FEDERAL GOVERNMENT 2018 BUDGET

Analysis and Recommendations

budgIT

EXECUTIVE SUMMARY

Nigeria's economy emerged from economic recession in the second quarter of 2017 but output growth which was 1.95 per cent in the first quarter of 2018 remains sluggish. The economic crisis which was exacerbated by the failure of the government to respond timely to the challenges bedevilling the economy despite tell-tale signs that the fall in the price of crude oil and cut in oil production could drag the trajectory of the economy deeper into recession. Salaries of workers, which analysts use to measure consumer demand dropped by 8.8 percent in 2015 alone.

Ideally, the government should have stepped up at this point to close the gaps by injecting more cash into the flattening economy. Rather, the government adopted austerity in the build-up to the election year. Businesses also cut down on spending despite business profitability (operating surplus) increasing by 7.17 percent in 2015.

In 2015, growth in fixed capital formation (investment in revenue generating assets) slowed down considerably to 0.61 percent which is relatively lower than 2013 and 2014 growth rate of 7.86 percent and 13.43 percent respectively.

Implementation of key structural reforms in the face of the impending fiscal and economic crisis, foreign exchange restrictions, failure to assemble an economic team alongside vandalism of oil installations, energy shortage, and scarcity of petroleum products further exacerbated the challenges facing the economy.

Those factors may have worsened investor confidence and depressed consumer demand.

The economy slid into recession, and effect wastelling.

The government has since adjusted its policies and introduced a new investor and exporter FX window. That in combination with a tighter monetary policy has contributed to better FX availability and significantly narrowed up the premium between the official and parallel market exchange rate. Also, reforms under the government's Economic Recovery and Growth Plan (ERGP) have resulted in significant strides in Nigeria's latest Ease of Doing Business ranking and steps to improve governance.

The government has also followed through with an expansionary fiscal plan. The concept that government should respond to any economic downturn by using fiscal policies to stimulate the economy and, in turn, boost demand for goods and services is not new.

The "Keynesian" school of thought on fiscal policy, named after John Maynard Keynes who laid its groundwork in 1936 with his "General Theory of Employment, Interest, and Money" emphasises the role of fiscal policy in stabilising the economy. By and large, the Nigerian government seems to be focused on following its tenets.

In 2016, the Federal Government's expansionist fiscal plan was hinged on a total spending of N6.06tn with the overall goal of injecting funds into critical infrastructure. However, only N4.396 trillion was spent due to revenue shortfalls which were nominally and relatively smaller than 2015 spendings of N4.76 trillion.

Government revenue projection in 2016 was approximately N3.856 trillion but actual revenue was only N2.62 trillion. The crux here is that the government's ability to respond to the economic challenges using

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N7.44tr

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fiscal instruments did not work out as planned in 2016. In 2017, the government's N7.44 trillion expenditure outlay was anchored on a revenue projection of N5.08 trillion. But in actual terms, government revenue was only N2.66 trillion.

Nigeria's Federal Government is planning to spend N9.12 trillion[1] in 2018, with significant resources allocated to infrastructure and other capital projects. In all, the Federal Government is looking to devote N2.873 trillion or 31.5 percent of its total spendings on Capital items, while the remaining amount will be spent on Recurrent items if the budget is implemented as enacted by the National Assembly.

The total budget for the Federal Government is anchored around a revenue projection of N7.165 trillion for 2018 which is 164.4 percent higher than 2017 budgeted figure of N2.71 trillion. Revenue of the Federal Government in 2016 was N2.62tn, down from 2015 levels of N2.78tn.[2]

The government's revenue projections in 2016 and 2017 were off the mark, which could have affected the full implementation of the budget. The fallout was that Nigeria could only spend N4.396tn, out of the N6.06tn anticipated in the 2016 budget.

2018 revenue projection seems to be overly optimistic by all measures if previous numbers are put in perspective.

With revenue significantly trailing projections, the Federal Government had to resort to borrowings to close the gaps. With the cost of debt relatively expensive due to high inflation rates among others, The Federal Government's borrowing plans for 2018 may not have captured the needs which may jeopardize the objective of government's fiscal plans.

The Government is planning to borrow N1.643 trillion in 2018 down from 2017 borrowing plan of N2.322 trillion. The 2018 Domestic Borrowings is estimated at N793 billion down from 2017 budget projections of N1.254 trillion. In 2016, only N300 billion[3] was raised from the Domestic Bond market, as against an expected N1.18 trillion. Foreign borrowing plan for 2018 was pegged at N849 billion.

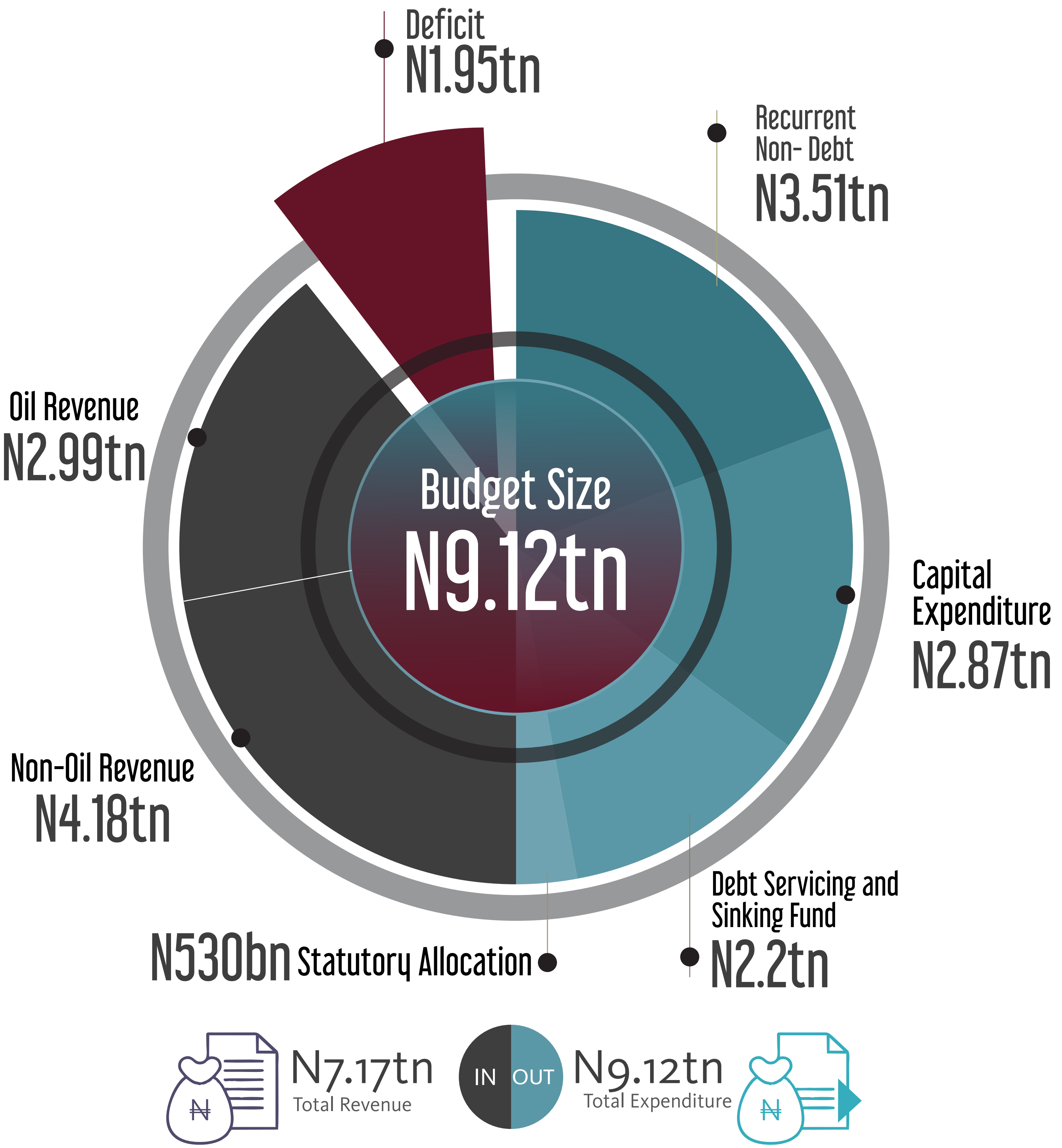
The government's total Recurrent Expenditure in 2016 was N3.88 trillion, while the dedicated amount for statutory authorities, including the National Assembly and the National Judicial Council, came to N344 billion.

With revenue only a shade above N2.6 trillion and total Recurrent Expenditure obligations already above N4 trillion, Nigeria may be entering a debt trap of sorts, as the country is now borrowing to pay salaries and meet other Recurrent obligations. This is against the spirit of the Fiscal Responsibility

[1] http://www.budgetoffice.gov.ng/index.php/hmbnp-2018-approved-budget-breakdown-presentation-final-draft-iii?task=document.viewdoc&id=679. (p18)
[2] Budgetoffice.gov.ng. (2017). 2016 Fourth Quarter and Consolidated Budget Implementation Report [online] Available at: http://www.budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports/2016-fourth-quarter-and-consolidated-budget-implementation-report/download
[3] Budgetoffice.gov.ng. (2017). 2016 Fourth Quarter and Consolidated Budget Implementation Report [online] Available at: http://www.budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports/2016-fourth-quarter-and-consolidated-budget-implementation-report/download

2018 Approved Budget

Fiscal Framework



Source: BudgIT Research, Budget Office

Act - a law that oversees the administration of public finance.

2018 promise to be interesting, Total recurrent expenditure is projected to top the N6.247 trillion up from 2017 budgeted figures of N5.08 trillion. Debt service, a component of recurrent expenditure was approximately N1.313 trillion in 2016 alone; this number is expected to be N2.014 trillion in 2018. With total government Revenue in 2017 at N2.66 trillion and debt servicing cost put at N2.014 trillion in 2018, Nigeria may be walking into an expansive debt trap.

Nigeria appears to be moving ahead with an expansionary fiscal policy in the fiscal year 2018 with a total budget outlay of N9.12 trillion. The Federal Government's actual spending in 2016 was N4.396 trillion,[4] which is only 72.5 percent of its expenditure plan of N6.06 trillion for the fiscal year under review. Government's actual spending in 2015 was N4.767tn, a figure also relatively higher than 2016 spendings.

In 2017, the government plans to spend N7.44tn, a 69.2% increase over 2016 expenditure. As at the end of fiscal 2017, an estimated N6.46 trillion was spent. Currently, Nigeria's fiscal plans for the fiscal year 2018 is hinged on a revenue uptake of N7.165 trillion.

The Federal Government is looking at a total spending of N9.12 trillion[5] in 2018, with significant resources allocated to infrastructure and other capital projects.

In all, the government is looking to devote N2.873 trillion or 31.5 percent of its total spendings on Capital items, while the remaining amount will be spent on Recurrent items if the budget is implemented as enacted by the National Assembly.

The deficit size for the fiscal year 2018 is hedged at N1.954 trillion. The Federal Government hopes to close the deficit by selling some government properties, privatising some state-owned enterprise and taking in more debt.

On the recurrent expenditure side, the Federal Government of Nigeria will be committing N2.014 trillion to Debt servicing while amount totalling N190 billion is expected to be pooled into sinking funds, to retire maturing debt obligations.

With total government Revenue in 2017 at N2.66 trillion and debt servicing cost put at

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in 2018, Nigeria may be walking into an expansive debt trap.

[4] Budgetoffice.gov.ng. (2017). 2016 Fourth Quarter and Consolidated Budget Implementation Report [ppg 39] Available at: http://www.budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports/2016-fourth-quarter-and-consolidated-budget-implementation-report/download

REVENUE

Where will the money come from?

OIL REVENUE

The Federal Government share of oil revenue is projected to be in the region of N2.988 billion in 2018. The 2018 approved budget was prepared with the assumptions that oil will trade at $51 per barrel and Oil production will hit 2.3million barrels. FG's share of Oil Revenue in 2017 was in the region of N1.13 trillion[6] revenue projections of N2.12 trillion.

The low revenue uptake in 2017, when compared with budget target, comes down to oil production mismatch. While the average of Crude Oil in 2017 was relatively higher at $54.15 per barrel than the budget benchmark price of $44.5 per barrel, actual oil production in 2017 average 1.86 million barrel per day which was 15.45 percent lower than 2017 budget benchmark of 2.2million barrels per day.

Clearly, the metric used by the fiscal authorities to arrive at the oil revenue projection is unclear if the 2017 numbers are interrogated. Oil Production shortfall of 15.45 percent with oil price trading above the benchmark price should not have translated to Oil Revenue Shortfall of 46.7 percent except structural changes which are outside the fiscal discourse happened in 2017. The exchange rates which government occasionally adjusts to close the fiscal gaps were left at N305/$1. Also, the oil production numbers seem to be overly optimistic at 2.3 million barrel per day. Nigeria's oil production targets have always turned out to be overly optimistic.

The country's 2016 fiscal plan was designed under the assumptions that oil production would top 2.2million barrels. However,

The 2018 approved budget was prepared with the assumptions that oil will trade at $51 per barrel and Oil production will hit

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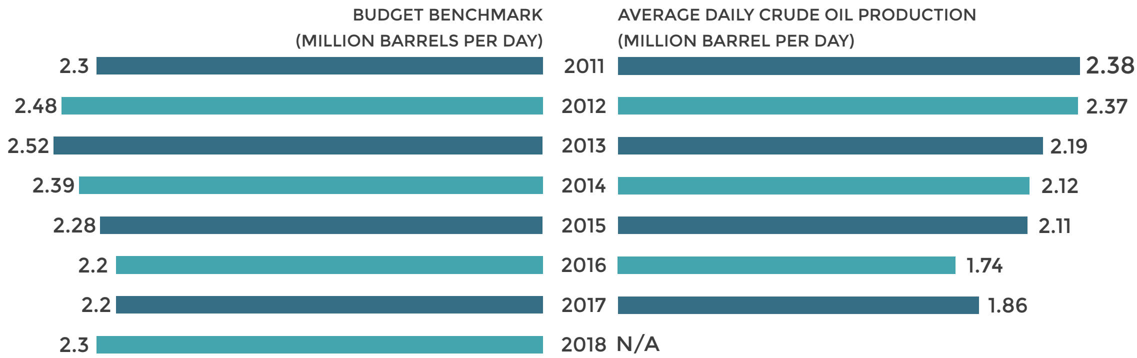
barrels.

Table 1: History of Oil Production (2011 to 2018)



Source: Budget Office, OPEC, BudgIT Research

[6]Preliminary information from the office of the accountant general of the federation based on FAAC revenue shared in 2017.

production in 2016 turned out to average 1.74million, leaving a huge gap. Previous years 2012, 2013, 2014 and 2015 were not different.

Governments' revenue uptake and the ability to pay salaries and/or emoluments, service debts and embark on critical developmental projects all remains strongly connected to oil revenue. As such, economic growth tends to plug and consumer demand depresses, anytime the price of crude oil falls. This is an unsustainable situation that has always proven unfavourable for the Nigerian economy.[7]

Oil revenue contribution to the total revenue of government is falling. Oil revenue accounted for only 41.7 percent in 2017 down from 2006 level of 88.6 percent. The Federal Government revenue from the oil sector in 2017 at N1.13 trillion was not enough to service government outstanding debt. In 2017, debt servicing was in the region of N1.664 trillion, showing clearly how the matrix is changing. The oil sector also faces some challenges in the medium term.

While Nigeria's economy is being diversified, its foreign exchange is still linked to the oil sector that mainly helps businesses purchase raw materials and spare parts. The sector continues to determine and dictate monetary policy decisions. Nigeria's chances at riding the challenges posed by the global oil market will depend on the country's ability to manage the next five years and diversify her earnings away from an overwhelming reliance on oil.

In 2014, progress in oil extraction, horizontal drilling and continuing discoveries of new reserves distorted the global hydrocarbon market significantly. At the peak of the oil price slide in 2014, approximately 1.06mn[8] oil wells were pumping out crude daily. The world was producing approximately 93.81mn[9] barrels per day, with OPEC accounting for 42.1% of total global production in that year; today, production is in the region of 97.2mn barrels per day.

Though global demand for the commodity and associated products rose significantly from 2014, however, the price of crude trailed off from a peak of approximately $115 per barrel in June 2016.

Average price of crude oil in 2018 is trading below the $65 per barrel benchmark and under pressure from the historical high production of shale oil.

The rapid growth in production numbers and a slowdown in crude oil consumption towards the end of 2014 and the greater part of 2015 created a huge glut, which further dragged down the price of the commodity. Global production in 2015 was 96.74mn barrels per day, while consumption was estimated at 95.36mn barrels per day.

With OPEC's ability to adjust the dynamism of the market significantly reduced, as well as the aftermath of the Arab spring, governments were reluctant to reduce production, which opens up the market to speculative activities. Also, the fiscal needs of OPEC members, amid increasingly expanding production figures from

[7]Adedipe, B. 2004. The impact of oil on Nigeria's economic policy formulation. Available at: http://www.odi.org.uk/events/2004/06/16/32-background-paper-sunday-abiodun-adedipe-impact-oilnigerias-economic-policy-formulation.pdf
[8]OPEC (2017) annual Statistical Bulletin (pg 30). Availiable at :
http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2017_13062017.pdf
[9]EIA (2017)Total Petroleum and Other Liquids Production 2016. Availiable at :
https://www.eia.gov/beta/international/data/browser/#/?pa=000gfs00000000000000000000000000vg&c=410000000200006000000000000g000200000000000000001&tl_id=5-A&vs=INTL.53-1-AFRC-TBPD.A&vo=0&v=H&start=1980&end=2016
[10]OPEC (2017) annual Statistical Bulletin (pg 32). Availiable at :
http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2017_13062017.pdf

unconventional sources including shale oil and tar, saturated the market. In 2015, the world was producing 96.7mn barrels of crude but consuming 95.4mn barrels daily. The evidence here shows that we are nearing the period of peak oil as demand has not taken geometric leaps in recent years.

Nigeria sells about 35.2 percent[11] of its crude to the European markets, a decrease from 45.7 percent in 2014. The problem can be linked to the decline in consumption as Europe shifts to alternative energy, as well as the fall in Nigeria's production numbers. Therefore, consumption of crude is declining particularly in western Europe, a net importer of the hydrocarbon.

In 2014, countries in the region consumed less oil than they did in 2011. Consumption numbers in 2011 came to 14.9million barrels per day, as against 14.37million barrels in 2015. Consumption was, however, 14.17million barrels in 2014 but this increase could be connected to the price reduction in the commodity, a factor which would traditionally drive demand upwards.

Given that 74 percent[12] of crude oil is consumed as gasoline, heating oil/diesel fuel and Jet fuel and used for transportation purpose, the European transportation ecosystem's serious push for the adoption of electric cars could further drag down the market.

We believe that with rapidly expanding production from unconventional sources and growing regulation promoting electric cars, the outlook for the crude oil market is increasingly becoming bleak. The global electric car market is expected to grow rapidly across Europe, with battery-powered vehicles expected to account for 100 percent of new cars sold in Europe by as early as 2035.[13]

In Asia, consumption is also slowing down on the back of a lagging economy. About 28.2 percent of Nigerian crude was exported into the Asian and Pacific market in 2016. As Asia is also joining the electric car train, and since the United States lifted a 40-year embargo on crude exports in 2015, Nigeria should continue to face increasing market pressure, as more cargoes find their way to Asia.[14] For Africa, export of crude to the continent remains below Nigeria's own domestic consumption.

As Nigeria expands its refining capacity with the coming on stream of the Dangote Refinery amid negotiations for the Continental Free Trade Area (a Free trade Agreement across Africa) entering advance stages, the outlook seems brighter. However, given the fact that most of the cars in Africa are imported from Europe, Asia and the US, regulations around electric cars may rub off the significance of any gains.

Nigeria's exports to North America were approximately 307,000 barrels per day,[15] which is lower than domestic consumption. Before 2012, the North American market

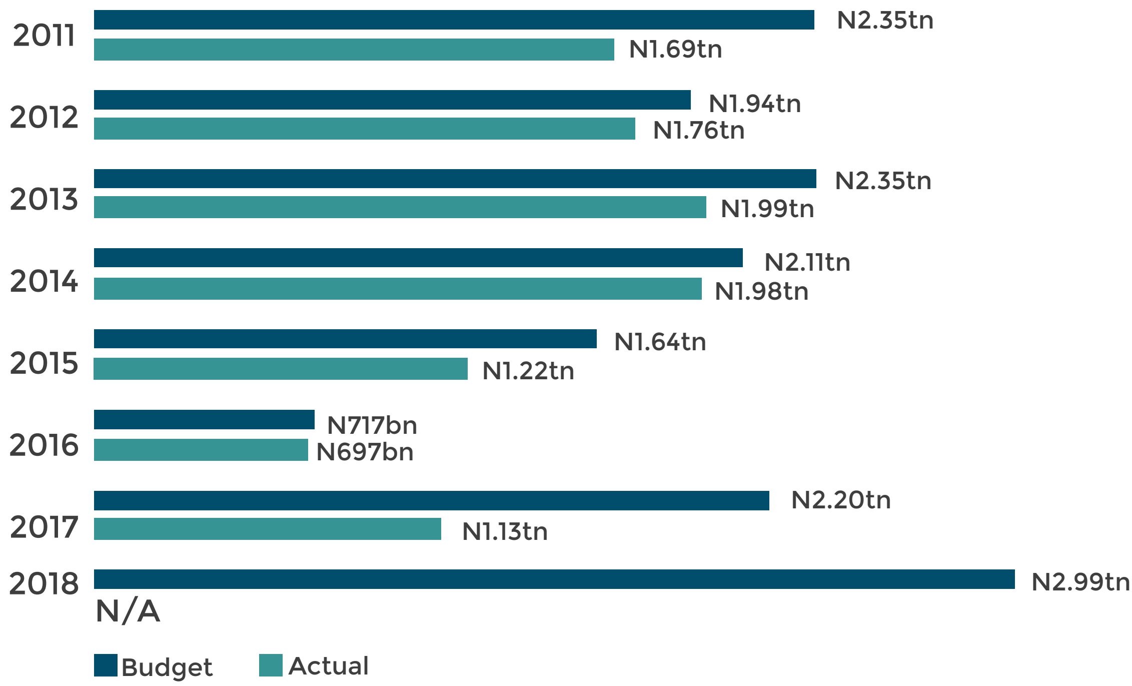
[11]OPEC (2017) annual Statistical Bulletin (pg 57). Availiable at :
http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2017_13062017.pdf
[12]OPEC (2017) annual Statistical Bulletin (pg 57). Availiable at :
http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2017_13062017.pdf
[13]The Guardian. Electric cars to account for all new vehicle sales in Europe by 2035
://www.theguardian.com/environment/2017/jul/13/electric-cars-to-account-for-all-new-vehicle-sales-in-europe-by-2035
[14]Reuters (2016). Oil traders prepare flotilla to ship U.S. exports to Asia. Availiable at http://www.reuters.com/article/us-usa-oil-china-idUSKBN13Y150
[15]OPEC (2017) annual Statistical Bulletin (pg 57). Availiable at :
http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2017_13062017.pdf
[16]OPEC (2017) annual Statistical Bulletin (pg 57). Availiable at :
http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2017_13062017.pdf
[17]EIA (2017)Total Petroleum and Other Liquids Production 2016. Availiable at :
https://www.eia.gov/beta/international/data/browser/#/?pa=000gfs0000000000000000000000000vg&c=410000000200006000000000000g00020000000000000
0001&tl_id=5-A&vs=INTL.53-1-AFRC-TBPD.A&vo=0&v=H&start=1980&end=2016
[18]Deffeyes, K.S., 2008. Hubbert's peak: the impending world oil shortage (New Edition). Princeton University Press.
[19]Aftabuzzaman, M. and Mazloumi, E., 2011. Achieving sustainable urban transport mobility in post peak oil era. Transport Policy, 18(5), pp.695-702.

was the biggest for Nigerian crude, accounting for about 52 percent[16] of exports. However, a ramp-up of production in the region has since replaced the appetite for Nigeria's sweet light crude. Production grew from 16.7mn[17] barrels per day in 2011, to 21.3mn barrels per day at the peak of the market in 2014. In 2016, oil wells in North America churned out 21.9mn barrels per day.

Clearly, the future of oil as the world's main energy source is increasingly threatened. Some analysts predict that the "peak oil" hypothesis that Hubbert King[18] alluded to in his 1956 paper may happen as early as 2023.[19] The peak oil hypothesis suggests demand for oil as a source of energy will slow, and possibly drop at some point in the future, which will crash prices. Some analysts, including Leonardo Maugeri[20] feel this is already happening; the linchpin is that the dynamism of the market suggests that demand for Oil could peak before 2030.[21]

While Nigeria's economy is being diversified, its foreign exchange is still linked to the oil sector that mainly helps businesses

Table 2: History of FG's Share of Oil Revenue



Source: Budget Office, OPEC, BudgIT Research

[20]LEONARDO, M (2012) Oil: The Next Revolution. Avaliable at: http://www.belfercenter.org/sites/default/files/legacy/files/Oil-%20The%20Next%20Revolution.pdf

[21]Hirsch, R.L., Bezdek, R.M. and Wendling, R.M., 2005. *Peaking of world oil production: impacts, mitigation, & risk management* (No. DOE/NETL-IR-2005-093; NETL-TPR-2319). National Energy Technology Laboratory (NETL), Pittsburgh, PA, Morgantown, WV, and Albany, OR.

purchase raw materials and spare parts. The sector continues to determine and dictate Monetary Policy decisions.

Nigeria's chances at riding the challenges posed by the global oil market will depend on the country's ability to manage the next five years and diversify her earnings away from an overwhelming reliance on oil.

As the country prepares towards another round of elections, maintaining the political dynamics of the volatile Niger Delta region will be crucial to production numbers.

Though the political risk to oil installation seems to have waned, the foregoing factors can affect earning power in the short-term. A more distant but nevertheless major risk factor that could upturn Nigeria's earning potentials in the longer-term is the evolution of electric cars worldwide.

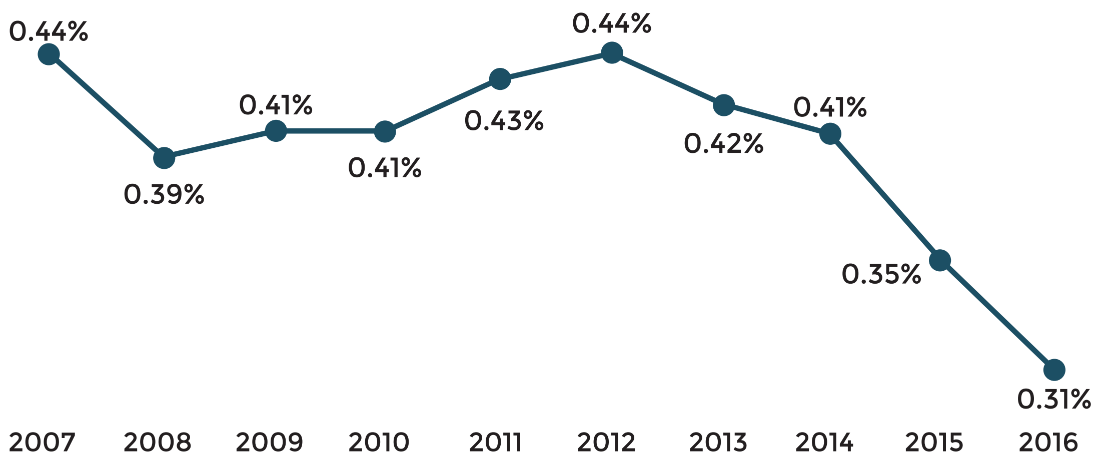
The Non-Oil sector accounts for almost 90 percent of economic activities in Nigeria, with Services and the Agricultural sector being most prominent. Today, the Agricultural sector (23.11 percent of GDP), Trade (16.9 percent of GDP) and the Real Estate Sector (7.6 percent) dominate Nigeria's economy amid the increasingly significant financial services, communications, and entertainment sectors.

The Oil and Gas industry's contribution to the economy is approximately 6.36 percent. The under-performing manufacturing sector (which happens to be Africa's third largest) accounts for roughly 10 percent of economic activities.[22]

With approximately 182 million people, Nigeria is now a middle-income country, broadly diversified and increasingly becoming financially sophisticated.

However, successive governments at the national and sub-national level have failed to translate the numbers into actual

Figure 2: Non-Oil Revenue (General Budget) as a percentage of Non-Oil GDP (2007 to 2016)



Source: CBN, BudgIT Research

[22]NBS(2017), Nigerian Gross Domestic Product Report. Available at: http://nigerianstat.gov.ng/download/559
[23]CITN, (2013), OIL, GAS AND OTHER MINERALS TAXATION Available at : http://www.citn.org/member_files/tax_content/dfaf498b06f9557093460edab4f839b71fe896f2.pdf

government revenue. The ease with which government takes between 50 percent to 85 percent[23] of profits generated in the oil sector (depending on the contract) and also how it tracks measure operational cost is difficult when it comes to the non-oil sector.

The ease of doing business, property rights, a good infrastructure base, anti-competition regulations, state-backed financial support for SMEs, as well as a vibrant, educated workforce are critical factors that the government must work towards if it hopes to improve its revenue base from the non-oil sector. Unfortunately, non-oil revenue uptake as a percentage of non-oil Gross Domestic Product is dropping despite different initiatives by the government (see Figure 2).

NON-OIL REVENUE

COMPANY INCOME TAX

In 2018, the Federal Government is projecting a revenue uptake under corporate income tax at N658.55 billion. Government's projection seems to be overly ambitious, as there is no concrete evidence to suggest that the numbers of taxpayers have increased significantly.

With an elevated inflation rate, increasing energy and raw materials costs amid a shrinking marketplace and rising costs of the fund, corporate profitability may be weaker. Therefore, the ability of the government to collect this level of tax in proportion to the state of the economy is in question.

Federal Government share of company income tax has been declining from the 2015 level of N473.32 billion to an estimated N249.32 billion in 2017. In 2016, FG's share of company income tax was N457.91 billion. 2018 revenue projections seems overly optimistic if the trend over the last 5 years is put in context.

The downtrend may have been partly due to the economic recession and lagging corporate profitability. There is no concrete fact on the ground that suggests profitability of entities has improved significantly. Also, issues around the tax code and collection efficiency abound. The Federal Government recently launched a series of tax collection initiatives, including an Executive Order that grants amnesty to tax defaulters,[24] with the overall objective of improving tax collections.

The Government also plans to recruit 7500 tax advocates to drive the tax collection figures. However, the reality is that Nigeria's CIT rate, at 30 percent, remains one of the world's highest, while collection efficiency remains low. Also, the outlook for stronger CIT uptake rates remains unclear, particularly as approximately 42 percent of economic activities happen informally.[25]

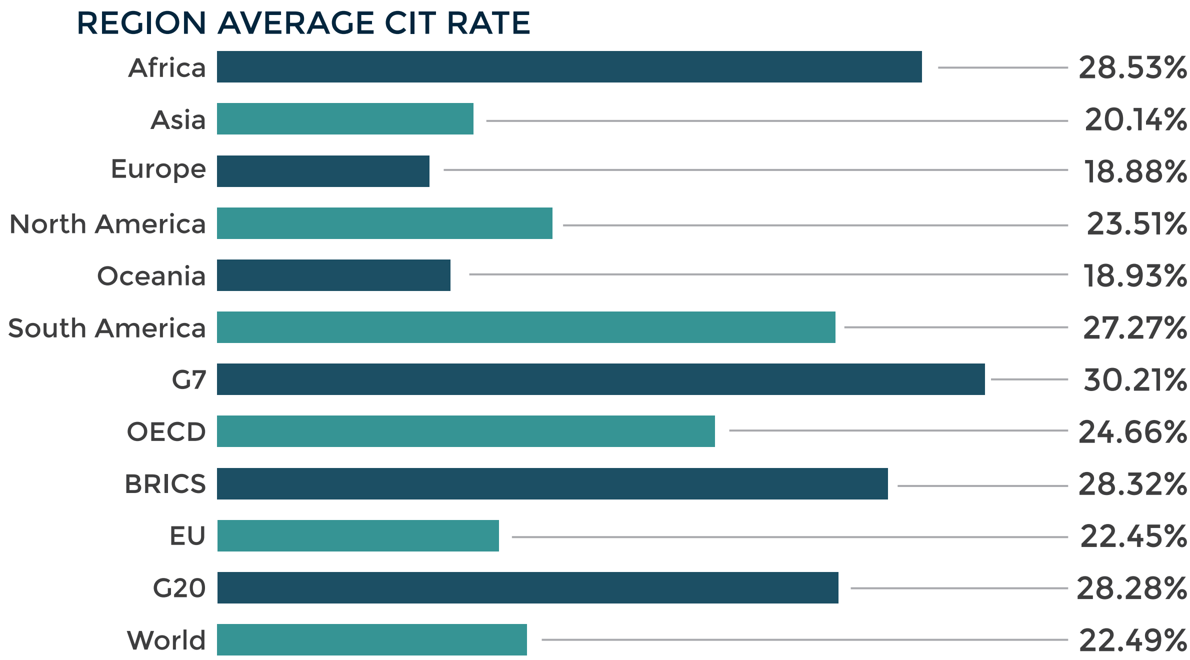
For instance, almost all activities in the Agricultural sector are undertaken informally, making taxation near impossible. Nigeria will have to embark on aggressive structural reforms that will change the country's tax collection profile on a wider scale.

At 30 percent, Nigeria's CIT rate is higher than the 28.53 percent[26] average CIT rate in Africa. In the European Union and Asia, CIT rates lie between 18.88 percent and 20.14 percent respectively. Rates in Africa's largest economy should begin to converge towards 22.49 percent (global average) if Nigeria's plan to attract business is to be achieved. This is because the present rate may undermine the country's ability to be found suitable to local and international investors.

Nigeria may also face significant challenges, if the plan by African countries to create a single continental market for goods and services and free movement of business persons and investments takes off. Negotiations for the Continental Free Trade Area (CFTA) are currently advancing.

[24] Businessdayonline.com. (2017). Osinbajo signs new Executive Order to back Tax Amnesty [online] Available at: https://www.businessdayonline.com/osinbajo-signs-new-executive-order-back-tax-amnesty/
[25] NATIONAL BUREAU OF STATISTICS(2016) Formal and Informal Sector Split of Gross Domestic Product Available at: http://nigerianstat.gov.ng/download/403
[26] Tax Foundation (2016) Average Top Marginal Corporate Tax Rate by Region or Group. https://taxfoundation.org/corporate-income-tax-rates-around-world-2016/

Table 3: Tax Rates across Africa



Source: Tax Foundation

With Nigeria's CIT rate significantly higher than most African countries', the corporate tax rate could discourage investment in Nigeria, and force her to realign CIT rates with present realities.

It is possible that Nigerian companies may be disadvantaged when compared with their foreign competitors, which could trigger company relocations to other parts of the continent. Also, because Personal Income Tax, which is collected by the States has a significantly lesser rate than CIT, small and medium scale business have little incentive to formalise their operations and begin to operate under corporate cover.

Globally, CIT is often strongly linked to the profitability of businesses.[27] The high overhead costs of running businesses in Nigeria directly affects corporate profitability,[28] which translates to lower tax uptake for the government.

The situation is compounded by the state of the country's electricity, road and communication infrastructure, as well as the fact that lending rates in Nigeria are higher and its effect on businesses is counter-productive.[29]

The capacity of the Nigerian education system to train employees on the required

[27]N Dwenger - 2012. profit taxation and the elasticity of the corporate income tax base. Available at: https://www.google.com.ng/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwiYwuK9lvrVAhUoKpoKHfQAA7MQFggnMAA&url=https%3A%2F%2Fwww.ntanet.org%2FNTJ%2F65%2F1%2Fntj-v65n01p118-50-profit-taxation-elasticity-corporate.pdf&usg=AFQjCNFXBjPUn4SZQjzu96lhsubQr0DuGw

[28]Adenikinju, A.F., 2005. *Analysis of the cost of infrastructure failures in a developing economy: The case of the electricity sector in Nigeria* (Vol. 148). Nairobi: African Economic Research Consortium.

[29]WA Khan - 2014. Impact of Interest Rate Changes on the Profitability of four Major Commercial Banks in Pakistan. Available at : http://macrothink.org/journal/index.php/ijafr/article/viewFile/5630/_18

skill sets necessary to move the economy forward and drive profitability remains at sub-optimal levels. There are also growing concerns that the low-skilled, labour-intensive jobs that Nigeria is hoping to attract may never come, due to increasing trend towards automation.[30]

Nigeria will need to institute reforms if she hopes to boost manufacturing activities and by extension improve its government revenue receipts in the Manufacturing sector. Interestingly, in 2016, the corporate tax (excluding petroleum profit tax) accounted for 26.85 percent of federally-collected revenue.

Nigeria presently collects less in CIT relative to GDP (0.93 percent in 2016) than the global average of 3.0 percent. Many connect the low tax uptake to various factors, including the high degree of opacity around waivers and exemptions granted to politically-connected entities, the poor investigative capacity across revenue generating agencies, and corruption.

Businesses also complain about multiple taxations and defective communication channels between taxpayers and government. To boost revenue, Nigeria will need to plug these leaks, and also expand the tax nets to capture more funds into the public purse.

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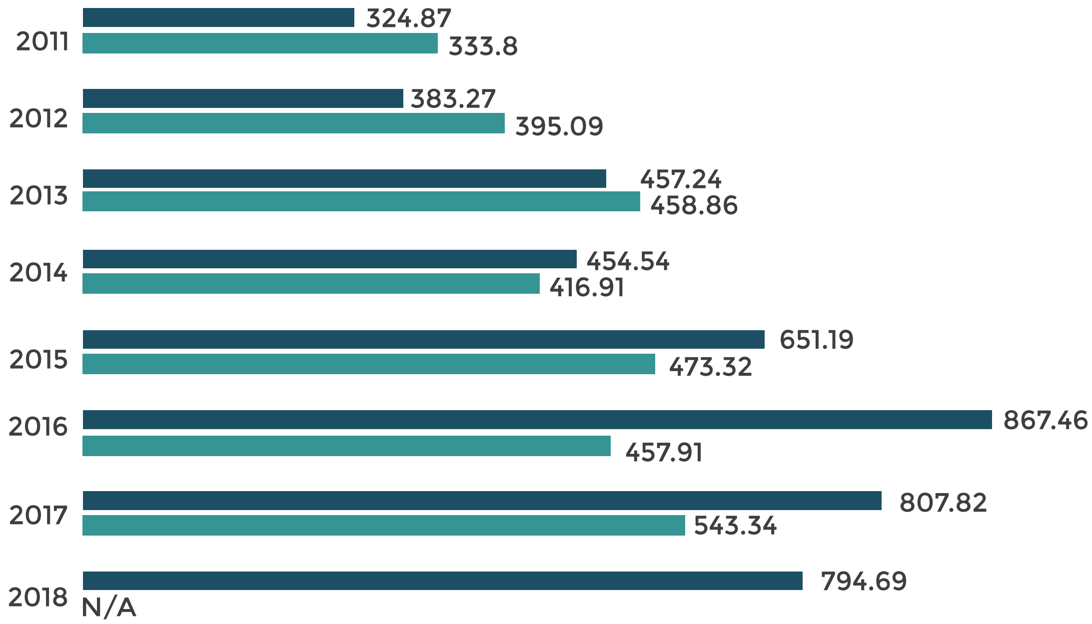
[30] Techrepublic.com (2017) 50% of low-skilled jobs will be replaced by AI and automation, report claims
Available at: http://www.techrepublic.com/article/50-of-low-skilled-jobs-will-be-replaced-by-ai-and-automation-report-claims/

[31] http://www.firs.gov.ng/Documents/2017%20Tax%20Revenue%20Collection%20Statistics.pdf

Table 4: Federal Government Share of CIT Revenue



Source: Budget office of the federation, BudgIT Research

BUDGET (AMOUNT IN N' BILLION) ACTUAL (AMOUNT IN N' BILLION)

Note:

FIRS reported an increase in tax collection in 2017. Total company income tax collection for the federation (federal, state and local governments) in 2017 was N1.22 trillion[31] up from 2016 level of N933.54 billion. FIRS total collections in 2015 was N1.18 trillion. The Data suggest government's revenue in 2017 may be higher than 2015 and 2016 level, but still widely off the budgetary target of N808 billion in 2017. FG is yet to publish 2017 Budget Implementation Report.

NON-OIL REVENUE

VALUE ADDED TAX (VAT)

The Federal Government is projecting a VAT uptake of N207.51 billion in the fiscal year 2018. The FG's share of VAT revenue was N106.74 billion and N104.66 billion in 2014 and 2015 respectively. Clearly, expectations for revenue collection numbers appear to be way beyond the actual reality and government seems to be backing off its initial optimism.

On one hand, revenue from VAT seems to be growing, despite the economic recession. However, the perception in the economy is that household consumption expenditure is declining, with salaries paid out to employees also plumbing lower depths, while the capacity of the economy to create jobs is strained, due to structural and policy issues. These factors conspire to ensure consumer demand and spending remains under pressure, as spiralling food inflation matched with relatively stagnant incomes and increasing energy costs perpetuate a tight economic cycle.

On the other hand, historically, about 42 percent of VAT receipts come directly from the Petroleum industry, as well as State and Federal Governments. State and Federal governments are struggling to meet basic commitments - and by extension their VAT contributions-all of which is critical to achieving the ambitious target for VAT. Without these factors seeing tangible change, Nigeria could fall well behind on VAT collection revenue, leading to significant income shortfalls.

It is on this basis we can safely say VAT earning targets of N207.86 billion for the fiscal year 2018 are overly ambitious. Value Added Tax was introduced in France in 1968; since then, over 150 countries worldwide have adopted some form of VAT.

On average, countries from the Organisation for Economic Co-operation and Development (OECD) collect about 32 percent of their total revenue from VATs and 27 percent from personal income taxes. This relatively new tax has become a crucial revenue source among OECD member countries. In Bangladesh and China, VAT receipt accounts for 56 percent and 33.9 percent of government revenue respectively.

At 22.03 percent of federally-collected revenue in 2016, Nigeria is yet to fully unlock the economy-boosting potential of VAT. Information about the total number of registered VAT vendors and VAT payment by economic activities remains unclear in Nigeria[32.]

All resident and non-resident companies doing business in Nigeria are required to register with the Federal Inland Revenue Service (FIRS) within six months of commencement of business but the general perception is that very little is done to enforce this law.

[32]Pomeranz, D., 2015. No taxation without information: Deterrence and self-enforcement in the value added tax. The American economic review, 105(8), pp.2539-2569.
National Bureau of Statistics(2017). Nigerian Gross Domestic Product Report (Expenditure and Income Approach) Q3 2016
[33]Available at :http://nigerianstat.gov.ng/download/576

Also, the consumption pattern of most households in Nigeria seems to be tilting towards food, accommodation, and transportation. Most of the items Nigerians consume enjoys VAT exemptions, namely: basic food staples, medical, veterinary and pharmaceutical raw materials, books, newspapers, infant products, and magazines.

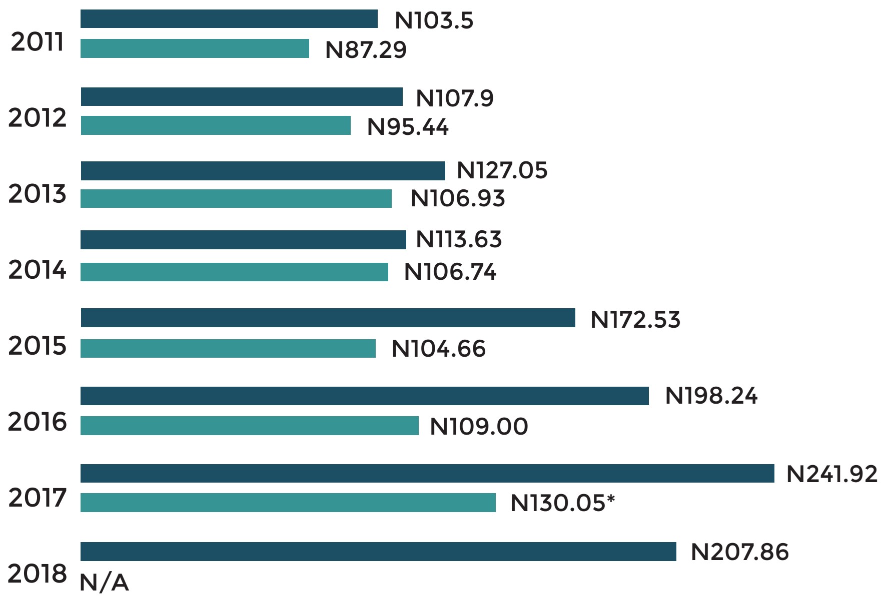
This likely contributes to low VAT revenue. Despite final consumption expenditure of households moving from N42 trillion in 2012 to N74 trillion in 2015 (a jump of about 76 percent), VAT income for the government (National and sub-national Level) moved up just 12 percent, from N710billion in 2012 to N778.72 billion as at the end of 2015.[33]

Dismal as this may seem, VAT revenue was only 1.69 percent of final consumption expenditure in 2012, even declining to 1.06 percent in 2015, despite VAT rates remaining unchanged at 5 percent. Figures for household consumption in 2016 was N91.35 trillion but VAT uptake for the federation increased to N811 billion in 2016.

Nigeria's VAT rate, at 5 percent, remains one of the world's lowest.[34] The average standard rate of VAT across 28 African countries is 16.2 percent,35 while in the European Union, VAT rate is 21.5 percent. Another reason VAT collection figures are abysmal is the informal nature of the Nigerian retail space.

About 60 percent of all retail activity in Nigeria is largely fragmented and unregistered. Effective VAT collection must ensure that a large proportion of retail activity occurs within registered retail space.36 With regards to the GDP, Nigeria's VAT contribution is relatively low at 1.2 percent, compared to even smaller nations like Lesotho, where VAT constitutes an average of 7.7 percent of Gross Domestic Product.

Table 5: Federal Government Share of VAT Revenue



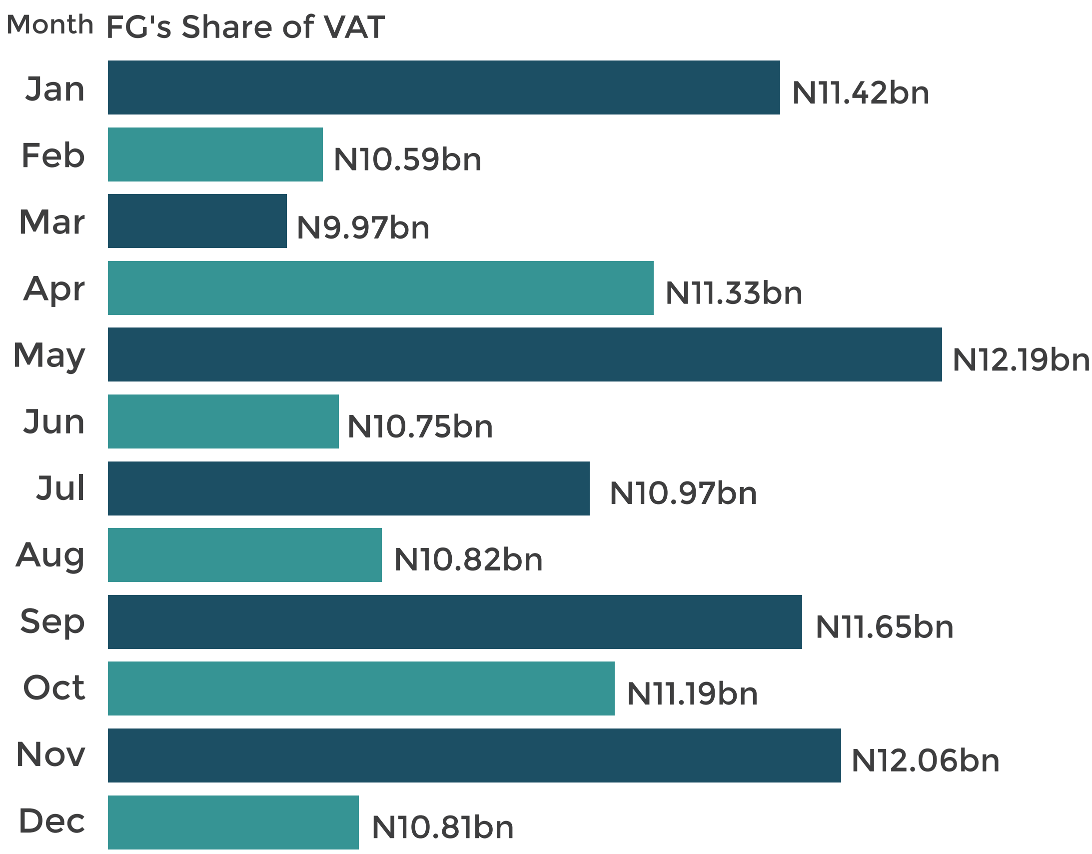
Source: Budget office of the federation, BudgIT Research *Provisional Data: Data was computed using 2017 monthly FAAC report.

BUDGET (AMOUNT IN N' BILLION) ACTUAL (AMOUNT IN N' BILLION)

[34]http://www.vatlive.com/ International VAT and GST rates 2017 avialable at: http://www.vatlive.com/vat-rates/international-vat-and-gst-rates/
[35]PwC. Helping you navigate Africa's VAT landscape. Available at: https://www.pwc.co.za/en/assets/pdf/vat-in-africa-2017.pdf
[36]Bromley, R., 2000. Street vending and public policy: a global review. International Journal of Sociology and Social Policy, 20(1/2), pp.1-28.

Federal Government share of VAT Revenue

(2017 Monthly Data)



Source : 2017 Monthly FAAC Reports (OAGF)

CUSTOMS AND EXCISE DUTIES

The FG's 2018 projected revenue from tariffs and duties at the ports are pegged at N324.86 billion up from 2017 budget figures of N278 billion. 2016 actual collections were N228.61 billion. Revenue from customs and duties is strongly dependent on activities at the ports. Consequently, it is expected that the stability in the foreign exchange policy that has led to improvement in the foreign exchange market should lead to an improved volume of transactions at Nigerian ports.

In the first quarter and second quarter of 2017, a total of 3,206 vessels and 3,418 vessels berthed at the nation's ports respectively. When compared, activities at the port in the first half of 2017 was already higher than what happened in 2014 and 2015.

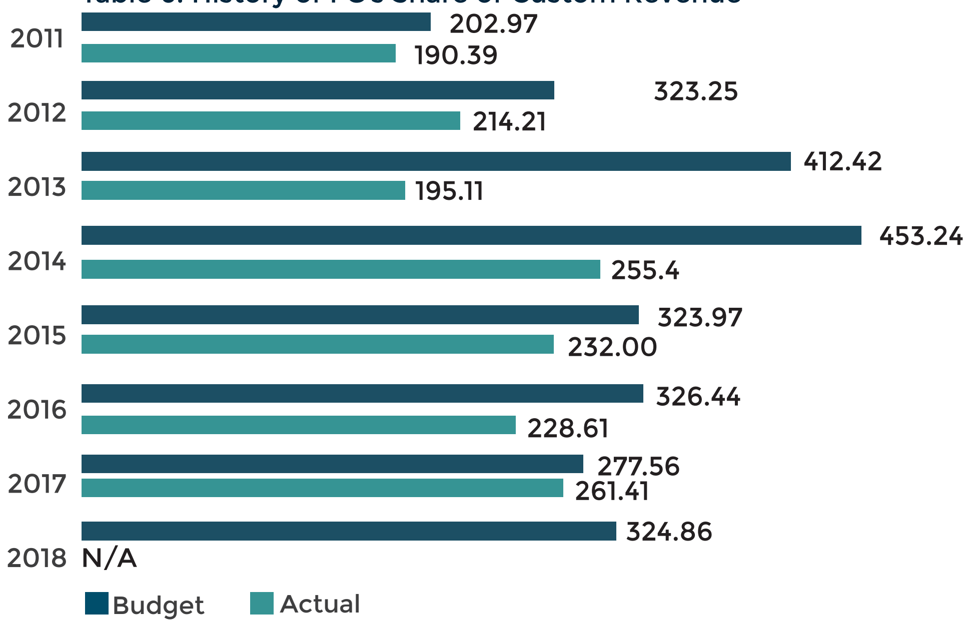
In 2014, the Nigerian Customs Service worked with 5,014 vessels that berthed at the nation's ports. The Federal Government saw significant benefits here, with its share of revenue hitting N255.4 billion. In 2015, the FG's revenue uptake slid downwards by 9.2 percent to N232 billion, despite the country having to deal with 5,333 vessels.

Beyond the volume of trade, which is improving, Customs Revenue is also strongly connected to effective, applicable tariffs. With the Common External Tariff (CET), tariffs on imported goods are expected to fall in 2018, in part because of a reduction in levies.

This could drive revenue to the government downwards. Other factors to consider are the gradual removal of Import Adjustment Tax (IAT) and the expected decrease in annual Average Duty Rate (ADR).

On the positive side, Nigeria is expected to see benefits in terms of revenue uptake from increased Import Duty on imported vehicles, and hopefully, start the implementation of a coordinated border management strategy. The Federal Government's projections of N324.86 billion may be slightly below the achievable thresholds, but if Nigeria can kickstart initiatives that enforce a holistic anti-smuggling strategy and continue to improve access to foreign exchange, these revenue projections may be matched.

Table 6: History of FG's Share of Custom Revenue



Source: Budget office of the federation, BudgIT Research

FGN INDEPENDENT REVENUE

The Government has touted the Treasury Single Account (TSA)[37] as the main vehicle for eradicating collection and disbursement inefficiencies, which prompted the government to set an ambitious target of N1.506 trillion for 2016. So far, actual receipts as at the end of the fiscal year 2016 were N237.75 billion, which is widely off the mark. Consequently, the FG has now revised its 2017 and 2018 projections downwards, to N808 billion and N847.95 billion respectively.

Independent Revenue of the Federal Government are funds generated by agencies. These are federal agencies that earn income but are required by law to remit 80 per cent of their "Operating Surplus" to the Treasury. Unfortunately, the term "operating surplus" has been ill-defined, with many agencies running prohibitive operational costs, and therefore remitting scant surplus.

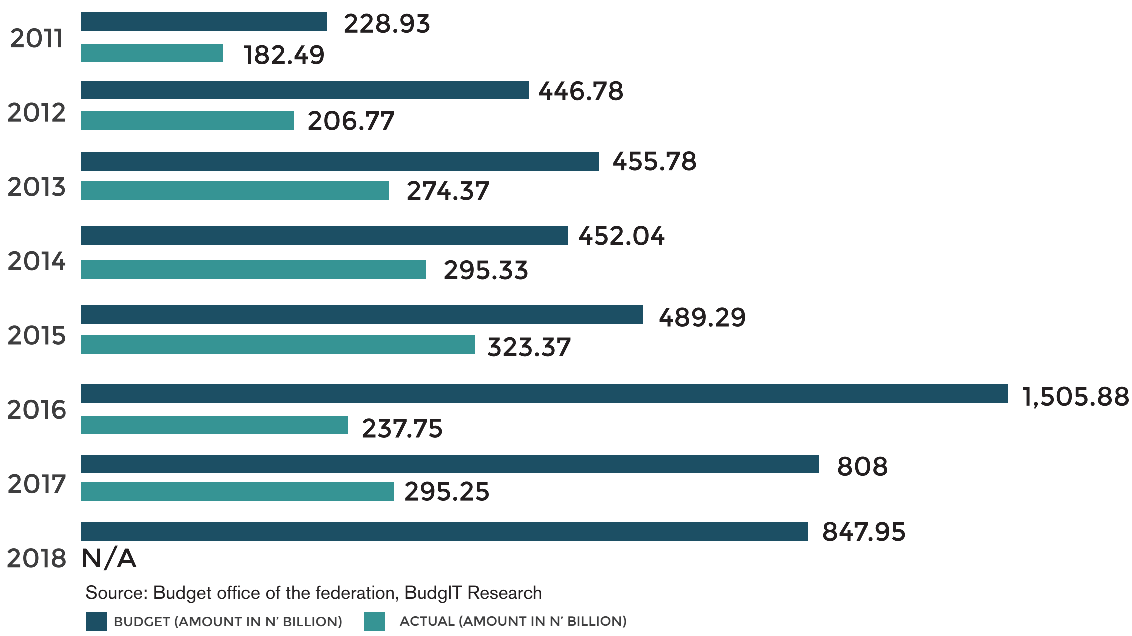
The government, hoping to plug the loops and squeeze significant revenue from these agencies, introduced the Treasury Single Account (TSA) - a single account through which all agencies are managed.

What precedent the FG relied on is unknown, as Independent Revenue was N295.33 billion and N323.37 billion in 2014 and 2015 respectively. In 2017, despite the ambitious target of N808 billion for the fiscal year, the actual collection as at the end of the year was approximately N295 billion.

This is why we argue that projections of N847.95 billion are still a way off Nigeria's reality.

The biggest drawback of a recent analysis of revenue performance remains this huge burden expectation of Independent Revenue Agencies. While it is evident that the FG has over 400 agencies and must expect tangible surplus numbers, it is important to note that without transparency and gross efficiency, the FG cannot reap the benefits of these agencies.

Table 7: History of FG's Independent Revenue



[37] www.Premiumtimes.ng. 5 things to know about Treasury Single Account (TSA)
Available at : http://www.premiumtimesng.com/features-and-interviews/199725-15-things-know-treasury-single-account-tsa.html

OTHER REVENUES

Based on the 2018 budget information, FG has plans to receive N27.22 billion from special accounts, draw down N250 billion from previous savings, pool N87.85 billion as revenue from its Voluntary Asset Declaration Scheme and a bold N512.44 billion from recoveries which have never been added in the budgets despite the volume of corruption cases.

There is also a plan to reduce Federation's equity in Joint Ventures, and this is expected to yield N710bn. Other revenues source include Grants and Donor funding of N199.92billion and federation levies of N146.64 billion.

It is stunning to find out that these other incomes which sum up to N2.048 trillion represent 28.58 percent of the 2018 revenue projections.

With the poor attention heeded to governance in an election year, most revenue items within this bracket might not be feasible, thereby widening the deficit.

Table 8: FGN Other Revenue Breakdown (2018 Approved Budget)

N27.22bn	FGN's Share of Actual Bal. in Special Accts
N250bn	FGN's Unspent Bal. of previous Fiscal Year
87.84	FGN's Share of Tax Amnesty Income
N14.3bn	FGN's Share of Signature Bonus
N374bn	Domestic Recoveries + Assets + Fines
138.44	Other FGN Recoveries
N710bn	Proceeds of Oil Assets Ownership Restructuring
199.92	Grants and Donor Funding
N146.64bn	FAAC levies

Source: Budget Office of the Federation, BudgIT Research

EXPENDITURE FRAMEWORK

WHERE WILL THE MONEY COME FROM?

The Federal Government's economic plans for the fiscal year 2018 call for a total expenditure of N9.12 trillion. While revenue projections lie way below, at N7.166 trillion, the maths adds up to a deficit of N1.954 trillion.

Actual Spending of the Federal Government in 2014, 2015 and 2016 was N4.12tn, N4.72tn and N5.14tn respectively, and the 2017 budget was precipitated on a spending plan of N7.44tn.

A report from the Ministry of Budget and Planning states that total spending in 2017 was in the region of N6.46 trillion on the back of a revenue of N2.38 trillion, meaning the deficit at N3.8 trillion.

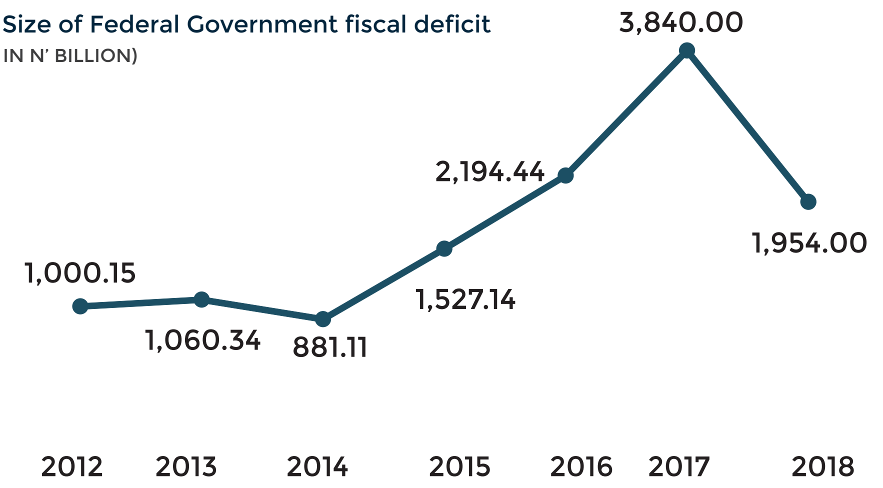
With Nigeria's debt profile rising, and revenue projection grossly overstated in the 2018 projections, it is on this backdrop that props the argument that the FG's expected deficit of N1.954 trillion may be underestimated. The 2018 deficit of N1.954 trillion is expected to be 30.76 percent of Nigeria's projected revenue.

For 2018, Recurrent Expenditure (including the payment of salaries and emoluments of government workers, overheads and cost of servicing debts) is estimated at N6.25 trillion up from 2017 budgeted figures of N5.26 trillion. The balance of N2.87 trillion[38] or approximately 31.50 percent of the 2018 approved budget is to be invested in administrative and developmental capital items.

For 2018, Recurrent Expenditure (including the payment of salaries and emoluments of government workers, overheads and cost of servicing debts) is estimated at N6.25 trillion up from 2017 budgeted figures of N5.26 trillion.

The balance of N2.87 trillion or approximately 31.50 percent of the 2018 approved budget is to be invested in administrative and developmental capital items.

Table 9: Size of Federal Government fiscal deficit
(AMOUNT IN N' BILLION)



Source: Budget office of the federation, BudgIT Research

[38]Federal Government of Nigeria's Approved Budget 2018. (p7)

KEY POINTS

THE BUDGET SIZE IS THE LARGEST, IN NOMINAL TERMS

In 2016, the budget clocked N6.06 trillion, but only N4.396 trillion was spent as at the end of December 2016. However, the FG took a downline charge of N387.67 billion, which was used for the reimbursement of the Paris Club Over-Deduction. That pushed total spending by the FG to N5.14 trillion.

Records show that government spending has grown to the N6tn bracket. But for 2018, the approved expenditure of N9.21 trillion budget is the largest, in nominal terms.

DEFICIT CAPPED AT 3 PERCENT OF GDP

In 2016, due to the widening gap between revenue target and actual collections, the deficit figure topped N2.2 trillion. Based on budget office figures the total spending in 2017 was in the region of N6.46 trillion on the back of a revenue of N2.66 trillion - meaning the deficit at N3.80 trillion was 41.77 percent higher than the budget projections.[39]

PROJECTS IN 2018 BUDGET ARE FRAGMENTED, DIFFICULT TO TRACK AND WILL DERAIL THE ECONOMIC GROWTH AND RECOVERY PLAN

Most of the capital projects in the 2018 budget has little or no bearing on the economy. Approximately 6,529 new projects valued at N579.08 billion was inserted into the 2018 budget by the National Assembly during the budget defence process.

Out of the 6529 new projects entered into the budget, 90.6 percent or 5918 items have a unit value below N200 million. Also, the projects cannot be directly linked to the written, medium-term aspirations of the government as highlighted in the Economic Recovery and Growth Plan.

Also, the inserted projects show that N63.64 billion or approximately 11 percent of the new projects added by the National Assembly will be spent on various training and capacity building programmes in 2018.

Given that the budget will be largely funded by borrowings (as highlighted in the 2018 fiscal plan), it is disheartening to discover that most of the identified line items therein show a significant disconnect from the developmental goals of government, as stated in its Economic Recovery and Growth Plan (ERGP).

We also noticed that the new projects inserted into the budget are fragmented, and budget line items are accompanied with

In 2016, the budget clocked N6.06 trillion, but only

N4.39tn

was spent as at the end of December 2016.

[39]Federal Government of Nigeria's Appropriation Act 2017. (p7)

vague descriptions that will prove difficult to monitor or track in physical and auditing terms. It is equally shocking that the National Assembly increased its budgetary allocation from N125 billion in 2017 to N139.5 billion in 2018.

It is also observed that projects valued at N13.16bn were cancelled altogether without detailed explanation by the National Assembly. Some of the critical projects removed from the 2018 budget included N200.3million meant to settle arrears under the national telephony programme, N100 million allocated for the establishment of an ICT university, and the N1.2 billion allocated under the proposed budget for the construction of the Zauro Polder Irrigation project. Equally shocking is the fact that allocation to over 4,621 projects was reduced by approximately N318.89 bn without citations.

It is, however, heartwarming to note that a provision of N55.15 billion was made during the budget enactment process to the health sector under the National Health Act. While the amount falls short of the 1 percent consolidated revenue fund (above N71.65 billion), it is, however, information for Nigerians and other critical stakeholders to monitor and see to its implementation.

Overall, the 2018 budget will need proper interrogation from all stakeholders. It is also essential for the National Assembly and Executive to significantly reduce the administrative component of the budget and direct funds towards improving education, health and other critical infrastructure. We also believe that there will be a more in-depth interrogation of the extent of the powers of the National Assembly and how such powers are exercised with great responsibility.

DOMESTIC DEBT MARKET CONDITIONS REMAIN TIGHT

Equally important is the fact that Nigeria also struggles to raise debt from domestic markets. In 2012 and 2013, the market was instrumental in raising N744.44 billion and N706.74 billion respectively for the FG's but this trend seems to be flattening.

In 2014, while the domestic bond market was tapped to raise N624.22 billion, the next year 2015 was however different – only N330 billion in new debts was raised, compared to the N802 billion projected in the budget. This trend continued in 2016, where, despite the budget projecting a domestic debt undertaking of N1.18 trillion, only N300 billion in new debt was raised through the fiscal year.

In the fiscal year 2018, the government hope to tap the domestic bond market for N793bn. That may be difficult to achieve, as it is unclear how the markets can underwrite undertakings worth this sum, except the Central Bank of Nigeria revises its tight monetary stance and injects liquidity, which could invariably fuel inflation and distort the balance in terms of Naira stability among other macroeconomic implications.

COSTS OF SERVICING OUTSTANDING DEBT

The cost of servicing debt is increasingly becoming unavoidable for Nigeria. Given that oil revenue for 2016 was only N697.8bn, which could only cover 53.26% of the overall cost of debts, the country must moderate debt accumulation, or possibly risk hampering its long-term financial viability. A total of N1.31 trillion was spent in 2016 servicing debt, against the N1.06 trillion spent in 2015.

In 2018, the federal government is projecting that debt servicing cost will top N2.014 trillion which comes to approximately 28.11 percent of projected revenue for the fiscal year. To break through what may become a debt chokehold, Nigeria will likely need to improve her non-oil revenue uptake, which is dependent on the overall health of the economy.

LACK OF CLARITY IN FUND DISBURSEMENT- CAPITAL EXPENDITURE

The Government is yet to come out clear on the amount that has been spent on capital items in 2016 and 2017 fiscal years. While the Ministry of Finance repeatedly claims a sum totalling N1.2 trillion has been released, the budget implementation reports released by the Budget Office of the Federation shows otherwise.

In 2016, only N173.01 billion was actually released according to the budget implementation report, out of the earlier budget of N1.59 trillion; for 2015, a total sum of N601 billion was released on capital items. Information, location, and status on the projects remains unclear, and repeated letters to seek clarification were not honoured by the Ministry of Finance.

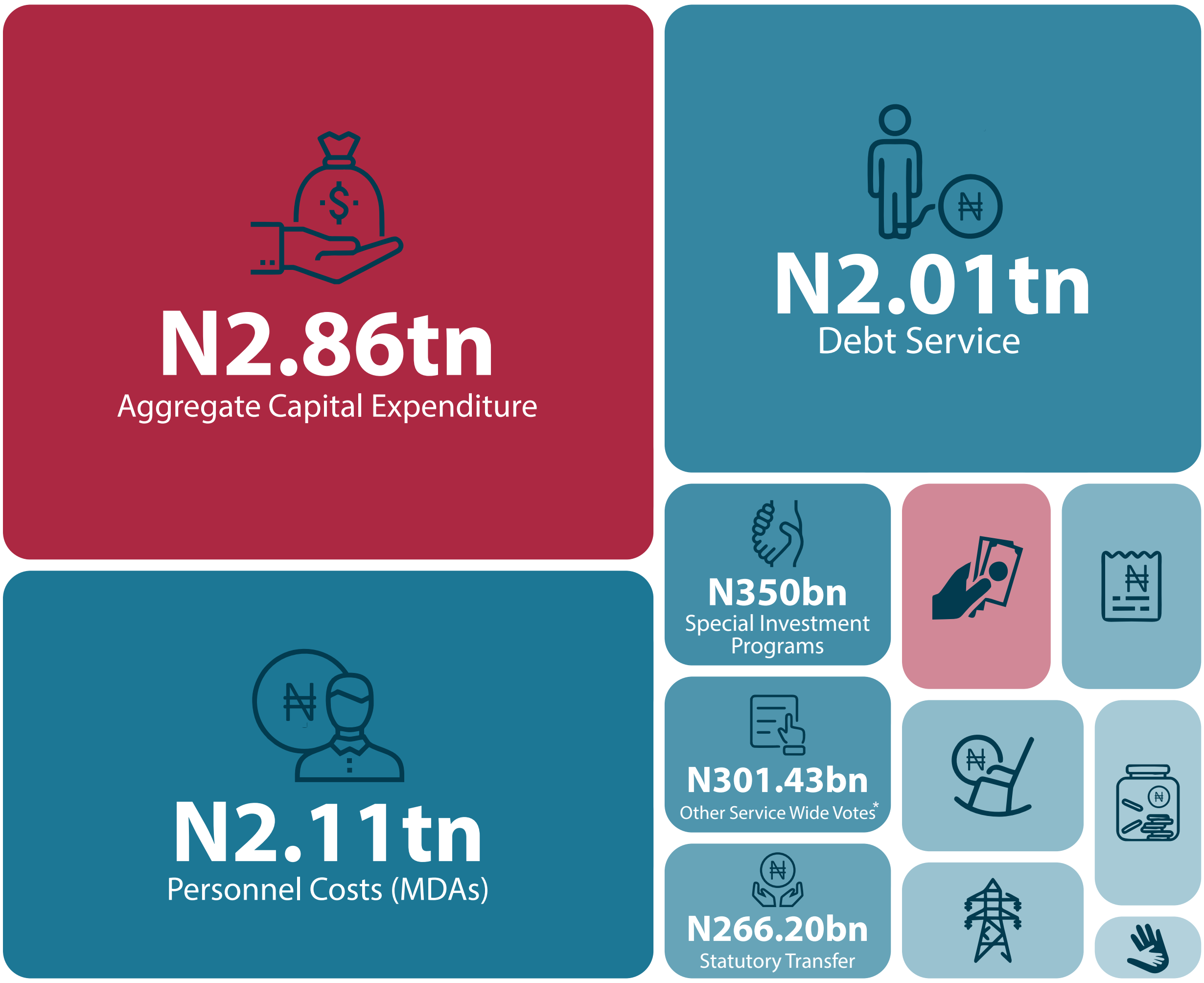
As at the end of September 2017, N350 billion was released for capital expenditure under the fiscal plan for the year according to figures from the Minister of Budget and Planning. Again, information on the benefiting projects remains locked away from public scrutiny.

DEBT-TO-PROJECT MISMATCHES

Again, we are forced to note the Fiscal Responsibility Act, which clearly specifies that debts should be linked to projects. Nigeria is running a deficit budget of approximately N1.954 billion in 2018 if the approved budget is implemented but, going by the budget, no project was attached to debt as is standard budgeting practice.

This means the government has wittingly lost the best way and opportunity to honestly communicate to Nigerians that debts are for capital items which are self-liquidating and could also expand growth.

EXPENDITURE BREAKDOWN



N264.21bn
Capital Expenditure in Statutory Transfers (Recurrent)

N246.48bn
Overheads (MDAs)

N241.95bn
Pensions, Gratuities & Retirees Benefits

N193.33bn
SWV Power Sector Reform Programme (Transfers to NBET)

N190bn
Sinking Fund (for debts)

N6.35bn
Presidential Amnesty Programme

* including GA VI/Immunization

RECURRENT EXPENDITURE

Recurrent Expenditure for 2018 is pegged at N6.25 trillion up from 2017 budgeted figures of N5.26 trillion. Interestingly, Total Recurrent Expenditure (which includes personnel cost, pensions, overhead costs, domestic and foreign debt servicing) continues to increase.

Recurrent Expenditure in 2012, 2013 and 2014 was N3.386 trillion, N3.603 trillion and N3.535 trillion respectively. In 2015, the sum of N3.83 trillion was spent on recurrent items, while 2016 spending amounted to N3.88tn[40]

Given that the FG's actual revenue is not expected to be more than N3.6 trillion[41] in 2018 despite the budget projections of N6.61 trillion, Recurrent Expenditure should have been significantly lower, to free up funds for developmental projects and programs.

Recent Q3 data showed that non-debt recurrent expenditure has reached N2.68 trillion as at September 2017 as against a pro-rated target of N2.24 trillion & N1.54 trillion has been used to service debt. Though details are lacking, FG claims that N450 billion has been "released" on capital projects within the 2017 budget cycle.

Setting Recurrent Expenditure for 2018 at N6.25 trillion may further push Nigeria into the debt trap as Nigeria will have to borrow funds at higher rates to fund such obligations.

This is why we surmise that Recurrent Expenditure and the associated cost of governance should be further reduced, to mirror the reality of slowing FG income.

Table 10: Recurrent Expenditure to Total Expenditure

YEAR	RECURRENT EXPENDITURE (AMOUNT IN N' BILLION)	TOTAL EXPENDITURE (AMOUNT IN N' BILLION)	RATIO
2011	3,383.51	4,302.06	78.65%
2012	3,386.82	4,131.24	81.98%
2013	3,602.81	4,560.81	78.99%
2014	3,535.81	4,123.42	85.75%
2015	4,166.10	4,767.36	87.39%
2016	4,223.15	4,396.24	96.06%
2017	4,589.22	6,463.61	71.00%

Source: Budget office, BudgIT research

[40]Federal Government of Nigeria's Appropriation Act 2017. (p7)
[41]BudgIT Estimates

Spending on Recurrent items, relative to the Federal Government's total spending, is now at historical highs topping 96.06 percent in 2016. As shown in the MTEF document, for the first half of 2017, no amount was spent on capital items meaning that recurrent expenditure accounts for 100 percent of spendings.

Table 11: Recurrent Expenditure to Revenue

YEAR	TOTAL REVENUE (INFLOW) (AMOUNT IN N' BILLION	RECURRENT EXPENDITURE (AMOUNT IN N' BILLION)	RECURRENT SURPLUS/DEFICIT (AMOUNT IN N' BILLION)
2011	2,566.67	3,383.51	-816.84
2012	3,131.09	3,386.82	-255.73
2013	3,500.47	3,602.81	-102.34
2014	3,242.30	3,535.81	-293.51
2015	3,240.24	4,166.10	-925.86
2016	2,947.44	4,223.15	-1,275.71
2017	2,657.67	4,589.22	-1,931.55

Source: Budget office, BudgIT research

COMPONENTS OF RECURRENT EXPENDITURE

PERSONNEL COSTS

Nigeria plans to spend N2.1 trillion in 2018 up from budget projections of N1.88 trillion in 2017. The Federal Government may have to make some adjustments in this regard, because while actual personnel cost spending was N1.689 trillion in 2016, allocations for personnel cost in 2017 are approximately N200 billion more than 2014 levels, meaning the government, rather than making savings, may be looking to expand the costs even further. This will undoubtedly come with potentially dire consequences for the larger economy.

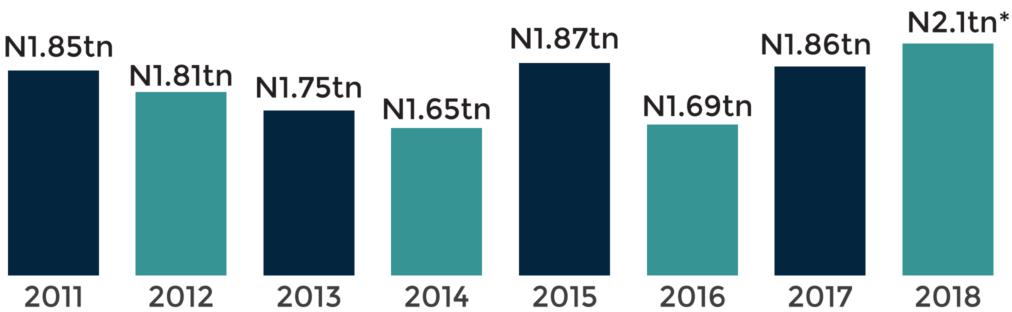
The benefit of the government's migration to a central payroll management system (which aimed to trim the incidence of ghost workers and associated fraud) remains unknown, as no considerable and noticeable change to the personnel cost of government has been reported.

Personnel costs came to N1.66 trillion in 2014, before the global crude oil price correction, and two years later, in 2016, Personnel Costs gulped an estimated 57 percent of actual revenue.

Nevertheless, it bears reiterating that all personnel costs for the government may not be fully captured in this budget, as remuneration "in kind" is known to still find its way into line items and programmes at Ministries, Departments and Agencies level.

It is also worth noting that the recruitment of 500,000 teachers[42] and 7500 tax advocates[43] by the Federal Government under the N-power programme may push personnel costs even higher in the near-term.

ACTUAL PERSONNEL COST



*Budget Target

Source: Budget Office

[42]Thisday (2016) FG Commences Recruitment of 500,000 Teachers Available at: https://www.thisdaylive.com/index.php/2016/06/09/fg-commences-recruitment-of-500000-teachers/
[43]The Sun(2017), FG begins training of 7,500 tax advocates Available at : http://sunnewsonline.com/fg-begins-training-of-7500-tax-advocates/

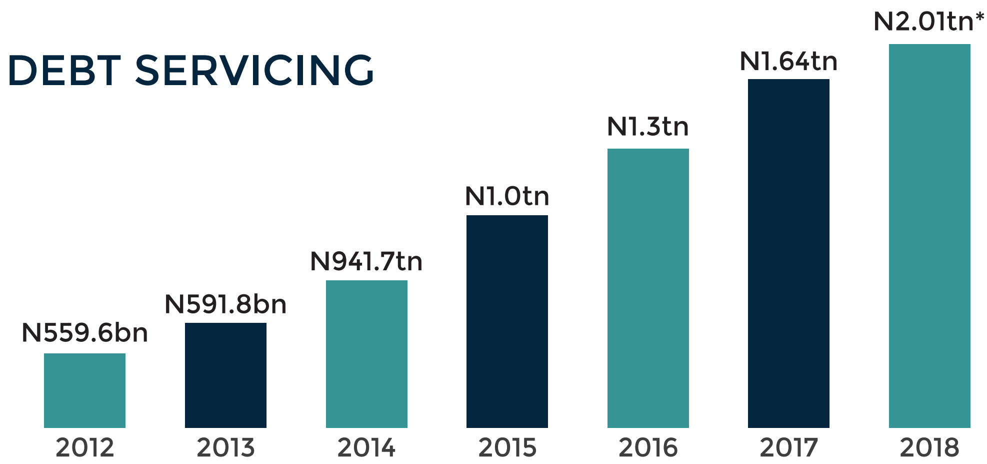
DEBT SERVICING

The cost of servicing the Federal Government's debt, relative to its revenue, may well be entering uncharted territory. From 2015 projections of N953.62 billion, the figure in 2016 was N1.313 trillion, which comes to 44.5 percent of actual revenue. Budget figure for 2017 comes in as N1.7 trillion.

Going by the figures associated with realistic Revenue assumption for 2018 and the projected debt servicing cost of N2.014 trillion, it is fair to assume that approximately 58 percent of actual revenue may go into servicing debts alone.

Nigeria could end up ensconced in a debt trap should debt servicing levels continue to rise to unsustainable levels. The Federal Government now seems to need to take in more debts to meet its Recurrent Expenditure obligations, as Personnel Costs and Debt servicing commitments are projected to overtake Revenue uptake.

We believe the government's budget needs to be aligned with a concrete plan that shows how debts will be used, how existing debts will be serviced, while the associated benefits of taking in more debt should be deliberated, legislated and disseminated for the wider public.



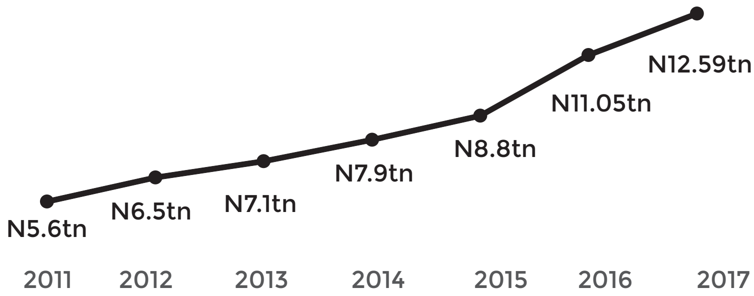
*Budget Target

Source: Budget Office of the Federation, BudgIT Research

[44] Federal Government of Nigeria's Appropriation Act 2017. (p7)

The associated costs of servicing the Federal Government's public debt continue to outpace government revenue in terms of growth. In 2016, a sizeable 44.56 percent of government revenue was spent servicing outstanding debts.

Table 12: Domestic Debt Stock



Source: DMO

Table 13: Debt Servicing to Total Revenue

YEAR	TOTAL REVENUE (INFLOW) (AMOUNT IN N' BILLION	DEBT SERVICING (AMOUNT IN N' BILLION	RATIO
2011	2,566.67	527.07	20.54%
2012	3,131.09	679.28	21.69%
2013	3,500.47	828.10	23.66%
2014	3,242.30	941.67	29.04%
2015	3,240.24	1,060.39	32.73%
2016	2,947.44	1,313.46	44.56%
2017	2,657.67	1,636.93	61.59%

Source: Budget office, BudgIT research

[45]Federal Government of Nigeria's Appropriation Act 2017. (p7)

CAPITAL EXPENDITURE

The Capital Expenditure portion of the 2018 proposed budget is up from 2017 level of N2.18 trillion[46] to N2.873 trillion. The budgeted figure is also higher than 2016 numbers of N1.59 trillion. In 2016, only N173.01bn was actually released, out of the earlier budget of N1.59 trillion. For 2015, a total sum of N601 billion was released on capital items.

As at the end of September 2017, N350bn was released for capital expenditure under the fiscal plan for the year according to figures from the Ministry of Budget and Planning. Capital spending in 2012, 2013 and 2014 was N958bn, N587.61bn, and N744.42bn respectively.

Should government revenue projections fall short on target, we expect Capital Expenditure to take a direct hit, given that the salaries of government workers, overhead costs to run the government and debt servicing costs will take greater priority. The capital items element of the 2018 budget is subject to a myriad of factors, even weather, as Nigeria has very limited time to embark of construction activities due to the rainy season and coming elections.

Also, the ability to implement the projects highlighted in the 2018 budget is also dependent on external factors including the ability to raise funds from the capital market, availability of companies willing to undertake such project, security around project sites, and commitment on both the government and contractor sides of the equation.

We also observe that the projects and programs of most Ministries, Departments, and Agencies (MDAs) are difficult to perceive and vague.

The 2018 capital expenditure seems to be large at N2.873 trillion but a closer look at the line-by-line items shows disconnection between the developmental goals of government as highlighted in the ERGP and the projects in the 2018 proposed budget.

Most of the capital allocation as highlighted in the 2018 proposed budget are small with carriage value of more than N500 million with vague descriptions and are difficult to monitor or track.

On the average, only about 26 percent of capital allocations to the Ministries of Health, Education, Agriculture, Transportation, Niger Delta, Water Resources, Science, Works, Power and Housing are trackable, can be connectedwiththemediumtermaspirationof government as highlighted in the ERGP and seemstobeprogram-focused.

A look at the top eight ministries shows that most of the projects proposed in the 2018 budget are fragmented, small and scattered around with vague descriptions.

[46]Federal Government of Nigeria's Appropriation Act 2017. (p7)

Table 14: Capital Expenditure to Total Expenditure

YEAR	CAPITAL EXPENDITURE (AMOUNT IN N' BILLION)	TOTAL EXPENDITURE (AMOUNT IN N' BILLION)	RATIO
2011	918.55	527.07	21.35%
2012	744.42	679.28	18.02%
2013	958.00	828.10	21.01%
2014	587.61	941.67	14.25%
2015	601.26	1,060.39	12.61%
2016	173.09	1,313.46	3.94%
2017	1,439.97	6,463.61	22.28%

Source: Budget office, BudgIT research

Note:

Capital Expenditure as a percentage of the Federal Government's total Expenditure hits a marked low of 3.94 percent in 2016. Spending on capital items relative to total spending has steadily declined since the 2014 oil price crash.

SECTORAL ANALYISIS

EDUCATION SECTOR

PROBLEM STATEMENT

Nigerians (including the private and public sector) spent a total sum of N2.59 trillion[47] of education related services in fiscal year 2017 up from 2016 level of N2.45 trillion. Interestingly, the Federal Government total spending of education related services in 2016 was just a fraction at approximately N363 billion[48] or about 15 percent of education-related spending.

Education Sector is interestingly one of the fastest growing sectors in the world, but in Nigeria, due to poverty, contraction in the income of citizens, the sector is in some form of recession. Real growth in Education services in the second quarter of fiscal year 2018 was -0.67 percent.

With private spending flattening out, the number of pupils depending on public primary, secondary and tertiary schools are billed to rise significantly due to demographic pressure, and flattened economic opportunities.

Policies, strategies, and effective budgeting practices are needed to meet the needs of students, attract qualified teachers and develop industry centric curriculums especially in public education system is critical at this time. Nigeria's population growth is also a pressure point. With children under 15 years of age accounting for 45 percent of the 186 million population, the burden of education could become overwhelming, and quality which is abysmal could drop even lower. Primary school enrollment has increased in recent years, but net attendance is only about 70 percent. Nigeria still has about 10.5 million out-of-school children — the world's highest and the numbers could grow even further if actions are not taken to reverse the trend.

Significant investment will also be needed to improve the quality of staff teaching in primary schools. Out of the 574,578 primary school teachers in 2014, only 386,970 are qualified to teach, showing that there is a gap in the quality of skilled personnel in the primary education system.

Teacher-to-pupil ratio is about 1: 40, which is higher than the desirable goal of 1:10. A lower teacher-to-student ratio is important if Nigeria hopes to compete in the knowledge-powered economy and improve its quality of education.

In 2014, the total number of public junior secondary schools in Nigeria was 11,651. Over 4.4million students depend on public junior secondary school for primary education.

Infrastructure is inadequate, as the schools only have 88,928 classrooms. That puts the total student-to-class ratio at 1:50. Also, the public junior secondary school system depends on the services of approximately 170,628 teachers, which puts the teachers-to-pupil ratio at 1:26 — slightly higher than

[47] http://www.nigerianstat.gov.ng/download/812
[48] http://www.budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports?task=document.viewdoc&id=659

the 2013 figure of 1:25. Nigeria will have to invest more to improve the numbers.

The junior secondary education, just like the primary school, lacks adequate funding, even with the Universal Basic Education Commission (UBEC) grants — due to the inability of some states to meet up with the matching grants. Only 29 states in 2013/2014, 19 states in 2015 and just two states in 2016 (Borno and Rivers) accessed the UBEC grant. If there's adequate funding for the junior secondary education, the number of out-of-school children will significantly reduce.

The situation in senior secondary school is not any different. Failure rate remains above acceptable threshold despite improvements in the last three years. About 41 percent of candidates that registered for West African Examination Council (WAEC) exams in 2017 did not obtain minimum of credits in five subjects and above, including English Language and Mathematics.

Interestingly, 13.8% of the 1,567,016 people who sat for WAEC exams were alleged to be involved in examination malpractice.

Access to higher education in Nigeria remains inadequate. In 2015, only 415,500 candidates got admitted out of the 1.42 million applicants. The number keeps growing due to the demographic structure of the Nigerian population.

In 2016, out of the over 1.5 million applicants, only 9,656 elected to get into a private university while the others elected to undertake their higher education in a public institution.

With very little skill provided outside the formal higher education structure, it is critical for the Federal Government to step up its funding of the sector if Nigeria hopes to close the access gaps. We estimate that the number of Nigerians seeking access to higher education could top 2 million.

For students who cannot get into the tertiary education system, the other pathways to knowledge through vocational training do not exist. The Nigerian economy is in dire need of technical skills provided by bricklayers, welders, mechanics, laboratory, electricians, and vocational nurses.

There is also a disconnection between the quality of education being delivered in the Nigerian school system and the educational needs of the economy and society.

Research and research infrastructure critical to identifying the abnormalities and fracturing lasting solution for the overall economic well-being of the country is non-existent. Intervention funds, including UBEC and Tertiary Education Trust Fund (TETfund,) are failing to close the rapidly-expanding gaps.

Gaps : Access to Higher Education

YEAR	UTME NUMBER OF APPLICANTS	NUMBER(S) OF ADMITTED APPLICANTS	GAPS
2012	1,500,278.0	390,438	1,109,840
2013	1,664,198.0	399,339	1,264,859
2014	1,574,144.0	378,653	1,195,491
2015	1,423,279.0	413,953	1,009,326
2016	1,589,175.0	N/A	N/A
2017	1,736,571.0	N/A	N/A

Source: Joint Admissions and Matriculations Board

HIGHLIGHTS OF 2018 BUDGET

EDUCATION

N2bn
Provision of security infrastructure in 104 unity colleges: perimeter fencing, solar street light, solar powered motorized borehole and cctv

N109bn
Universal Basic Education Commission

N9.2bn
for various scholarship allowances

N417m
Construction of National Library of Nigeria headquarters building

N3.4bn
for take off grant for maritime university

N1.8bn
for payment of 5000 Federal teachers scheme allowance

OVERVIEW OF BUDGETARY ALLOCATION TO THE MINISTRY OF EDUCATION

Budgetary allocation to the Federal Ministry of Education, relative to its total budget size, has fallen from a 2015 high of 12.46 percent to a low of 7.38 percent in 2018.

In 2018, the approved budget is allocating N673.28 billion or approximately 7.38 percent of Federal Government's budget to the education sector.

The biggest proportion of the allocation to the Ministry of Education, at N407.76 billion, will be expended on the recurrent items, while N102.91 billion will go into capital expenditure.

The United Nations Educational, Scientific and Cultural Organization (UNESCO)'s Incheon Declaration recommends that government should commit 15 percent to 20 percent of the nation's budget to education if it hopes to position its economy well within the increasingly competitive world, meaning the 2018 budget of education should be in the region of N2 trillion — not the N673.28 billion.

History of Budgetary Allocation to the Ministry of Education (N bn)

YEAR	PERSONNEL COST	OVERHEAD COSTS	CAPITAL EXPENDITURE	UBE BUDGET	EDUCATION BUDGET	TOTAL BUDGET	EDUCATION BUDGET AS % OF TOTAL
2012	290.7	27.19	55.06	63.12	463	4,697	9.86%
2013	314.24	23.29	71.94	76.28	509	4,987	10.21%
2014	398.06	22.97	51.28	70.47	566	4,695	12.05%
2015	423.02	18.32	23.52	68.38	552	4,425	12.46%
2016	408.86	17.99	35.43	77.1	557	6,080	9.17%
2017	352.22	22.89	50.43	95.18	544	7,441	7.31%
2018	407.76	31.5	102.91	131.11	673.28	9,120	7.38%

Source: Budget office of the Federation

HIGHLIGHTS OF EDUCATION SECTOR BUDGETARY ALLOCATION

N3.4bn
Provisioned as Take-off Grant for Maritime University

N1.8bn
for Payment of 5000 Federal Teachers Scheme Allowance

N417m
for Construction of National Library of Nigeria

N9.2bn
for various Scholarship allowances

BUDGETARY ALLOCATION: THE DISCONNECT

ISSUES	BUDGETARY ALLOCATION	COMMENT
Significant investment is needed to improve the quality of teaching staff in primary schools. Out of the 574,578 primary school teachers in 2014, only 386,970 were qualified to teach, showing that there is a gap in the quality of skilled personnel in the primary education system. The same problem persists in the secondary education system. Significant resources are needed to improve the quality of skills of teachers.	Total Budgetary allocation to Federal Government-owned colleges of education in the Approved 2018 budget is N48.28 billion, up from 2017 allocation of N43.1bn of the budget, will be spent on Salaries A total of N43.99 billion or 91.11 percent of budgetary allocation to Federal Government-owned colleges of education will go into personnel cost. Capital expenditure allocations which is critical to improve the number of trained qualified teachers is grossly inadequate given the magnitude of the challenges. For fiscal 2018, capital expenditure is set at approximately N2.82bilion, up from 2017 level of N1.5bn. There are no projects in the budget tailored at retraining and expanding access (college of education).	Budget Allocation and Programs to train and Improve the quality of teaching staff at primary and secondary school level is grossly inadequate.

ACCESS TO UNIVERSITY EDUCATION

ISSUES	BUDGETARY ALLOCATION	COMMENT
Access to higher education in Nigeria remains inadequate. In 2015, only 415,500 candidates got admitted out of the 1.42 million applicants. The number keeps growing due to the demographic structure of the Nigerian population. In 2016, out of the over 1.5 million applicants, only 9,656 elected to get into a private university while the others elected to undertake their higher education in a public institution.	Total Budgetary allocation to the Federal Government-owned university system in 2017 was N235.1 billion, up from the 2016 figure of N216 billion. The Approved 2018 budget of Federal Government owned universities was approximately N274.39 billion. Approximately N26.33 billion was allocated to Universities as capital budget which is a marked improvement over the N5.7 billion proposed initially by the executive.	Budget Allocation and Programs to train and improve the quality of teaching staff at primary and secondary school levels is grossly inadequate

Allocations : Universal Basic Education Funds

YEAR	BUDGET (AMOUNT IN N' BILLION)	AMOUNT RELEASED (AMOUNT IN BILLION NAIRA)
2011	64.57	64.57
2012	63.12	63.12
2013	76.28	76.10
2014	70.47	56.79
2015	63.12	63.12
2016	77.11	77.11
2017	95.19	N/A
2018	131.11	N/A

Source: Budget Office

IMPROVED ACCESS AND QUALITY OF BASIC EDUCATION

In 2018, Budgetary allocation to the UBEC is put at N131.11bn, up from 2017 level of N95.19bn. In 2016, a total sum of N77.11bn was allocated under the Universal Basic Education funds.

Data from UBEC website showed that between 2013 and 2014, out of N73.37 billion set aside by the commission, states accessed N63.57 billion. In 2015, N18.52 billion was accessed out of the N32.44 billion that was earmarked for states, while in 2016 only N2.6 billion was accessed out of the N38.5bn set aside for states.

It is worrisome that during this period under review, some state governors allegedly diverted the funds accessed to provide basic education for other purposes. As of July 2016, a total of N64.87 billion UBEC grant was un-accessed, lying with CBN.

With the statistics available, combined with Nigeria's 10.05 million population of out-of-school children according to United Nations Children's Fund (UNICEF), we believe that the UBEC programme has not achieved its objective of ensuring access to nine years of unfettered basic education and reducing the country's out-of-school population.

With the current amendment to the UBEC act seeking to raise the Federal Government's contribution from 2 percent to 3 percent, and also seeking reduction in the state's contribution from 50% to 10%, it is left to be seen if the amendment, when signed into law, will help the commission achieve its objective of providing free and compulsory basic education for Nigerians.

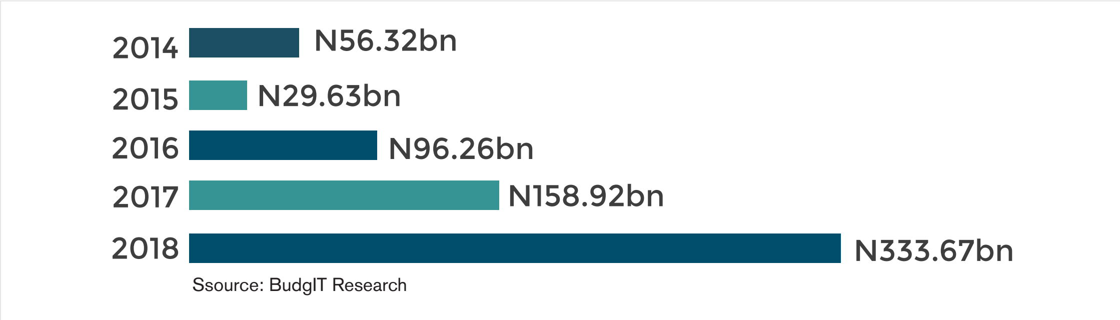
FUNDING FOR RESEARCH AND DEVELOPMENT

Research and Development is the foundation upon which a knowledge economy is built. Nigeria needs to learn from the success and failure of the NIGCOMSAT/NIGERIASAT programme, among other initiatives. Significant investment in the region of N100bn is needed annually to enhance our research and development ecosystem.

Budgetary allocation for research-related activities across all the ministries, department and agencies of government was N33.67 billion in fiscal year 2018, up from N158.92 billion in 2017.

Budgetary allocation for research and development activities ar g is not well articulated. This is extremely worrisome for purposes of accountability as any sort of expense can fit into this broad and opaque classification.

Budgetary Allocation for Research & Development



HEALTH SECTOR

PROBLEM STATEMENT

Nigeria has one of the highest numbers of newborn deaths in Africa, with a neonatal mortality rate of 37 per 1000 live births which comes to approximately 250,000 deaths every year. At least 124 children die per 1000 before their 5th birthday, making the under-five mortality in Nigeria one of the highest in the world. One of the casual causes of death is the poor nutrition conditions of children in Nigeria.

Although the country halved the rate of maternal mortality ratio over twenty years, from 1200 in 1990 to about 560 per 10,000 in 2013, the current ratio puts Nigeria worse than the rest of the 53 African countries with the number of women dying needlessly from pregnancy-related issues and one of the worst in the world; second only to India.

A lot of the factors causing maternal mortality in Nigeria are preventable, according to most health journals and health research. For example, 50 percent of maternal deaths in Nigeria is said to result from pre-eclampsia and eclampsia, obstetric hemorrhage and complications from unsafe abortion.

Nigeria could further halve current maternal mortality ratio by preventing death from these three factors through mostly simple treatments. Public spending has failed to meet the simple treatments thereby exposing every pregnant woman to a high risk of death from pregnancy.

In 2015, a fewer than half of newborn Nigerians receive the most basic vaccines to prevent deaths from common killers. Given the importance of the commodity, UNICEF regards the provision of immunisation as a basic child right and a significant cost effective survival intervention.

The Global Alliance for Vaccines and Immunization (GAVI) funding is a program designed for countries whose Gross National Income per capita is below $1,580. Nigeria keyed into the GAVI initiative where the Federal Government pay a portion of the funding needs - its counterpart fund. Donors match the fund to ensure children get the essential support.

Nigeria's economy's gross national income stood at $2,950 in 2014, surpassing the eligibility threshold for GAVI support. Consequently, the country is expected to exit the GAVI funding Program.

It follows that the gains made could be reversed except Government takes concerted effort to inject the required funds needed. Also, the Global Alliance for Improved Nutrition recent research claims about 33 percent of Nigerian children under five years are stunted.[49]

The incidence of Severe Acute Malnutrition especially in the Northern part of Nigeria has always been a source of concern. Recent pronouncements by the UNICEF that about 50,000 children will die in 2016 if action was not taken seemed to have yielded the right attention from the government.[50]

Federal funding for nutrition-related investments required to reverse the trend of malnutrition is still grossly inadequate.
The National Strategic Plan of Action for

[50] Unicef, (2017). NIGERIA COUNTRY OFFICE SITUATION REPORT- 15-21 December 2016 Available at : https://www.unicef.org/nigeria/NG_wwd_sitreps16.pdf

Nutrition (NSPAN) assumes that the FG will provide $10million annually for 2014-2018. Malnutrition account for approximately 50 percent of under 5 deaths in Nigeria.

OVERVIEW OF BUDGETARY ALLOCATION TO THE HEALTH SECTOR

The Federal Government health-related spending accounts for approximately 10 percent of total spending on health in fiscal 2016 while the state and local governments health expenditure was estimated to be in the region of 8 percent and 4 percent respectively.

In computing the health sector allocation, careful consideration was also taken to capture health-related appropriations made to agencies outside the Ministry of Health.

There has been a history of federal agencies outside the Ministry of Health implementing programs and managing health-related services.

As such, federal funding for the health sector is tracked beyond the Ministry of Health and its agencies at the national level to include other health-related items within other government agencies that have direct input into the health sector.

A holistic review of all budget line items shows that the health sector budgetary allocation in 2014, 2015, 2016, 2017 and 2018 was N339.38 billion, N347.26 billion, N353.54 billion, N380.16 billion and N528.14 billion respectively.

The spike in 2018 can be connected to the increased allocation to the Ministry of Health and the injection of N55.15 billion by the National Assembly for the implementation of the National Health Act which was passed in 2014. Appropriations to the Ministry of Health rose by 15.56 percent.

INADEQUATE ALLOCATION TO THE HEALTH SECTOR

Relative to the size of the federal government's spending plan for 2018, health sector allocation stands at 5.79 percent which is relatively low when compared to the 15 percent commitment made by the Nigerian government at the Abuja conference.

A review of budgetary allocation in 2014, 2015, 2016, and 2017 shows that Nigeria also failed to honour its obligation. If the Abuja declaration was implemented, additional allocations of N2.91 trillion should have been injected into the health sector between 2014 and 2018.

(AMOUNT IN N' BILLION)

KEY PROJECTS	2014	2015	2016	2017	2018
MINISTRY OF HEALTH	264.46	259.75	250.06	308.46	356.45
NHIS FGN CONTRIBUTION (Excluding Ministry of Health & NACA)	47.08	62.99	63.3	49.46	66.03
DRUGS & MEDICAL SUPPLIES (excluding Ministry of Health & NACA)	1.08	0.93	0.76	2.13	2.16
MEDICAL CONSULTING (excluding Ministry of Health & NACA)	0	0	0	29.57	0
MEDICAL EXPENSES (excluding Ministry of Health & NACA)	1.1	1.41	1.3	0.98	3.22
PURCHASE OF HEALTH / MEDICAL EQUIPMENT (excluding Ministry of Health & NACA)	16.28	13.87	23.88	9.28	30.6
REHABILITATION / REPAIRS - HOSPITAL / HEALTH CENTRES	1.32	3.52	0.68	1.42	5.47
NATIONAL AGENCY FOR THE CONTROL OF AIDS (NACA)	2.26	2.78	4.21	4.58	4.53
STATE HOUSE MEDICAL CENTRE/National Assembly Clinic	1	0	2.83	0.33	1.03
COUNTERPART FUND GAVI/HEALTH	4.8	2	3.5	3.5	3.5
OUTSTANDING PAYMENTS TO HEALTH PROFESSIONALS	0	0	3	0	0
PROVISION FOR THE IMPLEMENTATION OF THE NATIONAL HEALTH ACT	0	0	0	0	55.15
TOTAL	339.38	347.26	353.54	380.16	528.14

Source: Budget Office of the Federation,

In 2014, only 7.23 percent of the Federal Government's N4.695 trillion budget was dedicated to the health sector. The number went down even further in 2015 and 2016.

In 2015, Health Sector allocation was N347.26 billion or 6.85 percent of the budget which is relatively lower than the 2014 threshold.

In 2016, 2017 and 2018, health sector allocation relative to the Federal Government's expenditure size was in the region of 5.83 percent, 5.11 percent and 5.79 percent respectively.

These budget allocations, for the past five years on health, are far less than 15 percent (at least) of the total budget recommended by the Abuja Declaration to which Nigeria is a signatory.

MAJOR HIGHLIGHTS OF 2018 HEALTH BUDGET

- **N8.9bn** — Procurement of RI vaccines and devices
- **N3bn** — Counterpart funding including global fund, health, and GAVI (additional N2.4bn to match grants from UNPFA, USAID and UNICEF)
- **N1.5bn** — Procurement of outbreak (emergency) response vaccine, devices and operational
- **N1.3bn** — Strategic Joint Venture Investments in selected tertiary Health Institutions with Nigeria Sovereign Investment Authority
- **N1.2bn** — Polio eradication Initiative
- **N1bn** — Training/Central procurement of 300,000 dialysis consumables
- **N300m** — Health Emergencies & Contagious desease outbreaks (e.g. Meningitis, measles, yellow fever, monkey pox etc)
- **N200m** — Midwives Support Scheme

(AMOUNT IN N' BILLION)

YEAR	BUDGET SIZE	HEALTH SECTOR BUDGET (FEDERAL GOVERNMENT)	15% OF BUDGET SIZE	GAPS (AMOUNT NEEDED TO MEET ABUJA DECLARATION OF 2001 (15% OF BUDGET SIZE)
2014	4695.19	339.38	704.28	364.9
2015	5067.9	347.26	760.19	412.93
2016	6060.48	353.54	909.07	555.53
2017	7441.18	380.16	1116.18	736.02
2018	9120.33	528.14	1368.05	839.91

Source: Budget office of the federation, BudgIT Research
Preliminary information from the office of the accountant general of the federation based on FAAC revenue shared in 2017.

BUDGETARY ALLOCATION: THE DISCONNECT

MALNUTRITION INTERVENTION

Malnutrition is the underlying cause of death in children accounting for approximately 50 percent of children according to the Ministry of Health. In Fiscal 2018, allocations explicitly directed at addressing malnutrition was reduced by 18.19 percent to N1.41 billion. Provision made for the procurement of Ready-to-Use Therapeutic Food (RUTF) was slashed from N1.2 billion to N400 million. Federal funding for nutrition-related investments required to reverse the trend of malnutrition remain grossly inadequate.

The National Strategic Plan of Action for Nutrition (NSPAN) assumes that the FG will provide $10m annually for 2014-2018. This would have been N3.5bn for nutrition-related costs in 2018, however, the allocation under nutrition specific intervention in 2018 was only N1.38bn. This means that the provision in the budget cannot cater for the approximately 3.5 million children under the age of five who are suffering some form of malnutrition.

FAMILY PLANNING (FP)

The sum of N500 million was allocated for the procurement and distribution (nationwide) of contraceptive commodities in the enacted budget, down from the executive proposal of N1.2bn. The current allocation is a far cry from the expected provision of $122.5 million required for FP in 2017 as indicated in Nigeria's costed policy document for Family Planning - Nigeria Family Planning Blueprint (Scale-Up Plan 2014 - 2018).

This costed plan was developed to address the London commitment of increasing the Couple Years of Protection (CYP) to 36 by 2018. However, considering the international partners' contribution to commodities, which is pegged at $33 million, Nigeria has to fund a total of $111 million or N33.86 billion in 2018. As it stands, a gap of N33.36 billion remain outstanding for family planning related costs.

NATIONAL IMMUNIZATION PROGRAM

In Africa's largest economy, over 750,000 children died in 2015 alone due to the poor nature of our health sector, and many of these deaths are vaccine-preventable. The National Immunization Financing task team estimate that N15,000 should be the ideal amount needed to vaccinate a single Nigerian in 2019.

That puts the total amount needed to vaccinate Children in Africa's most populated country at approximately N120 billion ($334million) given that approximately 8 million are born in Nigeria yearly.

The 2018 enacted budget only make provision of N8.89 billion for the procurement of Routine Immunization vaccines up from 2017 level of N4.1bn. However, allocation for routine polio eradication was slashed from N4.86bn to N1.2bn in the 2018 proposed budget.

Additional allocation of N1.5 billion for the procurement of outbreak (emergency) response vaccines was also in the enacted budget.

With the huge funding gap, quick actions are needed to close the funding gaps. GAVI begins the reduction in financial support in 2017 with a 20 percent annual stepwise commitment reduction till its final exit in 2022. This poses a significant threat to child survival from vaccine preventable diseases and would geometrically escalate infant mortality in Nigeria hence the immediate need to develop sustainable immunization financing strategies before crisis escalates.

TERTIARY HOSPITALS (TRAINING OF HEALTH WORKERS & ACCESS TO MEDICARE)

Total allocations to Tertiary Hospitals (comprised of University Teaching Hospitals, Federal Medical Centers and Federal Teaching Hospitals) amount to N158 billion for 2018.

About 90.38 percent of budgetary allocations to the teaching hospitals will be expended on recurrent expenditure items - primarily personnel costs, and to a lesser degree, on overhead costs. Capital allocations to the 21 teaching hospitals was pegged at N15.2 billion in fiscal year 2018 with additional N1.2 billion allocated for strategic intervention in some selected teaching hospitals.

In addition to the budgetary allocations, the sum of N9bn, which serves as counterpart funding from the Sovereign Wealth Fund, is intended to boost tertiary health services to reduce capital flight due to medical tourism (which is said to cost Nigeria's economy $1bn annually).

To effectively turnaround the health sector, Nigeria needs an annual investment in the region of N500 billion to N2 trillion to upgrade the tertiary health facilities. If government commits 15 percent of its budget to health, which will come to N1.37 trillion in fiscal year 2018, the health sector should see remarkable transformation.

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AGRICULTURAL SECTOR

PROBLEM STATEMENT

The Agricultural sector accounts for approximately 18.78 percent of economic activities in Nigeria. Crop production remains dominant and drives the sector. The sector is however faced with two broad issues, the inability of the sector to meet Nigeria's domestic food requirements, and the inability to export at the required quality levels.

Key challenges responsible for low productivity include bad road networks to transport agricultural produce from farms to market, a non-existing market for improved seeds, issues with fertilizer and the distribution network, lack of finance, gaps in education leading to bad agronomy practices among others.

The sector also suffers because of insufficient food testing facilities spread across Nigeria, a weak inspectorate system, poor coordination across different but relevant agencies working specifically on key agriculture interventions.

Also, approximately 30 percent to 40 percent of food produced in Nigeria end up being wasted. Also, because of low productivity and other associated problems with the agricultural sector, food inflation is accelerating. Food Inflation rose from 9.8 percent in May, 2015 to a peak of 19.91 percent in July 2017.

Food Inflation has however declined to 12.85 percent in July 2018 but the level is relatively higher than manageable threshold. Price of essential staples like potatoes, yam and other tubers, vegetables, bread and cereals, fish, oils and fat and fruits are rising faster.

Food inflation is increasingly seen as a tax on the poor and that could have significant implication for the working poor and have-nots.

OVERVIEW OF BUDGETARY ALLOCATION TO THE MINISTRY OF AGRICULTURE

A total sum of N203 billion was allocated to the Ministry of Agriculture in fiscal year 2018. Approximately N149.2 billion or 73.49 percent of total budgetary allocation in fiscal 2018 will be spent on capital expenditure while the balance will go into salaries, allowances, and other overhead cost.

In fiscal year 2017, capital expenditure allocations to the Ministry of Agriculture was N103.79 billion up from 2016 level of N46.17 billion.

Recurrent expenditure which was approximately N31.75 billion in 2017 up from 2016 level of N29.64 billion.

HIGHLIGHTS OF 2018 BUDGET

AGRICULTURE & RURAL DEVELOPMENT

N2.1bn
Veterinary and Pest Control Services

N4.2bn
for rural roads and Water Sanitation Progeamme

N4.08bn
for food and strategic Reserves

N25.1bn
for Promotion and Development of Value Chain across more than 30 different commodities

N2bn
for supply Installation and Commissioning of water Rigs Nationwide.

N5.30bn
for National Grazing Reserve Development.

N1.13bn
for FGN Support for youths in Agribusiness.

N3.53bn
for Agribusiness and Market Development

N2bn
for livelihood improvement family Enterprise (LIFE) programme.

N1.56bn
for Extension Services

BUDGETARY ALLOCATION: THE DISCONNECT

AGRICULTURAL FINANCE

One of the cardinal points raised is the need to improve access to finance. The monetary authority including the Central Bank of Nigeria (CBN) came out with different initiatives including the Agricultural Credit Guarantee Scheme Fund (ACGSF. There is however a need to strengthen the CBN schemes to improve access to finance for all players, including the Agricultural Credit Guarantee Scheme, Commercial Agriculture Credit Scheme (CACS) and the SME Credit Guarantee Scheme.

Long term sunset clauses was accepted and now part of government's mid-term strategies but cardinal to turning around the sector is the need to recapitalize the Bank of Agriculture (BoA) with the overall goal of providing single-digit interest rate credit to farmers through the network of micro-credit banks. In the 2018 budget, no budgetary provision was made to that effect. That shows that there is a disconnect between government's plan as laid in the Economic Growth and Recovery Plan and the 2018 enacted budget.

FERTILIZER INPUT

Government's plan also calls for the need to facilitate access to agricultural inputs including fertilizer and improved seedlings. Fertilizer consumption (kg/ha of arable land) in Nigeria is low. In fiscal year 2015, fertilizer consumption for Nigeria was only 8.3 kilograms per hectare compared with the global average of 441.8 kg per hectare of arable land. Government program specifically tailored at raising the use of fertilizer in farms remain unclear.

In fiscal year 2018, Budgetary allocation for fertilizer under the Ministry of Agriculture was fragmented and scattered across the budget. In total, only N619 million was allocated for the procurement of fertilizer in the Ministry of Agriculture's budget for fiscal year 2018.

IMPROVE SEEDLINGS

The 2018 budget also shows the amount voted to improve the quality of seeds used in the farms is grossly inadequate and no tailored specific programme highlighted in the economic growth and recovery plan. Improving the quality of seeds could double or even triple agricultural production in the near term but access to the seeds is non-existent.

In South Africa, the size of the seed market in 2015 was $428.3 million (N154.2 billion), among which, $330.8 million (N119 billion) was from agronomic seed , $68.7 million (N24.7 billion) from vegetables, and $28.8 million (N10.4 billion) from forage/pasture crops.

For Nigeria to improve its agricultural output, enhancing seeds used in farm is at the heart of changes needed. Unfortunately, the National Agricultural Seeds Council received budgetary allocation of N1.97 billion with the N1.2 billion allocated for capital expenditure not tailored specifically at rejuvenating the seed market.

Budgetary allocation specifically made for the procurement and distribution of seeds to farmers was approximately N1.4 billion.

AGRICULTURAL MECHANISATION

Mechanisation is also another critical way to boost productivity in the agricultural sector. Tractor penetration rates is very low in Nigeria. The FAO minimum tractor penetration rate is set at 1.5hp per hectare but in Nigeria, tractor penetration rate is only 0.27hp per hectare.

Agriculture mechanisation should set firmly at the core if Nigeria hopes to reverse the negative trend in the sector. The ERGP calls for programs to boost tractor use in farms but budgetary allocation in fiscal year 2018 shows some disconnection.

Only N1.87 billion was allocated for procurement of tractors and other equipment but an holistic look at the budget shows the purchase are mainly for administrative use.

Government is yet to make budgetary provision to improve tractor penetration in Nigerian farms. Nigeria will need investment of about N1.5 trillion to increase number of tractors in Nigeria to 200,000.

WORKS, POWER & HOUSING

HOUSING SECTOR

Problem Statement

The government's construction spending have potentials to create jobs and redistribute wealth equitably. One way government hopes to redistribute wealth is by repositioning the housing sector. Home ownership is however low in Nigeria.

Only 42.9 percent in Nigerians residing in urban areas own their homes. The problem is more prevalent in the South-West and South-South region of Nigeria where homeownership rate is just 36 percent and 56.1 percent respectively. Home ownership in the North-Central, North-East and North-West is 72.8 percent, 91.9 percent and 89.3 percent respectively.

In all, about 15 million households do not own their homes. In urban areas, about one in every two households do not own homes. If the trend of the rising number of young adults still living with parents is accounted for, and we count them as renters rather than being in a home-owning household, then the ownership rate in the Nigeria. would be even lower.

With Nigeria's demographic structure, the problem could become even more bigger and the implication on the social sector could be telling.

Low homeownership rate is not the choice of consumers, rather the challenges in Nigeria centers around affordability and availability. In terms of availability, housing deficit in Nigeria is estimated to be above 20 million. To close the gap, the ERGP calls for the direct construction of 2,700 housing units in the short-term to create 105,000 direct jobs a year and gradually increase to 10,000 housing units per annum by 2020.

First, the job potentials of constructing 2700 houses was grossly overestimated in the ERGP and the direct intervention is grossly inadequate. Also, the ERGP calls for the repositioning of the Federal Mortgage Bank of Nigeria by recapitalizing it from N2.5 billion to N500 billion to meet the housing needs across Nigeria. High mortgage rate and shorter tenor of mortgage loans are

Table: Homeownership Rate in Nigeria (2016 Social Statistics)

REGIONS	OWNED	EMPLOYER PROVIDED	FREE AUTHORIZED	FREE NOT AUTHORIZED	RENTED
North Central	72.8	1.7	11.9	2.9	10.8
North East	91.9	0.7	3.3	0.4	3.7
North West	89.3	2.2	5.2	0.8	2.5
South East	71.4	0.7	13.5	0.5	14.0
South South	56.1	2.5	16	1.0	24.4
South West	36.0	0.9	26.2	1.7	35.3
Urban	42.9	1.9	17.4	1.7	36.0
Rural	80.3	1.1	12.6	0.9	5.1
National	64.8	1.5	14.6	1.3	17.9

Source: NBS

HIGHLIGHT OF BUDGETARY PROVISION FOR HOUSING

HOUSING BUDGET

N30.9bn
Federal Government mass housing project by Federal housing (FHA) in Abuja

N26.7bn
Federal Government National Housing Programme nation wide.

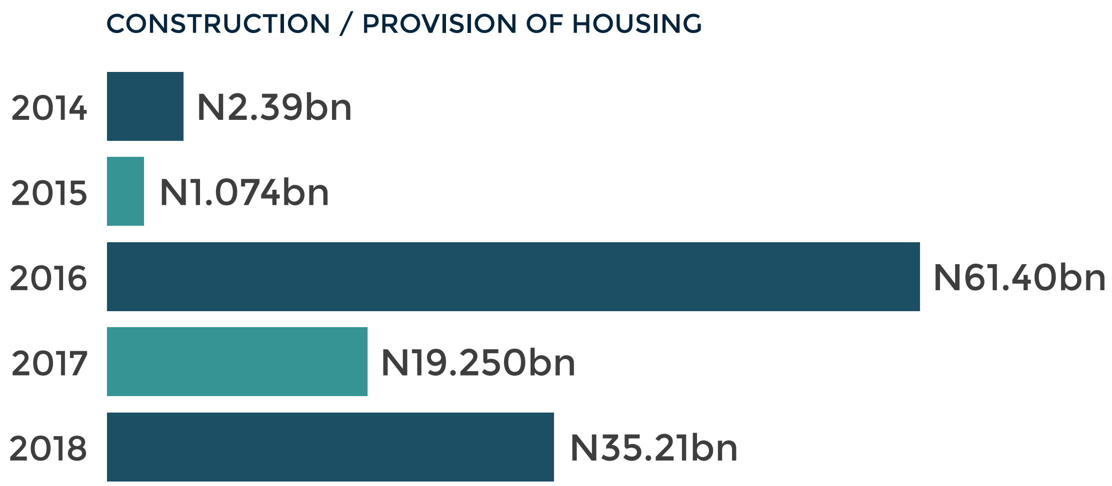
BUDGETARY ALLOCATION : THE DISCONNECT

leading causes of low homeownership rate.

A total sum of N26.65 billion was allocated for the Federal Government National Housing Programme nationwide in fiscal year 2018. Additional N8.56 billion was allocated for other housing programs including N3.87 billion for the Federal Government Mass Housing projects by Federal Housing Authority (FHA).

A total sum of N8.56 billion was allocated to the construction and provision of housing in fiscal year 2018. In fiscal year 2017, capital expenditure allocations for the construction and provision of housing was N19.25 billion down from 2016 level of N61.4 billion.

Budget Provision for Housing



Source: Budget office, BudgIT Research

In terms of access to mortgage facilities, apart from the N2 billion allocated for the Federal Government Staff Housing Loan Board, the budget is silent on what the Federal Government plans to do to increase access to mortgage.

According to the Nigerian Mortgage Refinance Company, it has refinanced a total of N17bn loans as at July 2018. We count this inadequate considering the limitation of the Federal Mortgage Bank of Nigeria and width of opportunity within the Nigerian space.

Without an effective mortgage system and a liquid market for mortgage backed assets, issues of affordability, scale and availability could continue to hunt the Nigerian housing market.

ROAD SECTOR

PROBLEM STATEMENT

Nigeria has one of the largest road networks in Sub - Sahara, with approximately 195,000 km of roads but the state of the roads is poor. The road systems in Nigeria are poorly maintained. Only 32 percent of the extensive road network is paved with the Federal government owning about 32,000 kms[54] while government at sub-national level including the State and Local governments own the rest.

In the first second quarter of fiscal year 2018, over 18,320 persons and 4,059 vehicles were involved in road accidents making Nigeria's roads one of the most dangerous in the world.

The challenges Nigeria's bad road network create is multi-sectoral. Its impact is noticeable in the agricultural, manufacturing, services, and mining sector. Government's plan calls for the establishment of a robust capital project development framework to encourage and increase Public and Private Sector Partnerships (PPP) to deliver critical projects, such as roads.

The government is also looking to complete the road sector reforms, establish a Road Authority and a Road Fund to enhance best world practice in the administration of road network development and management in the country.

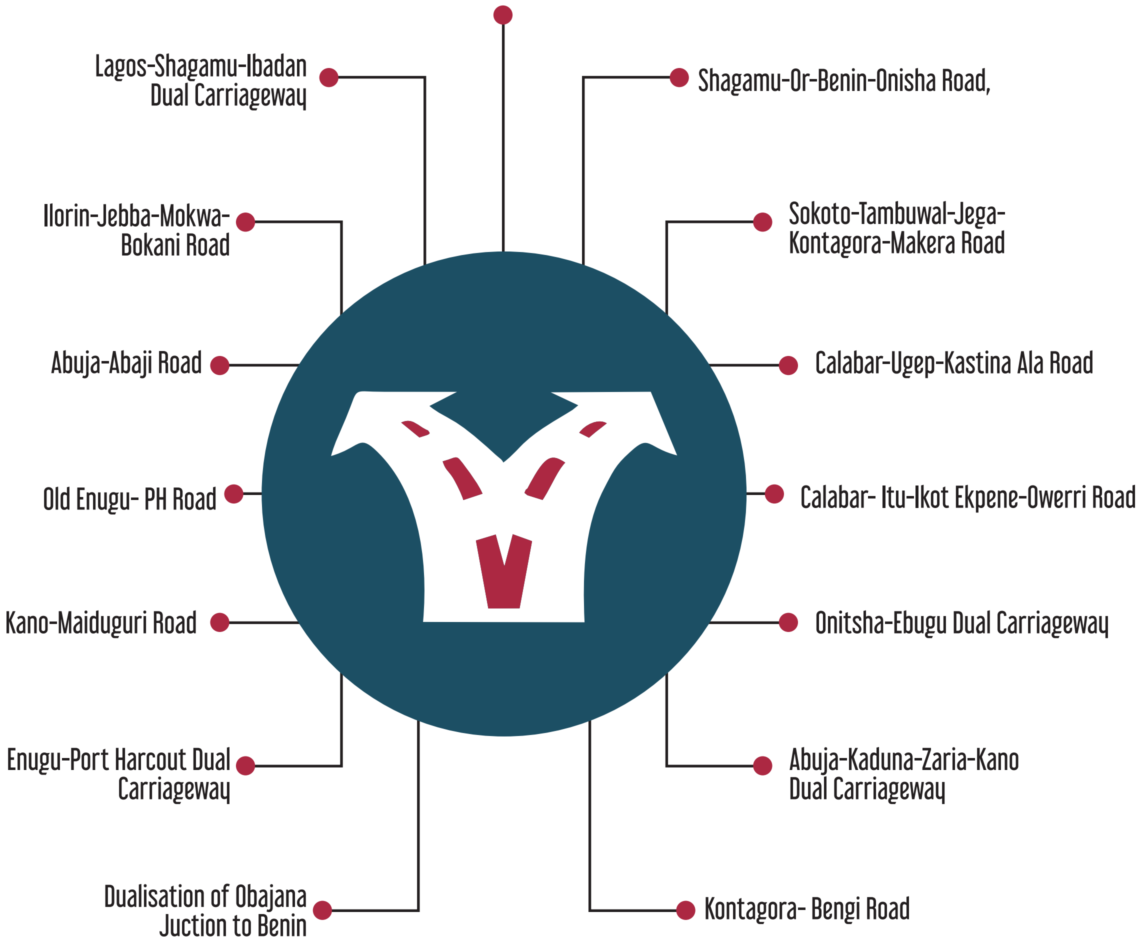
The government is also pushing for the approval of the Tolling Policy so that some of the major dual carriageways can be concessioned for maintenance and tolling while government utilises the saved funds from this maintenance for other critical roads in the federal road network to the nation's refineries, ports, Nigerian National Petroleum Corporation (NNPC) depots, and agricultural hubs among others.

[54] https://www.vanguardngr.com/2017/09/135000km-road-network-nigeria-remains-untarred-icrc/

HIGHLIGHT OF BUDGETARY PROVISION FOR WORK

N9.26bn

for the construction and rehabilitation of several roads nationwide including



BUDGET PROVISION FOR ROADS

In fiscal year 2018, a total sum of N207.6 billion was allocated for the construction of roads while another N117.42 billion budgetary provision was made for the rehabilitation and repairs of roads.

(AMOUNT IN N' BILLION)

YEAR	CONSTRUCTION / PROVISION OF ROADS	REHABILITATION / REPAIRS - ROADS
2014	132,143,810,077.00	5,878,299,396.00
2015	33,394,377,404.00	613,609,756.00
2016	273,034,677,678.91	22,379,217,364.05
2017	162,503,154,004.00	99,218,860,128.24
2018	207,613,044,228.00	117,424,633,114.00

Source: Budget Office of the Federation, BudgIT Research

If budgetary allocation is converted to dollars, provision for roads was only about $680 million which is grossly inadequate given that Nigeria needs about N3.6 trillion annually to turnaround the road sector. Government will be needed to rehabilitate or reconstruct 120,000 km of existing roads, increasing the total length of paved roads from the current 70,000 km to more than 180,000 km and construct about 95,000 km new roads.

POWER SECTOR

PROBLEM STATEMENT

Shortage of electricity supply in Nigeria is contributing to the huge operating cost for businesses. Electricity supply is low. Africa's largest economy is endowed with oil, gas, hydro and solar resources, and it could generate up to 12,522 megawatts (MW) of electric power from existing plants, but actual power generation is in the region of 4,000 MW, which is grossly insufficient.

Presently, Nigeria has an installed electricity generation capacity of 12,522 megawatts; 10,592 megawatts is gas fired and 1,930 megawatts is from hydro. However, the maximum peak generation that has been reached is about 5,074 megawatts.

Across the power sector value chain, the infrastructures from generating capacity to transmission and distribution are grossly inadequate. Even if power generation goes above the 5,073 MW threshold, the transmission system is yet to be optimised. Attempts to attract private investment into the sector has not worked.

The Economic Growth and Recovery Plan calls for the delivery of at least 10,000 MW of operational capacity by 2020. Government is also looking at improving the energy mix including thorough greater use of renewable energy.

The plan also aims to increase power generation by optimizing operational capacity, encouraging small-scale projects and building more capacity over the long term. Government's plan as contained in the ERGP calls for investment in transmission infrastructure.

With regard to the power value chain, efforts will be concentrated on overcoming the current challenges which relates to governance, funding, legal, regulatory and pricing issues across the three main power segments of generation, transmission, and distribution, and ensuring stricter contract and regulatory compliance.

BUDGET PROVISION FOR POWER

In fiscal year 2018, a total sum of N85.88 billion was allocated for the construction and provision of electricity down from 2017 level of N169.42 billion.

A glance of government's plan to reverse and reposition the electricity sector shows that government budgetary provision is grossly inadequate. Nigeria needs investment in the region of N6 trillion annually. There is massive shortage of generation capacity. Government's plan calls for investments to take the generation capacity to 40,000MW .

The transmission system is hugely inadequate to wheel electricity across Nigeria and also, enormous investment is needed to turnaround the distribution networks.

Budgetary allocation of N85.9 billion is far from what government needs to do in the immediate to reposition the sector towards growth.

While Nigeria is expected to raise $5.8 billion for the Mambilla Power plans from the Chinese Government, the current incentives does not provide guaranteed viability for the private sector.

HIGHLIGHT BUDGET PROVISION FOR POWER

N9.4bn
set aside as counterpart funds for the Mambilla hydro power project.

N9.7bn
counterpart funding for earmarked transmission lines and substation.

N14.26bn
fast power programme Accelerated Gas and solar power generation.

N2.2bn
Construction of 215MW LPFO/Gas Power station Kaduna.

N7.1bn
Rural electricities

N3.4bn
Kashimbilla transmission.

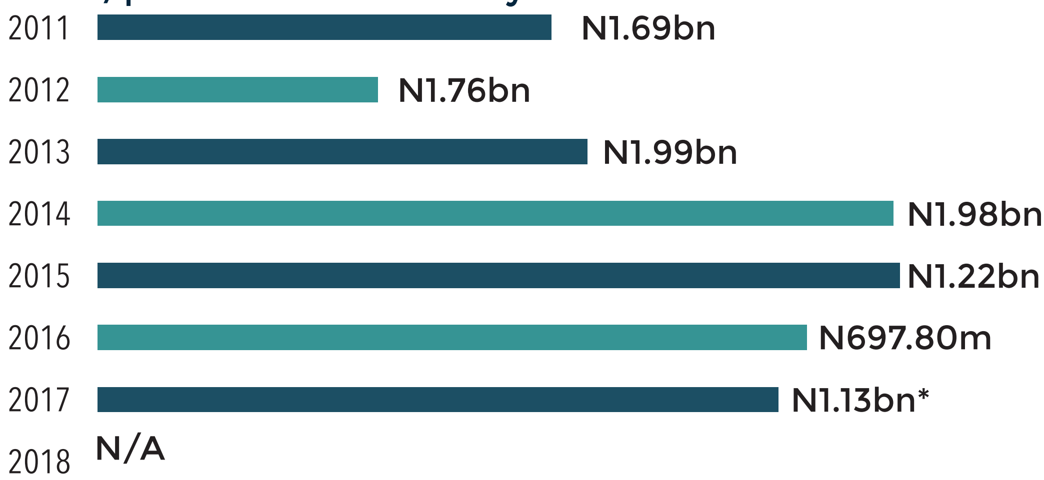
N968.13m
Alternative energy development funds

N193.3bn
Power Sector Recovery Programme

With a weak transmission grid that needs rapid expansion, indebted distribution companies with weak governance framework, as well as weak investment in generation companies, it is clear that there is no immediate exit from the precarious power challenges of Nigeria.

As at September 1, 2018, Nigeria's electricity generation stands at 3,355MW, an amount not enough to power a business district in New York.

Budgetary provision for the construction /provision of electricity



Source: Budget Office of the Federation, BudgIT Research

TRANSPORTATION SECTOR

RAILWAYS

The existing 3,505 km of narrow gauge rail track which was built by the British government has largely been under-utilised and disused. That has put pressure on the road system which serves majority of Nigeria's logistics needs.

Government have committed some fund to rehabilitate the narrow gauge network and plans are been concluded to hand over the asset to a concessionnaire. Government is also pushing ahead with its plan to complete the Itakpe to Warri rail track following investment in the Kaduna - Abuja rail tracks. The Lagos - Ibadan Standard gauge railtrack is also under construction.

BUDGET PROVISION FOR RAILWAYS

Budgetary allocation of N17.86 billion was made to the Nigeria Railway Corporation. The Federal Government is also making provision of N162.28 billion as counterpart fund for the Lagos- Kano railtrack, Calabar - Lagos railtrack, Port Harcourt - Maiduguri track , Kano - Katsina - jibiya-maradi in Niger Republic and Abuja-Itakpe and Aladja (Warri)- Warri port and Refinery including Warri new harbour (new) and Bonny deep sea port & Port Harcourt. Also, about N1.7 billion.

The cost of completing the projects alongside other lines like the Ibadan to Kaduna line and the rehabilitation of existing narrow gauge rail track and the construction of new stations and linking all important seaports and airports to the national rail system is put at $75 billion.[55]

The Standard gauge rail track which is estimated to be approximately 6,000kms in length is estimated to cost $30 billion altogether. When compared with the budgetary provision of approximately N200 billion ($654 million dollars), budgetary provision needed to complete all projects itemised in the National Rail Master Plan isgrossly inadequate.

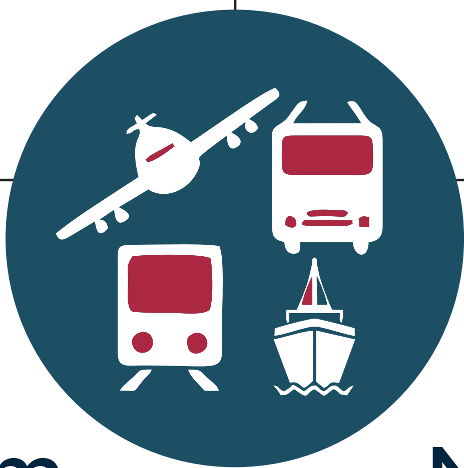
However, we are expecting this to be buffered by external loans, which have not been fully represented in the budget.

http://www.infrastructureppp.org/wp-content/uploads/2017/02/NIIMP-Report-.pdf

HIGHLIGHT BUDGET PROVISION FOR TRANSPORTATION

N165.28bn

Counterpart funding for Railway projects including: Lagos-Kano, Calabar-Lagos, Ajaokuta-Itakpe-Aladja(Warri), PortHarcourt-Maiduguri, Kano-Katsina-Jibiya-Maradi in Naiger Republic, Abuja-Itakpe and Aladja (Warri) Port and Refinery including Warri New Harbor.



N530.8m

Construction of Terminal Building at Enugu Airport

N8.32bn

Construction of Second Run-Way of Nnamdi Azikiwe International Airport Abuja

SECURITY SECTOR

PROBLEM STATEMENT

There is a spike in cases of kidnapping, terrorism, clashes between herdsmen and farmers, police brutality among others. To correct the abnormalities, the President is requesting N75 billion for internal military operations, most of which are operationalised under different code names.

The "Operation Lafiya Dole" was set up to counter terrorism and Boko Haram insurgency in the North-East, and carried out under different specialised operations including "Operation Crackdown", "Operation Gama Aiki" and "Operation Safe Corridor". [56]

Military operations in the North-Central zone are carried out under the code name "Operation Safe Haven" with the overall objective of ending ethno-religious conflicts and other criminal activities.

In the Southeastern states, Operation Python Dance II, launched about a year after Operation Python Dance I, is expected to stop criminal activities such as kidnap and social unrest. [57]

Other operations include Operation Ruwan Wuta II, Operation Delta Safe, Operation Mesa, Operation Sharan Daji, Operation Harbin Kunama, Operation Awatse, and Operation Tsera Teku.

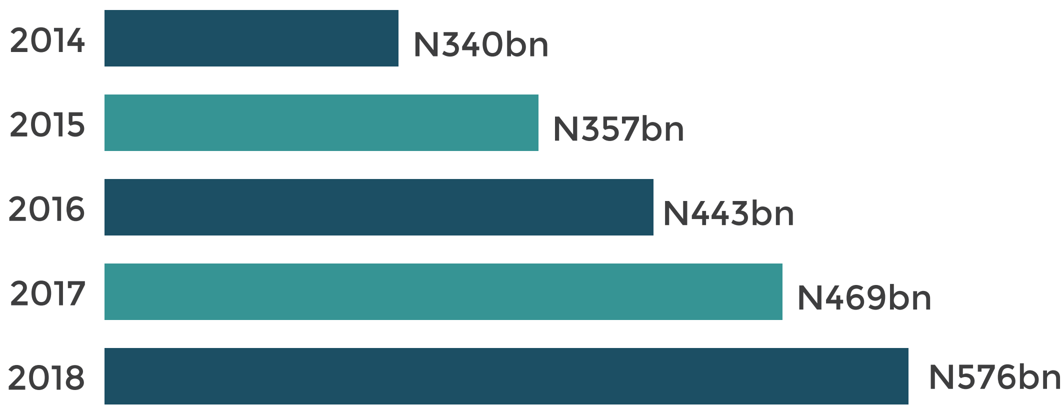
In the Niger Delta, Operation Crocodile Smile II involves amphibious war games tailored at protecting oil installations in the oil-producing states.

DEFENCE BUDGET

The Nigerian Ministry of Defence was established in 1958 to oversee all aspects of defending the country as a sovereign entity. Its mission is to provide administrative support to build and maintain a modern, professional, mission-capable and mission-ready armed forces, for the defence of nation as contained in the Constitution of the Federal Republic of Nigeria.
A budgetary allocation of N567 billion was given to defence in 2018, up from 2017 figure of N469 billion.

In 2016, 2015 and 2014, defence budget allocation was N443 billion, N357 billion and N340 billion respectively.

HISTORY: BUDGETARY ALLOCATION



Source: Budget Office, BudgIT Research

[55] https://www.naija.ng/1132579-operation-lafiya-dole-python-dance-9-how-nigerian-military-operations-named.html#1132579
[56] https://www.naija.ng/1132579-operation-lafiya-dole-python-dance-9-how-nigerian-military-operations-named.html#1132579
[57] https://www.vanguardngr.com/2017/09/ops-python-dance-2-goc-82-div-tours-ipob-leader-nnamdi-kanus-home-town/

HIGHLIGHT BUDGET PROVISION FOR SECURITY

N1bn
Development projects of Damoa army barracks

N1.1bn
Construction of new military barracks for guards brigade and HQ garrison I Abuja

N1bn
Construction of Nigerian army college of Logistics permanent site at Nigeria army cantonment Ojo Lagos

N2.3bn
Construction of new military barracks in 5 geopolitical zones

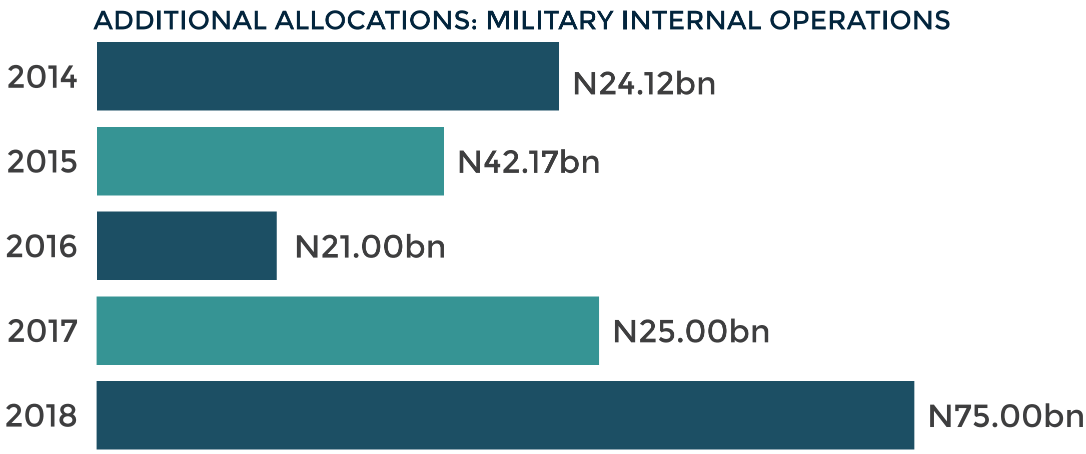
N2bn
Phase 1 of Muhammad Buhari barracks Giri Abuja

N5.3bn
Procurement of ammunitions of various types and calibers

MILITARY INTERNAL OPERATIONS

Also, a total of N75 billion was allocated in the 2018 budget for military internal operations up from 2017 level of N25 billion. In 2014, 2015 and 2016, a total of N24.1 billion, N42.2 billion and N21 billion of budgetary allocation was given to the military for its internal operations.

MILITARY SPECIAL OPERATIONS

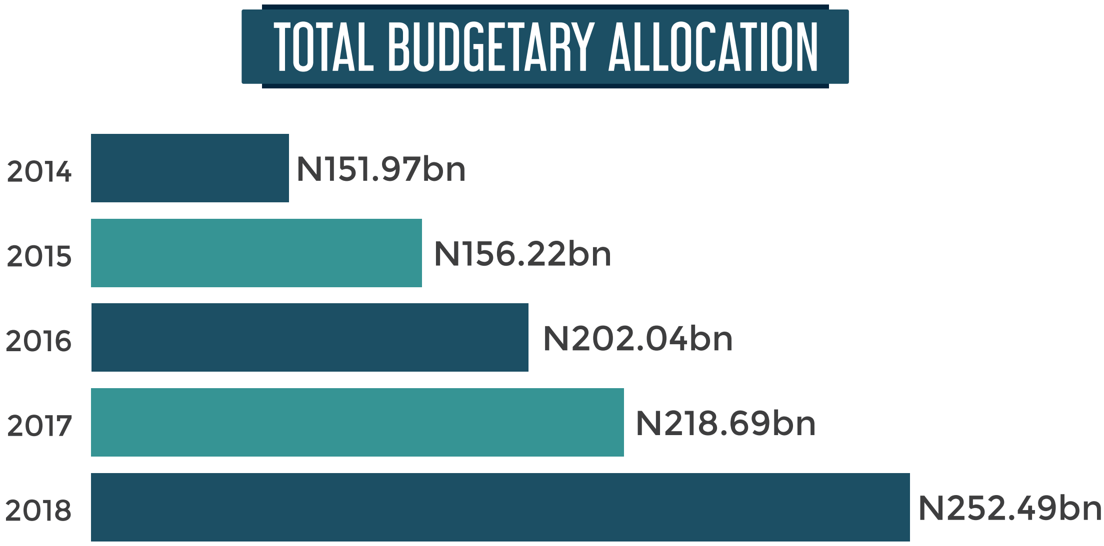


Source: Budget Operation, BudgIT Research

MINISTRY OF INTERIOR

The mandate of the Ministry of Interior is primarily to foster the maintenance of internal security and citizenship integrity for the promotion of good governance. In the 2018 Budget, there is a request for N252 billion for the ministry; this is an increase by 15.45 percent from 2017 figure of N218.7bn. In 2016, 2015 and 2014, the allocation to the ministry was N202bn, N156bn and N151bn respectively.

HISTORY: BUDGETARY ALLOCATION

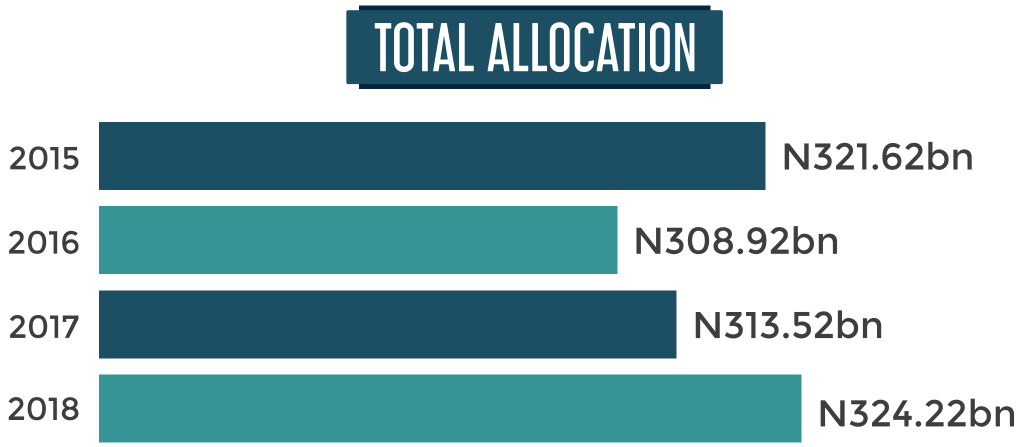


Source: Budget Office, BudgIT Research

POLICE FORMATION AND COMMAND

A total sum of N324.22 billion is being allocated to the Nigerian police, an increase of about N10.7 billion from the total allocation of N313.52 billion in 2017. In the fiscal years 2015 and 2016, the total allocation for NPF was N321.62 billion and N308.92 billion respectively, with 2016 having the least allocation in the last four years.

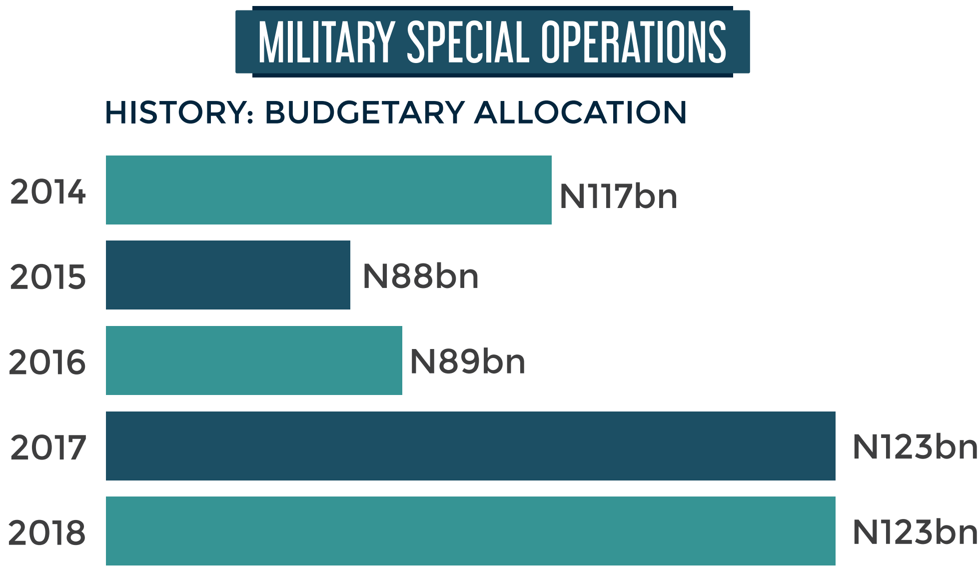
HISTORY: BUDGETARY ALLOCATION



Source: Budget Operation, BudgIT Research

OFFICE OF THE NATIONAL SECURITY ADVISER

The Office of the National Security Adviser (ONSA) serves as the Chief Adviser to the President and his cabinet on security matters in the country. For 2018, a total sum of N123 billion has been allocated for the ONSA, an increase of about N2 billion from the total allocation of N123 billion in 2017. In the fiscal years 2014, 2015 and 2016, the ONSA's total allocation was N117 billion, N88 billion, and N89 billion respectively, with 2015 having the least allocation of the five years.



Source: Budget Operation, BudgIT Research

DISCONNECTED: THE BUDGET AND FG'S SECURITY POLICY GOAL

A well-defined security policy is lacking, and it is difficult to critically examine how the budget aligns with the security plans of the country. A guiding policy framework is critical, or decision-making will be done in policy vacuums, resulting in waste and corruption. With no clear policy guideline and key performance indicators to measure success, the budget could be disconnected and become an open space for theft.

FAULTY FEEDBACK MECHANISM

The minimum guiding framework in budgeting includes taking feedback from the public during the budget preparation phase. It is also important to track the feedback process and make it available to the public.

There is no evidence suggesting the government took feedback from the public during the budget formation phase. Also, no document is publicly available showing how the public was engaged while preparing the 2018 Budget. Without a formal participatory framework, the philosophy underlying the principles of democracy will be absent.

LACK OF TRANSPARENCY

The Nigerian security sector lacks transparency and accountability in matters of budget allocations. Previous audit reports of the sector do not show how past funds were spent. The proposed allocation for fiscal year 2018 is N75bn--a 200% increase over 2017 figure. The breakdown of the proposed budget for military internal operations remains unknown. This opacity has implications for the sector and the nation at large.

CORRUPTION

Corruption is a major impediment to growth and development in Nigeria. It affects all tiers of government, including the security sector. Corruption poses a major challenge to security as funds meant for the procurement of security items are embezzled and mismanaged.

Consequently, the security sector is unequipped to tackle high levels of insecurity across the country.

Former military Head of State, Sani Abacha, allegedly misappropriated more than $1.1 billion under the guise of about 60 security votes meant for different security operations, leaving the military and other security operatives at a huge disadvantage.

A more recent example of corruption in the security sector is the alleged diversion of $2 billion, meant for the procurement of arms in the fight against insurgency, by the former National Security Adviser, Colonel Sambo Dasuki.

CONCLUSION

The expansionist approach of the 2018 budget is very bold but the assumptions on which the document was made straddle the edge of unfeasible expectations, specifically with respect to oil production estimates, non-oil revenue, and independent revenues.

Budget projections are the norm the world over, but most pertinent is the actual variance between projections and reality. These assumptions will remain no more than meaningless numbers presented without cognisance of Nigeria's fiscal capabilities and realities, unless accompanied with actual measures towards implementation, efficient management, and the transparent auditing of budgets.

Also, as we have seen in the 2014, 2015, 2016, and 2017 budget cycle, Nigeria's budget is gradually losing its credibility as a planning tool. It is important for government at this time to rework the key metrics used in arriving at the key revenue projections which has failed to reflect the realities of the economy in the last five years.

A sensitivity analysis will go a long way in realigning projections with reality.

Recurrent expenditure keeps soaring, in tandem with debt servicing obligations, while personnel costs have not been trimmed, despite the recent removal of hordes of ghost workers nationwide.

Also, cuts have not been seen in overhead costs, and the Efficiency Unit has not justified the initial enthusiasm that heralded its formation.

Any trim in the cost of running our government must occur across all its institutions, including the independent revenue-generating agencies, to broadly expand Nigeria's revenue base.

The Treasury Single Account represents one of the surest opportunities to instil expenditure control in hundreds of independent revenue agencies and increase their contribution to the revenue pool.

There is a need to block all leakages, while expanding Nigeria's revenue base, otherwise the country risks languishing in self-inflicted fiscal subjugation, which could further escalate the current economic recession into a much undesirable and undeserved depression.

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