A Broad Analysis of the 2014 FGN Budget

- A Presentation at the ICAN Symposium on the 2014 Budget

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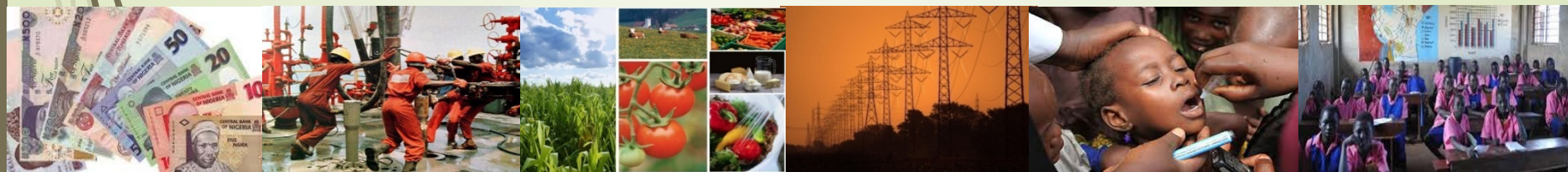

OUTLINE

- Setting the Context
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- 2014 Budget – Budget Theme and Priorities
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- 2014 Budget – Expenditure Profile
- Challenges facing the Budget
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SETTING THE CONTEXT

- ***What really is the Budget all about?*** *Rather than just a set of revenue & expenditure plans by the Government, the Budget is a statement about Government's fiscal policies and related policies which are intended to move the economy forward.*
- ***The Question of Budget Structure*** *– High share of recurrent expenditure in total budget worrisome to Government.*
  - *Ratio worked down from 74.4% in 2011 to 71.5% in 2012, & 67.5% in 2013. But 74% in 2014 – Revenue shock, rising wage bill, pensions, …*
  - *A large portion of the cause – Personnel expenditure (about 71% of recurrent, 37.12% of Agg. Budget)*
- ***Transparency & detail*** *– 2014 Budget designed to bare it all; draw constructive dialogue.*
- ***You and the Budget Process*** *– Process highly consultative – Executive & You, Executive & Legislature.*
  - *Sometimes leads to slippages in budget Efforts at further institutionalizing processes in progress.*

GLOBAL ECONOMIC OUTLOOK

The 2014 Budget proposal was prepared against the backdrop of:

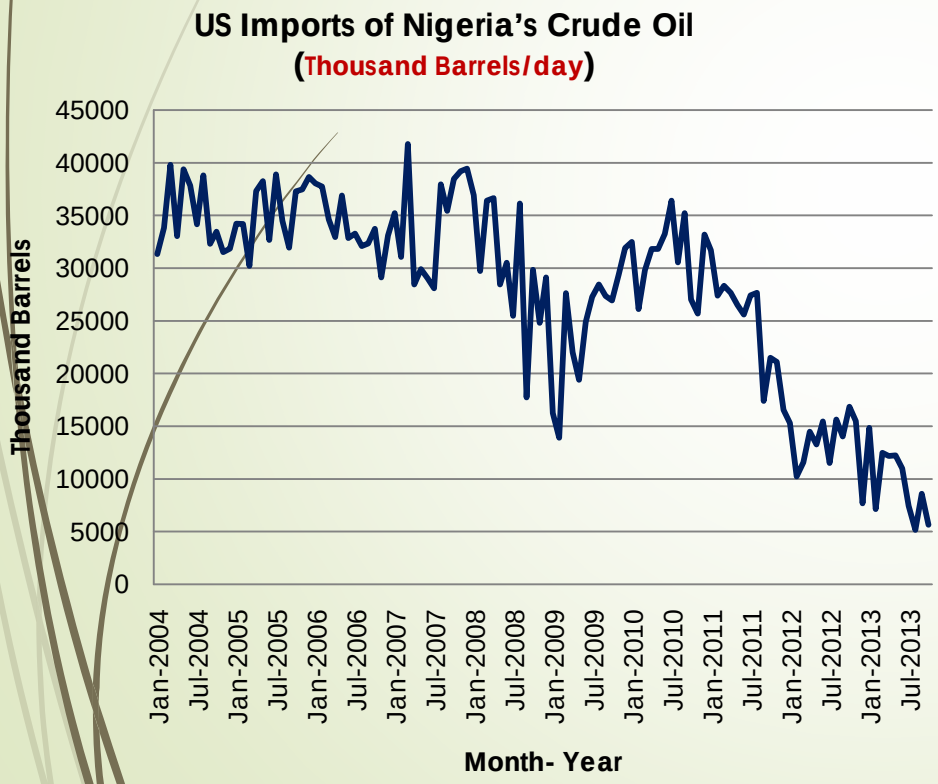
Global Economic Uncertainty and Fragile Recovery

- Global growth recovery, still in low gear and largely fragile
- Evidenced by a three-time downward revision of growth forecasts as at October 2013
  - Forecasts revised downward to 3% and 3.6% for 2013 and 2014 respectively
  - Growth in the US remains tenuous – Revised downward to 1.6% and 2.6% for 2013 and 2014 respectively
  - Euro zone projected to contract by 0.4% as major risks reduce and financial condition stabilizes; however, credit bottlenecks persist

GLOBAL ECONOMIC OUTLOOK (2)

The 2014 Budget proposal was prepared against the backdrop of:

New Developments in the International Crude Oil Market



- Global oil output rising – Rising output from non-conventional Oil & Gas in North America/China; and emergence of new regional producers and exporters
- Implications for our economy – Demand & price implications for Nigerian oil, FDIs, etc
- US demand for Nigeria's oil already on a downward trend though India and China making up for the fall

DEVELOPMENTS IN THE DOMESTIC ECONOMY

The outlook for the Nigerian economy remains positive…

Nigeria's GDP growth – fastest in Africa

- Estimated 2013 GDP growth at 6.5% (NBS) or 7.2% (IMF)
- Now largest economy in Africa (with a rebased GDP of US$509.97billion; some revision has just been announced by NBS)
- Also classified as one of the MINT countries …

Exchange Rate is stable and Inflation is declining

- Naira/USD rate remained within N155-N160 band, though rising spread in BDC
- Inflation rate remains in single digits (8% as at December 2013, 8% as at May 2014)

…however, home-grown difficulties persist

- Disruptions to Nigeria's oil production due to oil theft and oil pipeline vandalism
- Security challenges in some parts of the North East

DEVELOPMENTS IN THE DOMESTIC ECONOMY (2)

International validation of economy management, still strong!

FitchRatings

Fitch: BB- Stable

STANDARD &POOR'S

S&P: BB- negative watch due to perceived risk based on political cycle

FATF

Financial Action Task Force (FATF): - global money laundering - Nigeria removed from their international blacklist

2014 BUDGET – THEME and PRIORITIES

Theme

*A Budget for "**Jobs and Inclusive Growth**"*

Focus

- Job Creation
- Infrastructure Development
- Cost of Governance
- Supporting Industry
- Cost of Doing Business

...2014 BUDGET – THEME and PRIORITIES.../2

Budget Priorities - *"A Budget for Jobs and Inclusive Growth"*

❖ Infrastructure Development

Power

- *Investments in transmission*
- *Strengthen Regulation*
- *Complete Privatization of NIPP projects*
- *Accelerate work on gas pipeline infrastructure*
- *Invest in hydro-electric power and clean energy*

Roads

- *Completion of East-West road*
- *Dualization of the Abuja-Abaji-Lokoja and Kano-Maiduguri road*
- *Increase pace of work on: Lagos-Ibadan expressway; Enugu-Port-Harcourt expressway; 2nd Niger bridge*

Aviation

- *Upgrading air navigation and security systems*
- *Strengthen Regulation*
- *Complete work on the remodelling of 11 airport terminals*
- *Accelerate work on 5 new airport terminals*
- *13 perishable cargo terminals*

...2014 BUDGET – THEME and PRIORITIES.../3

Budget Priorities - *"A Budget for Jobs and Inclusive Growth"*

Governance

- *Personnel training (MDAs and Parastatals) to be in Nigeria; foreign training (only in exceptional cases). Guideline to be provided by government*

- *Implement various security and community measures to stem oil theft and pipeline vandalization (e.g. Governor Uduaghan-led Committee recommendation)*

- *Complete the deployment of **TSA**, **GIFMIS** and **IPPIS***
- *Extension of IPPIS to more MDAs*

...2014 BUDGET – THEME and PRIORITIES.../4

Job creation through sectoral initiatives...

Agriculture

- *Target input subsidies to 5 million farmers nationwide using e-wallet system*
- *Develop over 750,000 young Nagropreneurs by 2015 through the YEAP*
- *Establish new agro-industrial clusters to complement the staple crop processing zones*
- *Launch the Fund for Agriculture Finance in Nigeria (FAFIN) to serve as private equity fund to invest in agribusiness*

Manufacturing

- *Currently, 17 million registered SMEs which employ over 32 million Nigerians*
- *More jobs are imminent as these SMEs grow with continued support*
- *Implementation of the Nigeria Enterprise Development Programme (NEDEP)*
- *SMEs access to affordable finance and business development services*
- *Our CET policies will support emerging industries*

...2014 BUDGET – THEME and PRIORITIES.../5

Job creation through sectoral initiatives...

Housing and Construction

- *Nigeria Mortgage Refinance Company (NMRC) has just been launched, and will*
  - *increase liquidity in the housing sector*
  - *Provide secondary market for mortgages*
- *Create over 200,000 mortgages over the next 5 years (opening opportunities for architects, masons, carpenters, painters, transporters, etc.)*
- *Expand mass housing scheme through restructuring the Federal Mortgage Bank*

Other initiatives to promote job creation...

- YouWIN and SURE-P
- Gender Budgeting
- Peace and Security

The 3 pronged approach

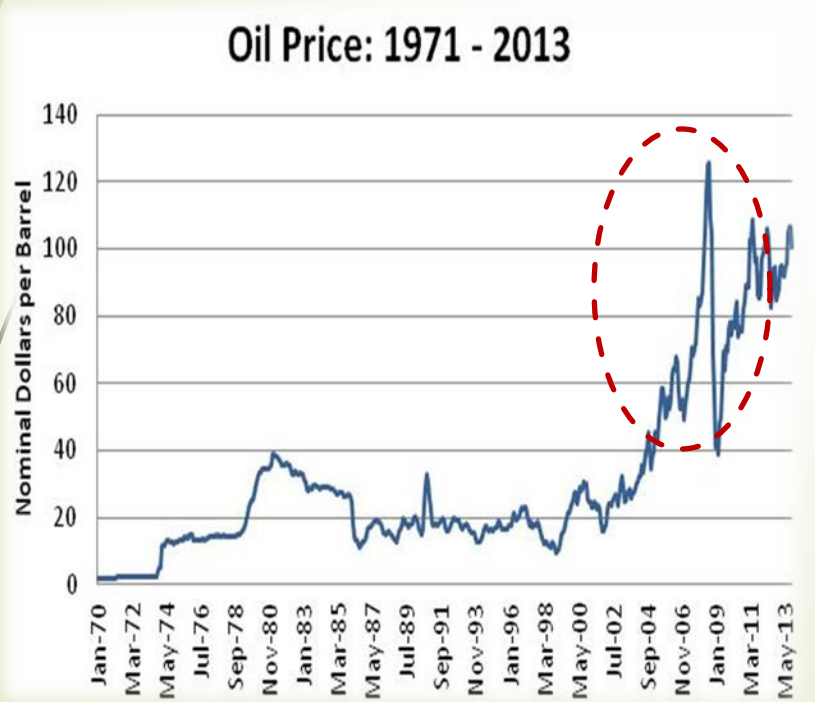
1. Firm Security Response
2. Continued Political Dialogue
3. Package of Development Assistance. (FINE)

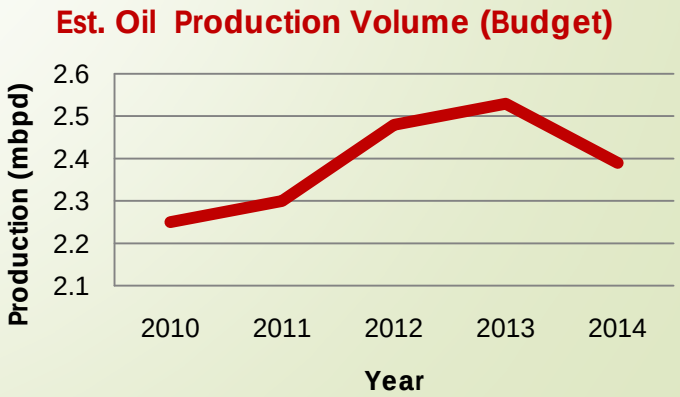
- ***These and other initiatives in 2013 created about 1.6 million jobs (NBS Data)***
- ***But new entrants into job market about 1.8m. So, need to do more***

2014 BUDGET - KEY ASSUMPTIONS

Key Assumptions

- Oil Benchmark Price: US$77.5/barrel
- Oil Production: 2.3883 mbpd
- Exchange Rate: N160/US$





2014 BUDGET – REVENUE PROJECTIONS

Shares to the three tiers based on statutory formula

FISCAL ITEMS	2013 Budget	2014 Executive Proposal	2014 Budget (As Passed)
Distribution to Federation Account (Main Pool)			
FGN's Share of Federation A/C (52.68%, incldg 4.18% for Special Funds)	3,506.34	3,284.25	3,284.25
States' Share of Federation Account (26.72%)	1,778.46	1,665.82	1,665.82
Local Govt.'s Share of Federation Account (20.60%)	1,371.12	1,284.28	1,284.28
Distribution to Federation Account (VAT Pool)			-
FGN's' Share of VAT Pool Account (15%)	136.12	121.74	121.74
States' Share of VAT Pool Account (50%)	453.73	405.82	405.82
Local Govt.'s Share of VAT Pool Account (35%)	317.61	284.07	284.07
Summary of Distribution			
TOTAL FGN	**3,642.46**	**3,406.00**	**3,406.00**
TOTAL STATES	**2,232.19**	**2,071.63**	**2,071.63**
TOTAL LGCs	**1,688.73**	**1,568.35**	**1,568.35**

...2014 BUDGET – REVENUE PROJECTIONS.../2

Revenue Projections

REVENUE ITEMS	2013 Budget	2014 Executive Proposal	2014 Budget (As Passed)
Gross Federally Collectible Revenue (*incdg. FGN IGR, etc.*)	11,041.61	10,453.39	10,453.39
FGN Retained Revenue	4,100.176	3,731.00	3,731.00
Oil Revenue	2,354.51	2,114.53	2,114.53
Non-Oil Revenue	996.71	1,021.41	1,021.41
CIT	*457.24*	*454.54*	454.54
VAT	*127.05*	*113.63*	113.63
Customs	*357.66*	*352.89*	352.89
Share of Federation Acct. Levies	*54.77*	*100.34*	100.34
Independent Revenue	*455.78*	*452.04*	452.04
Share of Actual Bal. in Special Accts	*3.94*	*1.34*	1.34
Balances in Special Levies Accounts	*28.02*	*21.68*	21.68
Unspent Bal. of previous Fiscal Year	*261.21*	*120.00*	120.00

2014 BUDGET – EXPENDITURE PROFILE

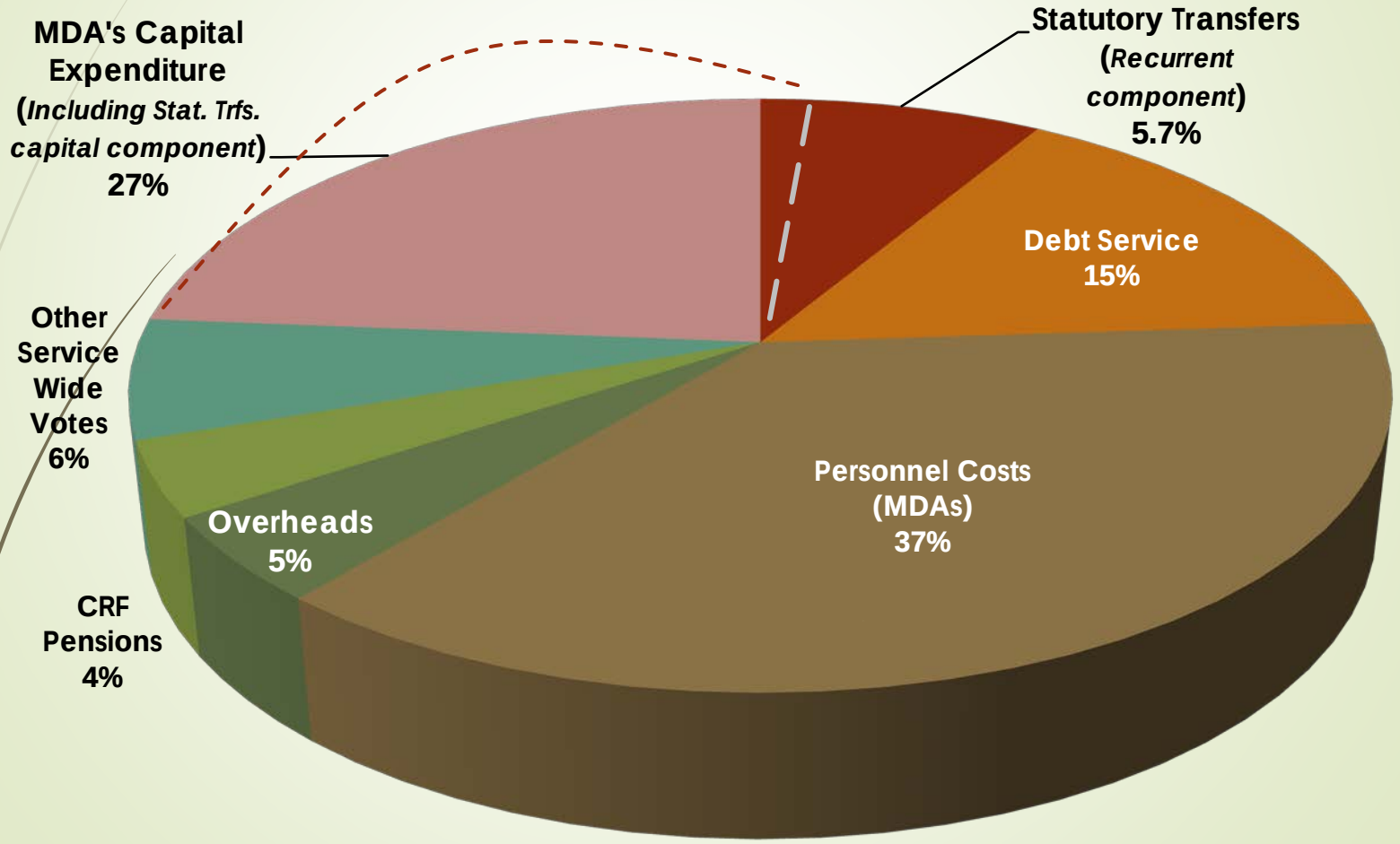
FGN Budget Projections

FISCAL ITEMS	2013 Budget (N'bn)	2014 Executive Proposal (N'bn)	2014 Budget (As Passed) (N'bn)
TOTAL FGN'S RETAINED REVENUE	**4,100.18**	**3,731.00**	**3,731.00**
TOTAL FEDERAL GOVERNMENT EXPENDITURE	***4,987.24***	***4,642.96***	***4,695.30***
Statutory Transfers	***387.98***	***399.69***	***408.69***
Debt Service	***591.76***	***712.00***	***712.00***
Recurrent Expenditure	***2,386.02***	***2,430.66***	***2,455.00***
Personnel Costs (MDAs)	*1,688.11*	*1,723.31*	*n/a*
Overheads	*237.87*	*216.77*	*n/a*
CRF Pensions	*143.24*	*187.45*	*n/a*
Other Service-Wide Votes	*316.80*	*303.14*	*n/a*
MDAs' Capital Expenditure	*1,621.48*	*1,100.61*	*1,119.61*
Capital Expenditure (Inclussive of capital components of Stat. Trfs.)	***1,786.61***	***1,266.84***	***1,286.84***
Share of Capital as % of total expenditure	*35.82%*	*27.29%*	*27.41%*
Share of recurrent as % of total expenditure	*64.18%*	*72.71%*	*72.59%*
Fiscal Deficit (Based on Regular Budget)	***-887.07***	***-911.96***	***-964.30***
** Deficit (as % of GDP)*	***-1.85%***	***-1.90%***	***1.20%***

**** Deficit of Passed 2014 Budget (as % of GDP) based on rebased GDP***

...2014 BUDGET – EXPENDITURE PROFILE.../2

Expenditure composition



...2014 BUDGET EXPENDITURE - INCLUDING SURE-P

Expenditure composition

FISCAL ITEMS	2013 Budget (N'bn)	2014 Executive Proposal (N'bn)	2014 Budget (As Passed) (N'bn)
SUBSIDY REINVESTMENT PROGRAM (SURE-P)	**273.522**	**268.37**	**268.370**
Capital component of SURE-P	*272.52*	*267.17*	*267.17*
Capital Expenditure *(Inclusive of capital component of Sta. Trfs & SURE-P)*	***2,059.14***	***1,534.01***	***1,554.01***
Agg. FGN Expenditure (Regular & SURE-P)	***5,260.76***	***4,911.33***	***4,963.67***
Share of Capital as % of total expenditure	*39.14%*	*31.23%*	*31.31%*
Share of recurrent as % of total expenditure	*60.86%*	*68.77%*	*68.69%*

CHALLENGES FACING THE BUDGET (REVENUE)

Oil Revenues

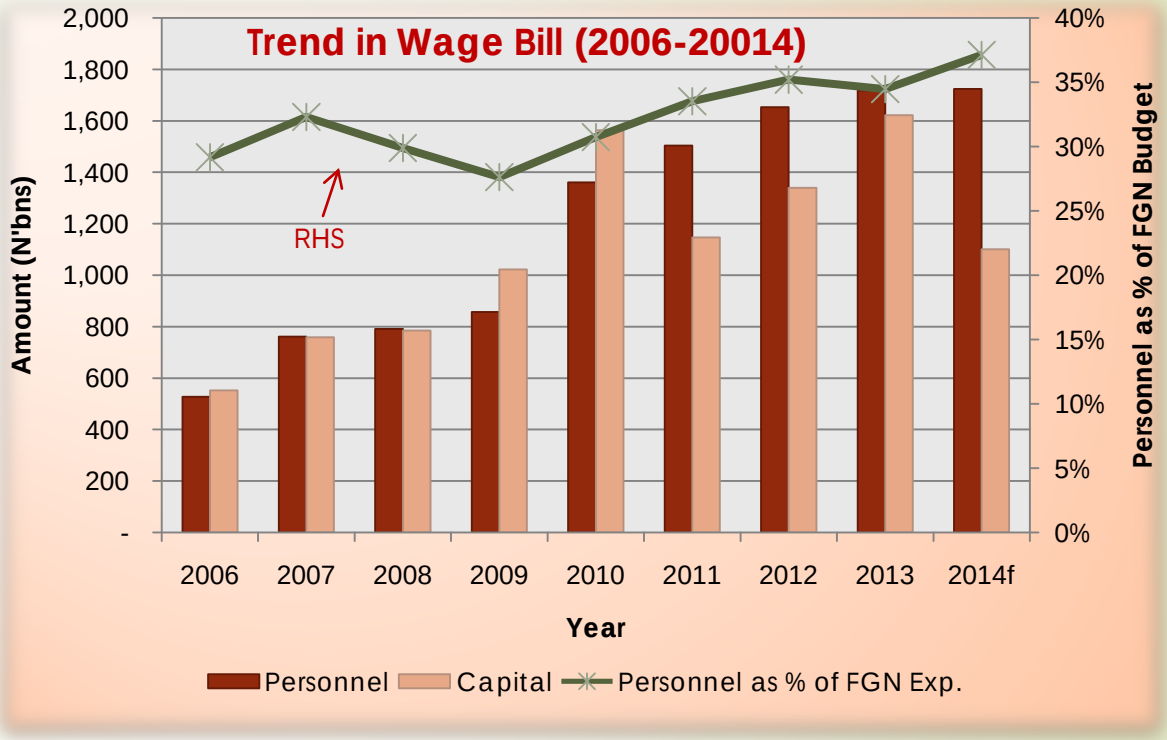
- Crude oil theft and pipeline vandalism
- At its peak, oil loss was about 300,000 bpd
  - ✓ Not all stolen; loss partly due to production shut-ins, leakages, etc.
- With efforts of security forces & community engagement, the loss has reduced

Non-Oil Revenues

- Shortfall in Independent Revenues
- Collection efficiency
- Insecurity in some parts of the North affecting economic activities and tax collection
- Fiscal policy – leading to reduction in government revenue but promoting job creation (e.g., Increase in tariff on rice and wheat)

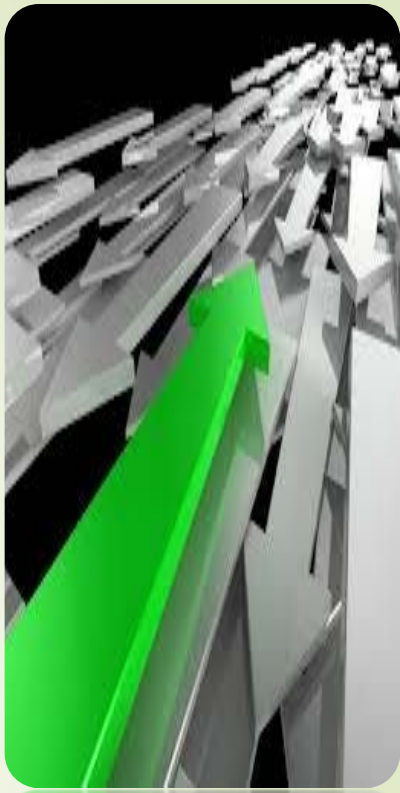
CHALLENGES FACING THE BUDGET (EXPENDITURE)

- **Personnel Spending:**
  - Very high wage bill due to huge increases starting in 2009
    - In 2009, the total wage bill was N857 billion; now it's N1.72 trillion
    - Due to new pressures for wage and pension (military and civilian) increases, and
    - Ghost workers (especially in agencies yet to be included in the IPPIS)



- As a result, the share of personnel cost as a percentage of aggregate expenditure increased from 29.17% in 2006 to 37.12% in 2014
- High wage bill resulted in higher deficits and therefore higher borrowing
- Any increase in the wage bill affects amount available for capital spending

CHARTING THE WAY FORWARD



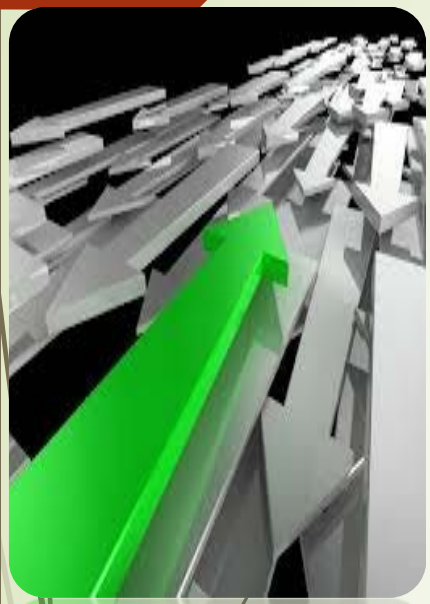
Revenue (Oil)

- **Curb oil theft and pipeline vandalism**
  - Reinforcing security & monitoring of oil infrastructure
  - Accelerating sensitization of oil producing communities
- **Accelerate passage of the Petroleum Industry Bill to:**
  - Transform and open up the oil industry
  - Engender competition
  - Improve efficiencies

Revenue (Non-oil) – Improving Business Climate

- **Non-Oil Revenue Mobilisation:**
  - Nigeria's tax revenue to GDP ratio of **12%** low in comparison with 22% for other middle-income African countries or over 20% for emerging economies.
  - Over the recent years, contribution of non-oil revenues to FGN budgets on the rise; presently, about **15%** of FGN budget revenue drawn from CIT & VAT
  - Nigeria has engaged McKinsey & Co to work with FIRS to plug tax leakages.
  - Initiative to increase non-oil tax revenues by at least N75bn over FIRS projected 2014 collection target of N2.26tr.
- **McKinsey & Co's diagnostic study revealed interesting findings, for example:**
  - **65%** of registered tax payers have not filed their returns for the past 2 years
  - **75%** of small and medium businesses are not currently in the tax system
  - **30%** of the companies operating under the Pioneer Status incentive abuse their tax exempt status

...CHARTING THE WAY FORWARD.../2



... Revenue (Non-oil)

- **Customs duty and levies**
  - Fiscal policies and curbing smuggling activities
  - Reassessing some of the tariff policy of 2013
- **FGN Independent revenue**
  - Improved collection and remittance of FGN Independent revenues
- **Further diversifying the revenue base**
  - Developing the Solid Minerals sector

Eliminating Inefficiencies in Government Expenditure

- **Fighting corruption in the public service:**
  - Defined Benefits System now restructured under ***Pension Transition Arrangement Dept.***
  - Petroleum Subsidy Scheme/Partial Removal of Fuel Subsidy.
- **Reducing the Costs of Governance:**
  - Reducing personnel costs through ***Integrated Payroll & Personnel Information System*** (IPPIS)- **N139.6bn** saved and **46,821** Ghost Workers identified.
  - **260 MDAs** are on IPPIS as at June 2013. Work ongoing to bring on other 321 MDAs.
  - About is **₦139.6bn** of Payroll cost saved so far; about **46,821 ghost workers** identified.

...CHARTING THE WAY FORWARD.../3

... Eliminating Inefficiencies in Government Expenditure

- Accelerate plugging of leakages & wastages in expenditure
  - Travels
  - Rationalization of MDAs
- Nigeria Vision 20:2020 & Transformation Agenda
  - Prioritization of capital investments – *focus on completion of viable ongoing projects*

Government Integrated Financial Management & Information System (GIFMIS) introduced in April 2012.

- GIFMIS is aimed at improving the acquisition, allocation, utilization and conservation of public financial resources using automated and integrated, effective, efficient and economic information systems.
- 58% of the budget now executed through GIFMIS and is expected to increase in 2014.

Treasury Single Account (TSA) is a unified structure of government bank accounts that gives a consolidated view of the cash position.

- 93 out of 837 MDAs (over 10%) are currently on TSA.
- Government has gone from an overdraft of ₦102 billion in 2011 to an average balance of ₦86 billion (credit) in 2013.

...CHARTING THE WAY FORWARD.../4

Removing Structural Bottlenecks

- Power, Ports, Rail, Roads, Aviation, ICT - Comtech (Broadband)

Implementing Supportive Polices for Sectoral Growth

- Agriculture, Housing, Manufacturing, Creative industries, Solid minerals, Oil and Gas, Petrochemicals, etc.

Building Social Safety Nets

- Vulnerable women, children, disabled
- Regional disparities-Pilot north east development program

Safe School Initiative

- Pilot: Starting with states currently observing state of emergency

...CHARTING THE WAY FORWARD.../5

The NEXT REFORM - Putting expected Results before the Expenditure

- Government ***PFM reform programme*** well advanced.
- ***Programme-Based Budgeting System*** – The NEXT PHASE in our budget reforms is to, with the aid of human and ICT infrastructure (GIFMIS), ***focus public resource management more on results delivered and less on internal processes or amount spent***. This is with a view to:
  - ✓ **Allocating resources with the results in focus;**
  - ✓ **Improving on MDAs' efficiency in expenditure prioritization (i.e., to where they will do the most good);**
  - ✓ **Spur the MDAs to spend more efficiently and effectively by making them aware that their performance is determined by the outcomes of their spending which might influence the level of funding going forward; and**
  - ✓ **Improving aggregate fiscal discipline drawing from refining expenditure prioritization which means enhanced capacity to create fiscal space for new spending initiatives.**

THE BUDGET 2014 – SUPPORTING INDUSTRY, CREATING JOBS

Housing & Construction:

- **Nigeria Mortgage Refinance Company**
  - *Invigorating the housing & construction sector - **$300m** from World Bank, FGN **N50bn** Bond half yearly*
    - *Bridging cost of residential mortgages*
    - *Increased access to liquidity to mortgage lending banks*
- ***FMB** – Restructure to provide support for Govt's mass housing programmes*
  - *Estate Development Loan Scheme – N100bn backbone project attracting real estate developers & Investors*

Wholesale Development Finance Institution:

- Partnering with World Bank, AfDB, BNDES Bank of Brazil, KfW of Germany to realize project:
  - *Providing medium-t long-term projects financing:*
  - *Infrastructure front opened up for private sector involvement (PPP)*
  - *Power sector opportunities to take advantage of supply gap and government reforms in the sector (privatization)*
  - *Refineries and petrochemicals sector based on local markets and adjoining reforms*
  - *Bank of Agriculture, Bank of Industry to linkup.*

...THE BUDGET 2014 – SUPPORTING INDUSTRY, CREATING JOBS.../2

Infrastructure Development

- Power
- Rail
- Roads & Bridges
- Aviation

Supporting Industry

- **Nigeria Industrial Revolution**
  - ✓ Supporting agro-product marketing
    - ✓ Rail system revitalization
    - ✓ Aviation – Perishable products terminals
  - ✓ Attracting the Automobile Industry to Nigeria – *Nissan, Hyundai, Toyota*
  - ✓ Attracting tyre manufacturing companies re-opening their operations – *Michelin*
  - ✓ Boosting Cement production – *Nigeria now a net exporter of Cement*
  - ✓ Increasing Sugar production

...THE BUDGET 2014 – SUPPORTING INDUSTRY, CREATING JOBS.../3

Enabling Business Environment

- **Fiscal Policies *(Continuing policies boosting):***
  - ✓ ***Manufacturing***
    - *Benefiting from existing fiscal policies*
    - *Benefiting from new Common External Tariff*
  - ✓ ***Agriculture, Power, Aviation & Transport***
    - *Equipment, Plants, Parts*
- **Cost of doing business:**
  - *Port reforms; Infrastructure development; etc.*
- **Exchange rate**
  - ✓ *Managing a stable exchange rate regime*

Attracting:

- Stable ***effective tax rate*** for all businesses

❖ **Private sector critical for successful outturn of Government's economic policies. Opportunities available across sectors but local businesses need to become more familiar with public procurement laws.**

End Notes

- 2014 Budget prepared against backdrop of a fragile global economic recovery, but resilient domestic economy.
- A tight but realistic budget for 2014 given:
  - the projected decline in oil revenue due to lower oil production and benchmark price which affected resource allocations;
  - non-oil revenues being shored-up; taxes and independent revenues in focus.
- The growing wage bill and revenue loss remain a critical challenge to the budget.
  - All stakeholders need to recognize this in order to accelerate economic development.
- In spite of this, Budget focused on promoting job creation and inclusive growth through targeted public investments and other fiscal policy measures.
- There are a variety of fiscal policies to support the real sector, and grow the economy; great opportunities for all.
- "Savings" from partial subsidy removal being reinvested in social safety nets and infrastructure, thereby reducing waste & corruption associated with subsidy
- Great opportunities for the Accounting profession to contribute through client tax payments.