Federal Ministry of Finance

Responses to the 50 Questions on Nigeria's Economy Posed by the House of Representatives' Committee on Finance

PREAMBLE

We are pleased to provide responses to a set of 50 questions which were submitted to us by the House of Representatives Finance Committee on 19th December 2013 (NASS/7HR/CT.32/1999). We are somewhat surprised by the content of many of these questions for a number of reasons.

First, the responses to most of these questions are already in the public domain, and have been extensively debated by the government, media, civil society organizations and the private sector. We have answered these questions or similar ones many times before various Committees of the National Assembly. Nevertheless, we are pleased to answer them again with supporting data and analyses.

Second, the questions are repetitive in several instances, for example, questions 28, 34 and 40 on the benchmark oil price; questions 9, 10, 11, and 12 on debt management; and questions 44 and 50 on repatriation of export proceeds. In some cases, the questions are also directly contradictory, such as, questions 5 and 9 on debt management. This makes it somewhat confusing for those trying to respond.

Third, several of these questions contain false or incorrect assertions and are overly personalized. So it is not clear whether the focus is really on the economy as far as those questions are concerned. Nevertheless, we have attempted to respond as objectively as we can.

Finally, we have spent considerable efforts to gather supporting factual documentation to buttress our answers as requested by the Committee. We have done so in good faith, and look forward to the exchange and dialogue with the Committee.

With best personal regards,

Dr. Ngozi Okonjo-Iweala, CFR
Co-ordinating Minister for the Economy
and Hon. Minister of Finance
Abuja – 15th January 2014

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1. **What should you consider as the major economic achievements of this government in the 2013 fiscal year and why? In your explanation, we will need facts and figures in demonstrating such achievements.**

   The Administration detailed its 2013 achievements in an extensive report when the President gave the mid-term report on the Transformation Agenda. We have made several priority investments in physical and human infrastructure across the country; and these investments have resulted in many achievements across the real sectors of the economy. Details can be found in the Mid-Term Review Report, and also on the website of the National Planning Commission. Below are some of the key sectoral achievements in 2013.

   - Job creation: Our strong economic performance across various sectors is creating jobs, and improving the livelihoods of our citizens. According to the National Bureau of Statistics (NBS) a total of 1.6 million jobs were created in the past year. The NBS jobs data are based on *Quarterly Job Creation* surveys which are conducted in partnership with the Office of the Chief Economic Adviser to the President, the National Planning Commission, and the Federal Ministry of Labour & Productivity. The survey is conducted for all 36 States and the FCT and covers all sectors of the economy.

   - Of the 1.6 million total jobs created, we can highlight a few examples which demonstrate the impacts made across the country.
     - In agriculture, the provision of inputs in 10 Northern States enabled dry season farming; and profitably engaged over 250,000 farmers and youths even during the dry season.
     - In manufacturing, many new jobs were also created across the country. For example, the Onne Oil and Gas Free Zone created an estimated 30,000 direct and indirect jobs.
     - The Government's special intervention programs also created job opportunities. The YouWiN program has supported young Nigerian entrepreneurs and created over 18,000 jobs, while the SURE-P Community Services Scheme has also created 120,000 job opportunities across the country.

     However, given the large number of new entrants into the labor force each year, and the pre-existing stock of people already looking for jobs, we will need to maintain our unrelenting focus on job creation for Nigerians. Job creation will therefore remain the central focus of this Administration.

- Transportation Infrastructure (Roads & Railways): We have made progress in the construction of various road projects across the country, such as the Kano-Maiduguri road, the Abuja-Lokoja road, the Apapa-Oshodi road, the Onitsha-Enugu-Port-Harcourt road and the Benin-Ore-Shagamu road, among others. Preliminary work has also commenced on the Lagos-Ibadan road, as well as on the Second Niger Bridge. The Railway Modernization Programme involving the construction of standard gauge lines is underway. The 1,124 km Western line linking Lagos and Kano is now functional while work on the Eastern line linking Port Harcourt to Maiduguri is about 36% complete. The Abuja-Kaduna Standard Gauge line has attained 68% completion, and the Itakpe-Ajaokuta-Warri Line which is presently 77% completed, will be completed next year. The annual passenger traffic on our railways has increased steadily: rising from 1 million in 2011 to 5 million in 2013.

- Inland waterways: We have dredged about 72 km of the lower River Niger from Baro in Niger State to Warri in Delta State; and completed the construction of the Onitsha inland port; while the Baro port is nearing completion. The result of all these is that we now have year round navigation around the lower Niger; and we are already witnessing an increase in cargo volume from below 2.9 million metric tons in 2011 to over 5 million metric tons in 2013 on the inland waterways. As in the case of the rail transport, the number of passengers travelling via our inland waterways has increased fourfold from 250,000 in 2011 to over 1.3 million.

- Water resources: Key milestones recorded in 2013 include the construction of 9 dams which resulted in an increase in the volume of the nation's water reservoir by 422MCM. Progress was made on major projects such as the South Chad Irrigation Project, the Bakolori Irrigation Project, and the Galma Dam. Implementation of irrigation and drainage programme resulted in increase of the total irrigable area by over 31,000Ha and increased production of over 400,000Mt of assorted irrigated food products. To improve supply of potable drinking water to a larger cross-section of Nigerians, the administration has constructed and rehabilitated several small town and urban water projects and over 2500 hand pumps and solar powered boreholes under the water supply and sanitation programme.

- Aviation: The 22 airports across Nigeria are being remodeled and upgraded: in 2013, we completed the upgrade of 11 airport terminals and work on the remaining 11 terminals is in progress. The Enugu Airport is now operational as an international airport with a new terminal under construction. We have also commenced work on the construction of three new international airport terminals: in Lagos, in Kano, and in Abuja. Modern navigational and meteorological systems were installed at our airports to improve air safety. In addition, 6 airports namely: Jos, Markurdi, Yola, Jalingo, Lagos and Ilorin which are strategically located in proximity to food baskets have been designated as perishable cargo airports and international standards perishable cargo facilities are being developed at these airports. A new Cargo Development Division has been established in FAAN to give focus to this effort.

- Power: We have completed one of the most comprehensive and ambitious power sector privatization and liberation programmes globally. We have privatized 4 power generation companies and 10 power distribution companies, and have virtually settled all claims and entitlements of PHCN workers. Some major cities get an average of 16-18 hours of electricity per day in 2013. This however dropped slightly in November and December 2013 during the transition and as a result of gas supply problems; we expect some teething problems and then power supply should pick up. In 2013, we also mobilized $1.5 billion in financing from multilateral sources for investment and upgrade of the transmission network in 2014 and beyond. To promote clean energy, we also commenced construction of the 700MW Zungeru Hydro-Power project in 2013. We have strengthened relevant power market intermediaries such as the Nigerian Bulk Electricity Trading Plc (NBET), which is backed with over N120 billion in financing to help stimulate greater private investments in the sector.

- Communications Technology: We continued our strategic focus on investing in modern ICT technologies. We constructed 500km of fibre-optic cable to rural areas; 3,000km targeted for deployment in 2013/2014. A total of 266 Public Access Venues were established in 2013 – 156 Rural IT Centres, 110 Community Communication Centres. We facilitated the deployment of mobile communications base stations in rural areas of Nigeria. A total of 59 Base Stations have been installed thus far, with an additional 1,000 planned for 2014. In addition, we also provided wholesale internet bandwidth to Internet Service Providers, Cyber cafes, and ICT centres like Community Communication Centres (CCC) in rural communities – connectivity to 12 out of 18 pilot sites completed. In 2013, we deployed a fibre-optic high-speed internet network to connect 27 Federal universities, and provided computing facilities to 74 tertiary institutions and 218 public schools across the country. Finally, we established innovation centers to support entrepreneurs in the ICT sector, and also launched a Venture Capital fund of $15 million for ICT businesses.

- Industry, Trade and Investments: We launched the National Industrial Revolution Plan (NIRP) which focuses on industrializing Nigeria and diversifying our economy into sectors such as agro-processing, light manufacturing, and petrochemicals. In the 2013 fiscal year, Nigeria was named the #1 destination for investments in Africa by UNCTAD (the UN Conference on Trade and Development), attracting over $7 billion in FDI. There were a large number of both foreign and domestic investments in the economy. Some examples are: $250m investments by Procter and Gamble in Ogun State; $40 million in agricultural projects by Dominion Farms in Taraba State; $1.2 billion in fertilizer and petrochemicals by Indorama; a $200 million steel plant by Kam Industries; and a $9 billion investment in a petrochemicals and refinery complex by the Dangote Group.

  To further support the manufacturing sector, the Government successfully negotiated a strong Common External Tariff (CET) agreement with our ECOWAS partners which would enable us to protect our strategic industries where necessary. The Nigerian Enterprise Development Programme (NEDEP) was initiated in 2013 to address the needs of small businesses. Some key interventions by NEDEP include supporting small companies with access to affordable finance, access to markets, capacity support, business development services, youth training, and support in formalizing their operations. In addition, in 2013, we reduced business registration costs for small businesses by 50%, to help them conserve capital. Finally, as a result of our backward integration policies, Nigeria is now a net exporter of cement and expanded cement output capacity from 2 million metric tonnes in 2002 to 28.5 million metric tonnes in 2013.

- Oil and gas: In 2013, work was completed on important projects such as the 136km gas pipeline from Oben to Geregu, the 31km pipeline from Itoki to Olorunshogo and the acquisition of 250 square kilometers of 3D-seismic data for the Chad basin. The government also initiated the Ogidigben Gas Industrialization Project which will provide a petrochemicals complex in Delta State. We have also supported greater indigenous participation in the oil and gas sector. At present, the Ebok Terminal – with a daily crude oil output of 7000 b/d – is operated by an indigenous firm.

- Agriculture: There have been many achievements in the agricultural sector following the launch of the Government’s comprehensive Agricultural

Transformation Agenda program. In October 2013, inflation fell to 7.8%, its lowest since 2008, partly due to higher domestic food production. The Government's Growth Enhancement Scheme (GES) is providing subsidized inputs to farmers via an e-Wallet program. In fiscal year 2013, an estimated 4.2 million farmers received subsidized inputs via the Government's Growth Enhancement Scheme. As a result, in 2013, we produced 1.1 million metric tonnes of dry season rice across 10 Northern states; and over 250,000 farmers and youths in these States are now profitably engaged in farming even during the dry season.

- The Federal Government launched Staple Crop Processing Zones to support investments in the entire agricultural value chain. At present, there are significant private investment commitments from agribusiness ventures such as: Flour Mills of Nigeria, the Dangote Group, Syngenta, Indorama, AGCO, and Belstar Capital. In 2012, 2.2 million metric tonnes of cassava chips were exported, exceeding the ATA's target by over 100% while the 40 percent substitution of cassava for wheat has been achieved through research and collaboration with the IITA and Federal Institute for Industrial Research. Similarly, there has been a decline in wheat imports to Nigeria from an all-time high of 4,051,000 MT in 2010 to 3,700,000 MT in 2012.

- Health: To further invest in the human capital of our population, we are building strong safety nets and improving access to primary health care using the *Saving One Million Lives* programme. In the 2013 fiscal year, we recruited 11,300 frontline health workers who were deployed to under-served communities across the country. We have reached over 10,000 women and children with conditional cash transfer programmes across 8 States (Anambra, Bauchi, Bayelsa, Ebonyi, Kaduna, Niger, Ogun, Zamfara) and the FCT and we intend to scale up this successful initiative. As a result, over 400,000 lives have been saved through our various interventions. Nigeria's national immunization coverage has now exceeded 80% and is yielding demonstrable results. The Type-3 Wild Polio virus has been contained in 2013, with no recorded transmissions for more than one year; while Guinea worm that previously affected the lives of over 800,000 Nigerians yearly has been largely eradicated. Facilities at various medical centers across the country – such as the University of Nigeria Teaching Hospital in Enugu, and the University College Hospital in Ibadan – have also been upgraded. Finally, Nigeria has also been honoured as Co-Chair of the fourth replenishment of the Global Fund to fight AIDS, TB and Malaria.

- Education: To improve access to education at all levels, a number of priority investments were made in 2013. These include the construction of 125 Almajiri schools and establishment of 3 additional Federal Universities, to bring the total number of new Federal Universities to 12. Additionally, special girls' schools were constructed in 13 States of the Federation. In fiscal year 2013, we rehabilitated 352 science and technical laboratories while 72 new libraries have been constructed in the Federal Unity Schools. Furthermore, the laboratories of all 51 Federal and State Polytechnics have been rehabilitated and micro-teaching laboratories are being constructed in 58 Federal and State Colleges of Education. The Presidential Special Scholarship programme for first class graduates has commenced with an initial set of 101 beneficiaries. Over 7,000 lecturers from Universities, Polytechnics and Colleges of Education are benefitting from scholarships to support their doctoral training in Nigerian and overseas institutions. The Federal Government also committed N200 billion to the upgrade and reconstruction of infrastructure for our tertiary institutions.

- Sports: The Sports sector is an important contributor to the economy and capable of generating revenues and jobs. As such, this Administration has taken concrete steps to restore the glory of Nigerian sports through strong financial backing, capacity building and moral support. There is renewed interest in sports as a commercial venture – with international investor interests in our football and basketball leagues. Our sportsmen and women also continue to make us proud. The Golden Eaglets won the FIFA U-17 World Cup in the United Arab Emirates. The Super Eagles won the African Nations Cup in January 2013 after a 19-year drought, and have qualified for the FIFA World Cup Finals in Brazil this year. The Flying Eagles also won the bronze medal at the African Youth Championship. Nigeria also won the African Junior Athletics Championship and our nation's flag was hoisted twice during the World Athletics Championship through the outstanding efforts of Blessing Okagbare.

- Creative Industries: This Administration is also working to fully harness the potential of our creative industries. This sector sustains 200,000 direct jobs, and an additional 1 million indirect jobs across the country. This Administration has therefore taken concrete steps to support the sector through the *Project Advancing Creativity and Technology* (PACT) in Nollywood, which is a ₦3 billion grant programme for Nollywood. In 2013, the Fund already supported capacity building and film production in the industry. In 2014, we will go further to tackle intellectual property and distribution challenges faced in the industry.

- <u>Macroeconomic Achievements</u>: It is worth emphasizing that our current stable macroeconomic environment provided the platform for the strong performance observed across the various sectors. Inflation remains in single digits (at 8.0 percent as at end-December 2013); the exchange rate has remained relatively stable within the target band of N155-160/Dollar. Our budget deficit of 1.85% of GDP is one of the lowest in the world. In the 2013 fiscal year, the National Bureau of Statistics reported quarterly GDP growth of 6.56%, 6.18% and 6.81% in Q1, Q2 and Q3 respectively.

We have mentioned developments in some key sectors above as examples. However, we acknowledge that challenges remain, especially in creating jobs for our growing youth population, and also in tackling income inequality and eradicating poverty. We will return to these topics in Question 8 when we discuss some of the government's recent social protection programs which are intended to tackle poverty and inequality in our nation.

2. You have been credited with many announcements regarding Nigeria's economy as one of the fastest growing economies in Africa. If the economy is one of the fast growing economies, what is exactly growing the economy? What role does government play in the said economic growth, especially given that as high as 80 percent of the country's total annual budget spending still goes into recurrent expenditure?

- First, we must correct the wrong statistic quoted in the question. The share of recurrent expenditures in total spending was 67.5 percent in Budget 2013, and 74% in 2014. While this recurrent expenditure ratio has been high in recent years, it has never reached the 80 percent mark quoted above. In drafting the budget each year, we aim to reduce our recurrent spending and thus allocate more resources for capital investments in priority sectors. The 2014 fiscal year is a challenging year of reduced revenues, and hence recurrent expenditures have taken a larger proportion of the overall budget. But we think this is not acceptable for an economy such as Nigeria and we must reverse this trend by trimming down Government recurrent expenditures and waste. In our response to Question #3, we will provide a discussion on why the recurrent expenditures in the Federal Government budget are currently so high, and what measures can be taken to reduce this in the future.

- Now, we turn to answer the question above on the sources of economic growth in Nigeria.

- Nigeria’s economy is one of the fastest growing in Africa, and also among the emerging markets. This finding is based on external reports by institutions such as the Africa Development Bank (AfDB), the United Nations Economic Commission for Africa (UNECA), the International Monetary Fund (IMF), and the Organization for Economic Cooperation and Development (OECD).

- In Table 1 below, we compare Nigeria’s growth to other African economies over the period, 2002 to 2012. We observe that Nigeria recorded the 5th fastest economic growth rate among African countries over the stated period. In Table 2, we go further to compare Nigeria’s economic growth to that of other emerging economies. In fact, from all our external research, we find that Nigeria actually was the 13th fastest growing economy globally over the period 2002 to 2012.

Table 1: Real GDP Growth for Selected Sub-Saharan African countries

Country	Real GDP Growth (in percent) (2002-2012)
Angola	10.6
Chad	9.5
Ethiopia	9.0
Eq. Guinea	8.2
Nigeria	7.5
Rwanda	7.4
Ghana	7.3
Mozambique	7.2
Uganda	7.1
Tanzania	7.0
Sierra Leone	6.9
Cape Verde	6.3
Congo DR	6.2
Zambia	6.2
Burkina Faso	6.2
Mauritania	5.9
Sub-Saharan Africa Average	5.3

Source: National Bureau of Statistics, World Bank, OECD and other sources.

- What then are the sources of growth? i.e. "*what is exactly growing the economy?*" as posed in the question above. Interestingly, over the past decade, the main drivers of growth in Nigeria have been the non-oil sectors (such as agriculture, manufacturing, real estate and housing, and so on). Indeed, in several instances, growth in the oil sector has contracted as a result of unrest in the oil-producing regions. The impact of the non-oil sector growth is observed from the increases in food crop production, in manufacturing output, and so on (see Question #1).

Table 2: Real GDP Growth for selected countries

Country	**Real GDP Growth (in percent) (2002-2012)**
Angola	10.6
Brazil	3.6
China	10.4
France	1.0
Germany	1.2
Ghana	7.3
India	7.6
Indonesia	5.7
Lao PDR	7.6
Malaysia	5.1
Mexico	2.6
Nigeria	**7.5**
Rwanda	7.4
Mozambique	7.2
South Africa	3.5
Thailand	4.2
Turkey	5.0
United Kingdom	1.3
United States	1.8
Sub-Saharan Africa Average	5.3
World Economy	2.7
OECD	1.6
Euro Zone	1.2

Source: National Bureau of Statistics, World Bank, OECD and other sources.

- Table 3 below shows the overall and sectoral growth rates for Nigeria over for 2012 and the first three quarters of 2013. This data is provided by the National Bureau of Statistics (NBS). It is clear that growth is being driven by the non-oil sector; with strong rates from sectors such as manufacturing, building & construction, real estate and wholesale and retail trade. The growth rates in agriculture are also picking up steadily each quarter – and this will further support the Government's job creation goals.

Table 3: Nigeria: Sources of GDP Growth (in percent, 2012-2013)

	2012	2013 (1st Quarter)	2013 (2nd Quarter)	2013 (3rd Quarter)
Overall GDP growth rate	6.58	6.56	6.18	6.81
Oil GDP growth	-0.91	-0.54	-1.15	-0.53
Non-oil GDP growth	7.88	7.89	7.36	7.95
Agriculture	3.97	4.14	4.52	5.08
Finance & Insurance	4.05	3.61	5.18	4.15
Wholesale & retail	9.61	8.22	7.44	9.03
Telecommunications	31.83	24.53	22.12	24.42
Manufacturing	7.55	8.41	6.81	8.16
Building & construction	12.58	15.66	14.90	14.30
Business/other services	9.69	8.63	11.33	9.26
Real Estate	10.41	10.06	10.88	10.35

Source: National Bureau of Statistics

- Finally, what has been the government's role in supporting economic growth? In every country, the government's role is to provide an enabling environment for the private sector to drive growth. In Nigeria, the government has most importantly provided:
    - Stable macroeconomic environment: the stable macroeconomic environment includes keeping inflation low, providing stable exchange rates, and ensuring prudent levels of government borrowing.

    - Investments to improve our infrastructure: by investing in priority infrastructure sectors such as power, roads, rail, aviation, etc. (see Question #1). But we acknowledge that we still have a long way to go.

    - Supportive fiscal policies: by providing appropriate incentives such as waivers, tax concessions to support private sector investments. We have provided exemptions to key sectors such as manufacturing, agriculture, aviation, power, solid minerals and so on. It is worth emphasizing that these fiscal incentives are provided on a sector-wide basis.

3. Since your arrival as minister of finance in 2011, you have publicly announced the need to reduce the recurrent expenditure so that more money would be made available to capital spending which is critical to growing and diversifying the country's economy. How far has government succeeded in making these necessary cuts; and where exactly have these cuts been made in this effort to reduce recurrent expenditure? In other words, based on real amount spent on capital expenditure, how much reduction was made in 2011 against 2010, in 2012 against 2011 and in 2013 against 2012?

- In 2011, at the beginning of the current administration, recurrent expenditures accounted for 74.4 percent of the budget. This high share of recurrent expenditures in the total budget was of great concern as it reduced the size of funds available for investments in capital projects. The Minister of Finance made a clear and recorded statement at Senate clearance that high recurrent expenditure was one of the most important problems of the Nigerian economy and needed to be improved.
- Table 1 below presents the trend in recurrent and capital expenditures for the period 2006 to 2013. There are a number of important observations.

Table 1: Recurrent and Capital Expenditures in Federal Government Budget (2006-13)

Year	Recurrent Expenditures				Capital Exp.	Total	Share of Rec. Exp. (%)
	Debt Service	Statutory Transfer	MDAs Personnel and Overheads	Total			
2006	289.50	91.61	950.32	**1,331.43**	568.56	1,899.99	70.08
2007	326.00	102.30	1,050.37	**1,478.67**	830.56	2,309.22	64.03
2008	372.20	162.57	1,428.08	**1,962.85**	785.17	2,748.02	71.43
2009	283.65	168.62	1,627.29	**2,079.56**	1,022.26	3,101.81	67.04
2010	542.38	183.58	2,137.58	**2,863.53**	1,563.65	4,427.19	64.68
2011	495.10	417.82	2,425.07	**3,337.99**	1,146.75	4,484.74	74.43
2012	559.58	372.60	2,425.05	**3,357.23**	1,339.99	4,697.21	71.47
2013	591.76	387.98	2,386.03	**3,365.76**	1,621.48	4,987.24	67.49

Source: Budget Office of the Federation, Federal Ministry of Finance

- First, in 2007, the recurrent expenditure share had declined to 64.03 percent. However, this ratio increased sharply by 2011 to 74.4 percent.
- The steep rise in recurrent expenditures was due to the sudden increases in personnel costs (wage increases) granted in 2010 which were introduced in the 2011 Budget. Indeed, between 2006 and 2013, personnel expenses have nearly tripled from N527.9 billion to N1718.2 billion.
- It is also worth noting that following wage increases, constitutionally, pensions are also expected to be increase. Pensions increases were not factored in since 2010. However, starting in 2013, this Administration has now taken steps to tackle outstanding military pensions, and the 2014 Budget further tackles civilian pensions. Pension arrears are not also factored in; only the current pension adjustments are incorporated. Thus, when pension arrears are incorporated, these will further increase our recurrent expenditures.
- Clearly, the country has to make choices. And we will need to strike a balance between a growing wage bill for the public sector versus increased capital investments in priority infrastructure projects. We welcome a debate on this issue as the present stance is not sustainable and affects all Nigerians.

- Since 2011, the current administration has introduced various measures to reduce the share of recurrent expenditures in the total budget. We have reduced this ratio steadily from 74.4% in 2011, to 71.5% in 2012, and further to 67.5% in 2013, but it has risen back to 74% in 2014.
- Looking at the composition of recurrent expenditures, personnel and overhead costs for MDAs constitute the bulk of these expenditures. We have successfully reduced overhead costs by 17% since 2011; and we anticipate that personnel expenditures will be gradually reduced with the introduction of the Integrated Personnel and Payroll Information System.
- However, the recommendations of the Oronsaye Report have been difficult to implement in terms of closing or streamlining agencies because most are underpinned by law. We are therefore looking to the National Assembly to help us repeal some of the laws so we can merge and wind duplicative agencies up. This, of course, must be done carefully so as to phase and reduce impact on workers given the current unemployment situation.

4. You are known to be celebrating a single-digit GDP growth. But speaking recently at a breakfast dialogue with some members of the organized private sector in Lagos, organized by the Nigerian Economic Summit Group (NESG), you were quoted as saying: "We are growing, but not creating enough jobs. That is a very big challenge…We need to grow faster. I think it needs to grow at least 9 to 10 percent to drive job growth the way we want." Don't you agree that a good finance minister managing an economy like ours should be celebrating a GDP growth as high as 20 percent annually? Why is it that our economy cannot grow beyond a single digit? How many jobs are being created as a result of these said growths? In which sectors of the economy are these jobs created? If in private sector, what contributions is government making to further assist these private sector firms?

- This question about why Nigeria is not celebrating a 20 percent GDP growth rate is a bit puzzling as we are sure that the Finance Committee Chair knows such growth rates are historically rare. Nevertheless, for the avoidance of any further misunderstandings, we begin our response by providing a brief primer on the concept of GDP growth, the historical trends in GDP growth across the world, and Nigeria's recent growth performance.

- The *Gross Domestic Product (GDP)* captures the final value of all goods and services produced in a given economy. It can also be expressed as the sum of value added across all sectors in an economy. Economists also distinguish between nominal and real GDP. For a given year, the nominal GDP refers to the final value of goods and services produced that year, and valued at the prices of that year. In contrast, real GDP refers to the value of the same quantities of goods and services, but valued at an unchanged prices of a given reference year. This is an important distinction. In general, economists are often interested in real GDP, which measures real output changes and not just the impact of price movements.

- Therefore, the real GDP *growth* measures the increase in economic activity over a given period of time, calculated at unchanged prices from a reference year. It is typically reported on a quarterly or annual basis. An economy which experiences two consecutive quarters of negative GDP growth is said to be in a recession.

- Growth rates below 3% are viewed as sluggish, while rates between 3-5% are viewed as steady. GDP growth rates in the range of 5%-10% are generally termed as strong or robust. Growth rates in excess of 10% are not very common, and observed mostly in cases of post-conflict countries where economic reconstruction is occurring from a very low base or for countries which have recently discovered new natural resources, such as oil and gas deposits. For example, Liberia grew by about 25.7% and 22.1% in 2000 and 2001 respectively when their post-conflict reconstruction commenced; and Ghana grew by about 15% in 2011 at the onset of oil production.

- *Lessons from Economic History*. Economic history provides us with good examples of countries which experienced rapid and sustained real GDP growth. These examples may be found in the report published by the Commission on Growth and Development – a high-level panel of 22 eminent economists chaired by Nobel Laureate Michael Spence, and including other leading scholars such as the Nobel Laureate Prof. Robert Solow and Dr. Ngozi Okonjo-Iweala. Countries rarely "celebrate growth of 20% annually". Indeed, in the Growth Commission report, a growth rate around 7% per annum is seen as very strong. The 7% annual growth rate is commonly used as a benchmark, as it would result in the doubling of the size of the economy each decade.

- The Growth Commission points out that only 13 countries have managed to sustain growth rates of 7% or higher per annum over a 25- year period. The countries are: (alphabetically) – Botswana, Brazil, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand. The report is available online at http://www.growthcommission.org. (As an aside, it is worth noting that all 13 successful countries did five things right: they exploited the world economy, maintained macroeconomic stability, achieved high savings and investment rates, allowed markets to allocate resources, and had committed and focused governments.)

- In response to question 2, we showed that two of the fastest growing economies in Asia, namely China and India, had grown at rates of about 10.4 and 7.6 percent per annum over the past decade. Nigeria's GDP growth over this period was 7.5 percent, and is viewed as one of the strong performances among emerging market economies. This growth performance should be celebrated and not trivialized.

- Please note that a similar set of economic reforms launched under the second Obasanjo Administration by the Economic Team lead by the same Finance Minister that helped accelerate Nigeria's average growth rate. In fact, for the period 1980 to 1999, Nigeria's average GDP growth was about 1% per annum, in contrast to the 7.5% average which we have attained between 2002 and 2012. Without this increase in economic growth, the already challenging economic situation in the country would have been even worse as no domestic or foreign investor would have been attracted to invest the way Aliko Dangote and others are investing now.

5. **In the presence of Nigeria's huge infrastructure deficit, why is it that the country's debt-to-GDP at about 19 percent in 2012 remains one of the lowest in the world when compared to nations already with world-class infrastructure and industrial economies such as America's 105 percent, Brazil's 65.49 percent, India's 67.60 percent, and South Africa's 40.9 percent?**

- It is acknowledged that Nigeria faces infrastructure challenges but this question is rather puzzling as it implies that Nigeria should borrow to build infrastructure, and become heavily indebted like several other countries are at present rather than continue the prudent borrowing policies implemented by this administration.

- Nigeria had an unfortunate history with managing debt. To briefly recount that history; external debt rose from $1.3 billion in 1976 to $19 billion by 1985 as the country's leaders borrowed extensively to finance infrastructure projects – many of which were poorly executed or not executed at all. Debt service climbed to $4 billion around this time, yet Nigeria was able to pay only $1.5 billion. The country had to reschedule its debt payments to external lenders, like the Paris Club on four occasions – 1986, 1989, 1991, and 2000. By the end of 2004, our external debt had hit about $36 billion (or about 50 percent of GDP) and the huge annual debt service had severely constrained economic growth, until debt relief from the Paris Club in 2005 wiped off about 60 percent ($18 billion) from our national debt, and we utilized $6 billion savings from the ECA to buyback the rest of the debt at 25 cents on the dollar, after paying off accumulated interest arrears. The total Paris Club debt of $30 billion was wiped off our books. The table below shows the trend in our debt-to-GDP ratio.

- But starting in 2007, the government has had to recourse to domestic borrowing to finance its burgeoning recurrent expenditure, hence the recent rise in our debt-to-GDP ratio (see Table below).

- A more efficient and effective model for financing infrastructure projects nowadays is for government to create an environment conducive for private sector investment in infrastructure projects through PPPs and other innovative financing models. Part of the Government's strategy for creating such an enabling environment is a prudent debt strategy, and this has now

- **Trend of Nigeria's Public Debt/GDP Ratio, 2000 – 2013***

Year	Debt /GDP Ratio
2000	84.14
2001	59.03
2002	62.89
2003	56.64
2004	51.62
2005	27.50
2006	11.41
2007	12.09
2008	11.12
2009	14.83
2010	17.98
2011	18.48
2012	19.40
2013*	19.60 (22.66)**

* As at end-September, 2013
** Following the successful reconstruction of States' domestic debts, Sustainability ratio in 2013 included States' complete debt data. Hence the figure in bracket.

yielded one of Nigeria's biggest advantages – a very low debt-to-GDP ratio. As a result, the country receives favourable credit ratings from international ratings agencies like Fitch, Standard & Poor's, and Moody, unlike several other countries whose rising debts have led to their ratings being downgraded.

Our favourable credit ratings have improved the nation's investment appeal considerably, and we are now the top foreign investment destination in Africa with $7 billion in 2012 alone. Now we can borrow reasonably affordable loans (e.g. the Eurobond) to finance infrastructure. It has enabled the private sector to access international credit markets to raise long-term funds, at low interest rates, to finance infrastructure projects. Therefore, the government cannot afford to be complacent on Nigeria's competitive edge, and must continue to exercise caution on accumulating domestic or external debt.

6. **Since facts don't lie, have you any disagreements with the September 4, 2013 Global Competitiveness Report of the World Economic Forum for 2013-2014, which ranked Nigeria 120th out of 148 countries ranked in the Global Competitiveness Index, including being ranked far behind some African countries such as Mauritius 45th, South Africa 53rd, and Kenya 96th?**

- No, we do not have disagreements with this ranking or that of the World Bank Doing Business which ranks Nigeria as 147 out of 189 countries. However, please note that Nigeria's composite rank of 120 out of 148 does not mean that progress is not being made, it simply means that other countries are moving faster with the much needed advances and reforms in the areas for which countries are ranked, and we have a lot of work ahead of us to improve our standings. Bigger countries such as India and Russia also fell in their relative rankings based on one criteria or the other. Even the United States experienced a 4-year decline from the 2008-2009 ranking (1st) through 2012-2013 (7th)[1] before improving in the current rankings (5th). It goes to say that there will always be movements in the rankings based on near-current country performance and world economic conditions and there is always room for improvement.

- These rankings – including the World Bank's *Doing Business* reports – are important, but they are not the only predictors of economic growth. Indeed some large and fast-growing countries sometimes had low "Doing Business" rankings based on the ranking methodology used; China (96), Brazil (116), Indonesia (120), Kenya (129) and India (134). The Doing Business rankings look at speed of getting licenses, port infrastructure, investor protection and contract enforceability among other criteria.

- It is important that we are aware of the criteria on which countries are ranked by the Global Competitiveness Report. There are 12 pillars, namely: Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency,

[1] United States Ranking: 2008-2009 (1st), 2009-2010 (2nd), 2010-2011 (4th), 2011-2012 (5th), 2012-2013 (7th)

Labour market efficiency, Financial market development, Technological readiness, Market size, Business Sophistication and Innovation.

- Nigeria ranked well in each of about 50% of the categories noted above; notably, Market Size (32^{nd}), Macroeconomic Environment (46^{th}), Labour Market Efficiency (52^{nd}), Financial Market Development (66^{th}), Business Sophistication (75^{th}) and Goods Market Efficiency (93^{rd}). However, Nigeria fell far below expectation on the other six criteria. There is no doubt that Nigeria does not do well in many competitive rankings for two reasons. First, there is a need for genuine improvements needed in our institutions and bureaucracy; second, the Index does not capture many of the reforms we have implemented in the electricity, agriculture and financial sectors and the infrastructural advances we have made. Indeed, many of the reforms needed in Nigeria are often impeded by vested interests who are deriving benefits from the present situation so it is not easy but this administration has made great headway.

- For instance, in the last two years, we have made transformational changes to the Agricultural sector, introducing the e-wallet system that reduced leakages and created savings of up to $175m a year in subsidy to farmers. This is a key institutional change that has also increased the number of farmers who receive subsidized inputs from 11% to about 94% of the farmers, and further increased the interest of investors in the sector.

- The reforms in the electricity sector are well known. In this sector, we are carrying out both institutional and infrastructural reforms. The generation and distribution companies have been privatized, bring about a much needed institutional change as we set about improving power generation and supply to Nigerian citizens. The Transmission Company of Nigeria remains in Government hands and in continuing the reforms of the sector, the Government has raised funding for transmission infrastructure improvements. $135m of the $1bn Eurobond raised in June 2013 has already been provided to the Transmission Company for its near-term infrastructure upgrades. Other funds are being readied for the Transmission Company for medium-to long-term upgrades so that as the privatized generations companies produce power, the Transmission Company is able to wheel the power to Nigerian citizens.

- The Federal Government has also made strident efforts at expanding and diversifying the Nigerian economy and focusing additional attention on the non-oil sector. The Federal Government has introduced measures to bring more people and entities into the tax net, improve tax collection including collecting additional non-oil tax revenue of N75bn. This involves the redrafting of existing tax laws in an easily understood language, thus reducing the cost of compliance. The FIRS is also reviewing the introduction of technology that would enable tax –payers file tax returns online. These initiatives will go a long way to improving Nigeria's global competitiveness.

7. **''For the first time in Nigeria's 53rd year history, we have successfully privatized the electric power industry,'' so said the President at a recent meeting in London with some foreign investors. As minister of finance should you agree that the recent privatization of the country's power infrastructure is worth celebrating as a major economic achievement in 2013, when in reality there is little or nothing to show as an improvement in the country power supply? Also why our rush to wholesale privatization of the power sector when countries like South Africa, generating as high as 42,000MW still have their power sector mostly in public hands?**

   - The recent privatization of the country's power infrastructure is indeed worth celebrating as a major economic achievement in 2013. Given the challenges of the power sector in the last three decades, the importance of power to our economic development, and the inability of past governments to adequately fund investments in the sector or to manage it, it makes sense to privatise the sector and allow the sector to be run in a business-like manner with strong oversight by the Nigerian Electricity Regulatory Commission.

   - It is worth noting that similar arguments were made against privatisation and liberalization of the telecoms sector in 2000, but now the results are self-evident. Nigeria had 600,321 landlines for a privileged few in 2001. Now 100 million GSM lines are in operation. Young Nigerians are now accessing the internet on their hand-held phones. If the Government had accepted the argument then that telecoms privatization and liberalization could not be done, our young people would today be locked out of the global information network.

   - Privatisation is not an end in of itself, it is a means to an end – getting better management for a sector vital to our economy. Following the successful privatization, there is a transition period of handover where performance will slacken off. Following that, the private sector is expected to make the requisite investments and upgrades which have been lacking for the last 20 years. The results of these investments will obviously take a while to show.

Having said that, some positive results are already being experienced in different parts of the country while those experiencing a downturn will soon be corrected.

- South Africa has strong institutions built in an earlier time with stronger governance systems. As such, in South Africa, the power sector investments and upgrades have been consistent and widespread over the last several decades; and it is the effect of these investments over the years that has resulted in South Africa reaching 42000 MW at this time. Nigerian institutions were weak and corrupt and unable to manage the power system. With the privatization, the country is bravely admitting that it will not continue to make the same mistakes it made over the past decades and will take a step in a new direction.

- Finally, the present administration did not make the decision to privatize – it was long decided that the government could not manage the power sector and had indeed failed to do so over three (3) decades. This administration had the singular achievement of actually implementing the plans started three (3) administrations ago.

8. What was your reaction to the November 12, 2013 statement credited to the World Bank Country Director for Nigeria, Marie-Francoise Marie-Nelly, who said that over 100 million Nigerians are today living in absolute destitution, representing an unheard-of 8.33 percent of the world's total number of people living in destitution?

- We must begin by noting that the World Bank Country Director, Marie-Francoise Marie-Nelly, never used the phrase "absolute destitution" in describing low-income households in Nigeria. Destitution refers to an extreme form of poverty and is defined as the inability to meet subsistence needs, a complete lack of assets, and a state of social exclusion. The World Bank has recently clarified that they did not use the word "destitution" during their November 2013 policy seminar; and this was a term which was wrongly used by a journalist who reported the story.

- On our part, our reaction to this news was one of determination that as few Nigerians as possible should live in poverty; that poverty is not an acceptable condition for any Nigerian to live in and that we must work harder to transform our economy so that poverty becomes a thing of the past.

- The truth is that though our economy has been growing, inequality has increased over time as well – as has been the case in many fast-growing economies – and many people are being left behind[2]. Whether it is 100 people or 100 million, no Nigerian should be left behind. So the Government will continue to work to improve the welfare of low-income households across the country. There are two principal ways to do this:

    - First, to create jobs for the unemployed and those entering the labor force each year to ensure that people are able to find jobs to work themselves out of poverty.
    - Second, we can also create safety nets programs to provide a cushion for the vulnerable. The Government has started some

[2] For example, we know that the Gini coefficient, which measures income inequality, has increased in many fast-growing economies. The higher the Gini coefficient, the greater the level of income inequality. Today, the Gini coefficient in developed countries (OECD) is about 31, compared with higher levels in emerging economies such as for China (42), Nigeria (49), Brazil (55), and South Africa (63).

safety net programs using funds from the SURE-P programme. In addition, the World Bank is assisting with the design of a comprehensive safety net program for Nigeria – to commence in February 2014. Today, we already have conditional cash transfer programs in operation in 8 States; and also have various community-driven development programs that are working.

- That being said, we also need to bring up some methodological issues in poverty measurement that Nigerians may not be aware of. A number of years ago, Nigeria's National Bureau of Statistics adopted a methodology for assessing poverty that was not the international standard, and this introduced an upward bias in Nigeria's poverty numbers. According to the Food and Agriculture Organization (FAO) of the United Nations, which is the main body that sets this threshold, the average minimum food requirement per person is about 1,680 calories per day. In view of this, FAO recommends that countries measure their poverty line using 2,500 calories per day, and this is the number widely used across the world for calculating poverty. This means that persons below this threshold are counted as poor. In Nigeria, however, the National Bureau of Statistics uses 3,000 calories per day for computing poverty. By using this much higher number, there is a tendency to dramatically increase the number of poor people in Nigeria. More importantly, this anomaly makes it incorrect to compare Nigeria's poverty rate with those of other countries.

- For example, food poverty is measured in terms of a household's access to a minimum amount of food per day, with the internationally accepted standard stipulated at 2,500 calories per day. Using this measure yields a poverty rate of about 41 percent in 2010. Absolute poverty is measured in terms of a household's access to a minimum amount of money for shelter, clothing, food, and other essential incidentals. The internationally recommended threshold is US$1.25 per day, which translates into about ₦200 per day (or ₦6,000 per month). This approach yields a poverty rate of about 56.5 percent in 2010. Note that given our population estimates in 2010, none of these measures translate into 100 million Nigerians.

- No one denies that poverty is an issue in this country. In fact, it is on the basis of this recognition that the Administration of President Goodluck Jonathan, from the onset, has been working very hard to address it. This administration has focused on critical reforms in all key sectors of the economy. For example, the reforms in the agricultural sector have created much more transparency in the distribution of fertilizers to farmers, and established an E-Wallet system of input delivery to farmers, have continued to support strong growth of over 4 percent in the sector. In recognition of the fact that growth in the Agricultural Sector is pro-poor, we are confident that the consistent growth being recorded in agriculture will translate into poverty reduction in the short to medium term.

- Indeed, Nigeria was recently honoured for meeting the Millennium Development Goal (MDG) of reducing people living in absolute hunger by half well ahead of the 2015 target set by the United Nations. On average, about 20 percent of the Subsidy Reinvestment Programme (SURE-P) is allocated exclusively to protecting the poor through different types of social safety nets. One important area of success is the Conditional Grant Scheme with total conditional cash transfer to almost 40,000 households and recruitment of over 2,000 new health workers working on improving maternal and child health. Also by February 2013, almost 120,000 Nigerians were benefitting from the Public Works, Women and Youth Employment Programme.

9. **Nigerians are increasingly perplexed that these days nothing happens without government borrowing. And for most Nigerians, it is frightening how those managing the economy are just dragging us into excessively unproductive debts. More worrisome is the fact that every effort is being made to hide the details of the country's debt stock from Nigerians. Where are the facts that the country's current high rate of borrowing is productive, let alone have the ability to be repaid without having to resort to more borrowings?**

- This question is in direct contradiction to Question 5 earlier which seems to urge Nigeria to borrow more.

- On the statement that nothing happens without Government borrowing, it is important to state that this government supports a very prudent approach to debt. In the first instance, all borrowings, external and domestic, undertaken by the Federal Government have the prior approval of the National Assembly through the Medium-Term External Borrowing Programme and the annual Appropriation Acts in line with the provisions of the Constitution.

- The claim that "every attempt is being made to hide the debt stock from Nigerians" is a false allegation, and it must be emphasized that there has not been any attempt whatsoever to hide the details of the country's debt stock from Nigerians. Nigeria's debt statistics are one of the most transparent in the world, and the Debt Management Office (DMO) was recently acknowledged by the UK's Department for International Development (DfID), as one of the best in Africa. The DMO updates and publishes the public debt stock on a quarterly basis on its website (www.dmo.gov.ng) which is easily available and accessible. The DMO also produces its Annual Reports and Statement of Account, which is published on the website and widely circulated in print to all relevant stakeholders, including the National Assembly and indeed the House Committee on Finance rightly quoted from the Annual Reports and Statement of Account for 2012 under its question 11.

- Nigeria's current debt stock (as at September 2013) is US$53.4 billion (see table below), comprising domestic debt of N7.03 trillion and external debt of US$8.26 billion. Nearly 72 percent of the external debt is owed to

Table 1: Nigeria's Public Debt Stock as at September 30, 2013

Debt Category	US Dollars	Naira
External Debt Stock (FGN + States)	8,264.34	1,287,170.96
Domestic Debt Stock (FGN Only)	45,154.95	7,032,883.32
Total	53,419.29	8,320,054.28

Source: DMO

Table 2: Nigeria's External Debt (in Millions US$) as at September 30, 2013

Category	Principal Balance	Principal Arrears	Interest Arrear	Total	Percentage
MULTILATERAL					
World Bank Group					
IDA	5,101.63	0.00	0.00	5,101.63	61.73%
IFAD	91.90	0.00	0.00	91.90	1.11%
African Development Bank Group					
ADB	10.92	0.00	0.00	10.92	0.13%
ADF	562.48	0.00	0.00	562.48	6.81%
ABEDA	2.77	0.00	0.00	2.77	0.03%
EDF	102.86	0.00	0.00	102.86	1.24%
IDB	14.54	0.00	0.00	14.54	0.18%
SUB-TOTAL	***5,887.10***	-	-	***5,887.10***	**71.23%**
Bilateral					
EXIM BANK OF CHINA	815.42	0.00	0.00	815.42	9.87%
French Development Agency (AFD)	35.00	0.00	0.00	35.00	0.42%
SUB-TOTAL	***850.42***	0.00	0.00	**850.42**	**10.29%**
Commercial					
ZTE & CMEC	26.82	0.00	0.00	26.82	0.32%
EUROBOND	1,500.00	0.00	0.00	1,500.00	18.15%
SUB-TOTAL	***1,526.82***	0.00	0.00	**1,526.82**	**18.47%**
GRAND TOTAL	**8,264.34**	**0.00**	**0.00**	**8,264.34**	**100.00%**

Source: DMO

multilaterals (e.g. the World Bank Group), 10.3 percent is owed to bilaterals (France and China), while the remainder of 18.5 percent is owed to the international private sector.

- This Administration has worked hard to reduce borrowing. What borrowing there is externally is linked to projects and directly productive activities.

Table 3: Examples of Government External Borrowing for Specific Projects

S/N	Description	Creditor	Sector	Orig. Loan Curr.	Loan Amount	Agreement Date
1	Nigeria Erosion and Watershed Management Project	IDA (World Bank)	Agriculture	XDR	321,400,000	04/16/2013
2	Nigeria Public Sector Governance Reform & Dev Project	IDA	General	XDR	50540000	06/29/2012
3	Nigeria State Education Sector Project	IDA	Education & Training	XDR	41,035,589	1/4/2013
4	Nigeria State Health Investment Project	IDA	Health & Social Welfare	XDR	96,400,000	04/16/2013
5	Public Private Partnership Program - First Phase Project	IDA	Monetary Policy	XDR	73,700,000	09/25/2011
6	Nigerian Abuja Light Rail Project	Exim China	Rail Transport	USD	500,000,000	7/11/2012
7	Lagos Metro. Development (Phase II)	AFD (France)	Road Transport	USD	100,000,000	11/25/2011

Source: DMO

- Domestic borrowing on the other hand goes to finance budget deficit and this needs to be curbed. It is important to point out that the sharp rise in government domestic borrowing occurred in 2010 when borrowing rose to N1.36 trillion (from about N524 billion in 2009) to finance salary increases. This was well before the present Economic Management team got here. Since then, the present team has worked very hard to curb government borrowing and the result is clear for everyone to see. Government borrowing is reducing i.e. N852 billion in 2011, N744 billion in 2012, N588 billion in 2013, and N572 billion in the proposed 2014 budget. So statements suggesting high rates of borrowing by the current government are fallacious.

- On the issue of ability to repay the country's debt, I wish to remind the House Committee on Finance that the DMO, in conjunction with the Federal Ministry of Finance, National Planning Commission, Central Bank of Nigeria, Office of the Accountant General of the Federation, Budget Office of the Federation and the National Bureau of Statistics, has been conducting Debt Sustainability Analysis (DSA) for the country on annual basis since 2005. The key policy objectives of the exercise are to analyze the country's current and future debt portfolio with a view to assessing its debt sustainability, detecting any potential risk and advising on mitigating measures, as well as to provide guidance to the Government in its borrowing decisions in order to ensure that financing needs and future repayment ability are taken into account.

10. Is prudence in our borrowing simply reduction in borrowing or simply constructive borrowing with government putting necessary measures in place to ensure that domestic debt profile is properly supervised and utilized by curbing corruption?

Prudence in borrowing has two aspects. The first is that government must and is reducing borrowing to assure a situation in which our country never becomes a debt slave ever again. In Nigeria, we are successfully managing this aspect using reliable technical tools, including the annual Debt Sustainability Analysis (DSA) exercise. The second aspect is that borrowing must also go to productive purposes, and a lot of progress is being made starting from the development and use of the Borrowing Guidelines, which are used to shut-off borrowing proposals that would not clearly contribute to macro-social objectives. In addition, the DMO routinely carries out analysis of our debt profile, and with the Department of International Economic Relations (DIER) in the Federal Ministry of Finance, supervises the use of funds.

11. **From Debt Management Office (DMO) 2012 Annual Report, the total public debt outstanding between 2008 and 2012 for external stock rose from $3.72bn to $6.53bn, while domestic stock rose from $17.68bn to $41.97bn. The total debt service the same period saw the percentage of external debt service drastically reduced from 11.46 per cent to 5.96 per cent while the percentage of domestic debt servicing grew from 88.54 per cent in 2008 to 94.04 per cent in 2012, drastically increasing the cost of the total debt service since the cost of domestic borrowing is atrociously higher than the cost of external borrowing. How could your debt sustainability analysis rationalize this without seeing some narrow interests being the overriding reason? Could this be the explanation why commercial banks in the country are declaring unheard-of three digit profits and the high Foreign Portfolio Investment and low Foreign Direct Investment?**

- We thank you for referring to the DMO Annual Report which is publicly and transparently available contrary to assertions in Question 9. With respect to the growth in domestic debt stock between 2008 and 2012, it is pertinent to mention that this growth is not as a result of Government's borrowings in the last two or three years, but the accumulation and consistent growth of domestic debt stock over the last few years. The rise in domestic debt stock is directly attributable to the growth in the annual fiscal deficits, which grew explosively between 2007 and 2012.

- During this period, the Government's expenditure, especially recurrent expenditure, expanded as civil servants, doctors, and others demanded a large wage increase from the government and got it. Governments ran large deficits and borrowed to pay for this. In particular, a significant contributor to this trend is the increase of about 53.7% in the wage bill in 2010 for all categories of federal employees, including political appointees and elected officials. It is very clear that the rapid growth in the domestic debt stock mirrors the trend in huge fiscal deficits in the annual budgets as appropriated.

- It is also pertinent to emphasize that the relative size and structure of the external and domestic debt and the rising trend of domestic debt have been as approved by the National Assembly. Growth in the domestic debt reflected objective policy realities as articulated both by the executive and legislature and have nothing to do with satisfying “some undefined narrow interest”. It would be recalled that after the exit from the Paris and London Club debts, there was a strategic imperative to develop the domestic debt market for a number of benefits:
    i. To establish an alternative source of funding for Government to avoid compelling dependence on only external sources.
    ii. To develop a complete capital market; the existence of a developed equities segment of the capital market without a corresponding debt segment meant that the market was standing on one leg and such a market cannot be the basis for the development of a regional or continental financial hub. Sovereign bond issuance based on sovereign domestic borrowing is in itself an objective worth pursuing to be able to develop a benchmark yield curve, which the private sector would need to rely on to issue their own long-term debt instruments to raise funds to develop the real sector and infrastructure projects.

- In summary, here is no hidden interest or agenda behind the ratios of domestic and foreign debt. Following the Paris Club debt relief, Nigerians had shown an aversion to borrowing externally. As a result, the domestic debt market was developed as part of developing the domestic capital market and providing an alternative avenue of financing. It is always a delicate balancing act deciding between domestic and foreign debt. The recent debt strategy suggests curtailing borrowing and rebalancing a bit toward external debt, given lower costs.

12. It is an established fact that the willingness and ability to borrow do not automatically translate into economic growth. If you agree with this fact, how productive are the country's recent borrowings?

- As noted earlier, external borrowings are all tied to specific projects located in various States in the country. Domestic borrowing is based on predetermined funding gaps in the national budget, which were appropriated by the National Assembly. It is pertinent to note that even for domestic borrowing the proceeds are used to fund the package of projects and programmes (with their capital and recurrent components) in the annual budgets, which through its Appropriation Acts, the National Assembly would have endorsed as being appropriate for growth, development and poverty reduction. Examples of these include capital projects like the Abuja Light Rail Project for US$500m, and government programmes like the State Education Project for XDR41.05m. In this sense, the answer as to whether the borrowing has been productive would be in the affirmative.

13. Why should our internal debts continue to represent more than two-thirds of Nigeria's external debt profile, when the cost of servicing domestic debts is ridiculously far more expensive than servicing external debts? Why should government continue to borrow internally when in so doing results in insufficient funds, skyrockets the cost of borrowing and above all, crowds out the real sector from the money market? Shouldn't the high cost of domestic borrowing override whatever are the assumed benefits? Since both London Interbank Offer Rates (LIBOR) and the US Treasury Bonds rates offer far better interest rates for sovereign borrowings, why have we continued not to take advantage of cheaper interest rates?

- The strategic objectives for domestic borrowing and the benefits have been discussed under question 11. It is obvious that at least in the short to medium-term, to achieve those objectives and realize the benefits thereof, the cost of domestic borrowing has to be taken more or less as given. However, in the medium to long-term, having achieved the strategic objectives summarized in the establishment of a globally recognized domestic bond market, it becomes optimal to try to maximize benefits of lower cost of external funding. It is important to note that this administration remains concerned about domestic borrowing and the high debt service to revenue ratio which stands at almost 19% now.
- As a result, as part of our new debt strategy, we not only reduced the flow of domestic borrowing, but we also retired N75 billion in maturing bonds for the first time in a decade of Nigeria's intervention in the bond market. We also established a sinking fund into which funds will be put each year towards retirement of bonds which mature in the future.
- Further, over the past three years, Government has started reducing domestic borrowing as part of its fiscal consolidation programme (see our response in Question 9). A certain amount of external borrowing directed at specific infrastructure projects will continue to help fill the gap in financing.

14. Your references to the country's economic growth profile have always been based on Fitch, Standard and Poor's, and Moody's ratings. Are you aware that these same rating agencies are being sued in New York (with case # 652410/2013) by two Bear Stearns hedge funds for fraudulently assigning inflated ratings to securities in the run-up to the 2008 financial crisis? If you do, why do you insist on accepting the rating as reliable.

- Our references on the external assessments of the Nigerian economy have included reviews from the African Development Bank, the World Bank, the UN Economic Commission for Africa, the International Monetary Fund, Goldman Sachs JP Morgan as well as the international rating agencies above. Most of these institutions have independently assessed Nigeria's economic performance favorably.

- Regarding the international rating agencies, these institutions provide a useful service in capital markets by providing information on the credit worthiness of both corporate organizations and sovereign institutions. The three main credit rating agencies – namely Moody's Investor Service, Standard & Poor's, and Fitch Ratings – collectively account for about 95% of the international ratings markets.

- We are aware that following the recent financial crises, international credit agencies have been criticized for some of their assessments which understated the risks involved with various structured finance products, such as mortgage-backed securities. US regulators have introduced various remedial measures to guard against conflicts of interest which may lead to similar optimistic assessments in the future.

- However, the performance of international rating agencies in evaluating "Sovereigns" (such as, for sovereign nations, municipalities or local governments) has remained more conservative. Across the globe, their ratings are still used to assess the creditworthiness of various sovereign authorities. Indeed, in recent years, there have been downgrades of the major advanced economies (such as the USA) following prolonged fiscal crises. In this regard, Nigeria's credit rating of BB- with a stable outlook is a positive vote of confidence in the management of our economy. The assessments of these rating agencies should therefore be seen in a positive light.

15. **How much exactly has been the amount of money lost in government revenue as a result of import duty waivers in 2011, 2012 and 2013? Provide the names and beneficiaries and justification for same. In your opinion as the minister of finance who oversees the economy, what are the implications to the country's economy? What efforts have you have made to stop this waiver policy, which is distorting the economy? Our non oil income has dropped in 2013. A case where increased tariffs on various items effectively reduced importation to zero in some sectors. However, those items now find their way into Nigeria through our borders. Does it make any sense to increase these tariffs when we have such porous borders? As an example, officially, Togo imported more rice this year than Nigeria.**

- As a large and important country in Africa, Nigeria has the objective of producing most of its goods domestically so it can be more self-reliant and reduce its dependence on imports. As in other emerging and advanced economies – such as South Korea, Malaysia and China – fiscal policy incentives can serve as one of the instruments to support our industrial policy. These policy measures are also partly intended to serve as incentives to support our private sector given some of the regulatory challenges faced in the domestic business environment (see Question #6)

- These policies include reduced import duty rates or waivers for equipment and materials for the hospitality, power and aviation sectors; for agricultural machinery; for solid mineral equipment; for gas-using equipment; for the steel sector; for specific manufacturing sub-sectors (e.g. for imports of completely-knocked down parts) and for automobiles and tires[3]. There are also additional programs such as the Export Expansion Grants (EEG) Scheme designed to promote Nigeria’s non-oil exports. These sectors are seen as strategic areas which can stimulate growth, support diversification of the Nigerian economy, and create jobs for Nigerians.

- In the past, waivers were granted to individual businesses in an approach that resulted in rent-seeking behaviors and an uneven playing field for other businesses. It was precisely the need to stop such a discretionary approach that led to reforms by the Economic Management Team under the leadership

[3] Legally, the Federal Ministry of Finance processes and issues **Import Duty Exemption Certificates** based on existing statutes and guiding principles. These include, but not limited to Schedule 2 of the Customs and Excise Tariff (Consolidation) Act: 1995 – 2001, Common External Tariff: 2008-2012 (as extended); the Customs and Excise Tariff etc. Act No. 16, 1997; and the Finance Miscellaneous Act 39 of 1990 which permit various categories of exemptions.

of President Goodluck Ebele Jonathan. A sector-wide waiver policy was introduced to provide specific incentives for some strategic, job-creating sectors. Under this regime, all businesses in a sector have access to the same incentives. In addition, some waivers and exemptions make up for gaps in our economy; for example waivers to bring in vehicles for sporting events and conferences. Nigeria has no car leasing businesses capable of servicing such events as in advanced countries. In the past, Government dealt with this by having a fleet of cars. However, these were scrapped some time ago. To fill this gap, waivers are given to institutions hosting an event to arrange for imports of such cars with local dealers. Abuse of this system as recently observed is reprehensible; and stronger monitoring of these waivers is being put in place. Over time, the private sector would need to step in to invest in this leasing sector.

- The introduction of these policies will have impacts on tariff revenue collection. Thus a trade-off has to be made between our short-term revenue collection, and our long-term industrial development. We have to weigh the balance between collecting customs revenues today, versus providing incentives to our private sector to stimulate growth and job creation.

- Smuggling remains a scourge, and must be tackled. It is true that some fiscal policies, such as for rice, while leading to greater production has also resulted in smuggling. Efforts are under way with the Minister of Agriculture to correct this. Mr. President has instructed the Nigeria Customs Service and the Nigeria Immigration Service to modify their tactics and to work closely with our neighboring countries to combat these leakages.

- It is important to mention that with the strengthening of the exemptions and waiver policy, President Goodluck Jonathan gave his support a month ago for us to begin publishing these waivers to enhance the transparency of our processes. These lists of waivers are now published in the media by the Federal Ministry of Finance and are available online on the website of the Budget Office of the Federation.

- A summary of recent import waivers and their fiscal implications for the period 2011-2013 is provided below. A detailed version is available online on the Budget Office website, http://www.budgetoffice.gov.ng.

EXEMPTIONS AND WAIVERS GRANTED IN 2011: BY SECTOR				
S/N	SECTOR	CATEGORY OF INCENTIVE	AMOUNT CONCEDED (N)	BASIS FOR THE APPROVAL
1	**Agriculture**	Import Duty Exemption		2012 Fiscal Policy on Agriculture
2	**Agriculture**	Waiver		Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
3	**Aviation**	Import Duty Exemption		Provision of Schedule 2, Item 2 of
4	**Aviation**	Waiver		Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
5	**Gas**	Import Duty Exemption	17,676,870,483	Provision of Act No 16 of 1997 and Part 1, item 5 of the CET 2008-
6	**Health**	Import Duty Exemption	3,723,576,579	Provision of Schedule 2, Item 6 of
7	**Health**	Waiver	350,192,478	Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
8	**Mines & Steel**	Import Duty Exemption	6,888,991	Under Item 25 (1) (a) of the Nigerian Minerals and Mining Act
9	**Power**	Waiver	1,519,169,310.00	2012 Fiscal Policy on Agriculture &
10	**Water**	Import Duty Exemption	506,960,621.60	Provision of Schedule 2, Item 6 of
11	**Others (MDAs, States, Education, Donations etc)**	Import Duty Exemption	1,507,450,718	Provision of Schedule 2, Items 5, 6 and 7 of CET 2008-2012
12	**Others (MDAs, States, Education, Donations etc)**	Waiver	30,673,957,981	Provision of Part 1, item 11(1) (a) of the CET 2008-2014
Total (Exemptions)			**23,421,747,393**	
Total (Waivers)			**32,543,319,769**	
GRAND TOTAL (Exemptions & Waivers)			**55,965,067,162**	

EXEMPTIONS AND WAIVERS GRANTED IN 2012: BY SECTOR				
S/N	SECTOR	CATEGORY OF INCENTIVE	AMOUNT CONCEDED (N)	BASIS FOR THE APPROVAL
1	**Agriculture**	Import Duty Exemption	1,377,163,934.66	2012 Fiscal Policy on Agriculture
2	**Agriculture**	Waiver	814,253,129.66	Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
3	**Aviation**	Import Duty Exemption	3,942,929	Provision of Schedule 2, Item 2 of CET 2008-2012
4	**Aviation**	Waiver	1,576,933,193	Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
5	**Gas**	Import Duty Exemption	18,301,768,464	Provision of Act No 16 of 1997 and Part 1, item 5 of the CET 2008-2012 as extended
6	**Health**	Import Duty Exemption	5,922,340,105	Provision of Schedule 2, Item 6 of CET 2008-2012
7	**Health**	Waiver	46,100,350	Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
8	**Mines & Steel**	Import Duty Exemption	36,604,000	Under Item 25 (1) (a) of the Nigerian Minerals and Mining Act of 2007
9	**Power**	Import Duty Exemption	2,889,034,007.83	2012 Fiscal Policy on Agriculture & Power
10	**Water**	Import Duty Exemption	96,449,818.50	Provision of Schedule 2, Item 6 of CET 2008-2012
11	**Others (MDAs, States, Education, Donations etc)**	Import Duty Exemption	18,161,928,499	Provision of Schedule 2, Items 5, 6 and 7 of CET 2008-2012
12	**Others (MDAs, States, Education, Donations etc)**	Waiver	6,118,738,414	Provision of Part 1, item 11(1) (a) of the CET 2008-2014
Total (Exemptions)			**46,789,231,759**	
Total (Waivers)			**8,556,025,086**	
GRAND TOTAL (Exemptions & Waivers)			**55,345,256,845**	

EXEMPTIONS AND WAIVERS GRANTED IN 2013: BY SECTOR				
S/N	SECTOR	CATEGORY OF INCENTIVE	AMOUNT CONCEDED (N)	BASIS FOR THE APPROVAL
1	**Agriculture**	Import Duty Exemption	2,089,851,099.54	2012 Fiscal Policy on Agriculture
2	**Agriculture**	Waiver	1,369,628,301.28	Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
3	**Aviation**	Import Duty Exemption	63,121,558	Provision of Schedule 2, Item 2 of CET 2008-2012
4	**Aviation**	Waiver	2,390,661,886	Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
5	**Gas**	Import Duty Exemption	13,031,680,572	Provision of Act No 16 of 1997 and Part 1, item 5 of the CET 2008-2012 as
6	**Health**	Import Duty Exemption	12,380,119,901	Provision of Schedule 2, Item 6 of CET 2008-2012
7	**Health**	Waiver		Provision of Part 1,Item 11(1) (a) of the CET 2008-2012
8	**Mines & Steel**	Import Duty Exemption	595,431,737	Under Item 25 (1) (a) of the Nigerian Minerals and Mining Act of 2007
9	**Power**	Import Duty Exemption	4,368,774,980.00	2012 Fiscal Policy on Agriculture & Power
10	**Water**	Import Duty Exemption	457,340,918.29	Provision of Schedule 2, Item 6 of CET 2008-2012
11	**Others (MDAs, States, Education, Donations etc)**	Import Duty Exemption	333,029,695	Provision of Schedule 2, Items 5, 6 and 7 of CET 2008-2012
12	**Others (MDAs, States, Education, Donations etc)**	Waiver	22,337,113,681	Provision of Part 1, item 11(1) (a) of the CET 2008-2014
Total (Exemptions)			**33,319,350,461**	
Total (Waivers)			**26,097,403,868**	
GRAND TOTAL (Exemptions & Waivers)			**59,416,754,329**	

16. It was reported that the FIRS is to engage foreign consultants for tax collection in 2014. Could the Minister clarify this position and what Nigeria stands to gain? Have the FIRS not been working effectively?

- Nigeria's tax revenue to GDP ratio of 7% is low in comparison with other emerging economies and other middle-income African countries. The average tax revenue to GDP ratio for most emerging economies and middle-income African countries is between 20-30%. While FIRS has been successful in increasing tax revenues in recent years, there is scope for further improvement. Nigeria needs to improve its tax revenue performance especially for non-oil tax revenues as a means of diversifying our revenue base.

- As the economy also diversifies it is important to have a better tax administration. To do this, FIRS sought advice on what other countries such as Angola and South Africa had recently done to increase their tax revenues. It turned out that McKinsey & Co had conducted analyses of tax issues of these economies and recommended specific initiatives. FIRS subsequently engaged the services of McKinsey to conduct a tax diagnostic for Nigeria, and assist in plugging tax leakages.

- Specific interventions to be introduced include: improving audits, enforcement of tax filing, review of tax holidays and exemptions, collection of tax arrears/debt enforcement, increased registration of companies, tax drives to improve compliance by evasive businesses and improved external communication. Overall, it is anticipated that this initiative will increase non-oil tax revenues significantly.

- The McKinsey team is only providing temporary assistance and capacity-building to support FIRS over the next 12-18 months. Following their intervention, FIRS can implement the new approaches as done in comparator middle-income countries.

17. Do you really believe that Nigeria needs a 'Sovereign Wealth Fund' at this critical juncture of budgetary deficits, and having to be borrowing extensively in an effort to address government revenue gaps? Shouldn't the presence of Nigerian Sovereign Investment Authority (NSIA) simply mean spreading government's scarce resources thinly? Why will you insist that no matter what we still need to operate a sovereign wealth fund? Sincerely speaking, how sustainable are the objectives of Nigeria's Sovereign Wealth Fund, particularly in the long-term?

This question asks for reasons why resource-dependent countries establish sovereign wealth funds. This is an important question, which has been discussed by policy-makers all over the world. In the case of Nigeria, this topic has already been well established as we shall show below.

Below, we provide a brief discussion on why resource-dependent countries establish Sovereign Wealth Funds; and subsequently also provide some information on the objectives of Nigeria's Sovereign Wealth Fund.

- There are 2 main reasons why commodity exporting countries create sovereign wealth funds.
    - First, because commodity prices are volatile, and so we must put aside savings to ensure smooth and stable budget revenues in the future.
    - Second, because natural resources are depleting assets, and so some resource revenues must be preserved for future generations.
- <u>Volatility of commodity prices</u>. Because commodity prices are volatile, they generate fluctuations in resource revenues which are transmitted into the economy through the national budgets. If natural resource revenues are a substantial share of government revenues, the external volatility can result in significant fluctuations in public expenditures. This leads to a pro-cyclical fiscal policy where government spending on projects increase during the boom times, and crashes when resource revenues collapse.
- The fluctuations in expenditures result in macroeconomic volatility, which creates uncertainty for businesses, and reduces economic growth. In fact,

we conducted an exercise where we looked at Nigeria's Federal Government budget from 1970 to 2010. We calculated the annual changes in oil revenues, the annual changes in the public expenditure and plotted these against the observed annual GDP growth. The results are summarized in the chart below. We observed a strong correlation between changes in public revenue and expenditure, and GDP growth. Researchers have estimated that macroeconomic volatility may have reduced growth in Nigeria by as much as 3.4 percentage points per annum[4].

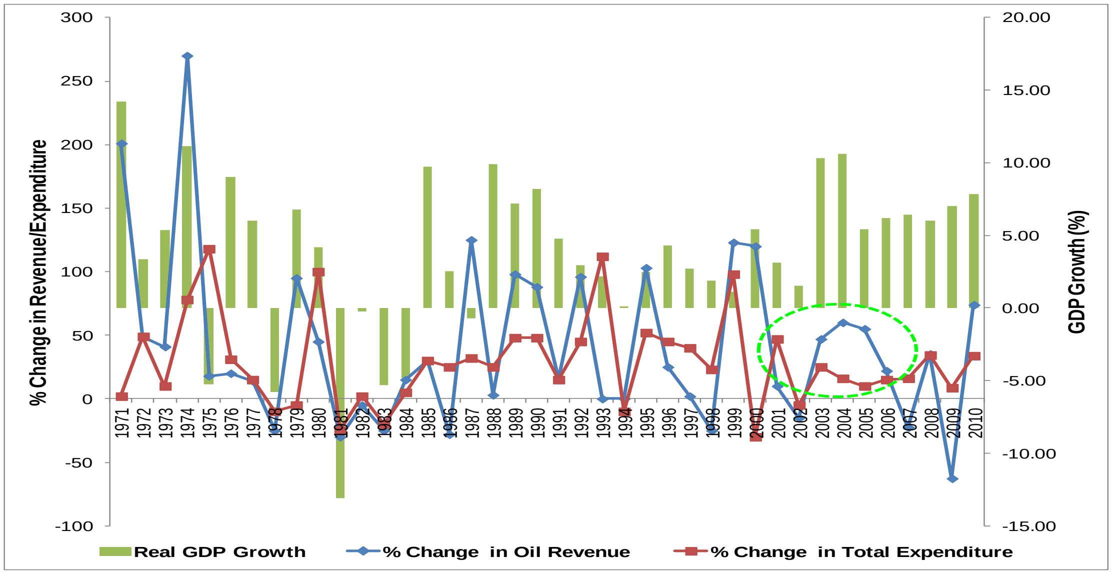


Figure 1: Volatility in public revenues and expenditures is correlated with low GDP growth in Nigeria, 1971-2010 (Source: Okonjo-Iweala (2012), p 145)

- Natural resources as depleting assets. The second problem to bear in mind is that natural resource endowments are depleting assets. In other words, these resources will be exhausted at some point in the future. Responsible policy-makers should therefore aim at saving some part of these resources so that future generations can also benefit from these natural resources. If these natural resources are not saved or invested wisely, then the country is simply becoming poorer as it exhausts its resource deposits.

[4] See Addison, Doug (2008), Managing Extreme Volatility for Long-Run Growth, in Collier, Pattillo and Soludo (eds), 'Economic Policy Options for a Prosperous Nigeria', London: Palgrave Macmillan.

- For Nigeria, in the past, income from natural resources supported wasteful public expenditures and led to the accumulation of debt. In the 1980s and 1990s we accumulated substantial financial liabilities in the form of external debts to the Paris Club and London Club creditors. Indeed, by 2002 – after 45 years of oil production – Nigeria had accumulated total external debts of about $40.5 billion (or about 87.9 per cent of GDP). This was comprised of $31.0 billion in external debt and the equivalent of $9.5 billion of domestic debts. The high costs of servicing these debts strained government fiscal resources, until our successful Paris Club Debt deal in 2005.

The Excess Crude Account

- Because of the problems above, in 2003, the government adopted an oil-price based fiscal rule. Under this rule, government revenues earned above a reference benchmark oil price are saved in a common account ('the *Excess Crude Account*') for all tiers of government. The adoption of this rule has solved two problems: first it reduced the macroeconomic volatility which previously plagued the Nigerian economy, and second, increasing public savings in the Excess Crude Account.
- The government has been able to gradually increase savings to cushion external declines in oil revenues. For example, in 2008, at the peak of the global financial crises, oil prices crashed from about $147 to $38 per barrel in 4-months, and Nigeria turned to savings in its Excess Crude Account to plug the revenue gap in its budget and administer a fiscal stimulus to sustain economic growth. This Excess Crude Account has formed the basis of our Sovereign Wealth Fund.

The Sovereign Wealth Fund

- Today, Nigeria has a Sovereign Wealth Fund which began with an initial capitalization of $1 billion. This is a good beginning, but still very small when compared with the funds of other countries such as:
    - Abu Dhabi (UAE): $795 billion
    - Norway Government Pension Fund: $664 billion
    - SAFE Investment Company (China): $600 billion

    - Temasek Holdings (Singapore): $158 billion
    - National Welfare Fund (Russia): $150 billion
    - Future Fund (Australia): $83 billion
    - Kazakhstan National Fund: $65 billion
    - Libya Investment Authority: $65 billion
    - Khazanah Nasional (Malaysia): $34 billion
    - State Oil Fund (Azerbaijan): $33 billion

- Most countries started with small funds, but consistently invested in these funds over time. Abu Dhabi launched its Fund in 1976 with $50 million, today they are at $795 billion. Norway began in 1996 with $300 million, and today has a fund in excess of $650 billion.
- In Africa, many resource exporters have also launched their Funds. Angola now has a sovereign wealth fund which began with $5 billion. Ghana has launched the Ghana Heritage Fund (for its future generations) and the Ghana Stabilization Fund. Other African commodity exporters, such as Gabon, Zambia and Mozambique are also launching their Funds. Most of these countries are even less developed and poorer than Nigeria. Yet their citizens have seen it fit to save. Should Nigeria not provide an example and a leadership role for African countries in this regards?

18. You should agree that a lot of Nigerians are interested in the link between NSIA and the government. Since there is no doubt that Nigerian Sovereign Investment Authority is an agent of government — or is it not? The question is: How should we think about the management structure in so far as major decisions are concerned? Where is the line between NSIA, as a commercially minded entity, and the government, especially given government's policy of having no business doing business? If, for example, government does not get involved in specific investments, then, who appoints the external managers involved in managing some parts of the NSIA funds?

To answer these questions we refer to the NSIA Establishment Act of 2011, duly approved by the National Assembly:

1. According to the Act s.2 (1) The NSIA is an independent body corporate set up by an Act of the National Assembly. The Act also provides that in s.1(4) Except as otherwise provided in this Act, the Authority shall be independent in the discharge of its functions and shall not be subject to the direction or control of any other person or authority.
2. Management Structure. The Board of the NSIA is responsible for the management structure and delegates to the management team. The Board is set up along the following lines by the NSIA Establishment Act. In Section 15, 16 of the NSIA establishment Act. The Members of the Board with their qualifications are listed in Table 1 below.
3. In addition, there is a Governing Council which provides advice and counsel to the Board. It is comprised of the President (who can delegate to Mr. Vice President), the Governors of the 36 States of the Federation and FCT Minister, the Minister of Finance, the Attorney General of the Federation, the Governor of the Central Bank, the Minister of National Planning, the Chief Economic Adviser to the President, and the Chairman of the Revenue Mobilization, Allocation and Fiscal Commission. See http://nsia.com.ng/governing-council/ for more information on the Governance of the NSIA.
4. The NSIA is a commercially minded entity for the following reasons: In Sections 4(2), it is clearly stated that the NSIA is expected to generate a profit. And to buttress that point, they are expected to pay for their expenses from the revenue generated.

5. The Appointment of External Managers is decided by the Board of the NSIA, as is supported by the NSIA Establishment Act. S.6 (1) and s.6 (2).

Table 1: NSIA BOARD MEMBERS

CHAIRMAN

Alhaji Mahey Rasheed (OFR), Chairman of the Board

- Chairman, Legacy Pension; former Deputy Governor, Central Bank of Nigeria; Board Member, First Bank
- Wealth of experience gained from sitting on the boards of over 20 companies on behalf of NNDC, CBN and the Federal Government of Nigeria
- MPA, Public Policy, Harvard University (Edward Mason Fellow); BSc, Economics, Ahmadu Bello University-Zaria

EXECUTIVE DIRECTORS

Mr. Uche Orji, Managing Director & Chief Executive Officer

- Former Managing Director UBS AG; Managing Director, J.P. Morgan & Co.; Executive Director and equity portfolio manager at Goldman Sachs Asset Management
- Previously worked with Diamond Bank Plc. and Arthur Andersen Nigeria
- MBA, Harvard Business School; BSc in Chemical Engineering, University of Port Harcourt

Mrs. Stella Ojekwe-Onyejeli, Executive Director & Chief Risk Officer

- Former Director & Head of Operational Risk & Control, Barclays Bank, Emerging Markets and Africa
- Previously worked as Vice President & Head of Quality Assurance Africa, Citibank; Senior Manager, Arthur Andersen Nigeria; KPMG in South Africa and Nigeria
- MBA, Cranfield School of Management, UK; BSc, Chemistry, University of Lagos. Qualified Chartered Financial and Tax Accountant

Mr. Hanspeter Ackermann (CFA), Executive Director & Chief Investment Officer

- Former Chief Investment Officer, Head of Asset Management & Assistant General Manager, Samba Capital in Riyadh, Arabia

- Co-founder, Principal of Monteverdi International Management LLC; Managing Director, Deutsche Bank Investment Management Inc.; President & Managing Partner of Eiger Asset Management; CIO & Senior Portfolio Manager, Swiss Bank Corporation (UBS)
- B.S., Business Administration, Handelsschule Kaufmaennischer Verein in Basel, Switzerland. Mr. Ackermann is also a Chartered Financial Analyst (CFA)

NON-EXECUTIVE DIRECTORS

Mr. Jide Zeitlin, Chair of Investment Committee

- Retired Partner, Goldman Sachs & Company; Chairman & CEO of the Keffi Group
- Chairman Emeritus, Amherst College; Board Member, Affiliated Managers Group, Inc. Board Member, Coach, Inc.
- MBA, Harvard Business School; A.B., Economics & English, Amherst College

Mr. Arnold Ekpe, Chair of Risk Committee

- Retired Group CEO & Executive Director of Ecobank Transnational Incorporated
- Former MD/CEO, UBA; previously established and headed Citibank's Structured & Corporate Finance business in Sub-Sahara-Africa; Partner, African Capital Alliance
- MBA, Manchester Business School; BSc, Mechanical Engineering, Manchester University

Mrs. Ibukun Awosika

- Founder & Chief Executive Officer, Chair Centre, Sokoa Chair Centre Limited and TCC Security Systems
- Chairman, FBN Capital; Board Member, First Bank
- MBA from IESE Business School, Barcelona, Spain; BSc, Chemistry, University of Ife (Obafemi Awolowo University)

Barrister Olabisi Soyebo (SAN)

- Partner, Abdullahi Ibrahim & Co., Head of Abuja Office
- LL.B (Hons) in Law, University of Buckingham, Buckingham, England; BA Sociology, College of St. Elizabeth, New Jersey, USA
- Admitted to the Inner Bar as a Senior Advocate of Nigeria (SAN), Securities and Exchange Commission (SEC) approved capital market consultant. Member of the Chartered Institute of Arbitration (UK)

Alhaji Hassan Usman

- Managing Director & Chief Executive Officer, ASO Savings & Loans Plc.
- Former Executive Director (Investments), Abuja Investment & Property Development Company Ltd.; Deputy Director, Bureau of Public Enterprises (BPE)
- Previously worked with Citibank Nigeria, Arthur Andersen UK, and Central Bank of Nigeria
- M.Phil, Development Economics, University of Cambridge; BA, Economics, University of Sussex. Associate of the Institute of Chartered Accountants in England & Wales

19. Who determines the investment objective and who establishes the risk parameter for the NSIA's portfolio? In providing answer to this question, it is also important to understand and explain why NSIA recently hired a Swiss national as its chief portfolio investor? Answering this question is important since it should help us to know who determines the maximum draw-down that the government would be comfortable with in extremely negative market environments.

- The Board of the NSIA determines the Objective and establishes the Risk parameters. These policies have been reviewed by the NSIA Board and they have spent most of the past year putting several of these policies in place.
- Please note that the Board of the NSIA has both a Risk Committee and an Investment Committee. Their charters are available online on the NSIA website - www.nsia.com.ng. The Chief Investment Officer and the Chief Risk Officer both report to the Board and their respective committees and both investment and Risk decisions are made by the Board.
- The Board of NSIA sets acceptable boundaries for portfolio volatility and draw-down criteria embedded in the investment policy statements which guide the investment decision making. In times of extremely negative market environments or extra-ordinary conditions, the Board through its Investment and Risk Committees will determine the maximum drawdown acceptable and specific associated actions in consultation with the Minister of Finance and Governing Council.
- As with the appointment of the MD/CEO and the Chief Risk Officer, the appointment of Mr. Hanspeter Ackermann as Chief Investment Officer was based on a competitive process that was open to all nationalities including Nigerians. In following with the NSIA Act, this process was led by the Executive Nomination Committee (ENC), which is composed of six Nigerians with integrity, independence, proven qualification and tested market experience from the six geo-political zones of the country. He came out tops on this basis and we want the best people to work in the in NSIA to generate the best returns for Nigerians. Most sovereign wealth funds and large institutional investors go for the best CIOs, regardless of nationality.
- For the records, the amount in the stabilization fund is the $200m or 20% of the Fund under management by the NSIA. The law requires that a minimum of 20% be put in each of the three funds, with the balance distributed according to need. The NSIA Board therefore allocated funds

as follows: 20% in Stabilization Fund, 40% in Infrastructure Fund and 40% in future generations fund.

- According to the Act, only the Stabilisation Fund is available for drawdown. The disbursement process is as follows: The determination of drawdown is made by the Minister depending on the needs of the Federation. The funds in the Stabilisation Fund are in liquid assets with daily liquidity. Upon request from the Minister, the NSIA will execute a drawdown request with the asset managers, who will execute the trades and make the funds available almost immediately. Please note that these trades are settled maximum three days after they are executed. The funds are then made available to the Ministry of Finance within 2-5 working days.

20. What should be your explanations for awarding MasterCard a multimillion dollar National Identity Smart Cards, when there are indigenous ICT companies that not only have what it takes but would have done it cheaper and create local jobs at the same time?

- Having discussed with the National Identity Management Commission (NIMC), the following were deduced:

i. MasterCard will not, and has not been awarded a contract to produce the National Identity Smart Card for Nigeria. Mastercard just adds an e-payment platform to the identity card making it a smart financial card. The Card is not on the shelf, and from market intelligence reports, no Nigerian company manufactures the Card. It is therefore difficult to understand how the House Committee arrived at a cheaper price.

ii. Three Nigerian companies (Auspoint Ltd; E-PayPlus Ltd; and Telnet Nigeria Ltd) with foreign partners were recently cleared by BPP and approved by FEC to produce the Cards.

iii. At present, in view of the set standard, MasterCard presents the best financial platform for the project. Though Verve Card earlier rejected the same project in 2010 claiming it was not profitable, they have now reapplied to participate.

21. Have you taken into considerations how foreign company could use such information available to it to invade the privacy of Nigerians?

- The NIMC posits that:
  - MasterCard has no access to the National Identity database. Only Nigerian companies are involved in the account set up and transaction processing involving the MasterCard payment platform.
  - Besides, only a portion of the personal information of the individual is securely stored on the ‘chip’ (e-ID and e-PKI) of the National Identity (smart) Card, with a ‘Back end’ managed in Nigeria by NIMC, the only such Card PKI facility in Nigeria. This is similar to the technology presently being used for the production of ATM Cards in Nigeria by our Banks.

22. What are reasons for SURE-P to give preference to Chevrolet cars for SURE-P taxis, when it is known that not only are such cars very expensive to maintain compared with Asian and European cars, but also are also not fuel efficient and not durable on our roads?

- The FGN SURE–P has allocated money only for on–lending to registered transport operators, who typically buy buses. The Infrastructure Bank (TIB) is the intermediary through which such funds have been provided. Please be reminded that States and FCT also have their own SURE-P schemes and we do not know if any of them patronize the vehicle brands referred to. You may therefore wish to direct this question directly to the various States and the FCTA.

23. **Honorable Minister of Finance, you will agree that SURE-P is very important to the people of this country, taking into cognizance that it is the only thing they stand to gain from the increase on petroleum product pump prices almost 2 years ago. Who is in charge of the management of SURE-P and who takes responsibility for its successes and failures?**

- A Presidential Committee (Board) of Twenty-One (21) members under the Chairmanship of Dr. Christopher Kolade, who recently resigned, was inaugurated by Mr. President in February 2012 to manage SURE – P funds meant for specific infrastructural projects and social safety net programmes. The SURE – P Board designated the Director General Budget Office of the Federation as its Accounting Officer. The Presidential Committee (Board) works with the Project Implementation Units (PIUs) in the relevant MDAs to implement the SURE -Programmes. The areas selected for SURE–P intervention are as follows:

  - Infrastructure development projects: such as construction and maintenance of roads, bridges, and railways.

  - Social safety net programmes:
    - Community service, women and youth empowerment programme (including the Graduate Internship Scheme)
    - Maternal and Child Health Program
    - Mass Transit program
    - Public Works (including FERMA)
    - Vocational Training
    - Culture and Tourism

  - The responsibility for the success or failure of the SURE Programme is ultimately the Government's, but primarily on the MDAs implementing it and on other stakeholders mentioned earlier.

  - A recent update on the activities and achievements of the SURE-P program is provided online at: http://www.sure-p.gov.ng/main/.

24. You will agree that inasmuch as the interest rate regime is critical to the real sector borrowing decisions, most principal factor in making borrowing decisions is the business's expected rate of return on investing borrowed money? The question, without efforts to protect local businesses from their foreign counterparts, the high cost of doing business in Nigeria, puts them at such a disadvantaged position that it makes no economic sense borrowing to invest in their local businesses, why should we expect private sector firms to be investing in the economy?

- Nigeria has a very vibrant economy and one of the most versatile set of investors and entrepreneurs. The plain truth is that the Nigerian economy offers one of the highest rates of return on investment, and this is the reason why we are the largest investment destination in Africa. Despite the impediments and the difficulties, many Nigerian businesses are still investing in the economy, and it is their activity that is driving economic growth.

- We have 32 million SMEs in the country. That being said, SMEs face difficult challenges of which the cost of borrowing is an important one. That is why, in the short term, SMEs have enjoyed several intervention funds including the latest N200 billion at the Central Bank.

- Nevertheless, the government is working to bring down the high cost of borrowing in the long term. The Federal Government is working to reduce government borrowing so as not to crowd out the private sector, and put inflation in check in order to help reduce short-term interest rates. Measures such as the power sector reform would also help to reduce operating costs for banks, and this will lower banks interest rate margins. Finally, the Federal Government is working to establish a wholesale development finance institution which will provide long-term finance at affordable rates to Nigerian businesses.

25. You are quoted as saying, " Very soon, the US would become a net exporter of oil…So, it would be disingenuous for anyone to say that just because the price of oil has hovered at around $100 per barrel, it cannot crash…Lest we forget, as recently as 2008, oil prices crashed from a peak of $147 per barrel to $35 per barrel in a space of months triggered by the global financial crisis. Is the minority leader saying he has forgotten that?" This forces one to wonder from which source should the US become that net exporter of oil, given that the US daily oil consumption was 18.7 million barrels with (10.6 million of which was imported daily) in 2012? Or, should it be from the shale oil which the International Energy Agency (IEA) demonstrates to be at two million barrels daily? In other words, given the IEA global oil price trajectory, can't we agree that "There are many constraints on supply keeping pace with demand'' which means that within this decade, oil prices should always hover around $125 per barrel? Answering this question will help us understand why you insist on benchmarking the oil price for the 2014 appropriation at below $79 per barrel? In answering this question, would you also agree that as the global economy shifts from West to Asia, so will the appetite for global oil consumption shift from the West to Asia? As crude oil continues to sell at $100-$110, how low will production have to fall for us to record a net loss or at what production level can we break even at a 2013 benchmark of $79.

This question basically raises three concerns:

a. Is the US projected to become a net exporter of oil?
b. Will crude oil demand in Asia fully compensate for increased global supplies?
c. What are the future projections for oil prices, and how does that affect the setting of the oil benchmark price in the Federal Budget.

a. Is the US projected to become a net exporter of oil?

- The US is taking measures to become self-reliant in crude oil, and indeed to become a net exporter. This policy direction was clearly articulated in President Obama's re-election speech on 7th November 2012, when he stated clearly that:

> [In] the coming weeks and months, I am looking forward to reaching and working with leaders of both parties to meet the challenges we can only solve together – reducing our deficit, reforming our tax code, fixing our immigration system, [and] *freeing ourselves from foreign oil*.

- This vision is already being realized. The International Energy Agency (IEA), the authoritative information source on global energy markets, issued their 2012 World Economic Outlook (WEO) report which stated that the US is set to overtake Saudi Arabia as the largest oil-producing nation by 2017. The report also notes that the United States will increase its oil and gas output and become a net exporter of natural gas by 2020, and become self-sufficient in energy by 2035.

- The impact of the growing US production is already being noticed in Nigeria. In fact, Nigeria's exports to the US have declined from 318,069 barrels per day in 2008 to about 148,340 barrels per day in 2012.

b. Will crude oil demand in Asia fully compensate for increased global supplies?

- Many oil analysts and economists are uncertain if demand in Asia is likely to compensate for increased global supplies. For example, on 10th January 2014, the Financial Times published an important article with the headline, "*Slowing China crude imports to challenge exporters*"[5].

[5] This article may be viewed online at: http://www.ft.com/intl/cms/s/0/99a210a0-79af-11e3-b381-00144feabdc0.html#axzz2qH1loLSz

- The basic gist of their analyses is that, based on China's Customs Data, Chinese oil imports had slowed down, and this "*posed a challenge to exporters from the Middle East to Africa who are competing to sell more oil into the world's second-largest economy*".

- With such an uncertain outlook from Asia's largest economy, Nigeria will need to plan prudently, cautiously and conservatively. We cannot simply hope – wishfully – that increased demand will provide a guaranteed market for our exports in the future.

c. <u>What are the future projections for oil prices, and how does that affect the setting of the oil benchmark price in the Federal Budget?</u>

- We know that commodity markets in general, and oil markets in particular, are volatile and unpredictable. The historical pattern of oil prices also shows that they are susceptible to huge shocks, which are often persistent. For this reason, forecasts and predictions about oil markets must be assessed with great caution.

- The factors which currently drive the global commodity markets are both fundamental and speculative, and these factors create uncertainties in the markets. Even OPEC captured this view succinctly in its 2013 World Oil Outlook Report that:

    > [Uncertainties] that surround the medium to long-term energy future stem from many drivers, such as the world economy, policies, technology and consumer choices.

    There are many possible external factors which leads us to remain conservative on our outlook for the future of world oil prices – for example, the apparent thawing of relations between the US and Iran, increased oil output from North America, discoveries of new oil deposits in many African countries, and so on.

26. Do you agree that the Excess Crude Account as being operated by government is illegal and unconstitutional, especially given how it has been managed?

- The Attorney-General of the Federation is the person best placed to respond as to issues of illegality and unconstitutionality.
- However, in our view, it is an indisputable fact that Section 162 (1) of the 1999 Constitution provides that ‘The Federation shall maintain a special account to be called "the Federation Account" into which shall be paid all revenues collected by the Government of the Federation, except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry or department of government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja’.
- In the same vein, Section 16 (1a) of the 1999 Constitution states that ‘The State shall…harness the resources of the nation and promote national prosperity and an efficient, a dynamic and self-reliant economy’. In 2003, the idea of creating the Excess Crude Account as a buffer for the economy was based on this need to manage the economy in an efficient and effective manner.
- Furthermore, Nigeria’s oil earnings have been managed in line with the provisions of the Fiscal Responsibility Act 2007 which empower the Federal Government to prudently manage the nation’s resources and ensure long-term macro-economic stability. Specifically, Section 35 subsection (1) of the Act stipulates that ‘Where the reference commodity price rises above the predetermined level, the resulting excess proceeds shall be saved...’.
- Therefore, if the Federal Government set up the ECA without prejudice to Section 162 (1) of the 1999 Constitution, the question then is, whether this initiative has been beneficial to Nigeria? For the following reasons, the answer is definitely yes:

  i. First, Nigeria was able to withstand the negative impact of the global economic and financial crises on the oil markets when oil prices crashed from $147 per barrel to less than $40 per barrel, within a 4-month period in 2008. In the absence of the ECA, Nigeria would have financed its deficits by borrowing from international creditors (such as the IMF or the World Bank) on very unfavourable terms. Indeed, during the recent financial crises, Nigeria was one of the few countries that did not seek budgetary support from multilateral institutions. Developed and emerging economies – such as Ireland, Hungary, Greece and Portugal – which lacked adequate fiscal buffers had to request for external assistance. The ECA was an instrumental fiscal buffer which enabled to Nigeria to withstand the 2008 financial crisis and hold its head high with pride.

ii. Second, during periods of revenue shortfall arising from oil production disruptions due to pipelines vandalism and oil theft, the ECA has been used to augment FAAC allocations. This has provided a useful source of additional financing for all three tiers of government.

- In 2011, with a view to the long-term, the Federal Government, after due consultation with the State Governments, proceeded to establish the Nigeria Sovereign Investment Authority (the Sovereign Wealth Fund) which was backed by an Act of the National Assembly, *the Nigeria Sovereign Investment Authority (Establishment, etc.) Act, 2011*. It is important to emphasize that the sovereign wealth fund conforms to global best practice as most oil producing countries have similar Funds.

27. Can you explain with clarity how the ECA is being operated? Also provide a statement of account of the ECA from 2011 to 2013? Also how much have we made in excess of the benchmark price from January 2013 till date.

- The Excess Crude Account (ECA) is a buffer account that holds the excess of oil revenues over the oil benchmark price in the budget. The ECA belongs to all three tiers of Government (Federal, State and Local Governments.)

- As a result, any draw-down of the ECA is done in consultation with representatives the States and Federal Government. Such draw-downs typically occur when there are shortfalls in revenues available for distribution to all tiers of the Federation. In such cases, discussions are held among all State Commissioners of Finance and the Federal Government to agree on the amount of revenue augmentation which would be needed from the ECA. An application is then made to His Excellency, Mr. President, for approval; and following his approval disbursements are made to the respective tiers of government.

- In addition, there is also a standing approval of the National Assembly to periodically draw down some funds from the ECA to finance the FGN Budget deficit. This is typically presented in the Medium-Term Fiscal Framework in any given fiscal year.

- Generally, drawings from the ECA are shared among all stakeholders to the Federation Account in line with the CFRN, 1999, and this is usually ratified by representatives of the three tiers during the monthly Federation Account Allocation Committee (FAAC) meetings.

- The balances in the Excess Crude Account as at the end of 2011, 2012 and 2013 are provided below:
    - End-December 2011: $4,568,001,973.44
    - End-December 2012: $8,650,036,129.35
    - End-December 2013: $2,282,966,092.02

28. If there is nothing like Excess Crude Account, would you have been demanding lower oil price benchmark for the budget, especially when the executive arm of government around world is known for demanding more money from lawmakers in order to be able to meet government spending obligations, particularly capital spending. Why is the reverse the case in Nigeria only, notably since 2011?

- Our approach has been to propose prudent and conservative oil benchmark prices in the Budget. We have previously discussed this subject in our response to Question 17, and we will revisit this topic in Questions 34 and 40.

- To recap our responses in Question 17, there are two main reasons why we adopt a prudent and conservative benchmark oil price. First, because of the volatility of commodity prices; and second, because we need to save for future generations given the exhaustible nature of oil resources.
    - *Volatility of oil prices*. Nigeria remains dependent on oil revenues for financing its public expenditures. A conservative benchmark prices means we are able to minimize possible fluctuations in public expenditures arising from volatile oil prices.
    - *Exhaustible nature of oil resources*. Moreover, because petroleum resources are depleting assets, it is important for us to save some resources today as a legacy for future generations.

- We should not forget Nigeria's recent history of oil revenue management. In the past we often spent revenues as they became available, and when oil prices crashed, the Government was often saddled with many uncompleted projects. And worse, instead of accumulating savings, we were often saddled with large external debts.

- The Swedish Economist, Marian Radetzki points out that, "No sophistication is needed for the wise decision to deposit fast-growing mineral income in the bank, pending the emergence of sensible opportunities to spend the money. On the other hand, even a financially sophisticated government can squander the public income if it is unwise or dishonest or not concerned with social and economic development." (Marian Radetzki, 1992).

- Finally, we should also note that many resource-dependent economies around the world grapple with similar challenges – and Nigeria is not an exception. Over the years, we have adopted higher benchmark oil price than many other oil-dependent countries.
    - For example, Nigeria, adopted a benchmark oil price of US$65/barrel, US$72/barrel and US$79/barrel in 2011, 2012 and 2013 respectively.
    - However, Saudi Arabia adopted benchmark oil prices of US$50-58/barrel, US$64-69/barrel and US$66-68/barrel in 2011, 2012 and 2013 respectively.
    - Similarly, Kuwait, adopted benchmark prices of US65$/barrel for 2012 and 2013, and US$60/barrel for 2011.
    - Algeria has maintained even more conservative oil benchmark prices of US$37/barrel since 2009.

29. With respect to the Excess crude account and our Sovereign wealth fund again, there have been allegations and counter allegations on its legality. Assuming, for the sake of the committee's enlightenment, the FGN alone saved its own excess in its ECA/SWF (which is about 52% of the Federation account) and the states and LGs get their funds in full compliance with the constitution, what would be the effect on the economy?

The Minister of Finance does not have the legal competence to enter into debates on this issue but Nigerians are aware that the sovereign wealth fund is underpinned by an Act of the National Assembly.

- The following are possible implications of savings only on the part of the FGN:

  i. ECA savings will drop by 48% - which is the share of savings attributable to States and Local Governments.

  ii. The lower ECA balances would imply that the Nigerian economy would be more vulnerable to external shocks from volatile oil prices. For example, in the event of a negative shock to oil revenue – perhaps from production shortfalls or from international events – the States and Local Governments may not have any fiscal buffers to finance their budgets.

  iii. Finally, macroeconomic management will become more challenging because of the additional liquidity that will be generated. This will pose critical challenges for monetary policy management. Specifically, the increased liquidity could result in higher inflation, increased interest rates, and a depreciation of the Naira.

Finally, we should also recall that Nigeria may have a disaggregated fiscal structure owing to our fiscal federalism. However, Nigeria has a single macroeconomy – and this requires careful macroeconomic management using tools such as the benchmark oil price.

30. Do you believe in the fight against corruption? If you do why has EFCC not been properly funded? Without properly funding the commission, how should it be expected to carry out its duties effectively?

- Yes, we believe in the fight against corruption. It is worth stating briefly here that this administration has undertaken some specific steps to tackle corruption by implementing a number of reforms such as clean-up of the fuel subsidy scheme; and the clean-up of pension fraud by creating the Pension Transition Arrangement Department (PTAD). We are also computerizing our public financial management platforms with the introduction of the Government Integrated Financial Management Information System (GIFMIS), Integrated Personnel and Payroll Information System (IPPIS), and the Treasury Single Account (TSA).
- Regarding the EFCC, we have supported the institution and anti-corruption agencies within the limits of our overall budgetary constraints. Their total budgetary allocation has grown by over 175% from N3.71 billion in 2008 to N10.22 billion in 2013.
- In addition, we have reached out to the EFCC to discuss the successful programme of recoveries that brings in income from the different arrests and seizures. These recoveries, properly accounted for and appropriated, could be another source of support for the EFCC. We will continue to support the EFCC to enable it carry out its duty of fighting corruption in the nation.

31. Can you confirm with figures if we have met our cumulative revenue projections for 2011, 2012, 2013, and if we have, how and if we have not, why? Also provide backup performance information under the various revenue generating agencies—NNPC (Oil and Gas), DPR, FIRS, Customs, Independent Revenue and other anticipated and unanticipated revenues e.g. privatization and sales of government properties etc.

The Table below shows the Performance of Revenue Agencies from 2011 to 2013.

Table Showing Performance of Revenue Agencies (2011 - 2013)

		2011 N'bn	2012 N'bn	2013 (Thru Nov '13) N'bn
Budget		6815.44	6636.52	7734.15
Actual	NNPC	6009.50	5674.03	5784.18
Variance		**(805.94)**	**(962.49)**	**(1949.97)**
Budget		450.00	600.58	914.36
Actual	NCS	429.13	475.15	433.59
Variance		**(20.87)**	**(125.43)**	**(480.77)**
Budget		697.75	828.18	982.04
Actual	FIRS*	715.44	846.59	985.52
Variance		**17.69**	**18.41**	**3.48**

*It was only the Companies Income Tax (CIT) collected by FIRS that surpassed the budget.

There are a number of reasons for the shortfall in collected revenues. According to the NNPC, the revenue shortfalls were the result of increased crude oil theft, and a decline in crude oil production as a result of force majeure declared at the Brass and Bonny Terminals, and an increase in pipeline vandalism. For the Nigeria Customs Service, revenue shortfalls were due mostly to a decrease in imports due to government policies, and also due to revenues forfeited from various concessions and waivers.

32. As Minister of Finance, are you familiar and comfortable with all the present business arrangements of the NNPC? Why were these business arrangements excluded from the MTEF which used to be the practice? Provide all the present business arrangements, the parties involved, the share of each party, and justifications for such.

The Nigerian National Petroleum Corporation (NNPC) is best suited to answer this question about their business arrangements, and the Finance Committee of the House of Representatives has the full competence to summon them to discuss this question. Nevertheless, what we know is as follows:

- There are four basic business arrangements through which the government funds its stake in the oil and gas industry namely:

1. Joint Venture (JV) Cash Call arrangement by which the government funds its equity share of JV investment. Over the years, JV cash calls have not increased significantly in spite of higher oil prices and high cost of project development and this underfunding has led to NNPC negotiating other business arrangements in order to fund projects.

2. Alternative Funding (AF) arrangement which is a form of partner financing resulting in project funding with compensation arising from the incremental production. A variant of the Alternative Funding is the Modified Carry Arrangement (MCA) which caps compensation to the funding party to a specific financial internal rate of return, thereby minimising interest cost to the government.

3. Production Sharing Contracts (PSC): In 1991, the government recognising the high upfront cost of funding the JV, proposed a PSC for the deep offshore. This resulted in the 1993 PSCs, the terms of which were codified into law (Deep Offshore and Inland Basin Act of 1999). It is interesting to note that the Deep Offshore PSCs generally offer lower government take compared to the JV cash call system.

4. Risk Service Contract (RSC): RSCs are a variant of the PSCs, except that the contractor is not considered to be in petroleum operations and therefore pays CITA tax.

- The table below shows a summary of projected production attributable to these different business arrangements:

Breakdown of Oil Production by Business Arrangement and Equity Split				
PRODUCTION BY BUSINESS ARRANGEMENT	**UNITS**	**2014**	**2015**	**2016**
Joint ventures	Mbpd	0.8373	0.9091	0.9550
Alternative Funding	Mbpd	0.1350	0.1029	0.0540
Modified Carry Arrangement	Mbpd	0.3199	0.3911	0.4648
Production Sharing Contracts	Mbpd	0.8752	0.8694	0.8497
Independents	Mbpd	0.0077	0.0097	0.0087
Service Contracts	Mbpd	0.1599	0.1639	0.1631
Marginal	Mbpd	0.0533	0.0546	0.0544
Total Production	Mbpd	**2.3883**	**2.5007**	**2.5497**
GOVERNMENT CRUDE OIL EQUITY	**UNITS**	**2014**	**2015**	**2016**
Joint ventures	%	58.50%	58.50%	58.35%
Alternative Funding	%	58.50%	58.50%	43.65%
Modified Carry Arrangement	%	58.50%	58.50%	43.65%
Production Sharing Contracts	%	39.00%	39.00%	30.72%
Independents	%	0.00%	0.00%	0.00%
Service Contracts	%	56.01%	31.39%	66.97%
Marginal	%	0.00%	0.00%	0.00%
Total	**%**	**46.12%**	**46.50%**	**41.20%**
COMPANIES' CRUDE OIL EQUITY	**UNITS**	**2014**	**2015**	**2016**
Joint ventures	%	41.50%	41.50%	41.65%
Alternative Funding	%	41.50%	41.50%	56.35%
Modified Carry Arrangement	%	41.50%	41.50%	56.35%
Production Sharing Contracts	%	61.00%	61.00%	69.28%
Independents	%	100.00%	100.00%	100.00%
Service Contracts	%	43.99%	68.61%	33.03%
Marginal	%	100.00%	100.00%	100.00%
Total	**%**	**53.88%**	**53.50%**	**58.80%**
GOVERNMENT CRUDE OIL ENTITLEMENTS	**UNITS**	**2014**	**2015**	**2016**
Joint ventures	Mbpd	0.4898	0.5318	0.5572
Alternative Funding	Mbpd	0.0790	0.0602	0.0236
Modified Carry Arrangement	Mbpd	0.1871	0.2288	0.2029
Production Sharing Contracts	Mbpd	0.3413	0.3390	0.2610
Independents	Mbpd	0.0000	0.0000	0.0000
Service Contracts	Mbpd	0.0896	0.0514	0.1092
Marginal	Mbpd	0.0000	0.0000	0.0000
Total	**Mbpd**	**1.1868**	**1.2113**	**1.1539**
COMPANIES CRUDE OIL ENTITLEMENTS	**UNITS**	**2014**	**2015**	**2016**
Joint ventures	Mbpd	0.3475	0.3773	0.3978
Alternative Funding	Mbpd	0.0560	0.0427	0.0304
Modified Carry Arrangement	Mbpd	0.1328	0.1623	0.2619
Production Sharing Contracts	Mbpd	0.5339	0.5303	0.5887
Independents	Mbpd	0.0077	0.0097	0.0087
Service Contracts	Mbpd	0.0703	0.1125	0.0539
Marginal	Mbpd	0.0533	0.0546	0.0544
Total	**Mbpd**	**1.2014**	**1.2894**	**1.3957**

Source: Nigerian National Petroleum Corporation

- As for the marginal fields and the independent producers, there is no cost sharing between the parties and government because government does not own equity in these entities. In some cases with the marginal fields, an overriding royalty regime may be imposed, which of course will be subject to payment of tax. Companies engaged in this form of business arrangement are supposed to pay their royalty directly to Department of Petroleum Resources (DPR) and taxes to Federal Inland Revenue Service (FIRS).
- The Medium Term Revenue Framework was developed based on the business arrangements discussed above and formed the basis of a roll up of the revenue expectations for the period.

33. Provide details of government stake in NLNG. All categories of revenue under the NLNG and total amount generated so far and evidence of remittances.

The Nigerian National Petroleum Corporation (NNPC) serves as the Federal Government's representative at NLNG, and holds the Government's 49% share in NLNG. The Finance Committee may wish to summon the NNPC to obtain detailed information on this subject. However, below are a few observations.

- The Government's take is often defined as the sum of revenues from royalties and taxes. NLNG however operates as a midstream facility, and thus the government take consists solely of taxes as there are no royalties. Under the NLNG Act, the government granted specific incentives such as a 10-year tax holiday and 90% capital allowance after the tax holiday.

- As a result of these incentives, NLNG has not been in a tax paying position until 2014. The effect of a ten-year holiday and capital allowance always results in an additional 5-year tax free period. In 2014, NLNG will be in a tax paying position so we expect to see an initial tax payment by NLNG in 2014.

34. Why do you always prefer a lower benchmark which leaves government with wider deficits and your attitude of no qualms with domestic borrowings at excessively high interest rates to balance deficit as against our position of increasing benchmark to reduce deficit which consequently reduces domestic borrowing, that frees up funds for the real sector of the economy, thereby bringing down the interest rate, increased private sector investments and creating jobs.

- To begin, the question is wrong and unjust to suggest that the Minister of Finance has an "attitude of no qualms with domestic borrowings at excessively high interest rates to balance the deficit". The Minister of Finance spoke strongly on the need to reduce domestic borrowing at her Senate clearance, and has proceeded to implement a strategy in that direction. It is unfair to now blame the person who is working to solve this problem.

- Regarding our specific policies, this Administration has introduced a comprehensive approach to debt management in Nigeria as discussed in our responses to Questions #9-13. It is worth re-stating that as part of our comprehensive management of our domestic debts – for the first time in our domestic borrowing – we paid off N75 billion of maturing debts. We have also established a sinking fund with an initial capitalization of N25 billion which will be used to fund maturing bond obligations in the future. Finally, we now also have a clearer picture of our domestic debts following a comprehensive review recently completed by the Debt Management Office. So clearly, we take our domestic debt management very seriously.

- Now to the question above on the oil price benchmark. There are a number of trade-offs to be made in choosing the benchmark oil price and also setting the deficit and level of domestic borrowing. Our general approach is to take a conservative and prudent stance.

- As pointed out in my response to Question 28, our choice of a lower benchmark oil price is driven by the need to be cautious in our revenue projections given the volatile nature of oil prices. It is easier for government to manage the deficit gap and the implications of domestic borrowing on the economy, than for us to experience a crash in oil prices with little savings. If we experienced a crash in oil prices with little savings, we may be forced to seek bail-out funds from the IMF and other international donors, as was the recent case in Greece, Ireland and Portugal. We know that Nigerians have very little appetite for that.

- We also remain mindful of our level of domestic borrowing. Domestic borrowing has declined from N852.08bn in 2011 to N744.44bn in 2012 and to N577.07bn in 2013. For 2014, we have provisioned the sum of N571bn as domestic borrowing despite the shortfall in revenue projections. The fiscal deficit to GDP ratio has also declined from 2.96% to 2.85% and 1.85% in 2011, 2012 and 2013, but slightly up, to 1.9%, in the 2014 Budget proposal.

35. What is the total amount expended by certain statutory agencies of government without appropriation for 2011, 2012, and 2013? Also provide aggregate appropriated expenditure for the same period. As the Coordinating Minister of the Economy, do you feel comfortable with allegations that almost equal amount of our yearly aggregate expenditure is being spent without appropriation, yet we are crying that the country is running short of revenue?

- In compliance with Section 21 of the Fiscal Responsibility Act 2007, the Statutory Agencies or Government-Owned Enterprises (GOEs) are expected to submit the three-year estimates of their Income and Expenditure to the Federal Ministry of Finance. These documents are analysed and compiled and thereafter forwarded to the National Assembly for Appropriation as part of documents accompanying the Budget.

- From the submission of these Agencies, their estimated expenditures for the preceding years are obtained. For example, in 2012, the aggregate estimated expenditure from 24 Agencies amounted to N4,963,879,855,897. The aggregate expenditure for 2013 has not yet been submitted to the Ministry for compilation. The Table below is a summary of the aggregate expenditure for the 24 Statutory Agencies for 2011 and 2012:

SNAPSHOT OF GOEs AGGREGATE EXPENDITURE			
Year	**Budget**	**Actual (unaudited)**	**Diff.**
2011	4,684,912,795,529	4,844,790,895,067	-159,878,099,538
2012	4,963,879,855,897	5,247,379,226,349	-283,499,370,452

- As you may be aware, certain statutory Agencies were set up primarily to undertake key activities that will promote economic growth and development. For instance, the Central Bank of Nigeria (CBN) was set up to ensure monetary and price stability, among other services. In carrying out such services, the bank generates income as well as incurs expenditure. In

2012, the bank generated a gross income of N629,819,000,000 and made a surplus of N100,386,000,000.

- Another instance is the Nigerian Deposit Insurance Corporation (NDIC) that provides specialised service of Insurance Cover for bank deposits. In 2012, the corporation generated a gross income of N54,052,878,000 with a surplus of N6,833,449,000 after providing for the Insurance Cover. However, these Agencies are expected to remit 80% of their operating surplus into FGN's Consolidated Revenue Fund.

- As the Coordinating Minister for the Economy, it is pertinent to state that, some of these Statutory Agencies submit their budget to the National Assembly for consideration and it may not be correct to allege that they incur expenditures without appropriation. Nevertheless, the Ministry, in an attempt to increase the revenue remittances from these Agencies sought and obtained Mr. President's approval to limit the expenditure of these Statutory Bodies or GOEs to a maximum level of 75% of their revenue.

36. Between May 7 and 9, 2014, it is expected that Nigeria will be hosting World Economic Forum on Africa. Who will finance this event and why? In concrete terms, what are the expected tangible benefits to the country in return to justify hosting such expensive event that will require lots of money for logistics, accommodations, security, especially given that South Africa that recently hosted the event has nothing to show for it.

- All Nigerians want Nigeria to be the giant of Africa and for our nation to play a prominent role in world affairs. Our recent election to a seat on the United Nations Security Council as well as our successes in the international sporting arena are a source of pride – not only for Nigerians, but indeed for the entire African continent. Our hosting of the World Economic Forum conference – one of the most important gatherings of global businesses and policy-makers – is a strong endorsement of Nigeria's importance among emerging market economies.

- For many years, the WEF Africa Conference has been held in South Africa – although Nigeria had requested for many years to serve as the hosts. We are therefore pleased that the 24th World Economic Forum on Africa will be held in Abuja from May 7 – 9 2014. The conference will be financed from three sources – the Federal Government of Nigeria, the Nigerian private sector and the World Economic Forum. Because the event attracts Heads of Governments and Statesmen, CEOs of global firms, leading financiers and policy and development technocrats, from over 80 countries, it provides an unprecedented opportunity for economic diplomacy for Nigeria. The successful hosting of the event would further enhance the appreciation of our economic reforms, enable Nigeria to attract new investment and strengthen efforts to diversify the country's production base, generate employment and attain the goal of inclusive growth, especially in new areas of focus that include agriculture, automobile, light manufacturing, infrastructure, housing and construction and new technology.

- South Africa has hosted the event 17 times – most recently in May 2013 – and greatly appreciates the enormous investment attraction of the World Economic Forum on Africa. Other countries that have hosted at least once, such as Tanzania (2010), Ethiopia (2012) leveraged on the event to boost their agriculture and manufacturing productivities following the event. The "Grow Africa" and the infrastructure initiative that are now attracting billions of US dollars in investment started in Tanzania and Ethiopia, respectively. We intend to leverage on WEF event to attract the same or greater level of benefits to Nigeria. It is presumptuous to claim that South Africa has nothing to show for its hosting of the WEF; it would not have done so 17 times if there were no benefits to their economy.

37. If you should for any reason say it will attract foreign investors, the question, then becomes, what kind of foreign investors are we talking about here because as we all know, no serious foreign investor needs to attend such a forum in Nigeria in order to recognize that our country should have been one of the world's favored investment destinations had our perennial infrastructure deficit been addressed head-on?

- Today, countries compete in different ways, including road shows and investor conferences, for the limited available global investment funds. Importantly, every country seeks to get its investment message to as many investors as possible, though investors will always look at economic fundamentals and independent reports. Therefore, a single event such as a conference is not sufficient to attract all the foreign direct investment (FDI) we need in Nigeria. It is a combination of factors, including the ability to leverage on the congregation of top global investors and decision-makers that will gather during the 24th World Economic Forum on Africa in Abuja next May, as well as our continued improvement of our nation's infrastructure.

- Despite the infrastructure deficit but in recognition of the improvements that are being made, Nigeria has attracted the largest FDI on the African continent in the last three years, over 20 US billion dollars, 10 percent of the volume. In addition, the recognition of the deficit is also one of the reasons why we are hosting events like the WEF; so global investors can appreciate the huge opportunity that Nigeria presents in this area. During the conference, we intend to show case the 30-year infrastructure Master plan we have developed and allow investors identify the opportunities that suits their portfolio.

38. Most of the developing economies like China, India, and Brazil that the world is today celebrating as economic success wouldn't have become this successful without adopting **multi-year development plans**. Why after knowing that their successes are as a result of carefully designed multi-year economic planning, we are yet to adopt such a multi-year development model? In other words, why wouldn't you agree that Nigeria too needs that in order to move faster and more sustainably in its quest for industrialization and economic diversification and job creation for millions of the country's unemployed young men and women?

- Yes, these development plans are needed and it is NOT true that we lack such plans. We currently have the Nigeria Vision 20:2020 document as well as the Transformation Agenda which provide the overarching direction for the Government's development programs.

- The Nigeria Vision 20:2020 provides a long-term plan with concrete strategies needed to launch Nigeria onto a path of sustained and rapid socio-economic development. Vision 20:2020 builds on the previous National Economic Empowerment and Development Strategies (NEEDS), and is based on three pillars: to guarantee the productivity and wellbeing of the people of Nigeria; to optimize the key sources of economic growth; and to foster sustainable social and economic development.

- As you may be aware, the current administration also initiated the Transformation Agenda (TA) which is based on the Vision 20:2020 and the First National Implementation Plan. The Transformation Agenda targets thematic areas such as the real sector; infrastructure development; human capital development; and private sector investments.

- In addition to the Transformation Agenda, there are also macroeconomic frameworks and sectoral master plans which are used to guide the formulation of government programmes. For example:

    - For macroeconomic planning, we currently have the fiscal strategy paper (FSP) and the medium term expenditure framework (MTEF) which present the government's revenue and expenditure forecasts in the medium-term.
    - For our industrial policies, the Federal Ministry of Industry, Trade and Investments recently developed the National

Industrial Revolution Plan (NIRP), which aims at industrializing Nigeria and diversifying the economy into sectors such as agro-processing, light manufacturing, and petrochemicals.

- For our long-term infrastructure investments: the National Planning Commission developed the National Integrated Infrastructure Master Plan (NIIMP) which provides a comprehensive 30-year infrastructure development plan for Nigeria.

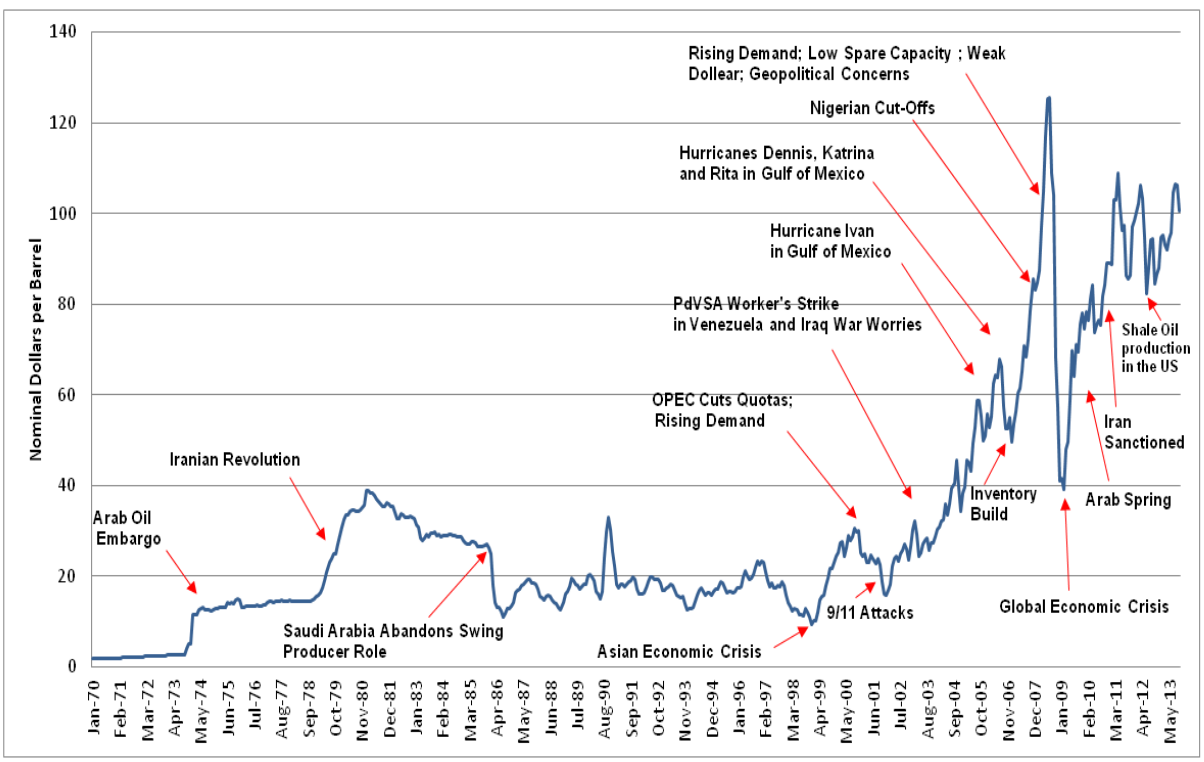
39. As the Coordinating Minister of the Economy, can you precisely clarify how much is AMCON's debt exposure and what will its defaulting mean to the country's economy?

- AMCON’s total debt exposure in terms of issued bonds currently stands at N4.67 trillion, after paying down N1 trillion in December 2013. Of the amount outstanding, N868 billion is due for redemption in 2014, leaving AMCON with a total of N3.8 trillion.
- A system is in place to ensure the redemption of AMCON’s outstanding debt when they fall due. This includes:
  - A Sinking Fund called the Banking Sector Resolution Cost Trust Fund, into which Nigerian Banks will contribute yearly, 0.5 percent of total assets, and the CBN will contribute N50 billion per annum for 10 years until AMCON has repaid all outstanding obligations. This Trust Fund is managed independent of AMCON, with a Board of Trustees to manage and protect the funds.
  - Recoveries on Non-Performing Loans (NPLs) purchased; proceeds from the sale of shares in intervened banks; proceeds from the sale of AMCON-owned banks; and income generated from cash reinvestment.
- In view of this, we are confident that the chances of a default or crystallization of the FGN guarantee on AMCON’s bond are remote.

40. Why are we using the 10 to 15 years moving average to arrive at your 2014 proposed benchmark as against the traditional 5 to 10 years moving average we have always used? Is it because using the 5 -10 year average will not give you the benchmark price you desire?

- The choice of the coverage period for benchmarking purposes in an oil dependent economy is dynamic and must have some judgment based on objective factors. The fundamental concern is that when we look at the historical behavior of oil prices we observe that they are susceptible to huge shocks. These shocks often persist for a while, and revert only slowly back to their long-run mean position (see Fig 1. below; and Okogu (forthcoming)[6]). In other words, we need to use a much longer time horizon if we want to assess the long-run price for oil (which is estimated to be about $50 per barrel).

Fig. 1: Long run trends in oil price movements



Notes: For further discussion, see Okogu, Bright (forthcoming), *Characterizing the Oil Price Behavior: Unit Root Tests with and without Structural Breaks, and Fiscal Implications*, BoF Working Paper

[6] Okogu, Bright (forthcoming), Characterizing the Oil Price Behavior: Unit Root Tests with and without Structural Breaks, and Fiscal Implications, BoF Working Paper

- The Federal Ministry of Finance therefore adopted an average of the 15- and 10-Year moving average to adequately cater for both long-term trends and short-term realities. Our choice of a longer-year moving average is also on the basis of the fact that oil prices in the more recent years have greatly been influenced by geopolitical event. Indeed, from a casual look at Figure 1, we can observe that the last decade has witnessed greater volatility in oil prices than preceding decades.

- To reiterate an earlier response, we believe that the factors which currently drive the global commodity markets are both fundamental and speculative, and these factors create uncertainties in the markets. Even OPEC captured this view succinctly in its 2013 World Oil Outlook Report that:

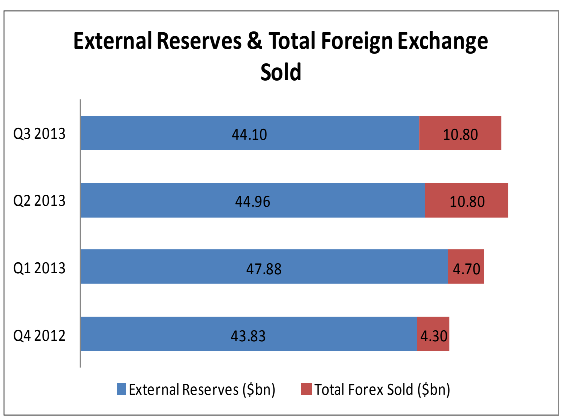
  > *[Uncertainties] that surround the medium to long-term energy future stem from many drivers, such as the world economy, policies, technology and consumer choices.*

- Of course, the events of the 2008 financial crises are fresh in our memory – when oil prices crashed from $147 per barrel to $38 per barrel over a 4-month period! Similarly, we recall the sudden dip in global oil prices in November 2013 following the announcement of a US-Iran nuclear deal which has raised expectations that Iran would soon restore oil production to pre-sanctions levels. Overall, in our view, we view the recent high oil prices are partly attributable to temporary interruptions in major oil producing countries such as Iran, Libya, Iraq, Syria, etc.

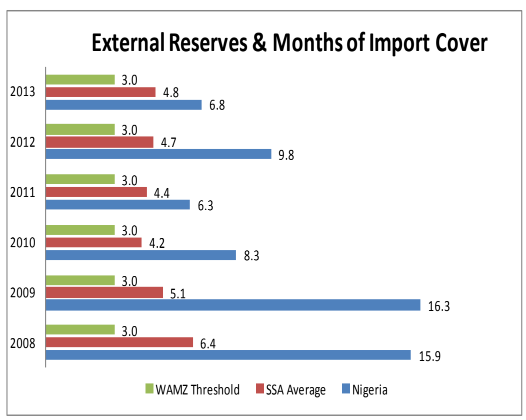
- Therefore, in arriving at an appropriate benchmark oil price, we believe that the 10- and 15- year moving averages would provide the most reliable estimates, which will average out short-term fluctuations and highlight longer-term trends or cycles.

41. This time last year you informed this committee that our external reserve position was about $48 billion and the balance on our excess crude account was about $9 billion. You also said that the plan was to grow these balances to about $50 billion and $10 billion respectively. However we are hearing that the balances have dropped to $43 billion and $3 billion respectively. And you are saying all is well?

- You would agree that these were indeed good targets to aspire to under the existing circumstance. External reserves and ECA accretion are a function of our foreign trade (in our case, largely from oil revenue). This is dependent on the magnitude of our revenues (largely oil) - price of oil in the international market as well as the volume of our crude oil sold. While oil prices have been relatively stable in the international market, we have experienced several disruptions to oil production.
- The Nigerian economy suffered from oil theft and pipelines vandalism at various times in 2013, resulting in the loss of about 300,000-400,000 barrels per day. Thus, rather than increase both the level of external reserves and ECA as intended, this quantity shock led to depletion in both accounts. Some funds were also used to augment FAAC allocations in 2013 while the CBN sold more foreign exchange in order to defend the Naira. Specifically, the total amount of foreign exchange that the CBN sold increased from $4.3 billion in the fourth quarter of 2012 to $10.80 billion in the third quarter of 2013. This has implication for the level of reserves.



Source: CBN Third Quarter Economic Report, 2013



Source: CBN and IMF

- The implication of the forgoing is a shortfall in foreign earnings, a lower foreign trade balance, and lower revenues than planned to fund the annual budget. This poses serious challenges to the Central Bank (monetary-side issues) management of foreign exchange market with a goal to ensure stability of the Naira. On the fiscal side, the ECA was on different occasions used to augment FAAC allocations.

- However, despite the depletion in the level of external reserves, Nigeria is still in a comfortable zone. This is because the level of our reserve is able to cover more months of imports when compared with the 3 months requirement under the convergence criteria of the West African Monetary Zone (WAMZ). In addition, Nigeria's external reserve level is able to cover more months of imports than the sub-Saharan Africa average.

- Whether all is well or not is clearly a function of the objective. Now, is all well because we are not meeting planned sales volumes or foreign earnings or revenues? No. But, viewed against a positively changing situation, Nigerians and indeed the international community must be told the truth – all is well for now. We just need to be extra vigilant and ensure that we bring back both oil and non-oil revenues to pre-2013 levels.

42. Crude oil projections for 2013 were 2.53 million barrels per day while actual figures as supplied by the NNPC/DPR/MTEF have averaged about 2.3 million barrels per day giving a shortfall of about 9%. Could this alone have caused such a drastic reduction in our reserves and savings positions?

- No, this alone is not responsible for the drop in our reserves (which by the way cannot be characterized as drastic) and savings position. As rightly indicated, the said 'shortfall of 9%' implies some shortfall in Government revenues which as explained earlier, impacts on our ECA savings as well as on our foreign reserves.

- A critical factor in determining government take from oil produced, as explained in our response to Question 32, is the underlying business arrangement. The NNPC noted during the December 2013 reconciliation exercises that there had been an increasing shift in business arrangements from joint ventures (JV) to production sharing contracts (PSC) which result in a reduced government take. Therefore, a breakdown of the business arrangements under which the said shortfall of about 9% occurred would indicate the actual fiscal impacts.

- Aside from the shortfall in revenues from oil sources, we also experienced underperformance in non-oil revenue collection – particularly for customs revenues. This contributed to lowering the overall savings accumulated in 2013 or the resort to drawdown from savings to augment FAAC allocations.

43. Is any money missing from our anticipated revenue from the NNPC in particular and oil industry in general. If there is, how much? If not, how come such issues emanate from high offices in the executive arm of Government?

- In December 2013, a leaked letter from the Governor of the Central Bank of Nigeria (CBN) to the Presidency alleged that the sum of $49.8 billion from the NNPC had not been repatriated to the Federation Account. The NNPC countered this claim.

- To resolve the ensuing controversy, a meeting of the key stakeholders involved in managing oil revenues was convened by the Ministry of Finance on 17th December 2013 to clarify the discrepancies in oil revenues reported by the CBN. The institutions present at the revenue reconciliation meeting were: the Federal Ministry of Finance, the Federal Inland Revenue Service (FIRS), the Office of the Accountant General of the Federation, the Budget Office of the Federation, the Federal Ministry of Petroleum Resources, NNPC, and the Department of Petroleum Resources (DPR).

- The response below is based on the findings of the reconciliation meeting which was held on 17th December 2013 in the Federal Ministry of Finance.

- At the revenue reconciliation meeting, CBN noted that the non-repatriated $49.8 billion were the proceeds from observed crude oil sales by the NNPC over the period January 2012 to July 2013. The CBN raised these concerns after observing the low accretion to Nigeria's foreign exchange reserves despite sustained high oil prices. According to the CBN, based on data from pre-shipment inspection agents, over the period January 2012 to July 2013, a total of 594.02 million barrels of crude oil were lifted by the NNPC, amounting to about USD65.3 billion. However, the amount remitted into the Federation Account at the CBN amounted to only USD15.53 billion. This prompted the CBN to raise the issue of an observed gap in expected revenues.

- The NNPC however responded that the actual proceeds from crude oil exports over the period amounted to USD67.12 billion, and was thus about USD1.79 billion higher than the revenues reported by the CBN (possibly due to timing differences and NPDC liftings which were not included in the CBN report).

- Moreover, according to the NNPC's records, the total revenues of USD67.12 billion, was comprised of revenues which directly accrued to NNPC (for the Federation Account) of USD14 billion; and additional revenues lifted by NNPC on behalf of other parties as follows: for FIRS (USD15 billion), for DPR (USD2 billion), for NPDC (USD6 billion) and for other third party financing (USD 2 billion). In addition, domestic crude lifted by the NNPC amounted to about USD28 billion. This domestic crude component was not reflected in the CBN's foreign accounts, but rather paid directly in Naira into the Federation Account. Taking account of these various exports conducted on behalf of the non-NNPC parties, the total of USD67 billion was mostly accounted for. This substantially addresses the issues raised by the CBN.

- Finally, the Federation Account indicates that over the period January 2012 to July 2013, a shortfall of USD10.8 billion was recorded from the domestic crude oil receipts. This shortfall had previously been acknowledged by NNPC, but the magnitude of the shortfall is still disputed by NNPC. According to NNPC, the shortfall is explained to be the result of subsidy claims, unrecovered crude/product losses, and cost of strategic petroleum storage (which is currently not captured in the PPPRA template for refunds). This figure is also well-known to all stakeholders at the Federation Account Allocation Committee (FAAC), and is reported and updated on a monthly basis. All parties concerned are also working assiduously through the ongoing reconciliation efforts to resolve the outstanding claims.

44. Referring to the pre-shipment inspection of exports act of 1996 and the Federal Ministry of Finance export guidelines. If any good (oil, gas or non oil) is exported from Nigeria the exporter is compelled to repatriate these proceeds through the domiciliary account of a Nigerian bank. What has been the effectiveness of these laws? Is there full compliance?

- The repatriation of export proceeds back to Nigeria falls under the purview of the Trade and Exchange Department of the Central Bank of Nigeria. The *Finance Committee* may therefore wish to invite the CBN to provide a more detailed discussion of this subject. However, to the best of our knowledge, the laws have been largely effective.

45. If there has not been compliance, would it not make it difficult for us to build up our foreign reserves? Could we not say that the main thrust of the CBN letter was that our foreign reserves are not growing even though there has been a consistent high selling price of crude due to the fact that huge funds are not being repatriated at all or are repatriated through the black market?

- Yes, the CBN noted during the reconciliation meetings that they had raised their initial concerns partly because they had observed the low accretion to Nigeria's foreign exchange reserves. However, in their response, NNPC also mentioned that as a result of the changing structure of business arrangements (e.g. from joint ventures to production sharing contracts), the government take in recent years had been declining. A more extensive response to the revenue reconciliation exercise between the CBN, NNPC, Federal Ministry of Finance and other institutions is summarized in our response to Question 43.

46. Could we say that the issue is not so much that money is missing (which is yet to be determined) but that proceeds that should have found their way back to the Nigerian economy have grown wings or they fly in through the black market, allowing oil industry players have a field day making spreads of up to N7 per dollar in some cases.

- As we discussed previously, the concerns raised by the CBN had been mostly resolved. A more extensive response to the revenue reconciliation exercise between the CBN, NNPC, Federal Ministry of Finance and other institutions is summarized in our response to Question 43.

47. What is the Minister's take on the apparent stagnation of the economy as there seems to be very little job creation and growth in small businesses. Even though the Minister has read out growth figures before it is not telling on the average man on the street.

- The Nigerian economy cannot be described as "stagnant", as shown in our previous responses. Particularly in Question #1, we listed the Federal Government's recent economic achievements – such as investments in transport infrastructure (roads, railways, airports, etc), in the power sector, in water resources, and in communications technology. As a result, we have seen additional growth in agriculture, in the manufacturing sector, and in other service sectors.

- The National Bureau of Statistics estimates that 1.6 million jobs were created across the country in the past 12 months. Sectors which have experienced strong growth and created jobs include the agricultural, oil & gas, manufacturing, housing & construction, and SME sectors.

- The government's economic achievements are creating demonstrable impacts for the average man on the street. As is the case in every country with an unemployment problem, even when the economy creates thousands of jobs, if an individual is still unemployed, they never accept that their Government is achieving any job creation.

    - In agriculture, Nigeria produced over 8 million metric tons of additional food in the past year. As a result, Nigeria's food import bill reduced from N1.1 trillion in 2011 to N648 billion in 2012. Moreover, last year, we produced 1.1 million metric tons of dry season rice across 10 Northern States, employing over 250,000 farmers and youths in these States.
    - In manufacturing, new jobs have also been created across the country. In the Onne Oil and Gas Free Zone alone we created an estimated 30,000 jobs.

- The Government's special intervention programs are also creating jobs opportunities. The YouWiN program has supported young Nigerian entrepreneurs and created over 18,000 jobs. The SURE-P Community Services Scheme has also created 120,000 job opportunities across the country, and the Federal Government's investments in the primary health care services also generated an estimated 178,000 jobs.

- However, given Nigeria's large and growing population, it is worth acknowledging that even more jobs are needed for our growing youth population.

48. Would the Minister say that the various Government initiatives at job creation have not lived up to expectation as they affect only a very small part of the population?

- As we noted earlier in Question 1, our strong economic performance across various sectors is creating jobs, and improving the livelihoods of our citizens. According to the National Bureau of Statistics (NBS) a total of 1.6 million jobs were created in the past year. The NBS jobs data are based on *Quarterly Job Creation* surveys which are conducted in partnership with the Office of the Chief Economic Adviser to the President, the National Planning Commission, and the Federal Ministry of Labour & Productivity. The survey is conducted for a representative sample of 5000 establishments across the nation (all 36 States and the FCT), covering all sectors of the economy.

- Of the 1.6 million total jobs created, we can highlight a few examples which demonstrate the impacts made across the country.

    - In agriculture, the provision of inputs in 10 Northern States enabled dry season farming; and profitably engaged over 250,000 farmers and youths even during the dry season.
    - In manufacturing, many new jobs were also created across the country. For example, the Onne Oil and Gas Free Zone created an estimated 30,000 direct and indirect jobs.
    - The Government's special intervention programs also created job opportunities. The YouWiN program has supported young Nigerian entrepreneurs and created over 18,000 jobs. The SURE-P Community Services Scheme has also created 120,000 job opportunities across the country.

However, given the large number of new entrants into the labor force each year, and the pre-existing stock of people already looking for jobs, we will need to maintain our unrelenting focus on job creation for our youth population. Job creation therefore remains the focus of this Administration.

49. Wouldn't the Minister think that the private sector should be the main driver of job and wealth creation through natural growth of business and start ups being financed by the banking industry?

- Yes, the private sector serves as the engine of growth in modern economies. Banks, and the broader financial sector, also have an important role to play in mobilizing savings and allocating these resources to profitable ventures by the private sector. Our response to Question 48 above clearly puts the private sector as the main source of job creation.

50. If so, what does the Minister think it would do for the local banking industry if this same pre-shipment inspection law and your own export guidelines are enforced to the letter. The oil industry in Nigeria is worth about $50 billion per annum. If even $10 billion of this passes through our local banks wouldn't that give the economy a boost with banks now able to fund longer term and bigger projects?

- The repatriation of export proceeds back to Nigeria falls under the purview of the Trade and Exchange Department of the Central Bank of Nigeria. The *Finance Committee* may therefore wish to invite the CBN to provide a more detailed discussion of this subject.
- However, available, information provided by the CBN indicates that a total of $32.6 billion was repatriated by oil companies via deposit money banks between January and December 2012; and the sum of $10.9 billion repatriated between January and July 2013. These amounts exclude crude oil export proceeds by the NNPC.

Summary of Crude Oil Export Proceeds from January 2012 to July 2013

PERIOD	AMOUNT REPATRIATED (US$)
JAN- DEC 2012	32, 592, 530, 676.39
JAN- JULY 2013	10, 913, 202, 097.13
TOTAL	**43, 505, 732, 773. 53**

Source: Central Bank of Nigeria, Trade and Exchange Department