

BUDGET 2000

PEOPLE'S BUDGET

**BUDGET ADDRESS DELIVERED BY
HIS EXCELLENCY PRESIDENT OLUSEGUN OBASANJO
TO THE JOINT SESSION OF THE NATIONAL ASSEMBLY, ABUJA
WEDNESDAY, 24TH NOVEMBER, 1999**

It is with a deep sense of responsibility that I present to you the budget of the Federal Government of Nigeria for the year 2000. This is unique in the sense that this will be the first full budget conceived by this Administration. When we came in on 29th May, 1999, the majority of the population welcomed the change with hope and undaunted optimism that the era of denial of individual freedom and downward spiral of the economy is over. Their hopes and aspirations were based on the belief that the new democratic dispensation will provide the basis for full and equal participation in charting the correct path for sustainable economic growth and development.

Overview of the Economy in 1999

On assumption of office, this Administration found that some of the economic measures of the immediate past exacerbated the instability which had plagued the economy for quite sometime. For instance, governments had continually failed to arrest the critical shortage of petroleum products which had disrupted the economy for some years. By the end of May, 1999, a deficit of 250 billion naira had been incurred instead of the planned deficit of 14.2 billion naira during the five months of the year.

The extra-budgetary spending compounded the excess liquidity problem. Consequently, there was pressure on the Naira exchange rate both at the AFEM and at the parallel market. Naira exchange rate at the AFEM depreciated from 86 to 95 naira for one US dollar, while at the parallel market it moved from about 88 to 105 naira for one US dollar. The downward trend in inflation was reversed. From 8.9 per cent at the end of October, 1998, it moved to about 13 per cent by May 1999.

This Administration inherited a prostrate economy, characterized by declining capacity utilization in the real sector, poor performance of major infrastructural facilities, unsustainable liquidity position and rising levels of unemployment and inflation. In response, this Administration took urgent steps to mop-up the excess liquidity in the monetary system, stamped-out the phenomenon of shortage of petroleum products and greatly improved the performance of major infrastructural facilities, especially by reducing power outages across the nation. By August 1999, inflation rate had declined to about 10.5 per cent.

This Administration submitted a Revised Budget to the National Assembly in August, 1999 with a recurrent estimates of ₦169.6 billion and a capital estimates of 40.1 billion naira. The National Assembly, however approved recurrent and capital expenditures of 113.3 billion naira and 82.02 billion naira, respectively. Although the Revised Budget was based on a crude oil price of 18 US dollars per barrel, the average realised price for Nigeria's crude oil as at the end of September, 1999 was still below 17 US dollars per barrel. This Administration has therefore been conscious of the level of revenue inflow in the implementation of the approved Revised Budget so as to avoid the emergence of a large deficit at the end of 1999.

Despite the macroeconomic achievements of this Administration, basic structural imbalances persist. These include the lingering problems of import dependence, reliance on a single economic sector—oil, weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities, low quality of social services and unabating unemployment. Policies and programmes are therefore being evolved within the framework of the budget for the Year 2000 to address these problems.

Policy Thrust for the Year 2000 Budget

The policy thrust of the budget for the Year 2000, is to lower the inflation rate, lay a solid foundation for private sector led economic growth, pay profound attention to education and agricultural production, and consequently reduce unemployment and poverty.

Thus, with this budget, the government aims to :

- (i) provide the framework for taking Government out of direct involvement in most economic activities which are best suited for private sector undertaking ;
- (ii) provide the enabling legal, fiscal and monetary environment for the private sector to become the effective engine of growth and development in the economy ;
- (iii) up-grade the performance of major infrastructural facilities ;
- (iv) continue to improve the operational capabilities of the law enforcement agencies at crime prevention, detection and control ;
- (v) continue with the policy of probity, transparency and accountability in order to reduce the cost of doing business in Nigeria ;
- (vi) fight illiteracy through the implementation of the Universal Basic Education Scheme ;
- (vii) intensify the pursuit of poverty alleviation and enhanced food security through fiscal incentives to lenders and borrowers for agricultural production ; and by encouraging each state to concentrate on at least one crop for massive

and intensive production within the state ;

(viii) improve the health of the population through the rapid up-grading of our preventive and curative healthcare delivery system, with particular emphasis on HIV/AIDS.

The year 2000 Budget will therefore open new and sustainable economic opportunities to all Nigerians for the pursuit of honest and fulfilled life.

To achieve the above stated objectives, the following strategies will be employed :

(i) government investments in companies quoted on the stock exchange are being sold off and the exercise will be completed during the first half of year 2000.

(ii) hotels, vehicle assembly plants and other manufacturing enterprises with government holdings will be actively prepared for privatisation during the course of the year ;

(iii) the privatization of utility companies and other capital intensive enterprises will begin during the year with the establishment of regulatory framework for the sectors followed by drawing up modalities for effective private sector participation ;

(iv) reduction of tariff in favour of imported raw materials and rehabilitation and resuscitation of infrastructural facilities to encourage increased capacity utilization ;

(v) budget deficit will be kept at not more than three per cent of GDP and ensuring that Ways and Means advances, where required, are kept within the statutory limit of 12.5 per cent of expected revenue ;

(vi) strict implementation of the anti-corruption law when enacted by the National Assembly ;

(vii) increased budgetary allocation to the education, health, energy and agricultural sectors ;

(viii) bilateral and multilateral negotiation with Paris Club creditors to secure debt service and debt stock reduction ;

(ix) emphasis on aerial geo-physical survey and exploration of solid mineral deposits to encourage private investment in the sector ;

(x) establishment and full implementation of the Niger Delta Development Commission.

Revenue Outlook for 2000

At 18 US dollars per barrel, and an export volume of 1,836 million barrels per day, total receipt from government crude during the year 2000 is estimated at

572.9 billion naira. Petroleum Profit tax is projected to yield 100.0 billion naira, while oil royalties are expected to generate 112.2 billion naira.

Domestic crude of 300,000 barrels per day is sustained at 1999 levels but valued at export parity and therefore estimated to yield 187.8 billion naira during the year 2000. Upstream gas and other miscellaneous earnings from the oil sector are projected to generate 41.3 billion naira in year 2000, as compared with 3.6 billion naira in 1999, the wide variance being accounted for by the projected sale of gas feedstock to the NLNG project which is expected to generate 20 billion naira in year 2000, in addition to expected increase in internal gas consumption.

Consequently, total Federally collectable revenue in the year 2000 is estimated at 1,260.0 billion naira, an increase of 274.8 billion naira, or 27.9 per cent vis-a-vis the revised 1999 Budget estimate. Total inflow from the oil sector is estimated at 1,014.1 billion naira, while non-oil sources are expected to generate 245.9 billion naira.

Federal Government Retained Revenue

Total Federal Government retained revenue in the year 2000 is estimated at 387.3 billion naira, as against 301.7 billion naira in 1999, an increase of 85.6 billion naira or 28.4 per cent. Included in the retained revenue is Federal Government of Nigeria's Federation Account share of 344.1 billion naira, Federal Government of Nigeria's share of VAT of 9.1 billion naira ; Federal Government independent revenue, net of levies, of 19.1 billion naira and privatisation proceeds of 15.0 billion naira.

Expenditure Estimates

Total Federal Government budgeted expenditure for the year 2000 is 470.0 billion naira, as against 340.6 billion naira in 1999, an increase of 129.4 billion naira or 38.0 per cent. Out of the 470.0 billion naira, 300.0 billion naira is for recurrent expenditure, while 170 billion naira is for capital expenditure.

In the face of the enormous social problems presently facing this country, ranging from unemployment, poverty, and inadequate provision of social amenities, as all of you are aware, this Administration is constrained to incur a manageable deficit budget of 82.7 billion naira or 2.2 per cent of the GDP. This is intended to reflate the economy and to create the required atmosphere for growth and development.

Recurrent Expenditure

A provision of 170 billion naira has been made for personnel emoluments to makeup for the observed under-funding in public service pay in 1999 and the

additional expenditure on the members and staff of the National Assembly during the year. All the democratic institutions, legislative and executive, have to be adequately provided for. The provision also gives room for some negotiated wage increases during the year. Total vote for overhead expenditure is to increase from the 1999 level of 45.1 billion naira to 60 billion naira. Since the large deficit incurred during the first five months of 1999 had been securitised, the vote for domestic debt service is increased from 16.3 billion naira in 1999 to 70 billion naira in the year 2000.

In the effort to achieve a realistic **wage bill** in the public service, government has intensified efforts at eliminating the **ghost worker** phenomenon. Accordingly, the office of the Head of the Civil Service of the Federation and the office of the Accountant-General of the Federation have been mandated to commission an external manpower audit of the Federal Public Service. At the end of the exercise, the office of the Head of the Civil Service of the Federation would publish in the gazette, staff list of all public servants during the year 2000 which will be updated regularly.

Domestic Debts

In the last four years, government has made substantial provisions for the settlement of debts owed by ministries and agencies to local contractors and suppliers. The exercise was intended to be a short term measure. It would appear however that ministries and agencies are being encouraged by the provisions to disregard extant rules and regulations and keep incurring extra-budgetary commitments. This practice must stop. Disciplinary action will henceforth be taken against any ministry or officer involved in the award of any contract without ensuring that sufficient funds are available to pay for such a commitment.

Capital Expenditure

Despite the increase in crude oil prices since the second half of 1999, government's revenue forecast for the year 2000 remains very dismal. A total of 170 billion naira is proposed for funding the capital development programme of Government during the year, as against 118.7 billion naira in 1999, an increase of 51.3 billion or 43.2 per cent.

Out of the capital allocation, 20 billion naira is earmarked for the settlement of part of the debts owed on the National Priority Projects. If the proposal for 30 billion naira in the Supplementary Appropriation Bill for 1999 is approved by the National Assembly for the same item, the vote for year 2000 would bring to 50 billion naira the amount which will be used to reduce the accumulated debts on these Projects.

With effect from January 1, 2000, all the projects being implemented as National Priority Projects will be transferred to the appropriate ministries to form part of their normal capital programmes. An inter-ministerial committee has been set-up under the chairmanship of the Federal Ministry of Finance to verify, reconcile and recommend appropriate payment procedure for all the debts incurred on the projects up to 30th September, 1999. Work done by the various contractors after the date will also be covered under the allocations to the relevant ministries for their capital programmes from the year 2000.

Also, out of the capital vote for the year 2000, another 20 billion naira will be used to fund special capital items of strategic importance to the machinery of government. An additional 10 billion naira is provided to offset part of the liabilities of PTF. This amount will however be passed to the line ministries who after certifying the work done will effect the payment. I wish to seize this opportunity to re-affirm that the PTF interim management committee will not award new contracts or vary existing contracts. The remaining 130 billion naira in capital expenditure is allocated to various ministries and agencies in accordance with government priorities. The entire capital programme is focused on poverty alleviation using an inter-sectorial approach. Therefore, all projects which are being funded in the various sectors will be implemented in such a manner as to complement one another in the efforts at rapidly reducing poverty, illiteracy and enhancing security of life and property.

State and Local Government Finances

In year 2000 the Federation Account Revenue is estimated at 709.5 billion naira. The existing formula will be maintained until the Revenue Mobilization Allocation and Fiscal Commission has completed its work and the National Assembly has passed the enabling law. Therefore the States will receive 170.3 billion naira and Local Government Councils 141.9 billion naira, and Special Funds 53.2 billion naira. The sum of 61.7 billion naira has been provisionally allocated to meet the minimum of 13 per cent derivation.

Also, in year 2000, the estimated Value Added tax is put at 60.7 billion naira. In line with the VAT sharing formula, States will receive 30.4 billion naira, and Local Government Councils 21.2 billion naira, in addition to the allocation received from the Federation Account.

Indebtedness of State Governments

External debt service is currently treated as a first line charge on oil revenue. Many states borrowed without considering their ability to repay the loans as and

when due. Some have over-borrowed while others, particularly the new States are yet to do so. The present arrangement whereby external debt service is treated as a first line charge on oil revenue breeds inequity as States that have not borrowed do not get their fair share of Federation Account Revenue.

In order to introduce fairness, treatment of the provision of External Debt Service as a first line charge will be reviewed. Deductions at source should be made from statutory allocations of debtor States. However, in doing so, the amounts to be deducted should be worked out between the States and the office of the Accountant-General of the Federation.

Fiscal Policy

The Fiscal Policy for year 2000 has been designed to increase the level of government revenue and to promote overall economic development. In this regard, priority sectors like oil and gas, export processing zones, solid minerals and agriculture will receive increased fiscal incentives.

Non-statutory waivers of import duty—Since the inception of this Administration, approvals for Import Duty waivers have been strictly based on existing statutes. There is however, the need to review some statutes that have given too many incentives to certain sectors thereby bringing such incentives in line with the economic realities of the country. Towards this end, it is intended that in the year 2000, an Inter-Ministerial Committee will be set up to review and make recommendations to government which will be submitted as a bill to the National Assembly.

Port reforms—Imports destined for Nigeria are still diverted to Ports of neighbouring countries. This is due to relatively high port charges, and levies. This results in loss of revenue in terms of import duties going to neighbouring countries. Government will therefore remove all bottlenecks at our ports in order to make them investor-friendly.

The Port reformers will involve the installation of high-technology X-ray scanners in our ports. It is a useful technology in detection of illegal drugs, arms, hazardous and prohibited goods. The Private Sector will therefore be invited to install and operate the X-ray scanners services at our ports on build-own-operate basis.

Tax policy—The tax policy of government for the year 2000 is geared towards a low tax regime, with low income tax rates, generous incentives and reliefs to reduce tax burden on tax payers. The effect of these measures is to broaden the tax base and to raise higher revenue from other non-oil tax sources, particularly in the consumption tax (VAT and Duties). In the Year 2000, government will improve

the tax assessment and collection machinery. In this respect the capacity of tax Authorities will be strengthened with qualified, competent, well-trained and motivated staff. In addition, State Tax Authorities will be encouraged to put in place permanent institutional framework required for efficient and effective tax administration.

Value Added Tax—The flat rate of five per cent for VAT will continue in the year 2000. Government is determined to improve on the efficiency of VAT administration by greater penetration into all industrial groups, government agencies and small business enterprises. Consequently, the 50 VAT offices embarked upon in 1999 will become operational in the new year. To facilitate disposal of VAT cases, members of the eight (8) Zonal VAT Tribunal will be inaugurated early in the year. Furthermore, the VAT base will be widened by the removal of some items from the exemption list. However, all Agricultural equipment and inputs will be exempted from VAT.

In spite of efforts to ensure full compliance with the VAT laws, government agencies (Federal and States), as well as the Local Government Councils, have not been very co-operative. To remedy the situation, Government will introduce a VAT Clearance Certificate to be issued to all VAT payers.

Petroleum Profits Tax—The approved tax incentives granted to oil companies in recent years for exploitation and utilization of associated gas have been promulgated into law. Government will encourage the flow of investment into this sector in the new year through the sustenance of the incentives ; it is however observed that government is unduly subsidizing gas operations with Tax Payer's funds. A situation where out of the sum of 140 billion naira projected as revenue from Petroleum Profit Tax in 1999, only 26.8 billion naira was realised at the end of September, 1999, due to set-offs against petroleum profit taxes is unacceptable. Government will therefore review the issue of incentives and set-offs as they relate to the oil and gas sector. The new memorandum of understanding will come into effect during the year.

Production Sharing Contracts—In the 1998 Budget, the companies that signed the production sharing contract with the government in 1993 were granted Investment Tax Credit of 50 per cent of qualifying capital expenditure. The Investment Tax Credit so granted has been misconstrued to apply to companies that signed production sharing contract with Government after 1993. The Petroleum Profits Tax will be amended during the year to rectify this error.

Companies Income Tax

Self-Assessment—The filing of Self Assessment became compulsory for all companies as from 1998 assessment year. However, it has been discovered that many small and medium size companies are yet to embrace the practice. Government will enforce compliance in the Year 2000.

Insurance Companies—The tax laws have not kept pace with the developments in the Insurance Industry. Government will initiate the amendment of Companies Income tax Act in line with the modern trend.

Supply of Petroleum Products—It is worthy to note that Government has been the main supplier of these products through importation and local refining at a fixed pump price. This has turned Government into a monopoly and has discouraged private sector participation. In order to reverse this situation, Government has chosen to deregulate the petroleum product market in order to encourage private sector participation and ensure regular and timely supply of petroleum products. With immediate effect, the petroleum products market will be fully deregulated and domestic crude allocation to NNPC would be paid for at export parity.

External Debt Management

Efforts were made in 1999 to sustain the success achieved in the management of our external debt as was done in the preceding years. No substantial increase has occurred in our external debt figures in 1999, as against the 28.77 billion US dollars recorded at the end of 1998. This was attributable to the fact that since the lifting of the embargo on external borrowing, no new loans have been contracted. Also, our debt figures are now more reliable as a result of various conciliation and verification measures. However, some categories of debts were not serviced, particularly those owed to the Paris Club creditor countries as well as arrears on post-cut-off date debts. Due to resource constraints, Government has set aside 1.5 billion US dollars for External Debt Service in the year 2000.

World Bank Funding

Government formally indicated intention to resume on limited basis, concessional borrowings in 1999. However, no credit was accessed in the year. The World Bank assisted projects portfolio in Nigeria has been dwindling and it presently consists of nine (9) projects. There would be four (4) projects only in the portfolio in Year 2000 if no new facilities are accessed. In view of our country's budget financing gap and development aspirations, Government will in Year 2000 access highly concessional credits from both Multilateral and Bilateral sources to

help in closing the financing gap as well as meeting the developmental aspirations of the country. In this regard, Government will seek financial assistance from the World Bank in funding social sector and poverty alleviation projects, especially in agriculture, education, health, water and sanitation, rural electrification, SME's and women and youth development.

Negotiations in respect of these proposed World Bank assisted projects, namely the Economic Management Capacity Project (EMCAP), Small Towns and Sanitation Pilot Project, Privatisation Technical Assistance Project, and Second Primary Education Project will be concluded before December 1999, while the projects would become effective before the middle of Year 2000. About 13.0 million US dollars would be drawn from the three projects in year 2000. In addition, a sum of 77.986 million US dollars is projected to be drawn cumulatively from the four on-going World bank and International Fund for Agricultural Development assisted projects during the year. However, if Nigeria successfully secures a stand-by arrangement with the IMF, it could make the World Bank grant additional financial support to Nigeria during the fiscal year.

Recovery of Stolen Public Assets

Our drive to recover stolen money continues. Since June we have recovered 119,768,530 US dollars, 100 million naira, and 13 properties valued at 325 million naira. We have succeeded in freezing accounts worth more than 600 million US dollars.

Some of our efforts abroad have often been impeded by complex legal procedures which tend to make recovery of our stolen assets not too easy. However, a number of foreign governments and institutions have been particularly helpful. We will not relent in our efforts until we have achieved significant success in getting back all that is recoverable.

The Poverty Issue

It must be seen, by every one of us, as a major source of embarrassment that over 70 per cent of our population live below the poverty line. This is in spite of the abundant natural and human resources that have been bestowed on our great nation. One of the major issues that this administration has undertaken to resolve, is this lingering poverty that has stricken our people along the length and breadth of the nation. The extent of poverty has reached frightening proportions primarily due to the neglect of past governments. This is a plague that we must jointly address, and together we must strive to conquer it. To achieve this objective, the full co-operation and commitment of the Federal Government, the National

Assembly, the State and Local Governments must be pooled effectively. We must today pledge to wipe out this scourge in the medium term, beginning from this budget.

The strategy to be employed in this respect, is to empower our citizens in both the rural and urban areas to produce, with a view to improving their quality of life. This empowerment would come in the form of the provision of the necessary socio-infrastructure tools that will make this transformation happen. If we can increase the disposable income of all concerned through real production by an average of 10-15 per cent per annum over the next 10 years, then we can, as policy makers, claim success. And we cannot afford to fail.

To begin the process, I have directed the Ministry of Finance to design a comprehensive and feasible Medium Term Poverty Reduction Plan. The plan would entail the establishment of a Poverty Reduction Fund which must begin in the year 2000. Negotiations are currently on between Government and the IMF, and depending on the successful completion of a stand-by arrangement, a donor-funded poverty deduction fund of one billion dollars will be established. Our strategy would be to identify priority, programmes and projects in the areas of rural electrification, water supply, women and youth development, primary health care, agriculture, food, security and education. This project would be grassroots initiated. The State Government and the Local Governments will be fully involved in the design and actual implementation of the programmes that best suit their environments. The Federal Government will therefore serve primarily as a catalyst and mobilizer of resources.

Over the next 3 years, this program will engage the attention of this Administration as well as the interested State and Local Governments. Together we shall embark on a process that will once and for all put to rest this embarrassing issue of abject poverty in our land.

Conclusion

Distinguished members of the National Assembly, Ladies and Gentlemen, I wish to seize this opportunity to register my appreciation for the concern and expediency you exhibited in the deliberations of the supplementary budget review submitted earlier. I would fervently appeal for your understanding and co-operation in your consideration of the Budget 2000 which I have presented to your esteemed selves today. One paramount issue of note is that Budget 2000 is our budget. By this, I mean both the Executive and the Legislature. Indeed it is the People's Budget.

I thank you.

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