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# **PREPARING THE 2010-2012 MTFF: COPING WITH THE REVENUE CHALLENGES**

**Presentation to the Budget Consultative Forum**

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**By  
Dr. Bright E. OKOGU  
Director General  
Budget Office**

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# Revenue challenges already evident in 2009...

- Q1 oil & non-oil revenue below projected levels

S/N	DESCRIPTION	2008	2009	2009 1st QTR			
		ANNUAL	ANNUAL	BUDGET	ACTUAL	VARIANCE	
		ACTUAL	BUDGET				
	FGN BUDGET SHARE	N' Bns	N' Bns	N' Bns	N' Bns	N' Bns	%
1	Oil Revenue	2,680.34	969.07	242.27	189.30	(52.97)	-21.86%
2	VAT	54.37	77.95	19.49	15.24	(4.25)	-21.80%
3	CIT	194.07	273.31	68.33	47.19	(21.14)	-30.94%
4	Customs	126.86	225.53	56.38	28.17	(28.21)	-50.04%
5	<b>Sub-Total (1+2+3+4)</b>	<b>3,055.64</b>	<b>1,545.86</b>	<b>386.47</b>	<b>279.89</b>	<b>(106.57)</b>	
6	Independent Revenue	198.23	305.94	76.49	29.16	(47.33)	-61.88%
7	<b>Total (5+6)</b>	<b>3,253.87</b>	<b>1,851.80</b>	<b>462.95</b>	<b>309.05</b>	<b>(153.90)</b>	
8	Actual Bal. in Special Accts		48.57	12.14	-	(12.14)	-100.00%
9	Balances in Special Levies Account		64.82	16.20	-	(16.20)	-100.00%
10	Unspent Balances of previous Fiscal Year		300.00	75.00	221.43	146.43	195.24%
11	<b>Total (7+8+9+10)</b>	<b>3,253.87</b>	<b>2,265.19</b>	<b>566.30</b>	<b>530.48</b>	<b>(35.82)</b>	<b>-6.32%</b>
	<b>* Shortfall (at budgeted Unspent balance)</b>					<b>(182.24)</b>	<b>-32.18%</b>

# Revenue: 1st Quarter 2009 Summary

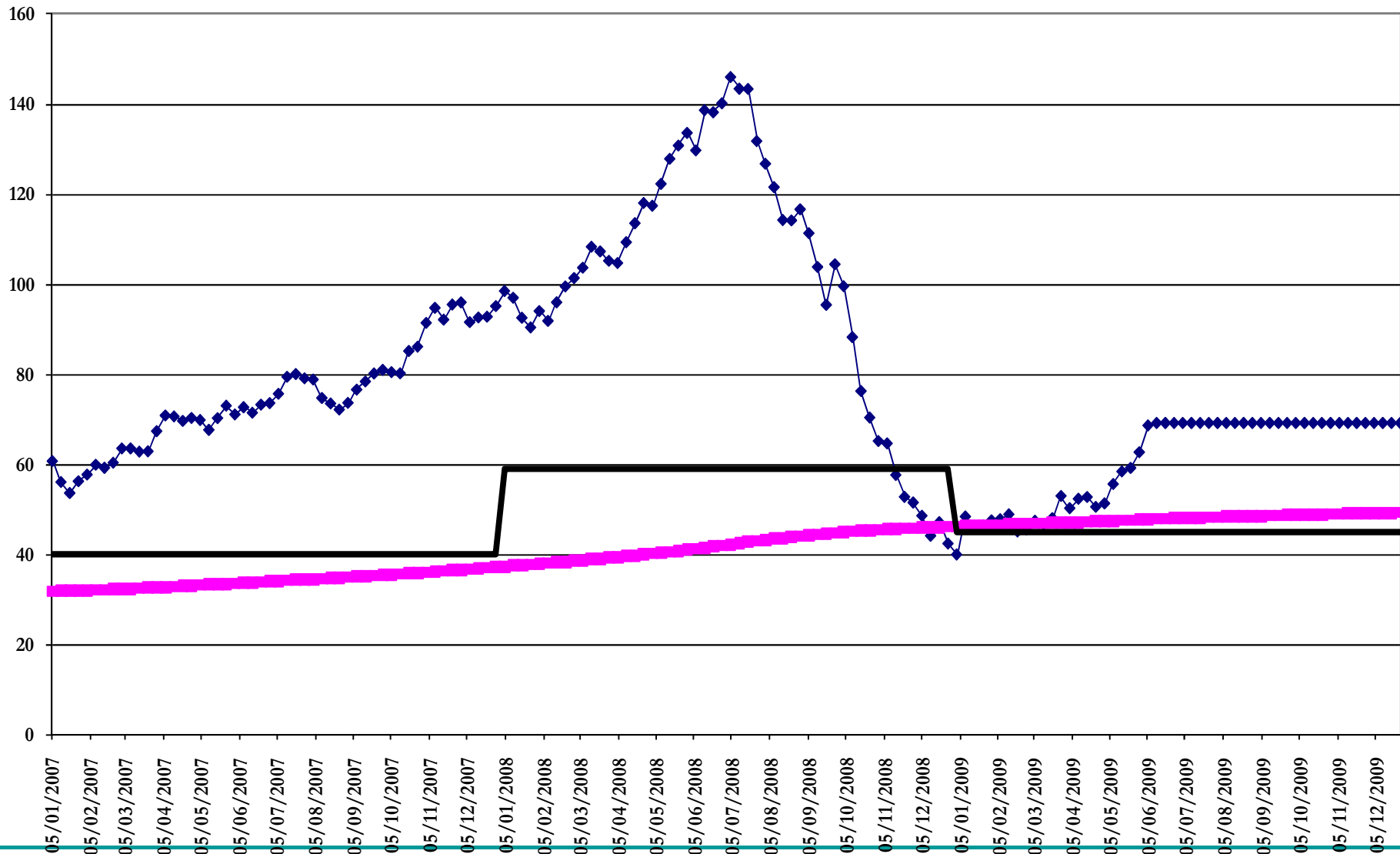
- ❑ Revenue shortfall challenge:
  - ❑ Oil production below budget projection
  - ❑ Non-oil revenue shortfall
- ❑ Aggregate Revenue available for distribution was N654.56bn vs. N895.85bn projected
- ❑ To cope with the challenges of implementing the budget in view of this revenue shortfall, the Government augmented revenues by drawing from the Excess Crude Account in the quarter
- ❑ N221.43bn from 2008 unspent capital vote used to reduce the 2009 1st Quarter shortfall

# Key Oil Revenue Assumptions for 2009

- ❑ Conservative Budget Benchmark Price of US\$45/b
  - ❑ *Actual price fell below \$40 early in the year, but averaged \$52.4 per barrel for the 1<sup>st</sup> half of 2009*
- ❑ Production Quota reduced
  - ❑ *Output fell as low as 1.6mbpd at one point during the year due to disruptions*
  - ❑ *OPEC quota currently 1.7mbpd, but condensate not included*
- ❑ Projected Production of 2.292 mbpd in budget 2009, but...
  - ❑ *Average production about 2mbpd for the 1st half of 2009 (including condensates)*
  - ❑ *Note that PSC arrangements mean that government take not as high*
  - ❑ *General uncertainty on production*

# Oil Price Has Been Volatile...

—◆— Market Price for Oil (future values at five year moving average) —■— Ten Year Moving Average — Benchmark Price



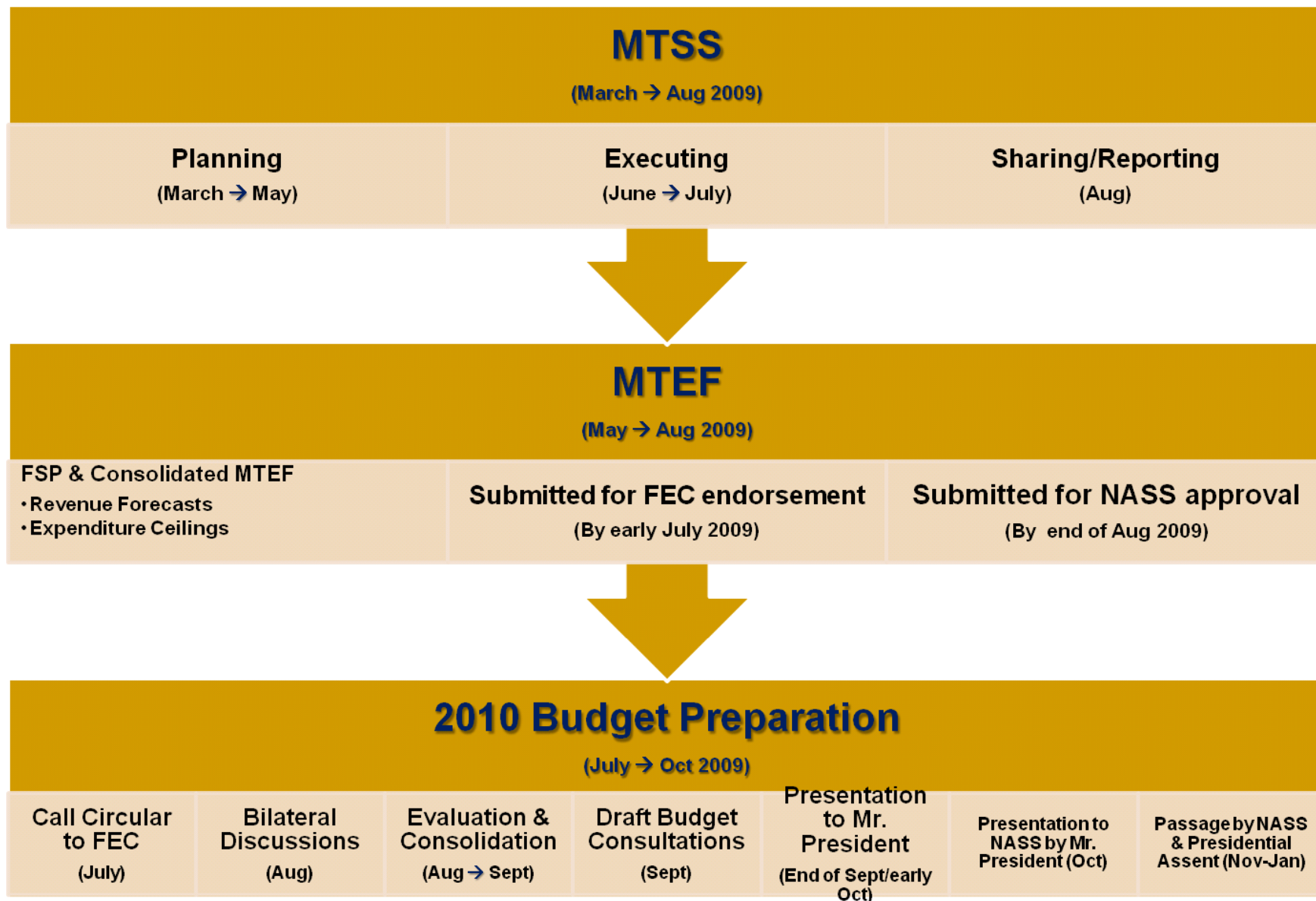
# Non Oil Revenue Underperformance

- ❑ Under-performance, compared to budgeted amount
- ❑ But note the following factors:
  - ❑ Global economic crisis causing decline in taxable activity (Customs)
  - ❑ Fiscal measures (e.g. lower duties due to Common External Tariff) to stimulate economy may reduce some revenue sources
  - ❑ Seasonal nature of some revenue sources point to possibility of improved performance in the 2nd half 2009

# Process of Preparing the 2010-2012 MTFF (1)

- ❖ Under the FRA 2007, the Annual Budget is required to be based on the Medium-Term Expenditure Framework (MTEF) which:
  - ❑ Must be presented by the Minister to the FEC for consideration & endorsement
  - ❑ Must be laid before NASS for their approval no later than 4 months before the start of the next financial year
  - ❑ Shall take effect as endorsed by the FEC & upon approval by a resolution of each House of NASS
  - ❑ Includes: Macroeconomic Framework, Fiscal Strategy Paper, Expenditure/Revenue Framework, Consolidated Debt Statement etc
- 2010-2012 MTEF to be presented to:
  - ❑ Stakeholders Consultation
  - ❑ Federal Executive Council
  - ❑ National Assembly

# Process of Preparing the 2010-2012 MTFF (2)





# Process of Preparing the 2010-2012 MTFF (3)

- ❖ Engaged in Discussions with key revenue generating Agencies:
  - NNPC, FIRS, DPR, OAGF, NCS, CBN
- ❖ With other key MDAs:
  - Nat. Planning and NBS for relevant Assumptions and Parameters
- ❖ Multiple and hard-to-predict uncertainties drive the oil market forecast
  - Global Economic Growth
  - OPEC Production Decisions
  - Non-OPEC Supply Growth
  - Weather & Refinery Outages
  - Socio-political stability in main oil countries
- ❖ 10-year moving average of oil prices & some future projections guiding choice of benchmark price.

# Process of Preparing the 2010-2012 MTFF (4)

- Some key macroeconomic projections
- However, consultations are ongoing ...

Macroeconomic Data	2008b	200b	2010f	2011f	2012f
1 Average exchange rate (NGN/USD)	117	125	147	147	147
2 Inflation	8.5%	8.2%	10.11%	8.50%	8.50%
3 Interest rate (weighted average)	10.20%	9.20%	10.00%	10.00%	10.00%
4 Growth in real GDP	9.3%	8.9%	2.6%	4.9%	5.8%
5 Nominal GDP	24,893	27,672	31,265	35,582	40,857
6 Nominal non-oil GDP	15,669	18,419	20,651	24,577	29,032

## **Policy Responses (1): Improving Public Expenditure Management**

- ❖ Improving the efficiency of government expenditure and adopting belt-tightening measures in line with resource constraints
- ❖ Sound budget preparation and effective execution, focusing on accountability and results
- ❖ Eliminating inefficiencies, corruption, leakages and rent-seeking activities, including in the downstream petroleum sector

## Policy Responses (2): Enhancing Public Revenue

- ❖ Expanding the non-oil tax base through appropriate tax policy and administration;
- ❖ Making revenue generating MDAs to fully disclose earnings, payments and remittances to the Federation Account;
- ❖ Making substantial progress in reforming customs services and ports to facilitate trade and enhance revenue
- ❖ Non-Public Financing Options:
  - Deepening reforms to allow the domestic capital market (pension, insurance funds, etc) play more role in financing

## Policy Responses (3): Cost-Saving Measures

- ❑ Due to serious resource constraints, the 2009 Budget features certain cost saving measures:
  - ❑ Minimal procurement of new vehicles
  - ❑ Minimal construction/acquisition/purchase of new office buildings
  - ❑ Reduced provision for office furniture and equipment in non-essential cases
  - ❑ Reduced provision for international travel and transport
  - ❑ Reduced provision for workshops
  - ❑ Outlays on Meals & Refreshment rationalised across the board
  - ❑ Minimal capital vote for some MDAs
  - ❑ Focus on priority sectors
- ❑ Going forward, government will consider similar policies as may be needed

# Institutional Changes to Increase Non-oil Revenue (1)

- However, increasing non-oil revenue will require significant institutional reforms:

<b>Nigerian Customs Service</b>	
<b>Revenue Items</b>	<b>Requirements/Support</b>
1.Import Duty, Excise & Fees	1. Strict adherence to fiscal policy
2.Non-Federation Account: Customs & Levies	2. Reduce import prohibition
	3. Implement e-payment & automation
	4. Adequate operational equipment
	5. Adequate funding
	6. Manpower training & compensation

# Institutional Changes to Increase Non-oil Revenue (2)

FIRS	
Revenue Items	Requirements/Support
1. Companies Income Tax	1. Full Implementation of e-payment
2. Value Added Tax	2. Abolish tax waivers & incentives
3. Consolidated (PAYE)	3. Early passage of outstanding Tax Bills
4. Education Tax	4. Expand tax base
5. Natl Info Tech Devt. Fund	5. Implement taxpayer registration as condition for payments of contracts
	6. Adequate provision for tax refund to encourage tax payment

## Institutional Changes to Increase Non-oil Revenue (3)

NNPC	
Revenue Items	Requirements/Support
1. Current PPT from PSCs	1. Fiscal regimes for all PSCs to be subject to the relevant Statutes
2. Arrears of PPT from PSCs	2. Review of the 1993 PSCs as initiated by the Ministry of Petroleum
3. PPT & Royalties from all PSCs	3. Early passage of Natural Gas Reform Bill by the National Assembly
4. Gas Tax & Royalties	



# Institutional Changes to Increase Non-oil Revenue (4)

## ❖ Enhancing Remittances of Operating Surpluses & IGR

- In line with § 162 of the 1999 Constitution, § 21-24 of the Fiscal Responsibility Act 2007, FG corporations, agencies and public enterprises are required to submit to the Minister of Finance the 3-year Estimates of their Annual Budgets and Projected Operating Surpluses
- These bodies must establish a General Reserve Fund into which it shall save 20% of its operating surplus
- The balance of 80% is to be paid into the Consolidated Revenue Fund no later than 1 month after the statutory deadline for the publication of accounts; these surpluses therefore constitute Federal Treasury Revenue
- Such bodies include:
  - CBN
  - CAC
  - FAAN
  - FIRS
  - National Maritime Authority
  - NNPC
  - NDIC
  - SEC
  - NAFDAC
  - Nigerian Insurance Fund
  - BPE
  - NPA
  - NITEL
  - Nigeria Reinsurance
  - Nigerian Social Trust Service
  - Nigerian Customs Service

# End Notes

- We face revenue challenges arising from oil and non-oil sources
- Government is exploring multiple avenues to solve the Niger Delta Crisis to ensure oil output recovery
- Govt will continue to monitor oil revenue developments to:
  - Ensure higher revenue from non-oil sources by implementing certain measures to support revenue agencies
  - Audit on MDAs finances to ensure better collection and remittance to Treasury
  - As necessary, reprioritise spending by MDAs in line with the Seven-Point Agenda
  - Devise effective way to manage larger deficits