ANALYSIS OF THE 2012-2015 MTEF

UNDERTAKEN BY

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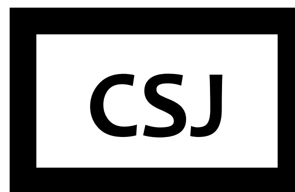

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ABBREVIATIONS

Act	Fiscal Responsibility Act
BOF	Budget Office of the Federation
CBN	Central Bank of Nigeria
CIT	Company Income Tax
CSJ	Centre for Social Justice
DSA	Debt Sustainability Analysis
ECA	Excess Crude Account
EXCoF	Executive Council of the Federation
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IGR	Internally Generated Revenue
Implementation Plan	First National Implementation Plan of Vision 2020 (2010-2013)
Mbpd	millions of barrels per day
MDA	Ministry, Department or Agency of Government
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTSS	Medium Term Sector Strategies
NASS	National Assembly
NBS	National Bureau of Statistics
NEEDS	National Economic Empowerment and Development Strategy
PIB	Petroleum Industry Bill
PPP	Public Private Partnership
SWF	Sovereign Wealth Fund
VAT	Value Added Tax

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EXECUTIVE SUMMARY

Chapter 1 is the background. It reviews the terms of reference of the Analysis and the methodology employed. It also places the Analysis in the context of previous reviews undertaken by CSJ for the enhancement of fiscal governance and the full realisation of the intendments of the Fiscal Responsibility Act. In Chapter 2, the rationale for extending the MTEF beyond the three year framework to four years was questioned. The timing of the preparation of the MTEF, its submission to the NASS and the attendant impact on budget passage was reviewed. The Chapter noted the fact that the MTEF did not state whether the required consultations with states and designated MDAs were held; neither was there information on public consultations.

Chapter 3 dealt with the Macroeconomic Framework. It noted the fact the targets on economic growth, inflation, interest rates, access to credit, external reserves, etc were missing but there was an attempt to cover these targets with 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. Other macroeconomic indicators provided were not in tandem with Vision 2020 and its First National Implementation Plan. This includes the sectoral composition of GDP. The review of previous budget performance highlighted the poor implementation of capital budgets.

Chapter 5 is the Fiscal Strategy Paper; the sectoral ceilings and indicative envelopes were mission. The policy thrust of FGN within the medium term was stated to be on fiscal consolidation, rebalancing the distribution of FGN spending, diversification of the economy and implementation of a four year capital budget plan. However, the FSP did not link up its thrusts and strategies to the Fundamental Objectives and Directive Principles of State Policy. The proposals for oil and non oil revenue are realistic although some agencies like the Customs Department need to work very hard to meet their targets in the medium term based on the trajectory of past performance.

The Revenue and Expenditure Framework in Chapter 5 showed a bias towards recurrent expenditure and the sources of funding the emergent deficit tilted towards domestic borrowing which appeared to violate the provisions of the FRA. Chapter 6 is the Consolidated Debt Statement which shows that Nigeria's debts may soon hit the Country Specific threshold of 25% of Debt to GDP. The ratios and facts used in the MTEF differ from the DSA's ratios which by law is the authentic country position. Evidently, Nigeria is projecting to borrow more than approved by the DSA. Contingent Liabilities and Quasi Fiscal Activities is in Chapter 7 and the MTEF merely defined Contingent Liabilities without documenting the quantum and their nature and impact on the economy.

Chapter 8 documents the Conclusions while Chapter 9 is on recommendations. The key recommendations are as follows.

Preliminary Issues:: The extant MTEF should be restricted to the years 2012-2014 in accordance with the three year framework provided in section 11(1) of the FRA instead of the current elongation to 2015; Future MTEFs should be submitted to the NASS immediately after endorsement by the EXCoF in June. This should be in July before the commencement of the mid-year legislative recess. The process and fact of consultations required by law should be documented in the MTEF**. On the Macroeconomic Framework:** The MTEF should document the projections for economic growth, inflation, interest rate, external reserves and access to credit, etc. It should document the underlying assumptions, facts and logic in support of these projections. The MTEF should contain an evaluation and analysis of the macroeconomic projections for the preceding three years. Accruals to ECA and or the SWF should be articulated in the MTEF. **On the Fiscal Strategy Paper:** In accordance with the FRA, the MTEF should show the link between stated priority interventions and the constitutional Fundamental Objectives and Directive Principles of State Policy; FGN should reorder its spending priorities and ensure a 60%-40% balance between recurrent and capital expenditure in the medium term. NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources for investments in critical sectors. It is estimated that over N3 trillion will accrue from the implementation of the PIB. **On the Revenue and Expenditure Framework:** The MTEF should contain the sectoral envelopes which will show government's priorities and the reasons informing those priorities. **On the Consolidated Debt Statement:** The MTEF should harmonise its debt sustainability ratios with the details worked out in the DSA 2011. The MTEF's projection of new borrowing in the medium term, especially the projection of N794.44billion as new borrowing for 2012 as against the sums of N186.14 billion (domestic borrowing) and $0.90billion (external borrowing) prescribed in the DSA should be jettisoned in favour of the DSA position. **Finally on Contingent Liabilities and Quasi Fiscal Activities:** The MTEF should include the nature and quantum of contingent liabilities and quasi fiscal activities of government. Considering the quantum of current contingent liabilities stated at N2.59trillion or 8.86% of the GDP at the end of 2010 by the DSA and the projection that it will grow to 9.16% of GDP in 2011, it is imperative to stick to the DSA advise that it should be kept at no more than 15% of the GDP over the 2011-2020 period. In undertaking new PPP projects which will increase the quantum of contingent liabilities, FGN should carefully select and appraise and involve the expertise of the Infrastructure Concession and Regulatory Commission in arriving at the specific projects. FGN interventions qualifying as quasi fiscal activities and their implications for public finances, macroeconomic stability should be carefully appraised before embarking on them.

1. BACKGROUND

1.1 Introduction

The Fiscal Responsibility Act (FRA or the Act) in sections 11 to 18 provides for the Medium Term Expenditure Framework (MTEF) including the timing, the preparation process, contents, the minister responsible for the preparation, 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 the National Assembly (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 the NASS after the endorsement of the Excutive Council of the Federation (EXCoF).

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

The Terms of Reference of this Analysis are:

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

- To review the MTEF in the light of the provisions of Vision 2020 and the transformation agenda of the current administration; 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.

1.2 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.

2. PRELIMINARY ISSUES

2.1 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 vis, 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.

2.2 Timing of the MTEF

The submission of the MTEF by the President to NASS through a communication dated September 22[1] 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 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 information, the timeframe was not met considering that the Minister of Finance had not resumed duty by that date.

The foregoing has adverse implications for the presentation and passage of the annual budget. The annual budget is drawn from the MTEF and as such awaits the approval of the MTEF by NASS so that variables like aggregate expenditure, benchmark price of oil, envelopes for MDAs etc, will be drawn from it. In the last three years, the federal budget has never been passed early before the commencement of the New Year and delays in presentation and passage of the budgets eventually lead to poor capital budget implementation[2].

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[3] clearly states the

[1] Daily Sun Newspaper of October 5 2011.
[2] Vision 20:2020 projects the adoption of measures to improve budget implementation to include the timely passage of the annual budget.
[3] Financial Year Act, Cap F.27, Vol.7, Laws of the Federation of Nigeria 2004.

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 the NASS.

2.3 Preparation of Medium Term Sector Strategies

There is also no information in the MTEF about the preparation of Medium Term Sector Strategies (MTSS) for Ministries, Departments and Agencies (MDAs) of government[4]. 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. A MTSS cannot be prepared without the financial envelope.

2.4 Consultations and Inputs

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

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

[4] The 2011-2013 MTEF was based on the MTSS of 13 key MDAS and was described in our former analysis as not comprehensive enough.

document. This position is supported by the provisions of S. 48 (1) 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.

3. MACROECONOMIC FRAMEWORK

3.1 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 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 2020. For instance, the Vision 2020 First National Implementation Plan 2010-2013 (Implementation Plan) 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[5].

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

[5] These targets are up against the 7% growth rate of 7% recorded in 2009.

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%[6]. 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..*[7]

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 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[8].

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

[6] 2010 Fourth Quarter and Consolidated Budget Implementation Report by the BOF.
[7] Supra, at page 6.
[8] See page 53 of the Implementation Plan.

and strategies to ensure the realization of government policy. This was missing in the MTEF.

3.2 Sectoral Composition of GDP

Although, there are 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 1 details the MTEF projections.

Table 1: 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

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[9] non oil GDP at 88.2% in 2013 while oil and gas is to contribute 11.8%. Table 2 below shows selected contributions to the sectoral composition of GDP 2012-2103 in the Implementation Plan.

Table 2: 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

[9] At 1990 Constant Prices.

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 those targets which are different from the targets of Vision 2020.

3.3 Exchange Rate and Foreign Reserves

There is a projection on exchange rates 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 unmitigated demand for the dollar, there is the likelihood of depreciation in the value of the naira which the CBN has even acknowledged[10].

Table 3 shows the nominal exchange rate from 2007 and the various projections by previous MTEFs.

[10] THISDAY Newspaper, November 1 2011 at page 1; this position was reinforced by Renaissance Capital in its release on September 2 2011.

Table 3: 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[11]

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[12]. The only envisaged challenge is that this solution may encourage capital flight. However, this challenge is not serious enough to rubbish this good option. Secondly, any serious government can always devise ways and means of tackling capital flight. 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[13]. 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*

[11] These rates differ from the First Implementation Plan's projections of N145 to 1USD in 2013.
[12] Vision 20:2020 at page 24.
[13] Pages 5-6 of the Report.

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.

3.4 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. Oil revenues have so far met and exceeded targets but non oil revenues have not met targets.

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 has 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[14]. 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.

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

4. FISCAL STRATEGY PAPER

4.1 Overall Thrust

In accordance with 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;*

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 Two 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.

4.2 No Envelopes for the Sectors

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

4.3 Rebalancing 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 2102 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[15]. It is the hope that government will make use of these two reports in rebalancing its expenditure. Increases in recurrent expendiutre alos suggest that policies that would have reduced recurrent spending such

[15] 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.

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.

4.4 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 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 what gets more resources into the Treasury should supersede the immediate 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 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 4 below shows that there is no real attempt at diversifying the sources of national income.

Table 4: Oil and Gas Revenue v 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 5. The ideas are not novel and what is required is the political will for implementation.

Table 5: 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 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[16].
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.	

4.6 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

[16] 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.

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.

4.7 Assumptions Underlying Projections of Revenue

4.7.1 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 6 shows oil production from 2007 to the medium term projections. 2007 to 2010 are actual figures while the others are projections.

Table 6: Crude Oil Production 2007 - 2015

Year	Output in 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.

4.7.2 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.

4.7.3 Accruals to ECA or the SWF

The MTEF was surprisingly silent on the quantum of resources available in the ECA and to 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.

4.7.4 General Assumptions for Non Oil Revenue

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

4.7.5 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%[17].

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

[17] 2010 Fourth Quarter and Consolidated Budget Implementation Report.

tax avoidance and evasion. The realization of this projection 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%.

4.7.6 Value Added Tax

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.

4.7.7 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 respectively[18]. 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

[18] Real Customs Duty after Adjustment Factor.

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.

5. REVENUE AND EXPENDITURE FRAMEWORK

5.1 Introduction

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 projection set out in subsection (2) (a) of this section,

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

5.2 Aggregate Expenditure

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 will give a picture of how realistic these projections in the

extant MTEF are. Table 7 below demonstrates the variance between budgeted figures and actual expenditures in the year 2010.

Table 7: 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)[19]	-46.98
Aggregate Expenditure	5,159.66	4,098.79	(1,060.87)	-20.56

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.

5.3 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:

[19] 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.

Table 8: Structure of Expenditure over the Medium Term

Particulars/Items	Year 2012		Year 2013		Year 2014		Year 2015	
	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

MTEF: 2012-2015

From the above Table, 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[20]. 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 dissaggregating 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.

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

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 and 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 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[21]. However, this will further increase the quantum of FGN contingent liabilities.

- The First Implementation Plan of Vision 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 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 9: 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 on Table 9 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

[21] Debt Sustainability Analysis 2011 at page 5.

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 10: 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 10 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, 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.

5.4 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 11, the percentage of Retained Revenue to Overall Budget 2012 – 2014 is shown as follows.

Table 11: 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 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 2102, 2013, 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[22].

If the FGN cannot abide by the recommendation of its DSA, then it is obvious that there is no coordination of 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.

5.5 Revenue Projections

Table 12 below shows the revenue projects for the medium term.

Table 12: 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

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.

[22] DSA 2011 at page 6.

For FGN's revenues, if more corporations are made to return their operating surplus to the Treasury, then more funds are likely to 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.

6. 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 13 while the Total Public Debt Service Payments is shown in Table 14 below.

Table 13: 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 14 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 14: 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*[23].

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

[23] DSA 2011 at page 6.

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.

7. 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[24] 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 period, 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 enable them undertake the development of commercially viable, national priority projects in the country thereby relieving government of the need to borrow such funds[25] will further increase the quantum of FGN contingent liabilities, hence the need for careful and rigorous analysis of PPP's 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.

[24] Report of the Annual Debt Sustainability Analysis 2011, Debt Management Office at page 5.
[25] Debt Sustainability Analysis 2011 at page 5.

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[26]. 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 fund has 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[27].

[26] 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.
[27] DSA 2011, at pages 5-6.

8. CONCLUSIONS

The timeframe of the 2012-2015 MTEF is unknown to the FRA. It is illegal. The MTEF is a three year rolling framework and extending it to four years without an amendment of the law is illegal. The preparation of the MTEF, its endorsement by EXCoF and forwarding same to the NASS came late. It is not clear whether MTSS were prepared as a prelude for the MTEF. The MTEF did not detail the process of its preparation. It is not clear whether the consultations with stated government agencies and states were held. The MTEF did not also benefit from the popular statutory consultation process.

The macroeconomic framework gave no projections for economic growth, inflation, interest rates, access to credit and external reserves. The annex to the MTEF provides GDP growth figures but there was no analysis of how the MTEF arrived at the figures. The 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 is vague and is no substitute for targets that can be interrogated with empirical evidence. Further, there was no analysis or evaluation of the macroeconomic projections for the preceding three years. The proposed sectoral composition of the GDP was not in tandem with the direction of the Vision 2020 and its First Implementation Plan.

The review of the performance of the 2010 budget and the 2011 budget to date shows poor capital budget implementation. Oil revenues met and exceeded targets but non oil revenues have generally not met their targets.

The FSP identifies priority sectors of security, infrastructure including power, agriculture, manufacturing, housing and construction, entertainment, education, health and ICT. It identifies the key fiscal challenges as fiscal consolidation, rebalancing the distribution of government spending, diversification of the economy and four year capital budget planning. However, no attempt was made to link the thrust of the FSP to the Fundamental Objectives and Directive Principles of State Policy found in Chapter 2 of the 1999 Constitution as amended. There was no MDA indicative resource envelope or ceilings.

There is a proposal to decrease recurrent expenditure and increase capital expenditure over the medium term, but this does not address the in-balance as it ends with only

31.1% for capital expenditure in 2015 being the last of the outer years. The reduction in fiscal deficits from -2.69% of GDP in 2010 to -1.08% of GDP in 2015 is a step in the right direction. The MTEF talks of plans to diversify the economy without going into details of the strategies and action points. It also proposes continuation and exiting of current capital projects before starting new ones.

The projections for oil production and the benchmark price of oil are realistic in view of the prevailing circumstances in the Niger Delta region and the world economy. There was no projection on accruals to ECA or the SWF. The projections for CIT in 2012 are realistic being a 28.51% increase over 2010 figures while CIT has grown at an average of 33.07% over the last five years. Projections for VAT and Customs Duty collection are also realistic but the Customs authorities need to redouble their efforts to meet the 94.25% increase over the 2010 actual figures.

On the Revenue and Expenditure Framework, expenditure proposals show the dominance of recurrent expenditures. Consistent variances have been recorded in projected revenues and expenditures over the years. Debt service as a percentage of capital expenditure is still high while debt service as a percentage of retained revenue is diminishing. The sources of financing the emergent deficit include privatization proceeds, FGN's share of signature bonus, stabilization from ECA and domestic borrowing. The proposal for domestic borrowing exceeds the DSA recommendation by N608.3billion and appears not to be sustainable. Revenue projections show the dominance of oil and gas revenue.

From the Consolidated Debt Statement, Nigeria is likely to exceed its country specific debt-GDP threshold fixed at 25% for the 2010-2014 period. 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, this ceiling will be exceeded considering the MTEFs proposal to borrow far above the DSA recommendations for the medium term. Borrowing has been stated as a source of funding the deficit contrary to the FRA which stipulates that it should be for capital expenditure and human development and be backed with a cost benefit analysis.

The MTEF did not state the nature and quantum of contingent liabilities. However, the DSA states it to be N2.59trillion or 8.86% of the GDP at the end of 2010 and it is projected to grow 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 period, so that the consolidated total

public and publicly guaranteed debt-to-GDP ratio does not exceed the 40% international threshold.

The quasi fiscal activities of government also involve a lot resources and interventions on specific sectors of the economy. The N3 trillion 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

9. RECOMMENDATIONS

The foregoing recommendations are made with a view to improvements in future MTEFs and to help the NASS approve the extant MTEF with such modifications necessary for compliance with the FRA, best practices and the attainment of the goals of Vision 2020.

9.1 Preliminary Issues

(i) The extant MTEF should be restricted to the years 2012-2014 in accordance with the three year framework provided in section 11(1) of the FRA instead of the current elongation to 2015.

(ii) Future MTEFs should be submitted to the NASS immediately after endorsement by the EXCoF in June. This should be in July before the commencement of the mid-year legislative recess. This will enable the legislature sufficient time to approve the MTEF and for actual preparation of budgetary estimates to start on time.

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

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

9.2 Macroeconomic Framework

(i) The MTEF should document the projections for economic growth, inflation, interest rate, external reserves and access to credit, etc. It should document the underlying assumptions, facts and logic in support of these projections.

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

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

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

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

(vi) Accruals to ECA and or the SWF should be articulated in the MTEF.

9.3 Fiscal Strategy Paper

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

(ii) Government should reorder its spending priorities and ensure a 60%-40% balance between recurrent and capital expenditure in the medium term. This can be achieved through the meticulous implementation of the Monetisation Programme, the recommendations of the Expenditure Review Committee and the Committee on the Restructuring and Rationalization of Federal Government Parastatals, Commissions and Agencies.

(iii) Government should continue the fuel subsidy but plug the leaking pipes of corruption and waste that have led to the abuse of system. Individuals and companies found to have abused the system should face punitive criminal justice sanctions.

(iv) NASS should prioritise the passage of the Petroleum Industry Bill in order to free up resources for investments in critical sectors. It is estimated that over N3 trillion will accrue from the implementation of the PIB.

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

(vi) Estimated oil production and the benchmark price are realistic and should be retained.

(vi) The assumptions and projections for non oil revenue comprising of CIT, VAT and Customs Duty are realistic and should be retained.

9.4 Revenue and Expenditure Framework

(i) The MTEF should contain the sectoral envelopes which will show government's priorities and the reasons informing those priorities.

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

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

(iv) 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 should be expeditiously implemented.

9.5 Consolidated Debt Statement

(i) The MTEF should harmonise its debt sustainability ratios with the details worked out in the DSA 2011.

(ii) MTEF's borrowing projections should be such as not to exceed the debt-GDP country specific threshold of 25% for the 2010-2014 period.

(iii) The MTEF's projection of new borrowing in the medium term, especially the projection of N794.44billion as new borrowing for 2012 as against the sums of N186.14 billion (domestic borrowing) and $0.90billion (external borrowing) prescribed in the DSA should be jettisoned in favour of the DSA position.

(iv) The MTEF and DSA should take cognizance of the contingent liabilities in building scenarios about risks and debt sustainability.

(v) Borrowing should not be for the omnibus purpose of financing the deficit. In accordance with the FRA, it must be tied to specific capital or human development projects and be backed with a cost benefit analysis before NASS approval.

9.6 Contingent Liabilities and Quasi Fiscal Activities

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

(ii) Considering the quantum of current contingent liabilities stated at N2.59trillion or 8.86% of the GDP at the end of 2010 by the DSA and the projection that it will grow to 9.16% of GDP in 2011, it is imperative to stick to the DSA advise that it should be kept at no more than 15% of the GDP over the 2011-2020 period.

(iii) In undertaking new PPP projects which will increase the quantum of contingent liabilities, FGN should carefully select and appraise and involve the expertise of the Infrastructure Concession and Regulatory Commission in arriving at the specific projects.

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