A Citizens' Guide to Understanding the 2009 Federal Budget

Budget Office of the Federation

Federal Ministry of Finance

❖ PREAMBLE

■ FOREWORD

This *Citizens' Guide to Understanding the 2009 Budget* provides the ordinary Nigerian citizen with an insight into the Federal Budget preparation and implementation process and specifically, what the 2009 Budget holds for all Nigerians. The purpose of this *Citizens' Guide* is to increase budget openness and transparency by shedding light on how the Government uses the Federal Budget as a tool to manage the nation's financial and other resources.

Its plain and accessible presentation in non-technical terms communicates in a clear and easily understood way the essence of the annual Federal Budget. I hope this medium will be effective in enhancing the ordinary citizen's understanding and appreciation of the many facets of our work on the Budget. I also hope that this *Citizens' Guide* helps the reader engage more meaningfully in the debates and discussions surrounding the Budget so that, ultimately, the Government and its officials are better held accountable for the public resources entrusted into their care for the benefit of all Nigerians.

I therefore commend this *Citizens' Guide* to all Stakeholders that wish to gain a definitive insight into our Federal Budget, and the process of preparing and implementing it.

Dr. Mansur Muhtar

Honourable Minister of Finance

■ PREFACE

The Federal Budget is the Federal Government's instrument for allocating public resources among the nation's competing socio-economic needs. It is a financial representation of government's spending plans for delivering public goods and services to our key stakeholders – Nigerian citizens.

However, many stakeholders do not understand the Budget due to misconceptions arising from the complexity of the Budget, with its innumerable heads, sub-heads, figures and provisions. Without this understanding of what the Budget is all about, citizens and other stakeholders cannot easily engage in the budget process and hold Government accountable for the prudent management of the financial resources held in trust for the benefit of all Nigerians.

This *Citizens' Guide* therefore seeks to illuminate the Budget by making it a more open, transparent and accessible document, empowering citizens to have a better understanding of the Budget preparation process, implementation and review and to ultimately be in a better position to influence, monitor and assess the effectiveness of Government's fiscal policies.

This *Citizens' Guide* is presented in two parts. The first addresses general issues regarding the Federal Budget: what it is, how it is prepared, what financial resources are spent on and where the revenue comes from. This is followed by the second part which focuses specifically on the 2009 Budget – its background, contents and priorities – as well as options available to Government for coping with the challenges of the oil market downturn.

We hope that the *Citizens' Guide* will enable readers to have a better understanding of this important aspect of Government's work, and that it will put citizens in a better position to hold their government accountable.

Dr. Bright Okogu

Director-General, Budget Office of the Federation

■ TABLE OF CONTENTS

❖ PART A: GENERAL ISSUES

■ WHAT IS THE FEDERAL BUDGET ALL ABOUT?

The Federal Budget documents the direction of government policies and spending priorities for a financial year, including details of expected revenue and expenditure. The law requires the President to present the Federal Government's budget to the National Assembly for approval. By law, it covers a stated period, called a financial year, which in the Nigerian case, runs from 1 January to 31 December every year.

The Budget is therefore the Federal Government's instrument for delivering essential public goods and services, such as education, healthcare, infrastructure and national defence to its citizens to meet their social and economic needs. To provide these goods and services and generally carry on the business of governance, government needs to plan its financial activities and come up with detailed spending plans. As a statement of government's policy direction and spending priorities, the Federal Budget also affects the (a) general price level of goods and services in the economy (b) interest rates at which individuals and businesses can borrow money (c) exchange rate of the Naira against other currencies and (d) the rate at which the economy grows. These are some of the major factors, or 'macroeconomic variables', as Economists call them, which affect the wellbeing of the economy as a whole and by extension the social and economic wellbeing of Nigerians.

■ WHAT IS THE FEDERAL BUDGET SPENT ON?

Spending through the Federal Budget may be classified into 3 broad categories, namely:

- Statutory Transfers;
- Debt Service; and
- MDA Expenditure (that is, spending by the Ministries, Departments and Agencies of Government).

What are Statutory Transfers?

By law, the Federal Government is required to make certain mandatory expenditures in respect of (a) the National Judicial Council, (b) the Niger Delta Development Commission and (c) the Universal Basic Education Commission. These mandatory expenditures are referred to as Statutory Transfers.

The National Judicial Council

The National Judicial Council is the body charged with responsibility for the administration of the Nigerian judiciary. The Constitution makes it mandatory for the Federal Government to transfer to the Judiciary, funds necessary for its operations. This requirement is designed to protect the independence of the Judiciary, which is a separate arm of Government.

The Niger Delta Development Commission

The Niger Delta Development Commission (NDDC) is charged with responsibility for accelerating the development of the Niger Delta region. To fund the NDDC's activities, the Federal Government is required by law to contribute an amount equivalent to 15% of the amount received by oil producing States from the Federation Account. The money transferred to the NDDC is spent on development projects in the Niger Delta. The work of the NDDC complements the work of the newly created Ministry of the Niger Delta.

The Universal Basic Education Commission

In 2004, the Federal Government passed a law which requires every child to compulsorily complete basic education. To pay for this free and compulsory basic education, the law requires the Federal Government to set aside and transfer 2% of its revenues to the Universal Basic Education Commission (UBEC). The UBEC then distributes this money to States and Local Governments to pay for this education.

In all, Statutory Transfers, on the average, account for about 10% of spending by the Federal Government. This is money that the Federal Government must spend as it is a legal requirement.

Debt Service

Every time the Federal Government spends more than the revenues it earns, money has to be sourced to pay for the additional spending. The money for the additional spending usually comes from borrowing. The moneys borrowed within Nigeria are referred to as Domestic Debts while the money borrowed from entities outside Nigeria are referred to as Foreign or External Debts. The payment of interest and principal on money borrowed by the Federal Government is referred to as Debt Service. While in the past, the Federal Government used to spend more money than it earned, during the last few years, the Federal Government has saved some money due to the fact that it spent on the basis of a Budget Benchmark Price of oil lower than the actual oil price. Lower public borrowing allows more loans to be available to private businesses that need credit and release more money for Government to provide essential public goods and services.

MDA Expenditure

Statutory Transfers and Debt Service currently make up on the average about 27% of Federal spending. The balance of 73% is what is referred to as MDA Expenditure, that is, money available to Ministries, Departments and Agencies (MDAs) of Government to provide public goods and services.

MDA Expenditure is made up of two parts, namely Recurrent Expenditure and Capital Expenditure.

Recurrent Expenditure: Salaries, Pensions & Overheads

In order to provide public goods and services, and keep government running, the Federal Government has to employ people to work in the various MDAs and pay them **salaries**. In addition to the pension contributions paid on behalf of workers under the newly introduced Contributory Pension Scheme, the Federal Government continues to pay the **pensions** of existing pensioners under the old Pay-As-You-Go System. Finally, the Government incurs **overhead costs** just like any ordinary business. These include payment for electricity, water, telecommunications, office rent, office equipment and consumables, staff training, transportation, etc.

Capital Expenditure

This part of MDA Expenditure is used to provide infrastructure such as roads, water and power; fund educational services such as schools, colleges and universities; and provide healthcare facilities and services.

■ How is the Budget Funded?

The money the Federal Government spends on the Budget comes through three main sources. These are the Federal Government's share of the Federation Account, the Value Added Tax Pool and Independent Revenue. This section looks more closely at these sources and how money flows through them to fund the Federal Budget.

The Federation Account & Interaction between the Tiers of Government

The Federal Government, like the States and Local Governments, draws its main source of funding from the central distributable pool known as the Federation Account. The Federal Government manages the Federation Account on behalf of the other tiers. This is because the Constitution of the Federal Republic of Nigeria directs that all revenues collected on behalf of the Government of the Federation shall be paid into the Federation Account and then shared among the Federal, States and Local Governments in accordance with the existing sharing formula. For non-Value Added Tax revenue, the formula is indicated in Figure 4.

Revenues from Value Added Tax are shared according to the formula shown in Figure 5.

The States and Local Governments, which are the other levels or tiers of government in Nigeria, also provide public goods and services, such as Education, Healthcare and Roads to citizens within their geographic areas. However, under the system of government we operate, each level of government is responsible for the management of its own finances and the provision of public goods and services within its area of authority. This is referred to as 'fiscal autonomy' and has the backing of the Constitution. This is why this *Citizens' Guide* limits the discussion to the Federal Budget.

Oil Revenue

The first and most important source of revenue to the Federation Account is **Oil Revenue**. This is made up of (a) Crude Oil Sales (b) Oil Taxes and (c) Royalties.

Crude Oil Sales

Nigeria produces large quantities of crude oil under a number of business arrangements with private oil companies. The Nigerian National Petroleum Corporation (or NNPC) represents the interest of the Federation in these business arrangements, the most important of which is the Joint Venture. Under this arrangement, private oil companies form a partnership with NNPC to find and produce crude oil. The private oil companies and NNPC (through the Budget) contribute money towards the running costs of the business, and then share the crude oil that is produced. The money contributed is called Joint Venture Cash Calls. NNPC takes the Government's share of the crude oil and sells this on the international and domestic markets. This is a major source of revenue to the Federation Account.

Gas Sales & Oil Taxes

In addition to crude oil sales, the **Sale of Natural Gas** is also becoming important and should become a significant source of revenue in years to come. In addition to taking its share of the crude oil produced, Government imposes taxes on the private oil producing companies. These taxes which are referred to as **Oil Taxes** are also paid into the Federation Account. They include (a) Royalties, (b) Petroleum Profits Tax, (c) Rents and Other Oil Taxes.

Royalties

In recognition of government's sovereign ownership of the crude oil, private oil companies are required to pay a fee for every barrel of crude oil they produce. These fees are referred to as Royalties and are paid whether or not government shares in the crude oil produced. Presently the rate of Royalties averages about 20% of the value of crude produced.

Petroleum Profits Tax

Government also taxes the profits of the private oil companies. This tax is levied at a rate of 85% of profit. It is the second most important source of revenue to the Federation Account.

Rents and Other Oil Taxes

Government charges a fee, known as **Rent**, for the use of the land from which oil is extracted (oil acreages). There are other sundry fees and charges paid by oil companies. These include penalties for gas flaring and fees for the right to lay pipelines to convey the oil produced. These and other similar charges are generally classified under **Other Oil Taxes**.

NON-OIL REVENUE

The second category of revenue to the Federation Account is called **Non-Oil**

Revenue. This refers to revenue that is not derived from or associated with oil. These include (a) Companies' Income Tax (b) Customs and Excise Duties (c) Value Added Tax (d) Levies and (e) Others.

Companies' Income Tax

Tax is levied on the profits of companies (other than those producing crude oil) by government. The tax is levied at a rate of 30% on the profits of these companies. This is also an important source of government revenue.

Customs and Excise Duties

Goods imported into Nigeria are also liable to a tax. This charge is called Import Duty and presently ranges from 0-35%. Imported tobacco also attracts an additional surcharge.

Value Added Tax Pool

Government levies a tax on the purchase of goods and services. This tax is levied at 5% on the value of these purchases and is called Value Added Tax (or VAT). VAT is a consumption tax meaning that it is only levied on actual purchases made. VAT is not paid directly into the Federation Account but is collected in an account called the VAT Pool from where it is shared. The Federal Government gets only 15% of this, out of which 1% goes to the Federal Capital Territory.

Independent Revenue

Independent Revenue is the third major source of revenue and comprise revenue which belongs to the Federal Government and which is not derived from either the Federation Account or the VAT Pool. This includes (a) Operating Surpluses of Federal Agencies and Corporations (b) Dividends from investments in companies and (c) Other sundry revenue, such as internally generated revenue of Federal Government MDAs.

The foregoing represents the major sources of revenue to the Federal Government. Figure 9 shows how these revenues flow to fund the Budget.

Figure 9: The Flow of Revenues

As can be clearly seen in Figure 10 below, Oil Revenue is by far the largest source of revenue for the Federal, State and Local Governments, accounting for up to 80% of total government revenues.

The ability of the Federal Government to raise revenues to fund its spending plans therefore depends to a large extent on the price that it can obtain for its crude oil. Unfortunately, the crude oil market has always been very unpredictable and as oil prices fall, oil revenue accruing to the Government falls. However, Government has been trying to reduce its dependency on the oil sector by developing other sectors of the economy.

In recent years, the Government has been taking simple and practical steps to protect its spending plans from swings in the price of crude oil. In planning public expenditure, instead of using the current price of oil, the Government has used a price that is considered to be realistic and sustainable in the long term for budgeting purposes. This is referred to as the Budget Benchmark Price and it is often below the market price. If oil is sold above the Budget Benchmark Price, the extra revenue is saved in an account (called the Excess Crude Oil Account) from where it will be available to fund future spending shortfalls in case the price of oil later falls below the Budget Benchmark Price. In this way Government seeks to ensure that the revenues on which spending is planned are not subject to the swings in oil prices.

■ HOW IS THE FEDERAL BUDGET PREPARED?

Shared Responsibility for the Budget

The responsibility for the Federal Budget is shared between the Executive and Legislature, which are two of the three arms of the Federal Government. The Constitution requires the President to submit a budget for the next financial year to the National Assembly for approval. Therefore, the Executive is responsible for preparing the Federal Budget while the Legislature approves it.

The Executive's Plans & the Seven-Point Agenda/Vision 20:2020

The President gives directions to the Minister of Finance and the Budget Office of the Federation to prepare the Budget in line with the government's vision and direction for Nigeria, which is currently contained in Mr. President's Seven Point Agenda and the Vision 20:2020 Plan. These plans indicate what the Government intends to do to reduce poverty, generate wealth and create jobs. As the preparation of the Federal Budget is done against the background of these development plans, the Budget serves is a policy tool for attaining the immediate, medium and long-term development goals of Government.

The Medium-Term Revenue Framework

The Budget Office of the Federation, in consultation with the revenue generating agencies of the Federal Government, projects estimates of oil and non-oil revenue. Once the underlying assumptions are agreed, they are then used to estimate the amount of total revenue that will accrue to the Federation Account. The share of the Federal Government is then determined. These revenues are estimated for the next three years and are documented in the Medium-Term Revenue Framework.

The Medium-Term Expenditure Framework

The next step is to determine (a) the maximum amount that the Federal Government will spend in the financial year (b) how this amount is to be sub-allocated among the major expenditure heads and (c) the difference between available revenues and the total amount to be spent.

In determining these estimates, the aim is to balance the need to spend money to attain the nation's developmental goals and the need to live within our means. The fiscal rule being observed under the *Fiscal Responsibility Act 2007* is that total spending should not exceed total revenues by more than 3% of GDP (Gross Domestic Product). GDP is the measure of the total value of goods and services produced within the economy in any single year.

Once the maximum amount of money to be spent is ascertained, the amount of the Budget Deficit/Surplus is determined by subtracting total spending from total revenues. If expenditure is more than revenues, there will be a Deficit and the Government must determine how this is to be financed. This is done usually by borrowing, asset sales or other sources.

The maximum amount of spending, called the Aggregate Expenditure Ceiling, is then sub-allocated among the three major heads of expenditure, that is, Statutory Transfers, Debt Service and MDA Expenditure. All of the above are documented in what is referred to as the Medium-Term Expenditure Framework (MTEF) which covers a three-year period.

Stakeholders' Consultations

The Medium-Term Revenue and Medium-Term Expenditure Frameworks are then presented to different Stakeholders (including the National Assembly, the Organised Private Sector, Civil Society and the Public Sector) for their input and buy-in. The Stakeholders' consultations typically take the form of a one-day open and interactive session. However, for the National Assembly, the consultations are more rigorous and continuous, and their input is particularly taken into account in preparing the Budget.

MDA Expenditure Ceilings

The next stage is to sub-allocate MDA Expenditure among the various MDAs of the Federal Government. This is done by the Budget Office of the Federation, with the supervision of the Honourable Minister of Finance, and is subsequently approved by Mr. President. In allocating the spending ceilings, account is taken of the size of each MDA's payroll and the priority level accorded to the services to be delivered by each MDA. An Expenditure Ceiling is allotted to each MDA from which it must meet all its needs and deliver public goods and services. The allotment of the Expenditure Ceilings is to ensure that the sum of spending by MDAs does not exceed the Aggregate Expenditure Ceiling determined in the Medium-Term Expenditure Framework. Indicative Ceilings are initially allotted and later finalised.

Medium-Term Sector Strategies (MTSS)

MDAs are now required to develop and articulate Medium-Term Sector Strategies (or MTSS) consistent with the Seven-Point Agenda and the Millennium Development Goals. This entails clearly articulating their goals and objectives against the background of the overall goals of the Seven-Point Agenda and the attainment of the Millennium Development Goals. The MDAs identify and document the key initiatives (that is, projects and programmes) that will be embarked upon to achieve their goals and objectives, bearing in mind their Expenditure Ceiling. These initiatives are costed, phased over three years and linked to expected outcomes. The outcomes of the MTSS are then used as policy documents against which budget proposals of the MDAs are evaluated. This has been a feature of the budget preparation process since 2005 and covers at least 80% of MDA Expenditure.

Approval of the Medium-Term Expenditure Framework & the Fiscal Strategy Paper by the Federal Executive Council & National Assembly

The Medium-Term Revenue Framework, the Medium-Term Expenditure Framework and statements of how the Federal Government proposes to conduct its fiscal affairs for the next three years are summarised in a Fiscal Strategy Paper. The Fiscal Strategy Paper is then presented to the Federal Executive Council, along with the Medium-Term Expenditure Framework, for consideration and approval, so that required spending tradeoffs can be properly debated and agreed. Once approved by the Federal Executive Council the Medium-Term Expenditure Framework and the Fiscal Strategy Paper are shared with the National Assembly.

The Budget Call Circular & Evaluation of Submissions by MDAs

The next stage is the issuance of the Budget Call Circular by the Minister of Finance. The Budget Call Circular gives detailed instructions to the MDAs on how to prepare and submit their expenditure estimates in accordance with government's priorities and within the limits of their Expenditure Ceilings. MDAs then prepare their budget proposals in accordance with the Budget Call Circular and within their Expenditure Ceilings, and submit same to the Budget Office of the Federation. The principal role of the Budget Office at this stage is to ensure that MDAs have stayed within their allotted Expenditure Ceilings and that the budget proposals are consistent with the priorities of government and the MTSS. The Budget Office evaluates and consolidates the submissions of the various MDAs and prepares the draft Budget.

The President's Approval & Transmission of the Budget to the Legislature

The draft Budget is then presented to the President for approval. Once approved by the President, the Budget and other supporting documents are formally presented by the President to the National Assembly for consideration and appropriation. The Budget is presented at a joint session of the Senate and the House of Representatives.

Approval by the National Assembly & Assent by Mr. President

Following the presentation of the Budget to the joint sitting of the National Assembly, the Budget is debated and then passed by each House of the National Assembly. The two Houses then meet to harmonise their respective positions. The recommendations of the various Committees that have oversight over the MDAs are considered and collated by the Appropriation Committees of each House of the National Assembly. These Appropriation Committees make final recommendations to each House. Once harmonized, the Appropriation Bill is then transmitted to the President for his assent. The President gives his assent and signs the Budget

Appropriation Bill into law.

Clearly, the preparation of the Federal Budget is a long and collaborative exercise, first within the Executive and then between the Executive and the Legislature, along with consultation with various stakeholders.

Figure 12: The Budget Preparation Process

❖ PART B: THE 2009 BUDGET: DELIVERING ON THE PROMISES OF THE 7-POINT AGENDA

■ THE 2009 BUDGET: THE BIG NUMBERS

The 2009 Federal Budget projects a total Federally Collected Revenue of N5.3053trillion which includes Oil Revenue of N3.1148trillion and Non-Oil Revenue of N1.973trillion (as well as other non-Federation Account items such as grants and special levies amounting to N217.5billion). The total Revenue for the Federal Budget is forecast at N2.2652trillion including Independent Revenue of N306billion.

The 2009 Federal Budget proposes an Aggregate Expenditure of N3.1018trillion comprising N168.62billion for Statutory Transfers, N283.65billion for Debt Service and N2.6496trillion for MDA Expenditure (of which N1.0223trillion is Capital Expenditure and N1.6273trillion is Recurrent Expenditure).

The projected fiscal balance for 2009 is a deficit of about N836.6billion. The deficit will be financed from uncollected signature bonuses, privatisation proceeds, recalling some accumulated reserves that the Government has with the African Development Bank's Nigeria Trust Fund, and borrowing from the domestic and international financial markets. However, since the Budget was submitted to the National Assembly for consideration and appropriation, the global economic crisis has deepened. Consequently, the timing of the proposed $500million Naira-denominated bond issue to borrow from the international financial markets is being reconsidered in light of the reality of the international financial markets and given the need to ensure a successful international bond issue.

■ A FOCUS ON DELIVERABLES

As earlier indicated, public spending is all about providing goods and services to Nigerians. In this year's Budget, the MDAs provided details of specific goods and services that they are going to provide to Nigerians in 2009. These deliverables are measurable targets and outputs, against which the performance of the MDAs may be measured. Specifically, in 2009 the Government plans the following:

- Power Generation: to deliver 1.2billion SCF of gas to the domestic market to ensure 6,000MW of power by the end of 2009;
- Works, Housing & Urban Development: to complete the construction and rehabilitation of 3,293km of roads and maintain over 10,000km of federal roads every year for the next 3 years;
- Health: complete modernising work on three Teaching Hospitals in Awka, Calabar and Ife, and seven Specialist Hospitals in Kaduna, Lagos, Kano, Calabar, Enugu, Maiduguri and Abeokuta;
- Security: the Police are targeting a 40% reduction in crime in 7 cities nation-wide, namely Abuja, Lagos, Kano, Ibadan, Port Harcourt, Maiduguri and Onitsha.
- Food Security: increase land under cultivation by 5%, optimise 220,000hectares of irrigated land and irrigate 12,000hectares of arable land to increase crop yields by between 50% and 250%, and increase agriculture's contribution to GDP by 5%; and
- The Federal Capital Territory: complete three key headquarters structures, namely the Foreign Affairs Headquarters, the Shehu Shagari Complex and the Federal Ministry Building Phase II (Bullet House) so that MDAs can relocate here instead of embarking on multiple headquarters projects.

■ GREATER TRANSPARENCY FROM NEW BUDGETARY DISCLOSURES

Grants and Other Non-Federation Account Items in the Framework

The 2009 Budget has some new features that are meant to increase transparency and disclosure of public expenditure in compliance with the *Fiscal Responsibility Act 2007*. For instance, estimates of grants from international organisations to the States and some Federal Government agencies are included in the Revenue Framework. Other disclosures include borrowings by NNPC to fund the Government's share of funding for Joint Ventures. All these disclosures will help the Budget become a more open, transparent and relevant document.

■ Introducing a Performance-Based Budgeting System

The 2009 Budget is different from previous years' budgets due to the increased focus on monitoring and evaluating the actual deliverables achieved by MDAs. This focus on achieving and tracking the impact of monies spent on the welfare of Nigerians is borne out of ongoing reforms moving the budgeting process towards a more performance-based system.

Accordingly, a monitoring and evaluation system has been put in place that uses special electronic templates to systematically track and report on the actual outputs and outcomes achieved by MDAs. This system will ensure that the focus will shift from how much inputs in terms of financial and other resources are allocated to each MDA to what was actually delivered by the various MDAs.

This shift in focus is part of a wider reform of introducing a Programme Budgeting System to replace the existing traditional system. This new performance-based system will provide more information to help government determine which programmes and activities are achieving tangible and positive results for Nigerians, and how to better support them. While this system will take many years to fully implement, the Federal Ministry of Finance and the Budget Office of the Federation will keep the public and other stakeholders fully informed about progress with these reforms.

■ Budget Implementation & Monitoring

Tracking the deliverables promised by the MDAs has been given particular emphasis in the 2009 budget cycle. The Budget Office has an obligation to report on performance under the present budget system. This is because, under the *Fiscal Responsibility Act 2007*, the Budget Office of the Federation is responsible for assisting the Minister of Finance to monitor and evaluate the implementation of the annual Federal Budget. Quarterly budget monitoring and evaluation reports are required to be submitted to the National Assembly and the Fiscal Responsibility Commission. These reports will be available on the websites of the Budget Office of the Federation and Federal Ministry of Finance within a month of their publication.

■ Opportunities for Stakeholder Participation

There are several ways for Nigerian citizens to participate in the Federal Budget process besides reading this *Citizens' Guide* and other reports that are published on the websites of the Budget Office of the Federation and the Federal Ministry of Finance. The Federal Budget is our budget and the benefits it promises are for all Nigerians. Citizens should participate in the budget process by reading published documents and communicating their comments and input to the Budget Office of the Federation. Budget documents may be downloaded from the website of the Budget Office of the Federation (www.budgetoffice.gov.ng), or that of the Federal Ministry of Finance (www.fmf.gov.ng), free of charge. Your comments and input may be communicated in writing to: The Director-General, Budget Office of the Federation, Federal Ministry of Finance, Central Area, PMB 251, Garki, Abuja, Nigeria.

■ Coping with the Reality of a Declining Oil Market

The world is currently facing an economic downturn. The global financial crisis has negatively affected the economic growth of the world's major economies. Many banks and other financial institutions in the world have been negatively affected, global manufacturing companies are making massive job cuts and governments worldwide are intervening to stabilise their markets and economies. Many Asian economies (like China and India) that were growing rapidly and supplying goods and services to the major Western economies are now growing at a much slower pace.

All these developments have affected the demand for crude oil generally, resulting in a dramatic drop in the price of oil. This decline has affected our revenues by reducing the amount of money generated from crude oil and gas sales, petroleum tax revenues and other oil-related sources of income for the government.

As a responsible Government, we must be prepared to act as necessary. Steps for coping with such a situation usually involve some or all of the following measures:

1. Identifying Other Sources of Revenue

2. Cutting and Reprioritising Expenditure

3. Accepting a Larger Deficit & Seeking Ways to Finance It

1. Identifying Other Sources of Revenue

As the global crisis became evident, the Government took steps to reduce the Budget Benchmark Price of oil from $59/barrel in 2008 to $45/barrel in 2009 and output from 2.45million barrels a day in 2008 to 2.292million barrels a day in 2009. Even these downward revisions to the Budget Benchmark Price now appear to be under threat, as the oil sector continues to face challenges.

Table 1: Revenue Framework Extract: Oil Revenue (2007 – 2009)

The Government has also moved to implement measures to increase non-oil revenue to make up for the oil revenue shortfalls.

Table 2: Revenue Framework Extract: Non-Oil Revenue (2007 – 2009)

The increase in non-oil revenue will come not from higher tax rates, but improvements in the efficiency of collection of non-oil revenue by the major revenue generating agencies. The Federal Government will provide the necessary institutional support required to help these agencies achieve their revised collection targets. As a result of the above measures, non-oil revenue is projected to increase by 51.7% as highlighted in Table 3 below. Achieving further increases in non-oil revenue may be difficult but the Government will do all it can to ensure a realisation of the non-oil targets embedded in the 2009 Budget.

Table 3: Projected Increase in Non-Oil Revenue 2008/2009

2. Cutting & Reprioritising Spending to Deliver on the Seven-Point Agenda

Although the global outlook is bleak, Nigeria is better prepared than in past international recessions because of the wise decisions taken to save excess oil revenues over the past few years. Now that our revenues and economy are adversely affected, like those of other countries, by the global economic downturn, we are still in a position to spend on essential public goods and services for the benefit of all Nigerians.

In order to cope with the declining oil revenue, the Government is cutting spending on non-essential items to economise our scarce resources. Votes for international and local training and travels for MDAs have been significantly reduced. Expenditure for the procurement of new vehicles, office equipment and furniture, and building of new headquarters for MDAs have been deferred. Spending on recurrent expenditure items like meals and refreshments has also been curbed.

By focusing the available resources on the key priorities of Government, we can improve the efficiency of public expenditure by spending on the critical areas of our economy. The Government needs to live within its means and reprioritise its expenditures to ensure that the spending plans of the Budget remains efficient and realistic against the backdrop of declining oil revenues. The Government shall continue to monitor these developments and, if necessary, will review all the components of Aggregate Expenditure to ensure that the Budget remains an effective tool to deliver on the promises of this Administration to the Nigerian people.

This is what the 2009 Federal Budget is all about: making better use of our scares resources in the most efficient manner to achieve the Seven-Point Agenda of this Administration. This entails focussing on investing in Critical Infrastructure, developing the Niger Delta, improving Food Security, enhancing Human Capital Development through education and healthcare delivery, implementing Land Tenure Reforms, guaranteeing National Security and fostering Wealth and Employment Creation. Accordingly, the spending priorities of the 2009 Budget are targeted overwhelmingly at these critical sectors. Indeed, about 93% of total capital expenditure of N1.022trillion is targeted at five key sectors that encompass the Seven-Point Agenda.

For instance, regarding the Niger Delta, N51 billion is earmarked for the newly-created Niger Delta Ministry toward developing the region in line with the Seven-Point Agenda. This is in addition to the normal statutory allocation to NDDC, also for development work in the Niger Delta region.

The new Ministry will focus on improving critical infrastructure, the environment, youth development and grass-root empowerment in the region.

Figure 17: The Mandate of the Niger Delta Ministry Under the Seven-Point Agenda

(Source: 2009 Budget Speech}

3. Accepting a Larger Deficit & Seeking Ways to Finance It

As seen from the 2009 spending priorities, the Government is committed to developing the national economy by increasing investments in building roads, railways, electrical power facilities, gas pipelines, healthcare delivery, educational institutions, dams and irrigation systems, among others. However, as there are fewer resources to pay for these investments, there will be a larger deficit and the Government will have to borrow to meet some of these obligations.

The projected fiscal balance for 2009 is a deficit of about N836.6billion. This deficit or funding gap between our projected revenues and expenditure must be financed somehow if our budget is to balance. While this deficit is higher than it has been in recent years, many other national governments across the world are also experiencing larger deficits as they seek to stabilise their economies through these challenging times. The Government expects that this deficit will reduce over the next few years to a more modest level as required by the *Fiscal Responsibility Act 2007*.

In 2009, the Government proposes a combination of sources to finance the deficit. These sources include signature bonuses that have not yet been collected, proceeds from privatisation and withdrawing some accumulated reserves that the Government has with the African Development Bank's Nigeria Trust Fund. The balance will be financed by borrowing from the domestic and international financial markets. However, as indicated earlier the Government is reviewing the timing of the issuance of the Naira denominated international bond to ensure its success.

By adopting a combination of these three measures – increasing non-oil revenue, reprioritising spending and managing a larger deficit – the Federal Government is responding proactively to the impact of the global economic downturn. Government remains open to various options and will continue to be vigilant to ensure a successful implementation of the 2009 Budget in spite of the obvious challenges.