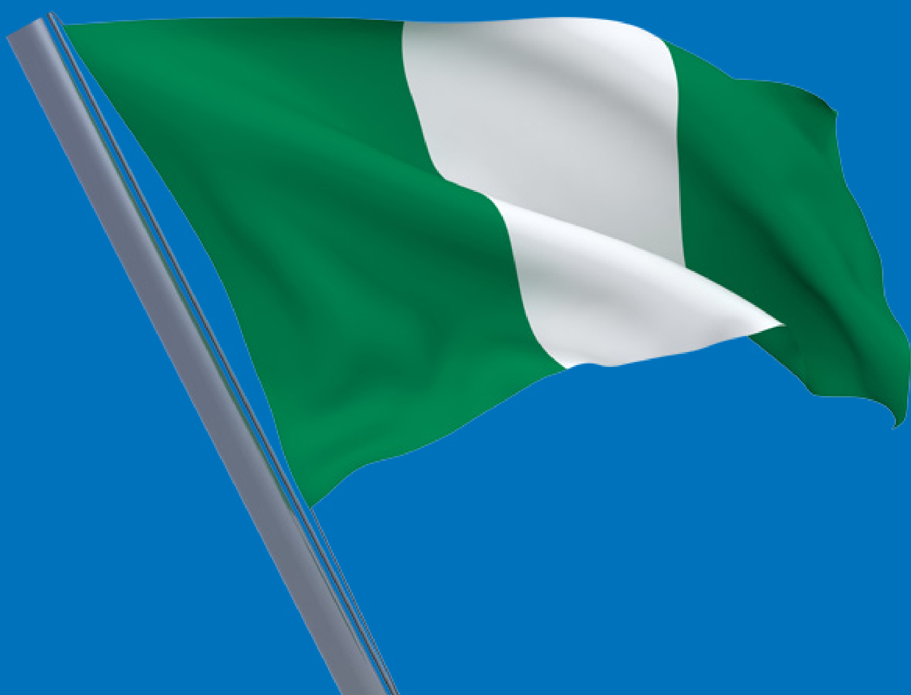
National Budget 2018



February 2018

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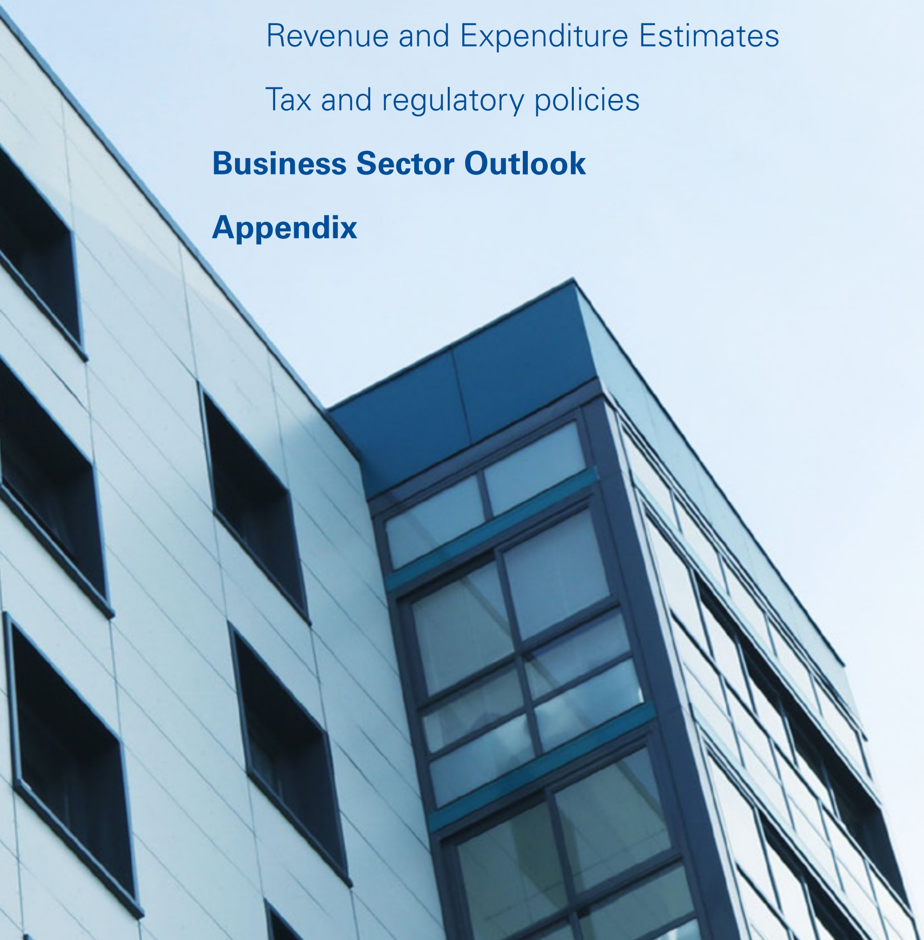


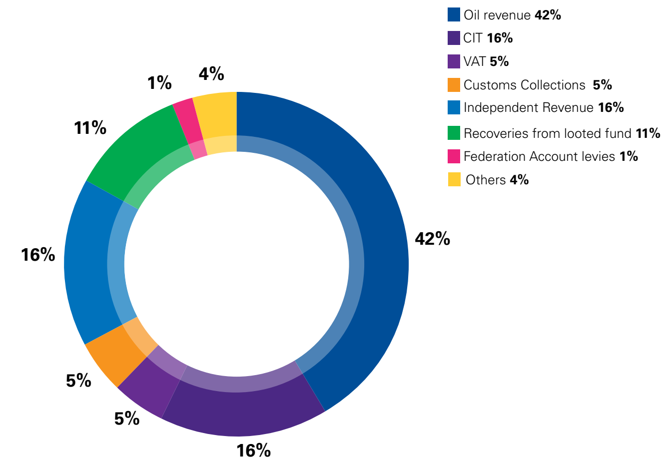
Glossary

ASI	All Share Index
BPE	Bureau of Public Enterprises
CBN	Central Bank of Nigeria
CIM	Consumer and Industrial Market
CIT	Companies Income Tax
CPI	Consumer Price Index
DISCO	Distribution Company
ERGP	Economic Recovery and Growth Plan
FG	Federal Government
FID	Final Investment Decision
FinTech	Financial Technology
FIRS	Federal Inland Revenue Service
FSI	Financial Services Industry
FX	Foreign Exchange
GDP	Gross Domestic Product
HCB	Host Community Bill
HOLDCO	Holding Company
IASB	International Accounting Standards Board
ICT	Information and Communication Technology
IGR	Independently Generated Revenue
IMF	International Monetary Fund
IOC	International Oil Company
JV	Joint Venture
KwH	Kilowatt Hour
MBPD	Million Barrels Per Day
MCP	Multiple Currency Practice
MDA	Ministry, Department and Agency

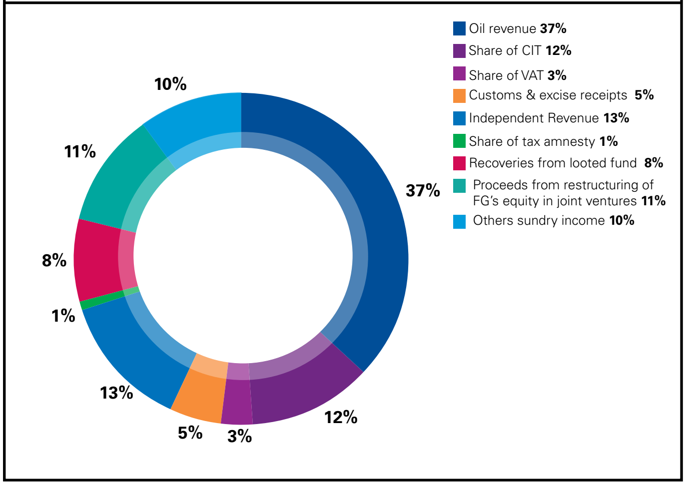
MPR	Monetary Policy Rate
MSCI	Morgan Stanley Capital International
MTEF	Medium Term Expenditure Framework
NAICOM	National Insurance Commission
NBET	Nigerian Bulk Electricity Trading Company
NBS	National Bureau of Statistics
NERC	Nigerian Electricity Regulatory Commission
NETAP	Nigerian Electricity Transmission Access Project
NLRC	Nigeria Law Reform Commission
NSE	Nigerian Stock Exchange
NSIA	Nigerian Sovereign Investment Authority
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PCOA	Put-Call Options Agreement
PEBEC	Presidential Enabling Business Environment Council
PIFB	Petroleum Industry Fiscal Bill
PIGB	Petroleum Industry Governance Bill
PMI	Purchasing Managers Index
PMS	Petroleum Motor Spirit
PSRP	Power Sector Reform Programme
REA	Rural Electrification Agency
SEC	Securities and Exchange Commission
VAIDS	Voluntary Assets and Income Declaration Scheme
Y-o-Y	Year-on-Year
YTD	Year to Date

IN A NUTSHELL:
2018 Budget Proposals

2017 - Approved Receipt

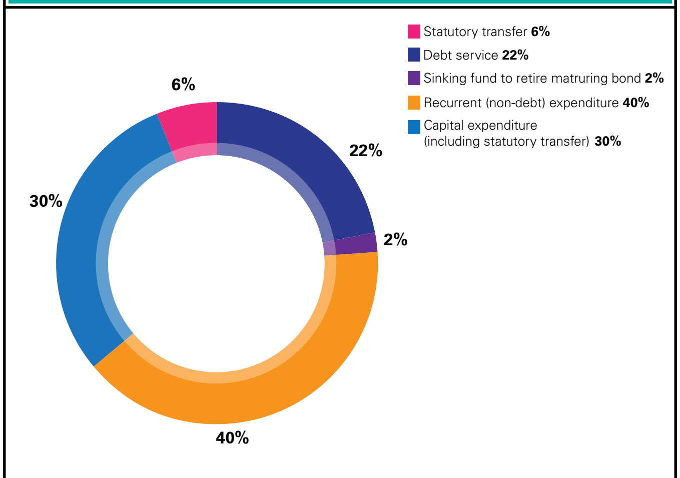


2018 - Projected Revenue

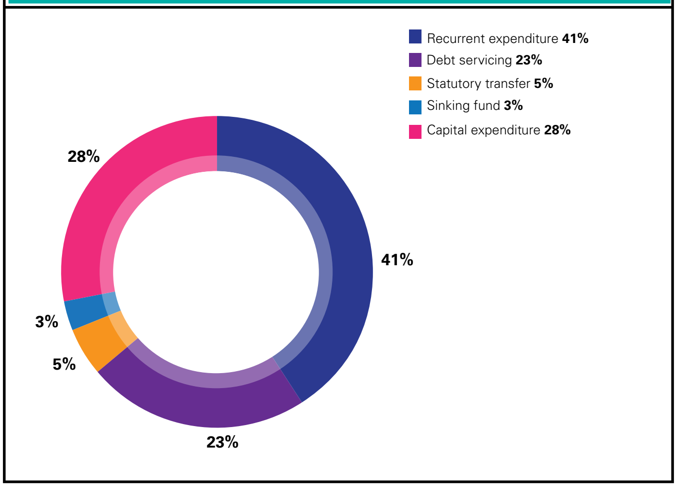


2017 NGN		2018 NGN
1.5%	GDP Growth rate	1.4%
	₦'Billion	
Approved	**Expenditure**	**Estimate**
434	Statutory transfer	456
1,664	Debt Service	2,014
177	Sinking fund to retire maturing bond	220
2,991	Recurrent (non-debit) expenditure	3,494
2,175	Capital expenditure (excluding statutory transfer)	2,428
7,441	**Total**	**8,612**
Approved	**Receipts**	**Estimate**
2,122	Oil revenue	2,442
808	CIT	795
242	VAT	208
278	Customs Collections	325
808	Independent Revenue	848
565	Recoveries from looted fund	512
46	Federation Account levies	58
-	Tax Amnesty Income	88
216	Others	1,332
5,084	**Total**	**6,607**
2,357	**Fiscal deficit**	**2,005**

2017 Approved Expenditure



2018 Projected Expenditure



Comparison between 2017 Budget and Actual Performance

Approved		Actual	
1.5%	**GDP Growth rate**	**1.4%**	**Budget Performance**
₦'Billion	**Expenditure**	**₦'Billion**	**%**
434	Statutory transfer	288	66
2,991	Recurrent (non-debt) expenditure	1,939	65
1,841	Debt service	1,541	84
2,175	Capital expenditure	377	17
-	Others	113	N/A
7,441	**Total**	**4,259**	**57**
₦'Billion	**Receipts**	**₦'Billion**	**%**
2,122	Oil revenue	750	35
808	CIT	408	50
242	VAT	96	39
278	Customs Collections	191	69
808	Independent Revenue	155	19
827	Others	1,556	188
5,084	**Total**	**3,155**	**62**
2,357	**Fiscal deficit**	**1,104**	

***Actual performance as at Quarter 3 2017**

Data Source: Budget Office Report on 2017 Third Quarter Budget Implementation

Foreword

The economy came out of recession with a growth of 0.55% at the end of the second quarter (Q2) of 2017. By the end of the third quarter, the growth was 1.4%. The growth can be linked to the impact of the Investor and Exporters Window, reforms in the ease of doing business, relative higher oil prices, and stability in crude oil production. The full expectations of the 2017 budget may not be realized, given the delay in the passage of the Appropriation Bill. However, there was movement in the positive direction.

As oil prices continued to increase, the economy was also strengthened by the non-oil sector, with the Agricultural and Solid Mineral Sectors witnessing strong performance. The stability in the foreign exchange market helped to significantly boost exports, which resulted in a trade surplus from the end of the second quarter.

The Ministry of Finance implemented the Voluntary Assets and Income Declaration Scheme (VAIDS) in order to enhance the current Tax-to-GDP ratio of 6%. The underlying objective of the Scheme is to bring into the tax net hitherto non-compliant taxable persons. According to the Ministry of Finance, the Scheme has recorded some relative success as some taxpayers have already taken advantage of it to regularize their tax status. As at 31 December 2017, the Federal Inland Revenue Service (FIRS) had earned about ₦23 billion from the scheme.

The drive for improved tax collection will continue as the FG focuses, in the medium term, on increasing the tax to GDP ratio (being one of the lowest in the world) to 15%[1]. It is therefore imperative that tax payers are compliant with relevant tax laws and should implement appropriate document retention policies.

Apart from the indication of possible increase VAT rate on luxury goods from 5% to 15% in 2018, as documented in the 2018-2020 Medium Term Expenditure Framework and Fiscal Strategy Paper (MTEF), there is no proposal to change income tax rates or impose new taxes in 2018. This shows the government's continued focus to increase the tax base rather than increasing tax rates.

Nigeria's position also improved on the World Bank Ease of Doing Business ranking, particularly in the aspects of obtaining construction contracts, access to credit and contract enforcement. Hopefully, the Presidential Enabling Business Environment Council (PEBEC) will continue to deepen and implement reform initiatives in other areas to improve the business environment. PEBEC should continue to follow up with relevant Ministries, Departments and Agencies (MDAs) to ensure the full implementation of the reform initiatives and action plans contained in The Executive Order 001 (EO1) signed by the Acting President on 18 May, 2017.

Though the 2018 Budget should have been presented to the National Assembly before 31 October 2017, this was only done on November 7. Despite the appeal by the President for the National Assembly to pass the Bill before 31 December, 2017, this did not happen. As at the time of this Newsletter, the defence of the budget by the MDAs is yet to be concluded. This development may affect the implementation of the budget and the resolve by Government to return to the January–December calendar. Notwithstanding, the general expectation is that the Budget will indeed consolidate on the gains achieved in 2017 and position the country for economic prosperity.

According to the International Monetary Fund (IMF), the near-term outlook for the economy in 2018 remains challenging, notwithstanding the consecutive quarters of positive growth. The projected growth in GDP at the end of 2018 is 2.1%, compared to the 3.5% projected by the Federal Government. However, there are certain factors that may affect the outlook and these include the heightened security as a result of the frequent violent clashes between farmers and herdsmen, lower oil prices, oil production constraint, tighter external market conditions and delayed policy responses. Government also needs to address unemployment and poverty gap rates, which are estimated at 18.8% and 60% respectively.

This Newsletter reviews Nigeria's economic performance in 2017, FG's budget proposals for 2018 and highlights how the proposed policy changes will affect the Nigerian business environment from business, regulatory and tax perspectives.

Kunle Elebute

Senior Partner, KPMG in Nigeria
Chairman, KPMG Africa

[1] Updated 2018-2020 MTEF and FSP

1.

Review of Nigeria's Economy in 2017

The 2017 Budget of Economic Recovery and Growth was signed into law on June 12, 2017. The late passage of the Budget significantly affected its full implementation. Some highlights of the budget included capital expenditure of ₦2.175billion to be spent on on-going projects, such as railways, power, ICT and road - and a high recurrent expenditure of ₦4.832billion.

The underlying assumption of the 2017 budget was that 41.7% of the FG's expected revenue would come from oil. However, the amount[2] realized from the sector was 23.8%, as at the end of the third quarter in 2017[3].

We have provided below, a summary of our assessment of the economic performance in 2017.

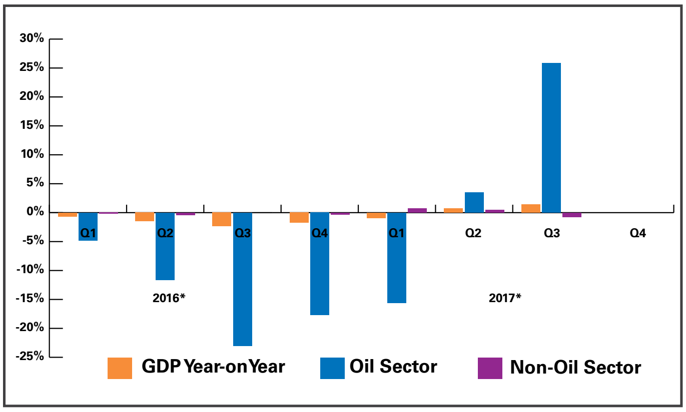
Key Economic Indicators

a. Gross Domestic Product

Nigeria's GDP experienced positive consecutive growth by the third quarter (Q3) of 2017, which signaled the economy's exit from the recession of the previous year. In real terms, the year-on-year growth by Q3 was 1.40%. However, it is highly unlikely that the projected growth of 2.5% in the 2017 Budget will be achieved.

Although the start of the year was rocky, the oil sector contributed 10.04% of the country's real GDP by Q3 of 2017. This represents an improvement from the previous quarter where the sector contributed 9.04%.

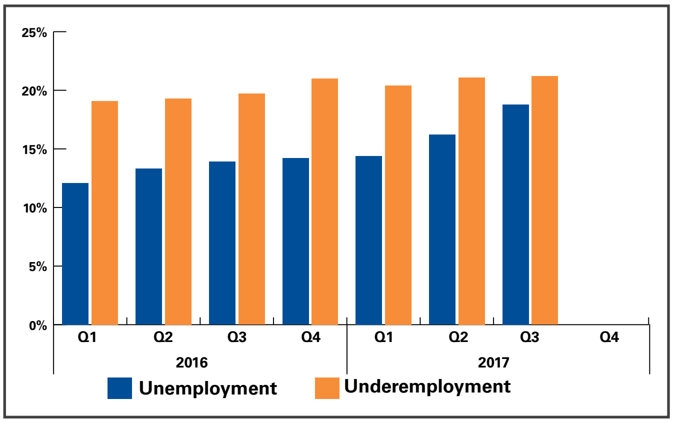
Disappointingly, the non-oil sector contracted by -0.76% in the same quarter, although still accounting for 90% of the GDP. This indicates an immediate need for the FG, through the relevant Ministries, to review the necessary policies and implementation to ensure positive growth in 2018.



*The 2016 data are revised figures in Q3 2017 GDP report due to changes in data for crude oil production.
Data Source: NBS

b. Unemployment and Underemployment rates

Unemployment rate as at the end of Q3 2017 was 18.8% compared to 14.2% in Q4 2016. Total unemployment and underemployment combined increased from 37.3% in the Q2 2017 to 40% in Q3 2017. Certainly, Government will need to implement comprehensive set of policy measures to address the growing unemployment rate as shown below:

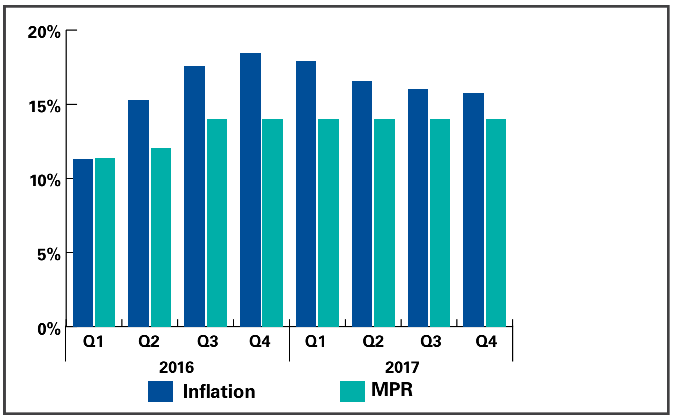


Data Source: NBS

c. Consumer Price Index (CPI)/Inflation Rate

Nigeria ended the year with a year-on-year inflation rate of 15.37%. Prices in 2017 showed a month-on-month growth of 1.54% from January to May 2017 and a deceleration to 1.06% from June to October 2017, to ultimately rest at 15.37% at the end of December 2017. Across board, all the components of the CPI i.e. food and non-alcoholic beverages, clothing etc. aligned with this trend, with slight uptick in October 2017.

The monetary policy rate was stable at 14% throughout the year.



Data Source: CBN

[2] This represents FGN share of crude oil sale proceeds. It excludes exchange rate differentials, NNPC refund, mopped up capital, share from excess PPT.
[3] Budget Office Report on 2017 Third Quarter Budget Implementation

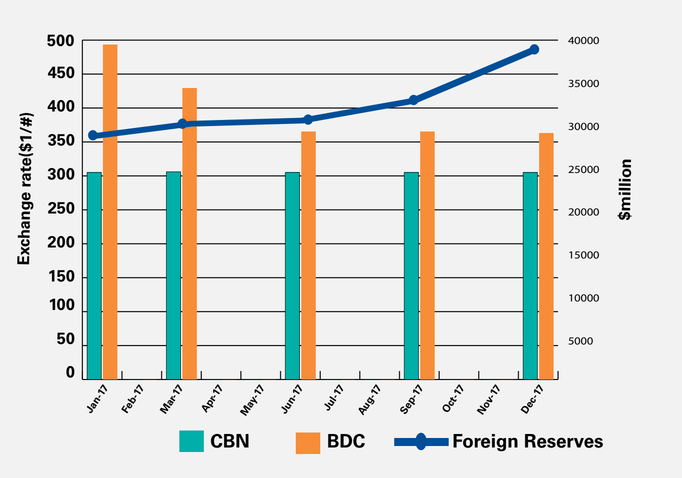
d. Exchange Rate (N/$)/Foreign Reserve/Foreign Investment

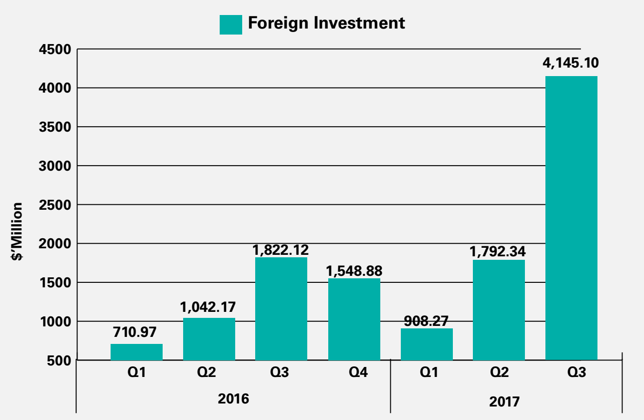
In April 2017, the Central Bank of Nigeria introduced the Investors and Exporters window to boost liquidity in the foreign exchange market and attract more investment into the country. As at December 2017, the window had recorded transactions worth about USD26billion. Undoubtedly, the impact of the window has been positive as it has greatly helped to achieve exchange rate stability, convergence with the parallel market and confidence in the stock exchange market.

Given the CBN intervention, the exchange rate was less volatile in 2017. Although for the most part, the Naira traded between ₦362 - ₦364 /$1 in the parallel market, the Investors and Exporters Window remained flat at ₦360/$1. The official exchange rate, on the other hand, was fixed at ₦305/$1. Companies had improved access to foreign exchange and were able to plan better. We expect the relative stability to continue in 2018 even as the country moves to a campaign year.

Foreign investment rose by $2,352.76 million[4] in the third quarter (Q3) of 2017 with positive forecasts. This should assist with the execution of the 2018 budget. The government, through its various MDAs, has made an effort to make the country more attractive to foreign investment.

As at the end of 2017, the country's foreign exchange reserves was about $40 billion, buoyed by the higher oil prices relative to the 2017 budget benchmark oil price of $45 per barrel and the exemption from OPEC's output cut. The CBN's launch of Multiple Currency Practices (MCP) in late March 2017 also contributed to the increase in reserves.



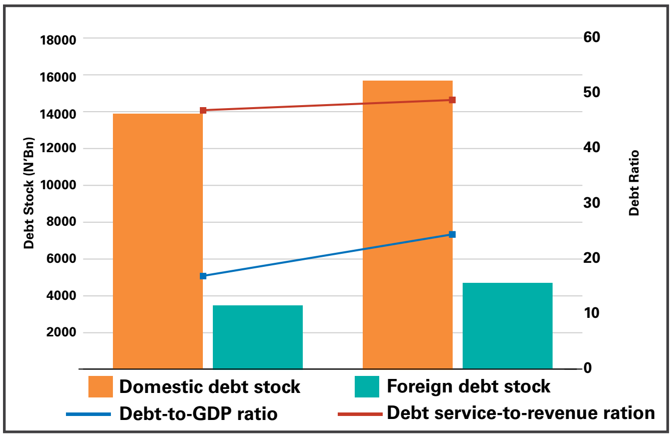


Data Sources: CBN, NBS, Trading Economics

[4] NBS

e. Debt Performance

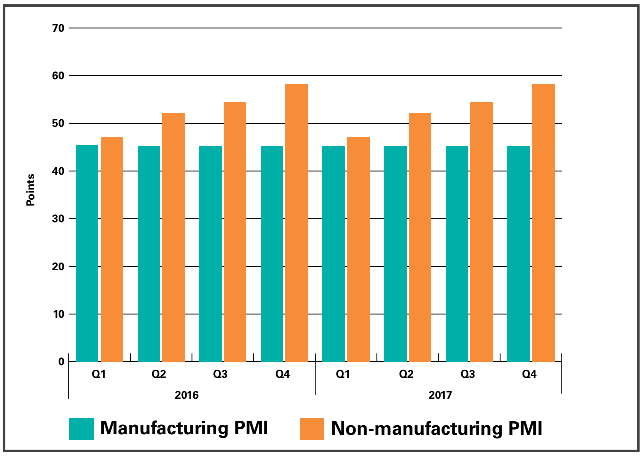
The total debt stock as at Q3 2017[5] was ₦20.37tn, comprising external loans of ₦4.69tn and domestic loans of ₦15.68tn. The Country's Debt to GDP ratio increased from 16.92% at the end of 2016 to 24.45% at the end of Q3 2017. The increase was due to the fact that Government had to finance its high fiscal deficit debts. However, in 2018, Government plans to rebalance its debt portfolio to reflect 60:40 in favour of domestic debt. The major concern going into 2018 is the increasingly high debt service to income ratio. Nigeria currently spends about 50% of its revenue on debt servicing; though informal sources believe that it is between 60% and 70%.



Data Source: DMO, NBS

f. Purchasing Managers Index

The Purchasing Managers Index (PMI) issued by the Central Bank of Nigeria (CBN) indicated an expansion in both the Manufacturing and Non-Manufacturing sectors in 2017. The PMI readings as at December 2017 were 59.3 and 62.1 points for the Manufacturing and Non-Manufacturing, respectively. These are the highest levels attained in these indices since January 2015.

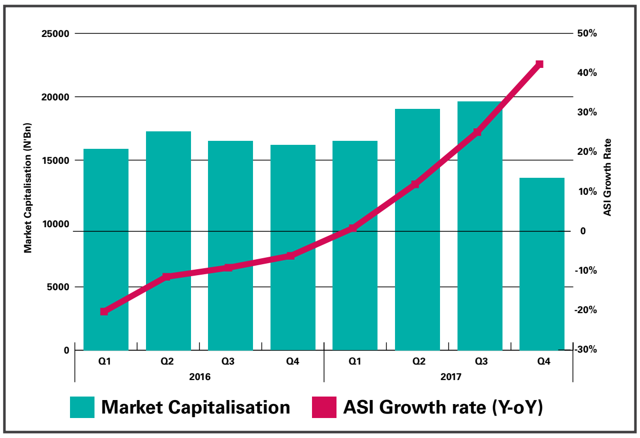


Source: CBN

g. All Share Index

Prior to 2017, the Nigerian equities market had experienced a decline. However, as at December 2017, the Nigerian Stock Exchange (NSE) All-Share Index (ASI) grew by 42.3% YTD while market capitalization increased to ₦13.61 trillion, a gain of ₦4.36 trillion. Some of the factors responsible for investors' confidence include the introduction of the Investors and Exporters Window, increase of Nigeria's weighting in the Morgan Stanley Capital International (MSCI) Frontier Market indices and the release of impressive financial results by most of the listed companies.

There is a growing concern about the number of companies wishing to voluntarily delist from the NSE as a result of challenges being faced in meeting post-listing obligation; especially the provision that relates to the 20% percentage of free-float that is tradable on the Stock Exchange. However, the general expectation is that the market will maintain its steady growth in 2018, given the anticipated listing of the shares of MTN and the Nigerian Petroleum Company.



Source: NSE

[5] DMO

Implementation of 2017 budget

The FG was faced with difficulties in effectively implementing the 2017 budget, given its late passage. According to the 2017 Third Quarter Budget Implementation Report[6] issued by the Budget Office of the Federation, *"Revenue shortages …persisted… in the third quarter of 2017. A breakdown of the non-oil revenue items showed that, with the exception of Companies Income Tax, all other non-oil revenue items fell below their expected quarterly projections".* According to the same report, only ₦377.02billion had been released and cash backed to MDAs for their 2017 capital projects and programmes as at 30 September 2017. The government, therefore, needs to address the lingering problems of power, roads/transportation networks, the general business environment and security within the country.

Oil price was projected at $44.5/barrel but closed at $66.73/barrel by the end of December 2017[7]. Due to the increase in oil price, a proportional increase in revenue was expected. However, the estimated oil revenue was curtailed by an average actual oil production of 1.515Mbpd[8] instead of the anticipated 2.2Mbpd. Moreover, the increase in production occurred at the tail end of the year thereby ensuring an average shortfall in expected revenue.

[6] The report for the last quarter was unavailable at the time of print
[7] https://ycharts.com/indicators/brent_crude_oil_spot_price
[8] https://tradingeconomics.com/nigeria/crude-oil-production

2. Medium Term Expenditure Framework (2018 to 2020)

The MTEF (the framework) highlights the FG's medium term fiscal policy objectives, which are in line with the Economic Recovery and Growth Plan (ERGP) for 2017 to 2020 fiscal years. The medium term fiscal strategy is directed at promoting a sustainable economic growth, low inflation, interest rates, market reflective exchange rates and a strong balance of payment position.

The key assumptions underlying the MTEF are as follows:

Items	2018 FY	2019 FY	2020 FY
Benchmark oil price (US$ per barrel)	45[9]	50	52
Oil production volume (Mbpd)	2.3	2.4	2.5
Average exchange rate ($1:₦)	305	305	305
Average inflation rate (Percentage)	12.42	13.39	9.90
GDP growth rate (Percentage)	3.5	4.50	7.00

Specifically, the FG's medium term fiscal policy objectives are:

i. Accelerating growth, intensifying economic diversification and promoting inclusiveness. To this end, Government will work towards strengthening the framework for concessions and public private partnerships in key sectors.

ii. Achieving macroeconomic stability by providing infrastructure to lower the cost of doing business, stabilizing the exchange rate and restoring investors' confidence in the foreign exchange market.

iii. Enhancing oil revenues and accelerating non-oil revenue generation. The strategy is to carry out reforms in the oil sector such as improving security in the Niger Delta and introducing regulations that would promote new private sector investments. For non-oil revenue, there are plans to improve tax and customs administration and increase exports of agricultural produce.

[9] We are aware that the NASS revised the benchmark price to US$47 when it approved the MTEF in December 2017. However, the approved MTEF is currently not publicly available.

iv. Addressing recurrent and capital spending imbalance to allocate at least 30% of Federal Government's spending to execution of capital projects in line with the ERGP. In addition, biometric verification of government employees will be accelerated to further reduce the proportion of recurrent expenditure relating to staff costs.

v. Improving efficiency and quality of public spending. Amongst other measures, competitive bidding would be incorporated in public procurement processes, and shared service arrangements would be implemented across Ministries, Departments and Agencies (MDAs) to achieve efficient public spending.

vi. Maintaining deficit / debts within sustainable limits. Fiscal deficit will be maintained within the 3% level stipulated by the Fiscal Responsibility Act 2007. In addition, debt financing will be restructured to increase the level of foreign financing from about 28% to 72% in 2020 in order to accord domestic private capital a leading role in driving economic growth in the private sector.

3.

2018 Budget Highlights

The 2018 Budget of Consolidation was announced just as Nigeria's economy experienced an upturn from the economic recession caused mainly by the fall in oil prices The budget, therefore, is expected to sustain the reflationary strategies of the previous budgets by leveraging effective fiscal policies in order to deliver on the Federal Government's (FG) Economic Recovery and Growth Plan.

Other key objectives of the budget include:

a. Diversifying the Nigerian economy by –

   i. fostering growth in the agricultural sector through partnerships with the private sector and government initiatives such as the Anchor Borrowers' Programme and the Presidential Fertilizer Initiative, and

   ii. providing investments in the agricultural and other underdeveloped sectors by the use of the Sovereign Wealth Fund managed by the Nigerian Sovereign Investment Authority (NSIA)

b. Improving infrastructure by completing stalled metropolitan and interstate rail projects and rehabilitating or constructing key strategic road networks.

c. Effectively managing the recently established N30 billion Solid Minerals Development Fund to support mineral exploitation across the country. To this end, work has already commenced in Ondo State to exploit bitumen reserves in order to meet the Nigeria's current requirement for 600,000 metric tonnes of asphalt to support road and other construction projects.

d. Maintaining peace and security in the Niger Delta and North East in order to facilitate an increase in economic and social activities in the regions. This informed the decision of the Senate to pass the North East Development Commission Bill and authorize the Presidential Amnesty Programme and capital provision for the Ministry of Niger Delta.

e. Enacting policies aimed at reforming the business environment in order to improve Nigeria's ease of doing business for potential and established investors. It is important to note that the policies introduced by the Federal Government in 2017 led to Nigeria moving 24 places up the World Bank Doing Business Index to 145th position.

f. Promoting fiscal responsibility in the civil service by identifying and plugging leakages, reducing wastages and removing ghost workers from the payroll.

g. Consolidating the ongoing reforms in the power sector in order to improve power distribution networks. This includes additional investments of ₦9.8 billion for the Mambila hydro power project and ₦12 billion for transmission lines and substations.

h. Executing Power Purchase Agreements with sustainable energy companies and establishing the first African Sovereign Green Bond in December 2017 to support the execution of renewable energy projects.

i. Enhancing food security through aggressive border control and the implementation of anti-smuggling laws. As a result, the Badagry Agreement between Nigeria and the Republic of Benin will be reactivated to curb the activities of smugglers in the region.

Budget Assumptions

The 2018 Budget of Consolidation is underpinned by certain assumptions. In the table below, we have provided our review of these assumptions:

Budget Assumption	Key Drivers in 2018	Expected Forecast Scenarios (baseline – best/worst case)[10]
Benchmark oil price (US$45 per barrel)	• Development in the US Shale • Strengthening of global oil demand • Geo-political risk in oil-producing regions • Compliance with OPEC Production cut	• $50 – $70
Oil production volume (2.3Mbpd)	• Stability in the Niger Delta region • Expected increase in global oil demand • OPEC consensus to maintain oil-production-cut exemption for Nigeria	• 1.7Mbpd – 2.2Mbpd
Average exchange rate ($1: ₦305)	• Continued accretion of the Nigerian foreign reserves • Capital flow dynamics	• $1/₦340 – $/₦380 [11]
Average inflation rate (12.4%)	• Election-induced spending • Base effects of inflation measurement	• 10% - 16%
GDP growth rate (3.5%)	• Stability in in oil production and price • Stability in the Foreign exchange market • Resolution of the ongoing farmers and herdsmen crises	• 2.0% - 2.8%

[10] KPMG Analysis
[11] Based on Investors and Exporters Window

Ten Risks to 2018 Budget of Consolidation

There are several upside and downside risks to the ambitious 2018 Budget of Consolidation and which may limit/enhance the realization of budget objectives. The table below provides a summary of the key risks, their likelihood of occurrence and potential impact on the budget execution and realization of budget objectives.

Risks	Likelihood	Impact		
		Revenues	Expenditure	Deficit
1. Delayed implementation/ failure of definition of policy initiatives/frameworks required for the execution of key budget items e.g. proposed increase in excise duties, sales of government property, privatization and deregulation	Medium	High	Low	Low
2. Delayed passage of Appropriation bill into Law and the implicit political-laden process of budget revision	Medium	Low	High	Low
3. Failure of other revenue sources, including privatization proceeds, oil assets ownership restructuring, recoveries, tax amnesty	Medium	High	High	Low
4. The effect of political cycle activities on the budget execution and project prioritisation	Medium	Low	High	High
5. Oil price shocks (<$50 per barrel)	Low	High	High	High
6. Domestic oil production shocks	Medium	High	High	Low
7. Worsened global financial conditions resulting in higher cost of foreign borrowing. This is currently estimated to be about 10 percentage points lower than domestic borrowing rate[12]	Low	Low	High	High
8. Slower economic growth – more than 1 percentage point below the budgeted 3.5% resulting in lower levels of non-oil revenues	High	Medium	High	High
9. Deteriorated sovereign and political risk rating following political shocks including Boko Haram resurgence, Herdsman challenges etc.	Low	Medium	Low	High
10. Cashflow challenges and funding mismatch resulting in delayed release of allocation for capital expenditure spending. The budget is designed in a manner that capital expenditure will be funded by borrowings[13]	Medium	N/A	High	N/A

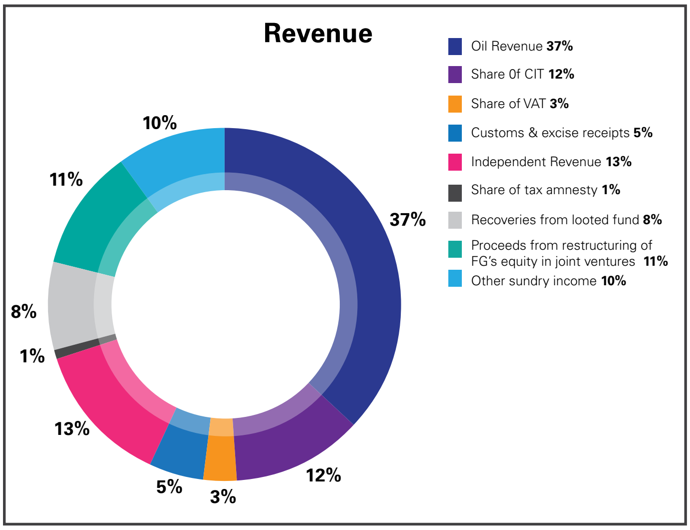
[12] Rencap Nigeria: FY18 Budget
[13] Overview of the Budget Proposal – Honorable Minister of Budget an National Planning

Revenue and Expenditure Estimates

Revenue

The revenue projected for 2018 is N6.607 trillion, which is 30% more than that of 2017. Oil revenues are projected at ₦2.442 trillion, representing 37% of total revenue. The revenue figure is based on a benchmark oil price of US$45 per barrel and oil production estimates of 2.3 million barrels per day at ₦305 to $1.

Estimated non-oil revenues for 2018 total ₦4.165 trillion and comprise tax receipts, Independently Generated Revenue (IGR), anticipated recoveries and other sundry income.

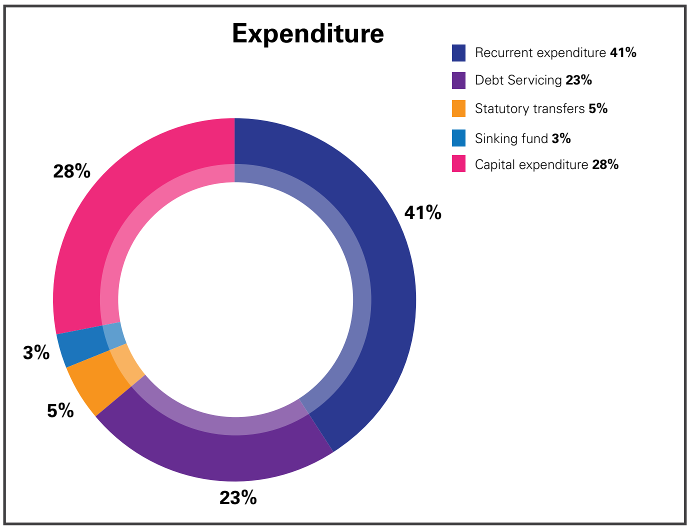


Expenditure

Government expenditure is estimated at ₦8.612 trillion, which represents a 16% increase from the budgeted expenditure for 2017. Capital spending (including the capital component of statutory transfers) forms a significant part of the budget, with this figure rising by ₦592 billion to ₦2.652 trillion from 2017. 23% of the Budget has been allocated to debt servicing and 41% recurrent expenditure.

The Ministry of Power, Works and Housing has the highest capital allocation of ₦555.88 billion while projected allocations of ₦263.10 billion and ₦150 billion relate to the Ministry of Transportation and Special Intervention Programmes, respectively. A sinking fund of ₦220 billion has also been proposed for retiring mature bonds to local contractors.

The detailed allocations to the various Ministries are contained in the Appendix to this Newsletter.



Domestic Borrowing

The FG intends to finance the 2018 deficit of ₦2.005 trillion by employing new borrowings estimated at ₦1.699 trillion (half of which would be sourced domestically), therefore adding to its overall net debt position. The balance of the deficit amounting to ₦306 billion will be funded using the proceeds from the privatization of non-oil assets by the Bureau of Public Enterprises (BPE).

Tax and regulatory policies

- Although there is no mention of significant changes to tax laws or rates in the Budget Speech, we note that there is a budget allocation of about N57 million to the Nigeria Law Reform Commission (NLRC) for the reform of tax laws in Nigeria. This may be in response to the clamour for the reform of tax laws in view of the obsolescence of some of the provisions. Also included in the Budget for the NLRC is ₦10 million for the reform of the Investment and Securities Act.

- In furtherance of its commitment to improving the Nigerian business environment, the Federal Government plans to issue an Executive Order that will allow taxpayers the opportunity to claim tax credits on capital expenditure made towards the development of road infrastructure. We anticipate that this directive will be restricted to taxpayers operating in industrial clusters across Nigeria.

- We expect a gradual shift from direct to indirect taxation in line with the National Tax Policy, and the recommendations by the Organization for Economic Co-operation and Development (OECD) to modernize international taxation.

- Tax would account for a significant proportion of the Federal Government's non-oil revenue (approximately 34%), which is projected to reach N4.165 trillion in 2018.

The proposed revenues from the various taxes are as follows:

a. Companies Income Tax (CIT) revenue - ₦794.7 billion
b. Value Added Tax (VAT) - ₦207.9 billion
c. Customs & Excise Receipts - ₦324.9 billion
d. Tax Amnesty Income – ₦87.8 billion[14]

- The FG intends to increase tax collection by broadening the tax base. Specific strategies to implement this, as detailed in the MTEF, include the ongoing VAIDS programme, elimination of multiple taxes and deployment of trained tax officers to enhance collection efficiency and reorganization of the business practice of tax and revenue agencies.

- An increase of VAT on luxury items from 5% to 15% is also being contemplated to occur sometime in 2018 (although presently not factored into the budget and projections), while customs revenue should increase as leaks are plugged and modernization reforms in the Nigeria Customs Service, are implemented. Some of these reforms may include rationalization of tariffs and waivers in line with priority sectors.

- Plans to review the Fiscal Responsibility Act has been communicated to the National Assembly. This will be performed with a view to providing stricter measures guiding the remittance of surplus funds by government corporations and institutions to the Consolidated Revenue Fund. We do not envisage any tax implications to taxpayers as a result of the amendment of this legislation.

[14] It appears that this amount only relates to the FG's share of the publicly-announced revenue projection of ₦305billion ($1bllion) from VAIDS.

4. Business Sector Outlook

Mohammed Adama
Partner and Head, Agriculture

Ikenna Amanze
Manager

4.1. Agriculture

As part of the Federal Government (FG)'s commitment to diversify the Nigerian economy, the agriculture sector was considered aviable alternative to oil. This is evidenced by the ₦118.98billion allocated to the sector's capital projects in the 2018 budget proposal compared to the ₦103.79 billion in the 2017 budget.

Between 2016 and 2017, when oil revenues plunged largely due to the reduction in global crude oil prices and militant activities in the Niger Delta region, the agricultural sector was the biggest contributor to GDP, recording successive growth in the first three quarters of 2017. We are also seeing Nigeria's agro-industrial businesses and Fast Moving Consumer Goods companies gradually returning to the sector by investing millions of dollars in backward integration; substituting some imported raw materials and packaging materials with local alternatives thereby creating thousands of jobs in the process.

These efforts are complemented by the renewed commitment by both the Federal Ministry of Agriculture & Rural Development and the Central Bank of Nigeria to improve productivity of farmers through increased lending at single digit interest rate under the Anchor Borrowers Programme, Commercial Agricultural Credit Scheme and the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending.

However, the sector (like most other sectors in the economy) is faced with several challenges that should be addressed urgently to fully realize its potential. To improve the agricultural sector, the FG needs to:

i. Continue to improve access to credit by farmers under the various schemes established for this purpose

ii. Improve infrastructure to enable farmers have easier access to markets to sell their produce and also to export to other countries to earn foreign exchange

iii. Set up policy framework and incentives to encourage investors set up agro-processing and warehousing facilities to prevent post-harvest losses

iv. Improve the effectiveness of patrols at the borders to check illegal importation of banned food items to protect local farmers

v. Address the security challenges between herdsmen and farmers in the middle belt region, and

vi. Exempt fish and poultry feeds from Value Added Tax to reduce the cost of inputs to farmers.

The implementation of the above initiatives will help make the Nigerian agricultural sector more competitive and the outlook for 2018 promising.

Goodluck Obi
Partner and Head,
Consumer and Industrial Markets

Ehile Adetola Aibangbee
Partner

4.2. Consumer and Industrial Markets

2017 was a good year for the Nigerian Consumer and Industrial Market (CIM) sector, as it rose like a phoenix from the ashes of the foreign exchange upheaval, sharp business cycle contraction and record high inflation that characterized 2016. 2018 is expected to be an even better year, given Nigeria's improving economic fundamentals, the optimism reflected in the CBN's Purchasing Manager Indices, and the NOIPolls Consumer Confidence Index. However, whether the current positive business sentiment will translate into real, positive economic growth for the sector in 2018, will depend on a number of key considerations:

(i) The CBN's management of the country's monetary policy is, perhaps, the most important variable that will determine the fate of the CIM sector. Many of the biggest players in the CIM space have a sizeable portfolio of foreign currency loans and depend on imported raw materials for local production. Stable foreign exchange (FX) rates, FX availability, and the CBN's implementation of a pro-business FX policy are, therefore, critical to the sector's profitability. The CBN's introduction of the Investors' & Exporters' FX Window in April 2017 has boosted FX liquidity and ensured FX rate stability over the last 10 months. We are optimistic that this will be sustained throughout 2018.

(ii) Lower inflation will also help CIM companies manage their direct and operating costs, and should increase consumers' purchasing power.

(iii) The timely passage and effective execution of the 2018 budgets of the Federal and State Governments will boost consumer spending and impact the CIM sector positively. In this regard, capital spending to improve the country's power situation and transportation infrastructure will have a significant effect on growth in the short to medium term.

(iv) Government's policies to further diversify the economy, and wean it of its overdependence on oil, need to be well-articulated and implemented in 2018. The Agricultural sector, for instance, contributed approximately 30% to the country's Gross Domestic Product (GDP) based on the National Bureau of Statistics' Nigerian GDP report for Q3 2017. However, an analysis of the sector reveals that Crop Production accounts for over 90% of total output, with Livestock, Forestry and Fishing contributing less than 10% in aggregate. Consequently, government needs to drive growth in the latter subsectors, whilst ensuring the continued growth of the Crop Production subsector, hence the need for Government to take prompt and decisive steps to address the lingering herdsmen crisis and ensure Crop Production stability cannot be overemphasized.

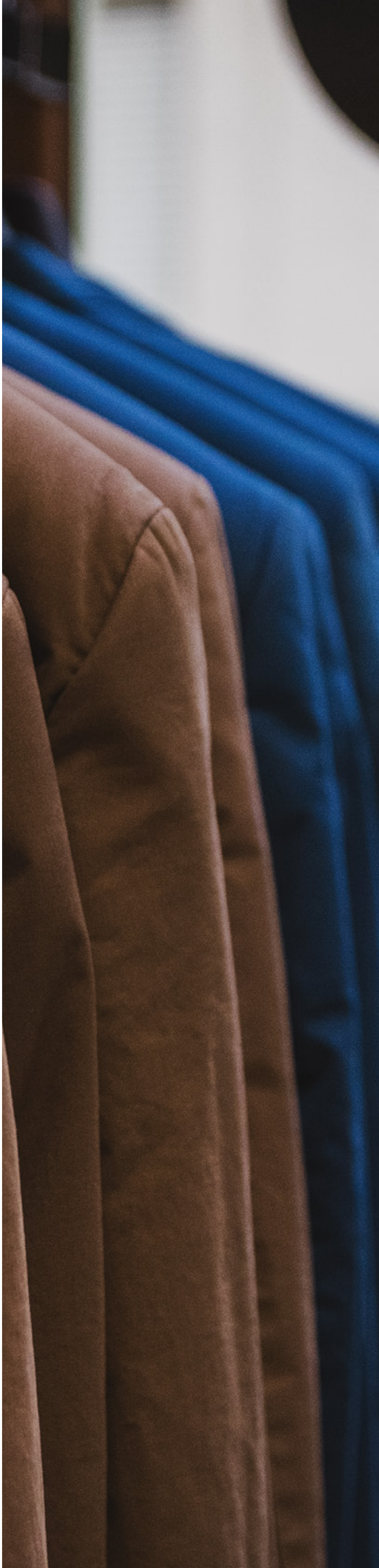
(v) The Manufacturing sector needs an effective policy implementation, as approximately 80% of the total output in the sector is currently contributed by only three (out of 13) subsectors, namely the Food, Beverage & Tobacco, Textile, Apparel & Footwear, and the Cement subsectors.

The Food, Beverage & Tobacco subsector is likely to be negatively impacted by the proposed increase in excise duty on tobacco, cigarettes, alcohol and tobacco beverages; as well as the planned expansion of the scope of excisable goods, to include relevant imported products. We hope the Government adopts a win-win strategy with the subsector in its quest to maximize government revenue, whilst minimizing illegal market activities that have plagued the subsector for a long time.

Trade is another key sector with great potential that is in dire need of urgent government reforms. The sector contributed 16% to GDP as at Q3 2017. However, it has contracted for six consecutive quarters since Q2 2016. The issues affecting Nigeria's trade policy generally, and the competitiveness of its non-oil exports particularly, need to be addressed as early as possible in 2018.

(vi) Finally, being a pre-election year, 2018 is expected to witness increased spending by government and political actors on logistics, campaigns and other electioneering activities. This is expected to increase money supply and consumer spending. However, the economic and political uncertainties typical of the electioneering process in Nigeria will need to be carefully navigated.

On the whole, we are optimistic about the growth prospects of the Nigerian CIM sector in 2018, and confident that Nigeria will continue to be Africa's biggest consumer market. The rising consumer spend of the country's largely youthful population and fast-growing middle class presents opportunities for both existing players and new entrants. 26% of respondents to our 2017 Doing Deals in Nigeria survey indicated that their most recent acquisition in Nigeria was in the consumer goods segment[15]. We expect this to continue in 2018. We also anticipate that discerning players in the CIM sector will ride on the positive sentiments in the Nigerian capital markets to raise funds via IPO, rights and corporate bond issues.



[15] https://home.kpmg.com/ng/en/home/insights/2017/10/doing-deals-in-nigeria0.html

Ayodele Othihiwa
Partner and Head,
Financial Services

Nike James
Partner

4.3. Financial Services Industry (FSI)

The Nigerian economy is gradually recovering from the impact of recession which started in the first quarter of 2016. This is evident in the increasing business activities across different sectors. Investors' confidence in the capital market appears to be on the increase as foreign exchange and interest rates continue to regain relative stability. The Central Bank of Nigeria (CBN)'s projection is that inflation rates will continue to fall, with single digit being the target, within the medium to long term spectrum.

Given the above, the FSI will continue to play pivotal roles in the macro economic recovery through relevant regulatory interventions that will shape key business decisions in 2018.

Business outlook

- In recent years, there has been reduction in overall lending by commercial banks to the private sector. This is due to the banks' preference for investment in federal government (FG) debt instruments which attract significant interest income than loan interest income from the private sector. With the FG's domestic borrowing projected to rise to ₦850 billion in 2018, it is doubtful whether the banks would be prepared to improve on its private sector loan portfolio in order to mitigate the crowding out effect on the private sector.

- However, the ongoing digital revolution in the form of Financial Technology (FinTech) companies presents a glimmer of hope for the economy. 2017 saw an unprecedented rise in the number of FinTech start-ups, incubators and investments. Nigeria has received over $200 million FinTech investment in recent years. This figure will significantly increase in 2018 and FinTech has the potential to redefine the financial services space. Key indicators of FinTech opportunities in Nigeria include the fast growing young population, relentless regulatory drive for financial inclusion and increased collaboration with existing financial services providers. By end of 2018, we expect FinTech companies to have covered areas such as payment solutions, lending, digital banking, WealthTech and InsurTech.

- The capital market started the year on a positive note having recorded a 12% growth so far, this year. This is perhaps indicative of a rising restoration of investor confidence in the market. With relative stability in macro-economic variables such as inflation, interest rate and forex, this is expected to be on the increase and usher in more growth of the sector- which was adjudged to be the world's third best performing capital market in 2017 (All Share Index). However, as we proceed into an election year, it is hoped that the FG would sustain its ability to deliver peaceful elections, and hence continue to ensure the growth and stability of the capital market.

Regulatory outlook

- The International Accounting Standards Board (IASB) recently issued the IFRS 9 – which replaces the IAS 39 on Recognition and Measurement of Financial Instruments. Given that the Standard has a commencement date of 1 January 2018, many companies, which have significant investments in financial instruments, will experience massive increase in their 2018 impairment provisions, compared to 2017 figures. The Standard will have significant impact on the banking sector due to its large loan portfolios. This will clearly impact on profits reported and attendant implications for tax purpose.

- The 2018 Micro-Insurance Guideline should lead to a boom in insurance activities in 2018 and beyond. With the guideline, many existing and new insurance companies that desire to carry on the business of micro-insurance can now obtain specific licence from the National Insurance Commission (NAICOM) to do so. This is a departure from the recent practice where the Federal Government had suspended issuance of new licences to prospective insurance companies in 2013.

- The Securities and Exchange Commission (SEC) recently released an exposure draft on new rules for Capital Market Holding Companies (CMHCs). The new rules should create robust framework for the regulation and supervision of CMHCs. The Rules, when effective, will include guidelines/ requirements for pre-registration and registration, corporate governance structure, ownership and control, permissible and non-permissible activities and general obligations expected of the CMHCs. Capital market operators, who operate Holding Company (Holdco) structures, will need to evaluate the business models in order to identify relevant issues, including possibility of double taxation, and implement structures to manage these exposures.

The overall 2018 outlook for FSI is positive. We expect some measured growth in the financial services sector of the economy considering the myriads of policies and actions of government. In achieving this, the CBN has a significant role to play in ensuring stability in foreign exchange, interest and inflation rates.

As the government seeks to raise non-oil revenue, particularly taxes, to fund the budget, the various tax authorities should continue to intensify tax generation strategies. Companies will, therefore, have to proactively review and regularize their records, introduce effective operational risk mitigating measures that will ultimately enable them to optimize tax costs.

Robert Araeb
Director and Head, Mining

Olufemi Babem
Senior Manager

4.4. Mining

Nigeria's mining sector grew marginally in 2017. The sector's contribution to real GDP grew from ₦58billion as at quarter three Q3 2016 to ₦60billion as at Q3 2017[16]. The Minister of Mines and Steel Development (the Minister) had stated, in a recent press briefing, that the Government would sustain (and improve) the growth of the sector by "stimulating new exploration activities, ensuring increased production from active mining, functional (and expanded processing and refining capacity, and higher value-addition in exports."

The sector is dominated by indigenous companies and individuals, and a substantial number of the players are small scale and Artisanal miners. In view of the significant investment and technical expertise required for mining operations, the accelerated growth and development of the sector will depend on investment by junior and senior mining companies, as well as other globally recognized mining institutions (financiers, consultants, etc.). The undisputable need for foreign investment in the sector is made more obvious by the fact that less than 1% of the Government's proposed expenditure in 2018 has been allocated to the sector (i.e., ₦23.461billion – about US$77million).

Out of the allocated amount, about ₦1.66billion (US$5million) is for continuing exploration of some minerals. This is in addition to the N30billion (about US$98million) intervention fund that the Federal Executive Council released to the sector in 2016. Part of the intervention fund has been made available to small and medium scale miners, through the support fund managed by the Bank of Industry. The maximum amount that can be loaned to a single operator under this fund is ₦100 million (about US$0.327million), depending on the size of operation. We expect that more small scale and medium scale operators will be able to access the fund for mining operations in 2018. Large scale local mining companies are still expected to source for funds for their projects from banks, locally and/or internationally.

Furthermore, about ₦3.03billion (US$10million) has been allocated to the provision of relevant mining infrastructure[17] in the budget. The ongoing development of the standard gauge rail line, connecting the resource rich Central region of Nigeria (Itakpe, Ajaokuta) to the port city of Warri in the Niger Delta region, is expected to be completed in Q4 2018. Other feeder rail infrastructure should be developed subsequently. Most importantly, the Government plans to pursue public-private partnership arrangements in 2018 to help bridge the huge infrastructure deficit.

The Ministry plans to conduct electromagnetic airborne geophysical survey in identified mineral locations in 2018, with a view to improving the available geological data. About ₦256million (US$0.840million) has been budgeted for data upgrade and dissemination in 2018. While this exercise should improve the quality of general information on resource occurrence across the country, mining operators may still be required to conduct further geological surveys and tests with respect to their specific licence area(s).

[16] Source: Nigerian Gross Domestic Product Reports (Q4 2016 and Q3 2017), issued by the Nigerian Bureau of Statistics. The Q4 report for 2017 is yet to be released.
[17] The Government provided for a sinking fund for infrastructural development worth N2.8billion. The purpose and use of this fund is yet to be determined.

Government plans to concession Ajaokuta Steel Company and the National Iron Ore Mining Company at Itakpe, to private operators. This exercise should be completed during the year, subject to resolution of all existing legal encumbrances. About ₦2.1billion (US$6.9million) has been budgeted for this purpose, and the estimated cost of revamping the plant is US$1.2billion. The concession exercise should attract the attention of foreign investors in mining and steel production, considering the size of the plants, production capacity, and huge prospects for import substitution.

The expectation is that the remaining Bitumen blocks in the country would be put-up for sale, through a competitive bid, in 2018. The process for the sale should be announced before the end of Q2 2018. However, the Bitumen blocks that have been awarded to indigenous players are attracting the attention of foreign mining companies, due to the large reserves and significant potential for import substitution. The final investment decisions with regard to these projects should be reached during the year, and that exploration on the Bitumen sites will commence before the end of the year.

2017 witnessed an increase in foreign investment into the sector, especially in the mining of gold, lead, zinc, copper and tin. This was largely driven by the increase in the average prices of these minerals by about 25% in 2017[18]. This investment trend is expected to continue in 2018, especially with the discovery of new mineral deposits like the Nickel deposit in Kaduna State. The total value of private investment into the sector in 2018 should exceed US$300million[19].

Government also intends to establish a super regulator for the sector in 2018, subject to relevant Government approvals. It is anticipated that the super regulator will improve the licensing and monitoring of mines and mining operations in Nigeria. No material changes are expected to the current legislation governing mining.

Overall, the prognosis for this sector is optimistic, but Government needs to sustain its reform aimed at de-risking and repositioning the sector, to attract foreign investors.

[18] Source: World Bank Report on Commodity Markets Outlook, published in 2017
[19] KPMG Analysis


Chibuzor Anyanechi
Partner and Head, Energy


Ayo Salami
Partner

4.5. Oil and Gas

The oil and gas industry remains the major contributor to Government's revenue, with the sector expected to generate about 37% of the Federal Government's projected revenue of ₦6.61 trillion revenue in 2018. This projection is predicated on benchmark oil price of US$45.1/barrel, oil production estimate of 2.3 million barrels per day (mbpd) and exchange rate of US$1/₦305.

The overall outlook for the industry in 2018 is positive. The early indicator of this positive outlook is resurgence in global crude oil prices, from an average price of US$49 in July 2017 to about US$70 in January 2018[20]. This development is attributable to the output cuts imposed by the Organization of Oil Producing Countries (OPEC) on its member countries; except for Libya and Nigeria, which was allowed to maintain its production output of 1.8 mbpd (same level as 2017). The Country has potential to increase the current production level to above 2mbpd in 2018, buoyed by new production fields coming on stream during the year (Egina and Zabazaba oil fields), and the negotiated peace in the Niger-Delta region.

Sectoral review

- **Upstream sector**

This sector faced significant headwinds in 2017, locally and globally, due to the decline in global crude oil prices which continued till the first half of the year, and significant decrease in the level of activities. However, the steady increase in crude oil prices should spur investment in the industry, and with improved economics for some of the major projects under consideration. This should, in turn, trigger a number of final investment decision (FID) and rig counts during the year.

The sector is expected to record significant private sector investment as a result of Government's planned sale of 46 marginal fields in 2018. In addition, the President stated during the presentation of the 2018 budget to the National Assembly that the government would raise ₦710 billion from the restructuring of its equity participation in joint venture operations (JVs) with the international oil companies (IOCs). The government also plans to continue to engage host communities in the Niger-Delta region to ensure continued peace and stability in the region. One of the key initiatives of the Government in this regard is the Ogoni clean-up project, which is planned to commence during the year.

- **Midstream**

To address the country's dependence on imported petroleum products, the Government recently awarded licences to some companies for construction and operation of modular refineries. Theses refineries are expected to become operational in 2019.

Furthermore, the Board of the Nigerian Liquefied Natural Gas is expected to reach a FID with regard to the development of an additional LNG Train (Train 7 Plus) at its Bonny Island plant in 2018. The additional train should increase the current output from the plant from its current capacity of 22mmtpa to 30mmtpa. The estimated cost for the project is US$15billion[21].

[20] Source: Central Bank of Nigeria: http://www.cbn.gov.ng
[21] The New Telegraph Newspaper: https://newtelegraphonline.com/2017/12/nlng-mulls-2018-n4-575trn-train-7-fid/

- **Downstream sector**

Nigeria would continue to import most of the petroleum products consumed, especially Petroleum Motor Spirit (PMS), due to limited crude oil refining capacity locally. Consequently, the recent increase in the price of crude oil in the global market would have a corresponding impact on the local price of petroleum products. Owing to the fact that the sector is still partly regulated, the Government may be compelled to either embark on an upward review of the current pump prices for PMS, or subsidize the landing cost of the product. It is not likely that the Government will fully deregulate the sector in 2018, given the 2019 election.

Notwithstanding, investments will continue to flow into the sector, especially towards the construction of tank farms and related downstream infrastructure. The sector may also witness potential mergers and acquisitions by some of the fringe players or those with insufficient cash flow to run their operations (principally due to the exchange rate risks that most of them have had to contend with in the last two years).

- **Services**

This sector comprises companies that render services to the upstream, downstream and midstream operators – seismic, drilling, fishing, wellhead, engineering, procurement, manpower and construction services, amongst others. The fortunes of the operators are closely linked to that of other sectors discussed above. For the most part of 2017, the operators faced significant headwinds, with contract prices plummeting to 3-year lows in most cases, and some contracts cancelled outright. Rig count also tumbled. However, with the bright spots noted with respect to the investment opportunities occasioned by the increasing oil prices, it is expected that activities in this sector will gain momentum in 2018.

- **Regulations**

A number of changes are expected in the regulation of the industry, principal among which is the Petroleum Industry Governance Bill (PIGB). The PIGB is the first in a series of long awaited petroleum industry bills designed to reform the Nigerian oil and gas industry. The President is yet to assent to the Bill. The probability that the other pending petroleum industry bills – the Petroleum Industry Fiscal Bill (PIFB) and the Host Community Bill (HCB) will be passed before the last quarter of 2018 is low.

Furthermore, the Ministry of Petroleum Resources is driving a number of policy initiatives; including the implementation of new gas policy, and the national petroleum fiscal policy, which are part of the 'seven (7) big wins initiative' introduced by the Minister in October 2016. Some aspects of the policies have to be enacted by the National Assembly, either as part of the PIFB, or as a separate legislation.

Segun Sowande
Partner and Head, Power

Martins Arogie
Senior Manager

4.6. Power

The Power Sector has been plagued by myriads of problems, such as accumulated debts, gas supply challenge, market indiscipline, high Aggregate Technical, Commercial and Collection losses and lack of cost-reflective tariff. The ₦701billion Payment Assurance Guarantee Fund, which was set up by CBN in 2017 to provide funds for Nigerian Bulk Electricity Trading Company (NBET) to pay generation invoices, does not appear to have had any positive impact on the sector. The outlook for the sector, therefore, remains challenging.

However, the effectiveness of the planned intervention programs by the Federal Government's (FG) and the World Bank, as part of the Power Sector Reform Programme (PSRP), will be critical in this regard. 2018 may be the year the Nigerian power sector is effectively placed on the pathway of continued growth and development.

- **Generation**

Nigeria currently has about 7,000MW of available power generation. About 1,300MW (150MW Gbarain, 240MW Afam, 227MW Alaoji, 225MW Egbema, 400MW Azura, 10MW Katsina) of additional power is expected to come on stream later in the year. About N2.6billion has been proposed in the 2018 appropriation bill to help bring this additional power on stream. This is not included in the ₦22.6billion proposed capital expenditure for the Nigerian Rural Electrification Agency (REA), the bulk of which would go into funding off-grid power projects.

A number of the 14 solar power plants (with estimated cumulative power generation of over 1,000MW), whose power purchase agreements (PPAs) were approved by the NBET in 2016, may attain final investment decision (FID) and commence construction later in the year. The FID has been delayed over negotiations with the FG on the terms of the put/call options agreement and the provision of a sovereign guarantee. The Minister of Finance has recently stated that she will not approve any PCOA unless the energy charge per KWH is reviewed downwards from 11.5cents to 7.5cents. Nonetheless, we can approach 2018 with a positive outlook for the generation subsector, especially given the promulgation of the Mini-grid Regulations and developments in renewables and off-grid solutions.

- **Transmission**

There has also been significant progress in the transmission space where we currently have a wheeling capacity of approximately 7,000MW (from about 5,000MW as at the beginning of 2017). The FG has set aside counterpart funding of N12billion in the 2018 appropriation bill, as part of the World Bank and African Development Bank funded Nigerian Electricity Transmission Access Project (NETAP). The NETAP is part of the Transmission Rehabilitation and Expansion Programme (TREP), which seeks to increase overall wheeling capacity to about 20,000MW over the next 4 years, starting with an increase of 1,000MW scheduled for the 1st quarter of 2018 and cumulative improvement of 2000MW – 3000MW by the end of the year. There is also a proposed N4billion expenditure on the Kashimbila transmission project that is expected to evacuate power generated from the 3000MW Mambilla Hydro Plant when completed. It appears that 2018 may be a good year from a transmission perspective.

- **Distribution**

The Distribution space has been completely privatized, so there should be less reliance on Government funding and plans. However, that is not the case. Distribution Companies (Discos) have alleged that the revenue shortfall in the subsector peaked at about N900billion as the end of 2017. The average cost of power is about N68 while the Discos can only recover about half of that based on the constraint placed on tariffs. This should not necessarily be a problem if the FG had put in place a plan for funding the deficit. Discos have continued to struggle to pay for power received from the generating companies with little or nothing left for capital improvements in the distribution network. The FG had approved a N701billion intervention fund to cover for the shortfall in payment due to the generating companies. However, this has not addressed the issue of significant capital investment in a distribution sector, which is lagging behind generation and transmission capacity. As at the end of 2017, the distribution capacity was 4,500MW which is 2,500MW less than the transmission capacity.

We may not be able to harness the impact of the investments and development in the generation and transmission subsectors if equally significant investments are not made to increase distribution capacity. This can only happen with improved funding. 2018 will herald the commencement of electioneering in the country preparatory to the 2019 general elections, so it is inconceivable that the FG will consider an increase in electricity tariffs; though the PSRP provides for quarterly regulatory tariff reviews. Consequently, alternative sources of funding will have to be considered to bridge that gap in the distribution subsector. Unfortunately, the 2018 budget proposal does not contain provision for such funding. It is, therefore, very important that government agencies pay their electricity bills.

The declaration of the eligible customer regime and the subsequent issuance of the relevant regulations by the Nigerian Electricity Regulatory Commission (NERC) may provide an avenue for end users to begin to look for ways to access power without recourse to the distribution network, where possible. This is one space we must watch closely in 2018, despite the complaints from the Discos that its implementation may worsen the situation in the sub-sector with the loss of significant revenue.

The Power Sector may record modest gains in 2018, but whether the impact will be felt by the majority of end users appears to depend on what happens in the distribution sub-sector. 2018 may be the pivotal year where the Sector turns around for good. But maybe not!

APPENDIX

S/N	Code	MDA	Total Personnel	Total Overhead	Total Recurrent	Total Capital	TOTAL ALLOCATION
1	111	Presidency	17,792,597,551	11,683,081,282	29,475,678,833	21,969,999,975	51,445,678,808
2	112	National Assembly	125,000,000,000	-	125,000,000,000	-	125,000,000,000
3	116	Ministry of Defence	370,628,382,459	51,805,513,127	422,433,895,586	144,999,999,931	567,433,895,517
4	119	Ministry of Foreign Affairs	38,814,576,592	23,277,621,873	62,092,198,465	10,795,042,441	72,887,240,906
5	123	Federal Ministry of Information & Culture	38,893,979,743	4,210,491,435	43,104,471,178	8,373,248,823	51,477,720,001
6	124	Ministry of Interior	476,434,920,344	34,438,537,929	510,873,458,273	63,261,062,487	574,134,520,760
7	125	Office of the Head of the Civil Service of the Federation	4,592,276,319	1,410,394,352	6,002,670,671	3,755,176,735	9,757,847,406
8	140	Auditor General for the Federation	1,947,674,911	984,230,795	2,931,905,706	290,509,818	3,222,415,524
9	145	Public Complaints Commission	4,200,000,000	-	4,200,000,000	-	4,200,000,000
10	147	Federal Civil Service Commission	573,147,419	472,853,041	1,046,000,460	46,171,826	1,092,172,286
11	148	Independent National Electoral Commission	45,500,000,000	-	45,500,000,000	-	45,500,000,000
12	149	Federal Character Commission	2,121,540,028	372,635,539	2,494,175,567	593,080,989	3,087,256,556
13	156	Ministry of Communication Technology	11,449,606,934	266,974,561	11,716,581,495	7,544,159,142	19,260,740,637
14	157	National Security Adviser	59,575,825,137	12,448,992,916	72,024,818,053	49,706,125,631	121,730,943,684
15	158	Code of Conduct Tribunal	451,843,901	232,310,234	684,154,135	513,616,706	1,197,770,841
16	159	Infrastructure Concessionary Regulatory Commission	831,800,198	176,088,460	1,007,888,658	534,310,245	1,542,198,903
17	160	Police Service Commission	501,757,311	211,369,318	713,126,629	758,900,000	1,472,026,629
18	161	Secretary to the Government of the Federation	50,070,017,684	8,557,216,850	58,627,234,534	23,249,819,276	81,877,053,810
19	215	Federal Ministry of Agriculture and Rural Development	51,938,288,739	1,873,664,967	53,811,953,706	118,984,139,037	172,796,092,743
20	220	Federal Ministry of Finance	7,375,606,631	2,237,236,560,943	2,244,612,167,574	2,965,210,224	2,247,577,377,798
21	222	Federal Ministry of Industry, Trade And Investment	10,390,132,014	2,065,004,599	12,455,136,613	82,917,147,560	95,372,284,173
22	227	Federal Ministry of Labour and Employment	6,355,193,714	1,356,869,941	7,712,063,655	9,782,520,401	17,494,584,056
23	228	Federal Ministry of Science and Technology	29,753,995,606	2,693,455,781	32,447,451,387	43,230,296,244	75,677,747,631
24	229	Federal Ministry of Transportation	14,275,582,500	1,450,000,003	15,725,582,503	263,100,000,000	278,825,582,503
25	231	Federal Ministry of Power Works & Housing	17,259,579,677	16,949,839,980	34,209,419,657	555,877,594,442	590,087,014,099
26	232	Ministry of Petroleum Resources	64,155,130,781	1,992,410,877	66,147,541,658	7,943,128,647	74,090,670,305
27	233	Ministry of Mines and Steel Development	8,835,155,389	1,726,419,856	10,561,575,245	12,900,000,000	23,461,575,245
28	238	Ministry of Budget and National Planning	404,676,271,298	738,162,050,049	1,142,838,321,347	642,687,658,319	1,785,525,979,666
29	242	National Salaries, Incomes and Wages Commission	597,928,815	93,981,274	691,910,089	263,121,916	955,032,005
30	246	Revenue Mobilisation, Allocation and Fiscal Commission	1,544,149,606	344,762,287	1,888,911,893	329,093,337	2,218,005,230
31	250	Fiscal Responsibility Commission	152,651,472	181,767,615	334,419,087	200,155,392	534,574,479
32	252	Federal Ministry of Water Resources	6,998,520,403	951,260,604	7,949,781,007	95,111,700,681	103,061,481,688
33	318	Judiciary	100,000,000,000	-	100,000,000,000	-	100,000,000,000
34	326	Federal Ministry of Justice	19,017,934,095	3,400,000,004	22,417,934,099	2,049,946,629	24,467,880,728
35	341	Independent Corrupt Practices and Related Offences Commission	4,100,105,594	1,312,886,013	5,412,991,607	867,865,170	6,280,856,777
36	344	Code of Conduct Bureau	1,946,711,277	435,616,600	2,382,327,877	694,854,364	3,077,182,241
37	437	Federal Capital Territory Administration	-	-	-	40,297,122,872	40,297,122,872
38	451	Federal Ministry of Niger Delta	72,459,431,531	877,089,124	73,336,520,655	53,892,500,002	127,229,020,657
39	513	Federal Ministry of Youth & Sports Development	93,734,185,428	16,987,062,754	110,721,248,182	5,499,604,377	116,220,852,559
40	514	Federal Ministry of Women Affairs	1,157,568,227	500,000,001	1,657,568,228	4,580,732,000	6,238,300,228
41	517	Federal Ministry of Education	516,387,018,209	27,683,286,158	544,070,304,367	61,725,553,540	605,795,857,907
42	521	Federal Ministry of Health	265,002,022,797	4,341,237,428	269,343,260,225	71,113,152,655	340,456,412,880
43	535	Federal Ministry of Environment	15,988,194,981	1,857,257,810	17,845,452,791	9,524,482,833	27,369,935,624
44	543	National Population Commission	5,654,664,346	415,073,952	6,069,738,298	4,736,308,554	10,806,046,852
			2,969,135,969,661	**3,215,435,870,332**	**6,184,571,839,993**	**2,427,665,113,221**	**8,612,236,953,214**

Contact Us

Adewale Ajayi
Partner and Head
Tax Energy & Natural Resources and People Services
KPMG in Nigeria
T: +234 803 402 1014
E: adewale.ajayi@ng.kpmg.com

Ayodele Othihiwa
Partner and Head
Financial Services
KPMG in Nigeria
T: +234 803 402 0935
E: ayodele.othihiwa@ng.kpmg.com

Ajibola Olomola
Partner and Head
Telecomms, Media and Technology
KPMG in Nigeria
T: +234 803 402 1039
E: ajibola.olomola@ng.kpmg.com

Mohammed Adama
Partner and Head
Agriculture
KPMG in Nigeria
T: +234 803 402 0960
E: mohammed.adama@ng.kpmg.com

Chibuzor Anyanechi
Partner and Head
Energy
KPMG in Nigeria
T: +234 803 402 0965
E: chibuzor.anyanechi@ng.kpmg.com

Goodluck Obi
Partner and Head
Consumer and Industrial Markets
KPMG in Nigeria
T: +234 803 402 0950
E: goodluck.obi@ng.kpmg.com

Segun Sowande
Partner and Head
Power
KPMG in Nigeria
T: +234 803 402 0994
E: segun.sowande@ng.kpmg.com

Dimeji Salaudeen
Partner and Head
Infrastructure, Government and Healthcare
KPMG in Nigeria
T: +234 803 402 0991
E: dimeji.salaudeen@ng.kpmg.com

Robert Araeb
Director and Head
Mining
KPMG in Nigeria
T: +234 706 406 4287
E: robert.araeb@ng.kpmg.com

Nike Oyewolu
Head
Markets Operations
KPMG in Nigeria
T: +234 803 402 1034
E: nike.oyewolu@ng.kpmg.com

kpmg.com/socialmedia

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