State of States

POLICY BRIEF

April 2017

budgIT
www.yourbudgit.com

"...relations between Abuja and the States have to be clarified, if we are to serve the country better. Constitutionally there are limits to (the) powers of each of the three tiers of government, but that should not mean the Federal Government should fold its arms and close its eyes to what is going on in the States and Local governments. Not least the operations of the Local Government Joint Account. While the Federal Government cannot interfere in the details of its operations, it will ensure that the gross corruption at the local level is checked. As far as the constitution allows me, I will try to ensure that there is responsible and accountable governance at all levels of government in the country. For I will not have kept my own trust with the Nigerian people if I allow others abuse theirs under my watch."

President Muhammadu Buhari
Inaugural Speech on 29 May 2015

Lead Partner :
Oluseun Onigbinde

Research Team:
Atiku Samuel,
Ayomide Faleye,
Olaniyi Olaleye,
Anuoluwapo Oyeleye
Thaddeaus Jolayemi

Creative Development:
Segun Adeniyi,
Kehinde Agbaje
Richard Ofunrein

Editor:
Ruona Meyer

Contact:
info@yourbudgit.com
+234-803-727-6668,
+234-908-333-1633

No. 55 Moleye Street,
Alagomeji, Yaba, Lagos,
Nigeria.

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.

Road to States' Fiscal Crisis

Over the last 35 years, the Nigerian government's national and sub-national revenue level is substantially connected to crude oil receipts. Latest figures from the Nigerian Bureau of Statistics show that in 2016, at least 96% of foreign export income was linked to oil. The routine consequence of this is that the volatile nature of crude oil as well as the structural and security challenges associated with this commodity makes fiscal planning difficult, leaving developmental goals ending up less of a priority.

Historically, Nigeria's economic cycle, government revenue and its trade in crude oil are undeniably correlated. The county's non-oil revenue component (which current government policies are directed at improving) are equally linked one way or another to crude oil. For instance, 30% of VAT is tied to oil-producing entities, while importers also depend heavily on foreign exchange from crude oil; this feeds into non-oil revenue derived at Nigeria's ports, and is classified as customs and tariffs. Businesses also need foreign exchange coming from the oil and gas sector to remain functional and profitable, particularly for the purchase of raw materials, or spare parts for machinery.

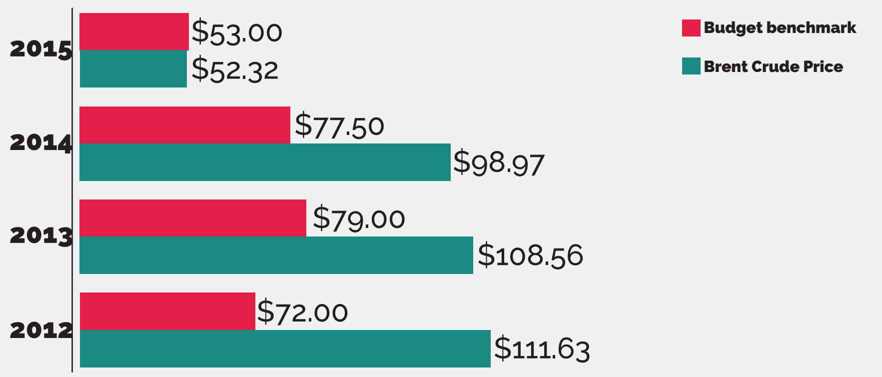
"Historically, Nigeria's economic cycle, government revenue and its trade in crude oil are undeniably correlated."

Planners at the federal and sub-national level routinely agree to a benchmarking regime, where an estimated price is assumed for crude oil throughout the fiscal year, and all budgets are planned on this benchmark. Any additional revenue derived from the oil and gas sector outside the estimated figure for the year is saved into the so-called Excess Crude Account, a buffer account designed to augment revenue shortfalls in lean times. The Excess Crude Account also acts as a tool for flattening out the associated effects of oil price volatility.

Major disruptions in the price or production numbers for crude therefore significantly impede the government's ability to perform its statutory functions. Crude oil prices averaged $111.63, $108.56, and $98.97 per barrel in 2012, 2013 and 2014, as against budget benchmark projections of $72, $79 and $77.5 per barrel respectively.

"The county's non-oil revenue component (which current government policies are directed at improving) are equally linked one way or another to crude oil. For instance, 30% of VAT is tied to oil-producing entities, while importers also depend heavily on foreign exchange from crude oil."

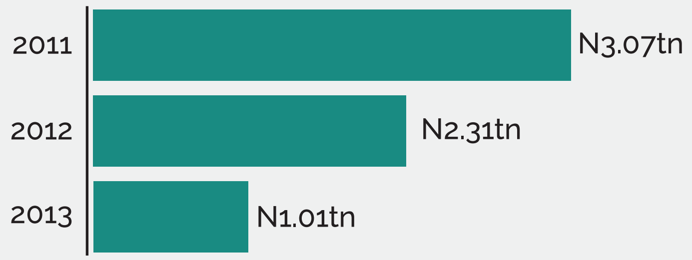
Crude Oil Price vs Budget Benchmark (Per Barrel)



Source: Budget Implementation report, EIA

According to Budget Implementation Reports, N3.069tn, N2.31tn and N1.01tn accrued to the Excess Crude Account in 2011, 2012 and 2013 respectively.

Excess Crude Account of the Federation



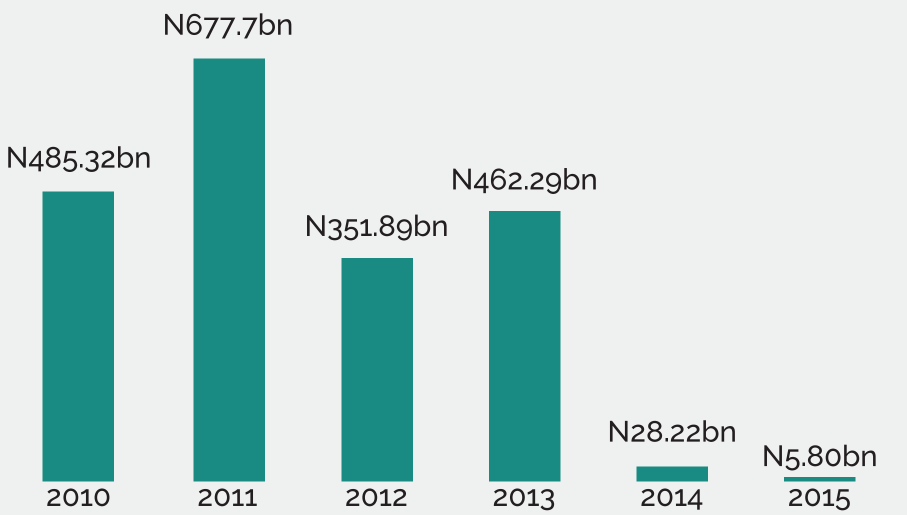
Source: Budget Implementation Report

Due to an inability by successive governments to commit to transparency, the Excess Crude Account has become a stash of sorts for fraudulent fuel subsidy schemes, coming across as a piggy bank for the whims of the ruling elite. Whenever weak production numbers force a dwindling of oil revenue, governors often immediately request that funds contained in the Excess Crude Account be shared between States. The details of all expenditure was shrouded in secrecy, with limited information on the modalities for the disbursement of these funds made public.

> "According to reports from the Ministry of Finance released in May 2015, between 2011 and 2015, about $42bn went into the Excess Crude Account; of this sum, N6.21tn was distributed to the Federal and State Governments, with the States taking a total of N2.92bn within this period."

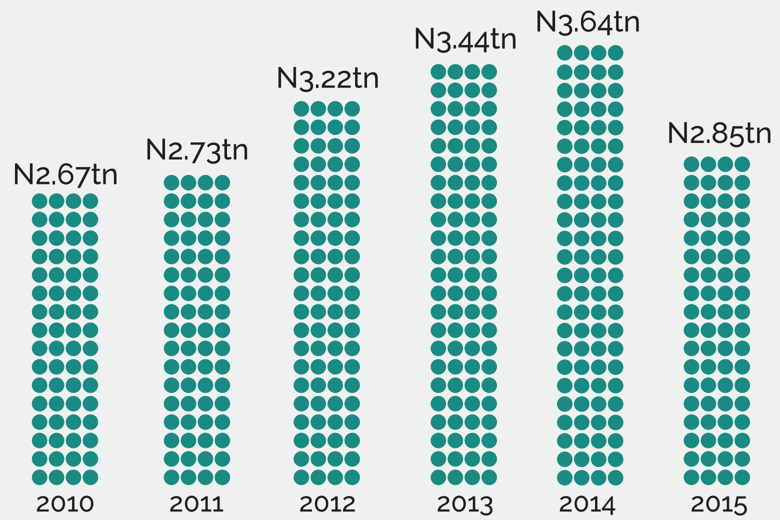
Even in periods where Nigeria enjoys a favourable crude oil pricing market, revenue shortfalls can be directly linked to crude oil production shortfalls; ambitious and overly optimistic non-oil revenue targets; weak institutions and unrealistic, bloated budget targets.

Excess Crude Account Shared among States



Source: Budget Implementation Report

When oil prices are lower, rather than adjust spending, expand tax collection figures, work to boost internally-generated revenue and prepare more realistic revenue projections and/or expenditure targets, States and the Federal government chose to instead draw down on savings accumulated in the Excess Crude Account.



Source: CBN Statistical Bulletin

Furthermore, even when oil production - and by extension revenue - exceeds forecasts, the propensity is the same; to dip into the Excess Crude Account; a situation underlined by occurrences some six years ago.

In 2011, crude oil prices averaged $111.26 per barrel; significantly higher than budgeted, benchmark figures of $75 per barrel, while crude oil production targets were set at 2.3million barrels per day, or approximately 840 million barrels.

Despite annual oil production being significantly higher (at 866.2million barrels) than the benchmarked figure, nearly N677.7bn, or 20% of the amount spent by State governments was drawn from the Excess Crude Account. Interestingly, internally-generated revenue for all 36 States in 2011 was only N509bn, with Lagos state accounting for almost 38% of total uptake.

In all, between 2010 and 2013, crude oil pricing overshot forecasts but the expansionary fiscal policies of State governments culminated in the withdrawal of approximately N1.49tn from an account designed to help Nigeria and the economy mitigate the effects of oil price falls.

By the end of 2014, crude prices came under intense pressure, as a spike in demand trailed off, and overproduction created a glut in the market. The consequences of these changes in the market structure

"Despite annual oil production being significantly higher (at 866.2million barrels) than the benchmarked figure, nearly N677.7bn, or 20% of the amount spent by State governments was drawn from the Excess Crude Account."

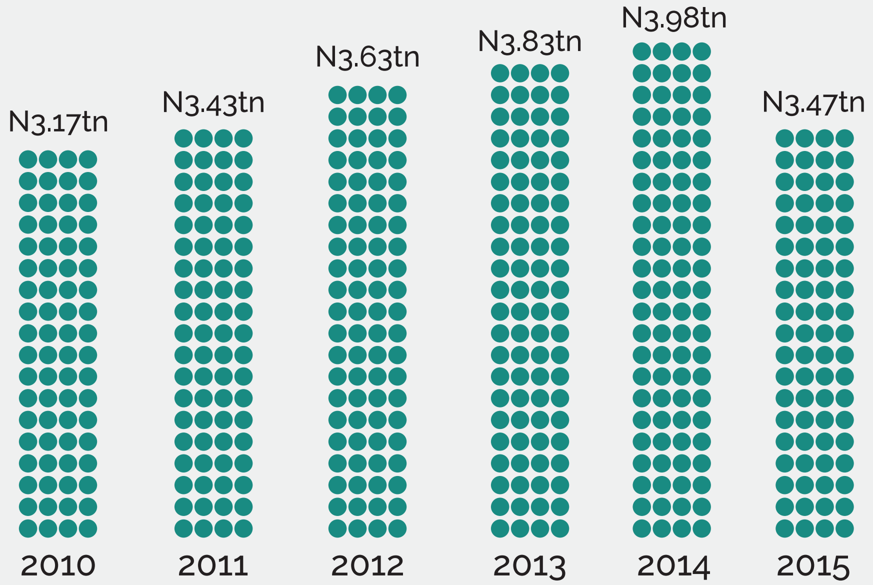
for crude negatively impacted States' ability to continue to meet their developmental goals, especially in the area of infrastructure development.

Nevertheless, Recurrent Expenditure (which was cut by State governments from 2011 levels of N2.06tn to N1.66tn in 2012) witnessed an upward trajectory, hitting a high of N2.27tn by 2015.

As most States simultaneously failed to grow internally-generated revenue and expand the tax net, many began running without functional budgets, and essentially at the behest of the governors, as details of their expenditure plans were not made public.

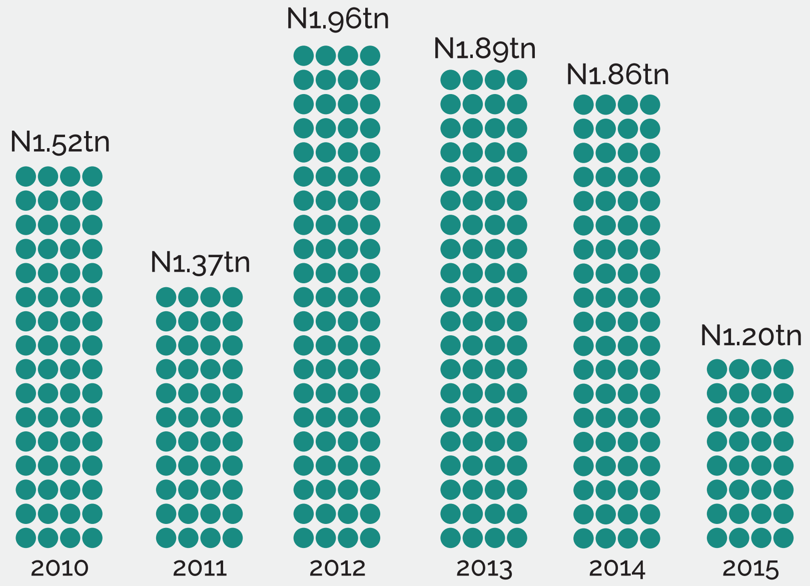
> By the end of 2014, crude prices came under intense pressure, as a spike in demand trailed off, and overproduction created a glut in the market.

Actual Expenditure of the 36 States



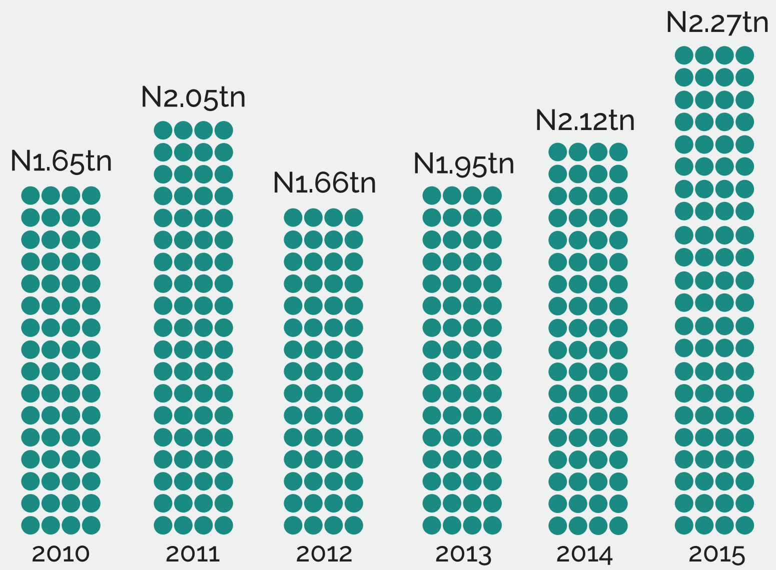
Source: CBN Statistical Bulletin

Actual Capital Expenditure of the 36 States



Source: CBN Statistical Bulletin

Actual Recurrent Expenditure of the 36 States



Source: CBN Statistical Bulletin

The Bailout

Today, Nigeria's States are facing a significantly dire fiscal cycle; most are struggling to meet core obligations, including the payment of civil servant salaries and/or pensions, the servicing of overhanging debt and seeing to the day-to-day running of government. The economy of Africa's most populous nation is now well ensconced in its first recession since a return to democratic rule, without the safety net of a vibrant Excess Crude Account. Inflation is another associated factor driving up the costs of running government and causing revenue to flatten out. State governments therefore currently have very limited space to maneuver, as most are neck-deep in debt which was accumulated under the baseless assumption that crude oil prices would remain above the $80/barrel mark.

Unlike the Federal Government, which has the capacity to borrow as a sovereign entity, take IOU receipts from the Central Bank and also lend against the Treasury Single Account, the State governments did not, and do not enjoy such privileges. Restricted primarily to a life on the dole through the Federal Accounts Allocation Committee (FAAC), by January 2015, oil price slumps meant revenues from FAAC to the States dipped. Added to this was a situation where debt servicing through Irrevocable Standing Purchase Order and other obligations to commercial banks, shoved many States into the red.

"Unlike the Federal Government, which has the capacity to borrow as a sovereign entity, take IOU receipts from the Central Bank and also lend against the Treasury Single Account, the State governments did not, and do not enjoy such privileges."

The first clear indicator that Nigeria's States were teetering into financial ruin came when at least two-thirds of all 36 governors demanded a federal government relief package, due to their inability to pay salaries and benefits to civil servants for months, and in some cases, over a year.

Partly due to political and economic reasons, the Federal Government stepped in, proffering a bailout package that came with conditions. However, corruption and a still-volatile crude market mean that most infrastructure projects within the States are stalled, and it is likely the majority of governments will remain under fiscal strain, except drastic actions are taken to correct these trends.

EXTRA-STATUTORY DISBURSEMENTS

STATE'S BAILOUT PACKAGE

N575bn
Bond Restructuring Programme

N338bn
CBN Salary Loan

N92.18bn
NLNG Dividend to States*

N7.85bn
NLNG Windfall

TOTAL
N1.75tn

N3.59bn
Solid Mineral Revenue Savings

N117.3bn
Excess Petroleum Profit Tax Savings

N90bn
Conditional Loan Facility

N522bn
Paris Club Deduction Refunds

Source: OAGF, MINISTRY OF FINANCE, CBN, BUDGIT RESEARCH

Recent History of States' Extra-Statutory Disbursements

Over the last 24 months, the Federal government has injected more than N1.75tn into the States, to help these entities mitigate the extensive financial upheaval. The administration and disbursement schedule for these funds remain inaccessible to wider population, making it impossible to analyse, or quantitatively and qualitatively measure the impact of such allocations on the larger economy.

States' Bailout

1. N913bn State Bailout

Just months into Muhammadu Buhari's presidency, the condition of the States deteriorated markedly, with donations being collected for indigent civil servants in some cases. A N913bn bailout package was arranged relatively speedily, with debt conditions structured along two lines. The first part of the bailout would enable States offset all outstanding liabilities related to salaries (an estimated bill of N338bn), as at the time the bailout package was announced. The second component was to help the States get out of unfavourable, short-term debts with prohibitive lending rates that had begun to markedly cripple the States' operational viability.

A full breakdown of the N913bn State bailout therefore fell along these lines:

N338bn CBN Salary Loan

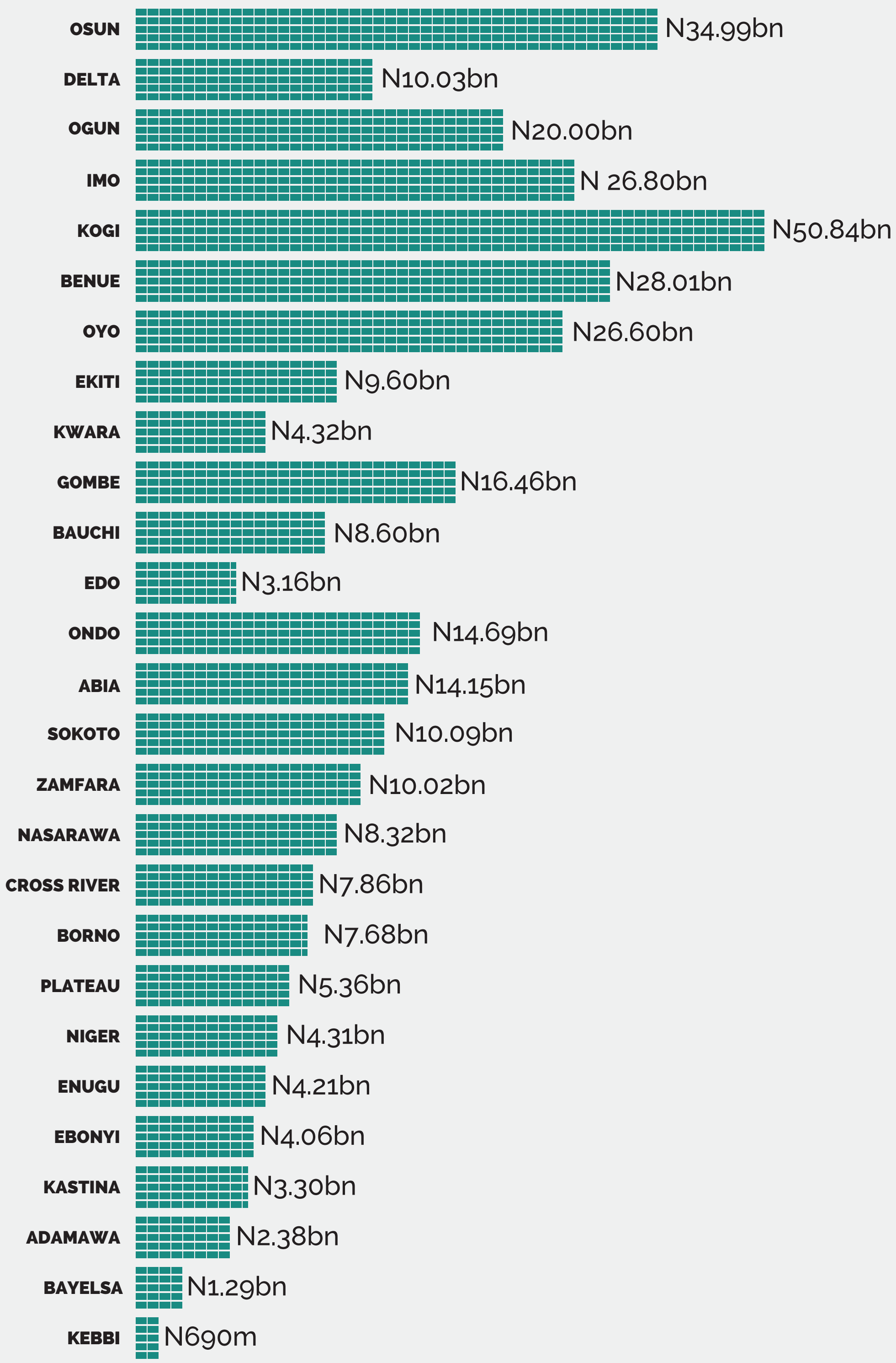
A 20-year loan, with interest rates of 9% was approved by the Central Bank of Nigeria (CBN), and disbursed to some States.
Information on how the funds were allocated was not readily available, and the CBN refused a subsequent Freedom of Information request by BudgIT for these figures. The House of Representatives also set up an ad hoc committee to investigate how various State governments spent the N338bn bailout. Despite this, till date, the specific amounts given to each recipient-State, and to what ends the funds were put to, remains purposely hidden from public scrutiny.

The N575bn Bond Restructuring Programme

Part of the first bailout scheme was the negotiation of a N575bn debt package by the Federal Government, through the Debt Management Office. Under this arrangement, States could convert high-interest bank debts into a 20-year tenured debt with interest rates set at 14.83%. Twenty three States were immediate beneficiaries, but the actual sums disbursed were not made public. In all, loans within the books of about 15 banks totalling N575bn were restructured into 20-year loans with lower interest rates. However, Ogun State opted for a 10-year loan structure, basing the decision on its peculiar long-term fiscal plans.

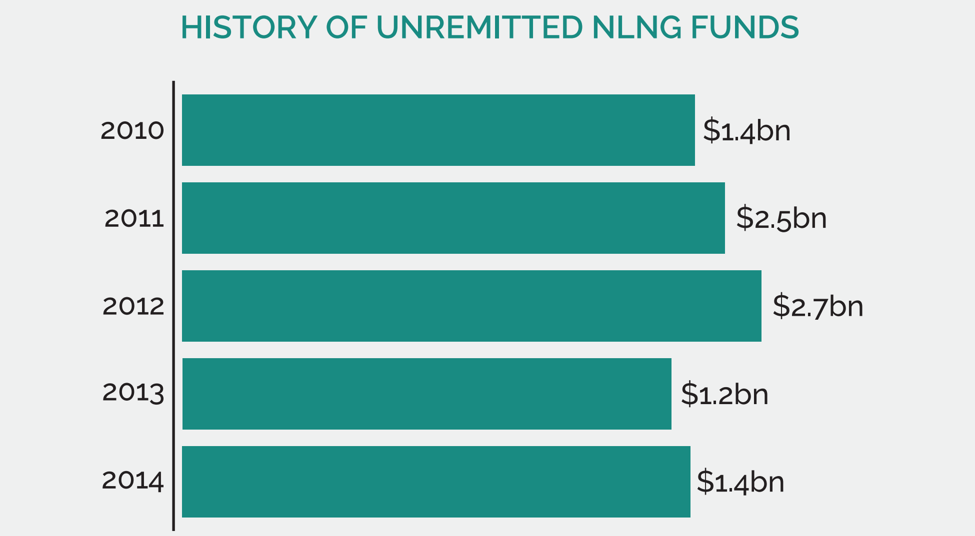
N338bn CBN SALARY LOAN

CBN approved loans to 27 states to pay outstanding salaries at an interest rate of 9% over a period of 20 years.



2. N92.18bn NLNG Dividend to States*

The Federal Government (FG) remitted approximately N92.18bn to States in July 2015, announcing that the money came from dividends worth $2.1bn paid to the FG by the Nigerian Liquified Natural Gas Company (NLNG). News reports stated that these funds were part of an "intervention package to help bankrupt states pay outstanding workers' salaries." At least one governor went on the record to deny the disbursement was a bailout, saying these were funds the States were ordinarily entitled to.



Source: NEITI

3. N7.85bn NLNG Windfall

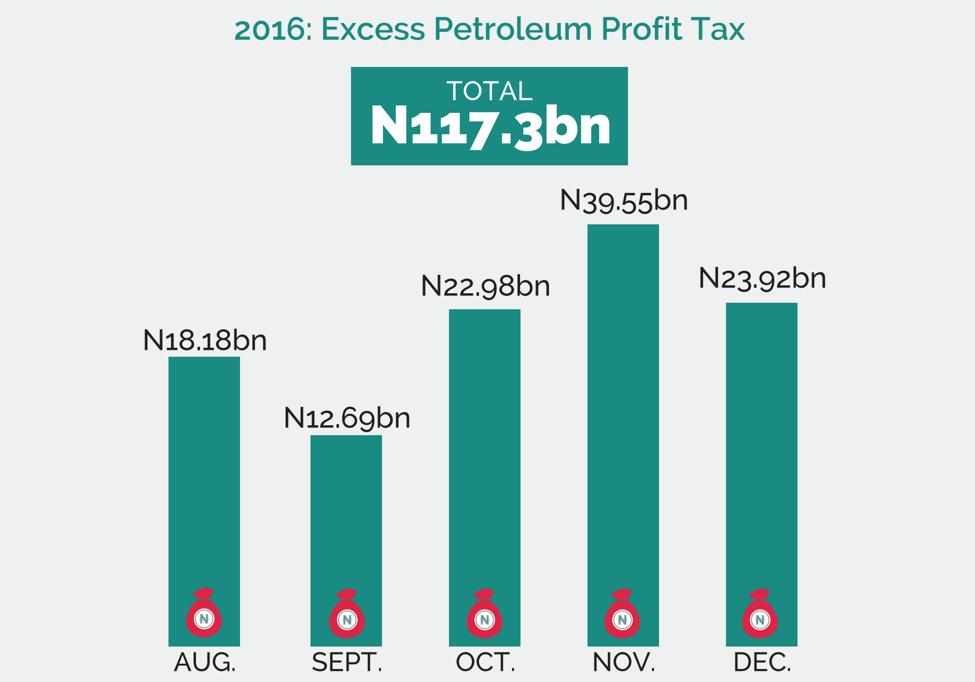
The Federal Government also approved the sharing of N7.85bn to States in January 2016, basing this on a need to shore up revenue shortfalls in the States. Historically, such funds are usually reinvested in the NLNG to expand its operational capacity.

4. N3.59bn Solid Mineral Revenue Savings

Between 2007 and 2014, Nigeria made some savings from solid mineral revenue. From these savings, the Federal Government endorsed the allocation of N3.6bn to States, in July 2016, as part of the routine monthly FAAC disbursements.

5. N117.3bn Excess Petroleum Profit Tax

A total of N117.3bn was granted to States, money scraped off excess revenue generated from Petroleum Profit Tax (PPT), which is a levy on the income of companies engaged in upstream petroleum operations. Details for this particular distribution of PPT revenue remain sketchy. However, it is common practice for States and the Federal Government to periodically share any extra monies recovered by the latter's ministries, departments or agencies. In this case; the PPT fell under surplus revenue that was recovered by the national oil company NNPC. Ordinarily, this should go into the Excess Crude Account, but it was speedily distributed.



Source: Office of the Accountant-Generel of the Federation

6. N90bn Conditional Loan Facility

The Federal Government also announced a N90bn loan which it will guarantee, but notes actual disbursement is conditional. The loan will be secured from the private sector and is based on States meeting 22 conditions (see Appendix), which the Minister of Finance describes as very stringent.

All States are said to have signed up to the conditions, which incorporate a comprehensive economic reform plan, and are intended to "set the States on a path towards fiscal sustainability and support the Federal Government's drive to reflate the economy."
Further information on the exact amount given to States does not exist, and the Minister of Finance has not been as forthcoming as is to be expected.

We note that only seven States (a fifth of a total of 36) have published their detailed budgets online. Budget Implementation Performance reports for almost all these States are not available online, except a summary provided by Lagos State. Nevertheless, funds were, and are still disbursed to States, seemingly under the assumption that some semblance of payment conditions were met. We reiterate that the current degree of transparency and accountability is abysmal, and fail to show the impact of the bailout funds being doled out at the expense of ordinary Nigerians.

7. N522bn Paris Club Deduction Refunds

In addition, the Federal Government (FG) endorsed the release of N522.74bn to State governments as refunds for surplus deductions of external debt servicing fees. States claimed the FG removed a surplus of $6.9bn from their statutory allocations between 1995 and 2002. These deductions were somehow connected to debt service obligations that the FG routinely carried out with respect to payments due to the Paris Club, and other multilateral debts.

In response, the FG agreed to pay 25% of the claims made by the States, going further to place a cap of N14.5bn per State. The FG has said these payments should empower States to offset unsettled salaries and pensions, citing this as a condition for disbursing the refunds.

According to our analysis, the cumulative sum of N1.75tn was injected in 2015 and 2016 alone as bailouts for States.

PARIS CLUB REFUND

RANK	STATES	AMOUNT
1	AKWA IBOM	N14.50bn
2	BAYELSA	N14.50bn
3	DELTA	N14.50bn
4	KATSINA	N14.50bn
5	LAGOS	N14.50bn
6	RIVERS	N14.50bn
7	KADUNA	N14.36bn
8	BORNO	N13.65bn
9	NIGER	N13.41bn
10	JIGAWA	N13.22bn
11	ONDO	N13.03bn
12	IMO	N13.02bn
13	BAUCHI	N12.79bn
14	BENUE	N12.75bn
15	SOKOTO	N11.98bn
16	OSUN	N11.74bn
17	ANAMBRA	N11.39bn
18	EDO	N11.33bn
19	CROSS RIVER	N11.30bn
20	KOGI	N11.21bn
21	KEBBI	N11.12bn
22	OGUN	N10.68bn
23	ABIA	N10.63bn
24	PLATEAU	N10.49bn
25	ZAMFARA	N10.12bn
26	YOBE	N10.07bn
27	ENUGU	N9.97bn
28	KWARA	N9.19bn
29	EKITI	N8.88bn
30	NASSARAWA	N8.46bn
31	EBONYI	N8.39bn
32	GOMBE	N8.32bn
33	OYO	N7.21bn
34	ADAMAWA	N4.89bn
35	TARABA	N4.20bn
36	KANO	No amount was disbursed

Conclusion

From the foregoing, the unequivocal, recurring theme is that the allocation, utilisation and spending of public funds remain mainly opaque, uncoordinated, and brazen, given government's inability to acknowledge the presence or wishes of the same Nigerians in whose names these monies are disbursed and collected.

This incapacity to encourage or enforce conditions that mandate States to articulate their policies and submit to standardised performance indicators has ensured that governors merely sit back and routinely await the discovery or refunding of money into the Treasury, and immediately seek their share.

A wanton disregard for the sanctity of national funds means that even when oil prices are at an all-time high and outgrow the agreed benchmark, States will rather agitate for a drawdown on the Excess Crude Account, NLNG dividends or any other source of direct allocations.

In March, the Finance Minister said the initial disbursement of Paris Club fund to the States was "subject to an agreement by State Governments that 50% of any amount received would be earmarked for the payment of salaries and pensions."

We are hard-pressed to reiterate that the Federal Government seems to have adopted a reductionist approach to the States; often basing its release of funds on a need to offset Recurrent Expenditure at sub-national level. This institutional prioritisation of wage bills, as valid as it is, must not be done to the detriment of Capital Expenditure, as this may send the wrong signals to governors. Subsequent events have proven our fears are becoming a reality.

A few days after the Finance Minister's remarks, The Nation newspaper reported that at least "seven governors have been linked with the alleged diversion of part of the N388.304bn London-Paris Club refunds into two accounts opened by the Nigeria Governors Forum (NGF)."

On 5 April 2017, the Adamawa State government refused a Freedom of Information request from a citizen seeking details on how the first tranche of the Paris Club refunds received were spent (see Appendix). The Adamawa State Government wrote: "we are not obliged to comply...as the Act has not been domesticated in Adamawa State and therefore of no effect...and cannot be enforced..."

These sentiments have since been re-echoed by another governor; on 13 April 2017, a spokesperson for Delta State governor Ifeanyi Okowa said that the Federal Government had no power to instruct

States on how to disburse their Paris/London Club refund, as "the money belongs to the States; it wasn't a gift, nor a bailout."
The dissonance between the Federal and State governments decimates any aspirations Nigeria may make towards becoming a true democracy.

President Muhammadu Buhari's conceptualization of the anti-corruption war should have started with one factor - an unwavering quest for total transparency. Mr President has not stayed true to the promises made at his inaugural speech to ensure there is "responsible and accountable governance at all levels of government in the country." Because it is now clear that no matter how much funds is funneled into the States, socioeconomic progress will constantly elude Nigeria, due to the current systemic disdain for transparency and a lackadaisical approach to accountability by State and Federal governments alike.

States must begin to justify their existence and bloated workforces by: formulating workable policies unique to their locations; expanding their revenue sources; reducing their expenditure by cutting down on Overhead Costs, and working to effectively sustain revenue with the natural resources within their borders, rather than wait for handouts of taxpayers' money.

A failure to do this will mean President Muhammadu Buhari is once again presiding over a non-democratic government, one where ordinary Nigerians remain enslaved by the actions of a relentlessly insatiable ruling elite.

budgIT

Date: 23rd May, 2015
Reference: BN/FOI/7/01

RECEIVED
25 MAY 2016
Head Office Security
Security Services Dept.
CBN, Abuja

The Governor,
Central Bank of Nigeria
Plot 33, Abubakar Tafawa Balewa Way
Central Business District,
Federal Capital Territory, Abuja.

Dear Sir,

FREEDOM OF INFORMATION REQUEST ON THE BAILOUT GIVEN TO STATE BY THE CENTRAL BANK OF NIGERIA AND DEBT MANAGEMENT OFFICE

On behalf of BudgIT Nigeria and the Public and Private Development Centre (PPDC), and in accordance with the Freedom of Information Act 2011 and in the spirit of transparency and accountability and serially opined by this current administration, I write to request for the following:

1. Comprehensive details **per state** for the total sum of N689.5 billion disbursed as salary assistance loan to States as declared at the 66th National Economic Council
2. Comprehensive details **per state** for the total sum of N310 billion disbursed as Excess Crude Account-backed loans to States as declared at the 66th National Economic Council
3. Any other information required for public enlightenment on the bailout package provided to states and the Federal Government since May 29, 2015 by the Central Bank of Nigeria.

We would appreciate if response is given within 7 days as stipulated in the Freedom of Information Act, 2011 for speedy communication to citizens.

Should you require any clarification regarding this request, please do not hesitate to contact us either on 09094794831; or by email at stanley@yourbudgit.com. We will appreciate if response is sent to the following address:

BudgIT Nigeria,
℅ Public and Private Development Centre,
Plot 184, Cadastral Zone A6, Ademola Adetokunbo Crescent,
Opposite Exclusive Stores, Wuse II (SCCN House)
Abuja,

We look forward to your response to our request.

Yours sincerely,
We look forward to receiving your response.

Yours sincerely,

Stanley Achonu,
Operations Lead

Simplifying the **Nigerian Budget**

At BudgIT, we believe it is the RIGHT of every citizen to have access and also understand public budgets. We also believe budgets must be efficiently implemented for the GOOD of the people.