

# RESEARCH ISSUE Brief

Issue 7, No. 1, July 2018

## Crude Oil Benchmark and the 2018 FGN Budget: Need for a Petroleum Revenue Heritage Fund in Nigeria

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### 1.0 Introduction

1. Despite several efforts to diversify Nigeria's revenue base, the annual budget of the Federal Government has continued to rely on revenue from crude oil sources. Bearing in mind that crude oil is a non-renewable energy source, it would be important for Nigeria to have a contingency plan for the future generation.
2. Following discovery of oil in Ghana, the government of Ghana proposed a framework for managing petroleum revenue in 2010. The proposal was later passed into law as the Ghana Petroleum Revenue Management Act 2011 (Act 815) (PRMA). The objective of the Act, among other things, established the Ghana Heritage Fund to save some portion of petroleum revenue for the future generation when petroleum reserves would have been depleted.
3. Section 16 (1) (a) of the 1999 constitution of the Federal Republic of Nigeria (as amended) provides that, the state shall, harness the resources of the nation and promote national prosperity and an efficient, a dynamic and self-reliant economy. Likewise section 16(1)(b) provides that the state shall control the national economy in such manner as to secure the maximum welfare, freedom and happiness of

every citizen on the basis of social justice and equality of status and opportunity. On these considerations, it will therefore not be out of place for the National Assembly to work with the Executive to follow in the steps of Ghana to establish a heritage fund to be domiciled with the Central Bank of Nigeria.

### 2.0 Revenue and Expenditure Issues from the 2018 FGN Budget

4. The 2018 Appropriation Act signed by the President is a welcome development. While there are varying views to support the actions National Assembly that principally raises the size of total expenditure, analysis of the projected revenue and expenditure based on the budget assumptions used to prepare the budget by Executive compared to that approved by the National Assembly (NASS) shows that the actions of the National Assembly comes with many benefits. Table 1 provides the budget Assumption used for the 2018 FGN Appropriation Bill prepared by the Executive, those approved by NASS and their actual values as at June 2018:
  - The projected Gross Federally Collected Revenue (GFCR) upon which the total projected expenditure of N8.6 trillion was proposed for 2018 was N11.98 trillion.

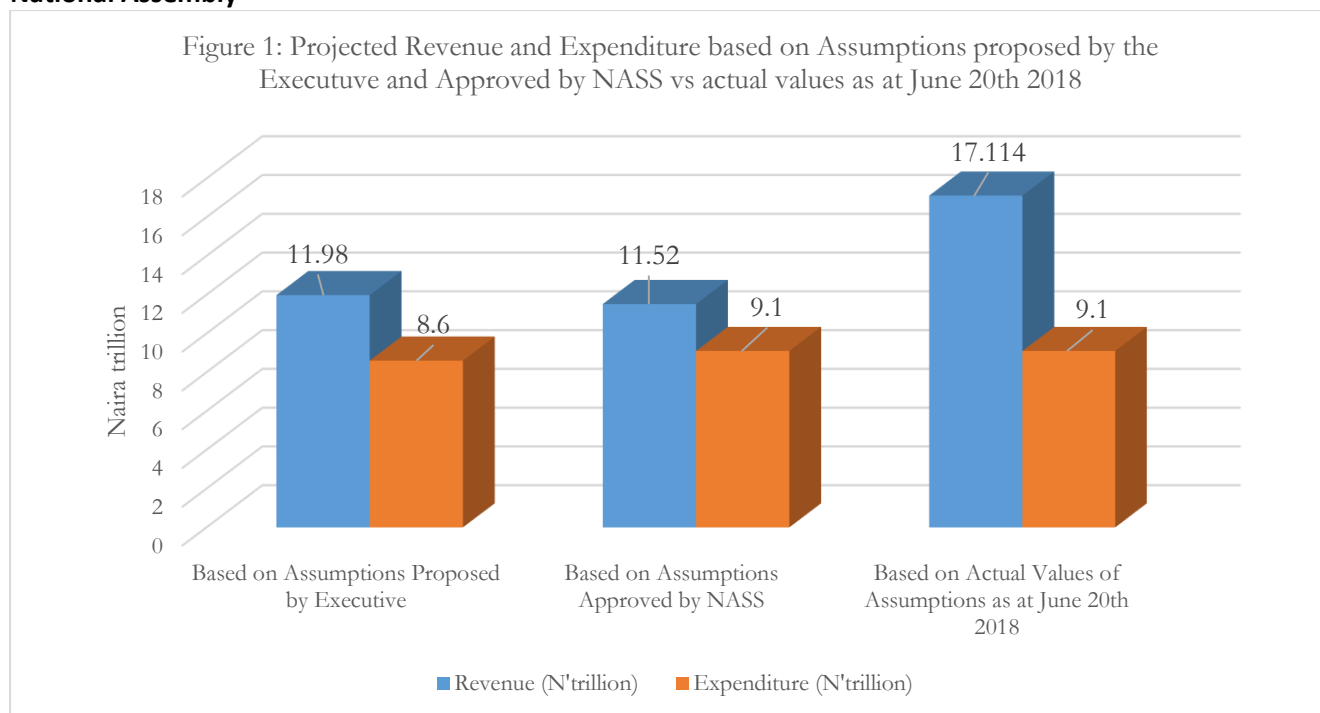
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- On the assumption of crude oil production of 2.3 mbpd, crude oil price of US\$51 and average exchange rate of N305/\$, the Appropriation Bill as approved by NASS, the calibrated Gross Federally Collected Revenue would be N11.52 trillion against
- an increased total projected expenditure of N9.1 trillion.
- Using actual value of crude oil production, crude oil price and exchange rate as at June 2018, however, the projected GFCR is N17.114 trillion against the signed total expenditure of N9.1 trillion

Table 1: Budget Assumption used for the 2018 FGN Appropriation Bill

S/N	Budget Assumptions					Revenue and Expenditure Projection		
	Variables	Proposed by Executive	Approved by NASS	Signed by President	Actual as June 2018	Variables	Revenue (N'trillion)	Expenditure (N'trillion)
1	Crude oil Production (mbpd)	2.3	2.3	2.3	2.022	Based on Assumptions Proposed by Executive	11.98	8.6
2	Crude oil benchmark Price (\$pb)	45	51	51	75.82	Based on Assumptions Approved by NASS	11.52	9.1
3	Average Exchange Rate (N/\$)	305	305	305	305.85	Based on Actual Values of Assumptions as at June 20th 2018	17.114	9.1

Source: MBNP, CBN



Source: MBNP, CBN and Analyst Projection

### 3.0 Observations, Recommendations and Action Point

5. By raising the benchmark to US\$51 from US\$45, rationalized against the current performance of the benchmark used for preparing the budget, the National Assembly brought the budgeted total FGN expenditure closer to projected revenue. Considering that the economy is just coming out of a recession, this action is justified as increase in government spending is consistent with fiscal policy measures to help the economy recover.
6. While this could be a bit risky in the event of a decline in global crude oil price, it helps to provide revenue to fund the FGN budget 2018 and to avert unnecessary situation that would warrant borrowing.
7. Another advantage in which raising the benchmark closer to the actual crude oil price is to address unchecked access to funds in the supposed Excess Crude account (ECA) by the federal government. The absence of a

framework for the Excess Crude Account (ECA) where the revenue from the difference between the benchmark and actual crude oil price is kept in Nigeria is another issue justifying the action by the National Assembly. Although a Bill for an Act to address this lacuna has passed second reading at the National Assembly, even when passed, it does not address the need for setting asides funds for the future generation as it would be unobtainable in a Ghana type heritage Fund.

### 4.0 Recommendation

8. Oil is a non-renewable energy. As such, it is important for the National Assembly in collaboration with the Executive arm of government, to work out sustainable means of saving for future generations. For instance, Ghana has a heritage fund domiciled with its apex bank which allows for some savings for the future generation. A formula is used to share oil revenue and a portion is saved for the future generation. As it is, the fund is usually invested and government cannot

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borrow that fund for itself.<sup>1</sup> The objective of the Ghana Petroleum Revenue Management Act 2011 (Act 815) (PRMA) is to among other things, establish the Ghana heritage fund (domiciled with its apex bank) to save some portion of petroleum revenue for the future generation when petroleum reserves have been depleted.

9. Section 16 (1) (a) of the 1999 constitution of the Federal Republic of Nigeria (as amended) provides that, the state shall, harness the resources of the nation and promote national prosperity and an efficient, a dynamic and self-reliant economy. Likewise section 16(1)(b) provides that the state shall control the national economy in such manner as to secure the maximum

welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity. On these considerations, it will therefore be consistent with the grand norm for the National Assembly to work with the Executive in order to follow in the steps of Ghana to establish a heritage fund.

#### **5.0 Action Point**

10. There is need to look into the operation of the Ghana Heritage Fund and elsewhere in order to come up with a draft Bill for the management of petroleum revenue in Nigeria, to among other things, provide for the Nigeria Heritage Fund which will be domiciled with the Central Bank of Nigeria.

*The views expressed in this Research Issue Brief are those of the author(s) and do not necessarily represent the views of the Institute and its Management.*

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<sup>1</sup> see Ghana Petroleum Revenue Management Act 2011 (Act 815) (PRMA).