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THE FISCAL REALISM OF FEDERAL GOVERNMENT'S 2018 PROPOSED BUDGET

A Review of Key Budget Projections

Photo Credit: Ola Taiwo

About BudgIT

BudgIT is a civic organisation driven to make the Nigerian budget and public data more understandable and accessible across every literacy span. BudgIT's innovation within the public circle comes with a creative use of government data by either presenting these in simple tweets, interactive formats or infographic displays. Our primary goal is to use creative technology to intersect civic engagement and institutional reform.

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Executive Summary

Nigeria's federal government is planning to spend N8.612tn[1] in 2018, with significant resources allocated to infrastructure and other capital projects. In all, the government is looking to devote N2.65tn or 30.8% of its total spendings on Capital items, while the remaining amount will be spent on Recurrent items, if the budget is passed by the National Assembly.

The total Budget for the federal government (FG) is anchored around Revenue projections of N6.06tn for 2018, which is 30% higher than 2017's budgeted figure of N5.08tn. Revenue for the FG in 2016 was N2.62tn, down from 2015 levels of N2.78tn.[2]

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

The numbers suggest the 2017 budget is also toeing these lines. As at the end of the second quarter of 2017, the FG's Actual Revenue came in at N886.39bn, which is wide off the annual projection of N5.08tn.

Therefore, 2018 revenue projections appear overly optimistic by all standards, particularly if previous numbers are put in perspective.

With Revenue significantly trailing projections, the FG is also facing another challenge; she is also struggling to raise finance. In 2016, only N300bn[3] was raised from the Domestic Bond market, as against an expected N1.18tn. In the first half of 2017, the FG could only raise N120bn from the Domestic debt market out of 2017 annual projected figures of N1.25tn.

Despite the pervading tightness in these markets, the FG insists via its budget that it will be looking to raise N850bn in 2018.

Although the FG's foreign borrowing plan for 2016 was pegged at N635.88tn, nothing was raised, according to budget implementation reports covering the first six months of 2017. Yet, the FG's budget is hinged on foreign debt uptake of N849bn, which could tilt the country's financial balance.

In 2016, Nigeria was forced to resort to borrowing from special accounts, to meet its increasingly expansive Recurrent Expenditure obligations. At a point in the fiscal year, the FG was publicly accused of printing Naira notes to augment its budgetary gaps.

These gaps are likely indicated in overdrafts from the Central Bank of Nigeria to the FG; these jumped from N1.76tn (in December 2016), to N2.63tn at the end of fiscal year 2016. Worth noting is that the FG's indebtedness to the Central Bank of Nigeria (CBN) was worth a significantly less N349.7bn, as at October 2014.

The government's total Recurrent Expenditure in 2016 was N3.88tn, while the dedicated amount for statutory authorities, including the National Assembly and the National Judicial Council, came to N344bn. With Revenue only a shade above N2.6tn and total Recurrent Expenditure obligations already above N4tn, Nigeria may be heading towards fiscal insecurity, as the country is now borrowing to pay salaries and meet other Recurrent obligations.

This is against the spirit of the Fiscal Responsibility Act - a law that oversees the administration of public finance.

As the situation stands, 2018 promise to be interesting, as Total Recurrent expenditure is projected to top N5.96tn, up from 2017 budgeted figures of N5.08tn.

Debt service, a component of Recurrent Expenditure was approximately N1.313tn in 2016 alone; this number is expected to surpass N2.014tn in 2018.

With Revenue from the oil sector projected at N2.44tn in 2018 and debt servicing costs pegged at N2.014tn, Nigeria may be walking into a rapidly expanding debt trap.

Summary: Revenue

FGN SHARE OF OIL REVENUE

Likely realizable, if oil production numbers are secured to at least 2.2m barrels per day.

FGN SHARE OF VALUE ADDED TAX

Not realistic, except a staggered VAT rate scheme or rise in rates is seen, which seems impossible in a pre-election year.

FGN SHARE OF CUSTOMS

Realistic, considering recent trends and expected growth in imports.

Summary: Revenue

FGN SHARE OF COMPANY INCOME TAX

Proposed Budget 2018	N794.69bn
BudgIT Projections	N495bn

Very unrealistic, considering recent growth trend and size of formal economy. 30% tax rate is one of the highest in the world.

FGN INDEPENDENT REVENUE

Proposed Budget 2018	N847.95bn
BudgIT Projections	N300bn

Highly unrealistic as TSA gains have not been huge. Radical restructuring of FG agencies can make a huge difference.

VOLUNTARY ASSET DECLARATION SCHEME

Proposed Budget 2018	N87bn
BudgIT Projections	N70bn

Realistic, considering the class of Nigerians targeted. Approaches to make this broad-based should be reviewed.

RECOVERIES OF LOOTED FUND

Proposed Budget 2018	N512bn
BudgIT Projections	N175bn

This sounds optimistic, as recent figures for looted funds are put at N74bn. However, $321m fund is expected to be repatriated.

SALE OF EQUITY IN JOINT VENTURES

Proposed Budget 2018	N701bn
BudgIT Projections	N220bn

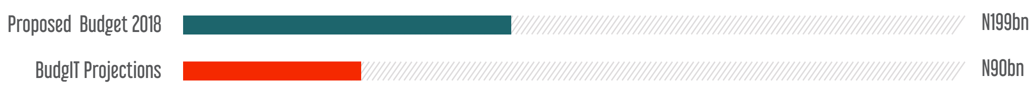
Considering that these are Federation Assets, receipt of N701bn as the FG share of the sale of JV equity sales is very optimistic. Such sales in the current oil market might require more than a calendar year.

Summary: Revenue

SIGNATURE BONUS

This has been featured in the budget since 2016. Sales of oil licenses that bring the signature bonus might happen in 2018, considering the patronage built around it for elections.

DONOR FUNDING



This is the first time donor funding is recognized in Nigeria's budget. It will be important to see the numbers; we foresee donor funding being not more than $300m.

This paper provides insights and purposeful enquiry into the 2018 proposed budget, with the overall aim of revealing areas of inadequacies; the focus is unravelling the trends and themes that will shape the Nigerian economy going forward, as a failure to do so may see a regression towards the same recession the country has just begun to climb out of.

Key Expenditure Lines

PERSONNEL COSTS

The FG is currently planning to raise minimum wage, a decision it might implement prior to elections. Raising the minimum to a projected amount of N35,000 will translate to a huge swing of at least N600bn on personnel costs.

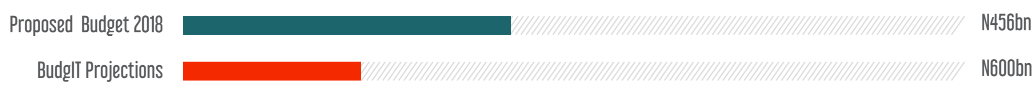
OVERHEAD COSTS

The FG has not reined in its Overhead costs. The Efficiency Unit after it's initial pomp is yet to deliver significant gains.

DEBT SERVICING

This seems realistic but at N2tn, debt servicing costs are significant relative to actual revenues and therefore need further interrogation.

STATUTORY TRANSFERS



INEC will most likely require more funds towards the 2019 elections and this does not appear to be adequately budgeted for.

CAPITAL EXPENDITURE

Capital projects seem to persistently fragmented; there is also a high number of administrative capital projects, which tend to be prone to fraud. In a pre-election year, huge spending on capital projects is expected but this might deliver too little, too late.

The Realism of FG's Proposed 2018 Budget

Nigeria appears to be moving ahead with an expansionary fiscal policy. The FG's actual spending in 2016 was N4.396tn,[4] which is only 72.5% of its expenditure plan of N6.06tn for the financial 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 the second half of 2017, only N1.27tn was spent. Currently, Nigeria's fiscal plans for 2018 is hinged on a revenue uptake of N6.6tn. The FG is looking at a total spending of N8.612tn[5] in 2018, with significant resources allocated to infrastructure and other capital projects.

In all, the plan is to devote N2.65tn or 30.8% of its total spendings on Capital items, while the remaining amount will be spent on Recurrent items, if the budget is implemented as proposed by the Executive. The deficit size for fiscal year 2018 is hedged at N2.005tn.

The FG hopes to close the deficit by selling some government properties, privatising some state-owned enterprises and taking in more debt.

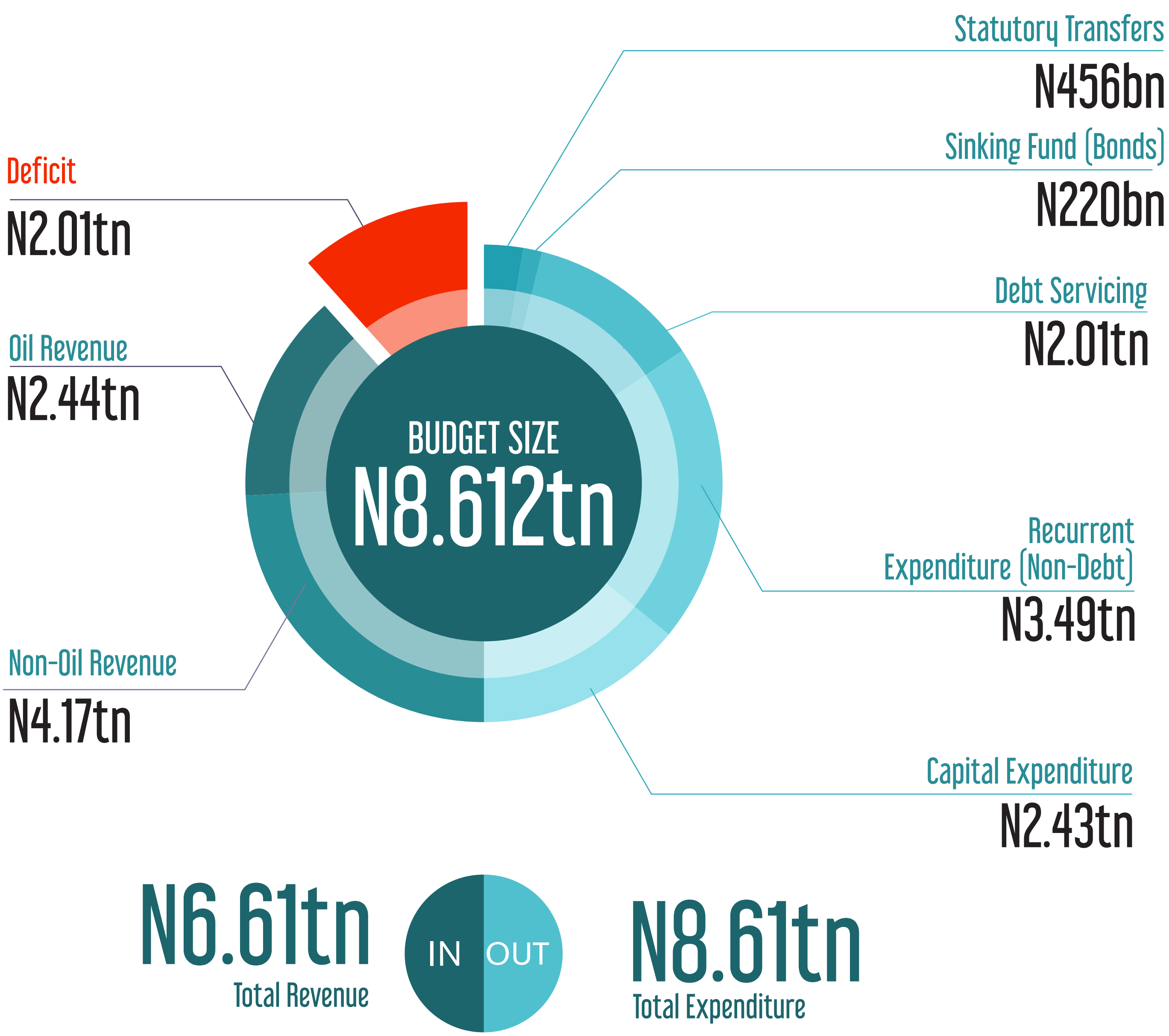
On the Recurrent expenditure side, Nigeria will be committing N2.014tn to Debt servicing while N220bn is expected to be pooled into sinking funds, to retire maturing debt obligations.

In summary, approximately 30% of the 2017 spending plan will be directed at Capital projects, while the balance will go into Recurrent expenditure including servicing of Debts, Personnel costs and Overheads.

N1.27tn

"In 2017, the government plans to spend N7.44tn, a 69.2% increase over 2016 expenditure. As at the end of the second half of 2017, only N1.27tn was spent."

Fiscal Framework
2018 Proposed Budget



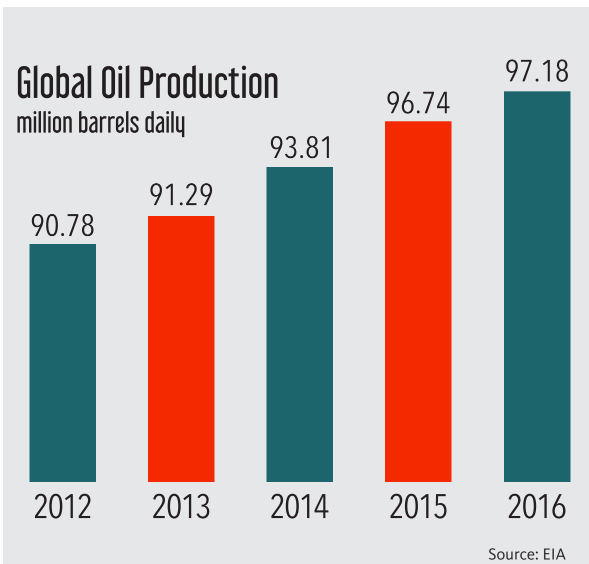
Source: Budget Office

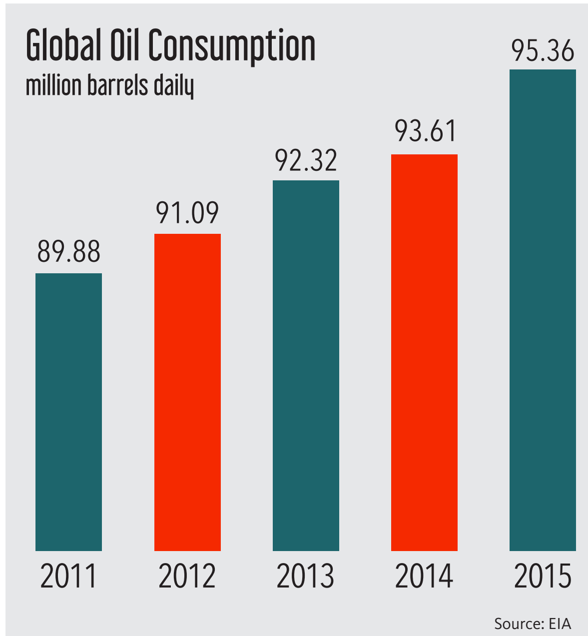
The Oil Sector

The Oil Sector

In 2014, progress in oil extraction techniques, 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 oil wells were pumping out crude daily.

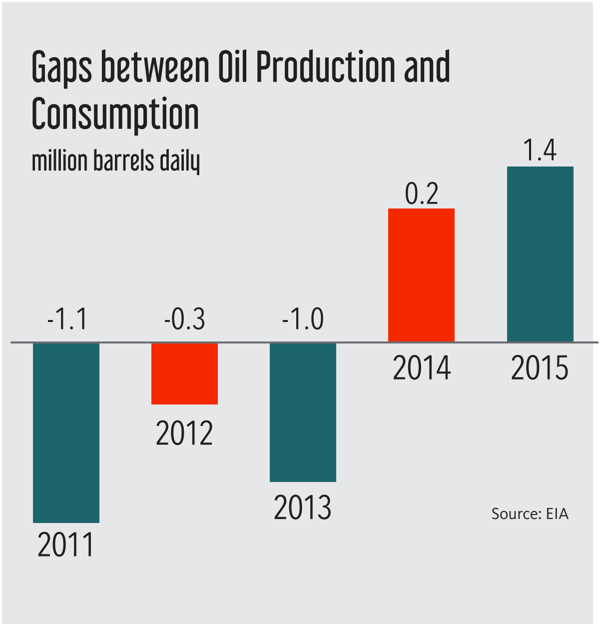
The world was producing approximately 93.81mn barrels per day,[7] with nations from the Organisation of Petroleum Exporting Countries (OPEC) accounting for 42.1% of total global production in





that year; today, production is in the region of 97.2mn barrels per day.

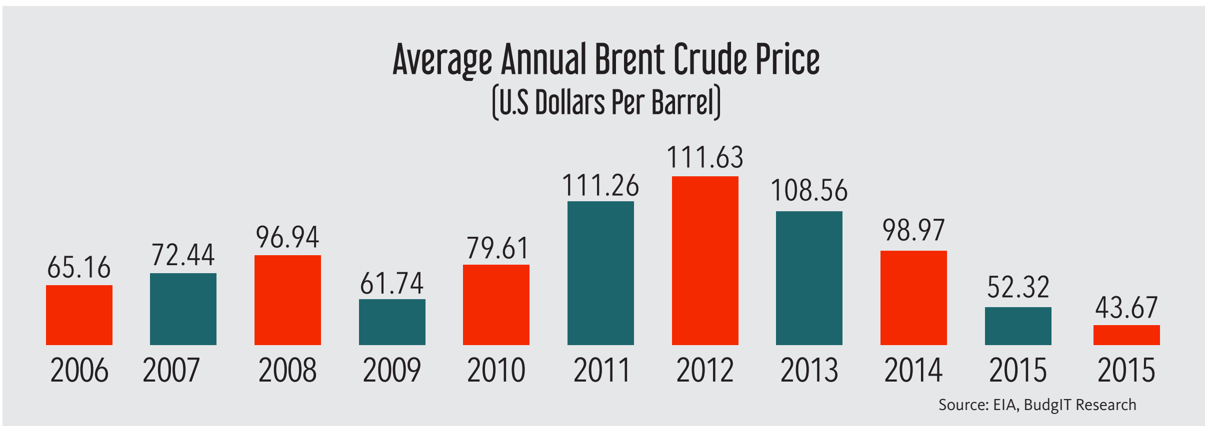
Though global demand for the commodity and associated products rose significantly from 2014, however, the price of crude trailed off from a peak of approximately $115 per barrel in June, 2016. Today, crude oil is trading below the $65 per barrel benchmark, and under pressure from a historical high for the production of shale oil.



The rapid growth in production numbers and a slowdown in crude oil consumption towards the end of 2014 and most of 2015 created a huge glut, which further dragged down the price of the commodity.

With OPEC's ability to adjust the dynamism of the market significantly reduced, coupled with the aftermath of the Arab spring, governments were reluctant to reduce production, which open up the market to speculative activities. Also, the fiscal needs of OPEC members as well as increasingly expanding production figures from unconventional sources including shale oil, saturated the market. In 2015, the world was producing 96.7mn barrels of crude but consuming 95.4mn barrels daily.

Evidence continually forces the standpoint that we are nearing the period of peak oil, as demand has not taken geometric leaps in recent years.



Situating Nigeria within the dynamism of the Oil Market

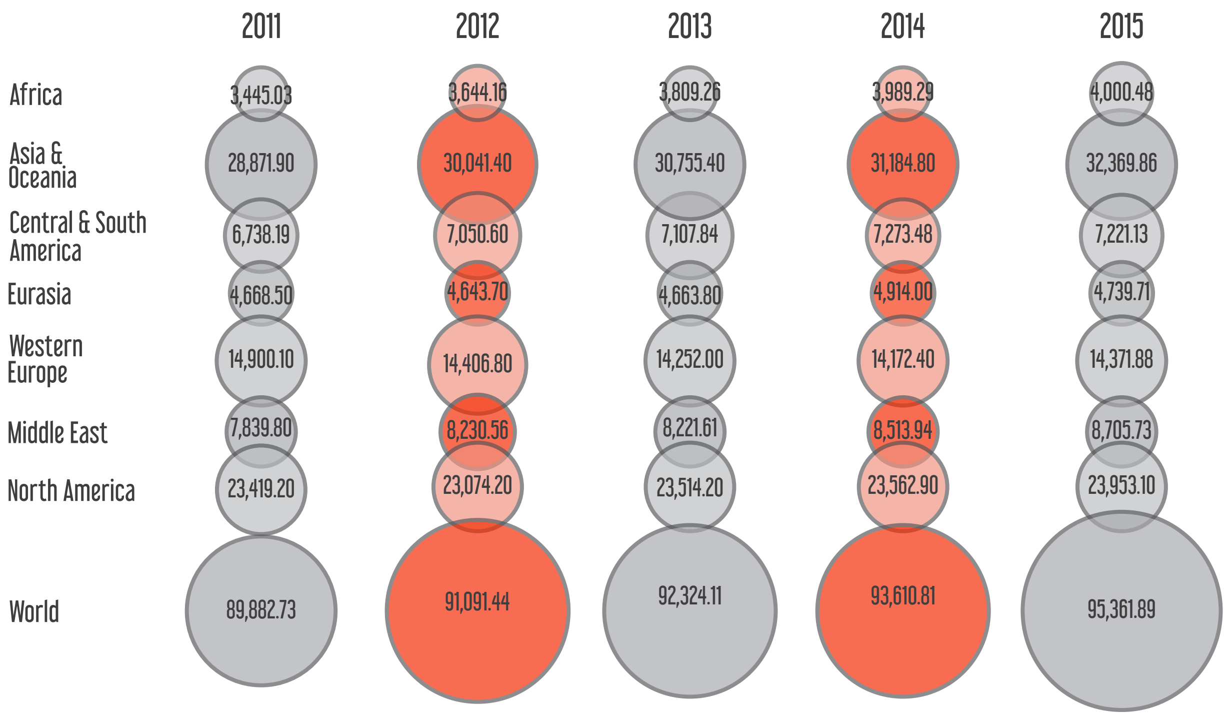
Nigeria sells about 35.2%[9] of its crude to the European markets, a decrease from 45.7% in 2014. This situation can be linked to a decline in consumption as Europe shifts to alternative energy, as well as the fall in Nigeria's production numbers. Therefore, consumption of crude is reported to be on the downward swing, 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 14.9mn barrels per day, as against 14.37million barrels in 2015. Consumption was however 14.17mn barrels in 2014 but this break towards an increase could be connected to the price reduction in the commodity, a factor which would traditionally drive demand upwards.

Given that 74%[10] of crude oil is consumed as gasoline, heating oil/diesel fuel and Jet fuel as well as broadly used for transportation purposes,

Global Oil Consumption

Thousand barrels daily



Source: EIA, BudgIT Research

Europe's serious push for the adoption of electric cars could further drag down demand.

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 catch on across Europe, with battery-powered vehicles expected to account for 100% of new cars sold in Europe by as early as 2035.[11]

In Asia, oil consumption is also slowing down on the back of a lagging economy. About 28.2% of Nigerian crude was exported into the Asian and Pacific market in 2016. As Asia is tending towards the electric car trend, while 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.[12]

For Africa, export of crude to the continent remains below Nigeria's own domestic consumption.

The outlook seems brighter, 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 advanced stages.

Nigeria's exports to North America were approximately 307,000 barrels per day,[13] which is lower than domestic consumption within its borders. Before 2012, the North American market was the biggest for Nigerian crude, accounting for about 52%[14] 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[15] 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 forces of demand and supply point to the future of oil as the world's main energy source being increasingly threatened. Some analysts predict that the "peak oil" hypothesis that Hubbert King[16] alluded to in his 1956 paper may happen as early as 2023.[17]

The peak oil hypothesis suggests demand for oil as a source of energy will slow, and possibly drop at some point in future, which will crash prices. Some analysts, including Leonardo Maugeri[18] feel this is already happening; the linchpin is that the dynamism of the market suggests that demand for oil could peak before 2030.[19]

Countries planning to ban sales of Diesel and Petrol powered cars

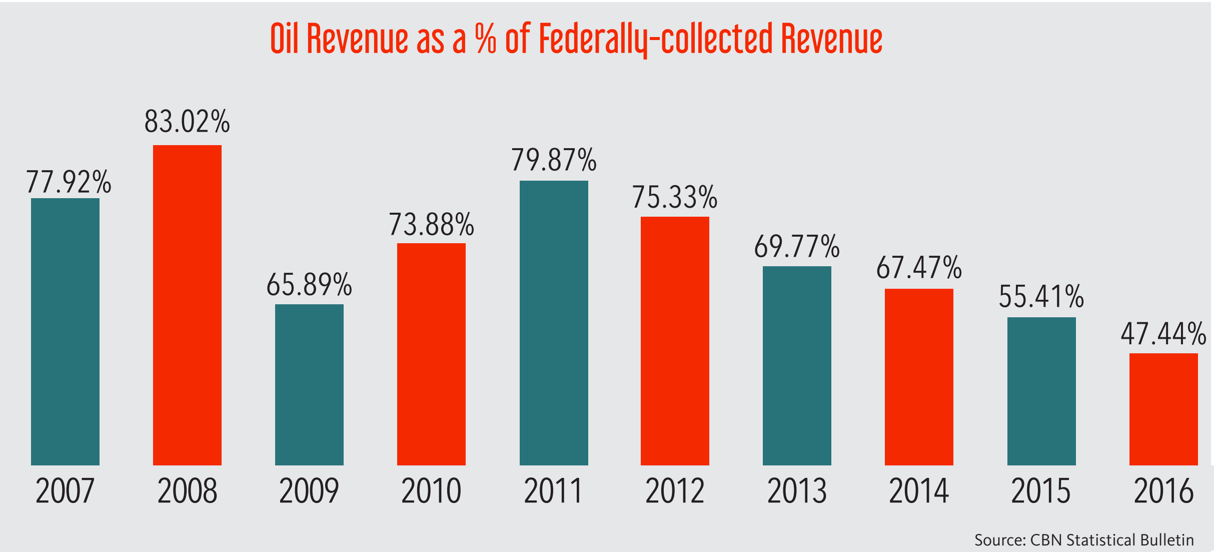
Nigeria: Oil's contribution to the Revenue mix spirals downwards

The federal, state and local governments' Revenue uptake and their ability to pay salaries and/or emoluments, service debts and embark on critical developmental projects all remain strongly connected to oil revenue. As such, economy growth tends to plug and consumer demand depresses, anytime the price of crude oil falls. This is an unsustainable situation that has always proven unfavorable for the Nigerian economy.[20]

Today, oil revenue's contribution to the Total Revenue of the federation is down to 47.4% in 2016, from a high of 88.6% in 2006. Revenue from oil cannot service outstanding Debt, showing clearly how Nigeria's fiscal reality is changing. The FG's Personnel costs lie in the region of N1.8tn and is expected to grow to N2.11tn, at a time when the government could only pool approximately N690bn from oil in 2016.

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.



Fiscal Realities of the 2018 Budget

HISTORY OF OIL PRICE BENCHMARK VS AVERAGE CRUDE OIL PRICE

Year	Budget Benchmark (USD per barrel)	Average Annual Price of Crude (USD per barrel)	Changes (USD per barrel)	% difference
2011	75	111.26	36.26	48.35%
2012	72	111.63	39.63	55.04%
2013	79	108.56	29.56	37.42%
2014	77.5	98.97	21.47	27.70%
2015	53	52.32	-0.68	-1.28%
2016	38	43.67	5.67	14.92%
2017*	44.5	54.92*	10.42*	23.41%

Source: Budget office, eia.gov, budgIT research

* As at the end of October 2017

Historically, Nigeria's crude oil price assumptions have always turned out to be conservative. But 2015 was however different; here, actual price of the commodity was relatively lower than Nigeria's benchmark price. As at November 27, 2017, Brent Crude traded around $63 per barrel. The commodity is expected to continue to trade above Nigeria's 2018 proposed budget benchmark of $45 per barrel, in response to supply-side factors, as well as strong U.S refinery demand.

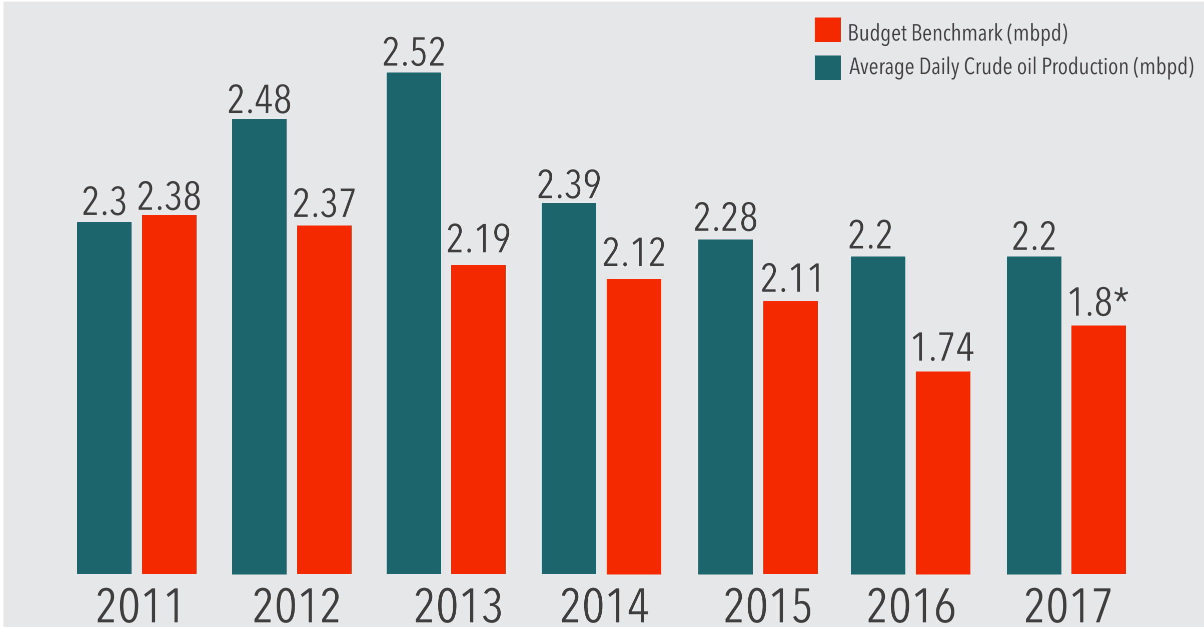
Crude oil and petroleum product inventories in the United States also appear to be falling, and drilling activities, as measured by the Baker Hughes active oil rig count, is slowing down.

Also, Crude oil prices are expected to be impacted, as the Organization of the Petroleum Exporting Countries (OPEC) formalises decisions to cap exports.

Key Point:

Analysts Goldman Sachs recently downgraded estimates for Brent crude oil prices, from $56.76 per barrel to $55.39 per barrel, citing a potential rise in shale gas production, new oil production projects and OPEC restrictions. BudgIT believes the price of oil will trade above $45 per barrel, possibly around the $55 per barrel band in 2018. Tensions in the Middle East, particularly friction between Iran and Saudi Arabia could momentarily escalate oil prices up to $75 per barrel, giving Nigeria great gains, if she optimises production.

HISTORY OF OIL PRODUCTION BENCHMARK VS ACTUAL PRODUCTION



Source: Budget Office, OPEC, BudgIT Research

Nigeria's oil production targets have always turned out to be overly optimistic. The country's 2016 budget was designed under the assumptions that oil production would top 2.2million barrels. However, production in 2016 turned out to average 1.74million, leaving a huge gap. Previous years 2012, 2013, 2014 and 2015 were not different.

Notwithstanding instances of price advantages, the prevailing trend is that actual oil production always fails to hit the budget target. In January 2017, about 1.837million barrels was produced daily, as against the daily budget target of 2.2million barrels. In February, March and April, daily crude production was 1.818million barrels, 1.598million barrels and 1.793million barrels respectively.[21]

As at September 2017, average oil production was estimated at 1.9million barrels per day, against the budget benchmark of 2.2million barrels per day.[22] The State's oil company (the Nigerian National Petroleum Corporation) is also revising production sharing contracts, to allow more revenue uptake from oil assets. This is expected to boost production numbers. In addition, the government aims to sell oil acreage licenses to investors, as part of its long-term plan to raise production levels.

Key Point:

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.

Notwithstanding the headwind towards these positives, pressure is being mounted by OPEC nations, for Nigeria to cap production, in line with agreements by OPEC to improve pricing of the commodity.

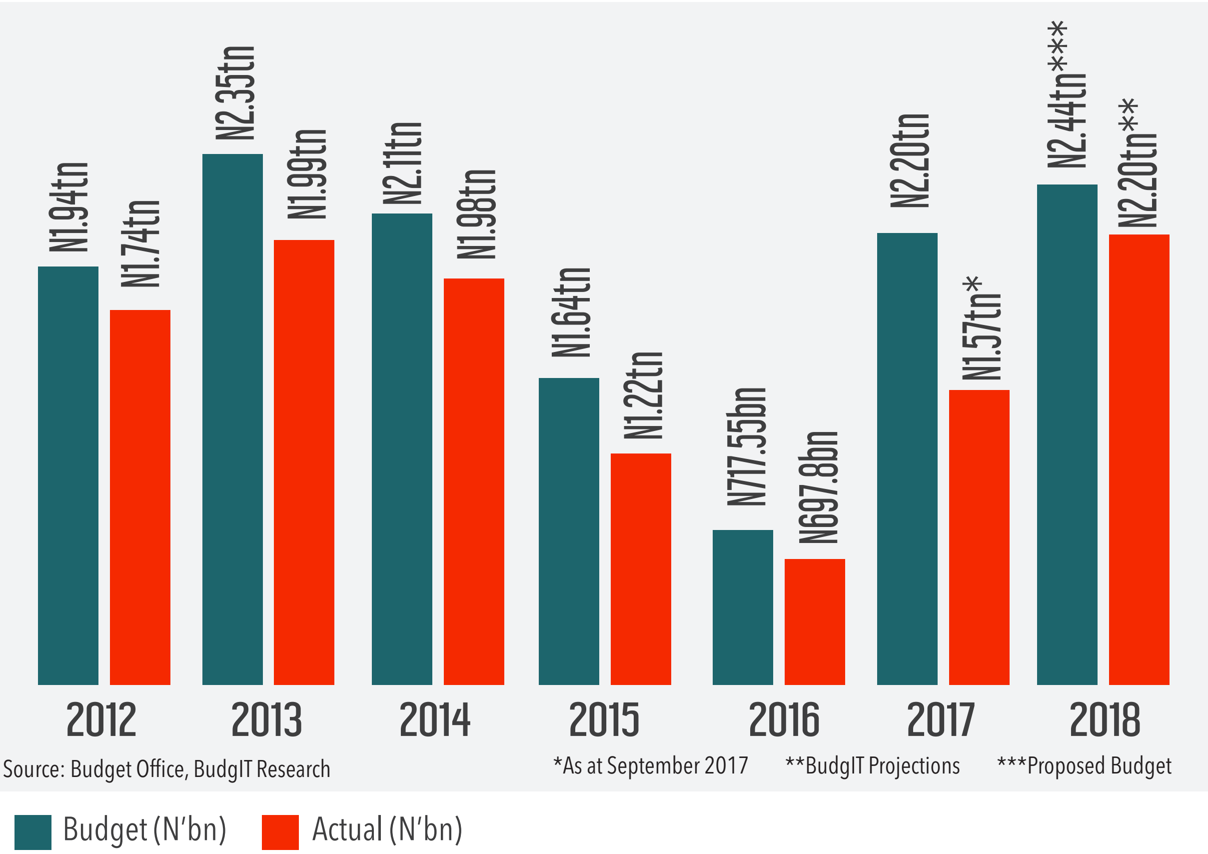
As the country prepares towards another round of elections, maintaining the political dynamics of the volatile Niger Delta region will be crucial to oil production numbers. Though the political risk to oil installations seems to have waned, the foregoing factors can affect earning power in the short-term. A more distant but nevertheless major risk factor that could upturn Nigeria's earning potentials in the longer-term remains the evolution of electric cars worldwide.

FGN Share of Oil Revenue

The Federal Government (FG) of Nigeria foresees a 203% improvement in revenue from the oil sector. The 2018 budget was prepared with the assumptions that oil will trade at $45 per barrel and production will hit 2.3million barrels.

In 2016, budget targets for oil production was pegged at 2.2million barrels but these condition did not materialise, due to production disruptions. In that year, the FG's revenue from the oil sector was N697.8bn, despite oil prices averaging $43.67 per barrel.[23]

A recent document by the Ministry of Budget and Planning shows that FG share of oil revenue had clocked N1.57tn as at September 2017, showing that revenue in the region of N2.1tn from oil is possible in 2017. With a steady price point and production in 2018, a projected revenue of N2.44tn is feasible.



Source: Budget Office, BudgIT Research

Non-Oil Sector

Non-Oil Revenue

The non-Oil sector accounts for almost 90% of economic activities in Nigeria, with Services and the Agricultural sector being most prominent. Today, the Agricultural sector (23.11% of GDP), Trade (16.9% of GDP) and the Real Estate Sector (7.6%) 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%. The under-performing manufacturing sector (which happens to be Africa's third largest, accounts for roughly 10% of economic activities).[24]

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

However, successive governments at national and sub-national level have failed to translate the numbers into actual government revenue. The ease with which government takes between 50% to 85%[25] 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.

Company Income Tax

At 30%, Nigeria's company income tax rate (CIT) is higher than the 28.53%[26] average CIT rate in Africa. In the European Union and Asia, CIT rates lie between 18.88% and 20.14% respectively.

Rates in Africa's largest economy should begin to converge towards 22.49% (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 fully takes off. Negotiations for the Continental Free Trade Area (CFTA) are currently advancing. With Nigeria's CIT rate significantly higher than most African countries', corporate tax rates could discourage investment in the 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 significant 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]

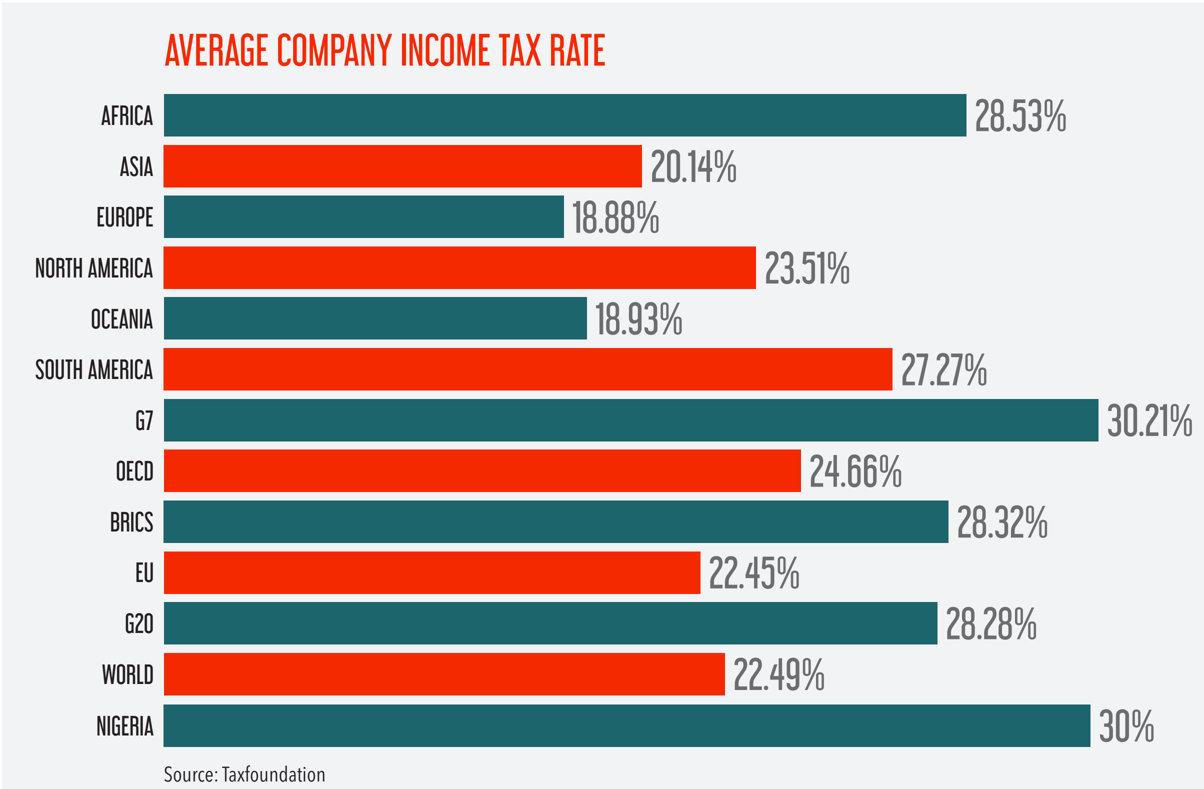
The high overhead costs of running businesses in Nigeria directly impacts corporate profitability,[28] which translates to lower tax uptake for the government. The situation is compounded by the state of the country's electricity, road and communication infrastructure, as well as the fact that lending 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 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 trends towards automation.[30]

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

Nigeria presently collects much less in CIT relative to GDP (0.93% in 2016), compared to the global average of 3.0%. 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 taxation and defective communication channels between taxpayers and government. To boost revenue, Nigeria will need to plugs these leaks, and also expand the tax nets to capture more funds into the public purse.


AVERAGE COMPANY INCOME TAX RATE
AFRICA 28.53%
ASIA 20.14%
EUROPE 18.88%
NORTH AMERICA 23.51%
OCEANIA 18.93%
SOUTH AMERICA 27.27%
G7 30.21%
OECD 24.66%
BRICS 28.32%
EU 22.45%
G20 28.28%
WORLD 22.49%
NIGERIA 30%
Source: Taxfoundation

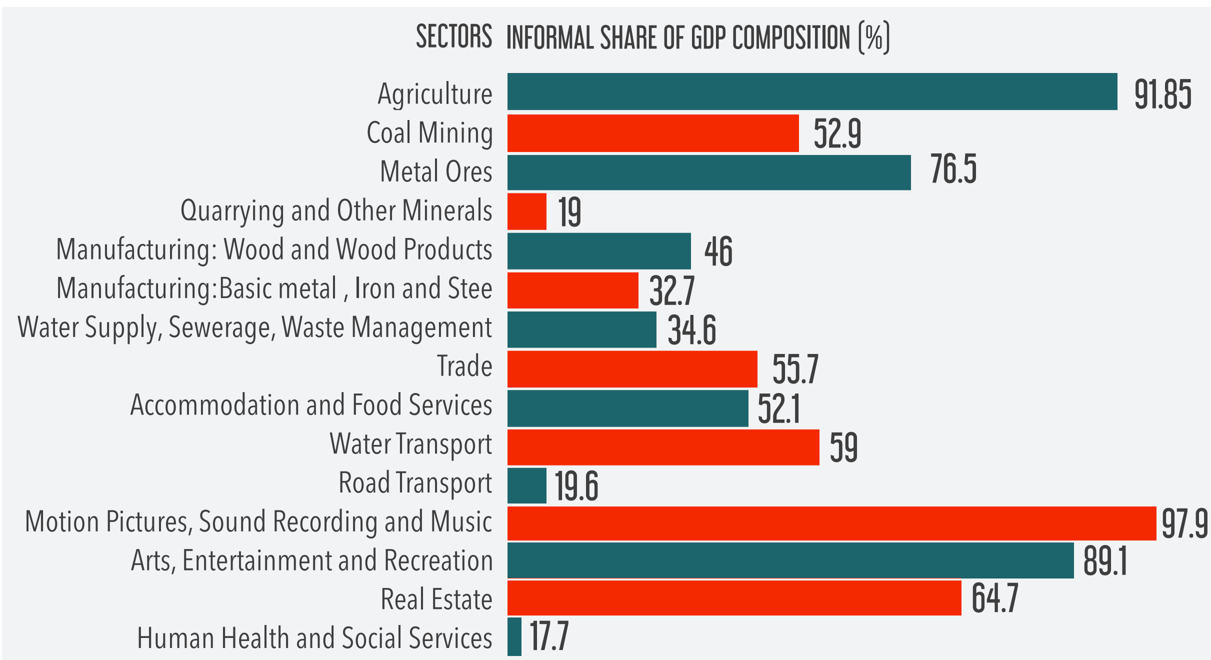
Fiscal Realism: FG's Share of Corporate Income Tax

In 2018, the FG is projecting revenue uptake under Corporate Income Tax at N794.69bn, down from 2017 budget figures of N808bn. Actual Revenue in 2016 was N457.91bn, from 2015 levels of N473.32bn; this may have been partly due to the economic recession and lagging corporate profitability. Presently, no concrete facts exist that suggest the profitability of entities has improved significantly. Also, challenges around the tax code and collection efficiency persist, to some degree.

The government recently launched a series of tax collection initiatives, including an Executive Order that grants amnesty to tax defaulters,[31] with the overall objective of improving tax collections. There are also plans to recruit 7,500 tax advocates, to shore up tax collection figures.

However, the reality is that Nigeria's CIT rate, at 30%, 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% of economic activities happen informally.[32]

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.



Source: NBS

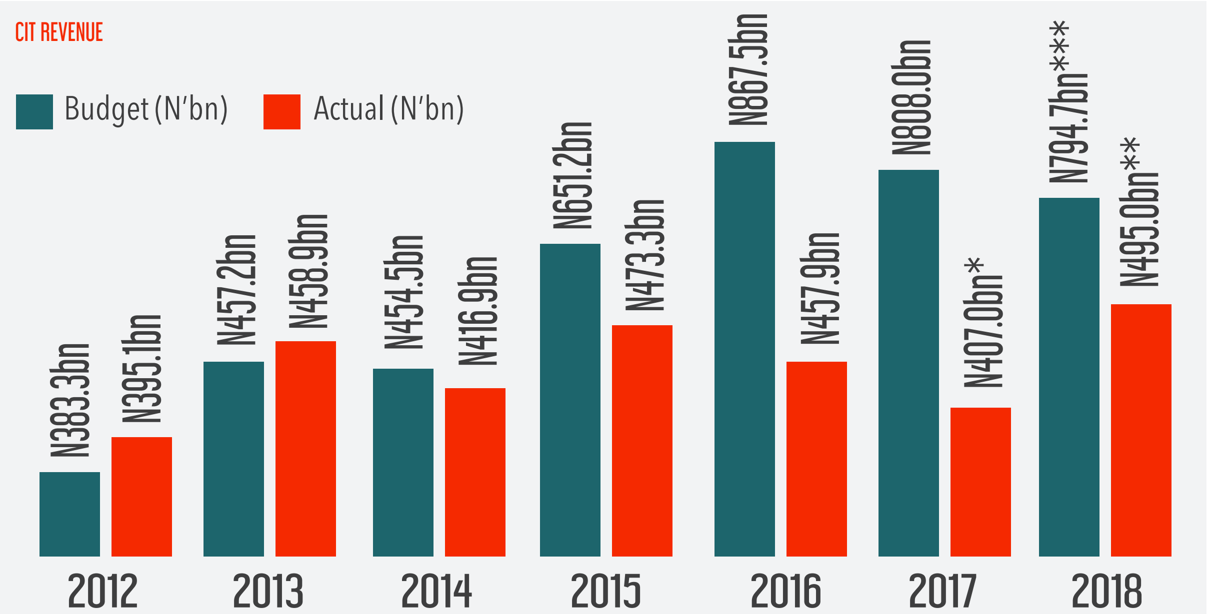
Fiscal Realism: Corporate Income Tax

The FG's share of CIT was only N457.91bn in 2016 – a 47.2% gap from the projected budget figure of N867.46bn. In 2014 and 2015, government's Actual Revenue from CIT was N416.91bn and N473.32bn respectively, compared to projected revenue of N454.54bn and N651.19bn for 2014 and 2015 respectively.

Nigeria's projection of N794.69bn for 2018 seems to be overly ambitious, as there is no concrete evidence to suggest that the number of taxpayers has increased significantly.

With an elevated inflation rate, increasing energy and raw materials costs amid a shrinking market place and rising costs of fund, corporate profitability may be weaker.

Therefore, the ability of the government to collect this level of tax is in question, particularly when juxtaposed with the state of the economy.



Source: Budget Office, BudgIT Research

*As at September 2017 **BudgIT Projections ***Proposed Budget

Key Point:

BudgIT believes that CIT projections of N794.69bn are not cognisant of Nigeria's peculiar business environment. If economic and historical trends take precedence in the model used to make these projections, CIT is projected to stay no more than the N495bn mark for financial year 2018, as CIT stood at N407bn as at September 2017. Noteworthy is that most CIT payments are made in the June/July, window when profits are declared and filed.

Value Added Tax

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) cohort collect about 32% of their Total revenue from VATs and 27% from personal income taxes. This relatively new tax has become a crucial revenue source among OECD-member countries.

In Bangladesh and China, VAT receipts account for 56% and 33.9% of government revenue respectively.
At 22.03% 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.[33]

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.

Also, the Consumption pattern of most households in Nigeria seems to be tilting primarily 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 N42tn in 2012 to N74tn in 2015 (a jump of about 76%), VAT income for the government moved up just 12%, from N710bn in 2012 to N778.72bn as at the end of 2015.[34]

Dismal as this may seem, VAT revenue was only 1.69% of final consumption expenditure in 2012, even declining to 1.06% in 2015, despite VAT rates remaining unchanged at 5%.

Figures for household consumption in 2016 remain unclear but VAT uptake for the federation increased to N811bn in 2016, despite the recession.

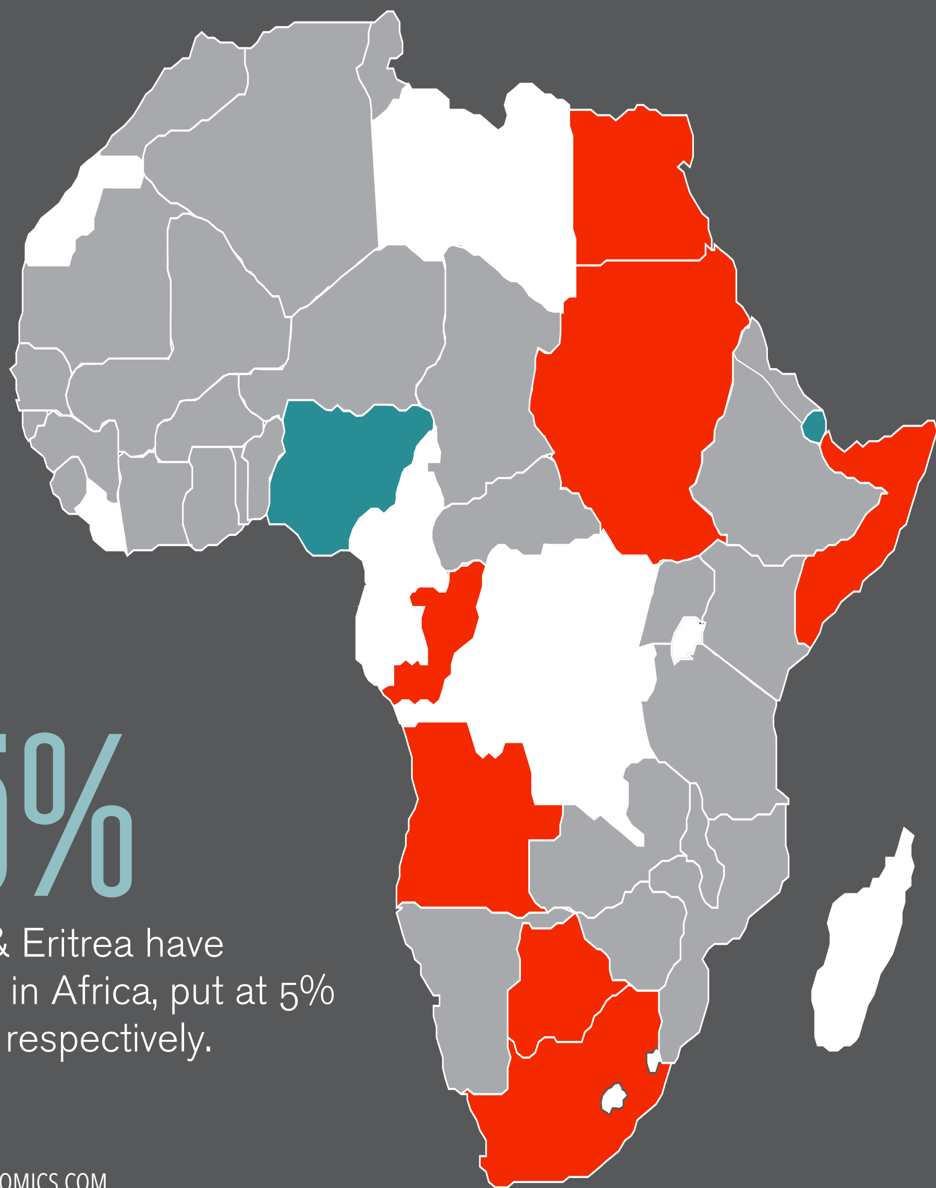
Nigeria's VAT rate, at 5%, remains one of the world's lowest.[35] According to research by PriceWaterHouseCoopers, the average standard rate of VAT across 28 African countries is 16.2%,[36] while in the European Union, VAT is 21.5%.

Another reason VAT collection figures are abysmal can be connected to the informal nature of the Nigerian retail space. About 60% 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.[37]

With regards to the GDP, Nigeria's VAT contribution is relatively low at 1.2%, compared to even smaller nations like Lesotho, where VAT constitutes an average of 7.7% of GDP.

VAT (SALES TAX) IN AFRICA

NO DATA | BELOW 6% | 6%-9.99% | 10%-14.99% | 15%-ABOVE



5%

Nigeria & Eritrea have
the lowest VAT in Africa, put at 5%
and 4% respectively.

SOURCE: IECONOMICS.COM

Fiscal Realism: FG's Share of Value Added Tax Revenue

The federal government is projecting a VAT uptake of N207.86bn in fiscal year 2018. In 2017, the budget figure was raised by 122% to N242bn. The FG's share of VAT revenue was N106.74bn and N104.66bn 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.

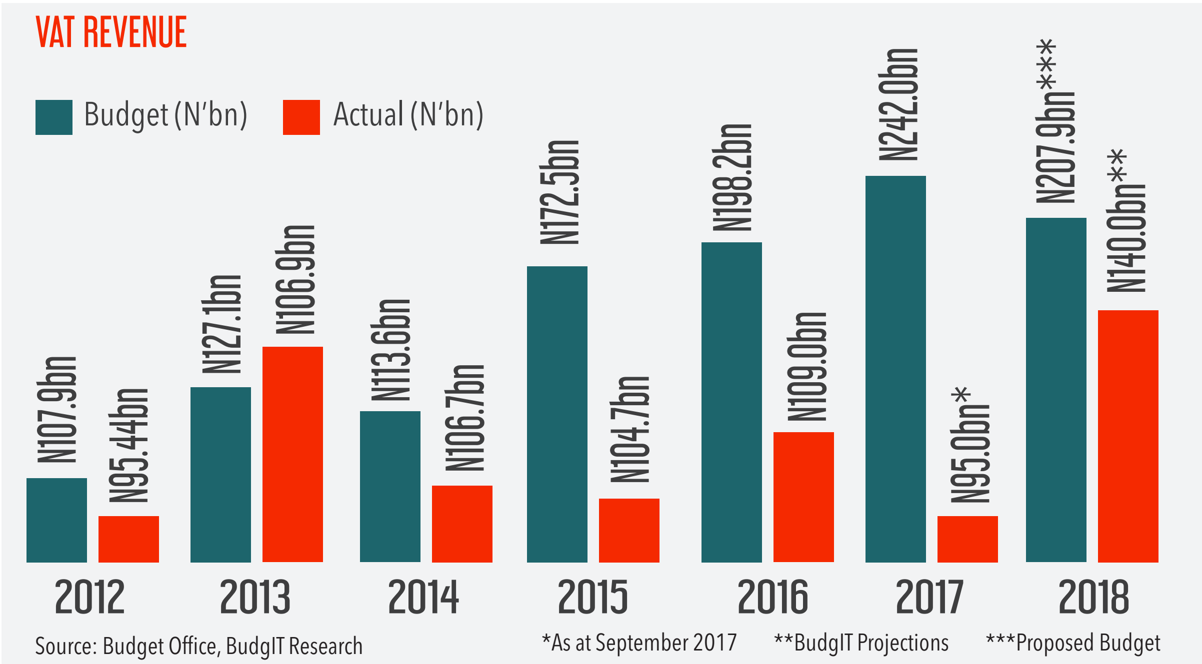
On one hand, Revenue from VAT seems to be growing, despite the country newly emerging out of an economic recession. However, the perception in the wider economy is that Household Consumption expenditure is declining, with salaries paid out to employees also plumbing lower depths, while the capacity of 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 chequered food inflation matched with relatively stagnant incomes and increasing energy costs perpetuate a tight economic cycle.

On the other hand, historically, about 42% of VAT receipts come directly from the petroleum industry, as well as State and Federal governments. The ability of players in the petroleum industry to spend, and revenue from this sector which was under intense strain due to price corrections, may be moderating.

Nevertheless, State and Federal governments are simultaneously struggling to meet basic commitments – and by extension their VAT contributions, all of which are critical to achieving the ambitious target for VAT. Without these factors seeing tangible changes, 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 N207.86bn for fiscal year 2018 are overly ambitious. This is based on the assumption that the flat rate of 5% will not be increased in a pre-election year.



Key Point:

BudgIT believes that Value Added Tax projections of N207.86bn do not consider Nigeria's prevailing circumstances. If the economic environment, consumer spending power and precedents were factored in, VAT estimations should not be more than N140bn for fiscal year 2018.

This is because the FG's share for Value Added Tax was only N109bn in 2016; a 45.02% gap below the projected budget figure of N198.24bn. In 2014 and 2015, government's Actual VAT revenue was N106.74bn and N104.66bn respectively, while projected revenue for the same period was N113.63bn and N172.53bn respectively.

Customs and Excise Duties

The FG's 2018 projected revenue from tariffs and duties at the ports are pegged at N324.86bn, up from 2017 budget figures of N278bn. For 2016, actual collections was N228.61bn.

Revenue from customs and duties is strongly dependent on activities at the ports. Consequently, it is expected that a somewhat unclear foreign exchange policy, pricing disparities and difficulties in accessing foreign exchange have contributed to a continued decline in the volume of transactions at Nigeria's ports.

In 2014, the Nigerian Customs Service worked with 5,014 vessels that berthed on local waters. The federal government saw significant benefits here, with its share of Revenue hitting N255.4bn.
The following year, in 2015, the FG's revenue uptake slid downwards by 9.2% to N232bn, despite the country having to deal with 5,333 vessels. In the first nine months of 2016, only 3,347 vessels entered the ports.

Interestingly, Container Traffic as at the end of September 2016 was estimated at 485,262 T.E.U; compared with Container-laden Traffic which was recorded as 887,211T.E.U, 935,309T.E.U. and 771,130T.E.U in 2013, 2014 and 2015 respectively.

Cargo Throughput at Nigeria's ports (excluding crude oil terminals) as at September 2016 stood at 53.2 million tons.[38]

Total Cargo Throughput was pegged at 84.95million tons, 77.39million and 53.21 million in 2013, 2014 and 2015 respectively.

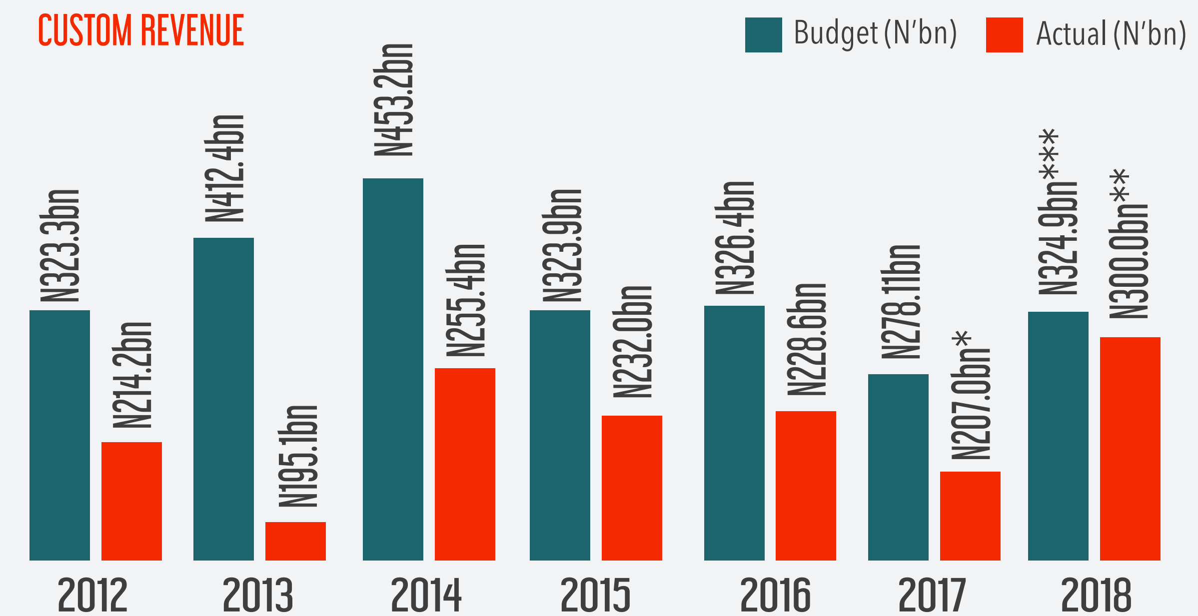
Beyond the value of imports, Customs Revenue is also strongly connected to effective, applicable tariffs. With the introduction of the Common External Tariff (CET), tariffs on imported goods are expected to fall in 2018, in part because of a reduction in levies. This could push government revenue downwards.
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 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 government's projections of N278bn maybe slightly above achievable thresholds, but if Nigeria can kickstart initiatives that enforce a holistic anti-smuggling strategy and streamline foreign exchange policies, these revenue projections may be matched.

Fiscal Realism: FG's Share of Custom Revenue

The FG's share of Revenue from Customs and Excise was only N228.61bn in 2016; a 30% gap from the projected budget figure of N326.44bn. In 2014 and 2015, government's Actual Revenue from the ports was N255.4bn and N232bn respectively, as opposed to projected revenue for the same period, which was N453.24bn and N323.97bn respectively.



Source: Budget Office, BudgIT Research

*As at September 2017 **BudgIT Projections ***Proposed Budget

Key Point:

BudgIT believes that the Custom Service's projection of N324.86bn, which comes to approximately 20% in revenue growth, remains mildly optimistic. With the easing of foreign exchange restrictions, business activities at the ports may likely pick up significantly, in the near term.

A lot more work is needed, especially around Nigeria's trade policy and the overall health of the economy, if she hopes to grow revenue from 2016 levels of N228bn to N324.86bn via this stream. With a 2017 Q3 revenue of N207bn, the FG share of Customs' revenue is at pace to reach N270bn for 2017. At current rates, revenue estimates of N300bn are feasible in 2018.

FG's Independent Revenue

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% 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 monies.

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

The TSA[39] has been touted as a main vehicle for eradicating collection and disbursement inefficiencies, and it prompted the government to set an ambitious target of N1.506tn for 2017. So far, Actual receipts as at the end of fiscal year 2016 came to N237.75bn, which is widely off the mark. Consequently, the FG has now revised its 2017 and 2018 Independent revenue projections downwards, to N808bn and N847.95bn respectively.

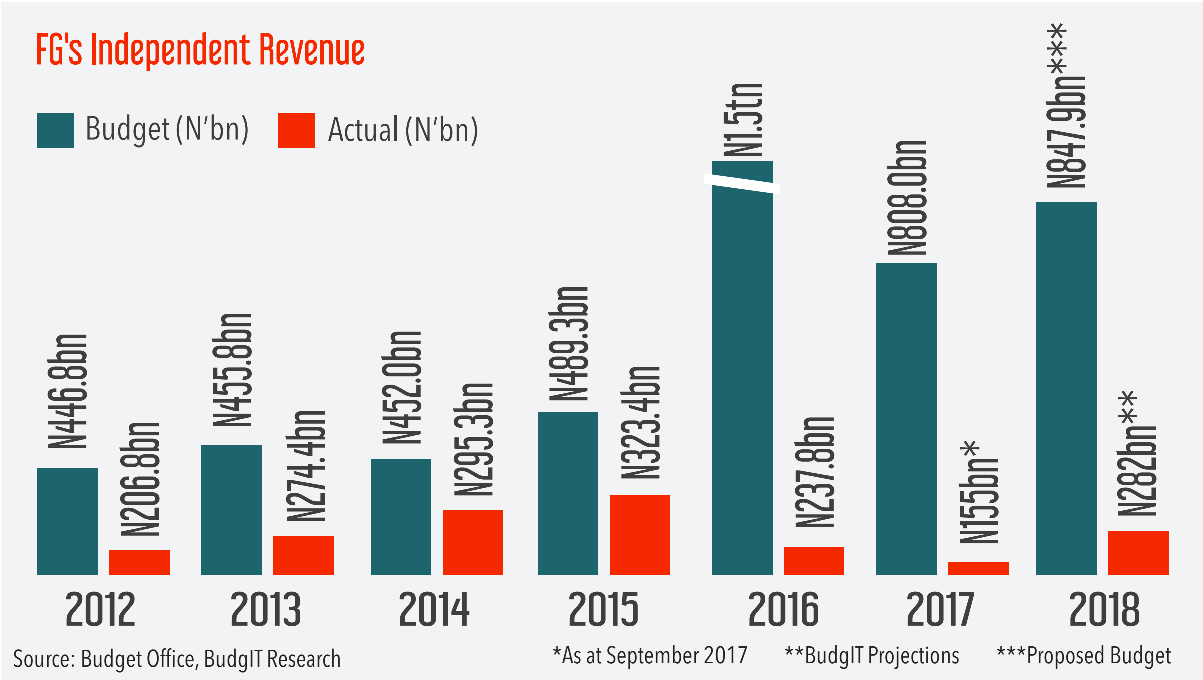
What precedents the FG relied on for 2016 projections are unknown, as Independent revenue was N295.33bn and N323.37bn in 2014 and 2015 respectively.

In 2017, despite the ambitious target of N808bn for the fiscal year, actual collection as at the end of the second quarter was approximately N155.14bn. This is why we argue that projections of N847.95bn for 2018 are still at a gaping tangent from Nigeria's reality.

The biggest drawback in a recent analysis of revenue performance remains this huge burden expectations from 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.

We note that trends show the FG's Independent Revenue has ranged between N230bn and N320bn. In 2016, despite anchoring the budget on a N1.5tn revenue projection, only N237.75bn was collected as at year-end. Furthermore, funds collected in 2016 were lower than that of 2014 and 2015, which are noted as N295.33bn and N323.37bn respectively.

Fiscal Realism: FG's Independent Revenue



Key Point:

BudgIT believes that the FG's Independent Revenue projections of N847.95bn are unrealistic. There is no concrete evidence suggesting the federal government will grow its Independent revenue in fiscal year 2018. This is mainly because the operational and financial procedures, as well as policies governing the administration of these agencies remain broadly unchanged.

However, if strong institutional restructuring is attempted, a more conservative projection of N300bn may be appropriate. We are hardpressed to note that the recent bogus numbers for Independent Revenue seem to lack extensive analysis or introspection based on recent performance.

Fiscal Realism: Other Revenues

Based on the 2018 budget analysis, the FG has plans to receive N87bn from its Voluntary Asset Declaration Scheme and expects an astonishing N512bn from recoveries – which have never been added in the budgets despite the volume of corruption cases.

There is a plan to reduce the Federation's equity in Joint Ventures and this is expected to yield N710bn. Other revenue streams planned include Signature bonus (N114bn), Federation levies (N57bn), Unspent balance (N250bn) and Donor funding (N199bn). It is stunning to find out that these represent 42% of all Revenue projections.

With the slow pace of governance amid a looming election, most revenue items within this bracket might not be feasible, thereby potentially widening the deficit.

This summation is based on latest figures: as at June 2017, Other revenue which includes exchange rate differentials and mopped capital, reached N847bn.[40]

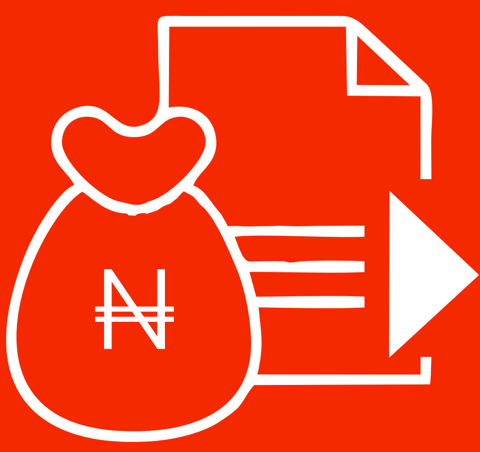
Summary: Revenue

Revenue Projections	BudgIT Projections	Annual Budget 2018	Annual Budget 2017	Annual Actual 2016	Annual Actual 2015
	N'bn		N'bn	N'bn	N'bn
FGN Share of Oil Revenue	2,200.00*	2,4416.6	2,201.00	697.8	1,218.22
FGN Share of Value Added Tax	140*	140*	242	109	104.66
FGN Share of Customs	300*	300*	278	228.61	232
FGN Share of Company Income Tax	495*	495*	808	457.91	473.32
FGN Independent Revenue	300.00*	300.00*	808	237.75	323.37

Source : Budget Office, BudgIT Research

*BudgIT Projections

Expenditure Framework



Expenditure Framework

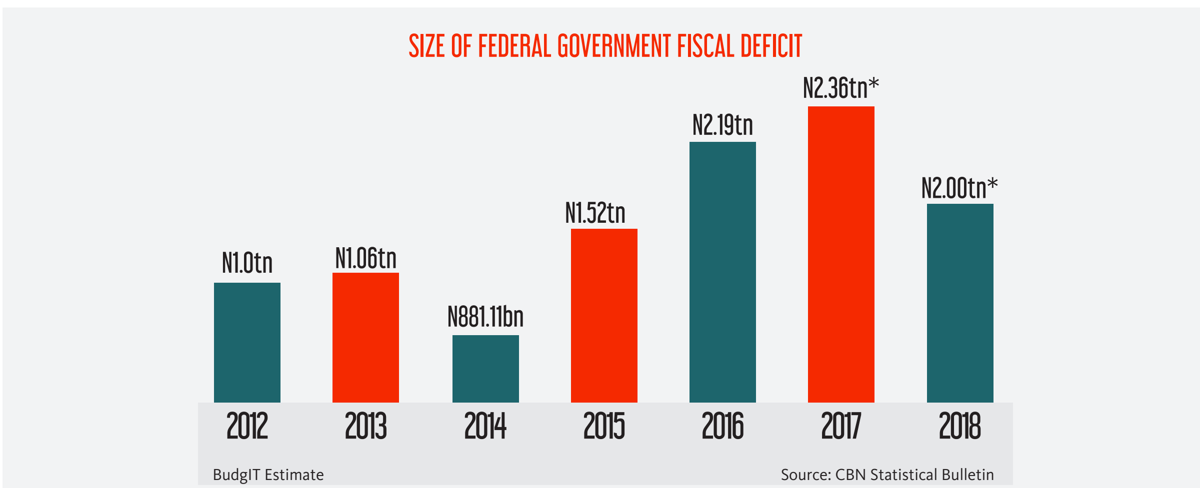
The Federal Government's economics plans for the 2017 financial year called for a total expenditure of N8.612tn, while revenue projections lie way below, at N6.61tn; the maths adds up to a deficit of N2.005tn.

Actual Spending by 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. However, as at end of the second quarter of 2017, a total of N3.101tn was expended. With Nigeria's debt profile rising, and revenue projection grossly overstated in most sectors, the argument that the FG's expected deficit of N2.005tn may be underestimated is not at all far-fetched.

The 2018 deficit of N2.36tn is expected to be 30.35% 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 N5.96tn, a sum up from 2017 budgeted figures of N5.26tn. The balance of N2.652tn,[41] or approximately 30% of the 2018 proposed budget, is to be invested in administrative and developmental capital items.

History Of Deficit Size

The Government's proposed deficit size is estimated at approximately N2.01tn in 2018, a low from 2017 budget projections of N2.37tn. Actual Deficit in 2013, 2014 and 2015 stood at N1.06tn, N881bn and N1.53tn respectively.



Key Factors that will influence full implementation of Nigeria's 2018 Proposed Budget

The Budget size is the largest, in Nominal Terms

In 2016, the budget clocked N6.06tn, but only N4.396tn was spent as at the end of December, 2016. However, the FG took a down line charge of N387.67bn, which was used for the reimbursement of deductions made from States towards Nigeria's debts to the Paris Club. Paying back the so-called 'Paris Club refund' to the States pushed total spending by the FG to N5.14tn.
Records show that government spending tends to stay around the N4tn to N5tn range. However, for 2018, the proposed expenditure of N8.61tn in the budget is the largest thus far for Nigeria, in nominal terms.

Deficit Capped at 3% of GDP

With the government's revenue not expected to grow above N3.5tn and deficit capped at 3% of the Gross Domestic Product – in line with the provisions of the Fiscal Responsibility Act, the N8.61tn budget may prove unwieldy, except the National Assembly removes the cap on the maximum deficit allowed.
Deficits in 2014 and 2015 were N881.11bn and N1.06tn respectively.

In 2016, due to the widening gap between revenue target and actual collections, the deficit figure topped N2.19tn.[42]

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 to raising N744.44bn and N706.74bn respectively for the FG, but this trend seems to be flattening.

In 2014, while the domestic bond market was tapped to raise N624.22bn, the next year 2015 was however different – only N330bn in new Debts was raised, compared to the N802bn projected in the budget.

This trend continued in 2016, where, despite the budget projecting a Domestic Debt undertaking of N1.18tn, only N300bn in new Debt was raised through the fiscal year.

For 2017, the government anchored its spending plan around the assumption that it will raise N1.25tn from the Domestic bond market. As at the end of the first six months of the financial year, only N120bn was raised.

In 2018, the government hopes to tap into the Domestic bond market for N850bn. 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. This could invariably fuel inflation and distort the stability of the Naira, alongside other macroeconomic implications.

Costs of servicing Outstanding Debt

The cost of servicing Debt is increasingly becoming significant for Nigeria. Given than oil revenue for 2016 was 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 N1.31tn was spent in 2016 servicing Debt, against the N1.06tn spent in 2015.

In 2018, the federal government is projecting that Debt servicing costs will top N2.014tn, which comes to approximately 30% 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 in turn dependent of the overall health of the economy.

Recurrent Expenditure

Recurrent Expenditure for 2018 is pegged at N5.96tn. Interestingly, Total Recurrent Expenditure (which includes Personnel cost, Pensions, Overhead costs, Domestic and Foreign debt servicing) continue to increase.

Recurrent Expenditure in 2012, 2013 and 2014 was N3.386tn, N3.603tn and N3.535tn respectively.
In 2015, the sum of N3.83tn was spent on Recurrent items, while the 2016 figure amounted to N3.88tn.
However, the increase in 2016 was attributed to a spending of N82.61bn directly connected to the 2015 Recurrent Expenditure obligations carried over into the 2016 fiscal year.[43]

Meanwhile, the 2017 approved budget scheduled the sum of N5.08tn for Recurrent Expenditure, which shows a marked increase. Given that the FG's Actual Revenue is not expected to be more than N3.6tn in 2018, (despite the budget projections of N6.61tn), 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 was already at N2.68tn, as at September 2017 as against a pro-rated target of N2.24tn, whilst an additional N1.54tn has been used to service Debt.

Though details are lacking, the FG claims that N450bn has been "released" on capital projects within the 2017 budget cycle.

Setting Recurrent Expenditure for 2018 at N5.96tn may further push Nigeria into a debt trap, as the country 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.

RECURRENT EXPENDITURE TO TOTAL EXPENDITURE

Year	Recurrent Expenditure	Total Expenditure	Ratio
2011	N3.38bn	N4.30bn	78.65%
2012	N3.39bn	N4.13bn	81.98%
2013	N3.60bn	N4.56bn	78.99%
2014	N3.53bn	N4.12bn	85.75%
2015	N4.17bn	N4.77bn	87.39%
2016	N4.22bn	N4.39bn	96.06%

Source: Budget Office, BudgIT Research

Spending on Recurrent items, relative to the FG's total spending, is now at historical highs ,topping 96.06% in 2016. As shown in its Medium Term Expenditure Framework (MTEF) document, for the first half of 2017, no funds were spent on Capital items. Meaning that in 2016, almost 100% of all the money Nigeria spent went into running its government.

RECURRENT EXPENDITURE TO REVENUE

Year	Total Revenue (Inflow)	Reccurent Expenditure	Surplus/Deficit
2011	N2.57tn	N3.38tn	-816.84bn
2012	N3.13tn	N3.39tn	-255.73bn
2013	N3.50tn	N3.60tn	-102.34bn
2014	N3.24tn	N3.54tn	-293.51bn
2015	N3.24tn	N4.17tn	-925.86bn
2016	N2.95tn	N4.22tn	-1.28tn

Source: Budget Office, BudgIT Research

Key Point:

The federal government's ability to meet its Recurrent Expenditure obligations without resorting to borrowing is increasingly unlikely. In 2018, it appears the government will be borrowing N850bn from the domestic markets at high lending rates, which could further worsen the trajectory in coming years.

Recurrent Expenditure

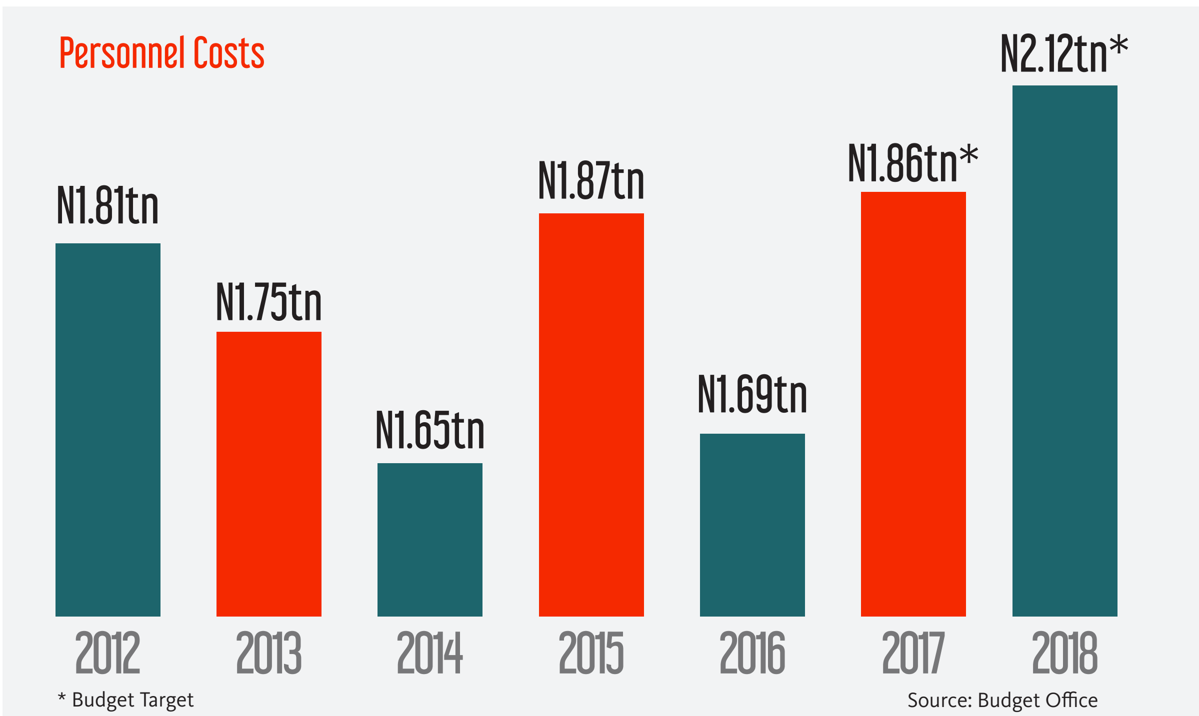
Personnel Costs

Nigeria plans to spend N2.12tn in 2018, a leap from budget projections of N1.88tn in 2017. The Federal Government may have to make some adjustments in this regard, because while actual Personnel cost spending was N1.689tn in 2016, allocations for Personnel costs in 2017 are approximately N200bn more than 2014 levels, meaning the government, rather than making savings, may be looking to expand the price of running itself 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 costs have been reported. Personnel costs came to N1.66tn in 2014, before the global crude oil price correction, and two years later, in 2016, Personnel Costs gulped an estimated 57% of Actual revenue.

It also 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. We see this segment of the budget capable of exerting significant, further strain, as the recruitment of 500,000 teachers[44] and 7500 tax advocates[45] by the Federal Government under its Npower programme may push personnel costs even higher in the near-term.



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 N953.62bn, the figure in 2016 was N1.313tn,[46] which amounted to 44.5% of Actual revenue, while the Debt servicing budget for 2017 was estimated at N1.7tn.

Juxtaposing 2018's projected Debt servicing cost of N2.014tn with realistic revenue assumption for the same year, it is fair to assume that approximately 58% of Actual Revenue may go into servicing Debts alone in 2018.

It appears the Federal Government now seems to need to take in more Debt to meet its Recurrent Expenditure obligations, as Personnel Costs and Debt servicing commitments are projected to overtake Revenue uptake.

We submit that Nigeria may end up sooner at a situation where Debt servicing costs rise to unsustainable levels, if trends where more than half of Actual Revenue ends up cushioning Debts, as opposed to paying them off, persist.

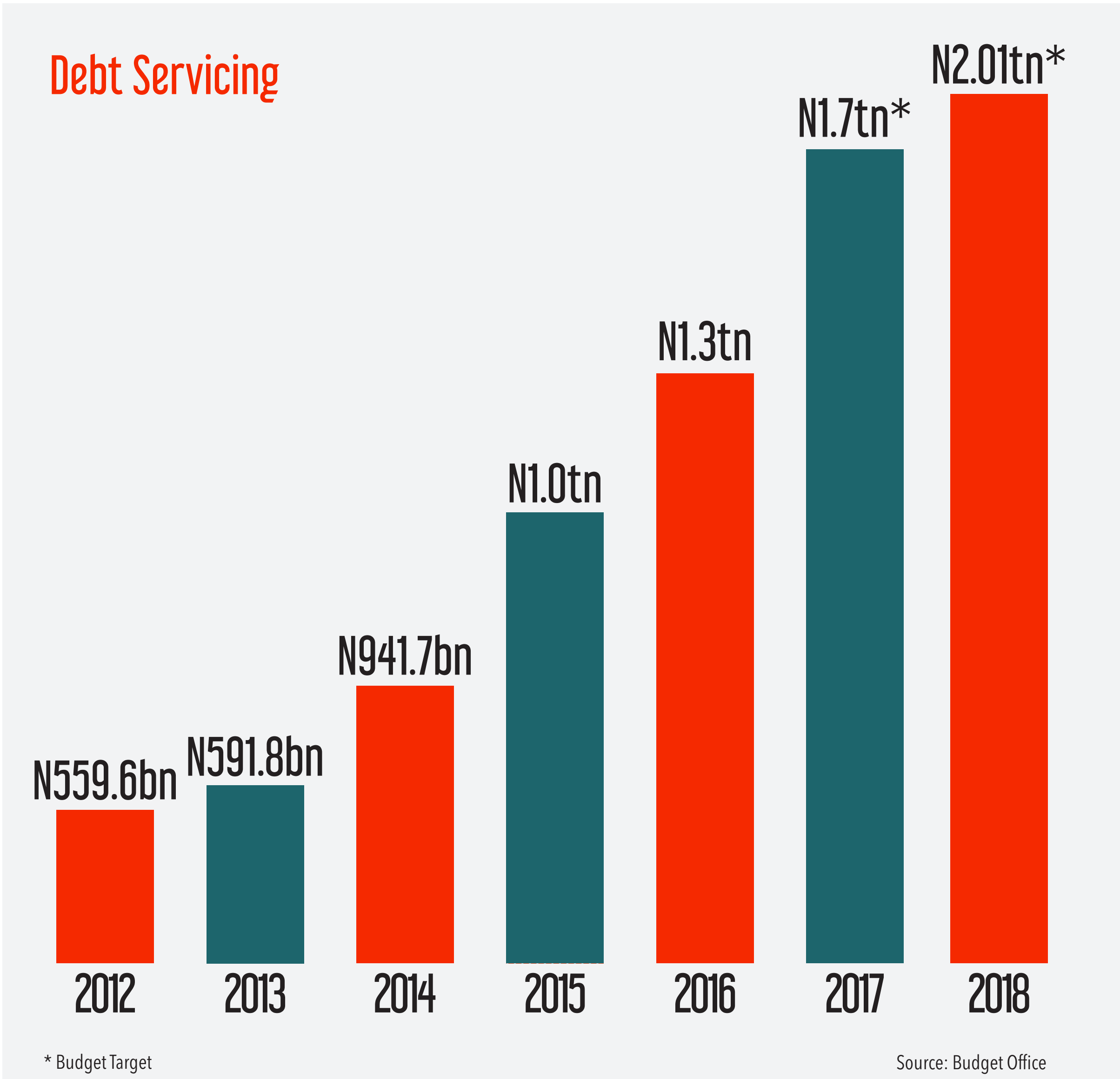
The country's plans to borrow big, as presented in its 2018-2020 MTEF plan—at a time when yields on Eurobonds periodically attain highs and the cost of funding from domestic sources is more often than not astronomically prohibitive—could further push the trajectory up on debt servicing.

Inflation, (which many fixed income investors seek at the minimum line to determine terms of interest on Debt) lies in the region of 15%. The cumulative effect could further feed into amounts dedicated to servicing the debt, driving costs upwards.

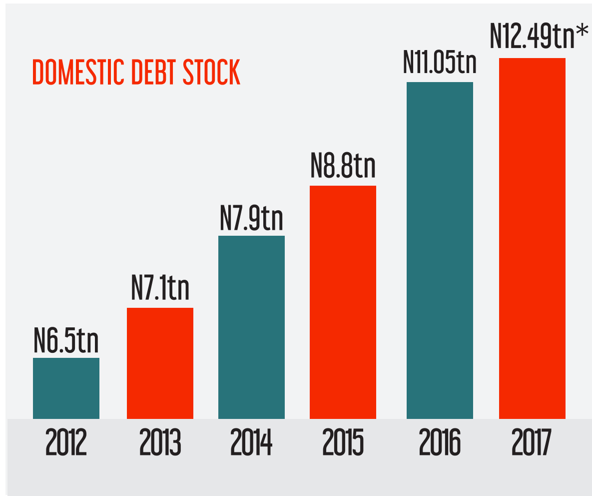
Worse still, over this fiscal year we remain unable to see clear links between Debts and projects which can offset Debt. As at the end of september 2017, the Total debt profile of government stands at N20.4tn and the government recently got approval to tap another $5.5bn from the Foreign debt markets.

Ongoing is that a $30bn[47] debt is mentioned as being sought by the President, and similar possibilities, including the Chinese counterpart debt for roads and rail, have also not been properly defined in the public sphere.

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.


Debt Servicing
N559.6bn
N591.8bn
N941.7bn
N1.0tn
N1.3tn
N1.7tn*
N2.01tn*
2012
2013
2014
2015
2016
2017
2018
* Budget Target
Source: Budget Office

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% of government revenue was spent servicing outstanding Debts.



Source: DMO

*As at Sept. 2017

DEBT SERVICING TO TOTAL REVENUE

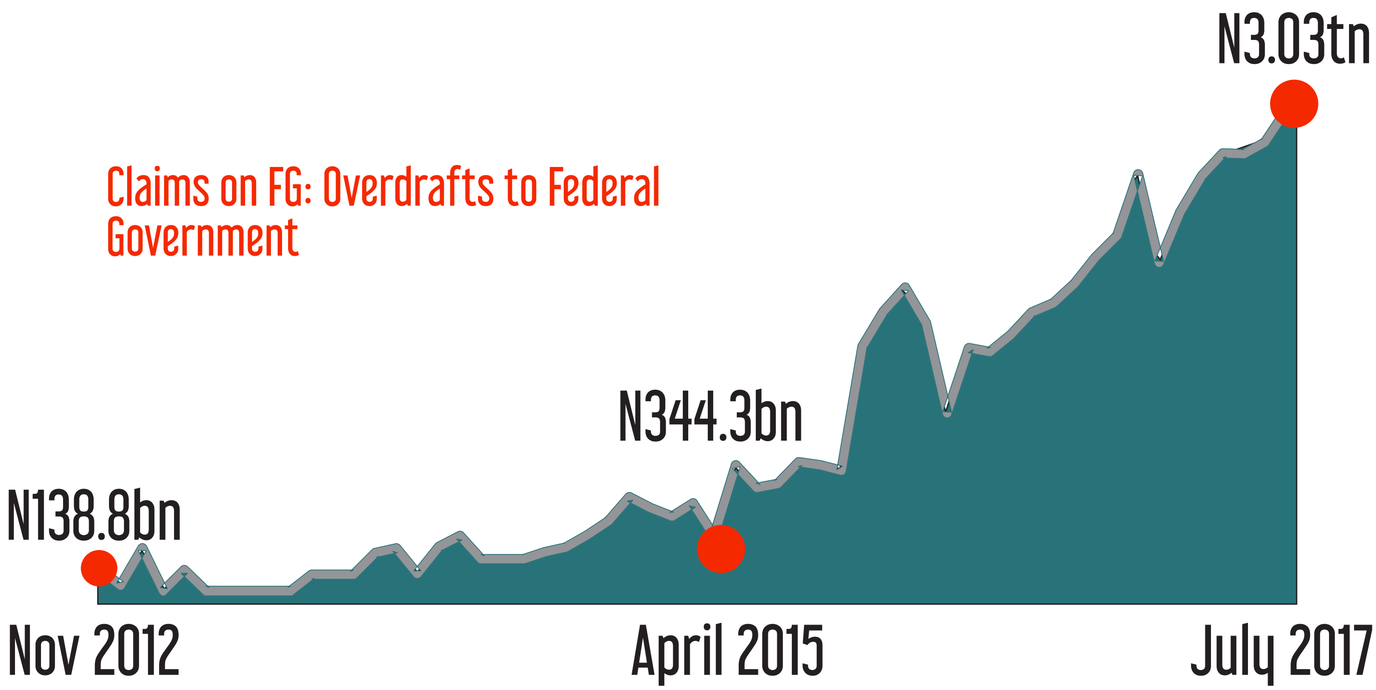
Year	Total Revenue (Inflow)	Debt Servicing	Ratio
2011	N2.57tn	N527.07bn	20.54%
2012	N3.13tn	N679.28bn	21.69%
2013	N3.50tn	N828.10bn	23.66%
2014	N3.24tn	N941.67bn	29.04%
2015	N3.24tn	N1.06tn	32.73%
2016	N2.95tn	N1.31tn	44.56%

Source: Budget Office, BudgIT Research

Monetary impact of FGN's Debt Appetite: Claims on Federal Government

Nigeria's monetary authority continues to extend loans to its federal government, as revenue lags behind projections. As at July 2017, the Overdraft standing against the FG's books hit a record high of N3.03tn.

The consensus in expert circles is that the Central Bank of Nigeria is literally printing money to bailout the FG from its lingering fiscal strain. The future implications of these actions remain unclear, and detailed work will need to be undertaken, to test if this policy would fuel inflation, debase the Naira, or further tilt the economy into dire financial straits.



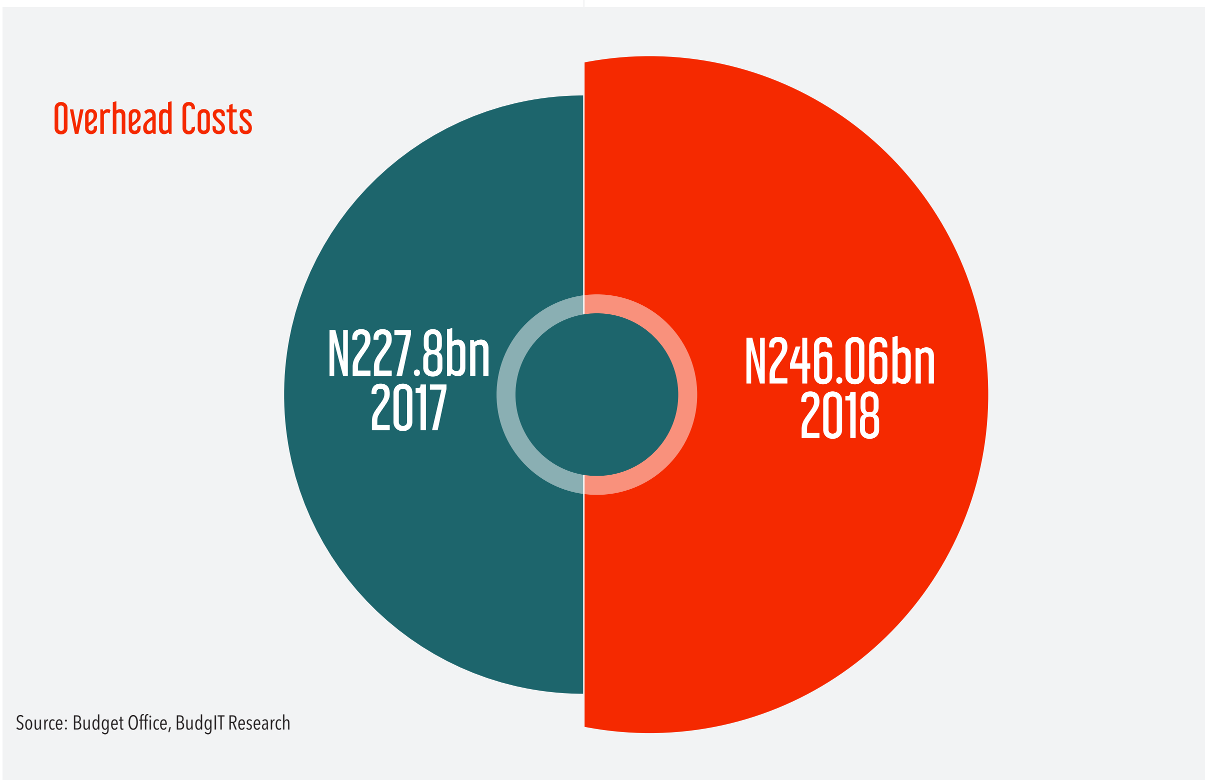
Source: CBN

Overhead Costs

Allocations for Overhead costs (the price of running government) jumped significantly by 47.3%, from N149.28bn in 2016, to N219.84bn[48] in 2017. In 2018, the Federal government is looking at spending N245bn on Overheads.

Relative to 2017 Overhead costs of N414.81bn, the 2018 figures may be reflective of government's decision to set up its Efficiency Unit, but nevertheless, more work is needed, to reduce these numbers across the board.

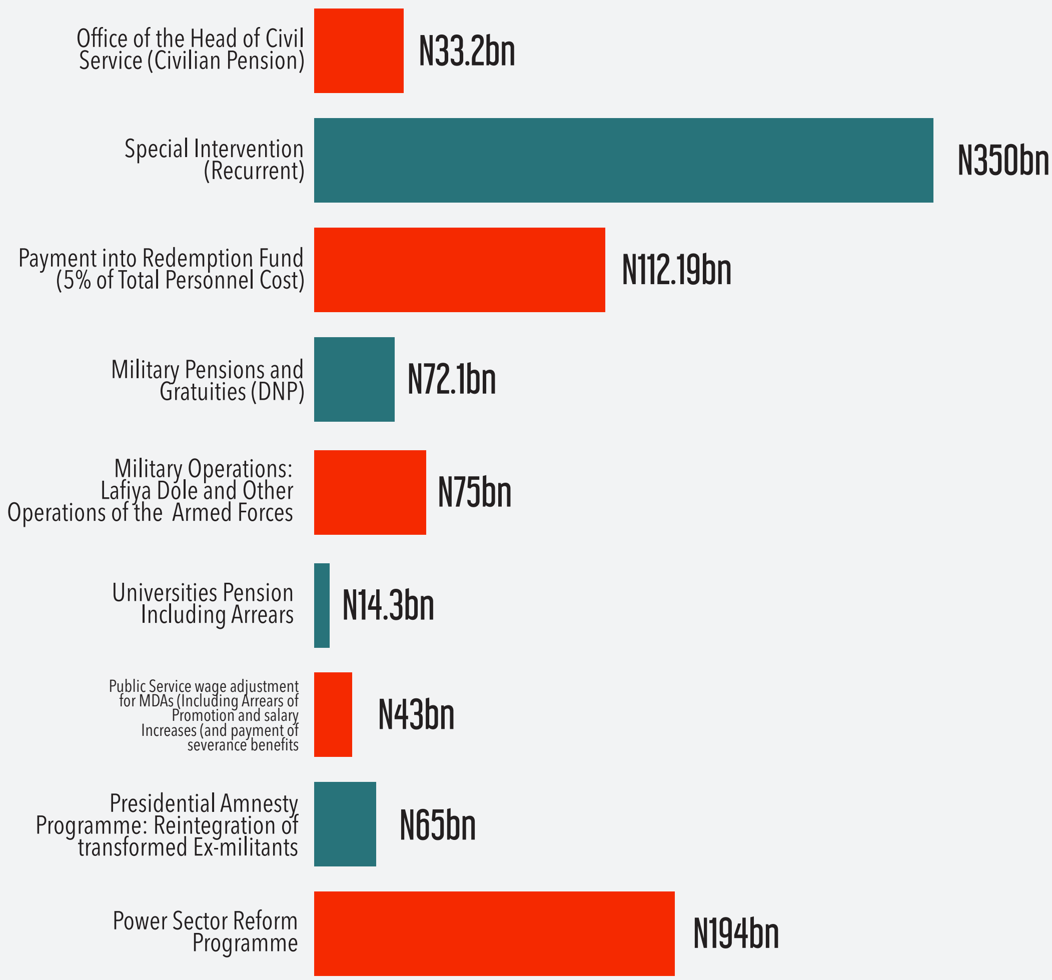
We advance the standpoint that the FG should rely further on the Efficiency Unit set up by the Ministry of Finance, to perform a holistic review of Overheads and aggressively pursue collective bargaining, based on the proven, pressing needs of Ministries.



Service Wide Votes

N943bn
Total

Selected Programs/Projects



Source: Budget Office

Capital Expenditure

Capital Expenditure

The Capital Expenditure portion of the 2018 proposed budget stands at N2.64tn, a marked rise from 2017 levels of N2.18tn.[49]

This budgeted figure is also higher than 2016 numbers of N1.59tn – in 2016, only N173.01bn was actually released, from the earlier budget of N1.59tn. For 2015, a total sum of N601bn was released on capital items.

Moving to the present, as at the end of September 2017, about N350bn was released for Capital expenditure, under the fiscal plan for the year, according to data from the minister of budget and planning. Capital spending in 2012, 2013 and 2014 was far higher, being N958bn, N587.61bn and N744.42bn respectively.

Therefore, 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 have traditionally been granted greater priority in Nigeria.

The Capital items element of the 2018 budget projections is subject to a myriad of factors, even weather, as Nigeria has very limited time to embark on construction activities, due to the rainy season and coming religious holiday. Also, sucessful implement the projects highlighted in the 2018 budget is dependent on external factors, including the: ability to raise funds from the capital market; availability of companies willing to undertake such projects, security around project sites, and commitment on both the government and contractor sides of the equation.

Evidence of what Nigeria would spend on infrastructure can be gleaned from two ministries – the Ministries of Power, Works and Housing and Transportation, both of which are provided with 30.9% of the entire capital development budget. These funds are mainly counterpart payments for rail, diverse road projects, power and housing projects.

We deem it shameful that the combined capital funding for the ministry of Education (including UBEC) and Health was just 9.1% of total Capital expenditure.

The FG is also putting more funds in discretionary packets such as Zonal Intervention Funds (N100bn) and the Special Intervention Fund (N150bn). Apart from the N65bn provided for the amnesty programme, a total of sum N124bn was also budgeted for Niger Delta Ministry and its agencies.

Capital Expenditure to Total Expenditure

Item	Capital Expenditure	Total Expenditure	Ratio
2011	N918.55bn	N4.30tn	21.35%
2012	N744.42bn	N4.13tn	18.02%
2013	N958.00bn	N4.56tn	21.01%
2014	N587.61bn	N4.12tn	14.25%
2015	N601.26bn	N4.77tn	12.61%
2016	N173.09bn	N4.39tn	3.94%

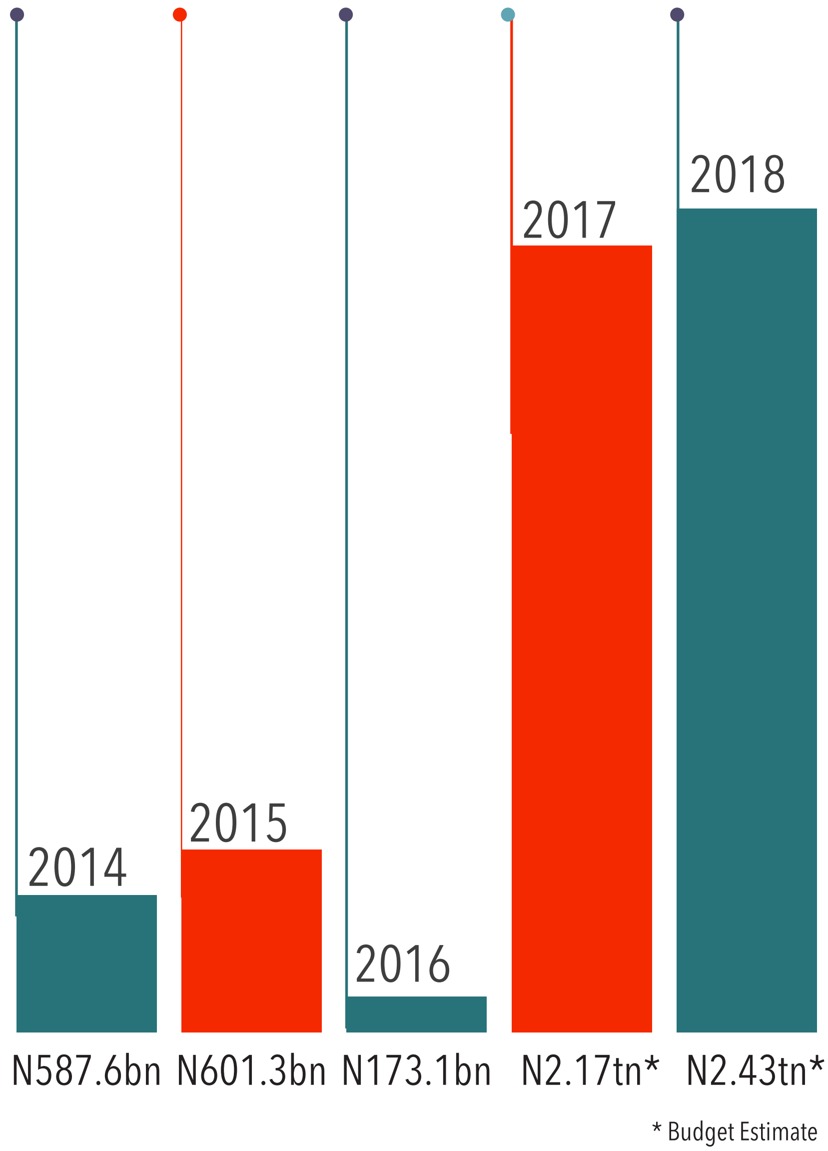
Source: Budget office, budgIT research

Key Point:

Capital Expenditure as a percentage of the FG's total Expenditure hit a marked low of 3.94% in 2016. We note that spending on Capital items relative to Total spending has steadily declined, since the 2014 oil price crash.

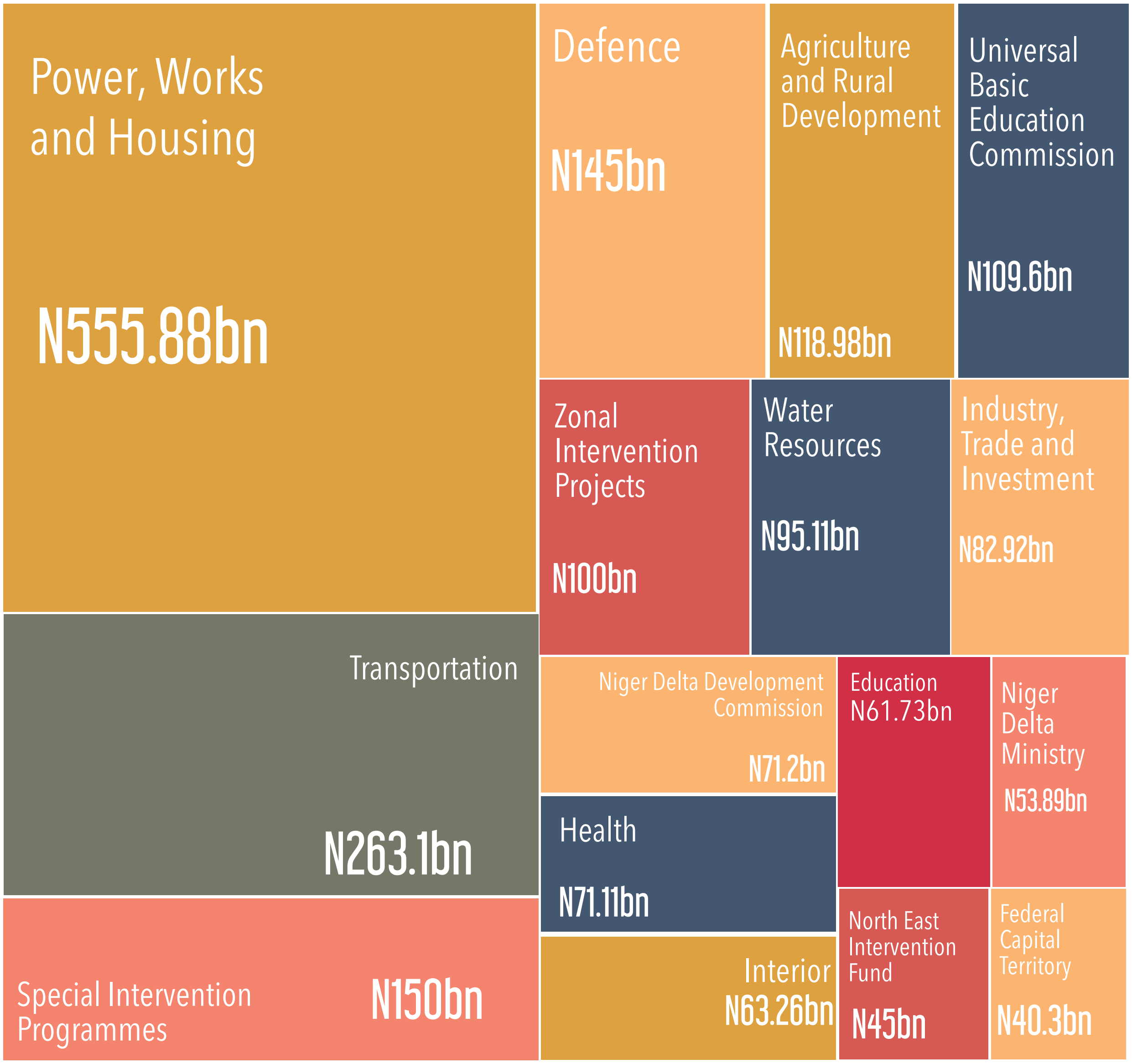
Capital Expenditure

2018 Proposed Budget



Capital Allocations by ministries

2018 Proposed Budget



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Key Issues with the 2018 capital Budget

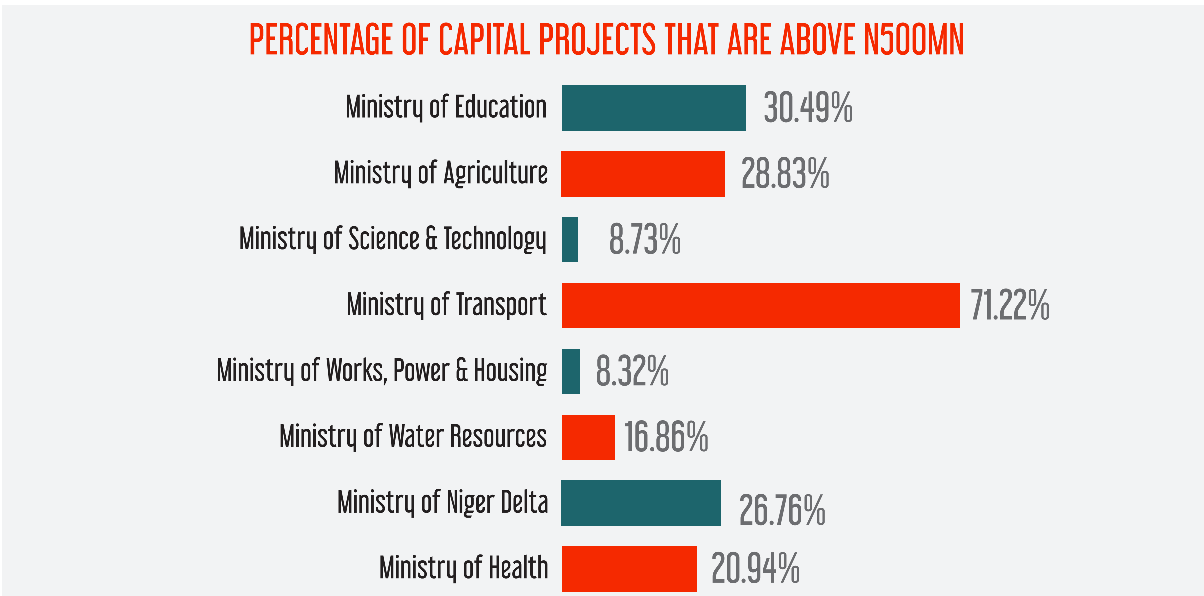
Opaque nature of Capital Allocation

We also observe that the projects and programs of most Ministries, Department and Agencies (MDAs) are difficult to grasp at a glance, for purposes of analysis and auditing.

At N2.65tn, the Proposed capital for 2018 seems to be large, but a closer look at the line-by-line items shows some disconnect between the developmental goals of government, as highlighted in its Economic Recovery and Growth Plan (ERGP) and the projects in the 2018 proposed budget.

It appears, most of the Capital allocations as highlighted in the 2018 proposed budget are projects each with a carriage value below N500mn, accompanied with vague descriptions that are difficult to monitor or track.
On average, only about 26% of capital allocations to the ministries of Health, Education, Agriculture, Transportation, Niger Delta, Water resources, Science, Works, Power and Housing are trackable, and/or can be directly linked to the written, medium-term aspirations of the government as highlighted in the ERGP.

A look at the top eight ministries shows that most of the projects proposed in the 2018 budget are fragmented, and listed with vague descriptions that tend more towards opacity, as opposed to transparency in governance.



Source: Budget Office, BudgIT Research

Pervasive use of blanket terms

Across the board, a significant amount of capital allocated in the 2018 budget falls under certain generically-named items which have no detailed description and do not communicate the number of beneficiaries of such items.

It is common to find the following entries in the budget of every Ministry, Department and Agency of government: "Welfare packages, Sporting activities, Drugs and Medical Supplies, Medical expenses, Software acquisition, Monitoring and Evaluation, Budget Preparation, etc."

Other budget overhead/capital items that are vague, and do not reveal beneficiary-size or the unit cost of items include: Access to Credit, Food & Agricultural policies, Budget Preparation and International Training. This system of budgeting with "one-liners" without details, gives room for financial indiscretion and the potential abuse of funds. It is antithetical to what the government continually professes to stand for.

Some Budget Line Items

MDA Item Code	Item	2018 Proposed Budget	Ministry
ERGP23114176	Take off Grant for Maritime University Okorenkoko	N5,000,000,000	Ministry of Education
ERGP25112626	Expansion of Emergency/casualty complex	N180,000,000	University of Abuja Teaching Hospital, Gwagwalada (Health)
ERGP16106090	Capacity Building for the ministry's workforce	N320,000,000	Ministry of power,works and housingHQTRS

Source: Budget Office, BudgIT Research

Lack of Clarity in Fund disbursement-Capital Expenditure

The Government is yet to come out plainly on the amounts spent on Capital items in the 2016 and 2017 financial years. While the Ministry of Finance repeatedly claims a sum totalling N1.2tn has been released, the Budget Implementation Reports released by the Budget office of the Federation show otherwise.

In 2016, only N173.01bn was actually released, according to the Budget Implementation Report, out of the earlier budget of N1.59tn.

For 2015, a total sum of N601bn was released on Capital items. Information on the benefitting projects, location, status of projects remains unclear, and repeated letters to seek clarification have not been honored by the Ministry of Finance.

As at the end of September 2017, some N350bn was released for Capital expenditure, according to figures from the Minister of Budget and Planning. Again, information on the benefitting 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 N2.01tn in 2018, if the proposed 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.

Conclusion

Across various indices, the Nigerian government's revenue projections in 2018 shows pockets of unfounded optimism, and generally needs to be cognisant of the fiscal and political realities of the country's unique operating environment. Policies to drive revenue collection efficiency are necessary, while the government needs to continue to bear down on leakages within the Recurrent Expenditure aspect of its books.

The costs of servicing Debt persists as a great cause for concern, particularly as the figures clearly show that government Revenue is hardly keeping up. Nigeria must wilfully moderate Debt uptake and focus more on expanding other economic variables, to achieve a level of fiscal stability that is sustainable.

A pertinent step taken is to ensure that the budget calendar and budget process are structured and timeous. This will be Nigeria's fastest option if she hopes to avoid the recurring issues associated with the passage of the budget, which come with immediate consequences that significantly affects capital expenditure spending, investor appetite, the wider economy and most important, the everyday people that constitute Africa's most populous nation.

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