typically, the Fiscal Target Appendix containing target inflation rate, target fiscal balances, GDP growth rate and exchange rate of the naira accompanies the Appropriation Bill. It however has nothing on development targets. Fiscal targets and balances are not the same as development targets. Development targets normally should include targets on the right to adequate standard of living including targets on the attainment of the MDGs, job creation, targets for the rights to adequate housing, health, education, access to portable drinking water, etc. Considering that the FRA is anchored on section 16 of the Constitution, this explanation of the dictates of this provision appears to be the only reasonable justification 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.*

In subsequent budget presentations by the President, the National Assembly needs to prevail on the President to submit these targets to inform comprehensive consideration of the budget particularly bearing in mind the intention of the government to concentrate its attention on specific priority areas which should affect the lives of Nigerians. The availability of these targets will also facilitate the evaluation of results achieved through the implementation of the budget at the end of the year. This initiative has the potential of giving meaning to the annual budget and making it relevant to the lives of the average citizen beyond the efficacy of fiscal results or indices.

5.6 OVERVIEW OF APPROPRIATION BILL PROJECTIONS (2010-2012)

Table 27 shows the Budget Expenditure and Revenue Profile of the Federal Government for the years 2010-2013. The projections of the years 2010 and 2011 and the outer year of 2013 are added to facilitate a comparative analysis of the provisions of for 2012. Most of the estimates for 2013 were derived from the 2012-2015 MTEF as published by the Ministry of Finance with some adjustments by the author to reflect the most recent circumstance.

TABLE 27: FGN BUDGET REVENUE AND EXPENDITURE PROFILE 2010-2012				
	FISCAL YEAR			
	2010	**2011**	**2012**	***2013***
REVENUE PROFILE	Naira (Billions)	Naira (Billions)	Naira (Billions)	*Naira (Billions)*
Opening Balance	129.54	120.00	232.788	*100.00*
Federal Budget Share of Federation account	1,910.87	2,404.79	2,867.403	*3,252.49*
Value Added Tax (VAT)	77.95	84.03	107.905	*129.71*
FGN Independent Sources	300.00	214.00	393.455	*480.81*
Other Sources*	761.51	13.61	43.109**	*7.13*
Total Revenue	**3,179.87**	**2,836.43**	**3,644.66**	***3,970.14***
Growth in Total Revenue	*40.39*	*(10.80)*	*28.49*	*11.49*
EXPENDITURE PROFILE				
Statutory Transfers	**183.58**	**196.12**	**397.93*** **	***385.18***
Growth in Statutory Transfers	*8.88*	*6.83*	*102.9*	*3.38*
Recurrent Expenditure (Non-Debt)	**2,669.01**	**2,481.71**	**2,471.81**	***2,623.72***
Growth in MDAs Recurrent Expenditure	*116.53*	*(7.02)*	*(0.41)*	*8.19*
Capital Expenditure	**1,764.69**	**1,005.99**	**1,319.78**	***1,730.89***
Growth in Capital Expenditure	*72.62*	*(42.99)*	*31.19*	*13.88*
Debt Service Recurrent				
Domestic Debt Service	503.47	503.47	511.98	*551.68*
External Debt Service	38.92	38.92	47.60	*51.10*
Total Debt Service Charges	**542.39**	**542.38**	**559.58**	**602.78**
Growth in Total Debt Service	*91.25*	-	*3.17*	
Total Expenditure	**5,159.67**	**4,226.19**	**4,749.10**	***5,342.57***
Growth in Total Expenditure	*66.34*	*(18.09)*	*12.37*	***9.54***
SURPLUS/(DEFICIT)	**(1,979.80)**	**(1,389.76)**	**(1,104.44)**	***(1,372.43)***
Growth in Budget Deficit (%)	136.62	(29.80)	*(20.53)*	*4.27*
Deficit as % of Revenue	**(62.26)**	**(49.00)**	**(30.26)**	***(34.57)***
Deficit as % of Budget Estimate	*(38.37)*	*(32.88)*	*(23.26)*	*(25.69)*
Nominal GDP	32,648.31	38,427.06	39,904.260	*42,116.33*
Deficit as % of GDP	***(6.06)***	***(3.62)***	***(-2.77)***	***(3.26)***

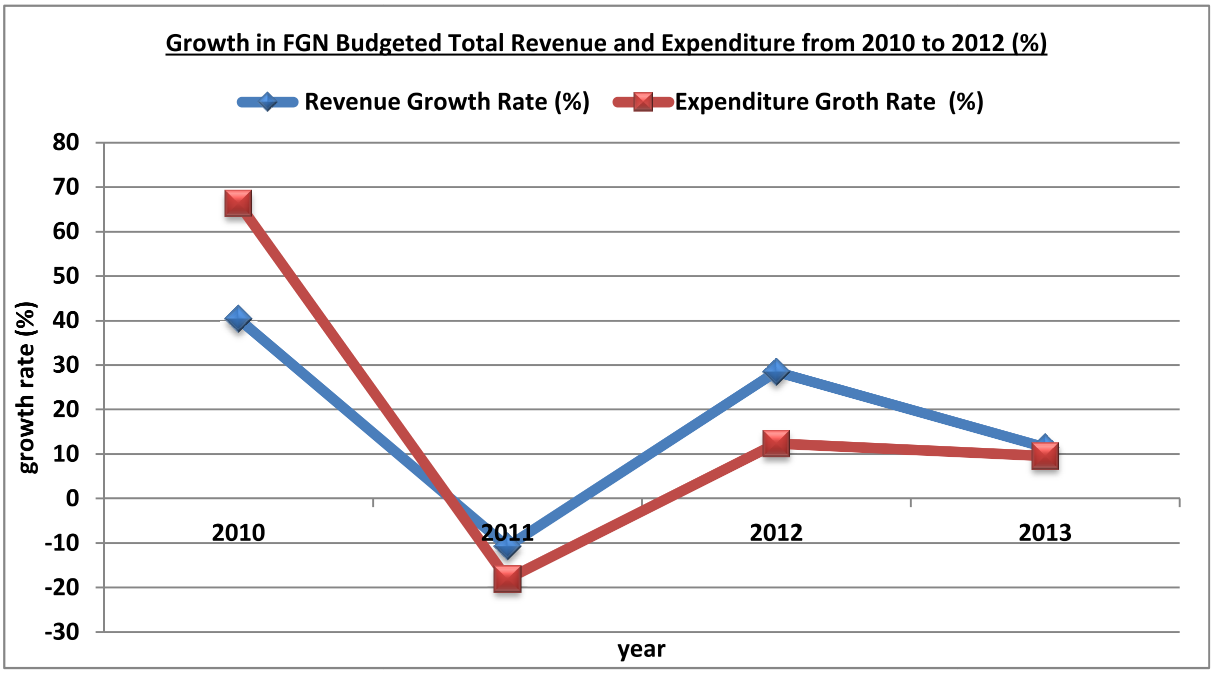
Note: *Other Sources of Revenue in 2010 include Carry Over Supplement II of 2009, DMO Bond Issuance for Monetization Arrears PHCN (Supplementary I 2010), Other Revenue Supplementary I, Special Bond Issuance for INEC (Supplementary II), and Estimated FGN's Balance of Special Accounts December end 2010.*

***Other here includes Unspent Balance & Special Accounts*

*** *The 1999 Constitution, as amended in 2011, has mandated the Federal Government to put transfers to the NASS on first line charge.*

Table 27 above shows that retained revenue have increased from the declined N2, 836.43 billion in 2011, at a growth rate of 28.49% to N3, 644.66 billion in 2012. It is expected to increase further over the medium term. The highest revenue growth rate of 40.39 % was experienced between 2009 and 2010. On the expenditure side, Statutory Transfers doubled in 2012 as result of the inclusion of the National Assembly's allocation as a component of statutory transfers. Recurrent (non-debt) expenditure grew substantially in 2010 compared to that 2009. However, the growth has considerably reduced in 2011 and 2012. Capital expenditure declined considerably in 2011 after the huge growth experienced in 2010. Capital expenditure is now beginning to grow as growth rate of recurrent expenditure slows down. In all, one important source for concern is the size of deficit as percentage of revenue which has remained at an average of 45.02% per annum between 2009 and 2013. The very low rate of decline in the size of deficit as a percentage of revenue has led to increased total debt service. The debt service obligation of the federal government has remained almost at the same level over the past three years between 2010 and 2012. The budget has maintained a consistent deficit, amounting to over -2.77% of the nominal GDP save for the year 2012.

FIGURE 4: GROWTH IN FGN BUDGETED TOTAL REVENUE AND EXPENDITURE FROM 2010 TO 2012

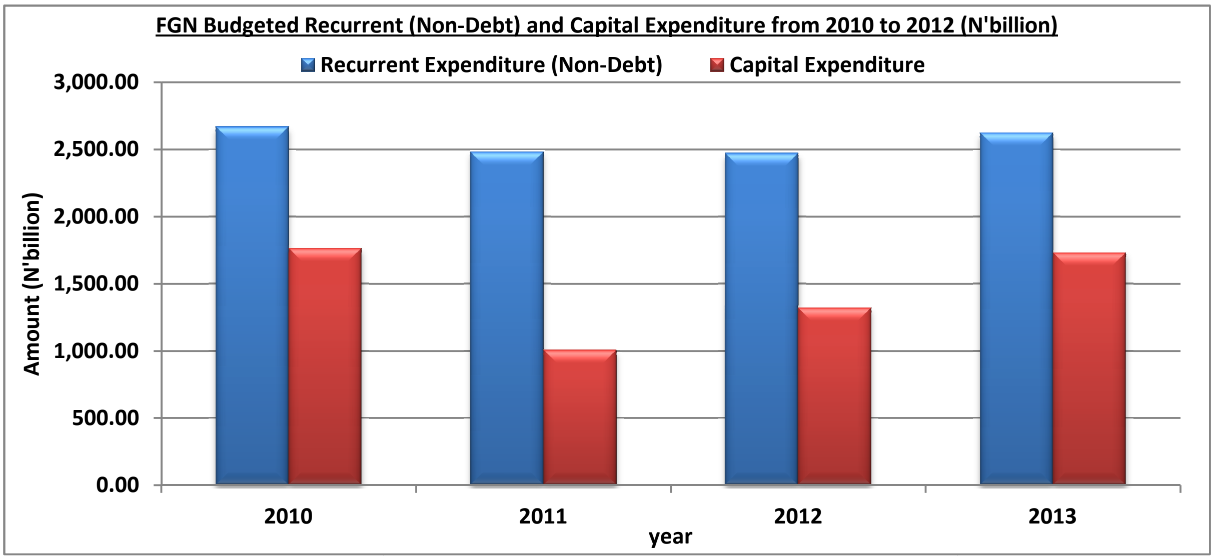


Source: BOF and FMF Report on the 2012 Implementation

Figure 4 shows that until 2011, the growth rate of revenue has remained below that of expenditure. However, the gap between the two rates is rapidly closing up.

Though the comparison is relative, it reflects the declining growth rate of the country's budget deficit over the years.

FIGURE 5: THE FGN BUDGETED RECURRENT (NON-DEBT) AND CAPITAL EXPENDITURE FROM 2010 TO 2012



Source: BOF and FMF Report on the 2012 Budget Implementation

Figure 5 reveals that the federal government has been committing more resources into recurrent expenditure and consumption as against capital expenditure.

5.9 EXPENDITURE FRAMEWORK

5.9.1 MTEF VERSUS THE 2012 APPROPRIATION BILL

The MTEF determines the Appropriation Bill and normally forms the base for the preparation of the Bill. The sectoral and compositional distribution of the estimates is supposed to align with the MTEF as approved by NASS. The expenditure projections in the 2012 Appropriation Bill vis-a-vis the contents of the approved MTEF are shown in Table 28.

TABLE 28: MTEF VERSUS 2012 BUDGET'S EXPENDITURE FRAMEWORK

Item	MTEF (Billions)	Appropriation Bill (Billions)
FGN Revenue	3,693.17	3,644.44
Statutory Transfers	345.72	397.93
Debt Service	550.01	559.58
Recurrent MDA (Non Debt)	2,581.99	2,471.84
Capital Spending	1,319.89	1,319.77
Aggregate Expenditure	4,797.61	4,749.10
Deficit as a% of GDP	-2.69%	-4.28

Source: BOF and FMF Report: 2012 Appropriation Bill (Harmonized) and the MTEF 2012-2015

The deviations between the contents of the MTEF and the presentations in the Bill are as follows: statutory transfers, capital spending, aggregate expenditure and debts service projections in the Bill exceed the MTEF projections by 15.10%, 0.00%, 1.01% and 1.74% respectively. FGN revenue and recurrent non-debt expenditure projections in the MTEF recorded shortfalls of 1.32% and 4.27% respectively in the Bill.

5.9.2 SECTORAL BREAKDOWN OF EXPENDITURE

Table 29 shows the sectoral breakdown of expenditure for recurrent and capital components of the budget excluding service wide votes and pensions.

TABLE 29: SECTORAL BREAKDOWN OF TOTAL EXPENDITURE IN 2012

FISCAL YEAR 2012		
MDAs	**Total Expenditure (N)**	**% of budget**
Presidency	43,595,512,439.00	1.29
OSGF	70,591,647,019.00	2.09
Youths and Social Development	76,075,840,142.00	2.25
Police Affairs	6,109,283,677.00	0.18
Police Formation and Commands	307,857,718,425.00	9.09
Women Affairs	4,184,514,997.00	0.12
Agriculture and Rural Development	78,984,828,949.00	2.33
Water Resources	39,003,097,541.00	1.15
Auditor General's For the Federation	3,286,607,486.00	0.10
ICPC	4,219,694,570.00	0.12
Defence/Mod/Army/Air Force/Navy	326,354,184,382.00	9.64
Education	400,148,037,983.00	11.82
FCT	45,571,633,782.00	1.35
Foreign Affairs	50,186,470,959.00	1.48
Finance	13,397,725,756.00	0.40
Health	282,771,771,425.00	8.35
Trade and investment	13,518,601,587.00	0.40
Information	24,079,001,492.00	0.71
Communication Technology	18,305,107,489.00	0.54
Interior	157,332,986,945.00	4.65
Head of Service of the Federation	12,768,422,955.00	0.38
Justice	22,330,185,048.00	0.66
Labour and Productivity	10,851,966,886.00	0.32
Power	73,416,536,317.00	2.17
Science and Technology	30,837,269,224.00	0.91
Transport	54,825,494,233.00	1.62
Petroleum Resource	59,664,912,140.00	1.76
Works	180,799,815,246.00	5.34
Lands and Housing	26,494,247,280.00	0.78
Mines and Steel	14,976,598,348.00	0.44
Aviation	49,227,130,387.00	1.45
National Salaries Income and Wages Commission	1,009,472,660.00	0.03

Environment	20,090,932,647.00	0.59
Tourism, Culture & NOA	21,520,535,847.00	0.64
National Planning Commission	7,492,342,104.00	0.22
National Sports Commission	9,869,938,969.00	0.29
Intelligence Community	124,263,761,913.00	3.67
Niger – Delta	59,723,482,821.00	1.76
Special Duties	464,926,303.00	0.01
Fiscal Responsibility Commission	692,058,480.00	0.02
Infrastructural Concessionary And Regulatory Commission	1,164,770,849.00	0.03
National Population Commission	9,508,844,611.00	0.28
Code Of Conduct Bureau	2,613,828,368.00	0.08
Code Of Conduct Tribunal	506,333,999.00	0.01
Public Complaints Commission	3,237,831,585.00	0.10
Revenue Mobilization, Allocation & Fiscal Commission	2,862,984,304.00	0.08
Federal Civil Service Commission	1,764,426,518.00	0.05
Police Service Commission	2,470,077,782.00	0.07
Federal Character Commission	2,386,127,345.00	0.07
National Human Right Commission	874,949,987.00	0.03
Capital Supplementation	*461,152,417,490.00*	*13.62*
National Assembly	*150,000,000,000.00*	*4.43*
Grand Total	**3,235,436,889,691.00**	**100.00**

Source: BOF and FMF Report: 2012 Appropriation Bill (Harmonized)

5.9.2.1 EDUCATION AND HEALTH

Table 29 reveals that in 2012, key social sectors like education and health got votes below the expectations and recommendations of national and international standards. For instance, education got 11.82% of the total expenditure of MDAs, which is a bit less than half of the 26% demand by international standards while health got only 8.35% against the demand of 15% of total allocation. Various compilations of recent human development indicators[51] reveal that the country has continued to experience severely marginal improvements. The dwindling resources available to the education and health sectors further compound this situation.

The addition of nine new universities to the list of existing federal universities is undoubtedly a major source of concern. The new universities have been allocated a total of N9.86 billion out of the paltry sum currently going to the already existing federal universities. A look at the 2012 budget reveals that expenditure structure of the recently approved universities is already beginning to take the shape of the existing ones. The new universities, in their year of inception, are to spend over 70%

[51] Between 1980 and 2011, Nigeria's life expectancy at birth increased by 6.4 years and expected years of schooling increased by 2.2 years. The country is positioned at 156 out of 187 countries and territories according to its HDI of 2011 - Human Development Report 2011.

of their total allocation on recurrent expenditure. There is no doubt that the core idea behind the establishment the new universities is the need to increase access of several hundreds of thousands of secondary school leavers to university education. However, the fulfilment of this goal is approached in such a manner that is detrimental to the quality of learning in these institutions. Though the idea to increase access may not be entirely out of place, the approach of creating additional universities as against increasing the size and capacity of already existing universities is essentially political motivated. It has nothing to do with value for money. Additionally, the fact that these new universities have to start without the necessary infrastructures depicts very poor planning which will lead to poor learning outcomes.

The following statistics from the MDG Report 2010 shows the need to increase education funding. Net enrolment ratio in primary education is 88.8%, proportion of pupils who start primary 1 and reach primary 5 is 72.3%, primary 6-completion rate is 67.5% while literacy rate of 15 to 24 year old is 80%. Continued and enhanced funding of schemes to enhance the quality of learning by the Federal Government will improve the human capacity of many Nigerians.

The National Strategic Health Development Plan – NSHDP 2010-2015, in a bid to improve the health status of Nigeria for national development recognises:

> *that the key challenges for achieving national health objectives are related to the weak health system characterized by constrained governance systems and structures, low levels of health care financing and poor predictability and release of funds with inadequate financial protection for the poor, shortage and mal-distribution of human resources for health, poor quality service delivery, inadequate and untimely availability of quality health commodities, lack of routine health services data, low levels of research for health, weak partnership and coordination, as well as poor community participation and poor utilization of health services, particularly child and maternal services, to mention a few;*

Arising from the Presidential Summit on Health, the President, the 36 states governors and the FCT minister committed themselves to effective implementation of integrated, high impact interventions, and to deliver for the nation and their respective states a set of targets that will improve the health status of their citizens. In line with this commitment, the following specific fiscal targets for the health sector were set;

> *Increasingly budget allocations to health at the Federal, State and LGAs from the present level by at least 25% each year towards achieving the Abuja Declaration target of 15%; committing to at least 90% budget release and 100% utilization by the end of the year;*

The overall federal allocation to health since 2010 has continued to grow at an average of 25%. However, from a review of the average growth of the health allocation vis-a-vis the overall government expenditure, it is clear that it may take at least six years for the government to attain the 15% mark, all things been equal. With the target for the realization of the MDGs around the corner, there is no doubt that the recent trend in the growth rate of the health expenditure will not produce the needed results. This is even more so in a situation in which most of these expenditures are strictly for administrative purposes rather than the real business of improving the quality of health infrastructure and service delivery.

5.9.2.2 AGRICULTURE AND RURAL DEVELOPMENT

Agriculture's contribution to the GDP and employment generation in the country has been the highest over the decades. Again, agriculture remains central to the realization of the most important target on the MDGs list - eradication of extreme hunger and poverty. However, the allocation to agriculture in the 2012 budget, and indeed, budgets of many years in the past do not seem to reflect this fact. Agriculture, with its expected contribution of 37.9% to the GDP of the country in 2012 is allocated only 2.33% of the overall MDA expenditure. Although, government is not involved in direct production in the agricultural sector, its role as enabler and facilitator in providing the needed infrastructure, inputs and facilities that can guarantee value addition in the sector makes the current allocation grossly inadequate. Additionally, the growing cost of food importation has become worrisome in recent years. The country's growing cost of food importation has only succeeded in relocating resources and jobs that would have hitherto resided in Nigeria to foreign countries. Government certainly has not given the needed appropriate attention to the agricultural sector through the instrument of the annual budget.

5.9.2.3 DEFENCE, POLICE FORMATIONS AND COMMAND AND THE NATIONAL SECURITY ADVISER

The allocation of 9.64% of the overall MDA expenditure to defence is not justifiable considering that the country is not under the threat of any external force. The same scenario is also reflected in the allocation to Police Formations and Commands, which got 9.09% of the overall allocation to MDAs. Further, taking account of the 3.67% allocation to the Intelligence Community (comprising the NSA, Presidential Fleet, SSS, National Intelligence Agency), the picture is that 30.93% of overall MDA expenditure is allocated to the internal and external security to be provided by the above named agencies of the federal government. This figure will increase by 5.06% to 35.99% when the allocation for the paramilitary agencies is added. Although the current Boko Haram menace may appear to point to the need for improved internal security within the country, increasing the share of the country's expenditure that goes to security is not the way out of the crisis. This is because such expenditures in previous years have not yielded any significant result.

Moreover, a closer look at some of the major expenditure items in the budget of these agencies reveal that a good chunk of these funds are spent on items or services that have very low relevance to the security of the country. What is needed is a reengineering of the entire security architecture of the country. The emphasis now should be “security for money” and not “money for security”. So much has been put into this sector with the attendant almost irredeemable level of lack of transparency and accountability.

5.9.2.4 NATIONAL ASSEMBLY

The NASS, without any clear explanation or disaggregation of their allocation, proposes N150 billion to itself. The NASS is made up 469 legislators who are a very minute section (about 0.00028%) of the entire 167 million Nigerian population. There is practically no justification for the allocation of as much as 6.07% of our annual budgeted expenditure to such an infinitesimal segment of the whole. Yes, there may be a few hundreds of workers working in the NASS bureaucracy. It is a widely shared opinion that NASS can be run efficiently with less than 1% of the budget and still effectively perform its functions.

5.9.2.5 THE PRESIDENCY

Once again, the huge vote of the presidency contradicts the administrations public commitment to cut down the cost of governance. Like many other MDAs, the estimates of the Presidency are fraught with a lot of bloated requests such as refreshment and meals, welfare packages, sporting activities, etc. There is also many other items of capital nature like computers, computer printers, canteen/kitchen equipment, residential furniture, etc that have continued to remain on the budget of the presidency for some years now. The presidency does not need more than 50% of the estimates to function efficiently and effectively.

5.9.3 RECURRENT EXPENDITURE

Recurrent (non-debt) expenditure of MDAs (excluding statutory transfers) will take a total of N 2,869.74billion which amounts to 60.43% of the budget. It is no longer news that recurrent expenditure has continued to outgrow capital expenditure. The Transformation Agenda proposed a number of short-term policy measures which include:

> *Limiting total recurrent spending as a percentage of GDP to 6 per cent from the current 8.5 per cent in the first instance, while increasing capital expenditure as a percentage of GDP should rise from 4 to 6.5 per cent in 2011 (and rising significantly thereafter.)*

Figures from the 2012 approved budget reveal that the overall recurrent expenditure for the year (including debt service and excluding the recurrent spending of the statutory agencies) falls within the range of 6% of GDP. However, this benchmark is vague. Even if further revisions are achieved in line with the above measures, the issue of the rising recurrent obligation of the federal government cannot be tamed in the nearest future.

TABLE 30: RECURRENT EXPENDITURE 2012

FISCAL YEAR 2012		
MDAs	**Recurrent (Non-debt) Expenditure (N)**	**% of budget**
Presidency	27,795,512,439.00	1.17
OSGF	47,041,647,019.00	1.98
Youths and Social Development	71,275,840,142.00	3.00
Police Affairs	3,609,283,677.00	0.15
Police Formation and Commands	298,817,945,778.00	12.57
Women Affairs	1,784,514,997.00	0.08
Agriculture and Rural Development	33,974,838,949.00	1.43
Water Resources	8,603,097,541.00	0.36
Auditor General's For the Federation	2,686,607,486.00	0.11
ICPC	4,019,694,570.00	0.17
Defence/Mod/Army/Air Force/Navy	291,683,357,932.00	12.27
Education	345,091,448,178.00	14.52
FCT	-	-
Foreign Affairs	42,786,472,959.00	1.80
Finance	10,897,725,756.00	0.46
Health	225,760,885,287.00	9.50
Trade and investment	11,318,601,587.00	0.48
Information	19,979,001,492.00	0.84
Communication Technology	10,565,107,489.00	0.44
Interior	149,732,986,945.00	6.30
Head of Service of the Federation	7,708,316,253.00	0.32
Justice	21,730,185,048.00	0.91
Labour and Productivity	8,349,260,886.00	0.35
Power	3,116,536,317.00	0.13
Science and Technology	20,985,660,859.00	0.88
Transport	7,825,494,233.00	0.33
Petroleum Resource	51,324,227,840.00	2.16
Works	31,599,815,244.00	1.33
Lands and Housing	6,254,247,128.00	0.26
Mines and Steel	11,976,718,249.00	0.50
Aviation	6,326,422,775.00	0.27
National Salaries Income and Wages Commission	709,472,660.00	0.03
Environment	13,686,590,307.00	0.58
Tourism, Culture & NOA	18,270,535,847.00	0.77
National Planning Commission	5,992,342,104.00	0.25
National Sports Commission	8,469,938,969.00	0.36
Intelligence Community	59,637,849,878.00	2.51

Niger – Delta	2,723,482,821.00	0.11
Special Duties	364,926,303.00	0.02
Fiscal Responsibility Commission	592,058,480.00	0.02
Infrastructural Concessionary And Regulatory Commission	1,064,770,849.00	0.04
National Population Commission	7,409,254,611.00	0.31
Code Of Conduct Bureau	1,513,828,368.00	0.06
Code Of Conduct Tribunal	406,333,999.00	0.02
Public Complaints Commission	2,637,831,585.00	0.11
Revenue Mobilization, Allocation & Fiscal Commission	2,262,984,304.00	0.10
Federal Civil Service Commission	1,364,426,518.00	0.06
Police Service Commission	870,077,782.00	0.04
Federal Character Commission	2,286,127,345.00	0.10
National Human Right Commission	774,949,987.00	0.03
Capital Supplementation	461,152,417,490.00	19.40
Grand Total	2,376,811,655,262.00	100.00

Source: BOF and FMF Report: 2012 Appropriation Bill

It is important to note that the Federal Government's effort at cutting down recurrent expenditure has not been successful over the years. Recall that the FGN had set up an Expenditure Review Committee (Professor Anya O. Anya led Committee) with representation from the Public Service, Civil Society, Organized Private Sector and the Academia to review and rationalize the outlay on recurrent spending. However, the content of the 2012 budget did not reflect any deviations from the norm in recurrent budgeting of the FGN. Again, more recently is the report of the Presidential Committee for the Rationalization and Restructuring of Federal Government MDAs (Oronsaye led Committee). These reports proffer both short and long term measures for significant reductions in the cost of governance.

On a more specific note, the Citizens Wealth Platform (CWP), a group 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, had earlier made recommendations to FGN and NASS on areas for cutting cost in the 2012 budget proposal before it was passed into law. The recommendations of CWP include the following:

- Cut down the N150 billion lump-sum allocation to the NASS by as much as 50% to N75 billion;
- Cut down the N85 billion lump-sum allocation to the National Judicial Council (NJC) by N25 billion to N60 billion;
- Cut down Transport and Transport-General allocation to all MDAs from the N27 billion proposal to N13 billion;
- Cut down Computer & Software Acquisition of N5.8 billion by 50% to N2.9 billion;

- ❖ Completely expunge the Sports Activities proposal of N682 million from the budget, since this is not the core responsibility of the MDAs;
- ❖ Completely expunge the Health (Drug & Medical) proposal of N1.7 billion since the health and medical expense of staffs have already been taken care of by the National Health Insurance Scheme (NHIS);
- ❖ Completely expunge the allocation for Security Votes and Security Services.

Unfortunately, NASS and the executive did not consider the above recommendations in their deliberations of the 2012 budget proposal. This puts to great doubt FGN's professed agenda on reducing the cost of governance. Recurrent expenditure of the FGN is still as large as over 6% of the country's GDP while capital expenditure remains way below 3%.

5.9.4 Capital Expenditure

The capital budget has continued to decline in the last few years. Capital budget gulped 34% of the 2010 budget, 26% of the total 2011 budget, while in the 2012 budget, it accounted for only 27.8%. The budget has failed to achieve prudent fiscal management in the area of rationalization of recurrent expenditure and optimization of capital expenditure. Additionally, the Minister of Finance also conceded to the fact that FGN may not be able to cut down recurrent expenditure beyond 5% in the medium term.

Capital budget monitoring reports of the Budget Office of the Federation indicate that poor project management practices of MDAs is the prime reason for poor capital budget implementation[52]. While this may appear as the immediate reason for the poor performance of capital budget implementation, the very low political will for the successful implementation of the budget is the single most important hindrance. There is need for greater commitment from political leaders as this will eventually rob off on the bureaucracy.

The breakdown of the capital expenditure is as shown in Table 31 below,

TABLE 31: BREAKDOWN OF CAPITAL EXPENDITURE

FISCAL YEAR 2012		
MDAs	**Capital Expenditure (N)**	**% of budget**
Presidency	15,800,000,000.00	1.20
OSGF	23,550,000,000.00	1.78
Youths and Social Development	4,800,000,000.00	0.36
Police Affairs	2,500,000,000.00	0.19
Police Formation and Commands	9,039,772,647.00	0.68
Women Affairs	2,400,000,000.00	0.18
Agriculture and Rural Development	**45,009,990,000.00**	**3.41**

52 Combined 1st and 2nd Quarter Budget Implementation Report 2011, pp iii.

Water Resources	**30,400,000,000.00**	**2.30**
Auditor General's For the Federation	600,000,000.00	0.05
ICPC	200,000,000.00	0.02
Defence/Mod/Army/Air Force/Navy	**34,670,826,450.00**	**2.63**
Education	**55,056,589,805.00**	**4.17**
FCT	45,571,633,782.00	3.45
Foreign Affairs	7,399,998,000.00	0.56
Finance	2,500,000,000.00	0.19
Health	57,010,886,138.00	4.32
Trade and investment	2,200,000,000.00	0.17
Information	4,100,000,000.00	0.31
Communication Technology	7,740,000,000.00	0.59
Interior	7,600,000,000.00	0.58
Head of Service of the Federation	5,060,106,702.00	0.38
Justice	600,000,000.00	0.05
Labour and Productivity	2,502,706,000.00	0.19
Power	**70,300,000,000.00**	**5.33**
Science and Technology	9,851,608,365.00	0.75
Transport	**47,000,000,000.00**	**3.56**
Petroleum Resource	8,340,684,300.00	0.63
Works	**149,200,000,002.00**	**11.30**
Lands and Housing	**20,240,000,152.00**	**1.53**
Mines and Steel	**2,999,880,099.00**	**0.23**
Aviation	**42,900,707,612.00**	**3.25**
National Salaries Income and Wages Commission	300,000,000.00	0.02
Environment	6,404,342,340.00	0.49
Tourism, Culture & NOA	3,250,000,000.00	0.25
National Planning Commission	1,500,000,000.00	0.11
National Sports Commission	1,400,000,000.00	0.11
Intelligence Community	64,625,912,035.00	4.90
Niger – Delta	**57,000,000,000.00**	**4.32**
Special Duties	100,000,000.00	0.01
Fiscal Responsibility Commission	100,000,000.00	0.01
Infrastructural Concessionary And Regulatory Commission	100,000,000.00	0.01
National Population Commission	2,099,590,000.00	0.16
Code Of Conduct Bureau	1,100,000,000.00	0.08
Code Of Conduct Tribunal	100,000,000.00	0.01
Public Complaints Commission	600,000,000.00	0.05
Revenue Mobilization, Allocation & Fiscal Commission	600,000,000.00	0.05
Federal Civil Service Commission	400,000,000.00	0.03
Police Service Commission	1,600,000,000.00	0.12
Federal Character Commission	100,000,000.00	0.01
National Human Right Commission	100,000,000.00	0.01

Capital Supplementation	461,152,417,490.00	34.94
Grand Total	1,319,777,651,919.00	100.00

Source: BOF and FMF Report: 2012 Appropriation Bill

Table 32 below shows the capital vote of key MDAs which should drive the growth of the GDP, build and strengthen human capital and provide infrastructure for the growth as against the provision for debt service.

TABLE 32: CAPITAL VOTE OF KEY MDAS AND DEBT SERVICE FOR 2012

Sector	Amount (N'Billion)	2012 Debt Service (N Billion)
Agriculture and Rural Development	45,009,990,000.00	
Aviation	42,900,707,612.00	
Defence/Mod/Army/Air Force/Navy	34,670,826,450.00	
Education	55,056,589,805.00	
Lands and Housing	20,240,000,152.00	
Mines and Steel	2,999,880,099.00	
Niger – Delta	57,000,000,000.00	
Power	70,300,000,000.00	
Transport	47,000,000,000.00	
Water Resources	30,400,000,000.00	
Works	149,200,000,002.00	
Total	**554,777,994,120.00**	**559,580,000,000.00**

Source: Data Extracted from the 2012 Budget

Table 32 highlights the mismatch between the key capital infrastructural needs and debt repayment. Essentially, the vote for debt repayment is higher than the capital vote of 12 key MDAs. Debt servicing as a percentage of capital expenditure of ₦1, 319 billion is 42.39% while the debt service as a percentage of government's retained revenue of ₦3.644 trillion is 15.35%. The vote for debt repayment is a lost opportunity for development especially when considered against the background that a good number of the loans were channelled towards consumption and recurrent expenditure. If the loans had been invested in capital and regenerating projects, there would have been an increase in capital stock formation which would have improved the environment for investments leading to increased employment, greater capacity utilisation in industries, enhanced economic growth and improved living conditions for the majority of citizens.

5.10 DEFICIT AND DEBTS

With the projected deficit pegged at -2.69% of the GDP by the MTEF, the 2012 appropriation attained a deeper deficit of a -4.28% of GDP; a nose dive which heightens the breach of Section 12 of the FRA that sets the limit to expenditure to be no more than the aggregate revenue plus a deficit not exceeding 3% of the estimated GDP unless there is a national emergency. Table 33 below shows the percentage of retained revenue to overall budget expenditure:

TABLE 33: PERCENTAGE OF RETAINED REVENUE TO OVERALL BUDGET 2012

Overall budget (N'bn)	Retained revenue (N'bn)	% Of Retained Revenue To Overall Budget
₦4,749	₦3,644	76.7%

Source: Extracted from the 2012 Budget

Table 34 shows the percentage of deficit to overall budget.

TABLE 34: PERCENTAGE OF DEFICIT TO OVERALL BUDGET 2012

Overall budget (N'bn)	Deficit Sum (N'bn)	% Of Deficit To Overall Budget
₦4,749	₦1,104.44	23.25%

Source: Extracted from the 2012 Budget

The Budget states the source of deficit financing as follows in Table 35:

TABLE 35: SOURCES OF DEFICIT FINANCING

Deficit Financing Source	Amount N'billion
Privatization Proceed	10
Signature Bonus	75
FGN Share from Stabilization Fund Account	306.76
Domestic Borrowing (FGN Bond)	744.44
Total	**N1,136.19**

Source: Extracted from the 2012 Budget

From the Bill, the proceeds of privatization and signature bonus may be used to finance the deficit including recurrent expenditure. But their use in funding recurrent expenditure is prohibited by section 53 of the FRA which states that:

> *"the proceeds derived from the sale or transfer of public properties and rights over public assets shall not be used to finance recurrent and debt expenditure, provided such proceeds may be used to liquidate existing liabilities directly charged against such properties or assets"*

Considering that the capital vote of 12 key ministries is less than the debt service provisions of the budget and the provision for recurrent non-debt expenditure which amounts to approximately N2.5trillion, it is clear that a good part of the proceeds expected from privatisation and signature bonus will be used to fund debt and recurrent expenditure. Further, a good part of the domestic borrowing may also go into funding recurrent non-debt and debt expenditure contrary to the provisions of section 41 of the FRA which states that:

"Government at all tiers shall only borrow for capital expenditure and human development, provided that such borrowing shall be on concessional terms with low interest rate and with a reasonably long period of amortisation."

In 2011, the sum of N42.44billion was expected from the signature bonus, only N20.66billion came at the end of the year.

Domestic borrowing is listed as a source of funding the deficit to the tune of N744.44 billion in the revenue and expenditure framework. At N155/$, this amounts to $4.802billion. But N744.44 billion exceeds the recommendation of the DSA[53] on the money to be raised from domestic sources. The DSA recommends a maximum sum of N340.73 billion to be borrowed from domestic sources and USD4.35 billion from external sources. Although this is less than the N852.27billion borrowed in 2011, the implication is that the public sector will continue its crowding out effect on access to credit by the private sector and banks will continue to be risk averse.

[53] Report of the Annual Debt Sustainability Analysis, 2012 at page 11.

Chapter Six

SPECIFIC ISSUES AND THE CHALLENGES OF FISCAL GOVERNANCE

6.1 EXCESS CRUDE ACCOUNT AND FISCAL RESPONSIBILITY

There have been breaches of the provisions of the FRA by the continued sharing of resources in the ECA. At the December 31, 2010 emergency meeting of the Federation Account Allocation Committee (FAAC)[54], $1 billion was shared by the three tiers of government from the ECA. In the year 2011, several withdrawals were made from ECA. $1 billion had already been transferred from the ECA to the Sovereign Wealth Fund as seed capital in September, 2010. Though FAAC said the disbursements were expected to be channelled to infrastructure development in different states, this seems not the case, as the withdrawals were buoyed by the rise in the price of crude oil. Between the last week of December and the first half of January 2011, the price of crude oil ranged between $87 and $92 per barrel; exceed the $67 per barrel benchmark price for Federal Government's Budget for 2010. Besides, there was no precipitous drop in oil production in the country. The FRA never envisaged withdrawals from that account in the manner it has been done on several occasions since 2007. As stipulated in Part VII, subtitled, "Savings and Asset Management," excess revenue savings are not to be accessed by any tier of government except under clearly specified conditions. In Section 35 (5), the Act states:

> *"No Government in the Federation shall have access to the savings made in pursuance to sub-section (2) of this section, unless the reference commodity price falls below the pre-determined level for a period of three consecutive months."*

The above quote is not ambiguous and it is the responsibility of government at all levels to ensure its enforcement. The ECA is to act as a stabilisation fund, closing budget deficits that are a product of oil price volatility, and to potentially fund domestic infrastructure investments. The ECA had increased by 239.2 per cent, reaching $22billion in 2007 from $5.1 billion recorded in 2004. The three levels of government have continued to abuse the savings by insisting on their right to share the excess oil revenue at anytime. It is regrettable that savings in the ECA, which

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[54] *NBF General Topics: Excess Crude Account And Fiscal Responsibility:* www.nigerianbestforum.com/generaltopic/excess-crude-account-and-fiscal-responsibility/

stood at about $22 billion in May 2007, when the late President Umaru Yar'Adua and Dr. Goodluck Jonathan assumed office, have dropped to less than $3billion. Infrastructures are still at low ebbs, electricity supply is still epileptic, roads are still filled with craters and many Nigerians yet to access public water supply - despite the full utilisation of ECA withdrawals. NASS, the Fiscal Responsibility Commission and the Revenue Mobilisation Allocation and Fiscal Commission have failed the nation by allowing such fiscal recklessness by the three tiers of government. For the sake of accountability, as required in a true democratic system, FGN should publish a detailed account of its utilisation of disbursements from the ECA. State and local councils across the country need to give account of the use of ECA funds since 2007.

6.1 HOUSE INVESTIGATES $50 BILLION FUNDS TRAPPED IN NNPC

The House of Representative Joint Committee on Finance, Petroleum Resources (Upstream and Downstream) and Gas Resources raised the alarm of $50bn funds trapped in the Nigerian National Petroleum Corporation. The revelation uncovered that the trapped revenues are in the hands of crude lifters known to the NNPC. The Chairman of the Joint Committee, Hon. Abdulmumin Jibrin reported that despite the enormous revenue that accrued to the country from crude oil sales on a daily basis, we continue to operate deficit budgets simply because of our inability to track oil revenue. Evidently, $50bn is more than Nigeria's annual budget and according to the chairman, the committee was insistent on recovering the funds. The committee was also disturbed that NNPC refused to return N450bn unspent fund to the treasury. NNPC was accused of lacking transparency in the declaration of sales of gas and other petroleum products. A total of 445,000 barrels of crude oil is allocated to NNPC per day at below commercial rate. It claims to export petroleum below import price, under–declares revenue from the federation crude and still turns around to claim huge subsidies from the Federation. This investigation is coming on the heels of public concern of the mismanagement and lack of transparency in the extractive sector. In order to address this, a Joint Committee of the House of Representatives was mandated to ascertain how NNPC had been remitting money in to the Federation Account and also to ascertain NNPC's level of compliance with section 162 (1) of the 1999 Constitution of the Federal Republic of Nigeria[55].

6.2 STATE GOVERNORS AND THE UNIVERSAL BASIC EDUCATION FUND

The Editorial of This Day Newspaper[56], advised the President, Goodluck Jonathan not to accede to the request of state governors who want direct access to the

[55] THIS DAY NEWSPAPERS, Wednesday, October 26, 2011, Pg. 1&2
[56] October 20, 2011

Universal Basic Education funds and who are therefore pushing for amendments to Sections 9 (b) and 11(2) of the Law spelling out criteria for entitlement to the Fund.

> *Specifically, the governors want to collect this special federal government intervention fund without providing the necessary counterpart funding, which is a needed demonstration of seriousness for entitlement. While the debate over the criteria for the UBE funds has been on for a while, the handling of the funds by most state governments has only reinforced the need for strict monitoring of its disbursement and utilization. Let us recall that primary education does not fall within the purview of the federal government and the 2 per cent of the Consolidated Revenue Fund (CRF), set aside by the federal government for equal distribution to all the 36 states and Federal Capital Territory (FCT), to support basic education was a response to a felt national need…..*
>
> *The UBE intervention fund is not the main or alternative fund for that critical education sub-sector. Curiously, many state governments speak about it with a sense of entitlement that is laughable at best. As at last month, almost a quarter of the N160.76 billion so far released by the federal government had not been accessed by the benefitting states. The reason is that the affected states simply refused to pay a matching grant of the same amount or develop action plans to be presented to the Universal Basic Education Commission (UBEC), on how the total sum would be spent.*
>
> *From reports of states' performance in the last five years, the diversion of funds to things other than basic education and the practice of some states which pay the counterpart fund, receive the grant and promptly withdraw half of it, show that the federal government is right in maintaining the existing strictures. Interestingly, the states complaining of inadequate funds to rebuild classroom, train teachers and provide instructional materials are the ones putting forward all sorts of arguments against rules for access to the special intervention funds.*
>
> *Allocation per state has hardly ever gone beyond half a billion naira per annum, yet some states argue that this is too much for them to commit as counterpart fund. A state once requested that it be paid only what it is able to pay. That is, if the state can only afford to pay N200 million in a given year, for example, UBEC should give it the same amount and keep the rest! The experience with the Education Trust Fund (ETF) is instructive. Just because states are required to account for previous allocations to have to access the next, the allocations piled up.*
>
> *And it is against the background of this experience that we doubt the wisdom of allowing the governors have their way, including their earlier request that the fund be moved from the Central Bank to commercial banks for easier access. Rather than relax the conditions, they should be further tightened to ensure quality control. There must be effective monitoring of the projects executed with the funds as there have been cases of classrooms falling apart even before they are put to use. The School-Based Management Committees (SBMCs) have a role to play here and should be set up with clear guidelines.*

What the governors are fighting is commitment to transparency and accountability to the people, whose interests they have sworn to protect. The president must know that the call for the amendment to the UBEC law is principally to cover senior secondary education, which has become an 'orphan' as far as special intervention is concerned. Now that the Education Trust Fund, which hitherto funded that sub-sector, has become strictly Tertiary Education Trust Fund, there is even greater need for caution in the management of the education funds. It is not, and should not be used as, an avenue to make free money available to state governors[57]*.*

6.3 THE BATTLE BETWEEN THE STATES AND THE FEDERAL GOVERNMENT OVER SOVEREIGN WEALTH FUND

The States and the Federal Government have been in dispute over the creation of the ECA and the latter day enactment of the Nigeria Sovereign Investment Authority (NSIA) to manage Nigeria's Sovereign Wealth Fund. The Federal Government's position on the creation of the ECA is to save the difference between the benchmark price of crude oil used in the budget and the actual price in the international market. 23 states have filed a suit in the Supreme Court against the FGN questioning the legality of the savings and deductions from their share of the Federation Account. For over three years, FGN has made fruitless efforts for an out of court settlement with the states. The states have filed for an injunction stopping the Federal Government from tampering with the funds for any purpose.

In a suit filed by Chief Solomon Awomolowo (SAN), on behalf of the Governors and brought pursuant to Order 3 Rules 1 and 14 of the Supreme Court Rules (as amended) to restrain the Federal Government and its agencies from making any withdrawals from the account styled the "Excess Crude Account" or any account replacing it by any name pending the hearing and determination of the case. The states also want all monies standing to the credit of the ECA or any account replacing it to be paid into the Supreme Court or otherwise secured as the court might deem fit pending the conclusion of the matter. According to the Counsel for the states, Awomolowo, the fresh application is predicated on the following grounds:

- The suit challenging the legality and constitutionality of the Excess Crude Account had been filed since 2008.
- The Respondent had caused appearance of counsel, frustrated negotiation and joined issues with the plaintiff; and
- FGN and its officers have been consistently and in total disregard of the pending suit withdrawn, utilized, disbursed and allocated funds from the account and had nearly depleted the sum of N5.51 trillion being the balance on the account as at 2008 when the case was instituted.

[57] THIS DAY, October 20, 2011

The Counsel to the states believes that since the case is still pending in court, it a huge disregard for court process for FGN to nurse the intention of disbursing, withdrawing and utilizing another $1 billion from the credit balance of the account to set up the SWF. This action, he submits, is in violation of the principles of the rule of law and breaches the independence of the Judiciary[58].

6.4 NATIONAL IDENTITY MANAGEMENT COMMISION: ANOTHER WASTEFUL SPENDING

About $30bn is planned to be spent by the Federal Government for the issue of another National Identity Card. An editorial report raises concerns as to the amount of N200 billion previously spent on the project by successive governments since 1980[59]. It also raised concern on the over N60 billion spent by INEC on a biometric voters register, N2bn for a new national drivers licence, e-passports, and N6 billion for the SIM registration system amongst others.

According to the Editorial, the logic behind the establishment of the NIMC is to eliminate the various duplications in the capturing of citizens data. The incessant thumb prints and data of citizens collected by the various agencies of government without such information being shared by other agencies is a clear abdication of duty. The NIMC was meant to be a super–agency to warehouse the basic identity infrastructure that would be available on need basis to every agency. The logic being that the Independent National Electoral Commission (INEC) for example, can obtain the details of every person of voting age in Nigeria from NIMC and issue voter's card and voter identification number on that basis, without repeating the process of recapturing of data[60].

6.5 THE ESCALATION OF FUEL SUBSIDY FIGURES

Senator Bukola Saraki sponsored a motion in the Senate for the investigation of the payments of fuel subsidy. The Senator revealed that N240bn (or 20 billion naira monthly) was allocated for the implementation of the fuel subsidy policy in 2011 Appropriation Act. Further, out of the N20 billion monthly allocations, N11.2 billion was voted for Domestic Fuel Subsidy (NNPC) and N8.8 billion for Domestic Fuel Market. The sum of N20bn has been set aside as monthly payment in 2011 Appropriation Act and in the Month of August, N165 billion is expected to have been disbursed. Of this amount, the NNPC is expected to get N88 billion and Independent Marketers N77.7 billion. In this case, at the end of August, a total of N931bn has been disbursed translating to a variance of N771bn or 700 per cent above the budget figure[61]. It was noted that in the first three months of the year, both NNPC and the

[58] The Guardian newspaper, Tuesday, October 25, 2011, Pages 1 and 4.
[59] THIS DAY, Wednesday, October 12, 2011.
[60] THIS DAY, Wednesday, October 12, 2011.
[61] THIS DAY, Thursday, October 13, 2011.

Independent Marketers did not exceed N62bn monthly, within the last three months, the figures had ranged between N150 billion and N186 billion. With this trend, by the year end, we will have a fuel subsidy bill of over N1.2 trillion against the N240 billion budgeted for the programme in the Appropriation Act. Interestingly, this expenditure is treated as a first line charge and by implication, all other expenditures including capital expenditures and even distribution to the states and local governments are secondary[62].

Fortunately, his motion received the support of other senators. The Senate President expressed concern over the existence of a cartel within the Petroleum Industry that has been milking the nation dry. The motion sponsor recognised that the fuel subsidy scheme is a long-standing government palliative action to help the Nigerian people; therefore the motion is not in any guise aimed at removing the subsidy. The motion was propelled by the need to make the scheme more transparent, corruption-free and competitive with an appropriate legislative framework and in compliance with the Appropriation Act. The Senate eventually set up a committee to investigate and report back to it.

6.6 NNPC LIFTS N133 BILLION CRUDE OIL ILEGALLY

The NNPC continues to cost the country “an arm and a leg” with the incessant fraud uncovered from its operations. Moving away from subsidy fraud; it has also been discovered that the NNPC lifted crude oil beyond the levels allocated to it for domestic consumption, thereby short changing the Federation Account by about N133 billion in six months. Documents from the Federation Account Allocation Committee revealed that, NNPC lifted an extra 7,239,039 barrels of crude oil in excess of the 80,545,000 barrels allotted to it between January and June.

The excess oil taken amounted to about $885.7 million (equivalent N133 billion) based on the average prices of crude oil during each of the six months. NNPC is entitled to lift 445,000 barrels of crude oil only per day, and this is meant to be refined and sold at home, but since the local refineries are not working, NNPC sells part of this allocation abroad and then imports refined products to meet the domestic consumption.

A report prepared by the FAAC ‘Post-Mortem’ sub-committee ahead of a fund sharing meeting and presented to the main funds allocation committee on Friday, September 16, 2011, showed that; in January NNPC lifted 11,541,26 barrels, being 2.25 million barrels short of its allocation. But in the other five months till June, the corporation overshot its limits[63]. The details are as shown in Table 36.

[62] Supra.
[63] Daily Trust Monday, October 3, 2011.

TABLE 36: DETAILS OF NNPC'S ILLEGAL LIFTING OF CRUDE OIL

S/N	Months	Volume of NNPC Domestic Crude Allocation (BBLS)	Actual NNPC Crude Volume Lifting (BBLS)	Variance (BBLS)
i	JAN (31)	13,795,000	11,541,726	-2,253,274
Ii	FEB (28)	12,460,000	13,042,899	582,899
Iii	MAR (31)	13,795,000	16,303,115	2,508,115
Iv	APR (30)	13,350,000	15,581,828	2,231,828
V	MAY (31)	13,795,000	15,035,592	1,240,592
Vi	JUN (30)	13,350,000	16,278,879	2,928,879
Vii	JUL (31)			
	Total	**80,545,000**	**87,784.039**	**7,239,039**

Source: Daily Trust Newspaper, Monday, October 3, 2011

6.7 MISPLACEMENT OF PRIORITIES: LABOUR MINISTRY TO SPEND N622.5M ON OVERSEAS TRAVEL

The Ministry of Labour proposed to spend N622.5m for local and foreign trips in 2011. The Ministry had earlier in 2010 spent N285.7m on local trips as against the N128.6m appropriated for it. But the Minister insisted that the Ministry did nothing wrong in spending beyond appropriation because ministries receive funds in form of interventions from the Ministry of Finance whenever they run short of cash because government must continue to function. Further, the Minister could not give details of the achievements of his Ministry since he assumed duty[64].

It is strange for a ministry of government that ordinarily should assume a pivotal role in employment creation to misplace its priorities in the midst of grinding unemployment and poverty. Pray, what is the rationale for such travels, when the core mandate of the Ministry is to look inwards and create job opportunities for the citizenry? The Minister of Labour had presented an ambiguous vote of N9.15bn before the House of Representative Committee on Labour, as part of the 2011 budget defence. On the disaggregation of its budget, N8.23bn is to be spent on personnel and overhead cost, of this amount N622.5m is meant for official travels and tours to foreign countries within that financial year. The capital vote is a paltry N775.9m[65].

[64] Daily Trust, January 27, 2011 at page 8.

[65] The Guardian, January 27, 2011 at pages 1 and 2.

6.8 A LETTER TO MR PRESIDENT: 2011 BUDGET A RECIPE FOR NATIONAL DISASTER

A former vice president, Atiku Abubakar wrote an open letter published in the dailies to the president on the performance of the economy with a special focus on the 20111 budget proposals. The depletion of the foreign reserve from $43 billion in 2009 to $33 billion in early 2011 at a time of high oil prices, unprecedented rate of borrowing and spiralling unemployment were drawn to the attention of the president. It observed that the 2011 budget of proposal of N4.2 trillion is the highest in Nigeria history. A part of the letter reads as follows:

> *For a summary, you proposed a total expenditure of N4.22 trillion to be financed by a revenue estimate of N2.83 trillion, leaving a total deficit (new borrowing) of N1.4 trillion. Mr. President, you plan to borrow 33% of the entire budget, or 3.62 of the GDP which is higher than the 3% stipulated in the Fiscal Responsibility Act. Your total debt service is N542 billion (which is higher than your total capital spending on power, roads, health and education put together). Your total recurrent expenditure (including debt service) is N3.023 trillion, meaning that with a revenue of N2.83 trillion, your government plans to borrow money to finance recurrent expenditure even if capital budget is zero. Your recurrent budget is 107% of total revenue. Put differently, your capital budget is N1 trillion whereas your deficit or planned borrowing is N1.4 trillion, meaning that even with a zero capital budget you plan to borrow about N400 billion to add to revenue to finance CONSUMPTION. Mr. President, no one needs to be an economist to appreciate that this is a disaster*[66]

6.9 IN SEARCH OF 25 BILLION NAIRA CONCESSIONAIRES FUND FROM FAAN ACCOUNT

Maevis Ltd, a concessionaire company in charge of collecting revenues for the Federal Airports Authority of Nigeria in Lagos and Abuja Airport, generated the total sum of N25bn on behalf of FAAN in 28 months. However, top management of FAAN claimed not to have knowledge of the generated fund. This mix of confusion led the Transparency Centre Network to send a petition to the EFCC to investigate the series of frauds in FAAN. The anti-graft agency confirmed that the amount hit the account of the agency but the management and the Minister of Aviation Fidelia Njeze claimed not to have knowledge of the disappearance of the said fund. Umar Farouk who signed the petition on behalf of TCN alleged that the management of FAAN collected not less than N25bn from Maevis, yet it cannot account for this huge sum. In the usual manner, the Minister of Aviation set up a review panel to investigate the matter but since the panel's report, the matter was swept under the carpet. It was also reported that top managers of FAAN frustrated attempts to regularise agreements with a number of concessionaires as they have a reputation of manipulating payments to the Agency; over 50% of FAAN concessionaries in food

[66] This Day, Saturday, January 8 ,2011.

and beverages and oil and gas are not documented with any agreements as many of them are believed to be owned by the top managers of FAAN[67].

6.10 ELECTORAL SPENDING AND THE ECONOMY

The Central Bank of Nigeria (CBN) called on politicians to spend within the legal limitations. The Governor of the CBN, Malam Sanusi Lamido Sanusi raised the alarm that politically related spending was overheating the economy, raising excess liquidity, making the economy prone to inflation and undermining the value of the Naira. Between February 2011 and shortly after the elections, the Monetary Policy Rate (MPR) was raised by the Monetary Policy Committee of the CBN from 6.25 per cent to 8 percent and the Cash Reserve Requirement from 1 percent to 4 percent, all within a period of four months. The MPR is the rate at which the CBN lends to banks.

Election related and campaign expenditure contributed to the current quagmire[68] where the real sector and investors can only access credit at interest rates above 20 per cent per annum. As such, it contributed to halt economic growth, job creation and the overall development of society. In May 2011, the Naira which opened the year at N150 to 1 United States Dollar traded at N160 to the Dollar.

Reuters reported that election spending in Nigerian boosted demand for new vehicles in January and February. Car imports rose for the first time in 18 months as political parties made orders for new vehicles to facilitate their campaigns. Figures from the ports showed that vehicle imports rose to 7,696 units in January and February, up 58 % compared to the same period in 2010[69].

6.11 FOR THE SAKE OF CREDIBLE ELECTIONS, INCREDIBLE BILLIONS GIVES WAY

It is generally agreed that the credible conduct of elections produces the popular choice of the electorate in government, and therefore translates to the improvement of citizen's welfare. Nevertheless, this goes with a huge cost. Attahiru Jega, the INEC chairman was identified as an embodiment of integrity capable of delivering credible elections without fear or favour. It was based on this recognition that the National Assembly almost handed over an open cheque to INEC to make demands on the cost of a free and fair election. This led to the presentation of a whooping bill of N87.7 billion naira for the conduct of the 2011 general election. At first, this amount sent shock waves to the legislature. INEC listed equipments and activities for which the money was needed to include N54.6 billion for the procurement of direct data

[67] This Day Newspapers, page 13 Tuesday, February 22, 2011 and Sunday January 9 2011.

[68] The fact that Nigeria's economy is import dependent, AMCON's expenditure on toxic debts of banks and food related inflation also contributed to the present position.

[69] Thursday, March 31 2011.

capture machines and software and a recurrent budget of about N25.8 billion. It however became irritating when INEC came back a week to the proposed date for the election with another demand of N6.6bn, in addition with a request for one week extension of the election time frame to accommodate more voters registration.

The Conference of Nigerian Political Parties (CNPP) expressed its reservations over the development and asked INEC to explain its failure to conduct successful voters registration within the time allotted. It also queried the low standard of DDC machines purchased by INEC coupled with the delay in the supply of the product. The CNPP called for investigations into the development[70].

[70] The Guardian Newspaper at pages 1 and 2, January 27, 2011.

Chapter Seven

CONCLUSIONS AND RECOMMENDATIONS

7.1 CONCLUSIONS

This Report sets out to review the formulation and implementation of key fiscal policies including the budget in the year 2011. The major conclusion is that the norm of obedience in the breach and sinking deeper into the morass of fiscal irresponsibility continued. The 2011 budget was presented late by the executive and approved late by the legislature with later requests for amendments and re-estimations. The lateness produced another cycle of late budget implementation reports and shifting the financial year for capital budget implementation to end in the first quarter of 2012. The year witnessed the continued failure to prepare the Annual Cash Plan and the Budget Disbursement Schedule. Funds in ECA were drawn down in violation of the FRA while capital budget implementation continued the rigmarole. Essentially, from a capital budget of N1.146trillion, only N713billion was utilised after the extension of the budget year to the first quarter of 2012. This is only 62.19% utilisation rate. This is very poor and would have been worse if the financial year was not extended. The price of oil was far beyond the RCP and accruing oil revenue virtually met the forecast while non oil revenue did not meet the forecast by N66.3billion, and as such, did not miss the target substantially.

According to the DSA 2011, Nigeria's debt situation is sustainable. However, Nigeria's debts increased by 19.45% in the twelve months period leading to December 2011. This cannot be a sustainable addition to the debt burden. Total debt payment for the year amounted to N824.688billion while N713.14billion was spent on capital projects. Thus, debt repayment exceeded capital expenditure by N111.54billion putting in doubt the DSA's sustainability affirmation. FGN's domestic borrowing continued to crowd out the private sectors access to credit. Sub-national government's domestic debts grew by 24.95% within the year. A disaggregation of sub-national debts showed that short term debts was 86% of the total while medium and long term debts constituted 14% of the total. This cannot be a good sustainability mix. The FRC could not perform its duty of policing excessive and unsustainable borrowing due to the fact that the president and NASS had not set the consolidated debt limits for the three tiers of government.

A MTEF whose four year tenor was unknown to the law (2012-2015) was prepared and presented by the finance minister. The usual tenor is three years. It was presented late to NASS and did not have the benefit of being prepared sequel to MTSS. The macroeconomic framework of the MTEF lacked rigour and some fundamental projections were missing. These include growth, inflation and interest rates, accretion of external reserves and tackling the challenge of the private sectors' access to credit. There was no attempt at establishing a convergence between monetary and fiscal policy while the sectoral composition of GDP reflected the adverse figures that Vision 20:2020 sought to change. The MTEF had no envelopes for the sectors.

However, the MTEF proposed fiscal consolidation, rebalancing the distribution of government spending and diversification of the economy. The assumptions underlying revenue (oil and non oil) projections including the RCP and production quota and the projections itself were realistic and achievable. The expenditure framework showed the dominance of recurrent non debt expenditure while the revenue framework showed the dominance of oil revenue which contradicts the commitment to diversification of the economy away from oil. The Consolidated Debt Statement proposed borrowing for the medium term that was not in consonance with the DSA while maintaining virtual silence on Contingent Liabilities.

The 2012 budget estimates were presented late to NASS. Capital expenditure took only 27.79% of the proposals while recurrent (non debt) expenditure took 52%; debt service 11.78% and statutory transfers 8.38%. It did not come with the evaluation of results of programmes financed with previous budgetary resources. Essentially, it continued the norm of spending more on consumption.

NNPC continued its reign as the unruly horse of the national economy with allegations of lifting more crude than allocated, participating in the fuel subsidy scam and refusing to properly account for revenues due to the Federation Account. State governors were not forthcoming with the desired openness and accountability to draw down and utilise the funds in the Universal Basic Education Fund. Also, the suit seeking the abolition of ECA and the Sovereign Wealth Fund continued in the Supreme Court. Electoral spending prior to the 2011 elections continued to heat up the economy while a lot of resounds were mobilised towards the conduct of the election.

7.2 RECOMMENDATIONS

The Report makes the following recommendation:

7.2.1 Preparation of the MTEF

- The MTEF should be prepared for the statutory tenor of three years.
- The Minister of Finance and the BOF should start the preparation of the MTEF by February of every year. This will give ample time for the MTSS sessions, consultation with states, legislature, relevant stakeholders, CSOs and the relevant federal MDAs. Early presentation of budgetary and other policies before attaching figures to them provides good opportunity for rigorous

discussions and debates around their feasibility. This will eventually lead to the enactment of very well nuanced fiscal policies.

- The consultations leading to the preparation of the MTEF should no longer be perfunctory. The consultation and engagement of the legislature should be in-depth such that the legislature develops a sense of ownership of the MTEF. Such arrangement will serve as a lubricant against the frequent legislature-executive friction in the budget process; ensuring a quick passage of the MTEF and proposed budget.

- The macroeconomic framework of the MTEF in accordance with the FRA should contain projections and the underlying assumptions for key indicators including growth rate, inflation rate, interest rate; access to credit by the private sector, accretion to external reserves, etc.

- The MTEF should seek a convergence and harmony between monetary and fiscal policies. This will lead to the realisation of government's key economic objectives. Without this convergence, budgetary and other policies will always fail.

- The sectoral composition of GDP and other key indicators of the MTEF should be made to align with Vision 20:2020 or in the alternative show empirical evidence for the reasons informing the deviation. The MTEF should be an instrument for planning to achieve the Vision. If the MTEF is merely reaffirming and accepting the binding constraints on development without proffering alternative policies and actionable strategies leading to change, then it worth no more than the paper on which it was printed.

- The next MTEFs should go beyond a statement of forecast revenue and expenditure. It should contain frameworks for the diversification of the economy, improving the revenue base and creation of jobs. The framework should systematically show the effect of economic and budget policies on key growth drivers which should be clearly specified.

- The MTEF should contain measurable targets for improvements in key economic and social conditions including the number of new jobs to be created, improved learning outcomes, kilometres of roads to be tarred, etc.

- The MTEF should be submitted to the EXCoF for endorsement before June every year. The EXCoF should endorse the MTEF and forward it to NASS not later than July every year.

- NASS should hold public hearings and allow popular input into the MTEF before its approval in accordance with Section 48(2) of the FRA. NASS should consider all provisions of the MTEF and not merely limit itself to the benchmark price and oil production in millions of barrels per day, etc.

- The two chambers of NASS should after their respective consideration of the MTEF, harmonise their positions and produce a clean copy of the MTEF and make same available to Nigerians.

- Budget preparation should commence as soon as the MTEF is approved by NASS and the Appropriation Bill should be presented by the President to NASS not later than the first week of September every year.

7.2.2 The Budget Year, Capital Budget and legislative capacity

- Section 81 of the 1999 Constitution should be amended to mandate the President to present the Appropriation Bill to NASS not later than the first week of September every year. The same section should also mandate NASS to approve the budget before proceeding on their Christmas and New Year vacation. The commencement of budget implementation early in the year will lead to increased capital budget implementation and minimize the request for capital budget roll over to the next year.

- NASS should stop acceding to executive requests to extend the budget year for capital budget implementation to March of the following year.

- NASS should consider the idea of a Capital Budget Roll-Over Bill which automatically moves unexpended but available resources for capital projects to the next succeeding year as part of the New Year's budget.

- NASS should seriously consider the passage of a Legislative Budget Office Act to facilitate its capacity for well researched and sound budgetary interventions.

7.2.3 Contents of the Appropriation Bill and Accompanying Documents

- The Appropriation Bill and its schedules should be fully aligned to the approved MTEF.

- In compliance to section 19 (d) of the FRA, the Minister of Finance should submit with the estimates or NASS should insist on a document evaluating the results of programmes financed with previous budgetary resources.

- NASS should also insist that the Minister submits other developmental targets as required in the Fiscal Target Appendix. This should include targets on the right to an adequate standard of living including targets on the attainment of the MDGs, job creation, targets for the rights to adequate housing, education, access to water, etc.

7.2.4 Expenditure Framework

- The expenditure pattern should be re-ordered by NASS and the President to ensure that at least 40% of the budget is voted for capital expenditure every year.

- NASS and the Presidency should lead the way in reducing their recurrent expenditure particularly the bloated overheads. NASS and the Presidency can run effectively with 50% of their current proposals.

- The allocations to education and health sectors should be increased incrementally by at least 25% every year until the international standards are met.

7.2.5 Diversification of the economy

- The quick passage of the proposed Petroleum Industry Bill and creating the enabling environment for the development of new refineries and petrochemical industries is imperative.

- Fast track the reforms in the Electricity Industry through privatisation and effective regulation of the Industry by the Nigeria Electricity Regulatory Commission. This will provide the much needed energy to drive industrialisation.

- Use public private partnerships and special purpose vehicles to develop infrastructure in new roads, railways, water transport. The PPPs should have high level local content and participation of a broad section of the Nigerian population.

- Re-engineer housing policy and its implementation especially the National Housing Fund and its management to generate a large pool of funds for housing which will in turn be available to create new housing construction jobs. This process will also involve recapitalisation of the mortgage system, securitisation of dead assets, amendments to the Land Use Act and removing the same from the Constitution.

- Procurement policy can be used to stimulate the demand for made in Nigeria goods and services. This will increase capacity utilisation in industries, create more jobs and create a larger pool of profits for industries which will lead to higher CIT accruing to government.

7.2.6 Capital Budget Implementation

- Good procurement plans should precede capital budget implementation.

- The BPP should intensify capacity building and opening up of the procurement process to more stakeholders who can hold public officers accountable. BPP should also consider activating the sanctions mechanism of the Public Procurement Act to deal with the challenge of procurement impunity.

- The oversight mechanism of NASS should become more evidence-based to expose corruption, inefficiency and inertia in government.

7.2.7 Debt, Deficit and Contingent Liabilities

- NASS and the President should initiate steps towards the approval of the Consolidated Debt Limit for the Federal, State and Local governments in accordance with Section 42 of the FRA.

- FGN should reorder its expenditure to ensure that the proceeds of borrowing are channelled towards capital expenditure and human development as against recurrent expenses.

- Cost benefit analysis should be presented by the executive as anchor to requests for legislative approval of borrowing.

- Borrowing should be restricted to the DSA approved limits.

- The possibility that contingent liabilities may crystallise should always be considered before new debts are incurred.

7.2.8 The need for popular participation

- It is imperative to conclude with a clear message to the larger Nigerian society. The message is that fiscal governance is too important to be left to technocrats and politicians in the executive and legislature. Keen interest, contributions and participation in the fiscal governance process is essential. If we fail to participate, then our priorities will continue to be determined by others who may not necessarily have the overall interest of the nation at heart.