

# THE NEW ROAD MAP TO ECONOMIC REFORMS

Protocol

It is my pleasure to welcome you today to this briefing on the New Road Map.

You are aware that economic reforms were recently carried out in Nigeria to improve and strengthen our growth potentials. This has resulted in achieving some level of macroeconomic stability and confidence in the economy. We, however, intend to accelerate the economic transformation by sustaining the macroeconomic stability, based on the framework of our key economic reform values.

These values underlying the reforms are the same ones espoused by Mr. President as the guiding principles of his Administration, namely:

- Upholding the Constitution and the rule of law and
- Respect for due process and
- Integrity, Accountability and Transparency

## 1. Accelerating the Institutional Reforms

While it is acknowledged that the Federal Ministry of Finance is one of the pilot ministries under the first phase of the public sector reforms implementation, the evidence on the ground suggests the need to broaden and intensify the reform and restructuring, both within the Ministry and in a number of its agencies.

1.1 In a number of its Departments and Agencies there is a fundamental lack of focus and strategic direction. A few examples will help to illustrate the point.

- the Economic Research and Project Management (ERPM) Department seems to have drifted from its core mandate of research and planning to supervision of the Ministry's capital projects, a function for which it lacks the necessary expertise. As a result, the quality of the research reports produced by the Department leaves much to be desired.
- the Home Finance Department (HFD), in addition to its many critical functions, is still granting approvals to government MDAs for foreign exchange transactions. In an era where foreign exchange transactions have been virtually

fully deregulated, such approvals are completely anachronistic and, therefore unnecessary.

- the National Board for Community Banks is still around, somewhere under the Ministry, ostensibly supervising the Community Banks, long after the CBN, where such responsibility squarely rests, has replaced community banks with microfinance banks.
- A Budget Monitoring Department exists in the Ministry. It currently, however, has only one functional Division, which is somehow, still performing the functions of debt servicing and monitoring, which have since been effectively taken over by the Debt Management Office (DMO), itself being supervised by the Ministry. There is the need, furthermore, to reconcile the functions of the Budget Monitoring Department with similar functions performed by other MDAs of government, such as the BMPIU (now Bureau for Public Procurement), the National Planning Commission and NEIC, so as to avoid unnecessary duplication.

1.2 Thus, we intend to undertake a major restructuring of the Ministry, in order to avoid the overlapping of functions across Departments, eliminate outdated functions and redundancies and refocus the Departments and Agencies towards their core functions. The reform will also address the glaring problem of inadequate IT infrastructure knowledge and functionality. We also intend to resolve the serious delay in the completion of the second phase of the Ministry's Headquarters project. The construction is already about 18 months behind schedule due, essentially to serious disagreement between the main contractor and the consultants to the project.

Working with other relevant agencies in the reform agenda also, such as the Public Sector Reform Bureau, we intend to champion reforms not only in our Ministry but also in the wider, public sector as well.

## 2.0 Budget and Debt Management

We are all aware of the role and great achievements of the DMO, in not only the recent exit of Nigeria from its Paris and London Clubs debts, but also in the restructuring of the country's internal debts. In the latter regard, the secondary market for FGN bonds,

which was reactivated about 18 months ago, is now very active, and helping to power the rapid development of the Nigerian capital market. We intend to take the reforms to a higher level here by

- a) taking advantage of the bond market in particular, and the capital market in general, to raise the required funding for many key infrastructural projects, such as roads, railways, etc.
- b) encouraging the States to initiate and pass their own Fiscal Responsibility laws.
- c) giving the states technical advice and assistance in setting up their own debt management offices
- d) setting up of a standard, IT, platform for effective and timely linkage with all the relevant agencies on the Federal, States and Local Governments loans. In this connection, the DMO will work closely with the Federal Ministry of Finance (FMF) and the CBN, to develop a concrete data base for the management of the subnational debt. A situation where

some of the newly elected State Governors are running to the FMF and DMO to find out the details of why deductions are being made from their statutory allocations, emphasizes the need for such a data base and better record keeping by the subnational governments.

We are also taking urgent steps, working jointly with the Revenue Mobilisation Allocation and Fiscal Commission (RMAFC) to sort out, once and for all, the unresolved issue of the share of each state in the repaid Paris Club debt owed by Nigeria and

2.1 Another critical area requiring urgent attention is the submission of both the 2007 Revised Budget and the proposed 2008 Budget to the National Assembly (NA) for its approval. You would recall that the 2007 Federal Government Budget had to be reviewed, largely as a result of the implementation of the consolidated salary structure by the Executive, the Judiciary and the Legislature. Two bills have therefore been forwarded by Mr. President to the NA for its consideration and approval as follows the:

- i. 2007 Budget Amendment Bill, and

## ii. 2007 Supplementary Appropriation Bill

Simultaneously, work on the 2008 Federal Government Budget is at an advanced stage, in spite of the fact that the work started about five months behind that of the 2007 Budget, due to the change of Administration and the late appointment of Ministers. In spite of the late start, however, we have a very ambitious 2008 Budget Programme that proposes to submit the Budget to the National Assembly for its consideration by October 8, 2007, a few days earlier than the October 14, 2006 date when the 2007 Budget was submitted to the National Assembly.

2.2 We have also introduced a number of innovations in the Budget process that are designed to create greater participation and buy-in by the key stakeholders, especially the National Assembly and the States and Local Governments, in addition to the wider, Nigerian public. One such key innovation is greater consultation with the key stakeholders in the earlier, critical, planning stages of the Budget. You would recall that, in the past, both the National Assembly and the other tiers of government have complained often that the Budget the Federal Government

presents to them is almost a “fait accompli”, with most of the key elements of the Budget, such as the Benchmark crude oil price already determined.

2.3 For the 2008 Budget the new, improved process of consultation involves presenting an exposure draft of the fiscal strategy paper for 2008 – 2010, first to the Federal Executive Council, then to the National Assembly, then to the States and Local Governments for their information and inputs, before its presentation to the wider Nigerian public. The draft fiscal strategy paper has been prepared and presented already to the Federal Executive Council at its meeting on August 15, 2007. We are awaiting the resumption of the National Assembly from its recess, for us to take the consultation and participation to their next stage.

2.4 A critical issue here also is the periodic preparation and submission to the OAGF of their accounts by all Ministries, Departments and Agencies (MDAs) of Government, especially at the end of each financial year. Current regulations require that such final accounts should be prepared and submitted to the OAGF, not later than March 31, following the end of each financial

year. The current situation is that most MDAs are at least six months behind. While it is an improvement over the past, when some of the MDAs were several years behind, we intend to ensure that all MDAs comply with the statutory requirement of submitting their final accounts within three months of the end of each financial year. This, along with other periodic (quarterly) reporting, will ensure greater accountability in Government accounts and assist the Office of the Auditor General of the Federation in performing its audit function better and reporting to the National Assembly to enable the latter discharge its oversight responsibility.

2.5 In order to undertake the above functions and its other, more routine, functions more properly also, a comprehensive programme of equipping the OAGF with the appropriate IT infrastructure is being put in place.

### 3.0 Enhancing Revenue Collection

3.1 There will be continued reform of the Nigerian tax system in order to ensure that it is at par with the best in the world. In this regard a number of specific and general reform measures will be

adopted. Efforts will continue also, to get the National Assembly to encapsulate such reforms by reviewing existing legislation or enacting new ones, where such legislation is not existent.

3.2 Steps are being taken also to improve the coordination between the FIRS and the relevant Departments of the Ministry, especially the Revenue and Fiscal Departments. This will help to avoid the seeming confusion where one arm of the Ministry is taking some fundamental action that has great potential to embarrass, not only the Ministry alone but the Federal Government as a whole, without the other arm even knowing about it. Such recent, uncoordinated actions include the increase in the VAT, from 5% to 10%, which had to be reversed, and the frequent waivers and tax exemptions being granted, of which we say more below. Other important strategic issues under the radar of the FIRS include:

- i. the need for a central agency for tax collection
- ii. improving the structure and administration of the property tax in Nigeria
- iii. review of the VAT, in line with ECOWAS protocols and

- iv. the need for an overall, simpler tax structure for Nigeria

3.3 The NCS will receive great attention, in order to reform it for greater efficiency and accountability. The reform agenda currently being pursued by the NCS will be reviewed and overhauled. In addition the following issues have been identified for action or greater attention.

- a) the need to develop clearer policies and guidelines on Free Trade Zones (FTZs) and Export Processing Zones (EPZs). Much of the current confusion is clearly avoidable. For example many of the companies that set up operations in the Calabar EPZ are reported to have relocated out of the zone, while only one company is currently in operation in the Tinapa FTZ, due to the problem of interpretation of the concession granted under the Zone. There are also many other EPZs and FTZs across the country at various stages of development, whose progress will be accelerated by a clearer definition of policy and operational guidelines.

- b) Another area receiving urgent attention is the publication and dissemination of a comprehensive tariff document, within the context of the overall reform of the NCS. This is especially important, for greater transparency and accountability in the operations of the NCS. It is very essential that all participants in the assessment and payment of customs and excise tariffs know clearly and transparently what the rates and any exceptions are. This will avoid unnecessary delays and the creation of toll gates for corruption and other abuses.
- c) The most critical objective in the reform of the NCS, however, is the reduction of the delay in the clearing of goods through the Nigerian ports of entry. Currently it takes an average of two weeks to clear goods through the Nigerian ports. The procedure is so cumbersome and frustrating that it engenders two events: The first is that it forces even the legitimate importer either to divert his imports to neighboring countries' ports, or to succumb to unholy corrupt practices, in order to clear his goods. The second is that it creates a fertile ground for the illegitimate

and or corrupt importer to undertake brisk business, at great cost to the Nigerian economy.

3.4 Arrangements are therefore on, in consultation and conjunction with other key stakeholders engaged in the Nigerian ports of entry, to reduce this delay considerably. The target is to reduce the average clearing period from two weeks to two days. It is tough, but with the support and cooperation of all other stakeholders, it can be done. If other countries can get goods cleared through their ports in as little as six hours, Nigeria should be able to do it in 48 hours.

3.5 It is a well accepted fact that a good tax system can be a major pillar of support for democracy. It can be posited, for example that one reason why the electorate has been so non-chalant in the face of the apparent fiscal mismanagement by some public officials, is the weakness in the personal income tax system, where the electorate does not directly feel the pinch of such transgressions. Considerable attention will be paid therefore to a broad range of efforts to improve tax administration all over the country, including the establishment of an efficient,

computerized system of tax payer registration, working with other relevant agencies.

#### 4. Sustaining the Capital Market Reforms

It is important to acknowledge the growing confidence in the Nigerian capital market arising from the recent reforms undertaken by Nigeria, including the banking sector consolidation and the repayment of the London and Paris Clubs debts. This has led to a substantial portfolio investment inflow into the Nigerian capital market. In 2000, the foreign portfolio investment inflow into the market stood at ₦51.1 billion compared with ₦1.0 billion in 1999. Since then the market has witnessed a tremendous increase in the inflow of funds from overseas, with a record high of ₦375.9 billion in 2005 and ₦117.2 billion in 2006. In this regard, it is very important to continue with measures that will strengthen and sustain confidence in the market. It is equally important to provide safeguards that will minimize the risk of the kind of meltdowns that have happened in the capital markets of some emerging market countries and the markets of some more developed countries. Such strengthening will be assisted by the following measures:

- a) the plan to broaden and deepen the market by, among others, the use of more instruments. In this regard the SEC will work closely with the DMO in the development of the bond market and its greater use by the Federal, States and Local Governments, as well as by corporates.
  
- b) Developing stronger mechanisms to check insider dealings and other forms of market abuse
  
- c) Creating greater public awareness and utilization, of the capital market, especially the Abuja Commodities and Securities Exchange and
  
- d) The SEC will to liaise with other key stakeholders to try to reduce further the cost of doing business in the Nigerian capital market

4.1 The main focus of Ministerial intervention for the IST is to assist it to access sources of funding other than annual grants through the Federal Government Budget. This is in recognition of

the great potential for the IST in resolving disputes within the capital market and, therefore, enhancing investor and other stakeholders confidence in, and development of the market.

**4.2** Another area of attention already broached upon is the effort that we will

make to encourage the greater use of the capital market by the Federal, States and Local Governments for long-term projects financing. This avenue has a number of key advantages, including:

- helping to expand the depth and breadth of the market
- achieving greater transparency in public spending
- reducing avenues for the flouting of limits set for borrowing by the State and Local Governments from the money market and
- being less inflationary

## 5. Insurance Sector Reform

Urgent steps are being taken to sort out the mess that was created, as a result of the mishandling of the recapitalization and consolidation programme for the Nigerian insurance industry. In

the next few weeks details will be released of the companies in the industry that have met successfully the requirements of the recapitalization and consolidation programme. Details of the reorganization of NAICOM and other far reaching reforms to do with the industry are being worked on with the newly-appointed Commissioner for Insurance (NAICOM) and will be released in the next few weeks.

6. Economic Management Team (EMT)

You are probably aware that the EMT has been reconstituted by Mr. President with the following membership

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|--|----------------|
| 1. Minister of Finance   | -Chairman      |
| 2. Minister of National Planning                                     | -Vice Chairman |
| 3. Minister of State, Finance  | -Member        |
| 4. Minister of State, Petroleum                                      | -Member        |
| 5. Honorary Strategic Adviser to the President on Energy -<br>Member |                |
| 6. Economic Adviser to the President                                 | -Member        |
| 7. Deputy Governor (Economic Policy, CBN)                            | -Member        |
| 8. Special Assistant to the President (Power)                        | -Member        |
| 9. Special Assistant to the President (Petroleum)                    | -Member        |

10. Chairman FIRS -Member
  11. Director of Research & Statistics (CBN)-Member
- Technical Support
1. Group Managing Director, NNPC
  2. Director-General, DMO
  3. Accountant –General of the Federation

The President has also approved that the membership of the EMT be boosted by the inclusion of the private sector. I am therefore happy to announce the inclusion of the Nigeria Economic Summit Group and the Nigerian Economic Society in the EMT.

The EMT is being refocused into essentially a think tank, as the President does not want himself, or anybody else, dabbling into the day to day management of the MDAs. An immediate assignment of the EMT is to take the President's 7-point Agenda and turn it into a specific, measurable, actionable and time bound programme, which will be sold to all the key stakeholders in the Nigerian Project. This will be pursued, working with other key stakeholders in the context of the Vision20.20.20 which, ultimately, after appropriate consultation, participation and buy-in by all the

relevant stakeholders will become Nigeria's, rather than Umar Musa Yar'adua's, Programme.

7. Another key objective is the pursuit of the establishment of a strategic Oil Revenue Reserve Fund aimed at reducing the volatility of government revenues and expenditure and encourage saving for the rainy day. Efforts will be made to develop an appropriate framework and work with all other key stakeholders to get the necessary legislation passed.

8. Efforts are on also, to see to the signing by Mr. President of the Fiscal Responsibility Bill, recently passed by the National Assembly. This is being delayed by the need for Mr. President to undertake some necessary consultation with the States Governors. The President, in consulting the States Governors, will urge them to endeavour to get their State Assemblies pass similar legislation, so as to prevent the kind of scandals that are being revealed by the EFCC's investigation of some of the retired State Governors. Such a passage will greatly enhance overall fiscal responsibility in the federation and enhance the management of the economy.

9. We will also, working with other relevant stakeholders such as the RMAFC, and the other tiers of government, embark on a major overhaul of the monthly revenue allocation mechanism. It is obvious that the current arrangement is flawed in many respects. It has bred a lot of suspicion among the federating units. What should be a highly technical problem and fairly easy to resolve has been highly politicized. We plan to demonstrate greater transparency in the way the accounts are kept and reported. There will also be greater consultation and confidence building among not only the three tiers of government, but also with the RMAFC. We hope to turn the process, using IT and other technical support, from a political jamboree to a very efficient, transparent and timeous process that all the key stakeholders will have great confidence and trust in.

10. In the area of relationship with multilateral and other international organizations, we continue to thrive to ensure outcomes that are in the best interest of Nigeria. More specifically,

- An IMF delegation is, infact, currently in the country on the fourth and final evaluation of the country's

implementation of its own reform programme, under the Policy Support Instrument (PSI). It is envisaged that the fourth review of the PSI will go fairly well.

- We are working closely also with other countries especially those in the African Consultative Group of the IMF, to ensure that developing countries generally and African countries in particular have greater voice, voting power and role to play in the affairs of the IMF.
- We also plan to enter into a more constructive engagements with other development partners, such as the World Bank, African Development Bank, Afreximbank, Islamic Development Bank, etc, in order to pursue projects, on behalf of the Federal and State governments geared towards poverty elimination, improving literacy, reducing child mortality and other similar socio-economic objectives.

11. While efforts will be made to improve tax collection, even more urgent attention will be paid to plugging a number of sources of revenue leakages that seem to have become of recent, a great source of corruption, especially the large number of waivers and exemptions that were granted, especially over the last three years. The issue has raised such great concern, moreover, that the President, Alhaji Umar Musa Yar'adua has directed that the issuance of any waivers or exemptions from the payment of any taxes, duties or other tariffs be suspended. The granting of any such new waivers is therefore suspended, with effect from today until further notice. Furthermore the President has approved the appointment of credible accounting firms to audit all the waivers and exemptions issued so far, to ascertain their validity and the extent to which the beneficiaries of such waivers and exemptions are complying with the terms of the waivers. All individuals, companies or any other organizations that are the beneficiaries of these exemptions and waivers are therefore expected to respond promptly to the public announcement that will soon be made by the appointed accounting firms.

12. I will like to conclude this press briefing by reiterating the readiness of the Federal Ministry of Finance to continue to provide prompt, efficient and effective service to our numerous stakeholders, namely the MDAs under the Federal Government, the National Assembly, the Judiciary, the State and Local Governments, the multilateral institutions and other international organizations and the wider Nigerian public.

13. We also give you our commitment that we will continue to do so in the spirit of service, humility, transparency, accountability and cooperation as amply demonstrated by Mr. President, Alhaji Umar Musa Yar'adua.

14. It is precisely in that spirit that the Minister of State and I hereby make public our assets declaration as submitted to the Code of Conduct Bureau prior to our confirmation as Ministers of the Federal Republic

I thank you very much for your kind attention.

