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2020 BUDGET

Analysis and Opportunities

About BudgIT

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Abbreviations/Acronyms

AfCFTA	African Continental Free Trade Area
BHCPF	Basic Health Care Provision Fund
BIR	Budget Implementation Report
bn	Billion
BOF	Budget Office of the Federation
CAPEX	Capital Expenditure
CBN	Central Bank of Nigeria
CIT	Corporate Income Tax
ERGP	Economic Recovery and Growth Plan
FEC	Federal Executive Council
FG	Federal Government
FIRS	Federal Inland Revenue Service
FY	Fiscal Year
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GOE	Government Owned Enterprise
IMF	International Monetary Fund
INEC	Independent National Electoral Commision
JV	Joint Ventures
mbpd	Million barrels per day
MDA	Ministries, Departments and Agencies
mn	Million

MTEF	Medium Term Expenditure Framework
N/A	Not Available
NBS	National Bureau of Statistics
NEDC	North East Development Commission
NHRC	National Human Rights Commission
NJC	National Judicial Council
NLC	Nigerian Labour Congress
NNPC	Nigerian National Petroleum Corporation
ONSA	Office of the National Security Adviser
Q3	Third Quarter
SME	Small and Medium - Sized Enterprises
TIN	Tax Identification Number
tn	Trillion
UBE	Universal Basic Education
UNESCO	United Nations Education, Scientific and Cultural Organization
VAT	Value Added Tax
WHO	World Health Organization
y-o-y	Year on Year
ZIP	Zonal Intervention Projects

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Key Assumptions of the 2020 Budget Framework

Oil Production	2.18mbpd
Inflation Rate	10.81%
Oil Price	$57/b
Nominal Consumption	₦122.75tn
Exchange Rate	₦305/$
Nominal GDP	₦142.75tn
GDP Growth Rate	2.93%

Introduction

The beginning of the new decade presents an opportunity for Nigeria to re-position its economy for prosperity. However, if the new decade will be a decade of growth, the judicious implementation of the 2020 budget is important. Despite Nigeria's record quarterly GDP growth of 2.55% in Q4 2019, inflation remains high and the future foreign investments are jeopardised by demotion in credit ratings[1]. To lead Nigeria to a prosperous decade, the government through all stages of the budget process—formulation, approval, implementation and oversight—must work to increase citizen trust, decrease unnecessary spending while aggressively increasing revenue with a conscientiously executed plan.

After the 2019 elections, the Nigerian government under President Muhammadu Buhari has another chance to face governance with undivided attention. In the last decade, Nigeria's budget calendar has been inconsistent, with the budget passed as late as June the following year. This has created chaotic implementation of capital projects and also delayed the audit of public finances. The 2020 budget was presented on October 8, 2019, and in the shortest cycle since 1999, the budget was signed into law on December 17, 2019. While the speedy passage of the budget is commendable, it is important to zoom in on the specific details of the budget items and what the budget means for the citizenry and the economy at large.

Nigeria's real quarterly GDP growth, as at Q4 2019, stood at 2.55% and brought the 2019 GDP growth to 2.27% - the highest since the 2016 recession, This is nevertheless less than the target projection of 4.5% in the Economic Recovery and Growth Plan (ERGP) and even lesser than the 2019 budget target of 3.5%. The shortfall against these targets have tempered the 2020 budget GDP growth target to 2.93%—a far cry from the ERGP's proposed 7% growth in 2020.

The prices of goods and services are also on the increase, therefore straining the purses of Nigerians. January 2020's year-on-year inflation rose to 12.13% — the highest y-o-y change since May 2018[2].

Inflation is likely to remain high due to two factors. First, the new minimum wage is likely to cause further wage-push inflation in 2020, making the budget target of 10.81% unlikely. Second, the strain and adjustment to the land border closure is also a contributing factor to inflation. This paints an unappealing macroeconomic picture, when paired with below-target GDP growth and Nigeria's Q3 2018 labour statistics which shows that 55.4% of the young population aged 15-34 years are unemployed or underemployed.

In terms of future investments, the downgrading of Nigeria's credit ratings from stable to negative by the internationally renowned Moody's Investors Services[3] makes it even more difficult for the country to access foreign investments that are sorely needed to increase economic growth. This also threatens Nigeria's recent Gross Fixed Capital Formation (GFCF) gains which saw an increase from 14.7% of GDP in 2017 to 19.0% of GDP in 2018. The GFCF measures the net increase in fixed capital—a key metric that should be on the incline for Nigeria with her infrastructure deficit.

Since 2016, Nigeria has continued to provide expansionist budgets, with its budget having risen from the ₦4tn mark in early 2010s to above 6tn since 2016. This does not mean that Nigeria has not significantly improved its revenue position as its revenue-to-GDP is still less than 8%. The Federal Government of Nigeria has resorted to large unfunded deficit through large borrowings from the Central Bank of Nigeria (CBN) and also raised its debt on a continuous trajectory. While there have been improvements in the Company Income Tax, Value Added Tax, Customs and other revenue lines, they are

[1] https://www.moodys.com/research/Moodys-changes-the-outlook-on-Nigerias-ratings-to-negative-from--PR_413627
[2] National Bureau of Statistics
[3] https://www.moodys.com/research/Moodys-changes-the-outlook-on-Nigerias-ratings-to-negative-from--PR_413627

not enough to counterbalance the rising recurrent component of the budget.

The challenges that Nigeria continues to face are mainly the paucity of its revenue and poor institutional interest to apply efficiency to its expenditure. No significant cuts have been made to its overheads and its opaque statutory spending has continued to surge. For instance, after a long negotiation with the Nigerian Labour Congress (NLC), Nigeria finally agreed to raise its minimum wage to ₦30,000 ($85), which significantly adds over ₦600bn to FG's personnel cost, further increasing an already bloated expenditure budget.

The current state of Nigeria's budget reveals the spectre of a country that severely underinvested in health and education in previous years. As a result of this, the FG budget has increasingly spent on managing its socio-economic and humanitarian challenges. Nigeria now allocates ₦1.78tn to security, with over ₦900bn in defence and ₦453bn on humanitarian, disaster and social development issues through the newly minted Ministry of Humanitarian Affairs, Disaster Management and Social Development.

It is pertinent to know that the FG still spends less than 11% on its education and health sector combined. While it has been identified that human capital investment is crucial to maintain a healthy and advanced society, Nigeria's current budgetary trajectory does not reveal such understanding. Nigeria is putting a huge chunk of its investments in roads, railway and power, which gulp 23% of its capital expenditure.

As Nigeria faces huge revenue challenges, the current CBN support may be unsustainable, even though the country is revising its taxation codes. Nigeria raised its VAT rate from 5% to 7.5% and also provided certain fiscal measures that exempts small businesses from VAT registration and CIT payments. While an increase in VAT might be a way forward, the current VAT distribution architecture (85% for the states), favours the states more than the federal government. It is highly uncertain that the current taxation review will make a significant dent on public revenues as the Nigerian government keeps focusing on revenue growth through increased extraction from the weak economy, rather than focusing on economic growth that yields more taxable income.

The Nigerian government also needs to be truthful with its revenue numbers as most of the "other revenues" such as sale of signature bonus, funds from recovered stolen assets, sale of shares in Joint Venture (JV) assets have not been realised. These items have just been used to shore up its revenue projections, creating a false estimation of its fiscal deficit. For example in 2018, while Nigeria planned a deficit of ₦1.95tn in its approved budgets, it ended up with a ₦3.64tn deficit, according to budget implementation reports. The recent budget implementation reports have also falsely included "balances of special accounts" as part of revenues. ₦1.3tn was accounted for as "actual balance in special account" as of September 2019, significantly reducing the deficit. This does not help in putting forward the dire situation of Nigeria's revenue challenge.

Finally, it is important to pay attention to rising debt servicing costs which are higher than Nigeria's capital expenditure. FG debt servicing expense was a high 45.2% of its revenue, as of September 2019, an anomaly even in countries with extremely high debt-to-GDP ratio. Nigeria is currently on the cusp of borrowing approximately $30bn, a position that would double its foreign debt. The certainty in Nigeria's budget timeline should aid capital budget implementation but this fiscal document does not solve the triple challenge of rising recurrent costs, low revenue and escalating debt numbers.

11%

It is pertinent to know that the FG still spends less than 11% on its education and health sector combined.

2020 Approved Budget Framework
(NGN)

8.42tn Revenue | **10.59tn** Expenditure

Deficit **2.18tn**

Statutory Transfer	560bn	Special Intervention Fund	350bn
Sinking Fund	273bn	Debt Servicing	2.45tn
Capital Expenditure	2.47tn	Recurrent Expenditure (Non-Debt)	4.49tn

Non-Oil Revenue	1.81tn
Oil Revenue	2.64tn
Other Revenue Sources Includes Dividends, Recoveries/Fines, Independent Revenue, Signature Bonus, etc.	3.97tn

Source: Budget Office

Revenue

Oil Revenue

Federal Government Share

Despite the increase in crude oil prices, oil revenue declined relative to the projected budget estimates due to shortfalls in crude oil production and exports. This has arisen from Nigerian OPEC output targets which are sometimes below budget benchmarks[4], recent increased global competition from US oil[5], and July 2019 closure of a major offtaking refinery abroad[6].

In the 2018 and 2019 budgets, the federal government's oil production projection stood at 2.3 million barrels per day (mbpd) but actuals fell short at an average 1.93mbpd in 2018 and 1.96mbpd by Q3 2019. The low performance of this sector has significantly affected Nigeria's oil revenue which accounts for about 71% of the total federally collected revenue.

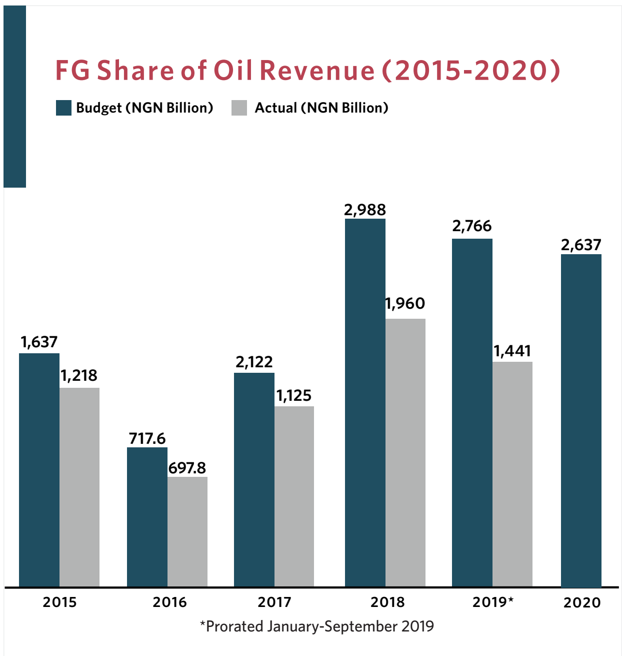
In 2018, only about ₦1.96tn was realised from the federal government oil shares revenues, out of ₦2.98tn proposed for the year. Similarly, the federal government's aggregate data for share of oil revenue for Q3 2019 performed at 52%.

Even though, ₦3.68tn was projected from oil revenue for the 2019 full year but the budget performance report for the year, released by the Ministry of Finance covers January to September with prorated data for oil revenue target arriving at ₦2.76tn, only ₦1.4tn was realised within the same period.

The average price of crude oil in the 2020 proposed budget was projected at $57 per barrel and presently, the fundamentals of the 2020 budget is being threatened as brent crude oil price has slumped to $54 per barrel as at February 6, 2020, below nation's budget benchmark. This could have a significant effect on Nigeria's oil revenue target at the end of the 2020 fiscal year.

Despite the government's promise to diversify the economy, oil revenue still accounts for a significant part of Nigeria's revenue. More attention should be given to increase oil production and eliminate vandals' activities in the Niger Delta region to increase crude oil production to meet its oil production target.

Even though Nigeria is blessed with vast mineral resources for large scale production and export which can provide alternative sources of revenue, the country seems fixated on oil. As such, it is also important to start looking beyond oil for alternative sources of income for the nation.



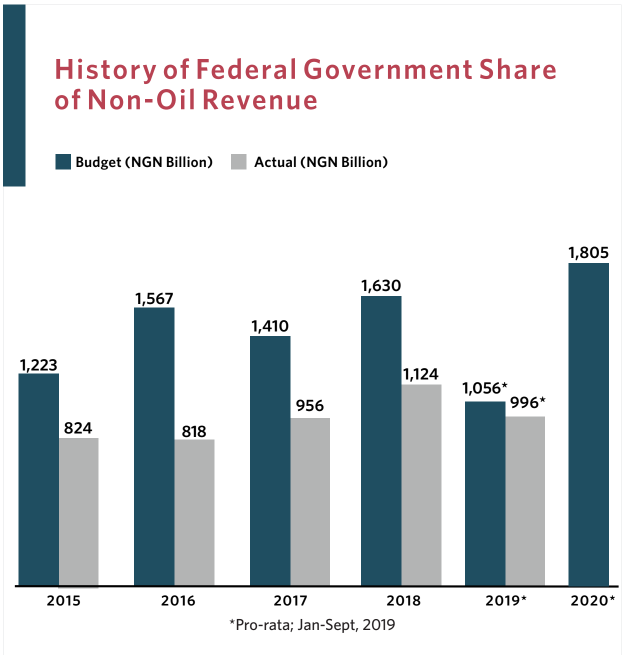
[4]Aljazeera News; September, 2019 - https://www.aljazeera.com/ajimpact/opec-members-iraq-nigeria-agree-cut-oil-output-190912122713534.html
[5]Reuters, August, 2019 - https://www.reuters.com/article/nigeria-oil/demand-for-nigerian-oil-dire-as-us-competition-ramps-up-idUSL8N2535F5
[6]Reuters, July, 2019 - https://www.reuters.com/article/us-oil-pes-refinery/pes-refinery-outage-adds-to-plight-of-homeless-light-sweet-crude-idUSKCN1UE1NN

Non-Oil Revenue

Since the beginning of commercial oil exploration in Nigeria, oil revenue has accounted for a major chunk of revenue expectations and projections, however, non-oil sources of revenue are increasingly becoming important to the economy. Consequently, the federal government under the Buhari administration has been keen on prioritising and improving its non-oil revenue performance in 2020.

For the 2020 fiscal year, the federal government has projected its uptake of non-oil revenue to be in the region of ₦1.81tn. This projected amount comes in at 28% higher than the ₦1.41tn passed by the National Assembly for the 2019 fiscal year; revealing the usual optimism of the federal government in the performance of its non-oil revenue bracket. Without sounding less optimistic than the federal government, history shows that actual non-oil revenues by the FG over the years has usually failed to meet its forecast, falling short of its expected revenue projections.

For instance, in 2018, the FG's actual non-oil revenue uptake fell short of its expected projection by almost 31%. Likewise in 2019, FG's prorated share of budgeted non-oil revenue uptake for the first nine months was pegged at ₦1.056tn, but actual revenue uptake within this period came to a total of ₦996.29bn.

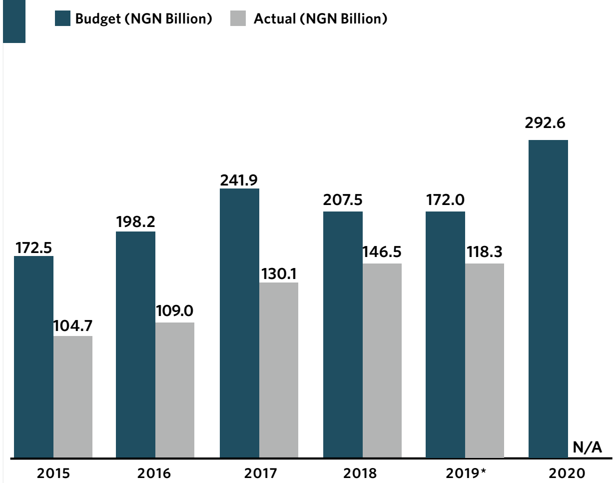


Nonetheless, the federal government is quite sanguine about its non-oil revenue uptake in 2020, particularly in the area of tax revenue like value-added tax, via the recently assented finance bill of 2019.

FGN Share of VAT

The federal government earned ₦146.52bn in the year 2018, as against a projected figure of ₦207.51bn. The FG's share of VAT revenue was ₦172.53bn, ₦198.24bn, and ₦241.92bn in 2015, 2016 and 2017 respectively. However, projected VAT in 2020 was increased to ₦292.bn against the 2019 budget figure of ₦229.34bn due to the plans of the federal government to raise the tax rate in the year 2020.

Projected and Actual VAT 2015- 2020

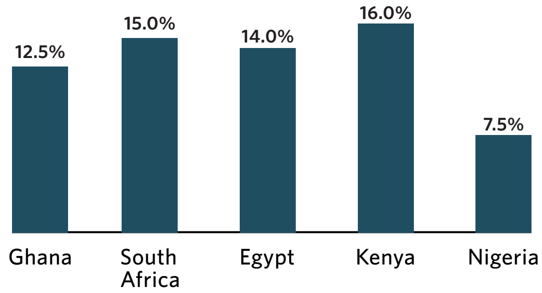


*Pro-rata; Jan-Sept, 2019

The Federal Executive Council (FEC), approved a 50% increase in the Value Added Tax (VAT) rate, applicable on supply of goods and services in Nigeria, from 5% to 7.5%. The new rate took effect in January 2020.

Despite this increase, VAT rates in our key regional peers are higher than Nigeria's with rates in Kenya, South Africa, Egypt and Ghana at 16%, 15%, 14% and 12.5% respectively.

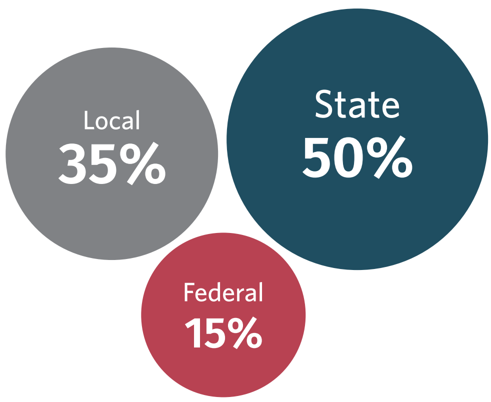
VAT Rate in Selected Countries



The new 7.5% VAT rate is an increase that moves Nigeria's rate closer to that of its peers. There is however a question about how much the Federal government will accrue based on this increase since the VAT exemption list was expanded by the Finance Act.

The federal government's share of the collected VAT 15% - the lowest out of all three tiers of executive government. With state governments' share of VAT at 50%, they stand to be the biggest beneficiaries of this increase in VAT.

Share of Collected VAT by level of Government



What would an increase in VAT rate from 5% to 7.5% mean for each state Monthly?

State	Average monthly net VAT allocation (Jan - June 2019)	Additional monthly VAT allocation given VAT rate of 7.5%*
LAGOS	8,264,745,551	4,132,372,775
KANO	1,827,488,754	913,744,377
OYO	1,658,978,257	829,489,129
RIVERS	1,520,547,139	760,273,570
KADUNA	1,401,380,393	700,690,196
KATSINA	1,299,375,266	649,687,633
DELTA	1,253,522,980	626,761,490
JIGAWA	1,186,064,943	593,032,472
BAUCHI	1,172,440,615	586,220,308
ANAMBRA	1,165,082,940	582,541,470
OGUN	1,163,903,022	581,951,511
IMO	1,130,679,687	565,339,844
BENUE	1,125,992,213	562,996,106
AKWA IBOM	1,125,246,643	562,623,322
NIGER	1,122,388,021	561,194,010
BORNO	1,116,162,729	558,081,364
EDO	1,096,508,990	548,254,495
SOKOTO	1,075,491,924	537,745,962
ENUGU	1,073,832,739	536,916,369
ONDO	1,058,094,371	529,047,186
OSUN	1,040,630,526	520,315,263
KOGI	1,032,293,447	516,146,723
PLATEAU	1,032,210,262	516,105,131
KEBBI	1,031,883,724	515,941,862
ADAMAWA	1,027,540,227	513,770,114
ZAMFARA	1,019,433,920	509,716,960
ABIA	991,154,723	495,577,362
CROSS RIVER	988,574,692	494,287,346
YOBE	954,530,733	477,265,366
EKITI	946,372,483	473,186,242
KWARA	938,965,818	469,482,909
EBONYI	934,244,222	467,122,111
GOMBE	932,392,713	466,196,357
TARABA	920,299,861	460,149,931
NASSARAWA	895,512,261	447,756,130
BAYELSA	874,626,294	437,313,147

Source: NBS, BudgIT Analysis
If current collection rates remain the same*

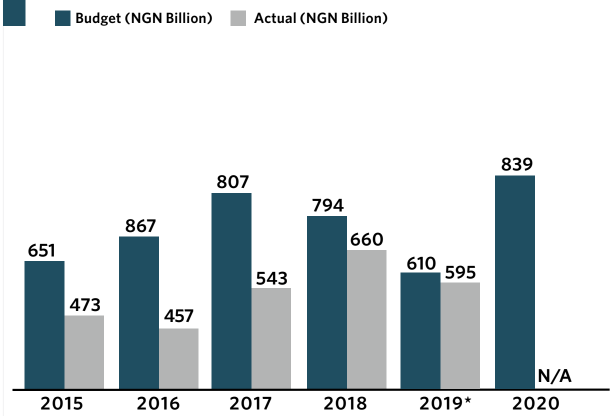
Based on this, state governments should expect a monthly increase in revenue of between ₦0.4bn and ₦4.1bn if the current collection rates remain the same as shown above. An increase in state inflows somewhat reduces the budgetary burden on the federal government (e.g. in the area of education).

Company Income Tax

CIT is one of the major sources of the federal government's revenue in the non-oil sector. Over the last five years, the federal government has witnessed an improvement in CIT collection rate. In the 2019 financial year, the FG projected the sum of ₦813.37bn from company income tax, but as at the 3rd quarter of 2019 half-year budget implementation report, the actuals between January and September was ₦595.27bn which shows 97% of the prorated target of ₦610.02bn.

In the 2020 approved budget, the FG is targeting an estimate of ₦839.31bn from CIT, a slight increase from the 2019 figure of ₦813.37bn. In the 2018 full-year report, the FG got an actual amount of ₦660.13bn, that is 83% of the target for the fiscal year. For the FG to improve this source of revenue, private sector growth should be prioritised by improving infrastructure growth and ease of doing business.

FGN Share of the Company Income Tax (2015-2020)



*Prorated January - September, 2019

Customs (Import, Exports & Fees)

In the 2020 approved budget, the federal government has projected the sum of ₦618.65bn as customs and excise duties which is a large increase of ₦307.78bn from the ₦310.87bn target for 2019.

Customs and excise duties are key components of Nigeria's non oil sector, and over the past five years, the country has witnessed significant uptake in tariffs and duties. In 2015 and 2016, customs actual payments to the federal government stood at ₦232bn and ₦228.61bn against the budget projections of ₦323.97bn, and ₦326.4bn respectively.

Between 2017 and 2018, the collection rates were above 90% of the budget target as both received actuals of ₦261.41bn and ₦296.74bn respectively. And by the third quarter of 2019, the customs duties collected stood at ₦265.81bn which was ₦32.66bn higher that the prorated budget target of ₦233.15bn.

From the Budget Implementation Reports, in 2018, customs revenue reported to the federation account was ₦657.88bn, while ₦296.74bn was the federal government's share of it. This shows a great disparity from the ₦1.2tn collected customs revenue reported in Nigerian newspapers*.

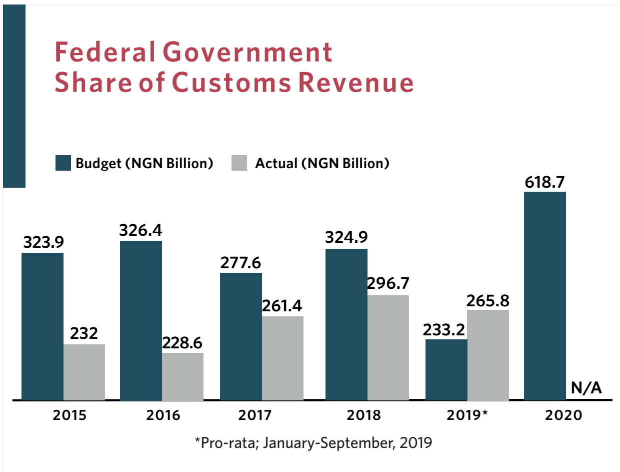
The disparity of what the Nigerian Custom Service announces compared to what was remitted to the federation account is too wide, hence in need of review.

In 2019, Nigeria signed the African Continental Free Trade Area (AfCFTA) agreement. This agreement was signed by African states to increase intra-African trade and create a continental market allowing for the free movement of goods, services, capital and persons.

However, just a few months after signing the agreement, the FG closed its land borders for all goods

*https://guardian.ng/business-services/nigeria-sustains-border-closure-amid-inflation-diverse-sentiments/

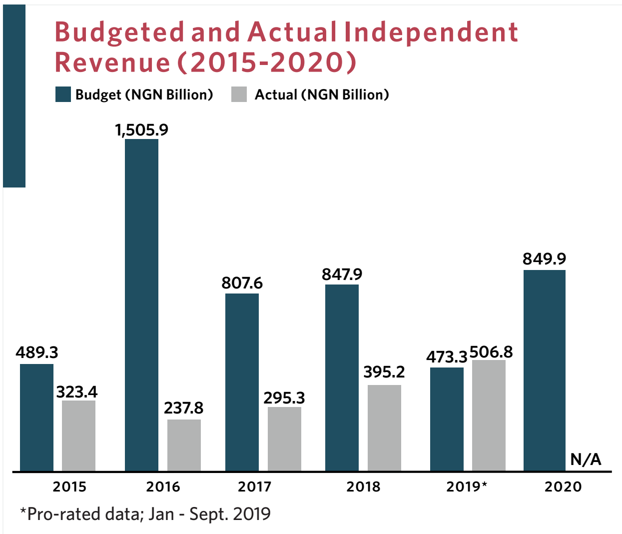
defying the AfCFTA's agreement. Despite the border closure, customs revenues have grown but this does not signal that the practice is in Nigeria's long term interests as the country grapples with sub-3% GDP growth.



Independent & Other Revenue

About 80% of the operating surplus that comes from GOEs is captured under independent revenue. In 2015, 2016, 2017 and 2018, the federal government fell short of their independent revenue forecasts by 33.91%, 84.21%, 63.43%, 53.39% respectively. January to September, 2019 breaks this streak as actual independent revenue came to ₦506.8bn - surpassing the pro-rata January to September target of ₦473.3bn.

In 2020, the FG projects ₦849.97bn from independent revenue, 35% higher than the 2019 figure of ₦631.1bn in 2019. This makes independent revenue 10.42% of total expected federal government revenue in 2020. To meet these targets, the federal government will have to innovate in boosting revenue, reducing leakages and ensuring that revenue generating agencies of government remit what is due to the government.



In addition, the federal government plans to generate ₦3.97tn from other sources including recoveries, dividends, fines, signature bonuses, independent revenue and others. This includes a 1015 % increment in signature bonus from the 2019 figure of ₦84.2bn to ₦939.3bn.

From domestic recoveries, fines and assets, ₦237bn is expected in 2020 as against the ₦203.3bn projected in 2019. A total of ₦463.9bn is expected from stamp duties and ₦125.5bn and ₦36.3bn from exchange rate differentials and grant and donor funding respectively.

The federal government is also expecting revenue from the top ten Government-owned Enterprises (GOEs) excluding the NNPC, and it is expected that the revenue will increase by ₦34.8bn or 4% in 2020, from the ₦955.4bn expected in 2019 to ₦990.1bn in the 2020 fiscal year.

Using "other revenues" to shore up Nigeria's revenue projections has been the practice but these items have not been realised. Since 2016, the FG has added one-off items to augment the revenue position but it has not shown enough political will and institutional framework to deliver the revenue component. The 2020-2023 MTEF draft document in its analysis of the 2018 budget performance also noted that "The significant deviation of the overall revenue performance from the target was partly because some one-off items such as the ₦710bn from Oil Joint Venture Asset restructuring and, ₦320bn from revision of the Oil Production Sharing Contract legislation/terms did not materialise."

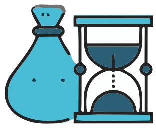
To stop a repeat of this non-performance, in 2020, the Federal Executive Council/Economic Management Council should set up a committee which will work with wider public sector stakeholders—the Attorney-General of the Federation, Ministry of Finance, the Economic and Financial Crimes Commission, the Central Bank of Nigeria and Nigerian Postal Service—towards the realisation of the one-off revenue items.

A History of "Other Revenues" (₦bn)

Item	2018 Budget	2019 Actual	2019 Budget	Q1-Q3 2019* Actual	2020 Budget
Signature Bonus	114.3	0.0	84.2	1.2	939.3
Domestic Recoveries + Assets + Fines	374.0	0.0	203.3	0.0	237.0
Other FGN Recoveries	138.4	0.0	-	-	-
Earmarked Funds (Proceeds of Oil Assets Ownership)	710.0	0.0	710.0	0.0	-
Stamp Duties	-	-	-	-	463.9
Grant and Donor Funding	-	-	209.9	0.0	36.3

****Pro-rata data Jan-Sept 2019***

Expenditure



Expenditure Analysis

The Muhammadu Buhari-led administration proposed a total amount in the region of ₦10.59tn for all ventures under its expenditure obligations for the new budget year 2020. The total expenditure amount at ₦10.59tn is inclusive of Government-Owned Enterprises (GOEs) and project-tied loans. This is 2.6% (₦263.94bn) more than the initially proposed amount of ₦10.33tn which was presented by the president to the National Assembly for deliberation.

Recurrent obligation of the federal government is projected to gulp a total of ₦4.84tn, about 45.7% of the total budget; while aggregate capital expenditure comes to a total of ₦2.78tn, 26.2% of the total expenditure figure. According to the federal government, the noticeable increase in the recurrent expenditure cost which comes in as about 10% higher than the 2019 figure reflects the recent increase in salaries and pensions, including provision for the implementation of the newly enacted minimum wage for public servants and workers.

Capital expenditure—inclusive of capital components of statutory transfers, alongside government owned enterprises capital and project tied loans expenditure—has been projected to be in the region of ₦2.78tn. This is 12.6% lower than the projected amount for the 2019 fiscal year. In 2019, aggregate capital expenditure projection as passed by the National Assembly came to ₦3.18tn.

Nominal debt service allocation continues to be on the rise, increasing by 14.5% from the amount allocated in 2019. As it stands, debt servicing obligations for Y2020 is expected to cost the federal government 23.2% of its total expenditure at ₦2.45tn, which is almost close to the amount allocated for capital expenditure for the same fiscal period. As at September 2019, debt servicing cost the federal government ₦1.92tn alone.

A further breakdown of the total expenditure allocation stipulates a total amount of ₦560.4 bn which has been set aside for statutory transfers; the figure is higher than the initial proposed figure by 0.7%.

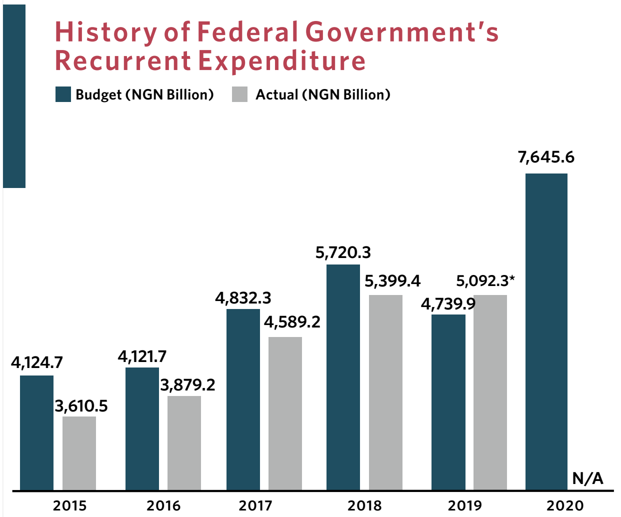
₦272.9bn has been earmarked by the federal government for sinking funds which, according to the president, will be used to retire maturing bonds issued to local contractors. In order to meet its total recurrent obligations, the federal government will need to source for additional funding, which will help to shore up its insufficient revenue. The federal government has optimistically projected its total revenue for the budget year 2020 to be in the region of ₦8.42tn, and with total expenditure put at ₦10.59tn, this gives rise to a fiscal deficiency of ₦2.18tn which the federal government will need to plug into its revenue stream to ensure above par budget performance.

Allocations to various Ministries, Departments and Agencies (MDAs) saw the Ministry of Defence come out top of the pack with the highest allocation at ₦900.7bn; with ₦784.5bn earmarked for its recurrent activities and ₦116.1bn set out for capital expenditure. The Ministry of Education comes in second highest with a total allocation of ₦686.82bn, while the Ministry of Health got a total of ₦469.24bn.

Recurrent Expenditure

Without sounding like a broken record, the federal government's recurrent obligation continues to be on the rise, and with the newly implemented minimum wage for public servants, projected recurrent expenditure for the budget year 2020 is expected to be 10.3% higher than 2019 projections. The growing cost of governance, particularly in the area of personnel cost, gratuities and pensions continues to be a source of concern. On one hand, the federal government cannot afford to not pay its public servants their due wages and gratuities.

On the other hand, personnel cost which as of 2018 was an estimated 400,000-strong[7] civil service, representing about 0.2% of the total population of Nigeria, will gulp almost 27% of the national budget for the 2020 fiscal year. More worrying is the fact that the federal civil service is plagued by various anomalies, especially the issue of ghost workers, which remain unsolved despite attempted solutions.



*Pro-rata January -September, 2019

The federal government's non-debt recurrent obligation for the budget year 2020 is about ₦4.84tn, which is a significant increase from the approved budget projection for 2019 which was ₦4.38tn. Debt recurrent activity is expected to rise from the 2019 figure of ₦2.25tn to ₦2.45tn in 2020. Due to the ever-increasing recurrent obligation of the FG, it would seem that its ripple effects is forcing the hand of the FG into accumulating even more debt in order to meet its obligations, and if this is not checked, the FG could find itself in a position where its debt servicing commitments will equal, or even overtake, its revenue uptake.

It would be wise for the federal government to reduce its increasing recurrent expenditure and its associated costs to mirror the current realities of its revenue uptake, or risk the eventuality of the country entering a debt trap.

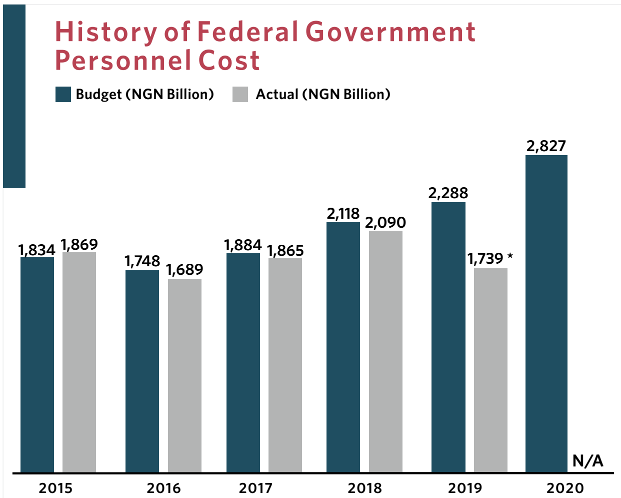
Personnel Cost

Personnel cost; a component of recurrent expenditure which equates to the total remuneration payable to public officials, has constantly been on a rise, which poses a great concern, especially with the implementation of the new minimum wage for public servants.

Without mincing words, actual personnel cost has risen from ₦1.87tn in 2015 to ₦2.1tn in 2018; an increase of ₦220.66bn. Although the government cited the introduction of a central payroll management system, to checkmate the issues surrounding ghost workers and other associated ills, this has not reduced the growing personnel cost.

For the year 2020, the federal government is projecting to spend ₦2.82tn on its personnel cost obligations. This increase, according to the FG, is attributed to effecting the increase in salaries, including provisions for implementation of the newly reviewed minimum wage for public officials. With personnel cost currently at its highest point, there is a present concern that personnel cost is rising at an alarming rate.

In 2020, personnel cost of public labour force—which with respect to its size is said to make up about 0.21% of the total population of Nigeria—is estimated to gulp almost 27% of the total budget for the fiscal year. As previously positioned, there is a dire need for the federal government to prioritise efficient structural reforms in the the area of right-sizing its civil service.



*Pro-rata, January-September, 2019

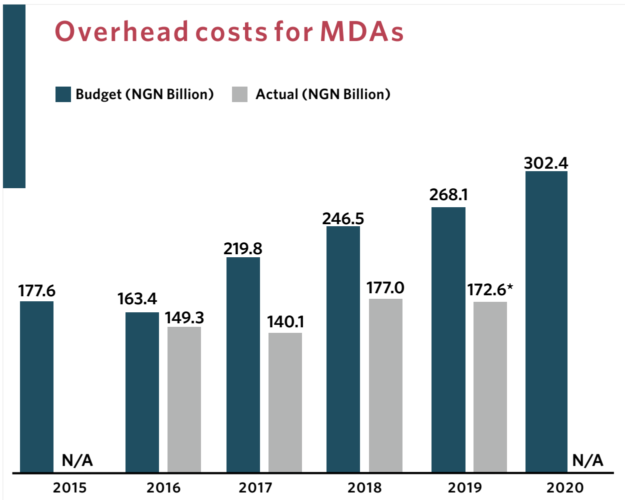
[7]https://guardian.ng/business-services/nigeria-sustains-border-closure-amid-inflation-diverse-sentiments/

OVERHEAD COST

The structure of overhead costs has changed in the 2020 budget to encompass not only the cost of running MDAs, but also the overhead costs of 10 key government-owned enterprises (GOEs). As a result of this, the government states that "to promote change, fiscal transparency, accountability & comprehensiveness, the budget of 10 major GOEs are integrated in the FGNs budget with effect from 2020."

As such, at first glance, overhead allocation appears to have jumped from ₦268bn in 2019 to ₦448.56bn in 2020. Comparing equal measures, however, it becomes clear that the overhead costs of MDAs alone which stands at ₦302.43bn is an increase of 12.8% over the 2019 figure. The overhead cost of the 10 included GOEs stands at ₦146.1bn.

Nominal overhead costs have been on a steady increase from 2016 till date—rising 85% in that time period. Nevertheless, as a percentage of the total budget, this cost has reduced from 4% of the budget in 2015 to 2.9% in 2020. Despite this overall drop, overhead costs can continue to benefit from the guidance of the Efficiency Unit, set up by the Ministry of Finance to reduce wastages, exorbitant prices and to encourage collective negotiation for bulk MDA-wide supplies and needs.



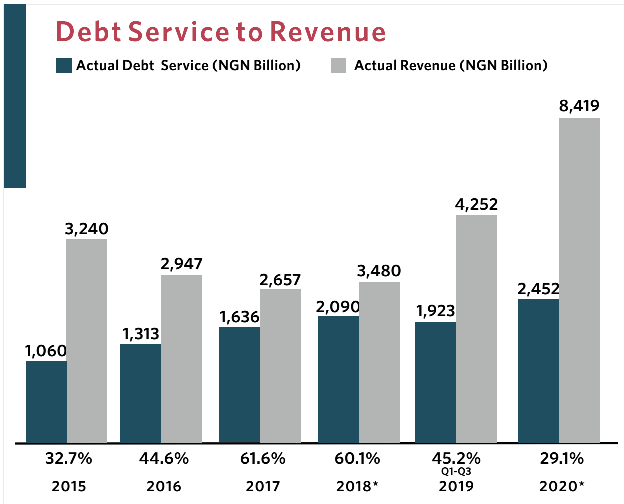
* Prorated Jan- Sept actuals

DEBT SERVICING

The International Monetary Fund (IMF) has stated that Nigeria's debt-to-GDP ratio is on a manageable threshold, as it is estimated to be in the region of 25% but with more borrowings, the country might fall into a debt crisis. The Debt Management Office puts the total debt stock at ₦25.7tn as of June 2019, this figure shows a ₦1.3tn increment from the ₦24.39tn debt stock recorded in 2018.

It is clear that Nigeria is witnessing a revenue shortfall and most of its revenue is spent on servicing debt. Over the past five years, Nigeria has spent an average of 49% of its revenue on debt servicing. As at the third quarter of 2019, the total federal collected revenue arrived at ₦4.25tn while debt servicing stood at ₦1.92tn, accounting for 45% of the total revenue. In 2017, actual debt servicing was 61% out of total actual revenue of ₦2.65tn; then in 2018, it reduced with a margin to 60%, with ₦2.09tn out of the ₦3.45tn total actual revenue.

In the 2020 approved budget, the projected revenue was ₦8.41tn and about ₦2.45 was projected for debt servicing, accounting for 29% of the targeted revenue. Indication shows that between 2015 to the third quarter of 2019, Nigeria has only been able to generate an average of 66% projected total revenue.

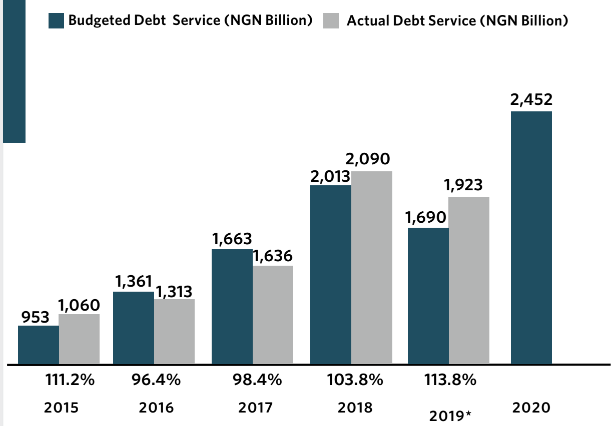


*Budgeted Debt Service and Revenue

In 2015, the federal government spent a total of ₦1.06tn on debt servicing which is ₦106.38bn higher than the projected ₦953.62bn. In 2016 and 2017, Nigeria paid actuals of 96% and 98% of the debt service projection. Also in 2018, the actual debt service paid was ₦76.46bn higher than the budgeted ₦2.01tn, and by the 3rd quarter of 2019, the government had paid the sum of ₦1.92tn which is also higher than the prorated target of ₦1.69tn. Following this trajectory, there is a possibility that the FG will likely pay above its 2020 target of ₦2.45tn.

This even raises further concerns for as debt servicing charges continue to peak, the federal government is interested in raising $22.6bn new foreign debt; these will have immense implications for future debt servicing costs.

Debt Service Trends (2015-2020)

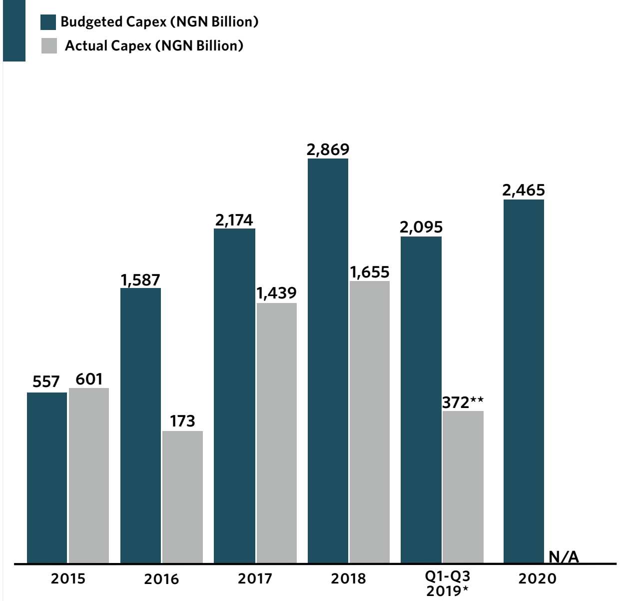


Prorated January - September, 2019

For a developing country like Nigeria, a lot is to be spent on capital projects to improve the citizens' lives but looking at the trend of capital expenditure actuals compared with debt servicing actuals shows that the FG is spending way more on debt servicing than on capital expenditure (Capex).

Section 44.2.b of Nigeria's Fiscal Responsibility Act states that "The proceeds of borrowing shall solely be applied towards long-term capital expenditures." Since borrowings and debts are for capital expenditure, it is therefore a thing for concern that the capital expenditure spend dips lower than the amounts for servicing debt.

Budgeted and Actual, Capex



*Prorated Data ** Actual capex rose to a total 1,212.56 bn as at Dec 12, 2019

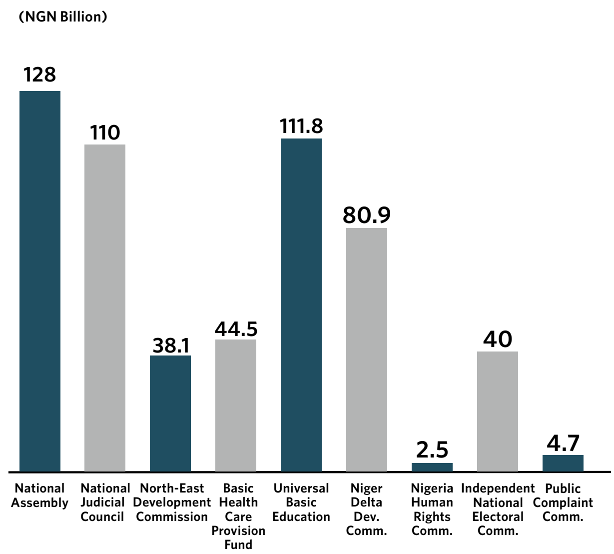
STATUTORY TRANSFERS

Statutory transfers are payments made to government agencies which are meant to receive funding outside the direct control of executive agencies based on their functions. A total budget of ₦560.47bn was allocated to the agencies in 2020; this includes capital and recurrent components unknown to the public despite increased advocacy for transparency. For instance, the National Assembly last made its budget public in 2017, after then, the legislative body has not lived up to its promise to open its budget.

Allocation of Statutory Transfers in the 2020 Budget

Total Allocation

₦560.47bn



CAPITAL EXPENDITURE

Over the years, Nigeria's allocation for capital projects has suffered a setback. In 2017, 2018 and 2019, the federal government has only allocated about 19.22%, 31.36% and 23.43% of its total budget to capital spending respectively. Nigeria is facing an infrastructural deficit as a result of challenges such as inadequate funding and graft.

The highest-spending within this period was witnessed in 2018 when about 31% of the total budget was allocated to capital expenditure. In the 2020 approved budget, key capital spending to the top five ministries shows that Works and Housing got the largest share with ₦315.5bn; Education, ₦185.34bn; Power, ₦129.08bn; Agriculture and Rural Developments, ₦124.40bn; and Transport, ₦121.37bn.

A total sum of ₦2.46tn was budgeted for capital expenditure exclusive of transfers.

The government has always expressed its readiness to upgrade the critical infrastructure in the country but this is not happening fast enough as actual disbursements to MDAs usually fall short. Available data from the Budget Implementation Report 2019 shows that as of December 2019, the government had spent ₦1.2tn and these spendings were prioritised in favour of critical infrastructure projects in the road, power, and the agricultural sectors.

Nigeria's investment in capital projects will not only boost its economic growth but will drive job creation and also provide essential services to citizens. The World Economic Forum in its 2012 report "Strategic Infrastructure: Steps to Prioritize and Deliver Infrastructure Effectively and Efficient" estimates that every dollar spent on capital projects generates an economic return of 5%-25%, which will stimulate growth and development across all sectors in Nigeria.

Selected Key Capital Projects in the 2020 Approved Budget

Federal Ministry of Works and Housing

ONGOING CONSTRUCTION OF GASHUA BAYAMARI (CCECC)	₦1,500,000,000
PROVISION OF ALL IN SOLAR STREET LIGHTS WITH SPECIFICATION OF 60W (HIGH EFFICIENCY MONO PANEL LIFEPO4 BATTERY - SOLAR EUROPE STANDARD) IN VARIOUS LOCATIONS OF NORTH EAST AND SOUTH WEST	₦4,000,000,000
DUALIZATION OF ILORIN -JEBBA-MOKWA/BOKANI JUNCTION ROAD SECTION I: ILORIN-JEBBA IN KWARA STATE C/NO.6468	₦3,461,800,000
REHABILITATION AND EXPANSION OF LAGOS -BADAGRY EXPRESSWAY (AGBARA JUNCTION-NIGERIA/BENIN BORDER) IN LAGOS STATE, CONTRACT NO.6513	₦2,726,333,333
CONSTRUCTION OF KADUNA EASTERN BY-PASS, C/NO. 5346	₦2,017,900,000

Federal Ministry of Transport - HQTRS

1. LAGOS-KANO(ONGOING) 2. CALABAR-LAGOS (ONGOING) 3. AJAOKUTA-ITAKPE-ALADJA (WARRI) (ONGOING) 4. PORT HARCOURT- MAIDUGURI (NEW) 5. KANO-KATSINA-JIBIYA-MARADI IN NIGER REPUBLIC (NEW) 6. ABUJA-ITAKPE AND ALADJA (WARRI)-WARRI PORT AND REFINERY INCLUDING WARRI NEW HARBOUR (NEW) 7. BONNY DEEP SEA PORT, PORTHARCOURT INDUSTRIAL PARK AND OTHER RAIL PROJECTS.	₦67,165,194,111
ACQUISITION OF LAND FOR THE MINISTRY OF TRANSPORTATION, HQ	₦1,079,863,112
MAINTENANCE OF ROADS INTO STATIONS, REST HOUSES, WORKSHOP, CHALETS AND OPERATIONAL RESIDENTIAL QUARTERS	₦1,406,710,000
RECONSTRUCTION OF NARROW GAUGE TRACK FROM MINNA TO BARROW WITH EXTENSION TO THE BARO RIVER PORT	₦4,000,000,000

Federal Ministry of Education

TAKE OFF GRANT FOR THE ESTABLISHMENT OF SIX (6) NEW ADDITIONAL FSTCS, AT THE COST OF ₦333.333M EACH	₦1,900,000,000
PROVISION OF SPECIAL EDUCATIONAL SUPPORT INFRASTRUCTURE IN UNIVERSITY OF LAGOS	₦2,000,000,000
PROVISION OF TEACHING AND INSTRUCTIONAL MATERIALS, BOOKS ETC FOR SCHOOLS IN SOME SELECTED LGAs IN THE COUNTRY	₦1,000,000,000

Federal Ministry of Power - HQTRS

COUNTERPART FUNDING FOR 3050MW MAMBILLA HYDROPOWER PROJECT	₦2,000,000,000
RURAL ELECTRIFICATION ACCESS PROGRAM IN FEDERAL UNIVERSITIES	₦1,400,000,000
PAYMENT OF DEBT OWED REA CONTRACTORS	₦1,900,000,000
RURAL ELECTRIFICATION FUNDS	₦400,000,000

Sectoral Breakdown

MDAs	Amount (NGN)
MINISTRY OF DEFENCE	975,770,634,390.00
FEDERAL MINISTRY OF EDUCATION	706,821,431,517.00
FEDERAL MINISTRY OF HEALTH	463,739,555,138.00
FEDERAL MINISTRY OF HUMANITARIAN AFFAIRS, DISASTER MANAGEMENT & SOCIAL DEVELOPMENT	445,173,316,795.00
MINISTRY OF POLICE AFFAIRS	410,532,262,631.00
FEDERAL MINISTRY OF WORKS AND HOUSING	343,546,935,861.00
MINISTRY OF INTERIOR	253,493,565,095.00
FEDERAL MINISTRY OF AGRICULTURE & RURAL DEVELOPMENT	183,081,647,920.00
FEDERAL MINISTRY OF YOUTH & SPORTS DEVELOPMENT	177,066,527,148.00
OFFICE OF THE NATIONAL SECURITY ADVISER	169,326,228,206.00
FEDERAL MINISTRY OF POWER	134,908,307,767.00
FEDERAL MINISTRY OF TRANSPORT	133,985,045,561.00
FEDERAL MINISTRY OF SCIENCE AND TECHNOLOGY	105,642,513,152.00
FEDERAL MINISTRY OF WATER RESOURCES	100,555,885,248.00
OFFICE OF THE SECRETARY TO THE GOVERNMENT OF THE FEDERATION	84,785,886,161.00
MINISTRY OF PETROLEUM RESOURCES	79,297,031,944.00
MINISTRY OF FOREIGN AFFAIRS	75,421,844,213.00
PRESIDENCY	65,593,425,297.00
FEDERAL CAPITAL TERRITORY ADMINISTRATION	62,407,154,360.00
FEDERAL MINISTRY OF AVIATION	58,984,613,654.00
FEDERAL MINISTRY OF INDUSTRY, TRADE AND INVESTMENT	53,859,831,320.00
FEDERAL MINISTRY OF INFORMATION & CULTURE	52,287,644,830.00
FEDERAL MINISTRY OF LABOUR AND EMPLOYMENT	35,867,912,429.00
FEDERAL MINISTRY OF ENVIRONMENT	30,717,523,502.00
FEDERAL MINISTRY OF JUSTICE	29,061,525,019.00
FEDERAL MINISTRY OF FINANCE, BUDGET AND NATIONAL PLANNING	26,926,715,964.00
MINISTRY OF NIGER DELTA AFFAIRS	25,140,486,285.00
MINISTRY OF MINES AND STEEL DEVELOPMENT	21,338,167,787.00
MINISTRY OF COMMUNICATION TECHNOLOGY	18,684,140,713.00
NATIONAL POPULATION COMMISSION	8,305,352,958.00

FEDERAL MINISTRY OF WOMEN AFFAIRS	8,181,235,758.00
OFFICE OF THE HEAD OF THE CIVIL SERVICE OF THE FEDERATION	8,068,894,781.00
INDEPENDENT CORRUPT PRACTICES AND RELATED OFFENCES COMMISSION	7,518,961,545.00
MINISTRY OF SPECIAL DUTIES & INTER - GOVERNMENTAL AFFAIRS	5,090,387,573.00
AUDITOR GENERAL FOR THE FEDERATION	4,128,498,300.00
FEDERAL CHARACTER COMMISSION	2,995,152,781.00
CODE OF CONDUCT BUREAU	2,621,285,226.00
REVENUE MOBILISATION, ALLOCATION AND FISCAL COMMISSION	2,354,139,033.00
POLICE SERVICE COMMISSION	1,369,586,675.00
INFRASTRUCTURE CONCESSIONARY REGULATORY COMMSSION	1,354,970,802.00
FEDERAL CIVIL SERVICE COMMISSION	1,277,063,318.00
CODE OF CONDUCT TRIBUNAL	965,041,687.00
NATIONAL SALARIES, INCOMES AND WAGES COMMISSION	948,039,933.00
FISCAL RESPONSIBILITY COMMISSION	502,665,954.00

Note: Lafiya Dole (₦75bn) added to Defence, Falcon Eye Project (₦25bn) added to NSA, National Development Plans (₦1.5bn) added to Finance, Budget and National Planning , International Sporting Competitions (₦5bn)

UBEC Funds (₦111.7bn) and University Fund (₦20bn) included in Education budget, BHCF Funds & GAVI Immunization included in health budget, NSIO Recurrent Budget (₦350bn) and Special Intervention Projects of ₦30bn added to Humanitarian Affairs.

Top Capital Expenditure

Amount in Naira

Works & Housing	315bn
Power	129bn
Agric & Rural Dev.	124bn
Transport	121bn
Defence	116bn
Water Resources	91bn
Education	84bn
Science & Tech	63bn
FCTA	62bn
Humanitarian Affairs, Disaster Mgt & Social Dev.	61bn
Health	59bn
Aviation	52bn
Industry, Trade and Investment	38bn
Interior	34bn
Office of the National Security Adviser	27bn

Note: UBEC and BHCF allocations are excluded as breakdown for capital and recurrent expenditure were not provided. Allocations are strictly those provided to line ministries.

Sectoral Analysis

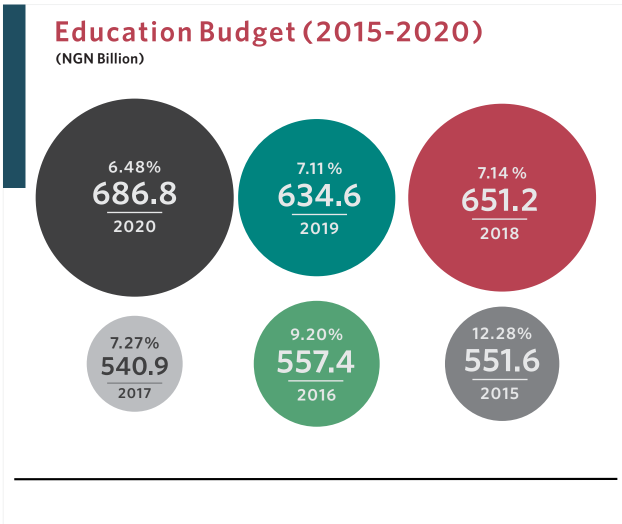
Key Sectoral Allocation
(NGN Billion)

Sector	Total Recurrent	Total Capital	Total Allocation
Education - 6.48%	602.1	84.7	686.8
Health - 4.16%	381.1	59.9	441.0
Power - 1.27%	5.83	129.1	134.9
Work & Housing - 3.24%	27.9	315.6	343.5
Agriculture - 1.72%	58.7	124.4	183.1

EDUCATION

The nominal amount budgeted for education has seen an overall increase of 24.5% between 2015 and 2020. To understand the level of prioritisation, however, the percentage allocation must also be considered. Using this metric instead, there is a clear reduction in allocation as a percentage of total allocation thus signifying reduced focus on education.

Nigeria can get guidance from the target set by the United Nations Education, Scientific and Cultural Organization (UNESCO) which recommends in its "Education for All EFA 2000-2015: Achievements and Challenges" that 15-20% of total spend should go to the education sector. This is also in line with the ruling party's promise enunciated in its political party manifesto. Currently, the government consistently falls far short of this. If the Federal Government rises to the challenge of spending 15-20% on education, it will also inspire state governments to do likewise.
Nigeria will need to allocate and subsequently actually spend more to align the education needs of its growing population with an ever-evolving world if she is to achieve her ambitions.



Quality basic literacy and numeracy are the foundations for all other education, enabling everything from agricultural extension to digital literacy—a necessity in the global workforce of today. With ₦10.5 million out of school children, UNICEF estimates that one out of every five out-of-school children in the world is in Nigeria. This, combined with an adult literacy rate of 62.02% as of 2018, confirms that greater prioritisation of education should be an urgent national issue.

HEALTH

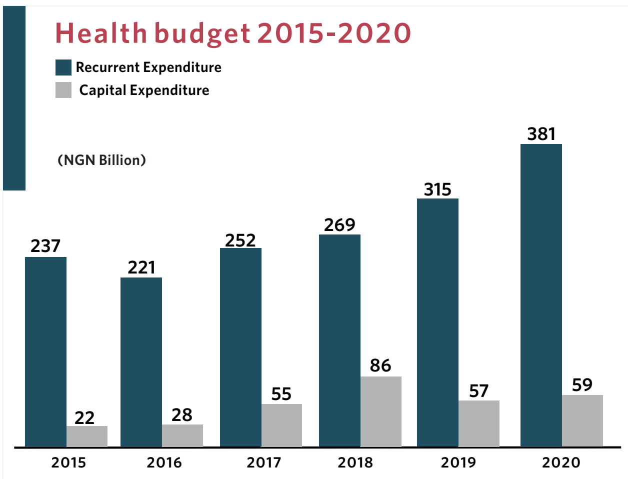
The 2020 health budget has recorded the highest budgetary allocation to the health sector over the last five years. In 2018, ₦356bn was allocated to healthcare out of the total budget of ₦9.1tn. Also in 2019, the figure came to ₦372bn out of the total expenditure of ₦8.91tn.

The poor funding of this sector has made many doubt the federal government's commitment to improved quality healthcare for its citizens despite the growing healthcare concerns in the country. The federal government allocation to the health ministry in 2020 reached a peak of ₦441bn consisting of ₦381bn for recurrent expenditure and ₦59.9bn for capital expenditure.

This is a 13.3% increase of ₦372bn that was budgeted in 2019. Also, this shows that the recurrent expenditure which goes to salaries and overheads takes 86.4% of the total health budget while the capital expenditure meant for capital projects only got 13.6%. The 2020 budget also made provision for ₦44.5bn for Basic Health Care Provision Fund.

The World Health Organization in the Abuja Declaration of April 2001 recommended that for Nigeria to be considered to be prioritising healthcare, the government must commit at least 15% of its annual budget to the healthcare sector.

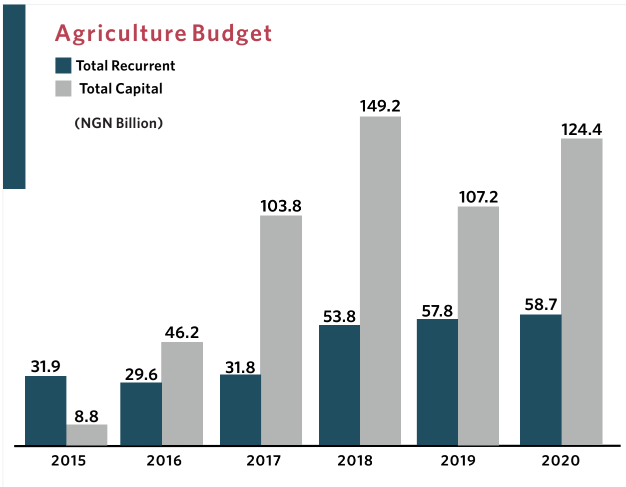
Even though some African countries have keyed into this commitment and raised their budgetary allocation—Rwanda and South Africa commit at least 15% of their total budget to health—Nigeria still lags behind. An aggregate expenditure on health by FG shows that the central government budgeted less than 5% on the health sector, a far cry from what it signed during the Abuja Declaration.

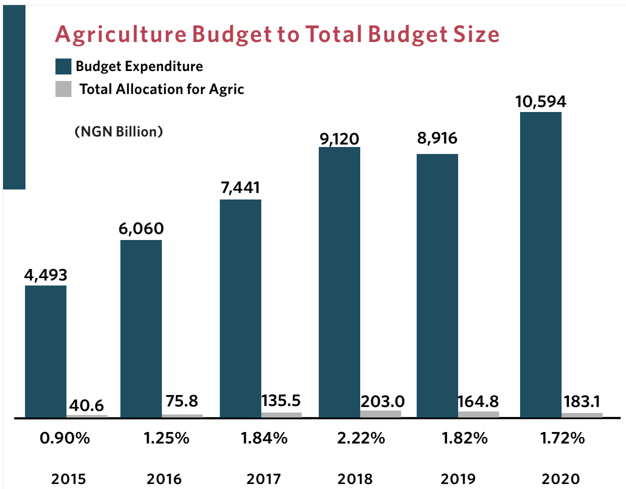


AGRICULTURE

In the 2020 federal government budget, a total sum of ₦183.1bn was allocated to the Federal Ministry of Agriculture and Rural Development, with a sum of ₦58bn for recurrent expenditure, with personnel cost and overhead cost amounting to ₦56bn and ₦2.28bn respectively. Capital expenditure summing up to 67.94% of ₦124.39bn. A sum of ₦183.1bn being 1.72% of the total budget expenditure was allocated to the ministry for the 2020 fiscal year.

In recent times, allocation to the Ministry of Agriculture has dropped; in 2018, the Ministry of Agriculture got its highest allocation of ₦203bn, being 2.22% of the federal government budget expenditure, an increase from the previous 2017 allocation of ₦135bn. With the increase, we would be thinking the government has somehow looked into the diversification of the agricultural sector but the following year makes us think otherwise.

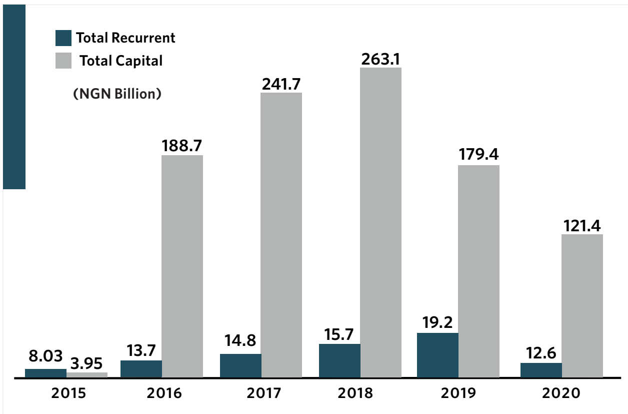




TRANSPORTATION

A look at the FG allocation to transportation shows a decline, with 2020 ranking the lowest over a period of four years (2016-2020), but over a period of five years, 2015 had the lowest with the total allocation of ₦11.98bn. 2018 showed the highest budgetary allocation and was followed by 2017 which are ₦278bn and ₦256bn respectively out of the total budget.

For 2020, the total allocation is ₦133bn; total recurrent is ₦12bn which is 9.41% of the total allocation; total capital is ₦121bn which is 90.6% of the total allocation meant for capital projects—this speaks well of FG's drive to build economic growth.



HUMANITARIAN AFFAIRS, DISASTER MANAGEMENT, AND SOCIAL DEVELOPMENT

This is a new ministry created by the federal government and has been included in the 2020 approved budget. This ministry was formed to take care of victims of disaster, human trafficking, insurgencies in the north, herdsmen ambush and also refugees from Libya and other countries. The ministry's target will be providing special interventions for vulnerable groups through the home-grown school feeding programme, loans to traders and farmers, social housing schemes, economic empowerment programmes and N-power job creation programme.

The 2020 budget allocation for the Ministry of Humanitarian Affairs, Disaster Management and Social Development is ₦453.27bn, of which ₦391.91bn was approved for recurrent expenditure and ₦61.35bn for capital expenses. Personnel and overhead cost account for ₦207.09bn and ₦184.82bn respectively. This is a ministry created clearly to take care of victims and provide relief for them; a lot has to be invested to impact the lives of the affected, but only 13% of the budget has been allocated to capital expenditure whereas overhead cost carries 40% of the budget.

For the FG to successfully achieve the aim of this ministry, the budgetary allocation has to be restructured and more priority should be directed towards capital projects and impacting the lives of the victims directly to enable them to get their lives back as quickly as possible.

This ministry's role is a palliative measure and does not deal with the root causes of the issues; it is important that while the ministry continues working, the government should also continue to provide a long lasting approach to ending the many causes of humanitarian challenges across the country. If that is not done, this ministry may just be another money-guzzling pipeline.

Selected Capital Projects Under the Ministry of Humanitarian Affairs and Disaster Management

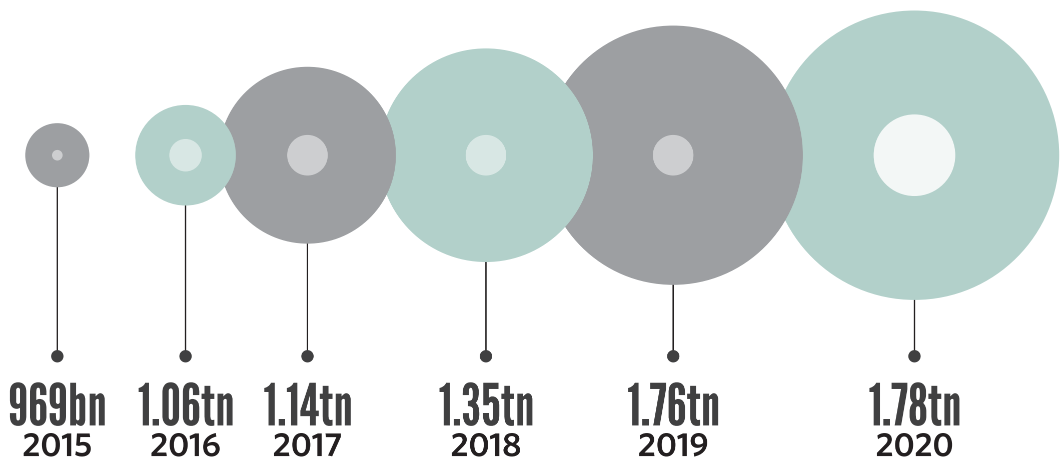
PROJECT NAME	AMOUNT (NGN)
PROVISION OF FOOD ITEMS TO IDPs IN 9 FEDERAL CONSTITUENCIES: MAIDUGURI, JERE, GUBIO, KUKAWA, BAMA, KUNDUGA, BIU, GWOZA AND ASKIRA IN BORNO STATE	270,000,000
N-POWER CAPITAL (IT HARDWARE/TABLETS/EDUCATION SOFTWARE, ARTISAN TOOLS & CONSUMABLES, ESTABLISHMENT OF INNOVATION HUBS, VEHICLES, SOLAR POWER	18,224,830,080
SUPPLY OF RELIEF MATERIALS TO IDPs IN PLATEAU NORTH SENATORIAL DISTRICT, PLATEAU STATE.	200,000,000
REFUGEE COMMISSION - 13 'PUMP FOR IRRIGATION IN KANO SOUTH SENATORIAL DISTRICT, KANO STATE.	200,000,000
CONSTRUCTION OF SKILL ACQUISITION CENTRE, COMMUNITY HALL AND COMPUTER CENTRE (64 SET CAPACITY) IN BAUCHI CENTRAL SENATORIAL DISTRICT	200,000,000
NATIONAL COMMISSION FOR PERSONS WITH DISABILITIES	291,650,000
HOME GROWN SCHOOL FEEDING PROGRAMME (BRANDED ITEMS, HEIGHT AND WEIGHT SCALES AND BIOMETRIC CAPTURING DEVICES, PROJECT VEHICLES)	3,000,096,500
TRAINING AND EMPOWERMENT OF YOUTH VULNERABLE GIRLS ON COSMETOLOGY, SOAP MAKING AND PERFUMERY IN T/WADA, GYALLESU, DAMBO, DUTSEN ABBA AND KUFENA WARDS OF ZARIA FEDERAL CONSTITUENCY, KADUNA STATE	200,000,000
SUPPLY OF RELIEF MATERIAL TO IDPS IN ANKA, GUMMI, MARADUN IN ZAMFARA WEST SENATORIAL DISTRICT, ZAMFARA STATE	200,000,000
DEVELOPMENT OF NATIONAL UNIFIED SOCIAL REGISTER	386,650,000

Security Budget

The Federal Government will be spending a total cost of ₦1.78tn on the security sector in 2020, a little push from ₦1.76tn that was allocated in 2019. The allocation includes ₦900bn for the Ministry of Defence; ₦410.5 for the Ministry of Police Affairs; ₦75bn for military operations, Lafiya Dole and other operations of the Armed Forces; ₦253.4bn for the Ministry of Interior, and ₦144.3bn for the Office of the National Security Adviser. The total budget for security makes about 16.8% of the total budget of ₦10.59tn. The Nigerian Army and the Nigerian Police take the largest chunk of this allocation. The recurrent expenditure components, including personnel and overhead costs, take the largest percentage while the government keeps spending low on capital expenditure.

HISTORY OF SECURITY BUDGET

(NGN Billion)



2020 Approved Budget for Security Agencies

AMOUNT IN NAIRA

ONSA	Military Operations	Ministry of Police Affairs	Defense	Interior
144.3bn	75.0bn	410.5bn	900.7bn	253.5bn

N1.78tn

Ministry of Interior

253.5bn

Recurrent Expenditure	219.5bn
Capital Expenditure	34.0bn

Nigerian Army

463.4bn

Recurrent Expenditure	429.0bn
Capital Expenditure	34.4bn

Nigerian Navy

130.8bn

Recurrent Expenditure	114.5bn
Capital Expenditure	16.3bn

Nigerian Airforce

136.4bn

Recurrent Expenditure	109.5bn
Capital Expenditure	26.9bn

ONSA

144.3bn

Recurrent Expenditure	116.9bn
Capital Expenditure	27.4bn

Ministry of Police Affairs

410.5bn

Recurrent Expenditure	394.6bn
Capital Expenditure	15.9bn

HIGHLIGHTS: CAPITAL PROJECTS

AMOUNT IN NAIRA

Army

- **2.03bn** Purchase of 'B' Vehicles
- **3.93bn** Purchase of Arms
- **3.26bn** Purchase of Ammunition
- **2.00bn** Purchase of Qty 100 X KRAZ TCV for Operation Lafiya Dole
- **1.39bn** Operational Kitting

Navy

- **6.17bn** Procurement of Landing Ship Tank
- **4.01bn** Procurement of Hydro Survey Ship
- **3.04bn** Procurement of Helicopters
- **949.0m** "Construction of Jetties In 6 X Forward Operating Bases and Shoreline Protection at Nigerian Navy Ship Beecroft"
- **949.0m** Development of Naval War College Nigeria.

Airforce

- **11.6bn** "Part Payment for Procurement of 3 X JF - 17 Thunder Aircraft, support Equipment and Spares"
- **1.33bn** Periodic Depot Maintenance of C - 130h (NAF 918) Aircraft
- **2.00bn** Procurement of Various Aircraft Spares
- **1.92bn** Infrastructural Development in Newly Established NAF Bases
- **1.35bn** "Procurement of Troop Carrier and Other Operational Vehicles"

Intervention Programmes

₦400bn
Special Intervention Programmes

- Conditional Cash Transfers, etc.
- FGN Special Intervention Programme (including Home Grown School Feeding Programme
- Government Economic Empowerment Programme
- N-Power Job Creation Programme

₦183.9bn
Regional Intervention Programmes

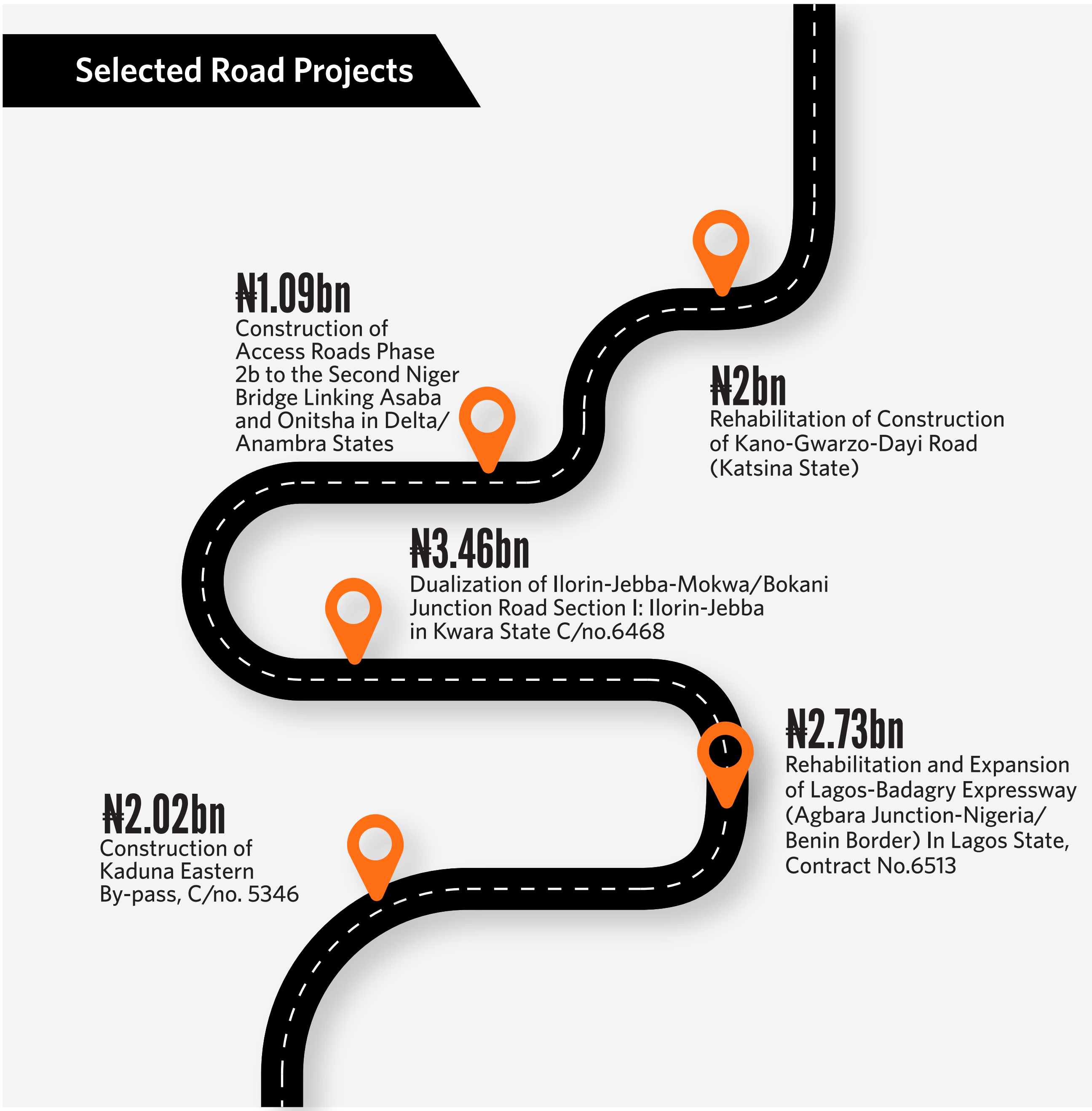
- 65bn — Reintegration of transformed ex-militants under the Presidential Amnesty Programme
- 38.1bn — North East Development Commission (NEDC) – Statutory Transfer
- 80.8bn — Niger Delta Development Commission (NDDC)

₦100bn
Zonal Intervention Projects (ZIP)
(Constituency Projects)

ROAD INFRASTRUCTURE

Out of the total budget of ₦10.59tn, only a total of ₦343.5bn, representing a 3.24% to the total expenditure, was allocated to the Ministry of Works and Housing. The situation becomes worrisome as this allocation involves both two sectors in dire need due to the nation's infrastructural upgrade.

There are growing concerns about the government's commitment to improve the state of roads across the country which is necessary to drive the much needed economic growth. The failure of the government to fund road projects and maintain the dilapidated ones has hindered the economic prosperity needed to transform the country and has shown a significant effect on the underperformance of the transport sector.



RAILWAY

₦67.17bn has been budgeted as counterpart funding for railway projects, most of which are on-going but when completed, this investment will bring about economic growth by easy inter-state movement of goods and services.

RAILWAY PROJECTS (COUNTERPART FUNDS): 1. LAGOS-KANO (ONGOING) 2. CALABAR-LAGOS (ONGOING) 3. AJAOKUTA-ITAKPE-ALADJA (WARRI) (ONGOING) 4. PORT HARCOURT- MAIDUGURI (NEW) 5.KANO-KATSINA-JIBIYA-MARADI IN NIGER REPUBLIC (NEW) 6. ABUJA-ITAKPE AND ALADJA (WARRI)-WARRI PORT AND REFINERY INCLUDING WARRI NEW HARBOUR (NEW) 7. BONNY DEEP SEA PORT, PORT-HARCOURT INDUSTRIAL PARK AND OTHER RAIL PROJECTS.	₦67,165,194,111

Conclusion and Recommendation

The budget document is a planning tool that allows the government to plan for economic prosperity and meet the needs of its people. In this vein, our recommendations to the government on the budget document, process and related overarching policy changes are three-fold as outlined below:

1. Invest in increasing citizen trust.

In a democratic system as we have in post-1999 Nigeria, there is an inherent bond and agreement that the government serves in the best interest of the people. Despite this, Nigerians have widespread distrust for their government and its leaders due to widely covered instances of corruption and mismanagement of funds over the years. It is imperative that the government continuously and doggedly takes the necessary strides to rebuild and improve this trust. This will not happen overnight, but must be a consistent effort built on the existing gains and improvements made so far.

To this end, it is necessary to:

- Insist and follow up on budget and spending transparency from all arms and elements of the government particularly including GOEs notorious for opacity. The recently launched Open Treasury Platform is a great opportunity for this and a sign that the government is moving in this direction.

- Open up more avenues for continuous, year-round feedback and dialogue with citizens of all demographics. This involves expanding the current citizen budget to different languages, providing citizen versions of other key documents, including audited financial reports, budget implementation reports and expanding cross-cutting media use for increased citizen engagement.

2. Execute fiscal consolidation

As has already been stated, Nigeria's revenue to GDP remains low at less than 8%. Even while efforts are made to improve this, Nigeria can do more with its resources. This is exemplified in the health sector as a World Bank analysis comparing the Global Competitiveness Index Score Health Dimension against the public recurrent health expenditure per capita found that "several countries with a similarly low level of public health spending have better outcomes, suggesting that there is a low efficiency of spending issue in Nigeria". This is not limited to the health sector, as it is present across other sectors of the economy. Fiscal consolidation is therefore essential to maximise our few resources. It is therefore important to:

- Consolidate duplicate agencies as recommended in the Oronsaye Report. The Oronsaye Report is a government-sponsored report led by the then Head of the Civil Service of the Federation, Stephen Oronsaye and presented to the Jonathan regime with recommendations to reduce statutory agencies of the government from 263 to 161. The implementation of the Oronsaye report will reduce the cost of governance.

- Eliminate duplication of projects through horizontal collaboration of MDAs and vertical collaborations between the federal, state and local governments. This not only eliminates the chance of having similar, overlapping projects in budgets, but also offers opportunities for synergies—with the sharing of databases and training resources—helping to plug wastage caused by project repetition.

3. Ensure implementation-centred planning/ visioning

Nigeria has had several plans—most recently Vision 2020 and the Economic Recovery and Growth Plan (ERGP). However, we have repeatedly fallen short of the set goals. It is therefore imperative that any audacious plan be accompanied by focused execution. It is also important that any such plans be formulated with wide, cross-section and cross-party buy-in, in order to ensure continuity.

There must also be a phasic approach that sees the phasic completion of key projects, for realisable gains in the economy, as opposed to the current practice of yearly piece-meal allocations and spend resulting in drawn-out and uncompleted projects.

4. Increase Revenues

Implementation of any and all plans will be contingent on aggressive revenue growth formed on the back of increased economic productivity and diversified exports. A robust export base is itself dependent on locally produced goods that are competitive on the global market.

Nigeria's current border closure strategy which protects and benefits certain local businesses from external competition, needs to ensure that in the long run, these key industries can produce competitive exports. This is essential for full revenue potential realization.

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