Crisis looms in states over declining revenue

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In the wake of the financing challenges posed by the global economic crisis and the continued decline in oil prices, leading to declines in allocation to the states, many of them across the federation are now experiencing financial crisis.

Many states had predicated their 2009 budgets on the expectation that oil prices will remain above $45 per barrel, and a production benchmark of 2.272 barrels per day. As oil prices continue to wobble below that level and production level is affected by both OPEC's quota and disruptions to production in the Niger Delta, the allocations from the Federation Account to the states are dwindling by the month.

In the January allocation among the federal, state and local governments, only N435.40 billion was shared. The February allocation was even less at N285.58 billion. This is a far cry from 10 months ago when states received their

Remi Babalola

share of an extra N311 billion plus as accumulated excess crude fund from the federation account.

BusinessDay had last month reported that states plan about 1 trillion naira deficit for 2009. Since the beginning of the year, the drive for internally generated revenue (IGR) has also escalated. However, despite all their efforts, it looks increasingly likely that states will continue to experience shortfalls that will put many of the programmes at risk.

For instance, the intention of the states to approach the stock market for long term fund is both under scrutiny and increasingly squeezed. The capital market appears not deep enough to accommodate the bond issuance of all the states. State are also realising that the success of the bond issue depends on an already weary investing public.

For instance, a petroleum producing state like Rivers State received a total of N251.377 billion from the Federation Account in 2008. With the unfolding revenue profile of the federation stemming from the low prices of oil in the international market and the country's reduced crude oil output, it is unlikely that this sort of high receipts from the Federation Account may be sustained. Already, states have started feeling the pain of the slide in revenue. For January 2009, the total mineral revenue shared to the states was a meagre N181.85 billion compared to the sum of N318.91billion that accrued to them in December 2008.

This apparent mis-match of projected revenues and expenditures has compelled the states to commence brainstorming on medium and long term solutions bordering on the restructuring of their finances, and the revamping of their internally generated revenue long neglected as a marginal component of state finances.

In the short term, major cuts in recurrent expenditure are being implemented, with fees and levies are being reviewed with a view to shoring up their IGR. States with active informal commercial activities like Anambra are beginning to increase market levies as a way of boosting revenue.

Anambra targets realising a whopping sum of N7 billion from the imposition of varied fees and levies on the markets. Ogun State has so far made drastic cuts in its expenditure. Pilgrimage sponsorships have been suspended and the cost of governance has been reduced by about 50 percent. Bills on energy, telephones etc have also been cut. In line with the

direction at the federal level, the Ogun State government has cut the salaries of political appointees by 12 percent.
The drive towards generating more revenue internally has led to astronomic projections for the current year. Edo State government with a budget deficit of N20.5 billion for the current year seeks to increase its IGR from a monthly average of N400 million to N1.5 billion monthly. In a bid to meet its target of N90 billion IGR for 2009, Rivers State has sought the services of an independent revenue consultant that would guarantee revenue collection. It is likely that in the coming months Nigerians across the states will experience considerable degree of belt-tightening akin to the era of austerity measures in the 1980s, as the state governments reduce their costs and continue their search for additional sources of revenue.
The minister of state for finance, Remi Babalola, hinted on Friday that the Federation Accounts Allocation Committee (FAAC) might have to consider other options to ease the expected drop in revenue into the Federation Account. The new options include: expenditure reduction, non-oil revenue enhancement and tolerable deficit/borrowing, he said.
On the oil price shocks, Babalola reiterated his warnings to the FAAC members, including states commissioners of finance and accountants-general that oil prices were going firmly against market fundamentals. He emphasised that oil price volatility has serious implications for the Nigerian economy, with Nigeria’s OPEC quota reduced to 1.88 million barrels per day (mbpd) compared to the budget benchmark of 2.292 mbpd.
He added: “The short-term outlook for the oil market still remains gloomy. With good understanding from all stakeholders not to touch the Excess Crude Account apart from monthly augmentation, we are primed to meet the budgeted revenue during the lean period.”

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