Position Paper

2022 Budget:
A Journey Towards An Unsustainable Debt Crisis

Dated 8th January 2022

1. On Friday, 31st December, 2021, the president signed the 2022 Appropriation Bill as well as the enabling 2021 Finance Bill which sets the tone for fiscal year by providing the legal backing to the government's expenditure.

2. Fiscally speaking, the budget clearly shows once again that Nigeria is broke. Significant steps have not been taken towards improving revenue generation and our rising debt is leading us towards an unsustainable debt crisis.

3. The N17.1 trillion budget has a deficit of over N6 trillion, approximately 3.39% of GDP which is above the 3% maximum set by Section 12 of the Fiscal Responsibility Act 2007 (FRA). Figures from the Debt Management Office (DMO) shows that between 2016-2020 budget deficit has risen to over N20.64tn under this current administration. Last year, the Government borrowed the sum of N3.65 trillion between January and August to finance its N4.3 trillion fiscal deficit.

4. This year the Government plans to borrow more. You recall that President Muhammadu Buhari, while presenting the 2022 budget to the joint session of the National Assembly, stated the government planned to borrow as much as N5tn from local and foreign sources to cover the budget deficit for 2022. He said,

   "We plan to finance the deficit mainly by new borrowings totaling N5.01tn; N90.73bn from privatization proceeds and N1.16tn drawdowns on loans secured for specific development projects."[1]

5. Nigeria's consistent borrowing is of great concern to the future of the Nation, especially when we are not meeting our revenue target neither do we have new revenue sources. Our revenue to GDP ratio which stands at 8% is still one of the lowest in Africa. Our current fiscal reality is that debt service takes about 98% of our current revenue and this is not fiscally prudent. The Government revealed that between January and August 2021, the sum of N2.89 trillion was spent on debt servicing.

6. The 2022 budget undoubtedly shows that our huge debt service burden on government finances will persist in 2022 and beyond. Total public debt as of 30th

1 Punch available at https://punchng.com/budget-deficit-rises-to-n20-64tn-under-buhari/

September 2021 was N38 trillion, according to the DMO. In the Budget, the sum of

3.8 trillion Naira is earmarked for debt service. This is a sizable sum when compared with the capital budget provision of N5.46 trillion.

7. Considering our inability to raise revenue, the high rate of recurrent expenditure and the COVID-19 pandemic, our fiscal deficit is likely to increase as the year proceeds. This means our economy may not withstand future shocks.

8. The Government has even gone ahead to amend the FRA through the Finance Bill 2022 to enable government borrowing for "critical reforms of significant national impact". Currently, the FRA only empowers the government to borrow for capital expenditure and human development. Critical reforms are not defined. This is a signal that shows that the only strategy that this government has to raise revenue is through borrowing.

And again, we are not adequately funding our priorities

9. It is important to state that as a Party we do not have a problem with borrowing. Our real concern is why we need to borrow consistently without fixing our decrepit revenue generation issues and what the money borrowed is used for. Currently we are borrowing to fund a high recurrent expenditure; payment of salaries due to an over bloated MDA (which is in contravention of the provisions of the FRA); fund petrol subsidy which gulps over N250 billion per month (N3 trillion per year),[2] fund an expensive National Assembly which will get N134 billion in 2022.

10. Of the total N17.1tn budget by the Federal Government, only N820bn (5%) was allocated to health, while education sat at N1.29 trillion (7.9%). With a country of over 200 million people, it is impossible to solve our numerous healthcare challenges with N820bn especially in a pandemic year. This number even falls below the African Union and the World Health Organisation minimum recommended budget of 15% for health. The funding for education is less than 10% of our annual budget which also falls short of the UNESCO recommendation of 15-20%. With these figures our nation cannot adequately compete globally. No direct funding to support vulnerable groups, low-income households, businesses especially MSME's; one of the largest creators of employment at the micro level.

11. Consistently borrowing to fund unsustainable ventures especially when the means of fulfilling our numerous debt obligations is uncertain can only be defined as fiscal recklessness and every year this Government has repeatedly failed to deliver a fiscal responsible budget opening the nation up to taking more loans in the future.

2 Cable, available at [https://www.thecable.ng/we-cant-continue-zainab-ahmed-says-nigeria-losing-n250bn- monthly-on-fuel-subsidy](https://www.thecable.ng/we-cant-continue-zainab-ahmed-says-nigeria-losing-n250bn-monthly-on-fuel-subsidy)

12. The Youth Party had earlier provided our Bold Revenue Plan[3] that clearly spelt out our strategies for solving Nigeria ailing revenue generation problems and put us into the path of sustainable revenue generation. A steadfast implementation of our plan will see the Country's revenue to GDP ratio increase from 8% to 14% and an increase in the Government revenue by at least $US30bn within three (3) years.

13. In our plan we had maintained that our ever-rising debt service is consistently crowding out expenditure in critical infrastructure and human capital development. We cannot adequately fund our priorities - our police, our schools, our military and health. Despite the increase in funding for security this year, this is still not enough considering the uphill battle of insecurity that has put the nation under siege and is crippling our economy.

Cost of Governance is high and unstainable

14. The government has not taken significant steps in any fiscal year since it has been in power to cut government spending, rather our expenditure; especially staff emoluments, have been increasing at a very fast rate, making it difficult to cope with funding the government.

15. We averred in our Bold Revenue Plan that the cost of governance must reflect our revenue realities. Hence, the report of the Goodluck Jonathan administration Presidential Committee on the Rationalisation and Restructuring of Federal Government Parastatals, Commissions and Agencies, led by Stephen Oronsaye which proposed the reduction of the size of government particularly, MDAs to a practicable level for cost reduction and efficient service delivery be implemented. The money saved from the scrapping/merging the MDA's could rather be used to fund the real economy – fund human capital and provide seed funding for start-ups.

We must fix oil revenue by implementing the Petroleum Industry Act

16. The reliance on revenue from oil has made our revenue generation vulnerable and volatile, this in recent times, have partly caused us to go into a recession. Despite this reliance on oil, we have lost significant revenue from a broken oil revenue generation structure. On the 16th of August, 2021 the President signed the Petroleum Industry Bill into law after a wait that spanned for decades, this piece of legislation if fully adhered to promises to be a game-changer within the Nigerian economy as it creates new revenue generation models, alters the organizational structure and also provide incentives to boast production. In our Plan we advocated for its passing and implementation. However, it has been almost six (6) months since

4. *Our Bold Revenue Plan is available on https://usercontent.one/wp/youthpartyng.com/wp-content/uploads/2015/10/Youth-Party-A-Bold-Revenue-Plan-16-3-20.pdf*

the PIA was signed in law, and there have been no clear implementation strategy by the government. We hope that in the coming fiscal year implementation of The PIA will fully commence.

Nigeria's Revenue Problem and our Bold Revenue Plan

17. This administration through the Minister of Finance have consistently accepted that Nigeria only has a revenue challenge and not a debt sustainability problem. Yet this government have consistently shown that it has no clear strategy on revenue generation and even the political will to implement the revenue models within the current framework is lacking as our current path will lead to a debt sustainability problem which we are on a fast-moving train towards. Even the Director-General of the DMO, Patience Oniha,[4] expressed concern that unless the revenue profile is raised substantially, the country would face debt sustainability challenges.

18. Our current revenue realities cannot take this country to where it ought to be in Africa and in the World. Our Bold Revenue Plan provides answers to our many revenue and spending problems by fixing our broken tax system, cutting government spending, blocking revenue leakages, removing petrol and electricity subsidies and harnessing the potential of our energy market. If we continue to borrow and do nothing about growing our revenue base as other countries have done, a debt crisis awaits.

<u>Points for Action</u>

We recommend the Government should adopt the following;

1. Adopt and implement our Bold Revenue Plan Develop to boast our nation's revenue to GDP ratio.
2. Immediately start the implementation of the Petroleum Industry Act for increased oil revenue.
3. Reduce the cost of governance by implementing the Steve Oronsanye Report and cut government spending in our National Assembly which will reduce the need to borrow to fund recurrent expenditure and paying salaries which is in line with the provision of Fiscal Responsibility Act.
4. Ensure that our budget deficit in a fiscal year does not exceed the 3% as expressly provided by the Fiscal Responsibility Act.
5. Remove universal petrol and electricity subsidies in order to free up funding for our priorities like health, education and security.

4 Guardian, available at https://guardian.ng/news/2022-budget-expect-more-borrowing-to-finance-n6-258tr-deficit-says-fg/