



The 2007 Federal Budget

Presentation by:

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{Protocol}

Introduction

Ladies and gentlemen, I am very pleased to present to you Budget 2007. Today's briefing is a special one for several reasons. The enactment of the 2007 budget into law on 22nd of December 2006 marked the realisation of our seven-year old goal of ensuring that the budget is approved and operational before the beginning of the financial year.

2. I confirm to this distinguished assembly that this is the first time in a democratically elected dispensation that we have a budget at the beginning of the financial year. The Chairs of the Appropriation Committees of both Houses reviewed the details of the budget and signed each of its 609 pages. The Director-General of the Budget Office of the Federation is already in the process of preparing the General Warrants against the 2007 budget for Recurrent and Capital expenditures, and I would be signing these shortly thereafter. Let me assure you that all the Warrants would be signed two clear weeks before the end of January 2007. I would like this august assembly to note that these are not provisional warrants.

3. What has made this unprecedented accomplishment possible is the unwavering support, commitment and cooperation of the National Assembly, from the planning stages through to the consideration of the details of the budget proposal. I must congratulate the National Assembly under the leadership of the Senate President and the Honourable Speaker of the House of Representatives for their cooperation and unqualified understanding.

4. We are grateful to the leadership of the Finance and Appropriation committees of both Houses for an outstanding piece of work and the collaborative and mature approach leading to this historic budget passage. We commend their demonstration of commitment to their legislative responsibilities.

5. I also want to thank my colleagues in the Budget Office, the Director-General Budget, Mr. Bode Augusto and his team, as well as my colleagues in the Federal Ministry of Finance for their hard work and dedication during the past few months.

6. My presentation today will begin with the review of the performance of Budget 2006. It is important for me to note here another significant accomplishment in the management of public finances under the President Olusegun Obasanjo administration. Since 2004, we have adopted a practice of providing regular updates on the implementation of the budgets. This practise will of course continue for Budget 2007. I am also happy to inform you that we have several copies of the report on the implementation of Budget 2005 for your perusal. In addition, the Appropriation Act 2007 will be available for download from both the websites of the Ministry of Finance and the Budget Office before this week runs out. The websites are: www.fmf.gov.ng; and www.budgetoffice.gov.ng.

7. After the review of the performance of Budget 2006, I will then provide an overview of the key elements of the 2007 budget, and our fiscal policies. Thereafter, Director-General Budget will undertake a more detailed discussion of the numbers and parameters contained in Budget 2007.

8. I would also like to take this opportunity to note the encouraging outcome of the recently concluded review of Nigeria's Policy Support

Instrument (PSI) conducted by the Executive Board of the International Monetary Fund. This review was completed on December 20, 2006 and is the second of its kind since the PSI was approved on October 17, 2005. PSI-supported programmes are based on country-owned development strategies and Nigeria's version is encapsulated in the National Economic Empowerment and Development Strategy (NEEDS). The very positive comments of the Executive Board of the IMF, particularly with respect to improvements in macroeconomic performance, debt and reserve management, and growth in the non-oil economy, provides encouraging validation for the efforts and accomplishments of the President Olusegun Obasanjo administration in the stewardship of our great nation's economy.

Performance of Budget 2006

9. The 2006 budget was predicated on an oil production target of 2.59 million barrels per day and a benchmark oil price of US\$35 per barrel. Based on these assumptions, projected total revenue for 2006 was ₦1.6 trillion (this included ₦165 billion from the "Excess Crude" account and a ₦100 billion from independent revenue sources of the Federal Government).

10. However, early in the second quarter of 2006, there was a loss of production of 600 thousand barrels per day from the Joint Venture operations. The loss was due principally to social disruptions in the Niger Delta, which continued until the end of fiscal year 2006. The result was that crude oil sale fell by 3.2 percent below our projected target, while petroleum profit tax fell by 10.9 percent. This translated into revenue losses in the Federation Account totalling an estimated ₦570 billion. The impact on the federal budget was about ₦216 billion.

11. By July 2006, during our mid-year review we had a clear idea of the impact on our ability to fully run the 2006 budget. Therefore, we sought and received the approval of the National Assembly to draw the sum of ~~N~~570 billion from the excess crude account to ensure smooth implementation of the budgets of the Federal, State and Local governments. Half of this sum was distributed immediately, while the other half was distributed in October after we carefully reviewed the situation for the fiscal year.

12. I must add that the Federal Government has continued to engage all the stakeholders in the Niger Delta region with the view to permanently resolve the social issues which have built up over time. Today, we have made significant progress towards developing a better understanding of the problems of the Niger Delta and constructive steps have been taken to put permanent solutions in place. We expect that our efforts in this area will continue and even intensify in 2007, and as a result, we believe that the social and economic disruptions which we witnessed in the Niger Delta will not persist in 2007.

13. Of the ~~N~~1.6 trillion projected as total revenue for 2006, only the sum of ~~N~~1.4 trillion was realised by December 31, 2006. This meant that we had an actual deficit of ~~N~~426 billion as opposed to the budgeted deficit of ~~N~~378 billion. We were able to finance the deficit through four principal sources: Privatisation proceeds, Domestic borrowing of ~~N~~45 billion, LNG Dividends of ~~N~~13 billion and the sum of ~~N~~25 billion of 2005 unutilised votes in the Central Capital Accounts.

14. On the non-oil side, Value Added Tax (VAT) and Company Income Tax (CIT) performed slightly above our projected sum. A total of ~~N~~31 billion was realised as at December 31, 2006 as VAT proceeds, while ~~N~~108.8 billion was collected as CIT as against the projected sum of a

little over ₦107 billion. These are marginal increases in our collection rates, but against the backdrop of the reforms in the Federal Inland Revenue Service we can appreciate the emerging positive trend.

15. We did not witness a corresponding positive trend in the collection rate for customs duties in 2006. Proceeds from customs collection as at the end of the fourth quarter of 2006 stood at ₦80 billion as opposed to our projected sum of ₦88.9 billion. The weak collection throughout the year can be attributed to the complexities of on-going Customs reform. We believe that in 2007, customs collection will improve given the progress so-far achieved in the reform efforts at the Custom Service.

16. As at December 31, 2006, the total appropriation of ₦91.2 billion for Transfers has been released. For Debt Service, implementation stood at ₦248.4 billion or 86% of the appropriated sum of ₦290 billion. The Recurrent (Non-Debt) Expenditure comprising Payroll and Overheads was implemented in full. For Capital Expenditure, almost the entire appropriated amount of ₦567 billion has been released as planned.

17. The priorities of the 2006 budget were physical and human infrastructure—essentially power, roads, water supply, agriculture, education, health and security. These sectors were allocated almost 70% of the total ₦1.5 trillion allocated for ministries, agencies and departments. Education is the largest of the sectoral allocations with a total budget of ₦167 billion for programmes and projects which included building and equipping schools; Girls Education Programme; Improving distance learning; and Feeding of school children.

18. Government, in 2006 also paid critical attention to the health sector. A total of ₦107 billion was appropriated to this sector for varying programmes and projects which included Paying health workers

salaries; Building and equipping Primary Health Centres; Combating HIV and AIDS; and National Immunization Program. In 2005 the rehabilitation and re-equipping of a total number of 4 Teaching Hospitals were completed, in 2006 4 additional Hospitals were added to the list to improve on the numbers of our centres of excellence for tertiary healthcare, training and research. In 2006 both Port Harcourt and Maiduguri Teaching Hospitals have been commissioned, and more are to be completed and commissioned very soon. Funding was provided for a total of 93 Primary Health Care Centres in the 2006 budget to bring them to completion. The 93 Centres are in addition to the 200 Primary Health Care Centres that have been completed and fully equipped by this administration in 2004/05.

19. A total sum of ~~N~~31 billion was appropriated to the Agriculture sector for the purpose of Integrated Rural Roads Project; Fertilizer and related program; Livestock and Pest Control Program; Animal Traction Program; Micro-Credit Scheme and Farm structures for peasant farmers.

20. In 2006 government continued significant funding for the power sector, and made significant progress in the rehabilitation and expansion of generation capacity, transmission and distribution in the country. Work is at an advanced stage on all the new medium-sized Power Plants in the Niger Delta Region. The procurement process for the development of the 2,600 MW Mambilla Hydro Power Station was completed in the last quarter of 2006, and all contracts for the procurement process are expected to be finalised shortly.

21. Following the enactment of the Electricity Power Reform Act in 2006, far-reaching institutional changes in the power sector have been attained. Indeed, these changes include the unbundling of NEPA,

deregulation of the sector to admit participation by other tiers of government and the private sector, and the establishment of the Nigerian Electricity Regulatory Commission and the Rural Electrification Agency.

22. As at December 31, 2006, the Budget Office had released all capital allocation to the Ministry of Works for road construction, rehabilitation and repairs of roads nationwide (this includes allocation to FERMA). Road construction, rehabilitation and repair works are at various stages of completion. Road projects such as the dualisation of Ibadan-Ilorin, Abuja-Keffi, Kaduna Eastern Bypass, Kano-Kaduna Dual Carriageway, Bodo-Bonny, Eleme Junction Fly Over, Warri-Benin, Benin Bypass and Onitsha-Owerri, all received priority attention in 2006.

23. The water sector in 2006 was allocated the sum of ~~N~~80 billion for the execution of various water supply, dams and irrigation projects nationwide. Only recently, the Kano Irrigation Project, which supplies irrigation water to over 22,000 hectares of farmland, was commissioned. Work is also at an advanced stage on the Gurara Water Project, which is expected to provide a long-term solution to the water supply needs of the residents of Abuja and its environs. A total of ~~N~~25 billion was released to the project in 2006 to bring the project to near completion. Other dams, water supply and irrigation projects, such as the Shagari Dam, Owena Dam, Zobe Dam, Onitsha/Nnewi Water Supply Project, Azare Water Supply Project, Hadeja Valley Irrigation Project and the Middle Rima Valley Irrigation Project are at various stages of completion.

24. On the whole we have used the 2006 budget to create an enabling environment in which to grow the economy. There has been quality and rapid investment to remove the infrastructure 'deficit' in the areas of power and transportation. We bolstered our investments in human

capital development—Education and Health and promoted diversification in the areas of Agriculture and Solid minerals.

25. In furtherance of our progress towards achieving the Millennium Development Goals in 2006, we expended over ₦100 billion in pro-poor projects. The ₦12 billion Social Safety Net programme of the Millennium Development Goals (MDG) office includes support for Technical Assistance Certification of micro-credit entrepreneurs, to be provided by Small and Medium Enterprises Development Agency (SMEDAN), and micro-credit funding to be provided through Nigerian Poverty Alleviation Programme (NAPEP). Ladies and gentlemen, you will agree with me that these sectoral allocations demonstrate the importance placed by President Obasanjo's administration on programmes and projects that are meant to move Nigeria forward, and these are critical for the attainment of the MDGs.

The 2007 Budget

26. Let me now turn your attention to the 2007 budget. The National Assembly approved and the President signed into law a ₦2.3 trillion budget. This represents a 21% increase over the ₦1.9 trillion that was approved last year. Of the amount budgeted, ₦102 billion is for Transfers. A total sum of ₦326 billion, representing about 14.4 per cent of the total federal government expenditure for the 2007 fiscal year, is for debt payments. The sum of ₦1.05 trillion was appropriated for recurrent (non-debt) expenditure. Spending on capital has significantly gone up in the 2007 budget to ₦830 billion from ₦567 billion in 2006, representing an increase of 46%.

27. The theme of the 2007 budget is “**Accelerating Physical and Human Infrastructure for Wealth Creation and Poverty Reduction**”. It builds upon and consolidates all the work that has been done so far

with the budgets for the past three years in the context of NEEDS and continues the reform of the economy.

28. Accelerating the development of human capital is crucial to our ability to attain our developmental aspirations as articulated in NEEDS and the MDGs. In this regard, the 2007 Budget focuses on improving the quality of education, healthcare and social services. Our goal is to ensure that we translate the gains of the strong fiscal outcomes of the last three years to improvements in our social indicators and the quality of life of our citizens.

29. The 2007 budget continued, as with the previous budgets, the tradition of fiscal prudence by budgeting at an oil price of \$40 a barrel while saving any amounts above that in the excess crude account. This is a cautious practice on the side of Government to sustain the management of volatility of oil prices so that our economy can be on an even path and we can maintain macroeconomic stability.

30. The 2007 budget, as with the budgets for the last three years, has been prepared against the background of a Medium-Term Expenditure Framework, which takes account of forecast revenue and expenditure for the next three years. The preparation of the 2007 budget has followed a well-defined participatory process aimed at ensuring that the spending proposals presented therein are properly linked with our long-term poverty reduction strategies as articulated in the NEEDS and the MDGs.

31. As part of our continuous efforts to strengthen public expenditure management and ensure transparency, accountability and value for money, the 2007 budget was prepared using a rigorous process. This approach has helped us make significant gains in spending efficiency, particularly in the area of pay roll and overheads. It is our expectation

that this will further foster transparency, accountability and value for money.

32. Building on the work done in 2005, the process for preparing the 2007 budget commenced with the development and documentation of Medium-Term Sector Strategies for 18 key Ministries, which account for about three quarters of the spending by Ministries, Departments and Agencies (MDAs).

33. The details of the Medium-Term Sector Strategies, which contain fully costed initiatives and expenditure plans within the limits of available resources, sets out well-defined performance measurement indicators. These strategies have been prepared with the active participation of Civil Society, the Organised Private Sector and members of the relevant Committees of both Houses of the legislature.

Conclusion

34. Distinguished Ladies and Gentlemen, let me conclude by stating that the 2007 budget presents an aggressive expenditure profile with the objective of accelerating physical and human infrastructure for wealth creation and poverty reduction in the nation. Much of this budget is focused on investments that will address key infrastructure deficits, yield improvements in our social indicators in line with the MDGs, and provide an enabling environment for the private sector to participate actively in the growth and development of the economy.

35. Distinguished Ladies and Gentlemen, thank you for listening patiently.