



2012 Federal Budget: What it means for the next 4 years

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Discussion Outline

- Budget Objectives
- Structure of the 2012 Budget
- Key Drivers and Assumptions
- Budget Analysis
- Potential Impacts
- Can the budget deliver the objectives?
- Recommendations

Budget Objectives

Objectives	What the budget says	What Nigerians heard or expect
Fiscal consolidation	<ul style="list-style-type: none"> • Improved revenue collection • Reduce recurrent expenditure • Increase capital expenditure • Reduce deficit and domestic borrowing • Implement economic reform programs 	<ul style="list-style-type: none"> • Reform of the federal civil service • Plug leakages • Reduce debt profile
Inclusive Growth	<ul style="list-style-type: none"> • Better coordination of economic activities 	<ul style="list-style-type: none"> • Better coordination for efficient economic growth and development
Job Creation	<ul style="list-style-type: none"> • Focus on the following sectors to create jobs: ICT, Solid Minerals development, Manufacturing, Aviation and Creative industries 	<ul style="list-style-type: none"> • Create millions of jobs

Structure of the 2012 Budget

- Global economic developments:
 - Global economic recovery
 - Euro debt crisis
 - Volatility of international food and oil prices
- Developments in the Domestic Environment
 - Creation of the Economic Management Implementation Team to deliver the proposed economic agenda
 - Positive economic growth: 7.72% vs. 5.2% (Africa); inflation: 14.1% to 9.7%
- Review of 2011 Budget Implementation
 - 70% implementation anticipated
 - Affected by 2011 elections and budget amendments in May
 - Proposed improvement in 2012 budget implementation
 - Improved revenue collection
 - Reduction in recurrent expenditure
 - Increased share of capital expenditure in aggregate spending

Priorities of 2012 Budget: Four Main Pillars

1. Macroeconomic Stability:

- Strong and prudent fiscal policies: reduce debt profile from 16.4% to (...no target given)
- Manageable deficits (...no target given)
- Sustaining Debt-GDP ratio of 30%
- Ensuring a single digit inflation rate of 9.7%.
- Cut recurrent expenditure to 67% (2015)
 - Reduce waste, inefficiency, corruption, and duplication in government
 - Introduce new template for analyzing the financial requirements, economic rate of return, job creation, and environmental sustainability
- Increase revenue side on the national balance sheet
 - Plug leakages
 - Improve corporate tax collection
 - Boost internally generated revenue
- Prioritize expenditure
 - Focus on viable on-going capital projects
 - Strengthen oil reserves by exploring feasible oil production areas like the Chad Basin

Priorities of 2012 Budget: Four Main Pillars

2. Structural Reforms:

- Liberalization and privatization of the power sector based on the Power Roadmap
- Create policies to encourage investments in the downstream oil and gas sector to create jobs
- Reduce cost of doing business in Nigeria by reforming the Ports and Customs. Goods clearance will take only 48 hours instead of the 3-4 weeks
- Pass the Petroleum Industry Bill to give investors the policy certainty needed to make investments

Priorities of 2012 Budget: Four Main Pillars (cont'd)

3. Governance and Institutions:

- Reforms depend on strong systems and institutions that promote transparency
 - Implement *Freedom of Information Act*
 - Reinforce mandates of anti-corruption agencies i.e. ICPC, EFCC in the fight against corruption
 - Publish allocated revenue expenditure at the three tiers of government
- Reform of public service for optimal service delivery

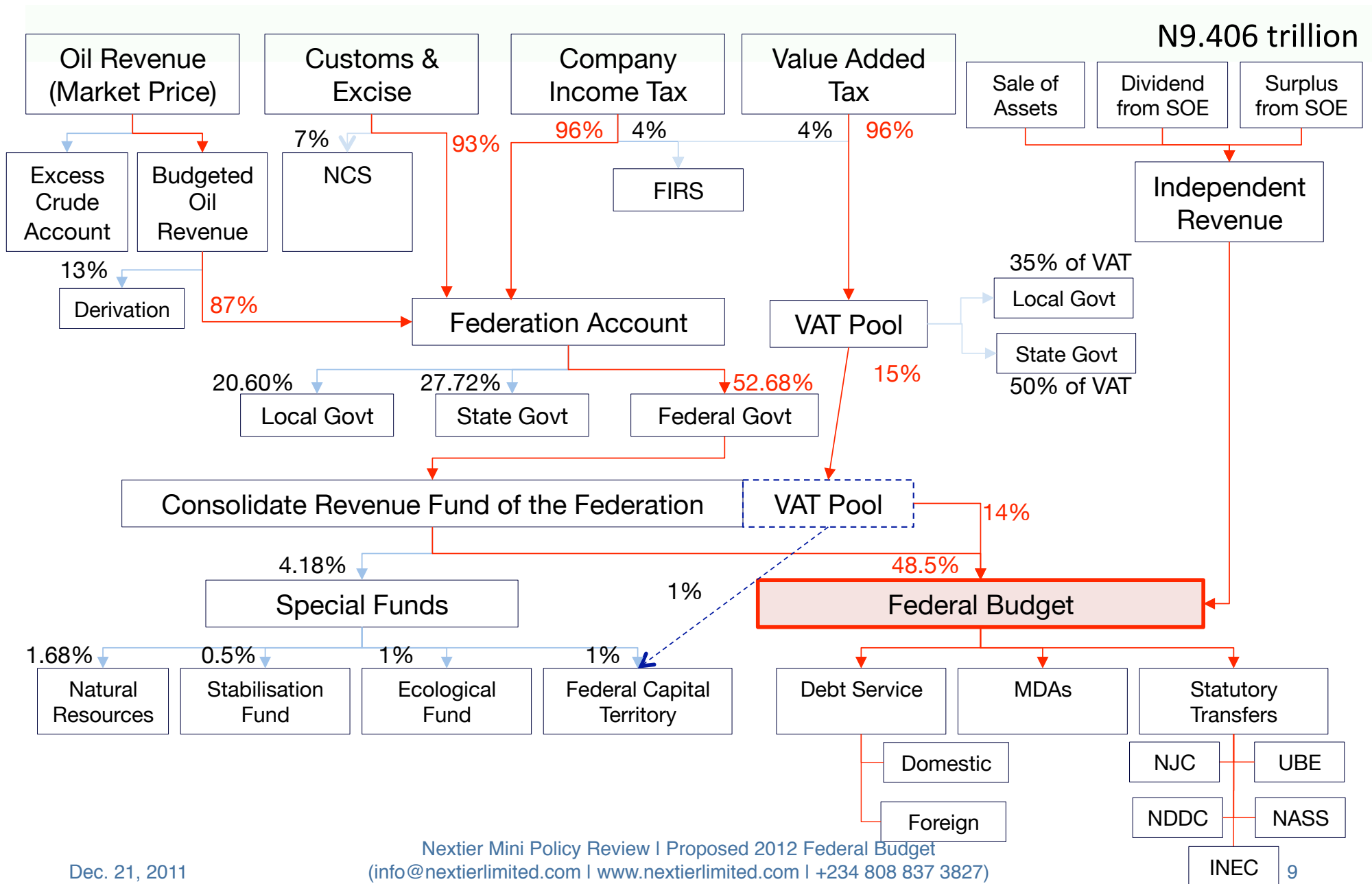
4. Investing in Priority Sectors: Creating Jobs

- Create jobs through investments
 - Critical infrastructure
 - Human capital development
 - Security
 - MDAs (such as Communication Technology, Solid Minerals development, Manufacturing, Aviation, Creative Industries)
- Grow the agricultural sector
 - Move from traditional farming to agribusiness to ensure food security, promote export, process and add value to crops where we have competitive advantages
- Develop Power sector by providing Partial Risk Guarantees to investors
- Develop affordable housing through Public Private Partnerships and effective mortgage financing systems
- Create policy and enabling environment to attract N13 trillion from the private sector which is required as part of the N32 trillion needed over 4 years for the First National Implementation Plan of the Vision 20: 2020

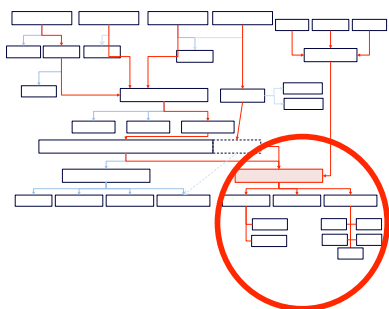
Fiscal Policies

- Provide tax waivers on all bonds and tax rebates to companies
 - Companies that create jobs
 - Companies involved in social and community development causes
- Amend direct taxes to provide an equitable tax structure for low income earners
- Indirect Tax
 - Introduce polices to promote industrialization in the country
 - Review 2008-2012 Customs and Excise tariffs to correct anomalies in the system
- Pursue economic diplomacy: Review ETLs with regards to Nigeria's oil palm
- Create 100,000 jobs through YouWiN!

FGN Fund Flow Schematic



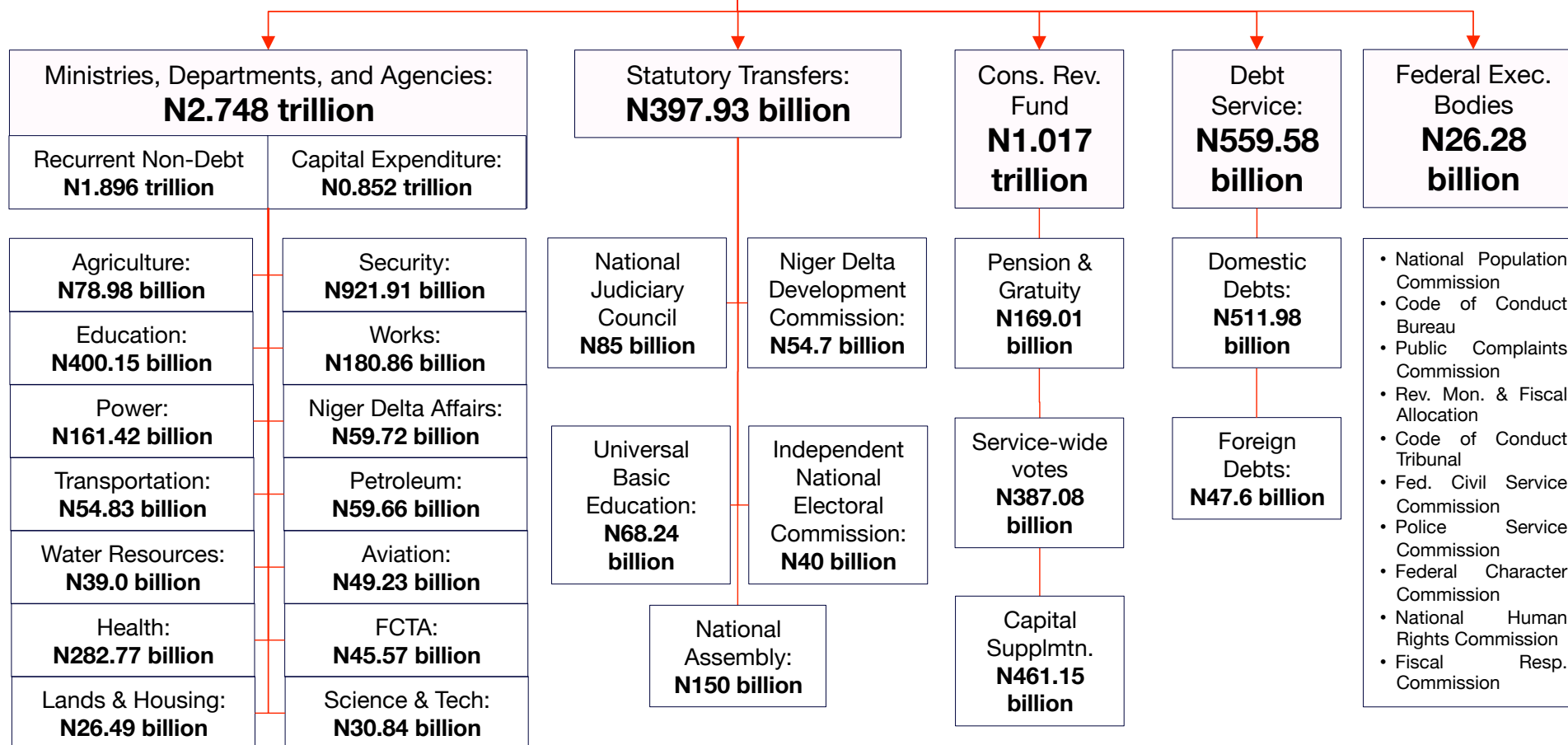
Proposed 2012 Federal Expenditure



Federal Budget Expenditure: N4.749 trillion	
Recurrent Expenditure (82%): N3.890 trillion	Capital Expenditure (18%): N0.859 trillion

Federal Govt. Budget:
N3.644 trillion

Budget Deficit:
N1.125 trillion



Key Drivers and Assumptions

- Crude Oil production: 2.48 million barrels per day
- Benchmark oil price of US\$70 per barrel
- GDP growth of 7.2%
- Inflation rates of 9.5%
- Foreign Exchange rate: N155/ USD1

Key Drivers and Assumptions

Key Drivers	Risk Factors	Risk Level
Revenue from the Oil Sector (Medium Risk)		
• Crude oil production (2.48 mbpd)	• Boko Haram and potential resurgence of Niger Delta militancy	Medium
• Fuel price (\$70)	• Euro crises is not successfully resolved • Volatility of international prices	Medium
• Crude oil sales	• Weak demand from Europe and America • China and India may cushion the effect	Medium
Revenue from Non-Oil Sector (Low Risk)		
• Increased crop production	• Quick wins: Focus should be on post-harvest management	Low
• Growth in wholesale and retail trade	• Successful Port reforms	Low
• Increased financial sector activities	• Successful banking reforms • More activities in agro-financing	Low

Key Drivers and Assumptions

Key Drivers	Risk Factors	Risk Level
Macro-economic factors (High Risk)		
GDP growth rate (7.2%)	<ul style="list-style-type: none"> There are many potential shocks to the system that may hinder GDP growth 	High
Inflation (9.5%)	<ul style="list-style-type: none"> Removal of subsidies (fuel, power, fertilizer, etc) Implementation of new minimum wage 	High
Unemployment	<ul style="list-style-type: none"> There is no clear plan for job creation. YouWin! can not create the anticipated jobs 	High
Debt-to-GDP ratio (30%)		
Exchange rate (N155/\$1) and Foreign Reserve	<ul style="list-style-type: none"> Depends on FX earnings from exports Excess crude is down from \$20 billion (2009) to \$4 billion (2011) 	Medium to High

Key Drivers and Assumptions

Key Drivers	Risk Factors	Risk Level
Fiscal discipline (Medium Risk)		
Plug leakages	<ul style="list-style-type: none"> Has government inspired enough confidence that it can reform the public sector? 	High
Corporate Tax Collection and Internally Generated Revenues	<ul style="list-style-type: none"> How successful will the on-going reforms at and modernisation of FIRS be in increasing collections? 	Medium to Low
Maritime Services	<ul style="list-style-type: none"> Can the government improve Port infrastructure cut down bureaucracy in 2012 to yield the required results? 	Medium
Structural Reforms (High Risk)		
Power Sector	<ul style="list-style-type: none"> Even if the assets are sold in 2012 (highly unlikely) the companies will need at least another 12 months to improve capacity and create jobs. 	High
Civil service reform	<ul style="list-style-type: none"> Can government transform the civil service to become more effective? 	High

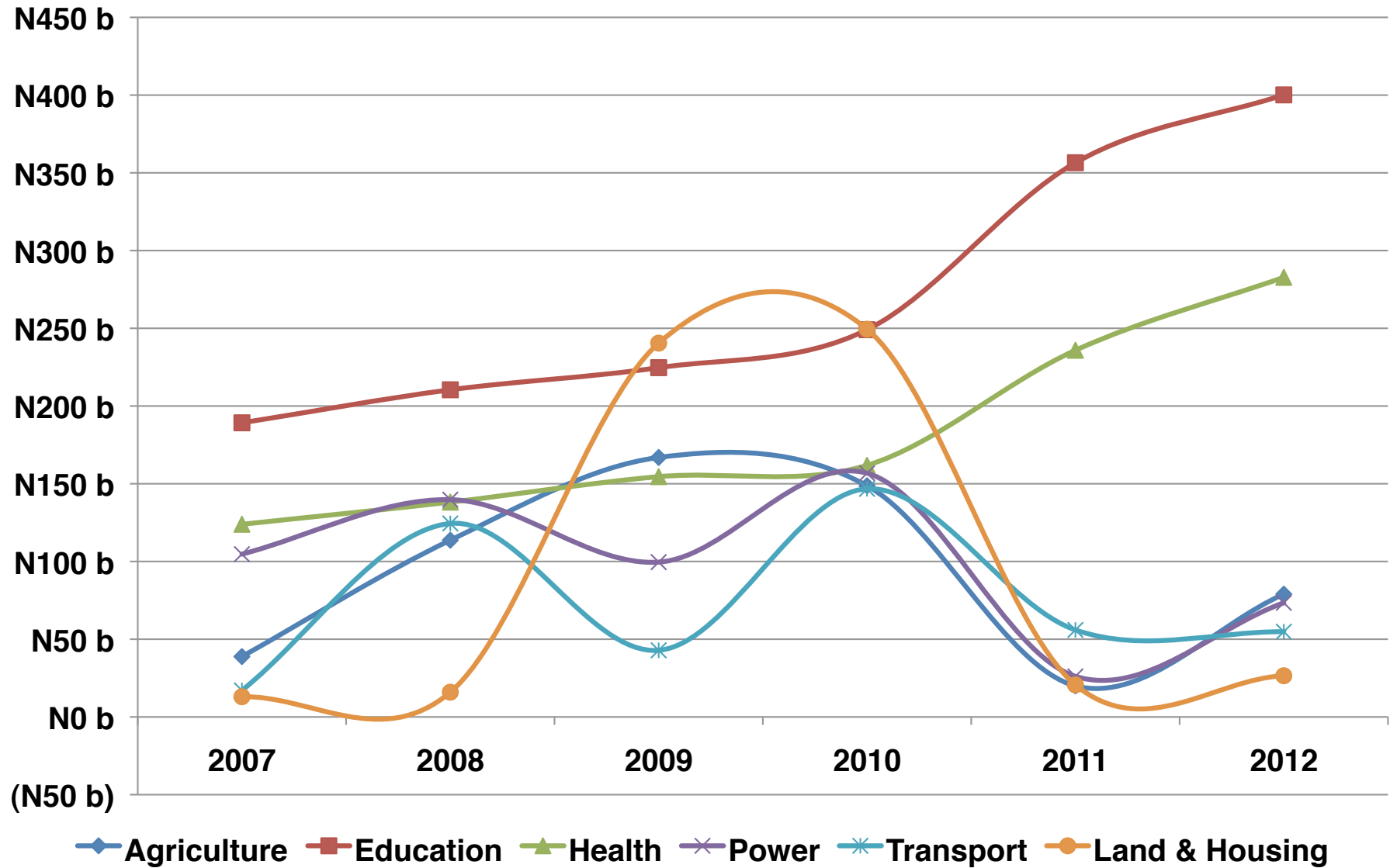
Overall Summary: The key drivers and assumptions in the 2012 Budget have a MEDIUM-to-HIGH risk of failure.

Review of Specific Policies

Sector	Policies
Agriculture	<ul style="list-style-type: none"> • Value-chain approach to investments in agribusiness • Risk sharing (government guarantees up to 70%; 7% interest rate) • Zero duty on agro-equipment • Supportive fiscal policies for rice and wheat • Cassava bread: 40% blending attracts 12% tax rebate • Protectionism: Levy (+65% = 100% on wheat flour; +15% = 20% on wheat grains)
Power	<ul style="list-style-type: none"> • Liberalisation; Partial Risk Guarantees; Nigeria Bulk Electricity Trader • Zero duty on power equipment
Housing	<ul style="list-style-type: none"> • Partnerships to create effective mortgage finance systems • Develop value chain in the building materials segment
Infrastructure	<ul style="list-style-type: none"> • Public Private Partnerships • Vision 20: 2020 – Need ₦32 trillion over 4 years with ₦13 trillion from private sector • Focus on critical infrastructure • Focus on new projects with multiplier effect
HDI (education, health, wealth creation)	<ul style="list-style-type: none"> • Stated the problem but did not proffer any solutions
Security	<ul style="list-style-type: none"> • Upgrade skills • Upgrade infrastructure

Trend Analysis

Total Budget (for selected Ministries 2007 - 2012)



What are the likely scenarios for 2012?

Factors

- Ability to withstand economic shock
- Inflationary trends
- Disposable income
- Remittances
- Employment rates
- Security

Conclusions

Can the current budget/ administration ...

- *... achieve fiscal consolidation*
 - Reduce recurrent expenditure
 - Reduce deficit and domestic borrowing
 - Implement economic reform programs
 - Reform the federal civil service and plug leakages

- *... achieve inclusive growth*
 - Better coordination of the government for efficient economic growth and development

- *... create millions of jobs by focusing on*
 - Information and Communication Technology
 - Solid Minerals development
 - Manufacturing
 - Aviation
 - Creative industries

Recommendations

- Strategy driven budgets
- Performance measurement

Thank you.



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