

NACOFED 2013

A 2-Day National Conference held in Minna

RESTRUCTURING
NIGERIA'S
PUBLIC FINANCE

Proceedings



COMPILED BY
Niger State Book
Development Agency



NIGER STATE GOVERNMENT

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Proceedings





NIGER STATE GOVERNMENT

National Council on Finance and Economic Development

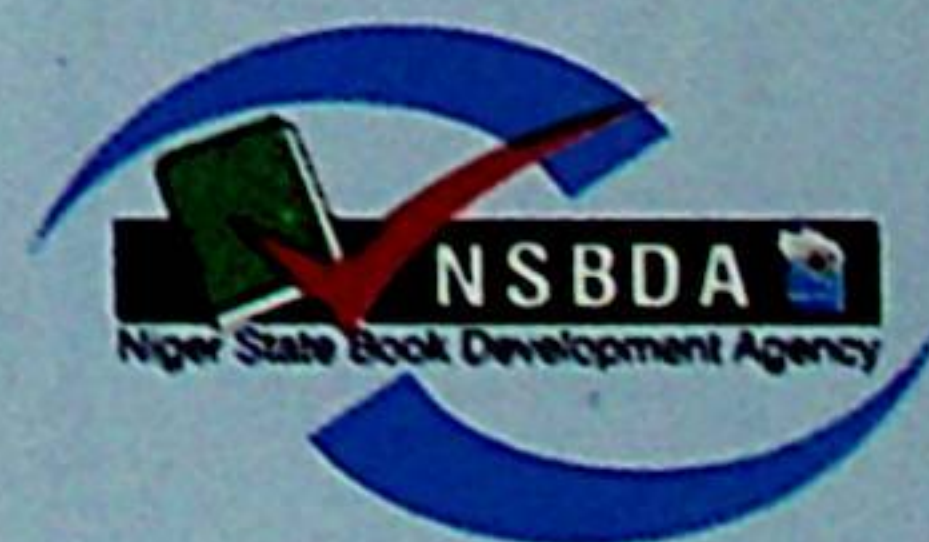
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DEDICATION

For a better Nigeria's
public finance
system

ACKNOWLEDGEMENT

The Honourable Commissioner of Finance on behalf of the entire staff of the ministry appreciate the vital assistance provided by the Chief Servant of Niger State, The Federal Ministry of Finance and other stakeholders whose combined efforts contributed to the success of the conference.

FOREWORD

The recurring pressures for a re-structure of the public finance management brought to fore the theme of the conference held in Minna by the National Council of Finance and Economic Development (NACOFED). The implication of the conference theme is that the purpose of growth, expansion and development is to enhance the capacity to finance further growth and development.

In our circumstance, though, the country's sources of revenues which existed before oil are still with us, there is the culture of dependence or near dependence on the Federation Account. This implies that there is total neglect of other sources of revenue to pervasive dependence on oil as the source of funds for financing socio-economic expenditures and development.

The opening and keynote addresses, the scholarly papers by three Nigeria's finance experts, the penetrating questions, comments and responses are a testimony to the fact that the country's public finance management needs sustainable and enduring re-structuring in order to match the country's developmental goals. For instance, Dr. Ngozi Okonjo Iweala, memorable for her lucidity, profundity and forthrightness, called for urgent diversification of the economy and prudence in public finance expenditure. Also Mr. J. K. Naiyaju, the former Accountant-General of the federation spoke on how to achieve efficiency in public finance management.

As could be discerned from their papers, what came after were exciting contributions from discussants and some members of the council who either questioned or validated the views of lead paper presenters or brought fresh insights of their own. Perhaps the most far-reaching decisions on restructuring of

public finance management could be in the reduction of recurrent expenditure, debt servicing, tapping all untapped resources for more revenue and plugging the paths to tax evasion. Above all, there is the need to increase the fiscal space for capital projects targeted towards sectors which are of priority to the growth of the economy.

I wish to say that the conference as well as the publication of this book of proceedings represents another effort at initiating a new economic structure that would enhance economic development. It would also brighten public enlightenment and provide an interface between policy statements and co-operation of the polity for mutual economic growth.

Mahmood Kpako Bello

Hon. Commissioner of Finance,
Niger State.

Faint, illegible text, possibly bleed-through from the reverse side of the page.

Abdullahi Kpako Bello
Hon. Commissioner of Finance
Kogi State

COMMUNIQUÉ

CHAIRMAN: This is a Communiqué presented at the end of the 2-day National Conference on **RESTRUCTURING NIGERIAS' PUBLIC FINANCES** organized by the, National Council on Finance and Economic Development in collaboration with the Federal Ministry of Finance.

This conference took place in this hall named after Justice Idris Legbo Kutigi International Conference Centre from the 13th-14th of August 2013. The Communiqué goes as follows:

The Annual Conference of the National Council on Finance and Economic Development (NACOFED) was held in Minna, Niger State on 13th and 14th August, 2013 with the theme "Restructuring Nigeria's Public Finance".

The Conference was declared open by the Vice President, His Excellency Arc. Mohammed Namadi Sambo (GCON) who was ably represented by the Honourable Minister of National Planning and Vice Chairman, National Planning Commission, Dr. Shamsudeen Usman. The Executive Governor and Chief Servant of Niger State ably represented by the Deputy Chief Servant, Ahmed Musa Ibeto

The Conference was attended by the Coordinating Minister for Economy and Honourable Minister of Finance, the Minister of State for Finance, the Accountant- General of the Federation, States Commissioners and Permanent Secretaries of Finance, States Commissioners and Permanent Secretaries of Planning and Budget, State Accountants-General, representatives of Revenue Mobilization, Allocation and Fiscal Commission, Nigeria Custom Service; Debt Management Office; Nigeria National Petroleum Commission; Federal Inland Revenue Service and other stakeholders.

Three papers were presented at the Conference which include the following:

- I. Diversifying Nigeria's source of Revenue; by Professor Adeola Adekinju of the University of Ibadan, Oyo State, Nigeria;
- ii. Achieving Efficiency in Public Finance Management; by J.K Naiyeju, President, CEO JK Consultancy Company Limited; and
- iii. Refocusing Government Expenditure; by Adekunle Abdulrazak Oyinloye, MD/CEO The Infrastructure Bank (TIB)

Further to extensive deliberations on the presentations, the Conference made the following observations:

Observations:

- I. That the country has continued to depend heavily on Oil revenue at the expense of other non-oil sources of revenue such as taxation;
- ii. That the country presently grapples with bloated and ever-increasing recurrent expenditures thereby leaving a paltry capital allocation for infrastructural development;
- iii. That majority of registered firms in the country are outside the tax net;
- iv. That the country's debt profile indicates that although there is still room for increase, this has to be done strategically in order to reduce the cost of borrowing;
- v. That bench-marking oil prices as an essential component of the country's budgeting process remains a technical matter that should be left to professionals;
- vi. That the country's public finance system is still largely based on manual operations and commended the current effort to introduce the IPPIS and GIFMIS platforms;
- vii. That the various tax potentials of the country, which could have provided the much needed revenue for the nation, have not been fully explored; and

- viii. That because of the volatile nature of oil revenue, the Federal Government should continue with the strategic build up of revenue reserves in order to manage such volatility.

Practical Measures taken so far

Despite these overwhelming inhibitions, the Conference noted some of the appreciable progress the Federal Government has made so far as a result of the practical measures taken such as:

- I. Intensification of efforts by Federal Government to diversify towards other non- oil sectors such as agriculture, manufacturing, housing and real estate amongst others;
- ii. Close monitoring and management of domestic debt profile with the establishment of Sinking Fund for servicing of the debt;
- iii. Introduction of electronic payment systems such as Integrated Personnel and Payment Information System (IPPIS) and Government Integrated Financial Management Information System (GIFMIS) to support budget implementation and public finance management.

The Way Forward

After these observations, we came up with the way forward. The Conference therefore, made the following suggestions for restructuring public finance in the country in order to drive the economy for accelerated development. These are:

- i. Government at all levels should, as a matter of priority, strengthen their corporate tax policy and administration in order to enhance tax revenues;
- ii. The need for cooperation and collaboration among all tiers of government on fiscal policies so as to eradicate multiple taxation;

- iii. All tiers of government need to work more closely in tackling various public services that fall under the concurrent list such as health, education etc;
- iv. The need for cooperation and coordination on infrastructural development between various tiers of Government as well as various infrastructure Ministries;
- v. The need to strengthen the administrative and institutional capacity of revenue collection agencies;
- vi. The need for States and Local Government Councils to ensure full adoption of electronic payment systems to complement the efforts being made by Federal Government in this regard;
- vii. There is urgent need for Governments at all levels to evolve measures to curb revenue leakages towards boosting revenue generation; and
- viii. The Conference also emphasized the need to adopt measures to attract Private Sector participation in the economy.

Comments before adoption of the Communiqué

Comment 1: Mr. Chairman Sir, I didn't hear where we said the Minister of Finance gave the keynote address, secondly I didn't hear again where we said emphasis should be shifted from too much recurrent expenditure to capital expenditure?

Comment 2: Mr. Chairman I didn't hear the comment on the strong political will, that was emphasized, in the implementation of budgets. Thank you Sir.

Comment 3: Chairman Sir, I was expecting to see more of some actionable issues with time line more especially since the theme of this conference is Restructuring

Nigeria's Public Finance we should be looking at things that would change this issue of restructuring public finance; we should look at some actionable issues with time line. How can we achieve this issue of restructuring Nigeria's public finance? The second issue again is that yesterday the Minister constituted Sub-Committees and it is not captured in the communiqué, I wish these two will be captured in the communiqué.

Comment 4: We accepted the need to ensure that our policy encourages professional education; vocational education by that way the training of scientist and technologists will come to enhance development. 2) The issue of blocking the loop holes against leakages. We all talked of revenue generation, we must equally work against leakages and finally, we were saying that development in agriculture is good; we should not de-emphasize development in other sectors. Thank you very much.

Comment 5: I heard the communiqué but there is a short point I believe that was made and I don't recall hearing it and that is the reducing the cost of governance. We are talking about restructuring the Nigeria's public finance; I think it's a strong point we should capture. Thank you.

Comment 6: High recurrent expenditure which needs to be reduced in order to increase the amount available for capital expenditure that has been captured in observation no. 2 and I also agree that it should be included in the way forward or recommendation. It is a very important observation that should be stated specifically but if you look at observation no. 2, we observed it, but we did not bring it as recommendation. I did not remember us

discussing political will to implement budget rather revenue shortage to execute budget. No one will have money and refuse to implement budget. What we discussed is the political will to concentrate on priority projects. We should choose few projects and execute them on time that is where political will could come in.

When we discussed about coordination between various tiers of Government and Ministries to implement infrastructural development, I think that recommendation can be expanded to reflect the need to prioritize and ensure quick completion of infrastructural projects. Recommendation no. 4 will be amended to not only cooperation and coordination but to ensuring priority projects are chosen and available resources are expended on them to ensure quick completion. Then somebody said we did not list actionable issues, you see, the communiqué is supposed to reflect what we discussed in the last two days. If there is anywhere we agree that such and such should be done between a time limit and we omitted, we should be notified. Then the issue of sub-committees, I actually received report from sub-committees on NNPC and recommendation has been captured in recommendation no. 7; that there is an urgent need for Government at all levels to evolve measures to curb revenue leakages towards boosting revenue generation. Thank you very much, any other comment?

Comment 7: Thank you, Mr Chairman. One of the issues that was fundamentally omitted is that of the International Public Sector Accounting Standard (IPSAS). We have all agreed that this is a standard

we must put in place latest by the year, 2014 for the cash bases and 2015 for the approval bases. And we have all agreed that this should be part of the discussions and recommendation and that all levels of Government should try as much as possible to ensure the implementation of IPSAS because, that is the only thing that we will use to rate Nigeria in terms of the performance of public financial benefit.

Second is the issue of legislations. Some of the various legislations we have for the public financial management like the Fiscal Responsibility Act and Procurement Act should be extended to the state and local government levels for the purpose of transparency, accountability and due process in the conduct of government business. These are some of the observations we need to take note.

The adoption of the Communiqué:

Chairman: Thank you very much, those who did the Communiqué say the issue of IPSAS was not specifically discussed, it was just referred to in passing that is why they did not include it. So with these amendments, who will move for the adoption of the Communiqué?

The Chairman of Commissioner's Forum has moved for the adoption of the Communiqué and Accountant-General of the Federation has seconded. So the Communiqué is hereby adopted with little amendments. The Communiqué Committee, you are expected to effect the amendments and produce a clean copy because we are going to issue it to the press.

We have an announcement, now; it is seven minutes to five. The next item on the agenda is the Plenary Session and most of our Commissioners have indicated their interest to attend the meeting

at the Central Bank in Abuja and they want us to relocate it to Abuja because if we start now, we would not finish until around 8-9pm and by that time, it will be dangerous for people to travel to Abuja. So we are very sorry that, that item on the agenda has to be moved to Abuja after the CBN meeting. We would fix a time, the place will be the Ministry of Finance, but the AGF will go ahead with that, I want someone to move for adjournment.

The Honourable Minister and Chairman of FAAC in view of the numerous national activities we have at Abuja including the CBN meeting which some of our colleagues have already left for, I hereby most respectfully move that we adjourn and the FAAC Plenary Session take place in due course at the Federal Capital Territory Abuja. I so move.

The motion is jointly seconded by Commissioners of Kogi and Yobe States

Let's have Commissioner of Finance, Yobe State for the closing prayers.

Proceedings

OF THE

2013 CONFERENCE

OF

**NATIONAL COUNCIL ON FINANCE
& ECONOMIC DEVELOPMENT**

(NACOFED)

T H E M E

**Restructuring Nigeria's
Public Finance**

13th - 14th August, 2013

EXECUTIVE SUMMARY

RESTRUCTURING NIGERIA'S PUBLIC FINANCE

Dr. Ngozi Okonjo-Iweala

*Hon. Minister for Finance and
Coordinating Minister for the Economy*

The Honourable minister expressed her joy to be in the midst of her colleagues and complimented her members as public finance managers whose task of managing public finance is not only quite tasking but as well rewarding. This is more so that their joy is in support of the country's development agendas. However, the job is challenging because it affects their tenure as managers of finance. For instance, in the advanced countries, the average tenure of a Minister is about 2.2 years while in developing countries it is on the average of two years. She remarked that Nigeria's Public Finance Management is a key component of the present administration's reform agenda. She discussed the theme from three perspectives which include: The challenges, measures aimed at tackling the Challenges and suggestions.

Accordingly, the Honourable Minister listed some challenges to the Nigeria's Public Finance Management to include the following:

- a. Over dependence on oil revenues: on this the Minister remarked that both the Federal and Sub-national Governments have become heavily reliant on FAAC allocations. This reliance on oil revenue has its setback in allocation whenever there is quantity shock on oil production. She revealed that as at 1970, non oil taxes accounted for about 74% of Government revenue but declined to only 30% as at 2012;

- b. Lopsidedness in the structure of the Country's public expenditures: on this, she revealed that at all the tiers of Government the budget consisted of recurrent expenditures with over-bloated payroll, wages and overhead expenses. She, however, remarked that the demand by ASUU for N92 billion was unrealistic, hence there is the need for the country to make choices between utilizing all resources for payment without work;
- c. Improving budget formulation process: she pointed out that the challenge on how to improve budget formulation process is not peculiar to the Federal level but similar to other tiers of Government. She advocated for a strong social compact from stakeholders on budgeting process. She also suggested evolving a prudent benchmark price on which the country's budget could be projected;
- d. The fourth challenge is in the domain of public financial management systems. She revealed how astonishing it is that some states still operate the manual or paper based system for financial management despite the technological break-through in the use of Ipad, Android smart phones etc. She reiterated that this system does not only enhance leakages but creates much difficulty at obtaining audit trail. Furthermore, she mentioned that the paper based system leads to inefficiency in cash management.

In spite of the challenges being faced, she remarked that a lot of progress has been made recently by the Federal Government and they include the following:

- a. Diversification of the country's economy: She noted that the country has embarked on diversification into agriculture with focus on the growth of cocoa, cassava, wheat etc. This is not only to reduce dependence on petroleum but to increase non-oil revenue earnings. In the same vein, she mentioned that there is also a push for

growth in many areas of the economy. Such as in manufacturing, housing and estate management as well as in the services sectors. In addition, there is diversification in the oil and gas sectors to provide sources for petrochemical industries;

- b. Improving the country's tax policy and tax administration: She revealed that the Federal Government report on the hired international consultants on tax evasion showed that over 75% of the Country's registered firms were not on the tax net at FIRS. Consequently, the country loses over N80 Billion or \$500 million USD due to tax evasion. Hence there is the need to improve the country's tax systems and avoid multiple taxation;
- c. Managing the country's debt: The Honourable Minister revealed that debt management is on the decline. She advised that each State must endeavour to manage her domestic debt. According to her: *"If you allow your State to keep an unimaginable domestic debt then it becomes difficult for those who will manage the State in future"*

The Honourable Minister presented processes through which the country's debt could be managed which include the following:

- a. A gradual reduction in the country's annual domestic borrowing;
- b. Payment of domestic debt rather than rolling the debt over;
- c. Establishing a sinking fund with an initial capital base of N25 billion;
- d. Cooperating with States to have knowledge of outstanding domestic debts controlled by State Governments; and
- e. Plugging fiscal holes in Government programmes in the areas of petroleum subsidy scheme, the pension scheme etc.

Furthermore, she revealed that through subsidy scheme a huge amount was paid to about 143 firms as at 2011, but remarked that this was so because of large scale fraud in the operation of the scheme. In addition, she stated that the Federal Government is implementing three (3) electronic payment platforms to reduce fraudulent activities. The new Integrated Personnel and Payroll Information System (IPPS) allows direct payment of workers based on biometric data. Other payment processes include a Government Integrated Financial Management Information System (GIFMIS), which links the treasury to other Government departments and e-wallet payment scheme in the delivery of agricultural inputs to farmers.

In conclusion, she advocated for greater collaboration among the tiers of Government in four possible areas which include the following:

- a. Cooperation in fiscal policy which borders on how we spend our finance, what we spend on, and when to spend our money;
- b. Cooperation in tax policy and administration. Cooperation in this area becomes imperative because there is multiplicity of taxes across the tiers of Government;
- c. Cooperation in tackling public services which are on the concurrent list such as health, education etc; and
- d. Cooperation on infrastructure financing.

THE IMPERATIVE OF FEDERAL/STATE/ LOCAL GOVERNMENTS PARTNERSHIP FOR SUSTAINABLE ECONOMIC GROWTH

Arc. Mohammed Namadi Sambo (GCON)

*The Vice President
Federal Republic of Nigeria*

After the order of protocol, the Vice President acknowledged that the conference theme, which is “Restructuring Nigeria's Public Finances” is coming at a critical period in the nation's development history. He then commended the Federation Account Allocation Committee (FAAC) and the Federal Ministry of Finance (FMF) for always organizing the conference as well as the Niger State Government for accepting to host this year's conference.

He noted that the restructuring of Nigeria's public finances is one of the elements of the Transformation Agenda of President Goodluck Ebele Jonathan's Administration. In this regard, he pointed out that the administration has undertaken various reforms aimed at restructuring public financial management and diversifying the economy to avoid shocks by dwindling oil revenues in the wake of the global recession. As a result, there is presently a reduced recurrent expenditure at a very sustainable level leading to an increased fiscal space for capital project. He also revealed that the Oronsaye Committee Report has led the administration to initiate the process of reducing waste and duplication in the functions of Government Agencies.

The administration, he mentioned, is stepping up effort to eradicate ghost workers on Government's pay-roll by extending

the biometric verification of employers to all agencies. All this, the Vice President assured, will invariably lead to reduction of recurrent expenditures from 71.5% in 2012 to about 68.7% in the 2013 budget, while the capital vote is expected to increase from 28.5% in 2012 to 31.3% in 2013.

The fiscal outlook has generally improved accordingly from a deficit of nearly 4% of GDP in 2003 to about 2.85% in 2012, and below the 3% threshold prescribed by the Fiscal Responsibility Act of 2007. In line with this also the Vice President stated that Government expenditure is expected to grow by less than 1% in 2013 to N4.87 Trillion as against 8.8% growth in 2012. In this connection, greater efficiency in tax collection has resulted in the increase of revenue generated from taxation more than ten-fold. This translated to tax collection by the Federal Inland Revenue Service for 2012 of about N5.002 Trillion as against the meager N434 Billion in 2002. Similar growth, he said, is expected in the non-oil sector in 2013.

The Vice President also pointed out that the 2013 budget is designed to promote the goals of the Federal Government's Transformation Agenda; therefore, capital expenditure is strategically geared towards sectors that are of priority to the economy. This is expected to bring about improved standards of living of Nigerians, create employment and business friendly environment, provision of infrastructure (in particular power supply), transportation (roads, railway and air) physical security and food security, social infrastructure like healthcare and education. Given that the country's annual budget has been predicated on four main pillars of Macroeconomic Stability, Structural Reforms, Governance and institutions, and investments in priority sectors, the Government is not unmindful of global economic crises and its impact on the demand for and prices of primary commodities particularly the crude oil.

Apart from recognizing the aptness of this year's conference theme given the administration's desire to diversify the economy,

improve public financial management and deliver dividends of democracy to the people, he also acknowledged that the administration requires the support and cooperation of all Nigerians in its efforts to deliver dividends of democracy to the people. Consequently, he declared the 2013 NACOFED conference opened while at the same time wishing the participants fruitful deliberations.

THE CHALLENGES OF NIGERIA'S OVER-DEPENDENCE ON OIL RESOURCES AS A SOURCE OF REVENUE

Dr. Yerima Lawan Ngama

The Honourable Minister of State for Finance

The Hon. Minister thanked all those who made the occasion a success particularly the Niger State Government for magnanimously accepting to host the conference. He stated that this is the first time the conference is holding since he came into this administration because the one scheduled to take place in Ibadan last year could not hold. Furthermore, he expressed happiness with the Niger State Government for challenging the conference organizers on deregulation and over reliance on the oil revenue; while assuring that the piece of advice given will be looked into with a view to implementing them.

Accordingly, he also expressed appreciation with the Vice President for the support of the Federation Account Allocation Committee (FAAC) members which has made the relationship with the State Governments easy within the Economic Intelligence Council. He, therefore, invited the Hon. Minister of National Planning to the next FAAC meeting.

Furthermore, he also seized the opportunity to thank the Minister of Finance for educating the participants on the challenges of public finance management; and appreciated her for the good work she is doing by coordinating other sectors of the economy. He then commended GWAPE Cultural Troup whose performance he likened to a lecture with the likely topic: Nigeria's Economic Challenges and the Way Forward. He concluded by remarking that this year's NACOFED is very successful and looked forward to a fruitful discussions and suggestions.

DIVERSIFYING NIGERIA'S SOURCES OF REVENUE

Prof. Adeola Adenikinju
University of Ibadan

The paper was presented in five sections viz, Introduction, Stylized facts of Nigeria's Sources of Revenue; Nigeria Versus Comparator Countries; Policy Issues: Options and Solutions; Conclusion and Recommendations

In the introductory part, the presenter recognized the basic fact that taxes are the single most important source of raising revenue for the Government as well the most sustainable source of finance for development. As such, he stated that enormous amount of money is required to run all levels of Government in Nigeria, and that by 2012 all levels of Nigerian Government collected approximately N2.7 Trillion or about N16.87 per person representing about \$0.10 per person in contrast to the 2003 USA figure of \$10,300.

The oil sector, he pointed out, remains the overwhelming source of revenue for Nigeria. He, therefore, opined that taxes and other Government revenues influence the economy by way of resource allocation, consumer behaviour, nation's productivity and growth, hence he pointed to the need to look at the issue of the welfare impact of taxes, and the balancing of tax productivity against other consequences. He outlined effective criteria for taxes to include, equity and fairness, simplicity and efficiency. Therefore, he concluded by emphasizing that tax is part of a social contract between Government and the citizens.

ACHIEVING EFFICIENCY IN PUBLIC FINANCE MANAGEMENT (PFM)

Presented by

J. K. Naiyeju,

President CEO, JK Consultancy Company Ltd

The paper was divided into 12 sections viz: Introduction, definition of PFM, objectives and relevance of PFM, sources of public funds in Nigeria, states in PFM, legal and institutional framework of PFM, features and rules of PFM, PFM reform in Nigeria, assessing performance of PFM system, controls to achieve efficiency in PFM, way forward to achieve efficiency in PFM, way forward to improving PFM in Nigeria and references. The presenter described PFM as the system by which financial resources are planned, directed and controlled to influence the efficient and effective delivery of public service goals. He listed the activities involved in PFM to include planning and budgeting, financial controls, accounting, financial reporting, internal and external auditing which contribute to effective, transparent governance and strong public accountability.

PFM according to the Presenter aimed at supporting good governance, facilitating the attainment of aggregate fiscal discipline, effective allocation of resources and efficient delivery of goods and services. The paper identified sales of crude oil and gas, rent, royalties, fees and fines, direct and indirect taxes, loans, grants and aids as sources of public funds in Nigeria. Similarly, seven different stages of PFM were identified i.e. policy formulation, budget formulation, budget structure, payments system, accounting and financial reporting, audit and legislative control.

The Presenter submitted that the operation of PFM in Nigeria has some legal framework which he listed to include: The Nigeria Constitution of 1999, Finance Act of 1958, Fiscal Responsibility Act 2009, Public Procurement of 2007 etc. He further outlined the institutional framework of PFM – Federal and State Ministries of Finance and its agencies, Budget office of the Federation/States budget offices, office of the Accountant General of the Federation/States, AG, etc.

The paper posited that a robust PFM has some basic features and rules which must be adhered to for a meaningful impact to be made. Some of these features are: integrity of information, professional staffing, clear delineation of functions, authorization of transactions, physical security etc. PFM in Nigeria according to the Presenter has taken the right measure of reforms in areas of fiscal Responsibility Act, E-payment, Automation of the personnel administration, Adoption of International Public Sector Accounting Standard (IPAS) etc. These are the potentials of taking Nigeria economy to greater height. He however, observed some challenges that would pose a threat to the effectiveness of these reforms, some of which include:

- Lack of strong institution;
- Leadership incompetences and willingness;
- Non-compliance to due process;
- Poorly motivated work force; and
- Wide spread corruption etc.

As part of the measures to achieve efficiency in PFM, the Presenter suggested that measures must be taken to control both revenue and expenditure. Revenue control according to the Presenter can be achieved through periodic monitoring, timely issuance of demand notices and follow-up, timely issuance of revenue documents etc. Expenditure control on the other hand can be achieved by ensuring that all expenditures are wholly, reasonably, necessarily and exclusively incurred for the purposes for which they are meant. Some expenditure controls suggested

by the Presenter are the executive control, legislative controls, judicial control etc.

To improve PFM in Nigeria, the Presenter offered some of the following suggestions:

- a. Curbing revenue leakages and boosting revenue generation;
- b. Eliminating wastages and losses;
- c. Strengthening expenditure control mechanism; and
- d. Improving financial qualifications of leaders of public sector organization etc.

In this second part of the paper, the presenter outlined the rationale for diversification to comprise the following:

- a. Exposure to oil price volatility;
- b. Every price change substantially and unpredictably cause large and uncertain movements in revenue;
- c. One way to reduce the volatility of revenue is to diversify the tax base through innovative tax sources; and
- d. Another approach is the resource revenue stabilization fund that would lead to growth in revenue stability.

Furthermore, he looked at the important consequences of revenue volatility to Government, which according to him include the following:

- a. Difficulty for Government to set sustainable level of expenditure for investment and social services since it is unsure which part of the volatile revenue is permanent or temporary;
- b. Difficulty of long term planning when Government cannot accurately forecast and manage revenues;
- c. Inducement of volatile Government spending;
- d. Revenue volatility encourages large Government investment during boom period on project with low rate of returns;

- e. Inability of Government to monitor rapid expansion of capital spending on those projects; and
- f. The fact that oil resources are finite.

He then presented a table showing various sources of revenue in Nigeria and followed up with some stylized facts showing, in darts form, Nigeria's revenue structure. In the same vein he gave a vivid picture of stylized facts on Government revenue in Nigeria noting that:

- a. Nigerian Government revenue is heavily dependent on oil revenue whereby transparency and governance remain critical challenge;
- b. There is increasing share of non-oil revenue in total; and that tax share of GDP is relatively small compared to other comparator countries.

Continuing in this regard he pointed out that between 2001-2002, oil revenues averaged 27% of GDP while tax revenue averaged 6.4% of GDP; but that oil revenues have been quite volatile ranging from 35.6% in 2001 to 19.6% in 2009. Similarly, between 2001- 2008, Federal Government independent revenue was about 6%, State's IGR was 14% and Local Government 3% over the same period, whereas at a time over 500 different taxes are levied by different tiers of Government in Nigeria. These detailed facts were captured in a graph showing the trend in revenue (%GDP) for Nigeria between 2009- 2012. He then gave a breakdown of the type of taxes, jurisdiction and right to revenue in Nigeria in tabular form. The sources of revenue to States and Local Governments in Nigeria were highlighted using pie chart which indicated the percentage share to each tiers of Government while he presented Nigeria's sectoral contributions using revenue versus GDP, on graph, and these are distributed overtime.

NIGERIA VERSUS COMPARATOR COUNTRIES:

This part of the paper looked at tax revenue (% of GDP) taxes on goods and services (% of revenue) and taxes on income, profit

and capital gains (% of revenue) of selected NII, BRICS countries between 2009 and 2010. This he did in graphic form. Accordingly, he drew lessons from USA concerning sources of revenue to three tiers of Government, percentage of total federal revenue (2011) in comparison to the UK, and lessons from Canada concerning percentage of total federal revenue (2011).

POLICY ISSUES:

Diversification Options and Recommendations:

He based this section on the mantra that, there are no quick fixes. As such he recommended that:

- a. Diversification of revenue base require significant efforts from the Government;
- b. It is important to analyse the various tax options available to Government, their buoyancy and productivity analysed regularly;
- c. There is need for horizontal and vertical diversification;
- d. Tax revenue is often a function of the rate and the base;
- e. Increase the formalization of the informal sector to bring more activities into the open;
- f. Property tax has a lot of potentiality if only Government can take some responsibilities off the shoulders of the citizens;
- g. "Sin Taxes" on liquor and tobacco can generate revenue for Government;
- h. Estate tax and gift tax should be explored;
- i. Lottery generates significant revenue in many States of the USA;
- j. Tax on fuel consumption should still be explored in future; and
- k. Among others...

He concluded with a quotation from: (Iwoyemi, 2012)

“Weak fiscal revenue bases are not necessarily due to low revenue generating capacity of these tiers of Governments. The more plausible reason in Nigeria is the avoidance of the significant political cost of higher internally generated revenue effort. The availability of fiscal transfers derived cheaply from oil and gas revenues have encouraged minimal internally generated revenue effort. Clearly, it is rational for State and Local Governments to substitute fiscal transfers for local revenues that are costly to collect politically and administratively”.

He thus reiterated that:

- a. Nigeria's development aspirations clearly shows that it has to diversify its revenue base;
- b. This would involve horizontal and vertical diversification;
- c. The revenue allocation system must have in-built system to reward internal revenue generation efforts;
- d. There are some taxes whose potential productivity is very high but would require much efforts by Government;
- e. Nigeria is far behind most of her comparator countries growing in tax revenue as share of GDP;
- f. Transparency, openness and accountability are critical to get citizens confidence; and
- g. The quality of service efficiency and effectiveness of Government must necessarily go up in tandem.

RE- FOCUSING GOVERNMENT EXPENDITURE

Adekunle, A. C Oyinloye
MD/CEO TIB

The paper on re-focusing Government Expenditure took a look at how to channel government expenditure towards a robust and a sustainable growth and development. The presenter beamed search light on the current expenditure profile of the government.

He remarked that for a robust economy, there must be in place appropriate funds that need to be developed and appropriately managed. He observed the decay of the country's infrastructure putting stress on government expenditure. He, therefore, proffered these measures at refocusing government expenditure:

- i. The need to bridge the Capital Demand Gap by attracting private sector contribution;
- ii. Encouraging the pension funds to invest in infrastructure;
- iii. Encouraging Public Private Partnership aimed at raising additional financing;
- iv. Exploring the potential for new institutional arrangement for effective and efficient financing, funding and effective delivery of infrastructure; and
- v. Reducing the vulnerability of long-term infrastructure planning and implementation of priority setting.

He opined that the measures were geared towards increased private investment alongside the public sector.

DISCUSSANT ONE

DR. BEN OBI

University of Abuja

This lead discussant was of the opinion that there was the need to diversify the country's source of revenue considering the state of affairs in the oil sector. He opined that the demand for the country's oil had dropped while illustrating with President Obama's declaration about the US Oil.

With reference to Professor Adeola Adenikinyu's paper, he remarked that apart from diversifying the sources of revenue, there are other seven (7) areas of taxation but which might be difficult to access and it could lead to tax evasion.

However, he proffered solutions to the problem of diversification which include the following:

- i. Expanding the economic base for people to be able to pay tax thus increasing sources of taxes;
- ii. Adding value to material that is community based;
- iii. Increasing economic activities that would enhance employment opportunities;
- iv. Advocating for agricultural programme with a review of the country's land tenure system;
- v. Harnessing and integrating the country's infrastructure to avoid disuse;
- vi. Diversifying taxable areas for revenue e.g. tourism.

DISCUSSANT TWO

Mr. MOSES K. Tule,

Director, Monetary Policy, CBN, Abuja

The second discussant, Mr. Moses K. Tule, apologized that he received late information about the Conference. He, however, discussed the paper presented by Mr. J. k Naiyeju concerning the process of achieving efficiency in public finance management at tripartite levels. He affirmed that the problems with public finance management centered on the system, institutions and personnel.

He remarked that the system in operations does not appear as if the country is in the 21st century. The system which is still in manual form is prone to inefficiency and gross inadequacies. On the challenges of Institutional framework for PFM, he advocated for strong institutional base to enhance efficiency. He also noted that there will be a need to broaden the tax base, strengthen the rules and regulations and keep adequate records.

Accordingly, he reiterated that the challenges of achieving efficiency lie with the personnel who lack the knowledge and capacity in modern financial management systems. In the same vein, he attributed sub-par performance to attitudinal problems, decay in ethical value system while advocating for value re-orientation, capacity building, and general reform in the political system to achieve the desired efficiency.

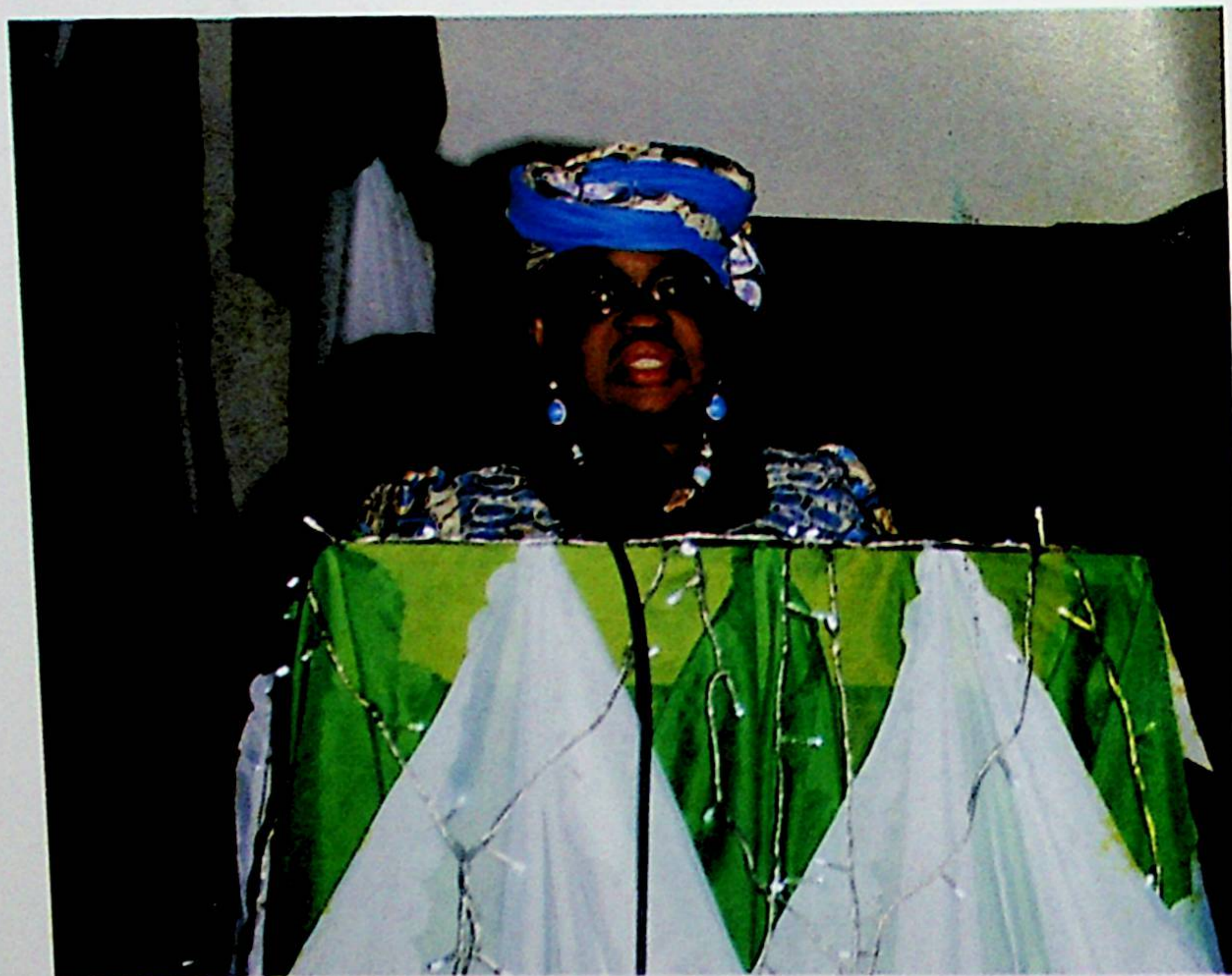
Restructuring
NIGERIA'S
Public Finance

DAY ONE

RESTRUCTURING NIGERIA'S PUBLIC FINANCES

Dr. Ngozi Okonjo-Iweala
*Coordinating Minister for the Economy &
Honourable Minister of Finance, Federal Republic of Nigeria*

C H I E F H O S T



PROTOCOL

I am pleased to join you here today to deliver this keynote lecture on Restructuring Nigeria's Public Finances.

Let me begin by saying that it is good to be in the company of other public finance managers for our country. Our jobs are important and challenging and also come with surprises each day.

When our cabinet colleagues need funds for unplanned projects we are the first to be called by our Principals; when there are demands for wage increases, we need to worry about how to balance the books; and when revenue forecasts are low then we know we are in the hot seat!

No wonder there tends to be such a high casualty rate and short tenures in our jobs! In fact, the estimates suggest that in developed countries, the average tenure for a Finance Minister is about 2.2 years, and in developing countries, the average was only 2 years! So if you have lasted more than 2 years – then congratulations!

My good friend Gordon Brown, the former UK Prime Minister and former Chancellor of the Exchequer served as Finance Minister in Britain for a decade. And he once joked that every new Finance Minister receives three letters on appointment. And the letters are to be opened only when the Minister is facing a crisis. The first says, "blame your predecessor"; the second one says "blame the statistics". And the third letter says "start writing three letters for your successor because your time is up"!

At the same time, our job as managers of public finances can be greatly rewarding when we are able to support the development agendas of our state or national governments. In fact, in my recent book, *Reforming the Un-reformable*, I discuss how cleaning up Nigeria's public finances served as one of the key components of the reforms program during the previous Obasanjo Administration. It involved doing some basic things right, such as obtaining debt relief, saving for a rainy day by introducing the benchmark oil price in the budget process, and improving the planning and implementation of our national budgets!

So for today, I would like to use this talk to exchange some ideas with you on how to improve the management of Nigeria's public finances – whether at the Federal level, or in our various States and Local governments. Let me organize my remarks into three parts:

First, to elaborate on some of the challenges currently faced in managing Nigeria's public finances. Most of you here would be experiencing some of these challenges, and so I hope this will serve to stimulate further dialogue during our interactive session.

Second, I would then want to share with you some of the practical measures which we are implementing at the Federal Level to tackle some of the challenges.

And then finally, in my concluding section, I would like to suggest some ways in which we could have closer collaboration between the Federal Government and States in the management of Nigeria's public finances.

Current Challenges

There are a number of challenges in the management of our public finances which we need to pay greater attention to.

First, is our over-dependence on oil revenues – and this is a problem which plagues all tiers of government. At both the Federal and sub-national governments, we have become very reliant on FAAC allocations, and as a result, we face a lot of challenges whenever there is some price or quantity shock to our oil production. Over time, our dependence on petroleum revenues has resulted in the deterioration of our non-oil tax base. In 1970, nonoil taxes accounted for about 74 percent of Nigeria's government revenues, but by 2012, it had declined to only 30 percent of Federal government revenues¹. Compare this to Mexico, another major oil producing country. Mexico has a population of 115 million people and produces about 2.5 million barrels of oil per day. But Mexico obtains nearly 54 percent of its revenues from the non-oil sector²!

See CBN (2011), Nigeria Statistical Bulletin: Public Finance Statistics, Abuja: Central Bank of Nigeria 5

See IMF (2012), Mexico 2012 Article IV Consultation, IMF Country Report No. 12/316, Washington DC: IMF

Many States and Local Governments are also dependent on monthly revenue allocations from the central government. On average, only 11 percent of sub-national revenue was obtained from internally generated sources (IGR) in 2012!

The second challenge is that, the structure of our public expenditures is lopsided. At Federal level, and in most States, our budgets consist mostly of recurrent expenditures (i.e. payroll and overhead expenses). Yet, we continue to have demands for more recurrent spending. At present, ASUU wants government to pay N92 billion in extra allowances when the resources are not there and when we are working to integrate past increases in pensions. We need to make choices in this country as we are getting to the stage where recurrent expenditures take the bulk of our resources and people get paid but can do no work!

For example, when I resumed as Minister of Finance, I realized that the share of recurrent expenditures in our total budgets had increased astronomically. In fact, recurrent expenditures accounted for about 77.2 percent of the Federal budget and we are now working to re-balance this ratio! But I am sure we have a similar picture in many States across the country.

The third challenge is to improve the budget formulation process. This is a challenge for us at the Federal level – and I am sure there are similar issues at the sub-national level. We need to have a strong social compact from all stakeholders on how budgeting should be done – especially between the Executive and the Legislature. In recent years, we have a lot of progress in introducing reforms such as the Fiscal Responsibility Act and the oil price-based fiscal rule. But the implementation of these rules requires greater consultation from all stakeholders in the budget process.

For example, look at the benchmark oil price which was introduced in the budget starting in 2004. This rule has now enabled us to reduce the macroeconomic volatility which

previously plagued the Nigerian economy while also increasing public savings in the Excess Crude Account. However, the key challenge we face each year is how we determine the prudent benchmark price in an objective way.

The Federal Ministry of Finance has an econometric model to do this but it is not yet enshrined in law. For example, in the 2013 budget proposal, the Executive suggested an oil reference price of \$75/barrel but the Legislature opposed this with a proposal of \$80/barrel. We finally settled on a compromise price of \$79/barrel. Clearly, we need to find a way to avoid this haggling which occurs each year. And in the next section, I will provide some suggestions on how we could tackle this.

The fourth challenge, I want to highlight is the need to improve the actual public financial management systems. In many cases, we are still relying on manual and paper-based systems when it comes to budget implementation at both the Federal and also sub-national levels. With all the progress of 21st century technology – with today's iPads, Android smart phones, and so on – our budget officers still have to carry files from one office to another to "process payments"! And we are still using terminology from years back such as "issuing warrants", "raising vouchers", and "approving AIEs"! Clearly, this has to change!

These paper-based processes create room for leakages as it is difficult to obtain an audit trail. For example, some of the problems we had with our petroleum subsidy fund and the pension system were largely the result of not using proper systems. In addition, the manual processes can also lead to inefficiencies in cash management. For example, we have instances when the government ends up borrowing short-term funds at high-interest rates from local banks when, concurrently, it has unutilized funds domiciled with these local commercial banks! A computerized cash management system will solve this problem – and in the next section, I will talk about how we are working to address some of these problems.

Recent Progress

After pointing to some of these main problems, let me now switch gears and share with you some of the recent progress being made at the Federal Level to improve public financial management in the country.

First, we are working to diversify the economy and thereby reduce our dependence on petroleum. And as the non-oil sector grows, we hope to further increase our non-oil revenue earnings. For the economic diversification, we are pushing for growth in many areas of the economy such as in agriculture, in manufacturing, in the housing and real estate sectors, as well as in the services sector (such as the creative industries, ICT, sports, health care, and so on). Even within the oil and gas sectors, we are creating a Petrochemical complex and also looking for ways to use our gas.

In agriculture, we have an Agricultural Transformation Agenda, which is promoting investments across the entire value chain for crops such as cassava, rice, oil palm and cocoa.

In housing and real estate: we are establishing a Mortgage Refinancing Company (MRC) to provide a secondary market for mortgages to help stimulate this sector. We anticipate that this MRC will enable about 200,000 affordable mortgages within five years – and also create jobs for many masons, electricians, plumbers, interior decorators and so on. The World Bank is already supporting the MRC with an investment of up to \$300 million at zero interest rate, over a 40-year period with a 10-year grace period – and this will help keep financing costs low.

In manufacturing: for the manufacturing sector, we are also introducing targeted policies and incentives to support our entrepreneurs in industries such as textiles, sugar, and food processing.

And as we diversify our economy away from oil, we are also working to improve our non-oil tax revenue collection. In 2012,

the Federal Government hired international consultants to conduct a diagnostic exercise on the bottlenecks in our tax collection process. The Consultants found many areas where we could improve enforcement and compliance in our tax system. For example, they compared our official registry of companies (at CAC) to the official taxpayers' database (at FIRS) and found that about 75 percent of "registered" firms were actually not in the tax system! In addition, about 65 percent of registered taxpayers had not filed their tax returns in the past 2 years. Overall, it was estimated that an additional N80 billion or \$500 million could be obtained if we improved our tax systems. Given the recent decline in our oil revenues, this is additional money which is urgently needed!

Second, we are also paying close attention to the management of our debts. You will recall that we have had a rather long history with dealing with debt in Nigeria. In 2005, after our successful debt relief initiative, our debt stock declined dramatically. In fact, in August 2006, when I left office, we had a total debt of \$17.3 billion comprised of \$3.5 billion in foreign debt and \$13.8 billion in domestic debt. However, by 2011, when I returned to office, the total debt now stood at \$47.9 billion, and the domestic debt had now grown to about \$42.3 billion!

Clearly, we have to do something about the rising levels of domestic debt. With the support of Mr. President, we introduced a number of measures to manage our debt, particularly the domestic debts.

We are gradually reducing our annual domestic borrowing. From N852 billion in 2011, we reduced domestic borrowing to N744 billion in 2012 and to N577 billion in the 2013 budget. Our goal is to reduce this further in Budget 2014.

We have also paid down part of our domestic debts rather than rolling it over. Beginning in February 2013, we retired N75 billion worth of maturing domestic bonds. We hope to continue this practice of retiring maturing bonds rather than rolling it over.

(IPPIS) allows direct payment of government workers based on biometric data. This has so far saved the government over N119 billion through the elimination of ghost workers. A Government Integrated Financial Management Information System (GIFMIS) electronically links the Treasury to other government departments and enables faster and more transparent movement of funds. Finally, a Treasury Single Account (TSA) system permits the Finance Ministry to have better oversight of all government account balances and enables better fiscal control!

In addition, we are leveraging technology to reduce corrupt rent-seeking in the delivery of government services. For example, we are implementing an e-wallet payments scheme in the delivery of agricultural inputs to farmers. Under this scheme, government has been taking out the delivery process for fertilizers and improved seeds and the private sector has taken over. Rural farmers receive vouchers for the purchase of these inputs directly on their mobile phones. This enables farmers to avoid dealing with corrupt middle-men and thus obtain their products directly from private sector vendors. As a result of this system, the government has saved an estimated US\$175 million a year in subsidy payments that never reached poor farmers. And today, 94% of farmers instead of the previous 11% receive these subsidized inputs.

Fifth, we are plugging fiscal holes in various government programs such as the petroleum subsidy scheme, the pension system and so on. Let me discuss the example of the Petroleum Subsidy Scheme. We are all aware of the mismanagement which has plagued this scheme. In 2006, total petroleum subsidies paid to oil marketing firms amounted to N256 billion (US\$1.6 billion). However, by 2011, the bill for petroleum subsidy payments had risen sharply to nearly N210 billion (US\$13 billion). Even more striking was the increase in the number of oil marketing firms. While most countries have a few well-organized fuel importers, Nigeria



The Minister of Planning, Dr. Samshudeen Usman in a tete-a-tete with the Minister of Finance, Dr. Ngozi Okonjo-Iweala at the Conference

had a total of 143 such firms as at 2011! The certification processes to verify the actual delivery of the imported fuel was also very lax, resulting in widespread fraud in the operation of the scheme. For example, we have some strange cases where some firms submitted payment invoices for fuel deliveries in Nigeria when their stated cargo ships were actually berthed elsewhere in South America on the same dates! The subsidized prices for domestic gasoline in Nigeria also created arbitrage opportunities, and resulted in widespread smuggling of fuel products to Nigeria's neighboring countries.

In 2012, the Jonathan Administration embarked on a comprehensive reform of the downstream petroleum sector by appointing the Aig Imokhuede Committee. The Committee found many lapses in our systems and processes. For example, for payment claims made in 2011 alone, they observed that transactions valued at a total of N232 billion (1.5 billion US\$) could not be verified. Following the work of the Presidential Committee, the Jonathan administration promptly put in place a

number of remedial measures to combat fraud in the subsidy scheme. First, a tighter payment regime was introduced, with new auditors and stricter guidelines for disbursement of subsidy payments. The increased scrutiny of subsidy claims has slowed down the payment process somewhat, but also greatly reduced the likelihood of fraudulent payments. Second, we published the names of fraudulent oil marketing companies in the national press, and are in the process of prosecuting these fraudulent marketers to reclaim the stolen funds.

Greater Collaboration across all Tiers of Government

Your Excellency, distinguished guests, ladies and gentlemen – in order to improve public financial management in the country, we will need greater collaboration between the Federal Government and the other tiers of government.

Let me highlight four possible areas where we need to cooperate more.

First, in fiscal policy: We need to cooperate more on our fiscal policies since all tiers of government operate in the same economy. We will need to coordinate more on how we spend our money, what we spend our money on, and also when we spend our money. After all, fiscal policy is not implemented in isolation – so we need this coordination to help us manage liquidity in the economy and also to keep our macroeconomic indicators stable.

Second, in tax policy and tax administration: Again, in this sector we need greater coordination. Sometimes there is just a multiplicity of taxes across all tiers of government. At the local level, businesses may need to pay all sorts of ad hoc fees, levies and fines. We need to coordinate better and streamline these measures.

Third, in social policy programs: Here, I would say we need to work more closely in tackling various public services which fall on the "concurrent list", such as delivering health and education services.

Fourth, we need greater cooperation on infrastructure financing. For example, the current NIMP recommends that we ramp up infrastructure investments from the current 3-5% of GDP to about 9% of GDP over the next 30 years. And over the next 5 years, we will need to accelerate spending from the current 9 billion USD (or 4% GDP) to about 25 billion USD (or 8% GDP) by both the public and private sectors. I think this is where State Governments – especially you the Commissioners of Finance – can play your part! I hope as you prepare your next budgets, you will remember to allocate more funds to infrastructure financing to enable us meet our NIMP targets.

Conclusions

Distinguished guests, ladies and gentlemen – in conclusion, I want to assure you that the Federal Government is working hard to ensure a prudent management of our public finances. Working in partnership with States and Local Governments, I believe we can address our outstanding challenges and further improve the implementation of fiscal policy in the country.

Let me also use this opportunity to urge greater information sharing between the Federal and State governments. As I mentioned earlier, the DMO has done a good job in compiling the outstanding domestic debts of all States. I would recommend we build on this practice in the future to enable us assess the fiscal position of States, especially if they want to assess the capital markets. So I would request the DMO henceforth to liaise with the relevant authorities in State Governments to collate additional fiscal statistics such as State government budgets as well as their development plans.

I have put forward a number of the challenges as well as some of the practical measures we have introduced to tackle these problems. I hope it will serve to stimulate more debate during our interactive session.

Thank you very much for your attention.

**GOVERNMENT/PRIVATE PARTNERSHIP:
A PATH TO ECONOMIC TRANSFORMATION
AND NATIONAL DEVELOPMENT**

The Chief Servant,
Dr Mua'zu Babangida Aliyu CON
Talban Minna,
Executive Governor of Niger State



*The Deputy Chief Servant, Alh. Ahmed Musa Ibeto
presenting the Chief Servant's Speech*

PROTOCOL:

I stand before you to represent a man who is a patriotic Nigerian, a man whose passion by words and action is for the Unity, Progress and total integration of this great country Nigeria. I stand to represent a man who believes rightly, that political leaders, though elected by the people must always be considerate in taking decisions and bringing out policies even if those policies are very harsh to the very people who have elected them. But in the long run, the people will turn back to praise the leaders for the decisions they took on their behalf. The man who for a very long time has been calling for the diversification of the economy of this great country. He has been calling on us to be very realistic in the operation of our economy particularly, the oil sector and also the revamping of our agricultural sector. The man is an excellent manager of human and material resources that made it possible for Niger State to have the least poverty in this country which can be testified by the two Ministers of Finance, here present today. The man is a bridge-builder, the man has abolished state indigene in Niger State, the man has ensured that the integration of this country must start from his state. This man is Dr Mu'azu Babangida Aliyu, CON, Talban Minna, Sodangi Nupe, Aare Asolupo of Owu Kingdom, the Omeluoha in Imo, the Aare Akinjagunla of Ogbomosho land, Sebeh of Kwararafa, the Otunba Akinjagunla of Ado-Ekiti, the Agbayewa of the Source, the Sardauna Arewa, the man, indeed, of many traditional titles. I now present his address.

I am pleased to welcome you all to Niger State, the Power State that is fast becoming the Intellectual Capital of Nigeria, where intellectual activities have and would continue to hold for the development of policies and programmes that will lead to sustainable growth and development of the Nigerian economy. On behalf of the Government and the People of Niger State, I wish to welcome the Vice President, Arc. Namadi Sambo, the economic management team and other members of NACOFED

and all others invited to participate in this all important Conference.

This Conference, organized by the National Council for Finance and Economic Development (NACOFED), has the theme “Restructuring Nigeria's Public Finances” it is therefore, heart-warming that this Council has come up with this conference that seeks to elucidate, expand ideas in our country's history and developmental dynamics. That this theme should be made to come to the public fore, reinforces the correctness of encouraging open public debate on such major public policy issue. I once again congratulate NACOFED for organizing this conference.

Public Finance Management (PFM) basically deals with all aspects of resource mobilization and expenditure management in government. Just as managing finances is a critical function of management in any organization, public finance management is an essential part of the governance process. Public finance management includes resource mobilization, prioritization of programmes, the budgetary process, efficient management of resources and exercising controls. With the advent of democracy in 1999, the rising aspirations of our people are placing more demands on our financial resources.

If we have been operating a free-market economy, private markets would have been allocating goods and services among individuals and communities efficiently. If private markets were able to provide efficient outcomes and if the distribution of income were socially acceptable, then there would be little or no scope for government. However, this is not the case in our polity.

At this juncture, I must affirm that all federal political systems are persistently confronted with the effective management of the growing mismatch between mandates and resources. And all federated States have varying economic opportunities but some are economically advantaged than others. The result is physical imbalance, which remains a common feature among States and Local Governments.

In most of the 36 States of Nigerian federation, there is a growing imbalance between public expenditure and Internally Generated Revenue (IGR) necessitating a total reliance by the sub-federal levels on allocations from the Federation Account such that where there is any delay, most States find it difficult to pay even a month salary *talk-less* of carrying out developmental projects.

Our fiscal federalism relates to issues of intergovernmental fiscal relations and how these relations impinge on macro-economic management. This bothers on the rules for the assignment of functions of the Federal Government in relation to other tiers of government (for instance, Federal Government distributing books to Schools). Let me also recall the intricacies and controversies that trailed the sudden upsurge in the salary wage bill when the federal government pronounced the National Minimum Wage for all workers at all levels of government. To an average worker who erroneously stands to believe that since the federal-might has made this known, it is therefore binding on other levels to implement. But this is done without an increase in the Federal Allocation or Subvention to the other tiers of government. This action, to my conviction is not only detrimental to the mutual inter-relationship among the tiers of government but that which could erode the confidence and the solemn pact which the elected have with the polity and for which we are bound to be loyal and committed to fulfilling our electoral promises.

It is astonishing to reveal that as at 2011, over N2 trillion was expended on petroleum product subsidy, which is about 55% percent more than the 2011 capital expenditure. Need we consider other expenditures that are due to incessant crude oil vandalism, theft and other illegal bunkering activities. All these have their toll on the efficiency of the sector that contributes over 70% of our revenue, thus the need to open up the sector for more public-private participation.

Agriculture has always been our main occupation employing over 70% of our citizenry before the oil boom, providing not only



The Deputy Chief Servant, Alb. Ahmed Musa Ibeto (l) Minister of Planning, Dr. Shamsudeen Usman (m) and Minister of Finance, Dr. Ngozi Okonjo-Iweala

steady means of livelihood but a major contributor to foreign exchange earnings. The Nigerian economy must gradually, but surely, steer away from the dominated and globally controlled oil to a liberalized agro-based economy where government and private entrepreneurs actively participate in economic activities that have the potential of lurching Nigeria on the path of sustainable growth and development.

The Nigerian nation must as a matter of necessity ensure and put in place an efficient public finance management structure that allows for a robust, timely and achievable plan formulation, implementation as well as provision of good governance to the citizenry.

The Niger State Government has within the life span of this administration strived to enhance public finance management strategies that will ensure accountability, transparency and good governance. To this end, the State has signed into law the Planning Commission Law, the Fiscal Responsibility Law and the Procurement Law that guides public finance management.

I therefore, urge you all to use this forum to articulate issues that are germane to the re-structuring of our public finance management such that the States and Local Governments where majority of our populace and land are take their rightful place in the scheme of things.

I thank you all for listening.

**THE IMPERATIVE OF FEDERAL/STATE/
LOCAL GOVERNMENTS PARTNERSHIP FOR
SUSTAINABLE ECONOMIC GROWTH**

His Excellency
Arc. Mohammed Namadi Sambo, (ECON)
(Vice President, Federal Republic of Nigeria)



*The Minister of Planning Dr. ShaEmsudeen Usman presenting the
Vice President's Speech at the conference*

PROTOCOL:

His Excellency, the Chief Servant of Niger State, Dr. Mu'azu Babangida Aliyu, Talban Minna, represented by the Deputy Chief Servant, Honourable Ahmed Musa Ibeto, Coordinating Minister for the Economy and Honourable Minister of Finance, Dr. Ngozi

Okonjo-Iweala, the Honourable Minister of State for Finance, Dr. Yerima Ngama, the speaker of the Niger State House of Assembly, represented by the Deputy Speaker, Accountant-General of the Federation, State Commissioners of Finance, State Accountants-General, Members of the Niger State Executive Council, Members of the Niger State House of Assembly, the Judiciary and other Government Officials, Invited Guests, Gentlemen of the Press, Distinguished Ladies and Gentlemen.

Before I wear the heavy cap of the Vice President, let me make a couple of personal comment to the Niger State Government for the Niger Cultural troupe. We were here earlier in the year; that is, the National Planning Commission on Zonal sensitization on the state GDP calculation. This is a highly technical issue. It was in this hall, now, we had a lot of experts that got up trying to explain to an audience like you what the GDP is; the Gross Domestic Product. Highly technical, I could see some people were almost falling asleep because they just could not understand it. Then, the cultural troupe came in, and in a five minutes drama they actually explained what the GDP is about and everybody understood. So we actually borrowed from what happened because Niger was the first Zonal one we did and at every zone that we went, we asked the State troupe to actually do a drama. We borrowed from Niger. And it was very useful because, almost every where the cultural troupe were able to do a short drama that explains what GDP is and people understood much better than all of us technical people were trying to do. But one thing I like to say to you is that the best drama that we had impromptu is the one from Niger.

Now, let me read the speech of His Excellency Architect Mohammed Namadi Sambo, the Vice President of the Federal Republic of Nigeria.

I am happy to be in your midst once more, to declare open the Annual Conference of the National Council on Finance and Economic Development (NACOFED) holding here in Minna, Niger State. As is the tradition of the Conference to provide a veritable platform for the discussion and exchange of ideas on

topical national issues, the Conference, with the theme "*Restructuring Nigeria's Public Finances*" comes at a critical period in the nation's developmental history. I therefore commend the Federation Account Allocation Committee (FAAC) and the Federal Ministry of Finance (FMF) for their untiring efforts in organizing the Conference. I also commend the Government of Niger State for hosting the Conference, joining the league of States like Katsina, Akwa Ibom, Bauchi, Kano, Ogun, Plateau, Rivers and Enugu, just to mention a few of the states who did the same in the past.

Distinguished Ladies and Gentlemen, since its inception, the restructuring of Nigeria's public finances is one of the key elements of the *Transformation Agenda* of President Goodluck Ebele Jonathan's Administration. This Administration has undertaken various reforms aimed at re-structuring public financial management and diversifying the economy, in the face of dwindling oil revenues, occasioned by the global recession.

The reforms in public financial management have already started yielding results. We are making good progress by reducing our recurrent expenditure to sustainable levels, while increasing the fiscal space for supporting capital projects. Following the Oronsaye Committee Report, the White paper which will soon be finalized by the Government, we have initiated the process for reducing waste and duplication in the functions of government agencies. We are also ramping up our effort in eradicating ghost workers on government payroll, by extending the biometric verification of employees to all agencies. Consequently, recurrent expenditures will be trimmed further from 71.5 percent in 2012, to about 68.7 percent of the 2013 budget, while the capital vote is expected to increase to 31.3 percent from 28.5 percent in 2012.

The fiscal outlook has also improved considerably, from a deficit of nearly 4 percent of GDP in 2003, to about 2.85 percent in 2012, below the 3 percent threshold prescribed, under the Fiscal Responsibility Act of 2007. As we continue to consolidate government expenditure expected to grow by less than 1 percent in 2013 to N4.87 trillion, compared to the 8.8 percent growth in 2012.

Revenue generated from taxation has increased more than ten-fold since 2002, on the back of greater efficiency in tax collection. About N5.002 trillion was collected by the Federal Inland Revenue Service (FIRS) last year compared to a mere N434 billion in 2002. Our non-oil revenue is projected to grow further in 2013, as the ongoing reforms in our revenue collecting agencies and the implementation of initiatives to further develop the non-oil sector continue to yield results.

The 2013 budget is designed to promote the goals of the Government's Transformation Agenda. As such, the capital expenditure is strategically geared towards sectors that are of priority to the economy. Investments in these sectors are targeted to improve the standard of living of Nigerians. With a focus on creating employment and a business friendly environment, the bulk of Government's revenue is to be spent on the provision of key infrastructure (in particular, power supply), transportation (roads, rail and air), physical security and food security. The 2013 budget also caters for social infrastructure - in particular, health care and education.

Distinguished Ladies and Gentlemen, we are not, however, unmindful of the various developmental challenges that we face as a country. We are particularly conscious of the global economic crisis and its impact, which could negatively affect the demand for, and prices of, primary commodities, particularly crude oil - which is the principal source of revenue for the Federation Account. The annual budget of our Administration since inception has continued to be predicated on four main pillars namely:

- 1) Macroeconomic Stability;
- 2) Structural Reforms;
- 3) Governance and Institutions; and
- 4) Investments in Priority Sectors.

It is our belief that the effort of the Federal Government in this regard would be complemented by those of the States and Local Governments so that, together, we can lay a solid foundation for



The Deputy Chief Servant, Alb. Ahmed Musa Ibeto (l) representing the Chief Servant with Minister of Planning, Dr. Shamsudeen Usman representing the Vice President

sustainable economic growth which would Deliver the dividends of democracy to our people. It is our desire that we should begin to experience commensurate increase in the social well-being of Nigerians, with the rate of modest increase in our economic growth.

Distinguished participants, let me reiterate here that the choice of the theme for this year's Conference is apt, given our desire to diversify our economy, improve public financial management and deliver the dividends of democracy to our people. I understand that three papers dealing with the theme of the Conference will be delivered. The Government is keenly awaiting the outcome of your deliberations and will accord your recommendations speedy consideration. Once more, I congratulate the Federation Account Allocation Committee and the Federal Ministry of Finance for organizing this year's NACOFED Conference in the historic city of Minna, the capital of Niger State. I also commend the Niger State Government for hosting the event

It is now my pleasure to declare the 2013 NACOFED Conference, open, while wishing you all, very fruitful deliberations.

THE CHALLENGES OF NIGERIA'S
OVER-DEPENDENCE ON OIL RESOURCES
AS A SOURCE OF REVENUE

Dr. Yerima Lawan Ngama
(Minister of State for Finance)

H O S T



PROTOCOL:

Your Excellency, The Vice President, Federal Republic of Nigeria, Architect Mohammed Namadi Sambo, GCON, represented by the Honourable Minister of National Planning and Vice Chairman, National Planning Commission, Dr Shamsudeen Usman, Your Excellency, the Governor of Niger

State, Dr. Mu'azu Babangida Aliyu, represented by the Deputy Chief Servant, Coordinating Minister for Economy and Honourable Minister for Finance, Dr. Ngozi Okonjo-Iweala, our Royal Father, the Etsu Nupe and our Mother, the former First Lady, Justice Fati Abubakar, the Accountant-General of the Federation, State Commissioners of Finance, State Accountants-General, Ladies and Gentlemen.

I am here to thank all that have made this day very successful; this is the first time NACOFED is holding since we came into this administration. It was unfortunate, last year, NACOFED could not take place in Ibadan. To organize this one and successfully as it is, we have to thank the Governor of Niger State and his Deputy for what they have done to make this a successful conference. We are happy to be hosted by them, we are also happy to receive this hospitality, because since we came to Minna, we have realized that the town has successfully been re-structured and we feel this is the best venue for restructuring the finances of Nigeria.

We are also happy to be challenged by the Deputy Governor in his speech. We all know that the challenge this country is facing is the vulnerability of, and over-dependence on oil resources as a source of revenue. We have listened to speeches delivered and we all have taken the lessons and we are assuring His Excellency that, we, not only as FAAC members, but also members of the economic team, are liaising with the private sector as very soon you will see that a lot of investment will come into the mid and downstream oil sector following these pieces of advice and we are assuring you that in the near future, this economy will be on sound footing. The Vice president, we are happy to receive your representative who is also a former Minister of Finance and a very senior member of the Federal Executive Council by gracing our NACOFED. We feel encouraged and we are happy to receive all the supports the Federal Government can give the FAAC members because without the Federal Government's support, sometimes we feel left out but we are also grateful that the Vice President has also been helping in making our relationship with the state governors

easier in the National Economic Council. This has helped us to solve many problems that arise and we have learnt a lot and we have agreed to work hand-in-hand with the office of the Vice President to ensure that problems are averted rather than solved. So sir, we are very grateful and we are also taking the challenge on the integration of the infrastructure master-plans of both the states and the federal government and we wish to invite you as the Minister of National Planning to the next FAAC meeting so that you can give us a short talk on the National Integrated Infrastructure Master Plan. This is something I believe the states' Commissioners will be happy to learn about. For the Coordinating Minister of Economy, it has been support as usual. We have to thank you, even though, we believe your fund has been coming not only today, but since we started this journey. We thank you for educating us about the problems of finances at both the federal and the state levels more particularly, at the federal level, of the challenges we are facing, I was actually happy, because some of the state governors feel it is only they that have problems. That the federal government has no problem but at least you have helped in educating all of us to know that maybe our problems at the federal level is far worse than theirs and we also appreciate all your efforts in the sector that moves the economy. We appreciate you and plead for your support. With the good work you are doing, managing our finances will be very easy. Thank you.

Plenary Session:

OPENING REMARKS

Dr Yerima Lawan Ngama

(Honourable Minister of State for Finance)

We will see if we can fix in two papers for this evening with the permission of the Chairman. We are also going to have the paper "Diversifying Nigeria's Sources of Revenue" to be presented by Professor Adeola Adenikinju of the University of Ibadan, could you please come up to the high table and the discussant of that paper, Dr Ben Obi, of the University of Abuja.

For this session, we are going to take two papers, one after the other, and then the discussion will be taken also at the same time. So we first take papers and then the discussants will now follow after the second paper. The first paper for this session is: "Diversifying Nigeria's Sources of Revenue" to be presented by Professor Adeola Adenikinju of the University of Ibadan. Could you please put your hands together for him.

DIVERSIFYING NIGERIA'S SOURCES OF REVENUE

Professor Adeola Adenikinju
University of Ibadan

The Chairman and the Minister of State for Finance, Distinguished members on the high table, Honourable Commissioners, Distinguished Ladies and Gentlemen. It is my pleasure to be here this afternoon. We also recognize that this is not about the best time to present papers, after lunch, when people are tired. But I have prepared a Power Point Presentation so I thought there was going to be a projector where I can show the presentation but I presume that the papers are going to be distributed so that, we can follow up on the presentation. I want to thank the organizers for inviting me to make this presentation. Let me also say upfront that most of what you are going to be hearing may not necessarily be news to you. They are issues that have been discussed, you know, and many of us have heard them at one time or the other. But, I will like to add some issues that I think are very important because just like the Minister of Finance said, it is important that we start to think about after oil. You know, it is a reality that is going to dawn upon us when oil is going to pass away and then as a country, we then have to be prepared for that post-oil environment. So, my presentation follows some outlines I am just going to rush through the introduction then I identify what I call some stylized facts of Nigeria's sources of revenue. What are the existing stylized facts? What can we say, you know, what are the distinguishing features of some of the Nigeria's sources of revenue as we have it now? And then, I am going to make some comparative analysis with some countries and see what we can learn from them and then second to the last, I am going to draw

some policy issues and recommendations and then finally, I make my concluding remarks.

Now, I want to underscore the fact that when we talk about diversification of revenue especially in the Nigeria case, we are looking at how we can move from oil dependency to non-oil taxes or non-oil sources of revenue. And the reason for that is very clear. Taxes generally, represent a very sustainable source of finance for development. Oil has the characteristics that make it very unreliable. So it is important to have a more sustainable source of finance and diversification of the economy especially to depend on taxes is more reliable. I have statistics here that showed how much revenue per person is generated in Nigeria in 2012. I mean, the figure as we can see is still very small. It is about ₦17.27k per person. So if we divide our revenue by the population you have N16.87 per capita which is extremely very low and the interesting thing is that the bulk of this revenue is from oil. So, when we are talking about taxes - taxes have a lot of advantages and they also have implications. So, as we shift to taxes as the fulcrum of development or revenue, there are also some concerns that we must need to be aware of. Taxation has implications on Resource Allocation in an economy and that is why you don't just raise taxes or impose taxes, you have to do some economic analysis to be sure that the taxes do not have negative impact on Resource Allocation. Because, one of thing that taxes will do is that it is going to lead to increase in the cost of production. It will shift the supply curve and increase the equilibrium price and that may affect how the resources are allocated within the economy which may lead to a sub-Optimal Resource Allocation. So, taxes have to be studied carefully before they are imposed. They also impact on consumer behaviour; they could encourage or discourage certain types of activities. They could impact on the nation's productivity and growth. I mean, if you look at the United States, you will see that the issue of taxes have been very contentious. The republicans came in and said look, let's lower taxes for everybody because the argument is that

taxes have implications on incentives; incentives to save, incentives to invest or to work. And also, it is important to be aware of what will be the final impact of the tax, you know, what is the incidence of the tax? Who is going to bear the final burden of the tax? So, it is very important.

So, I said that productivity of tax must be balanced against its other consequences so as you explore other forms of taxation, it is important to do some analytical work that will show for instance, what will be productivity of that tax or what is the buoyancy of that tax? What is the elasticity of return of that tax and the balance against its potential cost to see whether the tax should be imposed or not?

Now, on page 3, I said tax is part of a social contract between the Government and the citizens and it is important to underscore that. If we go to move in the way of tax, then, there are responsibilities and privileges that come with that and it is important we realize that we don't just go ahead and say look, because we want to diversify our revenue sources then we introduce all kinds of taxes and impose some burdens on the people if those people themselves are not seeing the impact of those taxes on their daily lives; on their social and economic conditions. So, it is part of a social contract, those countries that depend heavily on taxes are also accountable to the people. I am going to stress that a little bit later on.

Now, we look at what is the rationale. Why do we talk about diversification? And I made some arguments there but I will just go through a few of them because of time.

In our own case, where oil is so dominant in our revenue portfolio, we are exposed to volatility that is exogenous to us; the volatility that you don't have control over. You know, the price of oil and the quantity of oil that we export are exogenous. They are determined outside the fuel front of the country and therefore, the country becomes extremely vulnerable to those sectors as they come and therefore there is a need to diversify the base.

I said that when you depend on a single source extensively then every price change substantially and unpredictably will cause large and uncertain movements in revenue. So your revenue becomes unpredictable. There are alternative ways of trying to prevent you from that kind of volatility. One way is to expand the tax base; and have plenty sources of tax incomes. If you do that then, if there is volatility in a particular tax or sort of revenue, the other ones can provide a fall back to them. Then, some people have relied on, you know, where they have developed markets. They have relied on future, on optional markets to diversify insurance, to diversify some of their volatility and many other countries, they have set up, like we have done in Nigeria, a Revenue Resource Stabilization Fund that provides a kind of a fallback to mitigate volatility in the revenue.

Now, countries or governments cannot afford to continue to depend on a volatile source of revenue because that government could quickly lose stability because it is at the beginning of the year based on some projections you have calculated, you know, you've done your budget but because your income was not realized, you then divide that budget. Many of the projects that people are looking forward to you have to cancel them, then that government starts losing its stability and it is not good for the government. And also because revenue at times could be very high, government could then go and invest in projects that you could call a white elephant project. The rate of return on that project later on will not justify the weight on that project initially. And the last point I want to mention is that oil resources are themselves very finite.

Mr Chairman, ladies and gentlemen, you will see other sources of revenue I produced a table. It is a table that in our various states we can take a look at it. It is Government Finance Statistics Manual 2001 produced by the IMF and here were the list of over seventy sources of revenue. Now, I don't know how many of these we are using. We are really exploring their use in Nigeria and there I put three columns which you could feel and I said intensity of correct use. If you look at a particular revenue source you could ask

yourself, what is the intensity of the current use? Are we using it optimally? Are we using it intensively? And for instance, I said taxes on property have a lot of potentials but it is very limited. The intensity of use in many states is very limited and the potentials are very high. Then the remark is why is that we are not using it? What is for instance, not making us to explore that source of revenue? And if you do a quick calculation in a particular state or city, you have a million houses or buildings and you collect twenty thousand or thirty thousand naira per house and do that per year, if you estimate how much of revenue you are going to generate from that kind of income or that kind of source. But, there will be responsibilities attached to that. You cannot collect property tax if you don't also perform some responsibilities that will make those who are paying the tax to feel that some of their burdens have been reduced. For instance, collecting of waste, taking care of their drainages, doing their roads and things like that. If they see a one-to-one connection between what they are paying and the services that government is providing, it becomes extremely easy to rely on that kind of revenue. Even taxes on income, profit and capital gains, yes we are using that in Nigeria, but, overnight the integrity is very limited and like the coordinating Minister of the Economy said earlier on, that the study they conducted show that almost 75% of registered companies are outside the tax coverage. So, there are lots of opportunities that are available that we are not exploring. So, those two pages really show the various types of revenues that we can explore in our various states depending on the relevant and exact laws that guide who is in the position to collect those revenues. But, like I said, they have some implications.

Now, I will quickly go through what I called some stylized facts and those of us who have the paper, some of these are really very important, and are things we know but, I am going to pick out some important ones

Stylized facts on Government Revenue in Nigeria: Our revenue is largely dependent on oil revenue. Nigerian Government revenue

is heavily dependent on oil revenue. And two key issues here is that it is not just that we are depending on oil revenue, issues of transparency and governance remain a critical challenge, because, even with oil, we are not getting what we should get. So issues of transparency and governance remain a critical challenge and also are the issue of volatility that I have mentioned earlier on. In recent time, government has been trying in terms of improving the share of non-oil revenue but we can still do more. And, when we compare what we have with other countries, we will see that we are lagging behind. So, I said tax share of GDP is relatively small compared to other comparator countries. I believe these are very clear. Some of those reasons I have mentioned here, the size of the economy outside the formal economy is extremely large and therefore one of the things we need to do if we are going to expand our revenue base is to actually widen it and to ensure that more of the informal sector activities are actually formalized so that revenue base can be expanded.

Two, is that the tax efforts at the sub-national levels are extremely weak in my view though some states are really trying in recent times and that is why there is extreme dependency on the Federation Account.

Three, in many cases the citizens have perceived that the social contract is not fully being implemented and there are only limited diversities of taxes in the books that are actually being used and the way they are employed, little efforts are also checked to look at their productivity. I just want to mention something you have some states that levy a lot of taxes but if you look at the productivity of each of those taxes, some of them are not worth the kind of efforts that people pay in to collecting them. Because, what they are giving is extremely very small. So it is important to actually like I said, to do analytical studies to show which are the sources of revenue that are likely to provide the greatest amount of returns so you will be looking at the buoyancy of the tax and looking at the productivity of the tax, you are looking at the elasticity of the tax so that if you concentrate efforts on those few

taxes and you intensively explore them, you are likely to get more revenue, instead of you know, putting, you know people putting all kinds of things on the road to just collect some money that at the end of the day will just constitute nuisance and not really contributing significantly to government revenue.

The next page shows some data, which I will just flip through because of time. The next one is a table which shows trends in revenue as percentage of GDP for Nigeria and the data there from 2009 to 2012. One thing that is very clear that I want to stress there, is the high correlation between government revenue and oil revenue. There is extreme high correlation between them. So, some people see the volatility that is there when oil revenue increases the total revenue increases and when oil revenue falls the total revenue falls. So, you still have some cyclical relationship between oil revenue and total revenue.

The next page is what we have heard earlier, the types of taxes which are collected in Nigeria, who has jurisdiction over them and the right to revenue to those taxes. Uhm, again, there are many of these taxes like I said we are not fully exploring them the way we should explore in other to get more revenue.

The next table shows the composition of states and local governments' revenue in Nigeria. Again, I just want to mention that for the states, the data we have is very close to what the Minister said earlier in the morning but in all the states, it is about 14% is the IGR, local government is even worse; it's about 2% which extremely shows the vulnerability of those sub-national units to a change in oil revenue.

Now, the next slide is very, looks very interesting to me, we did this, this data is about 5 years old. But It tells the story. It states Nigeria's Sectoral Contributions. Then the question that I want to post here invariably is that while some sectors in terms of their contribution to GDP is very high, but in terms of their contribution to revenue is extremely low. Now, what is that telling us? Now, if you look at Agriculture; these are the correct values,

contributed in the year we are looking at, 32% of GDP but its contribution to revenue is less than 1%. Now, the drama we watched in the morning shows that when Agric was actually the pillar of our revenue in Nigeria, they were providing revenue for the regional government, they were providing sufficient revenue for the regional governments. So what has happened to our Agriculture that it is contributing so much to GDP and yet the revenue we are tapping from there is extremely very small? No, now, we need to look at that and try to see how we can begin to get Agric to contribute to revenue. Now, you could do Gross Subsidization later on to some partners but the way the statistics is now, in my view, I think deserves to be looked at may be a further study would be commissioned to look at it. Now, crude oil in this year has about 37.8% of GDP again, these are correct prices if you deflect them the relative shares will change. But, it is contributing about 83.6% of revenue, despite the leakages there, it could still do more. But that means that there are potentials that we could explore there.

If we look at manufacturing; manufacturing is about 3% of the GDP and contributing about 8% of revenue. Now, and again that tells you that if we could get our manufacturing sector up and running, if we could revive our manufacturing sector, I mean look at the productivity of tax there 7.7 divided by 2.6 you begin to see that it has a lot of potentials that we can get from manufacturing if it is woken up. So, if we look at all these, it begins to tell us that there is a mismatch between the sectoral contributions to GDP and what they are contributing to revenue and two possibilities or two challenges come from that; those sectors that have high share of GDP but are not contributing enough revenue there is the need to see how we can ensure and lift up their contributions to the revenue. Two, those sectors that share of GDP is small but their contribution is very high is showing us that we have a lot of potentials that we can tap if we deliberately develop those sectors. And one of the things we did in one of the states in the federation, my team, we did a study for them to say for every one naira you put

in a sector how much job you can create from that sector, so that you can prioritize your sectoral allocation based on employment. You can generate and that has implications on revenue. You could get money from taxes and those people will pay and you could also get more people into the formal sector.

Now, the next slide also is very important because it shows compensation of employees and operating surpluses. How value added is allocated, and again, the quick thing I can see from here is that the more we generate and we get more people employed, the more we can get revenue from workers salary and then form an operating income. Again you see a lot of divergences that we see there and a lot of potentials that we can also see.

The next two slides, we can just quickly flip quickly through them, do some comparisons between tax revenue as a percentage of GDP for selected countries. You can see that Nigeria is always very low in those years. The BRICS, the countries we are trying to copy from have been able to grow their tax revenue as share of GDP much more than we were able to do.

The next slide shows that they are not dependent on indirect taxes for most of them is not that extremely high, though in Nigeria it is extremely very low. But more importantly, the next slide shows that many of them are depending on direct taxes; taxes on income, from profits and capital gains in order to be able to get more revenue because they want to be able to tie revenue directly to benefits and therefore, direct taxes allow you to do that. And more importantly, it allows the citizens to become engaged in the development of the country. Now, if you look at the data, unfortunately it is not paged, where we have taxes on income, profits and capital gains as percentage of revenue, you will see that Nigeria and Russian Federation, both of them oil exporting countries, are extremely very low whereas we have countries like the United States, India and even South Africa that get almost 50% of their revenue from taxes on income, profits and capital gains. And basically that is because again, you have to do a lot to

make sure that those companies are doing well. They are robust enough to be able to make profits.

Now, the next slide is controversial but to just mention the fact that, many countries have used taxes from petroleum products as a major source of revenue and they incorporated those taxes into the final price of petroleum products. The interesting thing about that is that petroleum products have inelastic demand, so, you could actually generate a lot of revenue from petroleum products especially once we finish our reforms successfully in the country. In Ghana for this year, they are getting almost 20% of the prices with indirect tax that goes to the government and interestingly in Nigeria until 2001, we actually have a tax, that we impose on petroleum products but it has been abolished now.

The next page further illustrates that even some oil producing countries have as high as 48% tax on their gasoline retail price. So, it is a major source of revenue that we have not been able to use in this country obviously because of the credibility issues and the crisis around that sector but hopefully as the sector is reformed, we can begin to tap and take advantage of the benefits that the sector can offer us.

Mr Chairman, I also want to basically compare what we are doing with some developed countries. I have the United States and I look at how they are getting their revenue; whether states or local governments and I see that the local government property tax comes very significantly and also is the inter-governmental revenue. You see, again, that the system functions very well. The Federal Government collects some revenue but gives to the state to help them to carry out some activities because the state governments are closer to the populace in some areas. So they are closer to the provision of those services like the maintenance of roads. So, they collect money and give to the states. In fact in 2012 that was about 22% of states revenue in the United States. They collect from the federal government to carry out some activities on behalf of the federal government. The same thing, local

governments collect revenue from federal and state to be able to carry out some activities on behalf of those other levels of government, because, they are in a better position to perform. For instance, primary schools, Primary Health Care Centres and things like that, it is closer to them and so they do those transfers.

The next page, again shows contributions of various sources of the United States revenue in 2011. It is a federal system and that is why I am using it because we can copy a lot from them. But, you could see that individual taxes are really very important and that is why the citizens are fully engaged in what happens in those countries.

The next slide shows the UK tax revenue. You will see that income tax is very high and they have all kinds of taxes that they use including what they call Inheritance Tax which I am going to talk about a little bit later on and tax on fuel duty and so on and so forth which generate some revenue. Then I also have Canada, we see Income Tax, Personal Income Tax is really very important, so, we must formalize with this economy. We need to find a way of getting people engaged and pay for the development of this country or to be part of the of the development process is by paying taxes that they become part of the development process and then they can begin to engage government in terms of how government is spending their money.

Mr Chairman, I will soon finish. I just want to look at what are the issues, the recommendations and options that are available to us.

Now, I said there are no quick fixes; there are things that we need to be careful about. Though, I am from the academic world, I work a little bit in the government but I believe there must be analytical base for a lot of what we do. So it is important to analyze the various tax options. Every state and every level of government must look at what are the various tax options that are available and calculate what are their buoyancy and productivity so that they can begin to concentrate their efforts into exploring those sources of revenue. So it is important to look at diversifications.

I said that there are two types of diversifications: we have what we call Horizontal and Vertical diversifications. Again, the Minister has dealt with this indirectly in the morning. Yes, we are getting a lot of oil now but imagine if oil and gas, we really explore them, we develop them, we really process them, we really have industries that use it, located here. Now, what we are getting from oil is a parting sum. If we have Ammonia companies, fertilizer companies, glass companies all sorts of industries that will use a lot of gas and a lot of power plants, you will see that we can generate even on that horizontal basis, from oil a lot of money. Then, a vertical diversification is the other sector that we need to develop. Now, I said here that tax revenue is often a function of the rate and the base. But more importantly you don't want the rate to be very high, you would rather want to widen the base and widening the base is also a function of the state of the economy and that is why we must continue to engage in the development of the economy.

There must be increase reliance on user charges and fees and direct taxes so that citizens can see a link between their payment and benefits. If you say VAT; I buy something and I pay VAT on it, I am not seeing the link between what I am paying and the benefits of the government. It is indirect. You know, those who are not educated may not even really see the link, but when you start to look at direct taxes, you are looking at people paying according to the benefits they derive from a particular government services, then those people can begin like I said to get government to be accountable.

We must formalize the formal sector to bring more activities into the open. Property tax has a lot of potentials that we need to improve on. There are some taxes they call "sin taxes" we don't want people to consume them but instead an outright ban. If you put a tax very high, you collect money, you see that to a large extent, you can generate a decrease in the consumption of those goods. Now, Estate Tax and Gift Tax; estate tax are taxes that are paid on the property of the dead. I mean, people have a lot instead

of building companies, instead of investing money we build large properties, huge estates, you know, and some of these estates at the demise or when the owner dies, the children abandon them. Nobody wants to live in it and things like that. We should begin to have taxes on them, people should begin to pay taxes, I think we can generate a lot of money in my view. If we do a lot of analysis on this, we can see that it can generate some money. Many states in America do lottery, they get almost 50% of the revenue from lottery services. Now, future fuel consumption, I talked about bridging the gap between sectoral share of GDP and contributions to tax revenue. I want to mention enforcing compliance to close loopholes. And again, the Minister mentioned that we must reduce tax evasion and leakages in the system. And I have somebody who is very close and who works as an auditor. You see, the number of taxes we impose on people, is not transparently done. People will rather pay, negotiate with the tax officials and pay some amount instead of paying the correct amount to the government. And these are some of the loopholes that we need to close. So, when you have high tax rates that are why I said emphasis should be on widening the base not the rate. If you increase the rate, as an economist, people will look for options; people will evade those taxes and look for other ways to negotiate their way out of the system.

Now, we must strengthen the administrative and institutional capacity of revenue collection agencies. You know, reward those who keep proper accounts and then make our tax system very transparent so that people know what they are paying for. It becomes very easy for them to calculate that tax officials cannot take advantage of and negotiate with the payers.

I am going to the conclusion, Mr Chairman sir. I said Nigeria's development aspirations clearly show that it has to diversify its revenue base. We must diversify, if we are going to achieve our vision 20:2020. We cannot do it by oil alone, we must diversify. We are moving in that direction but we need to do more and this would involve both the horizontal and vertical diversifications. We

must work towards integrating this system. Our economy is not integrated. We must integrate the system so that, there is a lot of value change, a lot of value addition in the system that will be able to generate more revenue for the country. The revenue allocation system must have in-built system to reward internal revenue generation efforts.

There are some taxes whose potential productivity are very high, but will require some efforts by the government if you want to tap into those potentials. They are there but we are not using that now. I have mentioned that we are lagging behind many other comparator countries. We must learn what they are doing and let us see how we can approximate what they are doing.

Transparency, openness and accountability are critical to get citizens' confidence. You want people to be able to part with their money, you know, people pay 40 to 50% of their earnings as tax, why? Because they can see what government is doing with their money. We need that transparency, it is very important. And then I said that the quality of service, efficiency and effectiveness of government must necessarily go up in tandem. You know, we must see what people are paying for.

I am going to close sir, with a quotation from my Professor, my teacher, Professor Akin Iwoyemi, he said:

“Weak fiscal revenue bases are not necessarily due to low revenue generating capacity of these tiers of governments” (he is talking about the lower level of government.) “The more plausible reason in Nigeria is the avoidance of the significant political cost of higher internally generated revenue effort. The availability of fiscal transfers derived cheaply from oil and gas revenues have encouraged minimal internally generated revenue effort. Clearly, it is rational for state and local governments to substitute fiscal transfers for local revenues that are costly to collect politically and administratively”. That is Iwoyemi 2012. Thank you for your attention.

S E C O N D P A P E R

ACHIEVING EFFICIENCY IN
PUBLIC FINANCE MANAGEMENT

J.K.Naiyeju

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Mr Chairman, thank you so much. Permit me to stand on the existing protocol so I don't waste much time and I believe that within the very short time given to me, I will try my best to rub my mind with yours on the subject, Achieving Efficiency in Public Finance Management.



I will skip some of them. What I have tried to do in the course of the technical nature of the subject matter is to give some definitions and explanations on some of the contexts used. And look at, without too much detail, the objective of the theme, what I call the PFM, that is, the Public Finance Management. Well, I consider this occasion to be a privileged one because it is what I call the Finance Managers of the country and it is actually designed to bring out the financial policy of the nation.

What the paper has tried to do is to give you what we call the best tactics, that is, what we are supposed to do in line with the global best practice. And you will be able to have your internal assessment of what we are doing without me saying how far you are from what can really project us to the ideal situation. What I have done at the conclusion of the paper is to give some useful suggestions and recommendations which I have deduced from my own knowledge of what public finance management should be in Nigeria and because it is a career that I have passed through and I have studied from time to time, I have taken notice of every little thing going on in it. I have tried as much as possible, to allow you to join me in judging whether you are having what you are having at the moment and whether it is enough. But because my conclusions are not enough, how can we achieve the efficiency that is required. And that is what I have done.

One, somebody must understand the financial system that is relevant to the subject matter, as a country, we are in the federal structure and in most cases, we tend to equate the economy in the cities and in the centre, at the national level, with the economy in the rural areas. Since I left the service, I have interacted and romanced with the local people and I can say that we have a very long departure from what is going on in the rural area. And this is not good enough.

So, what I am prescribing is that, we can look at America, we can look at Europe, and we can look at everywhere. But the basic thing is to look at our own country and actually design something that

can lift our people up; their standard of living, the employment, and so that everybody can be happy. An unhappy citizen basically is economical because if he has no food to place on the table, if his children who graduated from school are unable to get job, whether we are telling him that we are growing, he or she will be laughing at us.

I said, the federal, the state and the local government, that is a mix of the structure and when you look at the horizontal aspect of it, the economy according to what the coordinating Minister of finance have said is one; Nigeria economy is one but this unity economy we have has a lot of so called fingers and pockets depending on where you are. If you are in Sokoto, in Calabar, in Minna, in Maiduguri, they have some peculiarities that go with the economy.

In the system, you have the Central Bank that actually handles the monetary system. It is the banker of government and it is the controlling banker for all the banks. We have the operating banks, we have the debt management office and we have the security alternate change commission.

It is good for us to be able to appreciate the subject matter; it is good for us to know what actually the Public Finance Management is all about: PFM. What the advanced world, or what other regimes that our development have been telling us is that there is a positive correlation between an efficient public finance management and good governance. And good governance means that we are delivering on the table what we call economic goods and services to the citizens.

So, we must be able to understand that the PFM basically deals with all aspects of sources of revenue generation which I think the Professor has really touched. I agree with most of what he had said because we were thinking in Nigeria, the question that can easily derive its own answer on, revenue generation itself is that we want to actually increase the revenue, make it bigger, but our

actions, our policy financially is not contributing to that revenue generation; i.e. if you say that personal income tax, we all know that personal income tax is the back bone of the taxes in the advanced world.

But when people are unemployed, and life is not in the local area, how would an individual be able to have a taxable income? And when people don't have taxable income, automatically, we are robbing ourselves. There is no amount of how we can say we want to move in that direction, we would not be able to do that because the pace is not there.

So, the PFM carries two fingers: the revenue generation aspect and the expenditure aspect. And it all deals with what is called the planning, both for revenue and the expenditure, which brings us to the budgeting process, which brings us to executing it and controlling it, which brings us to how do you now actually account for the revenue and the expenditure in a judicious manner? And, not only accounting for it but how do you report? What are the various controls that have to be brought into it? If these are not there, then you are far away.

If you look at your own system, and I am talking to an audience of local government financial managers in Nigeria, state financial managers and federal financial managers of the nation. If you don't have all these things when articulating, then you are not in line with the best practices that can generate an efficient public finance management.

What happens is that the basic, the first starting point, is that, what are the objectives that are relevant? The objective is that we want good governance. Anybody who wants to have power, at any level of government, you want good governance. How do you achieve good governance? You want to deliver what we call the dividends, using the Nigeria forum of democracy. You want to have roads, you want to have hospitals, you want to have employment, and you want all those things. How do you get it?

One, there must be aggregate physical discipline. People must plan to discipline themselves. But what do you have? That is ideal. But it's not what is on the ground. The reality is far away from it. Then, you must be able to allocate the available resources in a prioritized manner. You can't do everything at the same time. This is what I always find out that is one of our physical defects. Every year, if you ask me, the volume of the budget we have carried, why it is our defect is that, nobody can finish and execute the volume. So, why not prioritize it and take a little of it and do it at a particular point in time and then come again and plan for the other one.

But what we have been doing, we have been planning to do everything at a time. What we put together to do within a limited time and the resources we amass there, what it breeds is corruption. What it breeds is inefficiency. What it breeds is that, you will just have the money stuck there on paper; you don't get the roads to march. You don't get the hospitals to match. You don't get the projects to match. And at the end of the day, you roll it over to another financial year. So, the objective in itself is to deliver the goods and services in an efficient manner.

I will skip the sources, because my Professor had dealt elaborately on it. But in any PFM, that is Public Finance Management, you want to talk about articulating your sources of revenue. How do you mobilize it and get everything together so that you don't have omission? In Nigeria, the reality is that there are more omissions than the one we record. So, if you go to the local government level, so many potentials of revenue are there and nobody is collecting them. If you go to the state as well, so many potentials revenues are there. What I want to underscore is that it is not the number of taxes that can add more to make your revenue profile grow, it is not the rate or you make the rate to be high, no. It is how you are able to manage and carry out execution of those taxes that can really boost the aggregate revenue that will come in.

I want to dwell a little bit on the stages in a normal and ideal PFM. It will start with the stage, you have to plan and the policy is

planning. What is a policy? Policy is as you want to convert the aspiration of the masses into a sort of an achievable end. Everybody in the area has no bridge that gets to certain areas. You have known that this is their aspiration. So you want to have what we call a policy formulation which will make them have a bridge. And, when you have assembled this policy, our policy planner must be able to go round the whole country or go round the affected area before they design their policy. Policy design and Policy formulation are not workable when you do not actually look at the aspirations of the people. The people need a bridge and you go and give them road only, without the bridge, you have failed. That policy has not really affected them. It is like somebody who has headache and you are treating stomach ache. They will say no. All your policy is to you yourself. So, policy formulation is the first one. Then the other one is the budget process. The budget process is when you start planning it. You will gather macro economic data together, micro economic data too, you will assemble them. You will look at how the budget will now be structured. If we want to move with a mixture of revenue profile, making it move with the expenditure profile, that is to say we want less of recurrent and more of capital. It is gradual and designed, you have to plan it. Which means you forgo some things? In the course of it, you may have unemployment because you have to jettison or reduce some salaries or reduce some wastages which a lot of people are having. You move from that and you now go to how do you now make your payment; the payment procedure, the payment system? We all know when we were paying cash, a lot of errors happened, a lot of stealing happened, a lot of deliberate acts, even if innocently, happened. So, you want to talk about the payment system. All these things would have graduated in it.

So, in the paper, I have stated the various stages which you must go through. There is the legal framework: In every PFM, there must be the law that surrounds it. You cannot just wake up and say you are imposing a policy if it is not backed up by law or by rules, or something that will guide you. So, you have the constitution of the

nation, you have the Finance and Management Act, you have the Financial Regulation, you have Extant Goods, you have Procurement Act. So there is a lot of legal web that surrounds the PFM and for it to be efficient, you must recognize why those laws must affect what you are doing. If you don't, then what you are going to get will not be efficient. I put it there in the slides, there must be institutional framework. I can say without mincing words, Nigeria has tried to have, particularly federal and some States, institutional framework that can easily lead to an efficient Public Finance Management.

But, I have a question which I put to you, are these institutions, are these frameworks working the way they should work; the way that can really ignite efficiency? I have reservations. I can say they are coloured. Not all of those institutions are not working but majority are not working the way they should work and if we want an efficient PFM, we should actually go and diagnose why they are not working and correct it. If somebody is sick, he goes to the hospital and he will be treated. A lot of our institutional frameworks since 2003 have been making concerted efforts up till today to make sure that we build an institutional framework that can allow efficient public finance management to yield the desired goal. But the problems are the challenges that are mostly human, the challenges that are mostly skills, lack of some skills that are affecting them.

In the institution, I have listed some diagrams from a research source on PFM that, you need some institutions and the institutions you need are, the Planning Institution should be there, Medium Term Expenditure Framework should be there, Annual Budgeting Process should be there and fund releases. Then you have what we call Accounting Institutions like the Treasury and the Field Accountants who must record your transactions and you must have a reporting curve.

Now, Nigeria has looked into World Global Reporting Standards, the IPSAS; International Public Finance Accounting Standard

System. If you do not know and you don't know how to produce your report with that standard, then you are not in the league. It means if you are in a state, you prepare your own account, if you don't prepare it under that guideline, under that standard, the other neighbouring States will not be able to read your account in a meaningful way.

And if investors want to come to Nigeria, oh, I am going to State A, they now ask where are the accounts for the past two or three years, and they find out that your account is prepared in a convention that doesn't meet the world standard.

Ghana close to us here has already been preparing their account under the IPSAS standard. Some countries like the Emirate, they have been preparing their account like that. So, these are areas we want to look at and say, are we in conformity with what can give us efficiency, yes or no. If it is no, what do we do? If you don't know, go and know. But the biggest fool is somebody who doesn't know and does not know that he doesn't know and does not want to know. So, we must endeavour to fill the gap so that we can make this institutional framework to work.

In that Institutional Framework, we have the auditing framework. That is internal auditing, external auditing, the auditor general's framework, the auditor general's institutions should be well insured and be working very well if we want it to really work. Then, we have the legislative framework. The legislative framework is both antenatal and post natal. Antenatal in the sense that, there must be selected people to actually look into all the parameters of the budget to see that it will reflect the aspirations of the citizens. And, that is why you now see it shouldn't be a matter of quarrel all the time. If there is a common understanding, both the executive and the legislature should know that they are catering for the citizens that they all represent. So what the legislature are doing, or must do is before the budget is passed, they look at the nitty-gritty, what we want to achieve. Is the budget prepared in that way, that is, is it antenatal process?

The post natal process, when you finish the budget and it is audited and is put by the auditor general, send it down to the House, they must be able to now look at it through their public account committee to see that everything is done and ask questions in it. That is the framework that is supposed to be followed.

Well, the minister of finance really dealt extensively on the reform that we have been doing and I can attest to it that the public finance management reform in Nigeria has made a concerted effort since 2003-4. We have been trying as much as possible. One of the land mark reforms is the e-payment. We now say, instead of doing our payment manually or making it cash base, let us be paying it electronically. But I can ask you question, and you will know whether that reform has reached your own state or has reached your local government. Are you still not paying contractors cash? Oh, there is no bank in my area. Then it means coordination of policies. What our policy makers should address is that there must be some consistency in our policy.

Once upon a time in this country, we were thinking of bringing the banks to the rural areas. Then once upon a time again, we were saying, those banks in the rural areas, we want to make it that Johannesburg, America can be using our banks and then the local people don't need it. How are we going to make the e-payment reconcile with that? Because if they are there in the rural areas and there is no banking that will help to facilitate it, then the policy is contradictory.

Forgetting that this advanced world, these other developing worlds, there are some banks that are domiciled to a town, they don't have branches in other towns, they are serving the town. There are some banks that have a limit of scope that will just be for the state and there are some that are national and there are some that will be international. These are some of the things our policy makers need to really address.

Well, the Fiscal Responsibility Act is one of our public financial management reforms. Why? Because hitherto, we prepare our budget in a manner that there is no guideline about the deficit level. Now it fully depends on the digits. Deficit budgeting is not bad but you should be able to, ... you have some guidelines prescribed by the Act, and then it means, it makes provision for what we call a medium term expenditure framework so that in a three tier which will work into the vision 2020 and that vision 2020 is what everybody is targeting. This is where we want to be. Then you break it into medium term and from the medium term you derive your annual budget which you now plan and do.

The question I can ask you again, how far are you away from it? Are you within it or not? The automation of the personnel administration, budgeting, accounting, reporting, that is what we call the IPIS; Integrated Personnel and Payroll Information System, then the GP, a common platform whereby all financial information will be loaded into it.

It is this slogan; it is only at the centre. The slogan is not going deep down to the local government. And that is what I want the financial managers to take note of. Don't take the slogan of a reform only at the national level. Let the reform be highly integrated, let us bring in the local government, let us bring in the financial managers, let us bring in the state financial managers so that we can have a common reform that will go through the country because, like the minister said, it is one single economy.

These other areas of reform which we have noticed and I am sometimes very happy about is that Nigeria has decided that by 2014 we will go on a cash basis of e-tax and by 2016 fully. These are technical terms. They are meant for the financial people to carry out. You must be trained, you must educate your staff, and you must take a decision. Federal government has taken that decision. But how are you far away from the decision? Are you towing, are you working towards the decision or when 2014 comes now, you will now be running around.

Accountant general, how far have you prepared your account in conformity with this thing? If you don't plan for it, then you are planning to fail. 2016 will come and these are the things which I believe we have to do.

Then, modernizing the internal and external auditing system: At the federal level, I had some discussion with the auditor general of the federation. He told me all the efforts he had been doing to make sure that they modernize the external auditing and the office of the accountant general of the federation too; they are working day and night to make sure they modernize it. Ditto should it be to the state, ditto should it be to the local government. Because, a system where we are spending money and nobody comes back to check. What are the things we do? An efficient public finance management is the one that you carry out your financial transactions according to the law, that is the legal environment, you carry it in a manner that conform with the efficiency of the institutional framework; and three, you must get somebody to come and pass opinion and check it in a timely manner. That is what it is.

Then we need to harmonize the fiscal and monetary policy. I can say boldly from my findings, we are far away from this. We are not yet harmonizing the fiscal and monetary, eh... no. Fiscal and ... monetary, not monitoring, please correct that. The monetary policies and the fiscal policies, they need to be harmonized. Central Bank is giving its own directives on the monetary policies. They have to harmonize with the fiscal policies coming out from the minister of finance, they must be able to. But it is so good that we have the economic chain now. All the financial managers are represented and the coordinating minister of finance presides over it. So, those are the things that we will be able to do.

So, I have tried in the paper to assess the performance of the PFM and this is what I have tried to do as I was presenting it. What I found out, why is the present reality on ground not working? I have identified some factors that are there but I will single some

of them out. We have what we call in Nigeria, take it or not, take it or accept it or just reject it. We have the problem of leadership competency and willingness. Those who are in position of authority, it is not a thing not to know. But if you don't know, you must go extra miles to know. And you must be willing because if there is no will in a leader, there is nothing the follower can do.

I belong to that school of thought that the problem is not with the followership but with the leadership incompetency. So, we need to develop the competency of our leaders and we need to imbibe willingness to be able to make sure that we update our present PFM to the status that it will be efficient.

And the other one is that, there is, when I talk about the institutional framework, there are some of the institutions that are weak. I can mention them but I don't want to mention it, they will say that you are biased but the truth of it is that, if somebody is out to monitor, we have commissions that are set up, we have some centres that are set up to govern it. How they are well equipped in terms of man power?

There are certain prerequisites that will make you sit on a chair. If you sit on a chair and you are unable to carry out that function there, it is not too bad that you just say ah, let me, can you help me, whoever comes in; can you help me look for another position? If you allow that chair, somebody who is able to carry it out, to do it well. But what I have found out is that many of the institutions are not strong. It is the bane of our weak public finance management. So we need to upgrade that one.

I have mentioned, eh, yes, the other one I think, there is value decay. Most of what we call the ethics, excuse me, most of the ethics, the values, if you are in charge of money, during the time we all came into government, your lifestyle is monitored. Nobody does that again. In fact, because somebody is in charge of money, it's a guarantee that he is the person who will come to parties and be spraying money.

In fact, I was very happy when the professor was talking about the taxation system. Indeed now, I have a colleague that we were working together within India as at the time, a man rich in India, New Delhi and the second day, the tax collection people who were there, they gave him every assessment, they sold part of his property to pay for the tax. That is the discipline. In Nigeria, our value system is so bad.

So if we want an efficient PFM, we need to really go back to the true value that such institution, such concept should purchase. Mr. Chairman, I think emm., the other one I want to speak of, any bicycle, any automobile, anything you do, if you don't put brake in it, what will happen? It will have accident. If you have anything that is moving and there is no control, it will collapse. So, I have identified one of the things that can make us achieve efficiency in our PFM, are controls. They are in the law, they are in the rules. But this control, we are not applying them. One of them is the revenue control.

You know, I told you the PFM is made up of two fingers, two wings: the revenue and the expenditure. So the revenue must have, there are so many controls inside the revenue. The people are to collect taxes or collect money and you see them instead of paying it to the treasury or wire in to the treasury, and they are not doing that, somebody must be there to check. The control must be there. And that is why the role of the internal audit system, external audit system, and the administrative control is there, but are they working? We must make sure we try and make them to work.

I have out here, periodic monitoring, policing the revenue administration system, then timely assurance of demand notice, timely assurance of revenue documentation, prompt receipt, frequent reconciliation and verification of all payments, establishment of authority limit for revenue handling, everybody must have his limit of authority of what you can approve, but if we allow it to be so free, then there will be revenue leakages, revenue loss and so many other things that will happen.

I will now look at the expenditure control. Our spending must be controlled. Expenditure control is the strings; they are strings of coordinating actions which have to be taken to ensure that all expenditures are wholly, reasonably, necessarily and exclusively incurred for the purpose for which they are meant. If any money you are spending is not wholly for the purpose, it is not exclusively for the purpose, it is not necessarily for the purpose and it is not reasonably for the purpose, you can spend the money but it is not reasonable, and that will bring me down to what we call the value for money check or audit. We know that a bottle of water is always probably this amount then because you want to shovel the whole money out, you gave it out as a contract ten times the price and you say oh yes, all tender process have been performed. You are eroding that base.

Well, I have put so many controls here, the executive control, the legislative control which I have described, the judiciary control, then there are some controls by the minister of finance. That is when the minister has to make sure that he gives authority in accordance with the approved body before certain things are paid. Then when it gets to the office of the accountant general, there are controls within the department, there are controls within the auditor general's office in a way.

Finally, ladies and gentle men, you will ask me what is the way forward. This is where I come in to proffer how we can lift ourselves, how we can make the public finance management in Nigeria an efficient one that will deliver good governance, that will make every government give the right dividends of democracy to the citizens.

I have listed them in the concluding part of the paper, we have to curb revenue leakages and boost revenue generation. I think the paper of the professor dealt extensively with this. Our policy makers need to restructure the financial framework in a manner that we must make sure that all revenue leakages are blocked.

There are many revenue leakages. That one, it can take a whole attention to look at area of leakages in the system. They are many. When the audit of oil and gas was done, so many trillion of money leaked with the oil.

So, how do you boost revenue? You can boost revenue, you can improve the tax administration, you can make the tax policy not increasing tax rate all the time but let the one they have in mind, nobody is collecting taxes in the local government o. I can tell you in Nigeria, particularly in my own local government, I know. I work around there. Everybody is waiting at the end of the month to come and receive allocation. And yet, in 1998, most of the taxes listed by the professor, they are listed as what every tier of government should collect in Nigeria. But, what we need to do is to make sure that we set up the part of the agency and strengthen it. We have a lot of people who are unemployed. We consulted the state government and we told them, and say come, don't give money to... they invited I should come and collect their tax, I said no. My own consultancy is not to come and help you collect your taxes. Go and recruit a lot of people who are unemployed. Call me; I will teach them, I will train them how to fish. I am not going to the river to bring fish for you. There are a lot of things, a lot of revenue you have within your state which you can, because you are very close to where money should be able to come, so money that should be going to them were not going to them and nobody is using it.

So, we need to now revisit our operators of revenue generation and see how we can build it up and secondly, we must eliminate wastages. We must eliminate wastages. Wastages start from us as finance managers and policy makers. I repeat it again, wastages of public revenue start with us. The moment you are using more than the car you should use and you are fuelling it with government fuel, you are encouraging wastages. The moment you get to a public place and you are spending money recklessly, it's wastages because definitely that money was not designed for that. It must have been designed for other things, but you've taken it out.

Strengthening expenditure control mechanism; strengthening the system, processes and infrastructure for public financial management; improving financial qualification of leaders. Yeah, this is where I talk of leadership competency. A lot of the people who are manning various centres, they need to increase their knowledge content.

You see my people are pepping for lack of knowledge, this time it is financial knowledge. If you don't know, you won't be able to appreciate and so many things will happen. So we need to actually make sure that we improve the financial qualification of leaders of public sector organization.

We need to develop skills that fulfil the basic job requirement especially for finance professionals. You don't just put somebody who doesn't know, that is what is happening in most of the banks. Most of the banks I go to, well, this is too much detail now. Let me just talk generally. If you don't know what you are to do, you go and learn it. It is not a difficult thing. People who are doing it, who are doing the learning, you go and sit down and learn it. So that you will be able to know what you are supposed to do.

The continuous capacity building and training to strengthen manpower; developing public sector accountants, auditors for the future. We are talking of IPSAS, RFIS, we are talking of modern way of internal auditing and control. You need to beef up all your accountants; you need to let them know it. Not that oh, I have been doing this thing over twenty years. A student alone is not enough. You need to be a student in a modern context of doing the job and improve, yes. I think the minister talked about improving cooperation between the federal, the state, local government and international institution, state audit institutions and accountancy bodies. In corporation, you are not an island to yourself. Peer cooperation and looking at things together, improving competency through support and development.

Ladies and gentlemen, Mr. Chairman, it's a privilege speaking to you. I want to thank you for the audience and I beg you truly that you put all these measures into practice to be able to gain the competency in the PFM in Nigeria.

LEAD DISCUSSANT

Dr. Ben Obi
University of Abuja

All protocols duly observed. Because of time, I will not go through what I have prepared for this paper but I want to let you understand the state of affairs in this country and why the need for diversification of Nigeria's sources of revenue. Nigeria is oil dependent, about 75% of revenue comes from its exports and we know that global economic outlook seems very uncertain with revenue recovery looking farther due to supplies growth and weakness in some of the key financial markets including the Euro areas and Japan. World oil demand has also gone down; let me tell you that before now we were thinking when our supply will run out, that is not the immediate problem now, our resource can take us the next 30 years. But, the immediate problem now is that demand has peaked, those of you who read economics, recently will understand what I am talking about. So, the demand is no longer there. So, you might have your oil but the demand is not there. And that is exactly the picture. And of course, recently when president Obama came to Africa it was very clear in his statement that they have found their solution to the oil so, Africa should go and look for solutions to their economic challenges. So, it was not bragging but reality. Now, giving this scenario we also know that, in not too long, our oil prices were coming down, different brands but we thank God, for the little crisis in the middle – east and that is why you are seeing range rovers; the price of oil has peaked but that is not what we have to beat our chest for. So Nigeria, I will say in terms of revenue, is in great danger and we need to do something about it and the time to do something about it is now. It is now and that is why this

discussion is very, very paramount at this moment. When we are talking about diversifying the revenue sources, we should understand the sources of revenue. In the main, government revenue comes from tax, and we used to joke in those days that the business of government is to tax. But how much tax can you get? Prof, who happens to be my lecturer, enumerated about 70 sources of taxes. I am telling you the truth, it is very difficult for you to levy those taxes, and of course, if you try that, it will lead to greater rate of tax evasion and avoidance. The ability, of course, giving what the minister said earlier in the day, 75% of registered companies are outside the tax net. So I think the problem is neither the tax rate nor the avenue, sources of taxes but how do we bring these people into the tax net? And I think that the major problem is that of expanding the economic base, economic activities, expanding economic activities and how to increase productivity. Once you expand economic activities, then you have more avenues for people and also the ability of people to pay tax will be there. I mean, where you think that even when I go and regulate I have to pay tax. Then there is no rationality. So, we should think of how we can expand the economic base. Once the economic base is expanded, once we think outside the oil as a source, just as a single source of revenue to drive everything in this country, then we are into some good business. We have diverse resources that are untapped; we have banks, plants, productive fertile lands, we have tourism. The manufacturing sector is there but nothing is happening because the right incentives are not there for them to actually do anything. So, in the nutshell, we are thinking of something that will broaden the economic base, not just the tax, the tax base we know that one of the problem that we have in our taxation system is the narrow tax base. It is a problem. But we cannot tackle that by increasing sources of taxes, but we can tackle that by expanding economic activities, by looking outside oil. Let me quickly just tell you, perhaps some of you who did not read some of the development reports that have been coming out; the 2013 edition of the Economic Report on Africa,

those annual reports of the Economic Commission for Africa and the African Union Commission. Over policy framework, which among other things underscore the importance of designing and implementing effective plans and industrial strategies to address constraints and tap opportunities that will trigger value addition and commodity based industrialization. In recent times, Africa raw materials are of high demand and, of course, we know that this is what we have been doing; exporting raw materials of our time which has not helped us. And therefore, the report comes to say that yes, Africa or Nigeria can take advantage of this high demand by adding value to our raw materials. So that is the commodity based industrialization but through what? Through value addition. And, I am in full support of that, that through what we have, the commodities that we have that are of high demand that we can add value for it through the process of industrialization. So, what we are saying is that industrialization is the answer, we must do something to add value to what we have and it is through that process that we can broaden our economic base. We have close range businesses around, how do we bring them in? It is through the process of industrialization. To increase productivity, because I said two things; expanding economic activities and increase productivity. To increase productivity, then we must look into our infrastructure problem. Thank God, the National planning has come up with a good plan, I pray that it would not just end as a plan, that there must be something, it should go beyond just a plan, to actually harness and integrate all the infrastructure stock we have in this country. To ensure that people become more productive. It is when you are more productive that you can pay more taxes and government can get more revenue.

The agriculture, of course, the minister also talked about agriculture, yes, the minister of agriculture through the Agriculture transformation Agenda, they are doing a fantastic job, but, that is for the short run. What they are doing is just for what? The short run, how they can lower the unemployment rate in the

short run, that is exactly what they are doing. But, in the long run, in the long run we are anticipating in terms of agriculture that there will be enough lands, land will be available in quality and quantity such that any young school leaver who wants to go into agriculture can actually get the amount of land and the quality of land that he wants to farm with. So, we would need a type of change in our land tenure system to encourage farming.

Finally I just want to say that, there is need to formalize the informal sector, if we want to increase our revenue base plus there are a lot of people out there who are not paying tax and, of course, it is difficult for you to go into the **garage of a company** and ask anybody to pay tax. So there are a lot of informal activities that are going on, and unless we find a way of bringing them into the formal system, whereby we can take some taxes from them, then we will still have problems. In this case I would advise that a way by which people can do a registration, those in the formal sector can do a type of registration that does **not require the pile up paper work that is required** . Because when you go to do registration of business they start asking you to bring tax clearance for three (3) years, when you have not started work where will you get that? So, there should be an encouragement that will lure the informal sector into the formal sector.

Ladies and gentlemen, Mr. Chairman, this is my idea that we should refocus our mind on how we can expand economic activities, increase productivity and not just sources of tax. Thank you.

SECOND DISCUSSANT

Mr. Chamberlain Peterside

Honorable Commissioner of Finance, Rivers State

Thank you Mr. Moderator. The Honorable Minister of State Finance, the well respected Auditor-General of the Federation, Accountant General of the federation, I'm sorry. My very respectable and distinguished colleagues; Commissioners of Finance; my FAAC colleagues; Accountants-General; distinguished ladies and gentlemen. I know that the day is far spent and I will strive to remain within the minutes allotted to me. I also was drafted to be a discussant on this paper with a very short notice but nonetheless, I've made efforts to take some quick notes and will share those thoughts with you this evening.



I want to show my deep appreciation to the presenter, the former Accountant-General, Mr. Naiyeju. I think that sitting there and listening to you, I really learnt a lot. It's always a pleasure to hear people with such deep thoughts and experience especially as it relates to public finance management.

Now, listening to you sir and looking through the presentation, a few thoughts came to my mind. I was able to distill the whole idea that you expressed in three short letters. Number one is systems, number two is institutions and number three is personnel. So in summary, I believe that the efforts in reforming and improving efficiency in public finance management in Nigeria and most especially in the states and local governments borders on those three aspects. I call it the tripod of public finance management transformation in Nigeria.

I would kind of limit myself more to the states because as members of FAAC, we represent our respective states and quite frankly, the efforts that are occurring in the states, you might say are much on a slower pace than what we see at the federal level. Nonetheless, there are areas which I believe some states are making better progress than the federal government.

Now, speaking about the cost ladder which is the systems, I have always believed that with the kind of public finance management we have in this country today, we literally are running a 20th century public finance management architecture in a 21st century economy. Some might even argue whether or not our economy is 21st century economy if you derive 75% of total revenue from one source which is oil export.

It is a very plain fact that most of the financial practices and operations around the state is still manual. And, of course, we know that manual accounting or financial operations is prone to inefficiencies and abuse, subject to abuse. So no matter how much we preach about transparency, we still run a system which has to be open, not by our choice unfortunately.

Now, when you run a system like we do, you are bound to have inaccuracies, you are bound to not have very reliable data and your disclosure standards unfortunately would not be as modern as you would expect. Of course, we have to all agree that to achieve that efficiency in our PFM, all that needs to change.

The minister this morning talked about what the federal government is doing with some of the abbreviations that she talked about; GP for instance, we believe that with an automated computerized, modernized accounting system, I think we should be able to solve a lot of the inefficiencies that we have today.

In Rivers state, for instance, we have signed on with five other states, with the World Bank, to assist us in our SIFMIS projects which is the State Integrated Financial Management Information System. We are also aware of the efforts to implement and to migrate to IPSAS. We believe that this is one of the key efforts that will definitely help to fundamentally transform the public finance space in Nigeria.

The cash like protocol we must also agree is heading in the right direction. We in Rivers state, for instance, we do not pay our salaries anymore in cash, neither do we pay our contractors in cash and as soon as you have an automated non cash payment platform, it takes away a lot of the inefficiencies that you might otherwise have.

Now, let's talk about the distractions. We do have, looking through your presentations sir, a lot of the statutes and the laws that have been passed over the years both in terms of reform and in terms of laying the ground work but the question still remains. How much, to what level are these institutions strong? Building a strong and viable institutional base I think, is one of the key steps that we must strive for in improving efficiency in our PFM.

We have all the rules and regulations on the books, probably still need to improve upon them. Our budgetary system is still what you will find in a classic economy. However, we know that most of the data that we put together during our budget are just not what

they should be. They are inaccurate, they are stale and they are very often a repetition of year-in year-out information. And when I came to office, as the commissioner, you know, I asked myself how we derive budget data on a year to year basis. With the SIFMIS project, we hope that we can bring that much more into a modern system.

Of course, beyond the budgetary over the issue of expenditure, we have always been experiencing that disparity between what you budgeted for and what you ultimately spend and quite frankly, there is no strong correlation between how much you budgeted and for what purposes, and how much you ultimately spend. In fact, the budget monitoring and expenditure process is such that you are only able to know what you have spent after the fact, not before it happens. You cannot achieve that high level of efficiency in your PFM with that kind of system.

Disclosure standards are very very questionable so no matter how we try that we want to diversify our economy and we want to truly deliver the dividends of democracy, if you cannot disclose your financial records on a timely basis, accurately, how then do you derive the dividends of democracy.

We have taken a step and resulted to third body review if you might call it that, whereby we have international reputable agencies come to check our books, not to audit us, but to see, you know, how we keep our records, how we disclose them and to be able to weigh our financial credibility.

Now, one of the facts that has been a major burden on this country and a lot of the states, is our over reliance on very few, single, if you like, source of revenue. Nationally, we have 85% of government revenue outgoing from oil sales but in Rivers, what we've done, is make a conscious effort to diversify, not through export of any product but through looking at our internal sources. So as we speak, we derive about 20-25% of our total revenue from IGR and for you to achieve that, you truly have to strengthen the tax administration system.

Recently, I was discussing with my tax officials and I said can't we begin to shift from tax collection to revenue administration. Look at your revenue system more holistically, broaden the tax base, as one of the speakers said. That way, you will be able to bake larger pie than relying on the small pie that we always come to share. And, of course, when you bake a larger pie, you will be able to deliver the dividends of democracy and run a much more efficient public finance management system.

Now, the *third point* here would be the personnel. So, you could have a very good system, you could build a strong institution but it all rest on *the human* capacity. Unfortunately, we haven't had the best in terms of *the personnel* that run, not just the public finance system, but *other sectors* of the economy. A system whereby when the minister came to office, she discovered almost 90% of our staff in the ministry of finance didn't know how to use a computer, they didn't know what it was about, they didn't know how you could feed in data into a computerized system. The honourable minister of state for finance is here and, of course, he can bear us out in terms of the progress that they have achieved. In various states we believe that the calibre of personnel that run the automated system in institutions that is built is what is key. So we have the fiscal responsibility act, we've passed a new tax administration bill, but unless you bring and train and retrain the right people, you will hardly have the kind of results you expect in improving efficiency in your public finance system. At the end of the day, distinguished ladies and gentlemen, my take is, our PFM is that platform on which everything relies. The dividends of democracy, building balanced social and vibrant society and ultimately making progress in our political system is a function of how we manage our money. So, unless, unless we achieve success in this regard, I believe that we will continue to struggle and have difficulties in truly building a vital and sustainable political economy.

Thank you ladies and gentlemen.

QUESTIONS AND CONTRIBUTIONS

Makinde Ademola, *Department of Petroleum Resources*

I want to commend Prof. Ademola Adenikinju and our revered J.K Naiyeju, both of them identified one particular cankerworm in our system. However, I was trying to see the solutions they would proffer to it but, I still realize it is still the same theoretical approach to fight it. I was thinking maybe there would be a more practical way of dealing with it. Of particular interest is what Prof Adeola explained a little in his paper through what he called inheritance tax. Sir, if you look at our system the way it is right now, the issue of corruption, you will tend to realize that the people that are involved, majority of the people that are causing this, and personally speaking they are self sufficient. So, the people they are caring for or using the proceeds of the corruption to benefit are their generation. Therefore, I was thinking where professor Adeola was going was that if there is a tax on inheritance. It used to be, when we have CTT then, but suddenly it was abolished, I never knew why anyway. That is Capital Transfer Tax in Nigeria. So, I think if there will be a call for that tax to come back and let people that are inheriting; children that are not working for properties just suddenly becoming wealthy, it could discourage corruption to a large extent. I think we should look at this particular aspect, thank you very much.

Mr. Odey, *Representative of the Commissioner of Finance, Cross Rivers State)*

The Chairman, Permit me to stand on existing protocols. and he is on leave. I am the permanent secretary. To Professor Adeola, when I was going through the sources of revenue, the one that struck me was under-mining, rent and royalty; we know

that mining is under exclusive legislative features. And we in Rivers State we feel that we could benefit a lot from that source of revenue. Because, we provide the infrastructural development; we provide roads, electricity, water leading to where these resources are being tapped. And here we are, the federal government does not give us the opportunity to realize some kind of money from that source of revenue. My own question is that, can we not have a way of cooperating with the federal government so that whatever revenue is generated from that source will be shared between the federal government and the state government. Because, we are putting so much money to develop the infrastructures leading to those areas. So I want to see what you can do to address that problem, thank you.

Godson Nnadi (*Commissioner of Finance, Enugu State*)

My comment is also derived from what professor mentioned, in his paper. He mentioned that in the United States, many states derive large percentage of their revenue from lottery Commission, I am not aware that lottery activity is in the exclusive list. Yet in 2005, Federal Government passed a law, establishing a National Lottery something. So, now you have people carrying out lotto and all those in the states, and when you go to them they tell you that the federal government has given them license and collected fifty million naira from them. So I think that is arbitrary. Maybe professor and JK may help us to throw more light on this and let us try and find solution to this. Thank you Mr Chairman.

Paul Audu (*Accountant General, Kogi State*)

My question and comment is directed to Mr, Naiyeju. One of the greatest challenges facing the management of finance in Nigeria that affects or impedes the effective and efficient management is policy somersault and inconsistencies. Policies that do not encourage or tend to discourage investments affects our revenue base, one of the critical points raised is that if we could expand the economic activities within the fence of our

domestic economy, revenue will also increase. No nation under heaven is self sufficient and always you talk of public private partnership to attract foreign investment into the country. But when policies are not consistent, when policies are frequently changed in such a way that it affects outcomes of businesses and investments it becomes critical, a problem. How do we deal with such? Because, it appears that some of these policies are reactionary rather than being done in a proactive manner. Government tends to react to issues on event rather than proactively articulate events that could affect or influence the nation and then it comes. How do we deal with such? Thank you very much.

Muhammad A. Geidam, *(Permanent Secretary, Ministry of Finance, Yobe State)*

My question goes to the professor. *Prof*, in your presentation, one of the slides impressed me; that's the one saying lessons from Canada. If we can look at that slide we could see that the personal income tax in Canada in 2011 was 48% and, that, I think is the dream of any nation. Because it is one of the sustainable sources of income for any nation. Considering the poverty rate in this country and inequality in the distribution of income, is there any possibility of achieving this in the near future in Nigeria? And if it is possible how can we actually reach that point? Thank you.

Mr. Jonah Ogunniyi Otunla, *Accountant-General of the Federation*

Mr Chairman and other distinguished participants. My comment is to the paper by my revered predecessor in the office, Mr Naiyeju. The thought of our budgetary system trying to do little of many, that is refragment, whatever fund is available I will try as much as possible to spread it. When I was the Accountant General in Oyo state, I raised this question during one of the treasury board meetings we normally hold. I asked the Governor why we would need to concentrate on so many activities and at the end of the day we are not likely to have an impactful

presence or result to the people. The response I got was that, I was not a politician, that there were so many communities in the state. Would we say because you want to focus on a couple of areas you will not touch their area? And I said once they know it is attitude of government to do that, and once the programs are programs that are likely to directly or indirectly affect the lives of the citizenry positively, people will get used to it. My next statement would be how do we address such issues? And, this makes me to think back on why NACOFED was initially decided to hold once in a year. I think when NACOFED was initially suggested it was to harmonize the federal government's budgetary thinking with that of the other two tiers of government particularly the state government. And I think it was even decided to hold not later than the end of the second quarter, so that, meaningful, I mean whatever the outcome of NACOFED is would be an input into the various governments' budgetary process. And I want to throw a challenge to our FAAC, through our chairman and other members, that we should restore the tradition of FAAC; FAAC is not a place where to argue about the sharing or not sharing of a particular type of revenue. It should be an enriched discussion session or sessions, (because of the two sessions we had here) that will radically come out in supporting our various governments in policy formulation and implementation. The way FAAC is designed is that, the sub-committee meeting should start, it should hold on the eve of the main plenary session and usually, the better part of six or eight hours. Where we will discuss not only the current issues in our files but issues of financial and other segmental issues in the country. So my own contribution is not really a question but an observation that, we should, in spite of the challenges we are facing now, try as much as possible to make FAAC more robust and more rewarding to our various tiers of government and we can have a rethink of NACOFED too that it holds latest by end of May or June before any government either federal or state brings out its core circular for budgetary process of the succeeding year. And in such a situation too we can really fashion out what should be the financial responsibility of each tier of government. Can we ascribe the funding of primary education absolutely to a tier of government say local government? And let the funding profile of such tier of

government reflect that? Can we make provision of water the responsibility of x- level of government? So that the federal, the state and the local government councils do not dissipate the little fund they have to address issues in a multiple and repetitive fashion. Thank you Mr. Chairman.

Barr. Oda Timothy, *Chairman, Commissioners Forum:*

The Honourable Minister, Chairman of FAAC, the Accountant General of the Federation, distinguished members of the high table, my revered honourable commissioners of finance, my dear colleagues, Accountants-General, members in attendance. I am barrister Timothy Oda; Commissioner of Finance, Ebonyi state and by God's Grace and your support, the Chairman of the distinguished Finance Commissioners' Forum. My question is going to be addressed to the Honourable Minister of State, Federal Ministry of Finance. And it is on policy issues. I will also be drawing my blood from the paper presented by the honourable Minister of Finance some while ago. While I commend the respective presenters of papers here, I want to make some observations; the observations are what I feel are loopholes that were not truly reflected in the various papers as it concerns leakage, because, every effort we make here to present approaches in order to save the finance, to get money and revenue and so on and so forth. But the bucket is leaking, if we labour and put in the bucket that is leaking, the tendency is we will become a successful failure. It is in that respect that I wish to draw the attention of the Honourable Minister to the fact of the recent plea bargaining which EFCC has introduced. Plea bargaining; where some people who have ripped the nation off involving billions of naira, when they are arrested and detained if they could plea bargain, you will discover that only a pittance would be recovered from them whereas much will be abandoned. And the aftermath as far as law is concerned is an enigmatic approach because if he who steals a goat will go to prison then somebody who has stolen millions will plea bargain and they refund a little, then this issue of leakage in both our national and sub national levels should be addressed. I feel it is an issue that should

come up as one measures in our Fiscal policies. Two, is on infrastructure or material economy, there is need to thank God we are now afraid of oil revenue, we have to go inwards and in the process of going inwards is it not wise to truly consider priorities, because most projects are white elephant projects. This is a period of pragmatic economic reality. In some occasions we embark on projects that we will never complete and a lot of fund will be poured into that place to be stagnated, it will not be finished even when finished you will discover that maintenance culture will be lacking because of lack of funds. And yet is there any need to build a sky scraper in a state that is yet to find its economic base? Think of how much that will be poured there, sometimes it is finished and sometimes it is not finished. When it is finished it will cost over 100km of roads that are truly abandoned. The fund that would be used for employing men in other to engage more hands in economic activities, they will all be stagnated. The issue of priority should be equally emphasized in our various paper presentations. In this regard, therefore, the honourable minister, I still rest on the issue of this plea bargaining which the Federal Government seems to have closed its eyes against because in my own state there is no plea bargaining. Thank you.

Chairman:

I think now, responses from those who gave the presentation. I will start with professor Adeola.

RESPONSES FROM PAPER PRESENTERS

Professor Adeola

Thank you very much sir. But there are quite a few questions that have been directed at me, at the paper I presented and I want to say from the onset that I, we are on the same page with those who have asked those questions. The first one was in respect to inheritance tax which America calls estate tax. In fact the rate there is between 18 to 50% tax imposed on the estate of the deceased provided that the value of that estate is above two million dollars. In our own case we can really look at what could be the bench mark. But I completely agree with you. Many people who steal money are stealing not for themselves but are stealing for generations and generations and it is important that government begin to look at those sources of illegal acquisitions and begin to tax them. You know, in America it is 50%, you pay 50% of the value. In fact in Zimbabwe if you don't have a will and you die, all your property goes to the state and the essence of the will is for you to declare what you have so that you cannot hide, you know, I think it is an area that if we are really serious about curbing corruption the government should actually look at it.

Now the question from the representative of the Commissioner of Finance in Cross Rivers State, about minerals and other resources. I think I agree with you. I think it is a point that can be legitimately, just like, you have, you know, the federal government says federal resources beyond certain level under the grant belong to the government, you know, it's a structure of the federal government. But I think in this case, just like we do with oil, there can be a case for where, because there are environmental degradations and then you also make or you know construct, you

know, wheels and things like that. So there is a case actually that can be made in my view to the state having a share of the resources that are collected from such resources.

Lottery. I am in complete agreement with what Commissioner of Finance, Enugu, said. In America lottery belongs to the state. It is the people of the state, that is, those people living in the state that can buy the lottery. I mean, I don't see why Federal Government doesn't go into that, really. And I think that the issue, I mean, thank God again the minister of finance is here if he wants to address this maybe there is some other reasons why they are doing that; the minister of finance said about personal income tax. We cannot run away from it. That is the most stable source of finance that we can have. But in Nigeria we need to do a number of things to get there; one we need to create jobs that are not just jobs but jobs that are good earned jobs, jobs that generate good money. Two is that the government itself, and I stressed that when I was making my presentation, must also deliver services. In those days people can pay 40% of their earnings. Why? Because they can see what government is doing with it. I mean, in Lagos-Ibadan express way now, you have accidents, tankers will explode, for 24 hours there may be no fire fighters who will come and rescue, people will just die. So, there are no incentives. Because people cannot see that, So if we want to begin to get there, we need to put our acts together, we need to create jobs, we need to move people from the informal sector to the formal sector giving them jobs where they can pay taxes and more importantly I think people will begin to see what government is doing. In my house in Ibadan, I have a fence, we have neighbourhood watch (we pay them), I have two dogs, just to protect yourself, you dig your borehole, I mean there are so many things that are loaded on the individuals, that the individuals indirectly tax themselves in order to survive. So, when government begins to provide those services it is a lot cheaper for the people; it is a lot cheaper if I don't have to build those high walls, if I don't have to get those dogs, if I don't have to get those neighbourhood watchmen and I pay that to government. It is a lot

cheaper. I think government must begin to address these responsibilities. Thank you very much.

J.K. Naiyeju

Thank you Mr. Chairman and the audience. I will just start by what I consider as the answer. The problem with inheritance tax, I was just discussing with the AGF, the status quo needs to be checked to see the extent of that law. When we were discussing it before, I think it's the will to be able to implement inheritance tax. I don't think it is not in the status quo but even if it is there, it requires amendment or re presentation to the national assembly because of the reality of the day. But you see I am a realistic person, the real society which refuses to declare its assets will still be in places that will want its hands in amending or giving in to inheritance tax. It is a very difficult tall order for us to be able to achieve it here. There will be more resistance because like I said those days, the biggest problem to taxation in this country is the professional elites. And it includes the professional legislators, the professional in other organs of government. They will not allow it. I can tell you that nobody will pass it now in Nigeria. That is my own submission, but that is personal opinion to me.

The representative of the Cross River Commissioner of Finance when he mentioned about rate. Taxation is based on law, there is no negotiation to say let us sit down as federal government and agree; you will take this and I will take this. The law must be passed. I remember there was a time when these oil something, they said I was sitting on the middle and I said there is no political solution, go to the parliament and pass this into law. I was proved right because what they agreed that time that gave Cross River some advantage later on they came, the same people came and they sat down and policies changed and they disabled them. So, even if you sit down, the Cross River sits with the federal government with some officials, and say let us do it this way, since

it is not a law, it is not enforceable. I am not a lawyer but this is what the lawyers told me.

Then, what the AG Kogi said, and this is very good for our policy makers. You see in our quest to attract investments in Nigeria, I think we are on a wrong direction. If we are taxing Chinese, any foreigner, we are singing a slogan. We don't attract them to come and destroy the tax base. When you exempt them from all things, you put all things here that automatically lead to us loosing employment, we will not get tax from their employees and they use it to solve their problem. So, how will you grow the personal income tax? So, I share the view with you but the answer is that let us articulate all these things, God so kind we have economic team now and the chairman of FAAC is here, even inheritance tax we can initiate a memo that will go to the parliament, we can propose a bill that will suggest that this is what is happening and raise support for it, with lobby we can achieve that. So I share your view, the urge to attract investments has robbed Nigeria of colossal taxes. That is what they do with NLNG and I know as a tax man that we lost so much for so many years. I don't know whether we've corrected it now.

Finally, what the AGN said I mentioned it in the course of my presentation that in moving to an efficient public finance management, you cannot bring every aspiration into the budget of a particular year and that is what we are doing, that's what is making the budget not a realistic one but the question is what do we do? What we do is part of the budget process that after assembling all the items to reflect the wishes of the people, you sit down and prioritize it, prioritization is the solution; how much do we have this year? Not only in the monetary term, do we have the personnel to do it? Most of the budget, the part of allocation going to some ministries, there is nobody on ground there with the skills and everything to carry it out. Is the money going to do a road or a bridge? Is the money going to draw the architecture we are going to have? So I think prioritization of these our wishes needs to be done. Politicians can tell you yes but you as experts if

you sit them down and say *Oga* this thing you want to do, why not bring this one here, why don't you make this in year three after all year three needs more. Thank you sir.

Dr. Yerima Lawan Ngama

Now the participants, the questions raised are very interesting and it shows that we have benefitted a lot from the papers presented. There are some of the issues that have been raised and I think I need to say a little about them, some were even directed to me. The issue of improving our budgetary process, this is something we have been doing and we have discussed mainly in terms of the proportion of funding going to capital and recurrent but today we have expanded the thought by even looking at the capital allocation to see if we are getting much from the project we are undertaking for a long time. Because of political pressures, we have embarked on several projects that are yet to be executed. As at last count, the federal government alone had over 6000 ongoing projects and I think government has invested about 7.5 trillion in these projects and are yet to be finished. This actually calls for emergency. What the government did after setting up the Ibrahim Bunu Committee is to look at those projects and even ask whether the federal government should continue with this project or get certain measures. And I believe some measures have been taken, some roads that federal government started have been handed over to the states for completion and policies are being made to see if certain projects can even be sold outright. There is no need to continue with a project when you know that the allocation you are making every year will not encourage any serious contractor to continue with the project. The amount you allocate to a project actually determines whether or not you can have somebody to bid for the project because the contractors have learnt a lot over the time. If you take a contract of 100 million naira and all you can see in the allocation is 10 million, you know that you will be on that project for 10 years and I don't believe there is any contractor that

would like to be on a project for 10 years. So, this is something which we have been explaining at least at the federal level to all the permanent secretaries and the ministers during the budget deliberations and, by and large, we have succeeded in getting them to concentrate on the ongoing projects. New projects can be admitted but bulk of the funds has to go to the ongoing project.

Another problem that we have and I think even this year we have a ministry that has about 1000 small projects added to it by way of constituency projects. In that we have to have a very fruitful dialogue between us and our legislators, the issue of constituency projects is one of the very issues but we thank God today we have a minister who is in charge of administering constituency projects, that is the Minister for Special Duties and we are now getting all the constituency projects together. There is a committee in which I am a member; we look at all the constituency projects that were started by previous legislators. The problem of this is that once you have a change, after an election no new legislator wants to continue with the project of his predecessor. And someone told me that even the same legislator doesn't want to continue with his own project, he wants to start a new one. So these are issues that we need to really talk and talk and talk until we convince ourselves that some of the things we are doing are not rational. There is the temptation by everyone to start a new project but at least discipline has to come in. So this has to do with our culture, if we look at some of the countries in our neighbourhood, in a whole year there may be only just three or four government projects and because they don't have a lot of money they have the discipline to concentrate their resources to finish two or three projects in a whole year. But over here we have multiplicity of government and we don't even respect the division of responsibility. If you look at the federal government budget, although this is a discussion we need to take, there are some projects that should not be undertaken by the federal government, they are too small, they are projects, like let me give you an example, you have mini stadium and we cut it down but before, I think, there are about thirty-three mini stadium in the

budget, now they have to be built and there is no money allocated to it, you know, should the federal government build mini stadium? No, state government will build mini stadium, if there is a big stadium like the one in Lagos or Abuja, yes, federal government but even stadium in the local government headquarters, that is the responsibility of the state. So there are certain things when you go down you find that maybe these things have to be taken by state and some even by the local government. I am telling you that if you look at the federal budget, I even saw construction of toilets in a small market in a village; I am telling you it is there. So there are things that we can weed out. Yes this weeding is going on but we need to discuss with our legislators to reach some kind of understanding. I believe the same thing also takes place at the state level, because some of the legislators will insist that certain projects have to be done in their villages even though this is something that the local government should do. So, we need to really make sure that we really talk to ourselves and believe that completing projects is better than having them in the budget forever.

The issue of inheritance tax, well this is for the rich people because for the poor people what they will inherit is debt or pieces of clothe, you know this is a labour stock. I don't know whether all these money that are inherited are dated because there is that connotation that if you are rich it means the money is proceed of corruption and I don't believe that should be there but otherwise you cannot even get the argument across. Because once you start tainting the wealth of people with corrupt source then you cannot even win the argument. But it is true if somebody inherits, if the government wants to tax the person who inherits, that is something for the government to discuss. It is part of personal income tax and I believe the rich have to put more to the society. This is a country where if you go to certain airport you wouldn't even find space to park private jets. And if you look at these people to find out how much are they paying as tax to government there is just nothing. And there are a lot of ostentatious living even some of our lifestyle we need to look at it and see how we can

really have lifestyle tax. I can remember this one you can all check when you go back to your rooms; go to yahoo or so and try to find the cost of buying a range rover in Australia, and then the cost in Nigeria or England. You will be surprised that in Australia apart from the cost of the vehicle you have to pay 45% tax. So, most of these private jets, I don't know how much tax they are paying for buying the private jets. So we need to really see how we can tax the rich more. The rich have a lot to offer; the way they are going I think they are getting richer at a faster rate far more than the economy. I actually, I have been faced by BBC Hausa and Voice of America, Hausa service to explain why despite all the poverty in this country we are saying that Nigeria is rich and the economy is growing, and the explanation is simple, really the rich class is getting richer faster, the country has a problem of GP index. The poor are yet to be carried along, the middle class is growing slowly but the rich are growing very, very fast. So you have a society whereby the gap between the rich and the poor is the widest in Africa. So we need to really look at all our rich people to see how they can contribute towards the development of this country and if inheritance could be taxed then that is good.

But, another issue which is more than that is a case where people take their money outside Nigeria thinking that the money is safe. So if in Nigeria the inheritance would be taxed for instance 40%, if you take your money to Switzerland they will tax you 100%. Because when you die, your children will not get one kobo. So this is something that we need to educate people to know that by taking your money outside you are denying your children, you are denying your nation, and you are denying yourself because when you save money it is not working for you it is only in your head and after you die you have not benefitted from the money. So sometimes this is what we call stupid saving. When you save in your country even if you don't benefit somebody has borrowed the money and is developing your economy. But when you take your money to another country, they will use your money to develop their economy and the money will never, never come back. So these are things that we need to look at and that is linked

to the issue of plea bargaining. But I think that one surprisingly the Commissioner of Finance introduced himself as barrister so I think it is a legal issue. So since you are both Commissioner of finance and also a lawyer I think you can address the matter better than myself. Then I need to correct certain impressions, the government is doing a lot to actually take care of the leakages, the biggest leakage we are experiencing is the issue of oil theft and illegal bunkering. A committee has been set by the government and we have been doing a lot of work and I will tell you that the thing has started to come down. The oil theft has started coming down. Sometimes when the thief is around and people are not talking about stealing he will continue to steal, but when people start talking about stealing the thief will know that attention is now on him and he will slow down. So please let's continue to talk about oil theft and then they will stop stealing and if you discover anyone in your neighbourhood maybe we will start calling names, but I know many people know some of these people and I think even writing articles in the newspapers, appealing to their conscience. Really some of these people don't need the money they are stealing, they have stolen more than they need or more than they can manage, so it is getting to level of insanity because why do you take money that you cannot handle? Then we need to do a lot of reforms to actually address the issue of corruption. Corruption is not something you just go head on and see it is like a germ that only thrives when the conditions are right; when the conditions are not right the germs will die. So all the reform programmes we are doing in government, they are aimed at uprooting the root causes of corruption. Because before, let's check the power reform we are doing now; some people have meter, the meter is not reading, they don't pay. That is a form of corruption or you see a whole neighbourhood with only two meters but now with the privatization, I don't think this is even possible. So there are so many things in the way we run government, that, you know, if you really have some kind of rethinking then you can pluck out all the incentives to the corrupt and for us even though originally the theme of this NACOFED

conference is on the deregulation of the oil sector, but we changed it to what is more important to us today. Because today we are suffering from revenue short falls, and it is the issues that we need to discuss not the reform that will come later. And I believe that these are things we really have to think more. We still have another day so if anybody has any suggestion as to how we can even address some of the immediate problems we are having, you know please either in small groups we can still discuss it. Because we don't come here and see problems and say we won't discuss it so when we go back home if anybody has any input or any suggestion let him write it down and pass it to us because we don't want to leave here without getting as much suggestions as possible as to address the real problem we are facing day by day, revenue short falls, custom revenue is flat, its coming down, federal inland revenue maybe some people are not paying tax or whatever I don't know we need to know more. It is not also encouraging and then the oil revenue, there are two sources; the one that we get for selling, And I believe we have representative from the NNPC here, where is the NNPC representative? Have they not being invited? So there is nobody from NNPC, Ok, I want your comments on the issues because we don't want to always come here and say NNPC, NNPC; NNPC please put it down three pages all the problems. I think some commissioners, Mr. Nnaji, and then which other commissioners will team up with him or what we will do is set up a small committee. Ok we have one person from post mortem, we have Mr Nnaji, and then we have the Commissioner of Finance Edo and then Accountant General Kogi (you know these are the strong minded people), let's have more experience Benue State Commissioner of Finance, the guy from NNPC, Rivers State Commissioner of Finance and then let's get one from the far north; Sokoto State Commissioner of Finance and Borno State Commissioner of Finance please form a group tonight, sit down with the NNPC guy and thrash out what are the issues, and why are these things happening day-in-day-out. This month we don't get this, we don't get that, whatever they can tell you, you don't have to read it on this floor, just put it on paper.

We want to get a feedback here; we may read it, we may not read it. It depends on what you have. So my friend from NNPC feel free, if there is anything discussed that you don't want mentioned in public we are not going to say it but at least tonight we need something, a committee to look into NNPC issues to tell us you know some suggestions on how do we move. Then custom; the guy from custom, Commissioner of Finance Jigawa State, let's get the representative of Lagos State, representative of Ogun, then Commissioners from Katsina, Jigawa and Commissioner of Finance Kwara State, we want you to look at customs duty revenue, there are challenges there, how do we overcome? Is it true that imports are not coming into the country? That there is a big fall in the import because sometimes when you go to the market you don't feel that imported items have disappeared from the market. You know, some of us go a little bit, we can call ourselves youths during the time of Shagari towards the end of 1983 when we go to the market you know that all imported items are not in the market because you won't even see them. So if they say there are no importations everybody can say yes items are not being imported into this country but today, when you go to the market whatever Nigerians used to import they are still there but the import duty is not there. So please let's have this committee, you will put your heads, your venue will be the room of the custom officer, so they will meet in your room. Please discuss openly whatever you reach if you don't want it mentioned we are not going to present it but let us know so that we keep it to ourselves. Federal Inland Revenue Service; I think their own performance is not that bad, but as everybody has said here, Nigerians are not paying tax, CME has said it 70% of the companies they don't submit tax returns and all those things what can we do? Many people are saying we can get 9 trillion from the Federal Inland Revenue, but what we are getting is 5 trillion so let's have another committee; let's have Taraba State Commissioner, we have the one from Adamawa, Niger State (the host) and then we have Anambra and Bayelsa and Ekiti then we have Ebonyi (the Chairman), they will report tomorrow. He is saying that these

committees I am setting are NACOFED Committees so they will report next year, I said no, these are people to brainstorm, you know, it is not a real committee, we are putting a group of people who will come and brainstorm on certain issues tonight, you can be excused from the dinner if you like. You know, just brainstorm so that as we go we have some insights, some information, the essence of what we are doing here is to actually discuss and discuss but we realize some of the issues cannot be discussed openly or we have some of our members who will not talk. Like the customs officer even if we stay till tomorrow he will not talk, we know, NNPC if we stay here for one year they will not talk so we are now giving them opportunity to really talk in their privacy so that the comments that have been gathered will be submitted to us in writing. I hope it is understood. I hope these three groups are ok or is there anybody who wants to setup a group on leakages? Where is Commissioner of Finance, Delta State? So do you want a committee on oil theft? No, no, it is true now, ok, Delta, Bayelsa, Rivers and Akwa-Ibom and Anambra, Imo, Edo if you like you can brainstorm on oil theft and illegal bunkering. And if there is anything you can give to us even if it is one page you know, at least it is welcome. We also need to have another committee to brainstorm on IGR; I think Commissioner of Finance Yobe, Zamfara, Kano, Commissioner of Finance Edo, Commissioner of Finance or representative of Lagos and Osun and Plateau, Bauchi can join them and Gombe. Please let's have some brainstorming session on how to improve our IGR and if we can also have a write up even if it is one page I think that one is also welcomed. So with this I think I will call on the MC to bring the meeting to a close and we will go and retire, pray and come back for dinner and a lot of cultural entertainment. And if there is any group of commissioners that can out stage the GWAPE International they are welcome. Thank you very much

Cultural/Dinner Night

WELCOME ADDRESS

Alhaji Mahmud Kpako Bello
Commissioner for Finance, Niger State

Auzubillahi minash-shaidanir-rajeem, bismillahir-rahmanir-rahim, the Chief Servant of Niger State represented by the SSG, Right Honourable Ndako Kpaki; the Honourable Minister of State for Finance and Chairman FAAC; the Accountant-General of the Federation and all the directors from the Federal Ministry of Finance here present, my Chairman; the Chairman, Forum of Finance Commissioners and my colleagues the Commissioners of Finance from all the various states of the Federation, the Chairman Accountants-General Forum and all the Accountants-General from the various states of the federation; Distinguished invited guests, our partners from the press, ladies and gentlemen. I received a very strong warning before coming to the high table here that today, and this time is not a time for speech making so I should make it as short as possible. I think I would go straight to the point by welcoming all of you once again to Niger State. We've been very, very delighted to have you here; we believe this night will offer us an opportunity to showcase the little of the culture of Niger State. We would have wished to have you for a whole week here so that we would be opportuned to show you all the goodies we have available in Niger State, to expose you to the investment opportunities in the state, to show you all the cultural things we have in the state, one of which is the birth place of Nigeria, it is our hope that very soon we will be opportuned again to have you back to Niger State and to be able to take you to Zungeru the birthplace of Nigeria where Nigeria was actually created. We are

also going to expose you to the various dishes of Niger State tonight and that is why we have provided purging pills. I know Kaduna State Commissioner of Finance has taken two already. Ladies and gentlemen we are very delighted to have you here and we hope you will enjoy the night thank you very much.

HAPPINESS IS THE CORE VALUE OF A DEMOCRATIC NATION

Hon. Saidu Ndako Kpaki
Secretary to the Government of Niger State



Auzubillahi minash sahidanir rajcem, bismillahir-rahmanir-rahim, our august visitors in the month of August; the honourable minister of state finance, Dr, you are welcome. You only missed one interesting thing today because you refused to stand up to do this gymnastic action this evening but no problem.

Honourable commissioners here present especially the commissioners of finance from the various states of the federation, the Accountants-General, the permanent secretaries from Niger State and our own commissioners as well, both visitors and participants of the conference I wish to say, welcome to Niger in this words of Assalamu alaikum; may peace be upon you all. Really, the Chief Servant was not really happy to be absent from this very important occasion and that was why even with our tight schedule he still directed even when he was in Lagos that, one of us must show up in this very important dinner. I thought he assumed that the Coordinating Minister would be here to enjoy the life of women in action, in all spheres, because it seems women are taking over most of the activities. Today, all of us in Niger State, we cannot really express our very much gratitude to the kind of response we have seen on the faces of our very important august visitors. For us, we feel very, very honoured that this NACOFED is hosted in Niger State; and the theme, from this morning that we met, a lot of distinguished guests that were here, the comments we have received from most of them proved that we are on point and we are happy that our guests are happy with what we are doing in Niger State. In Niger State, we make people happy. The Chief Servant's vision is to make Niger State one of the best states in Nigeria by the year 2020. And it has been discovered today that in the federal character, Niger State is already leading.

Also in the aspect of hosting people we are leading. I can vouch that Niger State, though I don't know the position of the NACOFED because it is not mentioned here; whether 1st, 2nd or 3rd position but I think on a more serious note if what we are doing here or what we will be doing here today and tomorrow is to be compared to what has been happening in the name of the same NACOFED in other parts of the country, I believe it will come as a matter of fact that Niger State has won the 1st position as far as hosting right is concerned. So, I think we deserve a round of

applause. Thank you very much for agreeing with me that we have won this reception.

Honestly, when your guest is happy, definitely, you will be short of words to express that satisfaction but, when it is upside down, honestly, you will not even know where to show your face. For us, we thank you for appreciating the little we have done for you people and always, I want to use the word of the Chief Servant; you are always welcomed. When I was sitting here, I overheard that the FAAC meeting, I was just telling my honourable commissioner that, oh! tomorrow you will be moving to Abuja for the FAAC, he said we will be honoured because one of the Former Presidents will be celebrating his birthday you have FAAC meeting breaking record in Niger State. I believe we must have enjoyed special publicity by this hosting and we thank you all for really coming to share with us our food, our culture, our thinking, our ideas and report. Like I was expecting since we have other commissioners of finance, many of them will leave Niger State dropping something that will have impact on what exactly the Chief Servant is doing for Niger State, change the state of Niger State.

We thank you very much for coming. I want to urge you to continue to enjoy your stay in Minna, Niger State. Honestly if this function were to be more than a day or two like it has been stated now, we would expect you to pay visits to some very historical locations of Niger State. Presently, we are pursuing the systematic program on the centenary celebration. As you are all aware, the union or the marriage between the north and the south was consummated in Niger State, the site is just about 50km away from Minna. And we have been celebrating this activity. Honestly, even if it is not part of our agenda, we are going to apply the spark of this NACOFED conference as one of the activities for the celebration of the centenary that we are presently pursuing which we will do until the 1st of January, 2014 when Nigeria will be exactly 100 years. We expected that the GWAPE people would

have given you another treat of the drama of how the amalgamation was really conducted in Zungeru, as far back as hundred years ago. We would like you to find another opportunity to come back here as a private citizen not as a Commissioner of Finance or Accountant General to see other good side and other very good things across Niger State. We welcome you to the state of peace, we welcome you to power state; power in leadership, power in electricity generation. Thank you all and God bless you.

NIGER STATE HAS A CLEAN ENVIRONMENT THAT REFLECTS THE MOOD OF INDIVIDUALS

Barrister Oda Timothy

Chairman Commissioners of Finance Forums

The Honourable Minister, and the Chairman of the occasion; the Honourable Accountant-General of the Federation; our Chief host; the Honourable Commissioner of Finance Niger State; the SSG; my distinguished fellow Commissioners of Finance; Accountants-General; members of the FAAC Secretariat; the press; press of FAAC; the Chairman of the FAAC Sub-Committee Post-Mortem; I recognize everybody, ladies and gentlemen.

After the GWAPE dance, I am still doing it with great pressure? If I commit grammatical blunder, forgive me, you know the cause. The minister said we should continue with the dance until we are finished, which means until we collapsed. I want to thumb up my hands to the Honourable Minister and this NACOFED committee and, in fact, the whole FAAC for the choice of Niger State. If the Honourable Minister will extend our information to FAAC, to make it at least 10 days, let it be televised and announced over the radio so that our boss I know, he will not refuse to grant it. After all, the Chief Servant here is still at Abuja and he may stay for the next 7 days. I am very, very happy Niger State, the cleanliness of the environment, the hospitality of the people, and the appearances of individuals I see which reflect the mood of their mind. When I sat on the podium here and saw the series of ages that attended this ceremony I just imagined how heaven will look like. In fact, the Minister knows that this is a melting pot and Niger State has succeeded in rubbishing the records of the past NACOFEDs and, it has equally challenged, in fact, I sympathize



with the next state that will host NACOFED. Let me tell you one simple story. I have travelled to UK, I went to US, I travelled to Japan, India, Iraq, Syria, the type of bed I found myself on since I came to Niger State I have never seen it in this world. The Honourable Minister, if there is any other gift they are giving to people they should keep my own, they should allow me to carry that bed. Yes, the second request is this. Niger State has taken his Excellency, Dr Nnamdi Azikiwe; they said he is their son, he lived in our place. There is a culture in our place, it is a type of title you take and I have taken that title too. We don't dance anyhow anywhere; it is only in Niger State that I danced. You remember that Nnamdi Azikiwe performed that dance in Ebonyi State when we were still in Imo state and they gave him the woman he danced with. I have danced here. If you will not give me all the women I danced with, give me just one; that small one, yes. I am very, very grateful. Actually, when you consider the battle we faced in FAAC, this is a melting pot. FAAC is the only family where you will have

armies that will fight over the same thing, will diplomatically attack and the Honourable Minister as the chairman will amicably defend. The hydra-headed economic problem we've been able, within the twelve calendar months of FAAC, succeeded in reaping through his stomach. Though he is still standing, staring manically before us, but I think the boot, the leg and everything in it is destroyed, we need to join our hands and push it down. FAAC won't you clap for yourself? The quality of lectures delivered here today, you will understand the words more when you go home to read it. I feel very happy and on behalf of the members of Forum of Commissioners, members of NACOFED, the position I am given today is a privilege, by the organizing committee chairman, and since he was the one to make this vote of thanks and he is the Commissioner of Finance Niger State, he gave it to me because I have declared to him that today I am a Niger State man. I feel very happy, the surplus food we had, very delicious, the drinks we had, everything, tomorrow they are promising us a tour around. I hope the honourable minister will permit us. One request I want to make of the Honourable Minister is this, we've taken a very good ointment in Niger State, a very nice and sweet soup. Honourable Minister Sir, with due respect, may tomorrow's FAAC, Accountant General of the Federation, may the wallet you will present not become a fly on the ointment. We implore Niger State to go and work on them so that this sweet food will not be sour. I thank you all. We've learnt, we will remain here. I will go with the one I got from the dance, you can remain and dance. If you've taken a type of title like me, you may be lucky to win one.

Thank you the Honourable Minister of State, thank you the Accountant-General, thank you the SSG, Chairman of NACOFED Planning Committee, the Committee Members, Forum of Commissioners, Forum of Accountants-General, the press, the nice girls, the GWAPE dance, and the ushers, ladies and gentlemen, may God bless us all and may we arrive at our destinations safely, may we have good stories to tell about the success. Thank you all.

Restructuring
NIGERIA'S
Public Finance

DAY TWO

OPENING REMARKS

Dr. Yerima Lawan Ngama

The Honourable Minister of State for Finance

CHAIRMAN OF THE SESSION

Today we have the honour to receive the Managing Director/Chief Executive the Infrastructure Bank, Mr. Adekunle Abdulrazak Oyinloye. He is going to be delivering a paper on refocusing government expenditure. Yesterday we looked at two papers, one on diversifying sources of revenue and one on efficient public finance management and now we need to look at the capital expenditure excelling. Even in the discussion yesterday, people spoke about privatization, spending money is the easiest thing to do, for we have competing needs, but we have to refocus, so that we concentrate on priorities and get optimum result. So it is a pleasure to call on Mr. Adekunle Abdulrazak Oyinloye to get on the stage and deliver his paper. Also we are going to have a slight change in the rest of the program; the press conference is better taken after the FAAC so that we won't end up having two press conferences. If we have one press conference for the NACOFED and one for FAAC, I think it will be one too many. And the communiqué committee can do their work while we are arranging for the technical and the plenary session. However there is a request from the chairman of the commissions' that there are some of us who want to travel back and requested we do a joint session. If that is their request, I think we can take it after lunch. I don't know when lunch will be ready because we cannot do it across lunch. I think we should start the joint session at 2pm so that we have enough time to go for lunch. We start the joint session at 2pm and finish at 4pm. I think that is less stressful, so it is my pleasure to welcome Mr. Adekunle Abdulrazak Oyinloye. You can walk to the podium and deliver your paper.

REFOCUSING GOVERNMENT EXPENDITURE

*Adekunle Abdulrazaq Oyinloye,
Managing Director/Chief Executive Officer,
The Infrastructure Bank Plc*



PROTOCOL:

I will crave your indulgence to permit me to stand by the existing protocols.

My job here today is very simple; I also hope I will have a simple and understanding audience.

I reckon that the gala night yesterday took part of us and I wish I was here to witness the Minister dance.

It is a great honour and a privilege to be given the opportunity to deliver a paper at such an august occasion. The paper, "*Refocusing Government Expenditure*", aims to offer some thoughts on how government expenditure in Nigeria may be channeled for robust and sustainable growth and development. It gives insights on the current government expenditure profile; some observations about the approach taken by other emerging nations in this area; and also touches on how a Development Finance Institution like The Infrastructure Bank may be mandated to partner with government with the specific remit of acting as a conduit to attracting apposite funding for efficient and effective delivery of landmark infrastructure projects that will improve national productivity and the quality of life of the masses.

Nigeria's Vital Statistics

Before embarking on the subject of Nigeria's expenditure trends, it is imperative to have broad appreciation of what Nigeria as a country signifies in terms of size, economy, demographics, natural resources, government and international standing.

Whilst the facts to be presented may be known to most of us, within the context of this paper, it is important that we nonetheless remind ourselves of what can be termed as "*Nigeria's Vital Statistics*".

The Federal Republic of Nigeria is a federal constitutional republic comprising 36 states and its Federal Capital Territory, Abuja. The country is located in West Africa and shares land borders with the Republic of Benin in the west, Chad and Cameroon in the east, and Niger in the north. Its coast in the south lies on the Gulf of Guinea on the Atlantic Ocean. Some pertinent numbers that describe Nigeria follows thus:

- Nigeria's landmass totals 923,768km², which ranks 32nd globally;
- according to a 2012 World Bank estimate in 2012, the Nation's populace now numbers in excess of 170million;
- At US\$268.billion, Nigeria's GDP ranks 37th on the IMF rankings.

Current Expenditure Profile

The Appropriation Act, 2013 passed by the National Assembly charged the Federal Government with the implementation of a total budget expenditure of N4.99tr for 2013, a 6.1% increase over 2012. Within the budget, capital expenditure is budgeted to increase by 4.6% to N1.59tr (or 31.9% of the budget), while recurrent expenditure is budgeted to fall to N3.40tr (68.1%). The fiscal deficit was projected to improve to 2.17% of GDP in 2013, from 2.85% in 2012, emphasizing government's commitment to fiscal stability. In Mr. President's 2013 Budget Speech, titled "Fiscal Consolidation with Inclusive Growth", he stated that the current budget "belongs to the farmer, the investor, the entrepreneur, the youth and the elderly".

Government Expenditure and Economic Growth: Trends in Nigeria and Select Countries

It goes without saying that in order that government expenditure may positively affect the economy and the masses dependent on it, the appropriation methodology as well as the utilization of the appropriated funds must be properly developed and managed: it is of no use financing rising expenditure by having a tax regime that is not business friendly, reduces investment or discourages entrepreneurship; neither is it sensible for government to increase expenditure and investment in unproductive projects or in goods that the private sector can produce more efficiently, thus impeding the growth of national productivity.

A review of the trend in the Nigerian government expenditure and its effectiveness was summarised in a Central Bank Statistical Bulletin thus:

“Unfortunately, rising government expenditure has not translated into meaningful growth and development, as Nigeria ranks among the poorest countries in the world. In addition, many Nigerians have continued to wallow in abject poverty, while more than 50 percent live on less than US\$2 per day. Couple with this, is dilapidated infrastructure (especially roads and power supply) that has led to the collapse of many industries, including high level of unemployment. Moreover, macroeconomic indicators like balance of payments, import obligations, inflation rate, exchange rate, and national savings reveal that Nigeria has not fared well in the last couple of years”.

Based on the current state of affairs, one may think this was from a recent bulletin. However, this dates back to 2008! So where do we keep going wrong as a Nation?!

If we are to take the Singaporean, Brazilian, Indian and Chinese models as live examples, it is clear that government expenditure can deliver strong and sustainable growth and development. Singapore rose from 3rd world oblivion to model 1st world nation in the space of just 40yrs with disciplined development and implementation of long-term planning and fiscal management. Brazil, India and China have risen rapidly in the last two decades. These countries have a commonality in that the increase in government expenditure that triggered and sustained economic growth was focused in the area of development: namely infrastructure and core industries. The heralded story of Singapore's development of its ports - both air and sea - and the subsequent pull of Foreign Direct Investment is an often recounted and singular example. More recently, the new world giants of China, Brazil and India have for more than two decades sustained investment equating to near double-digit percentage or above national GDP in infrastructure and core industries. China, Brazil and India are now 2nd, 7th and 9th respectively in the rankings of the largest economies in the world.

Current Capital Demands on Government

It is often stated that Nigeria is Africa's only true giant, dwarfing its continental relatives in terms of both natural and human resources. However, WE, as a nation, remain a sleeping giant by all the customary measures of both economic and social development:

- whilst national GDP has been growing consistently at a respectable rate of 6-7% annually for the best part of a decade, according to the World Bank, Nigeria's income per capita of US\$ 1,180 ranks 168 out of 215 of the world's economies;
- the rapid rate of urbanisation - more than DOUBLE the global average of a little over 2% - is putting untold pressure on our already depleted and woefully inadequate and under-maintained urban infrastructure and services; and
- Nigeria is failing in its endeavours to meet Millennium Development Goals targets, with the average Nigerian having poor access to power, transportation, water and primary healthcare.

The above merely underlines the fact that **Nigeria is indeed in Need of Economic Transformation!** The good news is that there is no reason why the required developmental needs cannot be achieved on a nationally impactful and sustainable basis... AND, government must continue to take the lead!

However, government alone cannot advance this agenda. If we take the issue of infrastructure alone, some two years ago, the National Planning Commission released data indicating that an estimated total of 32 trillion Naira is the required investment outlay on infrastructure to enable the achievement of the aims of Vision-2020. That equates to an estimated year-on-year spend of 20 billion US dollars, or approximately 10% of national GDP.

So, this points to a gap of a minimum 10 billion US dollars if all of the 2013 capital expenditure budget was allocated to core infrastructure development alone.

Bridging The Capital Demand Gap – Attracting Private Sector Contribution

Bridging the Capital Demand Gap is a challenge for governments all over the world. The general consensus is that the achievement of the objective of providing adequate infrastructure globally will continue to be predicated on the implementation of fundamental policy recommendations, which aim to:

- * encourage pension funds to invest in infrastructure;
- * encourage Public Private Partnerships as a means of raising additional financing;
- * examine the legal and regulatory framework conditions with a view of encouraging the emergence of fresh sources of capital and new business models for the construction, maintenance and operation of infrastructure;
- * explore the potential for new institutional arrangements that may provide more effective and efficient financing, funding and/or delivery of infrastructure; and
- * reduce the vulnerability of long-term infrastructure planning and implementation to short-term thinking and priority setting.

All of the above recommendations point to the need for increased private investment alongside the public sector. In particular, tapping the “patient” capital of Nigeria's N 3 trillion pension fund pot is key and provides a win-win solution for both Pension Fund Managers looking for long-term steady investment returns and growth potential, and infrastructure sponsors looking for long-term funds.

The draw of private capital to sub-Saharan Africa has been triggered by a belief that the global recovery will be led by emerging markets or the newly coined “Frontier Economies”. Whilst the recent economic downturn has significantly impacted the region and Foreign Direct Investment (FDI) has declined, investors view Sub-Saharan Africa's long-term prospects as

strong due in part to significant progress made in recent years: GDP growth has averaged 8% per year since 2004, compared with 3% in the previous 30 years; foreign reserves continue to rise; and debt servicing requirements have been reduced from over 100% of the region's GDP in 2005 to less than 25%.

Nigeria's contribution to the above growth statistics is not insignificant. The government has sought to provide a platform that will help to sustain the growth trend over the medium-term horizon. Investment in critical infrastructure has been the main focal point of fiscal policy, a shift which has been accompanied by reforms in the administration of pension funds through PENCOR; by strengthening the legal and regulatory framework through the establishment of the ICRC to promote Public Private Partnerships and encourage private capital flow locally and from overseas to supplement government spending; by deepening of the capital markets through the initiatives of the DMO and SEC; and most recently, by the initiation of the raising of a one billion dollar Eurobond specifically for core infrastructure development nationwide. In continuing to make the infrastructure and core industries investment opportunity attractive to private sector investors, the government can achieve the desired causal effect of robust socio-economic development, and growth in national productivity.

Tib Proposal to Serve

The Nigerian government's focus on laying the foundation for sustainable growth in the economy is being driven by the implementation of sectoral reforms and initiatives aimed at fostering and maintaining economic stability. Whilst there is considerable uncertainty over the outlook for the global economy, a state of affairs stemming from the drawn out hiatus in the capital markets and the worst global recession in decades, the Nigerian economy is in the enviable position of being amongst a select band earmarked to continue to grow and prosper.

It would appear that as a nation, we have the ingredients to continue to ride out the trend that has seen a general reduction in capital flows. It would also appear that the Central Bank of Nigeria's intervention to address the systemic risk worries within the commercial banking sector has had the desired effect locally and assured foreign direct investors. However, to maximally take advantage of the current circumstances for the sustainable socio-economic development and growth of the nation, all stakeholders must play their role.

The Infrastructure Bank, Nigeria's model private sector-led but government sponsored development bank, has positioned itself to partner with government to prioritize the maximization of development nationwide above financial returns alone. Nonetheless, we focus on engendering the trust and confidence of both public and private sector investors by operating with the mindset of disciplined financiers. That mindset allows the Bank to inculcate the pursuit of excellence in the identification, preparation and implementation of developmental goals. The likes of the Infrastructure Development Finance Corporation of India and the Brazilian Development Bank stand as live examples of institutions that have and continue to play fundamental roles in national and regional development, maintaining their relevance by evolving their operations over time and in accordance with the socio-economic challenges and needs of their respective countries. These institutions have, as required, played multiple roles including but not limited to:

- identifying, developing and financing projects leading to the achievement of national objectives;
- encouraging and facilitating private sector involvement in public sector initiated development projects;
- providing financial products not readily available in the market in order to promote and support developmental initiatives;

- providing finance during times when the financial markets have been unwilling or unable to do so; and
- Assuming the position of risk capital or catalytic fund provider to initiate critical development projects.

We have taken inspiration from the above mentioned institutions and wish to play a similar role, thus becoming a significant contributor to the Economic Transformation of Nigeria and beyond. Whilst government should fiercely pursue its “fiscal consolidation and inclusive growth” agenda by refocusing expenditure on infrastructure development and the promotion of core industries, we believe we offer the platform for leveraging these efforts for maximal participation of the private sector and the international community in Nigeria's growth story.

I thank you for listening.

DISCUSSANT



Mr. Babatunde Lawal

The Accountant General of the Federation, The Distinguished Members of the high table, The Honourable Presenter of this important paper, Honourable Commissioners of Finance and distinguished delegates.

We are here to discuss a very important thing and the author of the paper has done credible justice to the paper for discussion this morning. Just by way of starting. Our people say no matter how long it takes a stammering child, he is going to be able to call his father's name. So the fact that he stammers doesn't mean he won't be able to call his father's name, eventually. The meaning of that is that, no matter how long it takes us as a nation we must come to the reality that we need to look at our expenditure, to ensure that there is efficiency. And this is very obvious.

First we have the threat to national, state, sub-national and sub-state revenues. And that threat is coming from the break-through in shale oil technology, just by way of information last year Nigeria lost 50% of its major oil market, the US, because of the breakthrough in shale oil technology. And at that time there was speculation that over the next 5 to 10 years the United State will be the largest producer of oil. That is in 2012.

In 2013, the US has already overtaken Saudi Arabia as the largest producer and exporter of crude oil. The meaning of that is that sooner than later, Nigeria is going to lose 100% of its oil export to the United States, we need new markets. We thought that we needed to make friends with China and get a market; just recently the Chinese announced that they were going into shale oil technology of crude oil. The implication is that Nigeria needs to move faster than we are moving in looking for market. And while we are doing that, we are losing a significant portion of our oil export to oil theft in the Delta. The implication is that as it moves into the international oil market, when you see the oil at 100 dollars per barrel, Nigeria's oil might sell at 50 dollars per barrel. Because it is cheap, they need to sell it quick and come back and get more. The threat to national revenue is permeable. The implication is that if we do not manage what we have to ensure that there is efficiency in expenditure of the little we are getting, we stand the risk, the risk is that all of us sitting here have produced 170 million Nigerians, all of us here are fathers and mothers, sooner than later that generation will rise up and demand for justice. We have seen it in what they call the Arab Spring. They may dig us from our graves, and ask us what we did with our resources when we were here. That is the challenge, and that is why this discussion is absolutely very important, absolutely.

So, some of the things we may be sharing, just by way of saying I am comfortable. Just like my people say the frown on the face of the he-goat, will not stop it from being taking to the market. So it is better to hear those things that are hard, and as finance commissioner, go back home and begin to adjust our expenditure

to ensure we add value to the little resources that come our way. How do we then achieve the efficiency and refocus government expenditure.

First there is a big problem with our budget process in this country, the budget office of the federation, sits down, does analysis and does forecast. Produces a budget that is sent to the national assembly. Members of the national assembly, I don't know, if they have the benefit of the analysis done at the national planning and at the budget office. But we see a re-assessment of what oil revenue should be, without the benefit of what the budget should be. These are issues with the budget process; we need to assess this, because when you get a budget wrong, you will get the expenditure wrong. We are supposed to have treated yesterday, but I won't comment on that. But just to say that we need to have our expenditure to be the reflection of the government policy.

Today we are experiencing serious attack from the Chinese economy. Whether you like it or not, you are going to have a substantial in-flow of Chinese products into your economy. It is not by choice. You are compelled to import from China one way or the other. The goods are there and they are cheap. The United States thought they were doing themselves a favour when they moved substantial resources to invest in China because they thought labour was cheap. During the global financial crisis, when all other economies were on the verge of collapse, the Chinese economy stood still. China had built solid infrastructure over a number of years. Now China is reaping the benefit of infrastructure that has been built over a 50 year period.

Distinguished delegates, without building core infrastructure, we as a nation cannot move forward, we can only handover to our children a poverty that is greater than the current poverty we are experiencing. Therefore as Finance Commissioners, as permanent secretaries for finance, we need to talk on building critical infrastructure in our states. The key for transformation

50 years down the line, we can't spend all that we have on recurrent expenditure. The cost of governance is getting too high both on national and state levels, we need to refocus on recurrent expenditure and focus on critical capital expenditure. In the United States, you can count the number of public universities in that huge country, all universities are private sector owned, and that guarantees the quality. But at the secondary and primary level where it is compulsory the government has the sole responsibility of providing the quality education at that level. We as States cannot be jack of all trade in all things; we don't have the resources and the capability to do so.

We must refocus our expenditure in our education such that we have value. It is in secondary education that we have competences in, why not ensure that we spend heavily on secondary education or primary education. This is important, because the failure to develop key educational infrastructure at the primary level, at the secondary level, is going to hurt us 50 years down the line, as a people, as a Nation. And it is going to hurt our children.

So refocusing expenditure means, we as Finance Commissioners going back to look at, what are we spending on? We are the Chief Accounting Officers for the state. What are we spending on? Is our state receiving value on expenditure? And I think this is a focus given that we don't have all the resources to keep spending on recurrent expenditure, we must develop key infrastructure that are needed to shine the light of our children around. We don't want to have an Egypt here, we don't want to have a Tunisia here, and I think this is a core message, this paper and this conference and the organizers by instituting this theme, here, are trying to pass across. And very quickly I will talk on the need for accountability at all levels.

Now the issue of accountability revolves around the rule of law. In the United States, you cannot go into government because you think you will have access to the treasury of the government, it is

impossible. The treasury of the government is fenced, it is impossible for you as a public servant to have access to public revenues and spend it at will. That is why the focus is not that the person stole or embezzled money while in government, the focus is on the moral life of the individual while in government. Like they say, he was a governor of a state, and he was going out with somebody's wife. That is the focus because the law has so fenced the public treasury, that it is impossible to have access to it. So you need to focus on the number of children the man has, outside marriage. Whether he is going out with his secretary, whether he had an illicit affair elsewhere. Those are the issues of focus. In this country that is not our issue of focus; our issue of focus is to reinforce the public treasury. So for us to ensure that at least we leave a legacy to our children, you as the finance commissioners, this country will hold you responsible 50 years down the line, that our parents were there, and unable to lay for them solid infrastructure, for the take off of this country.

Distinguish delegates may I remind you that probably 50 years down the line, the more than 1 million Nigerians that are outside other countries, may be heading back home. The reason is, the conditions out there are not going to get any better, conditions are going to get stricter and there is a need for a good number of immigrant coming back with knowledge and will not see where to apply the knowledge.

Mr Chairman, recently I went to Ethiopia, and it is a miracle that this is a country that is virtually under poverty and under starvation. Look at the kind of transformation that has taken place in Ethiopia, Uganda and Kenya, it is amazing. Kenya is exporting electricity to most countries in east Africa. It is a refocus of investment and expenditure. If we turn around our expenditure pattern at the state level, to look at investments, rather than patronage, we will be doing ourselves, our states, and our children, great favour. And I think that is the central message. Expenditure at state level is investment focus.

Finally, may I talk on the issue of revenues? There is a huge revenue base, at the state level, at the local government level, and the federal level that we all have failed to explore. Many of us have travelled outside Nigeria and we have seen the West, you don't walk and smoke on the street, you don't park your car anywhere. When you have houses in London, in America, you pay property taxes. Why is it impossible to pay taxes in this country? Why is the focus of the State government, the federal government in terms of tax collection, being only on the worker? Why should it be only payee? The majority of revenue we need to run our state is in the hands of private individuals. Who have property, who have big cars and all kinds of things? If you have a house, you should pay taxes. When a senator has a house in America, he happily pays taxes, when he has in America, he happily pays taxes, why don't people happily pay taxes in Abuja, or any other place in Nigeria. The State needs those revenues. Honourable Commissioners of Finance you have demanded to collect taxes to develop your state. And when you do, develop your state, refocus your expenditure to be investment focus. I am not the lead paper presenter, these are just a few comments that I wanted to add, Mr. Chairman. I thank you for the honour and privilege to make this intervention. I thank you very much sir.

COMMENT

Dr Yerima Lawan Ngama
Minister of State for Finance

Well you see, when you give a Central Bank Director the floor to comment, you have to be very patient. Because he will not only comment but he can make certain fresh presentation. We know Mr Otunla. And we are very happy with the insights he has given the paper presentation; the issues are generic and I believe a lot of other people will like to either ask the paper presenter or the commentator or make same comments. So the floor is open. I will start from my right; every row will have a chance. From my right, not from my front, so from the far right, anybody who wants to comment or ask a question? Far right! No body? Then the second row.

Comment:

Mr Chairman, let me thank you once more for this opportunity. Let me stand on the existing protocol. Let me also commend the last presenter for a brilliant paper. My concern is that we in this country, we know the problems, we know the issues, but the problem has been the lack of capacity to find a lasting solution to the problems of this country. I agree to say that the major problem is that we don't have credible institutions to enforce compliance on some of the issues which we have craved for solutions. The propensity to spend in this country far outweighs the propensity to generate revenue. Last year there was a report that the petroleum as an industry owes Nigeria the sum of 6 billion of unpaid taxes. I don't see why a company i.e. the petroleum and gas will owe the federal government about 6

billion. And no efforts have been made to retrieve that revenue. And we are talking about expenditure, and we don't talk about generation of revenue. That is why we have been having budget deficit in this country. And I know that it has been very difficult for any country to balance their budgets, even the developed ones, but we can try to reduce the deficit. If we want to go forward, we must develop our institutions, we must develop our indigenous technology, we must also go back to agriculture. That is the only way we can generate sufficient revenue to reduce the budget deficit we have been experiencing in this country. We can sit down here, talk grammar all day and if we don't have credible institutions, credible technology and go back to agriculture, we are going to be wasting our time. I am very worried especially with the development in the United States of America, developing oil, developing electric cars and all that. I don't know what will happen in the next ten years. This is the time for us to do something if we want to keep our heads above waters in the next few years. So my suggestion is that we must develop credible institutions, develop our own technology and go back to agriculture. Thank you very much, Mr. Chairman.

CLOSING REMARKS

Barr. Timothy Odah

Chairman of the Commissioners of Finance Forum

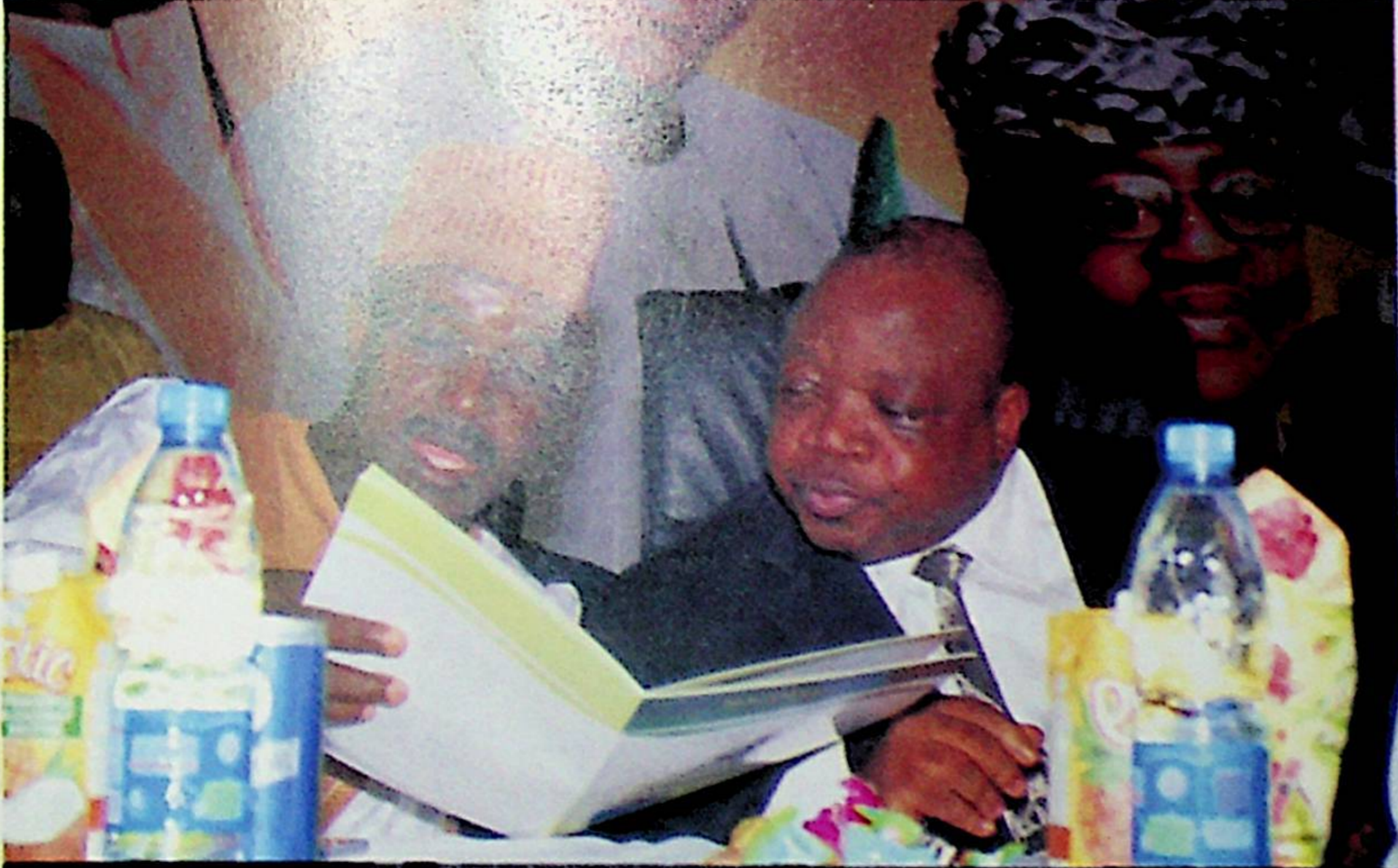
I want to thank you very much the last speaker. Most emphatically, that the issue of political will is very necessary. Just yesterday, I talked on plea-bargaining as one of the policies the federal government should take very serious, eventually you push it back to me that as a lawyer, I should have a way on that. But I want to remind you Sir that EFCC for Federal Agency and the federal government should be able to control its agencies in order to see that such provisions are totally removed, that is one of the political Will. To save a lot, a situation where somebody who has embezzled about 19 billion naira is been asked to refund 700 hundred million naira. I think it will lead to a great state of injustice. Two, I want to put myself on aversion in respect of Agric; agric has become a national melody. There's no compound that does not contain need for everybody to become an agriculturist or farmer. I think there are no messages that we will move on that, then we will see that the nation's economic development will be retarded. I know quite alright that there is no country that is bound to be alone, that should have all it segment in economic development to be in agriculture. The developed countries we know quite alright, is a segment, therefore, if we think of what we should do in order to encourage other sectors, and use the agricultural sector which the government is investing a lot in order to develop that area and encourage others. Three, professional education is lacking; it should be one of the policy clause which the government should embark upon. We know of course that when the President of United States of America, our brother Obama, when he was making his speech, a state

convention speech, he said that, even though United States of America has developed and is number 1, that is, it is the world number 1 developed country, yes, it is very imperative that America should bring more scientists and technologists that will manage the economy. Today we have too many political scientists, religion scientists, philosophers and so on and so forth. What if these ones should encourage our national universities and other institutions to provide vocational studies because, what we are suffering in Nigeria is disguised, that is, disguised unemployment. There are many things I would review but because of time.

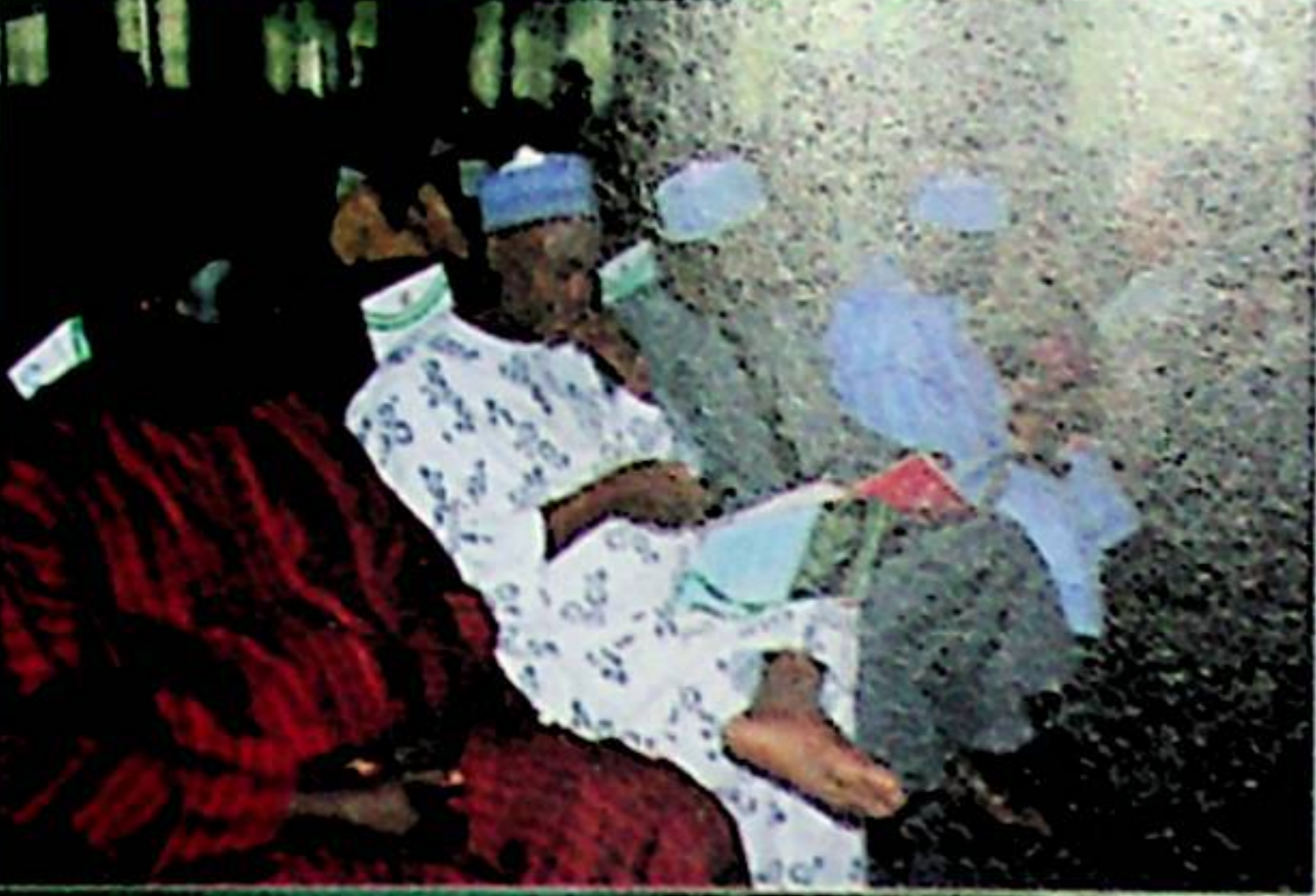
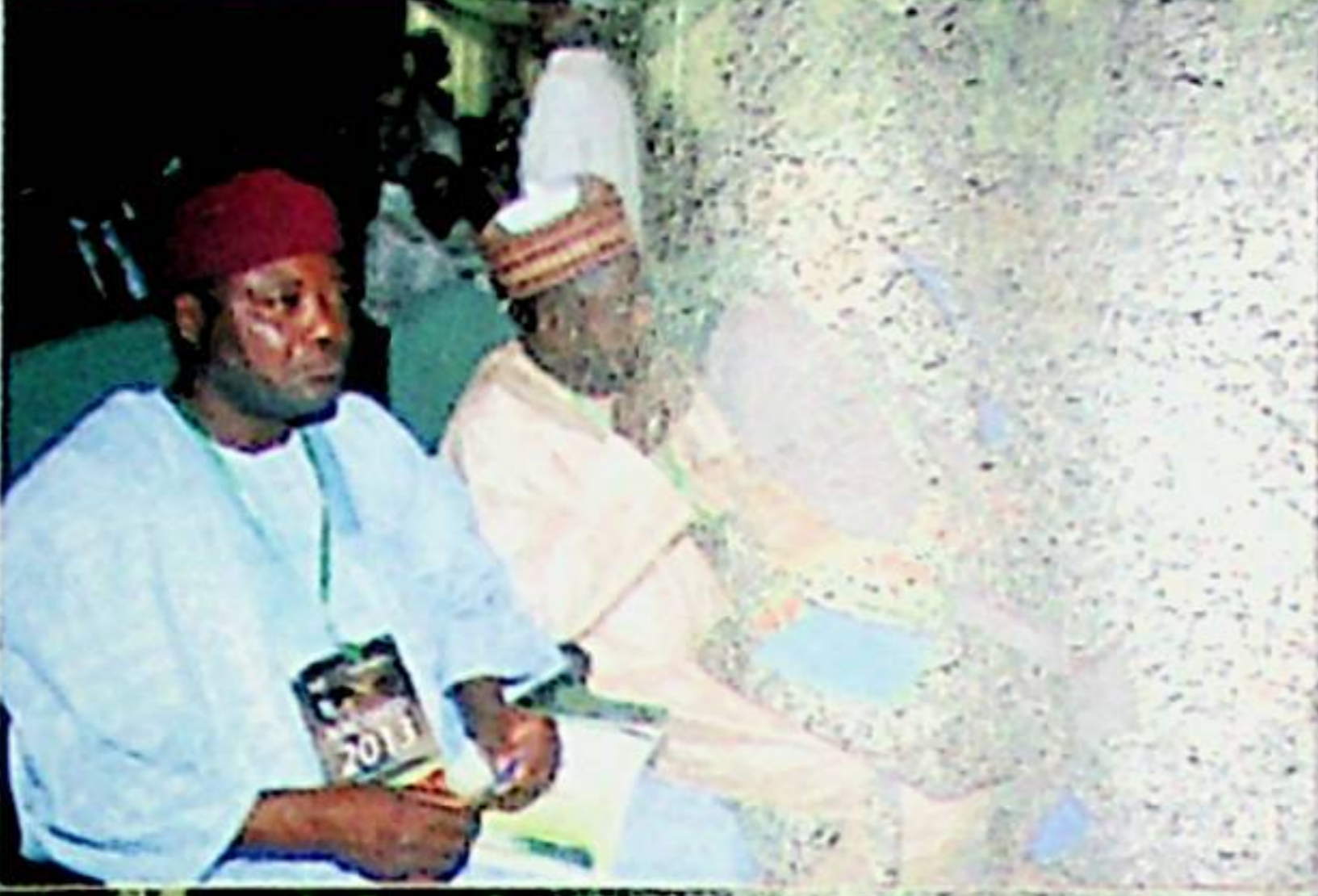
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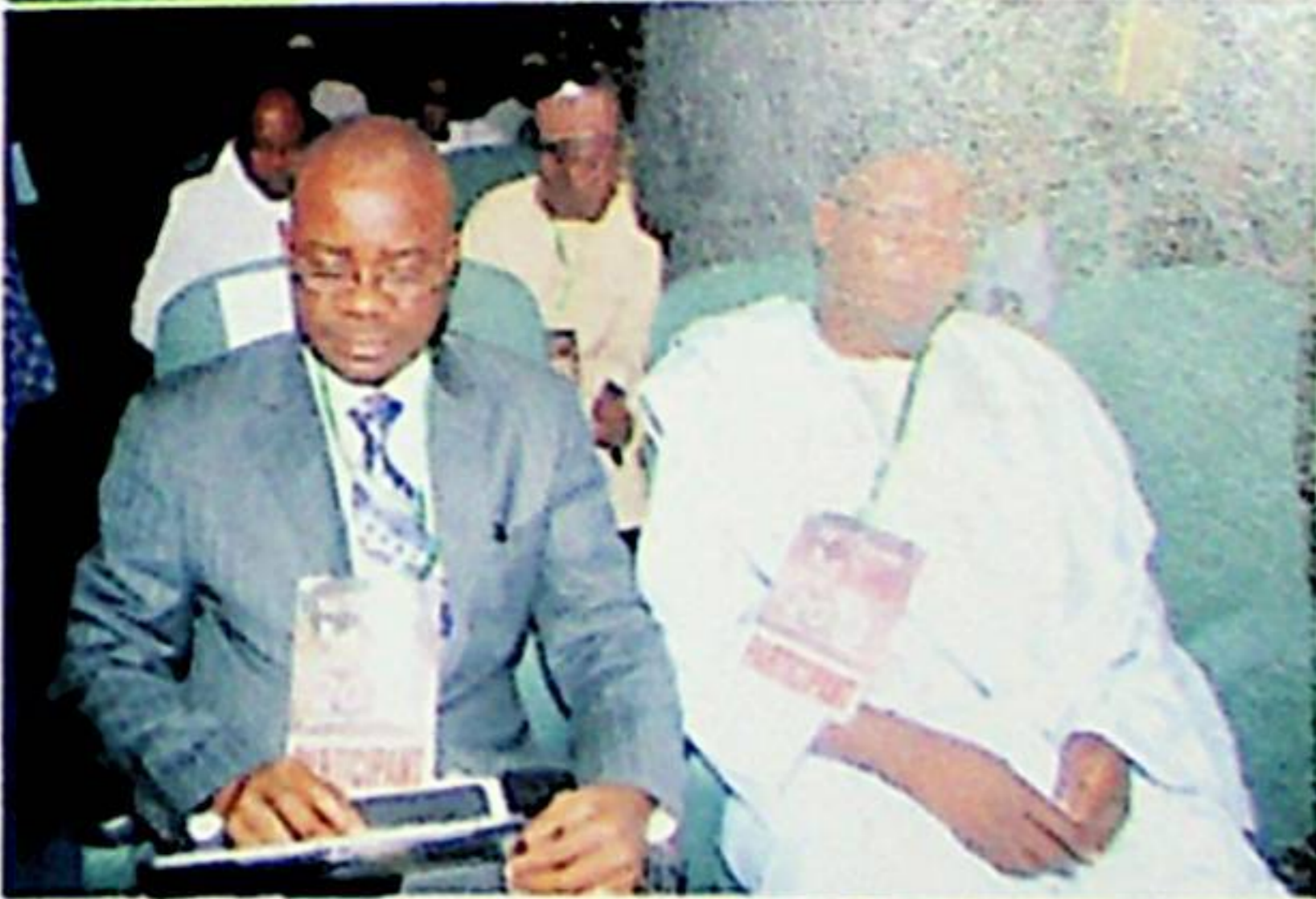










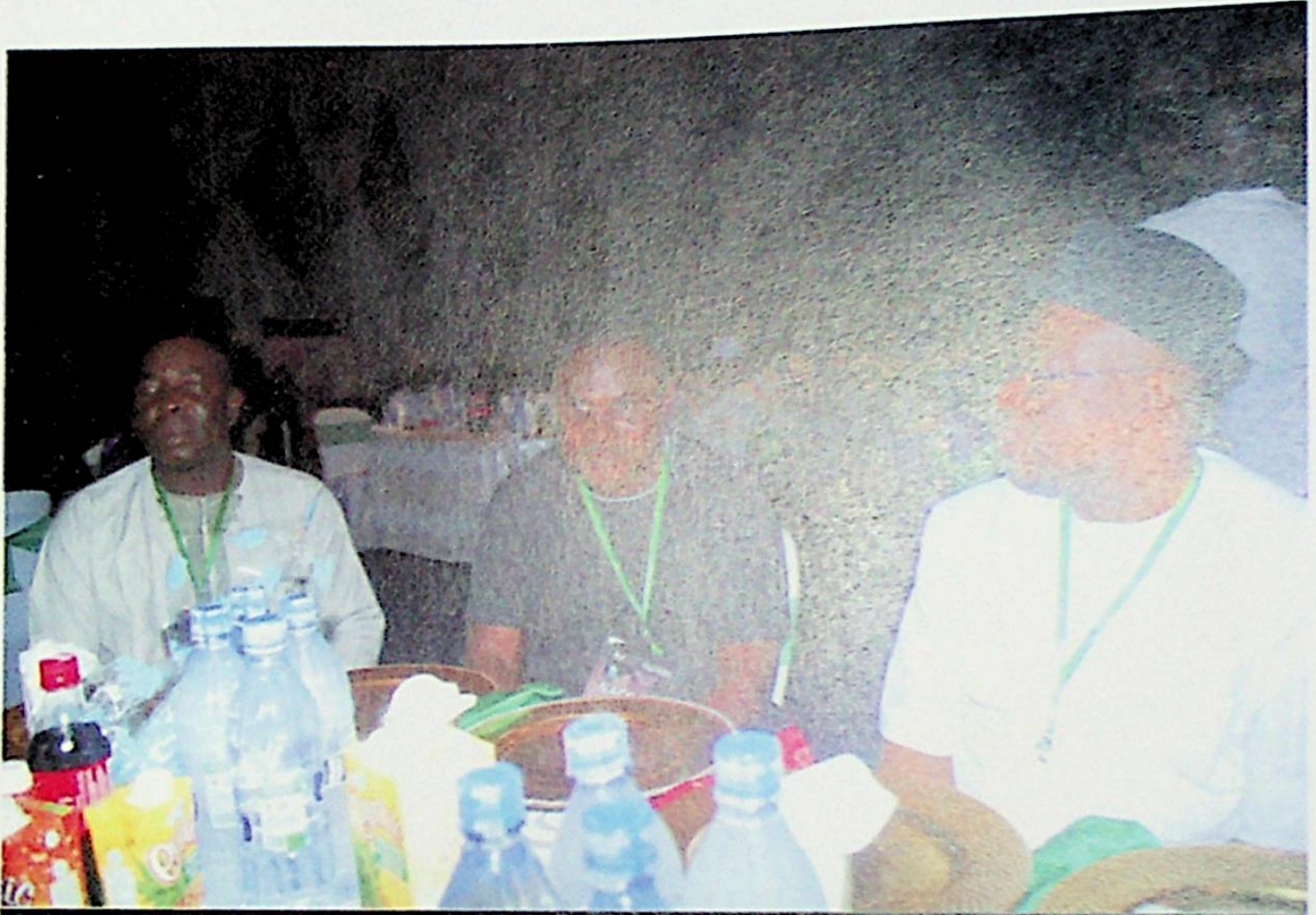




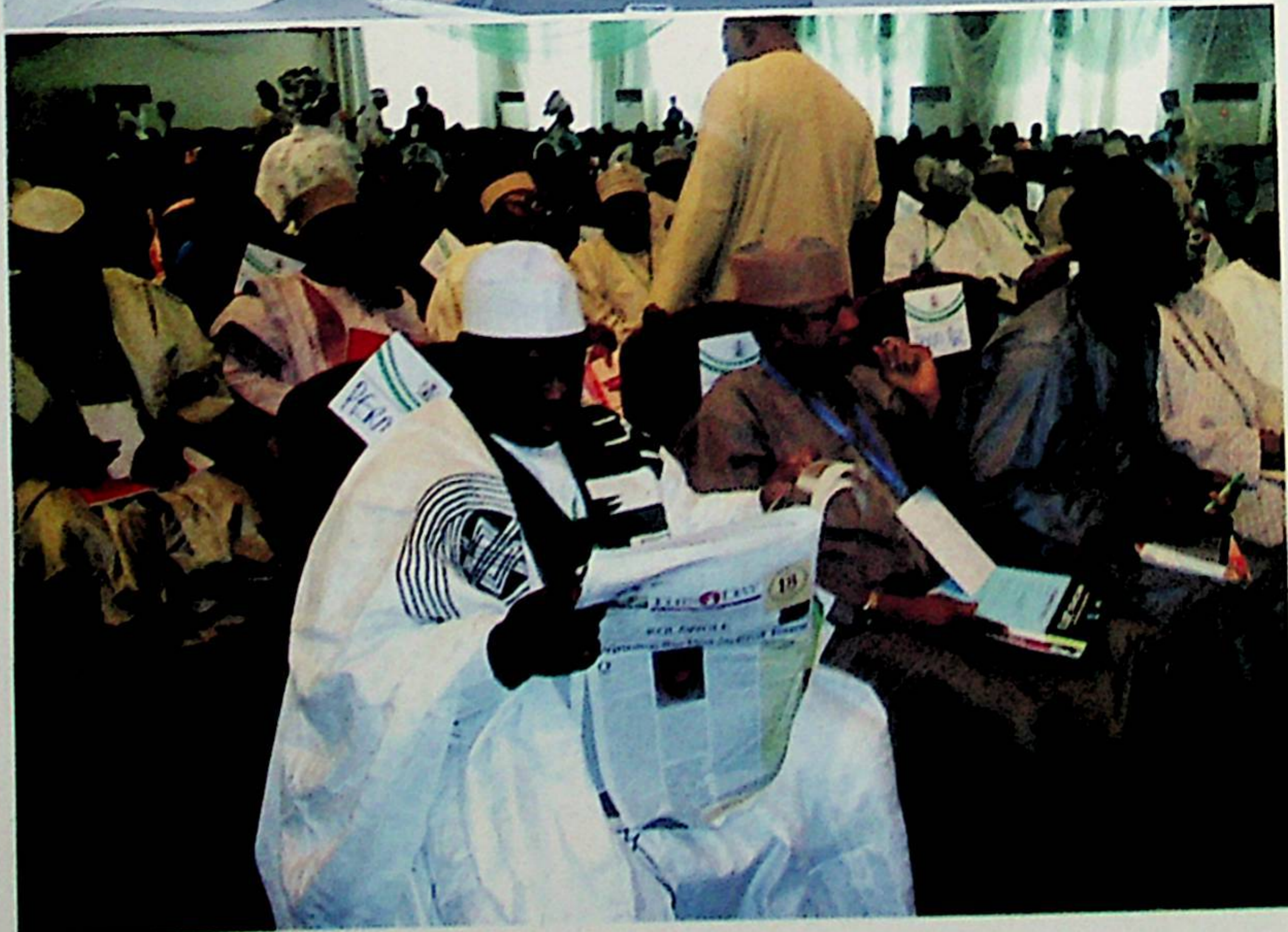
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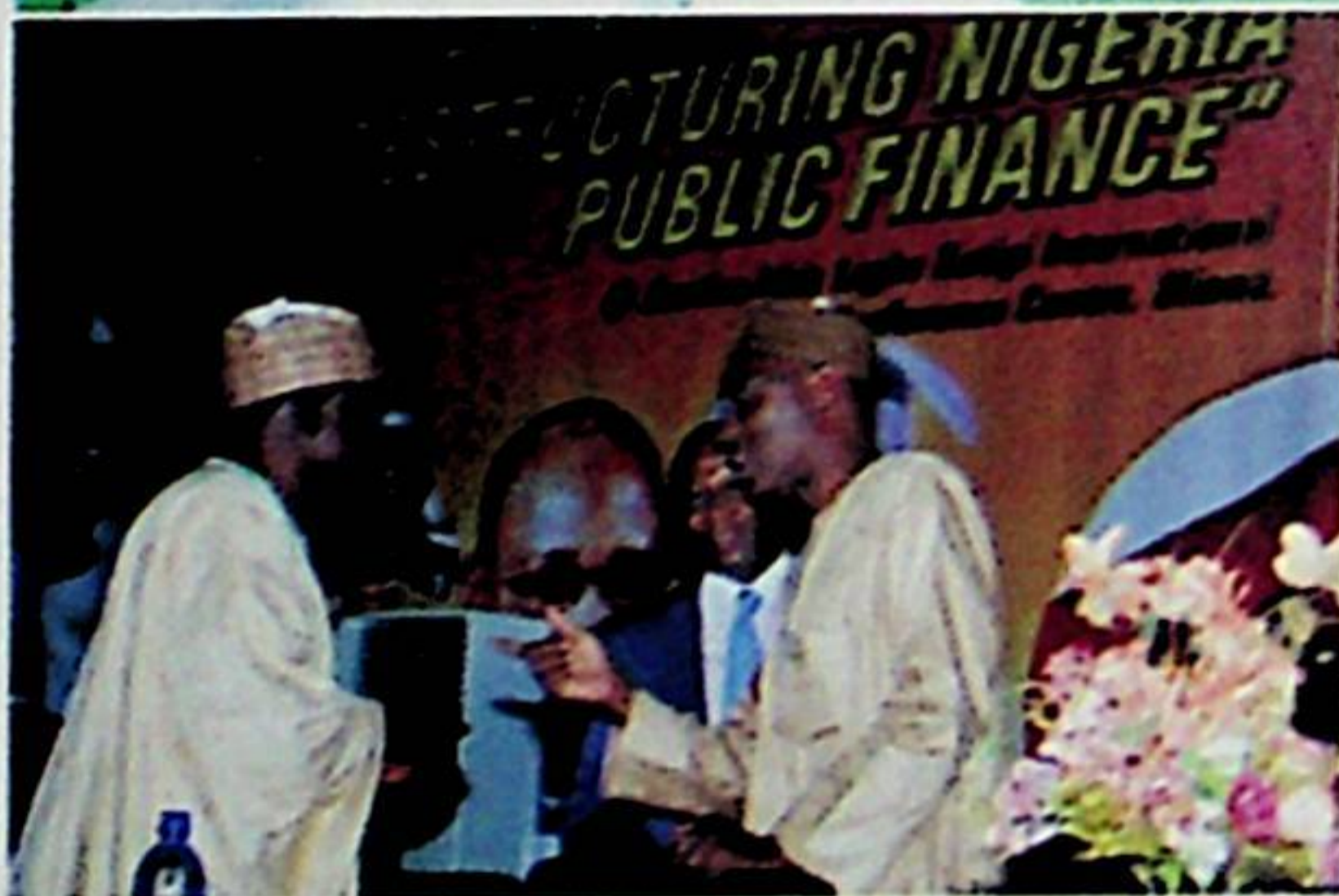




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