FEDERAL REPUBLIC OF NIGERIA

PUBLIC PRESENTATION OF THE 2017 BUDGET PROPOSALS

SENATOR UDOMA UDO UDOMA

Honourable Minister of Budget and National Planning

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PROTOCOLS

I am pleased to welcome you to the presentation of the 2017 Federal Government's Budget proposal christened Budget of Recovery and Growth – the second full year Budget of this Administration, which was recently presented by the President to the National Assembly.

1.0 BACKGROUND AND CONTEXT

2. As you are aware, the 2016 Budget was presented to the National Assembly (NASS) by Mr. President on 22nd December, 2015. The budget was however not signed into law until May 6, 2016; effectively therefore, the 2016 budget has only been operated for about 7 months. Nevertheless, as will be evident from the review of the 2016 budget performance that I will get to shortly, we have made reasonable progress on its implementation.

3. The 2017 Budget was presented to the National Assembly by His Excellency, Mr. President on 14th December, 2016. The budget reflects our commitment to restore the economy to the path of sustainable and inclusive growth. Efforts have been made to ensure that the budget aligns with Nigerian's Economic Recovery and Growth Plan (NERGP).

4. My profound appreciation goes to His Excellency, President Muhammadu Buhari and His Excellency, the Vice President, Prof. Yemi Osinbajo under whose leadership the 2017 Budget was prepared. I also wish to thank my Cabinet colleagues for their understanding, especially as we all had to work within very tight schedules in the preparation of this budget.

2.0 REVIEW OF 2016 BUDGET PERFORMANCE

5. The 2016 Budget, christened the Budget of Change was the first full year budget of the Buhari Administration. It was prepared against the

background of general slowdown in global economic growth and massive decline in crude oil prices. It was based on the Zero Base Budgeting (ZBB) principle which requires that Ministries, Departments and Agencies (MDAs) justify every item of revenue and expense, as well as projects/programmes in the budget, a departure from the traditional incremental Budgeting approach that simply adjusts (usually upwards) amounts included in the previous budget. The 2016 Federal Government Budget was predicated on certain key parameters, including:

(i) Benchmark oil price - US$38/b
(ii) Oil production - 2.2mbpd
(iii) Exchange rate - N197/USD
(iv) Deficit (Fiscal Deficit to GDP ratio) - N2.20 trillion (2.14% of GDP)
(v) Inflation - N9.81%
(vi) GDP Growth Rate - 4.3%

2.1 2016 Budget Performance Against Set Target

6. With respect to the 2016 Budget set targets, the performance as at Q3 of 2016 is as follows:

2016 Budget Performance against Set Targets

S/No	Description	(FY 2016 Budget)	Q3 Target	Actual (as at Q3 2016)
1	Real GDP Growth (%, YoY)	4.37		-1.55
2.	Oil Production (mbpd)	2.2		1.81
3.	Oil Price ($pb)	38		42.09
4.	Inflation Rate (%)	9.81		17.85
5.	Exchange Rate (N/$)	197		305
6.	Revenue (N'trillion)	3.86	2.89	2.17 (75%)
7.	Expenditure (N'trillion) out of which; (a) Capital Expenditure N'trillion)	6.06 1.77	4.55 1.33	3.58 (79%) 0.75.6*(56%)
8	Fiscal Deficit/GDP (%)	-2.14		-1.44

SOURCES: NBS Report: OAGF, Appropriation Act

*Capital spending as at end of October 2016 was N753.6 billion

2.2 Oil Revenue Performance in 2016

7. The FGN's oil revenues decreased sharply in 2015 and 2016 because of oil production shut-ins and sharp decline in oil price since 2014. The oil price steadied at an average of $110 per barrel from 2012 to 2014, but dropped to a record low of $29 per barrel in February 2016, a drop of 70%. Although for most part of the year crude oil prices exceeded the 2016 benchmark price of US$38 per barrel, there has been a significant shortfall in projected revenue caused by the disruptions in crude oil production as a result of militant activity in the Niger Delta.

2.3 Revenue Performance As At Q3 2016

8. The FGN's 2016 revenues have been low because of the sharp decline in oil-production. In particular, the revenue target for January to September 2016 was N2.8 trillion as against the sum of N2.2 trillion realised during the period. The projected independent revenue was N1.1 trillion as against N0.2 trillion realised during the period. The projected revenue for Custom was N0.3 trillion as against N0.2 trillion realised, while the projected non-oil tax receipts for the 1st - Q3 of 2016 is N0.8 trillion as against N0.5 trillion realised during the period.

3.0 BACKGROUND TO THE 2017 BUDGET

9. Global economic activities remained sluggish in 2016. In particular, Global GDP growth rate is projected at 3.1% for 2016 from 3.2% in 2015. Due to:

- (i) Lower-than-expected economic activity in the U.S
- (ii) Uncertain economic, political and institutional implications of BREXIT
- (iii) Slowdown in China's growth

(iv) Weak demand in advanced economies and its spill-over effects
(v) Geopolitical tensions in several countries

10. In spite of the foregoing developments, the Global outlook remains bright. In this regard, global GDP growth rate is expected to rise to 3.4% in 2017.

3.2 The Domestic Environment in 2016

11. The Challenges in the domestic environment include:

(i) Crude oil production shut-ins resulting from vandalism of oil facilities. In particular, 4 strategic oil fields affected including Trans-Niger Pipeline and Nembe Creek Trunkline axis as well as the Qua - Iboe Terminal

(ii) Insurgency in parts of the North East
(iii) Fuel shortages and increase in electricity tariffs, kerosene and PMS prices in the first half of the year
(iv) Foreign Exchange (FX) scarcity

12. The foregoing factors have constrained fiscal operations, real sector activities, and the external accounts. Other challenges in the domestic economy included:

(i) Contraction in growth (-2.24% in Q3)
(ii) High unemployment rate (13.9% as at Q3)
(iii) Higher inflation rate (18.5% as at November 2016)
(iv) Pressures on foreign reserves ($25.04 billion as at 14th December)
(v) Slow down in corporate sector resulting in lower credit quality and rising non-performing loans.

4.0 THE NIGERIAN ECONOMIC RECOVERY AND GROWTH PLAN (NERGP)

13. A Medium Term Economic Recovery and Growth Plan (ERGP 2017 - 2020) is being finalised which addresses the current economic challenges

and is aimed at restoring growth. The Plan builds on the existing Strategic Implementation Plan (SIP), and contains strategic objectives and enablers required to revive the economy. The strategic objectives of the NERGP are: (i) Pulling the economy out of recession; (ii)Investing in our people (iii) Laying the foundation of diversified, inclusive and sustainable growth.

14. The NERGP focuses on 5 broad areas namely:

(i) Macroeconomic Stability
(ii) Competitiveness
(iii) Growth and Diversification
(iv) Social Inclusion
(v) Governance & Enablers

15. The 2017 Budget proposal reflects many of the reforms and initiatives in the SIP and NERGP and in the 2017-2019 Medium Term Sector Strategies (MTSS), as well as the 2017-2019 Medium Term Fiscal Framework. A Multi-criteria analysis (MCA) approach was adopted to prioritize and select 2017 capital projects for 14 large capital spending MDAs involved in the MTSS. Projects were linked to government policies and strategic priorities. MDAs that were not involved in the MTSS process used the Rapid Appraisal Project Identification and Prioritization System (RAPIPS). Zero-Base Budget (ZBB) principles were used in preparing the Budget. ZBB ensured that expenditures in the 2017 Budget are linked to government's strategic reforms and initiatives for economic recovery.

5.0 APPROACH TO THE 2017 BUDGET

16. The 2017 Budget is designed to expand partnership between public and private sectors, including development capital to leverage and catalyse resources for growth. Other key objectives of the 2017 Budget include:

(i) focusing on critical on-going infrastructure projects such as roads, railways, power, ICT, etc., that have quick positive effects on the economy;

(ii) utilizing Special Economic Zones and Industrial Parks as vehicles to accelerate domestic economic activity for innovation and wealth creation;

(iii) contributing to food security and creating platform for agro-business in agriculture supply chains through the Agriculture Green Alternative Plan;

(iv) establishing a Social Housing Fund to deepen the mortgage system and expand its availability across all states of the Federation;

(v) encouraging and stimulating the growth of small and medium scale industries for innovation, job creation, productivity and wealth creation; and

(vi) providing social safety nets for poor and vulnerable Nigerians.

6.0 KEY ASSUMPTIONS AND MACROFRAMEWORK FOR THE 2017 BUDGET

17. The key assumptions and macro-framework for the 2017 Budget are:

(i)	Oil production	- 2.2mbpd
(ii)	Benchmark oil price	- US$42.5/b,
(iii)	Exchange rate	- N305/US$
(iv)	Inflation rate	- 15.74%
(v)	GDP Growth Rate	- 2.5%
(vi)	Nominal Consumption (N'trillion)	- 87.95
(vii)	Nominal GDP (N'trillion)	-107.96

6.1 Key Budgetary Reform Initiatives

18. The Key Budgetary Reform Initiatives to improve the revenue base of the country include:

(i) Subjecting the JV operations to a new funding mechanism, which will allow for Cost Recovery. Additional oil-related revenue include: Royalty Recoveries, Marginal Field Licenses, Early licensing renewals, etc;
(ii) Sustaining the use of TSA to monitor the financial activities of over 900 MDAs from a single platform;
(iii) Broadening the tax base, improve effectiveness of revenue collecting agencies, improve tax compliance etc;
(iv) Reducing leakages by tacking trade mis-invoicing and introducing the single window to drive customs efficiencies;
(v) Improving the performance of independent revenue of government by ensuring that all MDAs (particularly revenue generating MDAs) present their budget in advance, and remit their operating surpluses as required by the FRA;
(vi) Extension of the Integrated Personnel Payroll Information System (IPPIS) to all MDAs.

7.0 2017 Budget Revenue Proposals - Where the Money is Coming From?

(a) An Overview of the Revenue framework

19. Based on the key assumptions and budgetary reform initiatives, the 2017 Budget envisages a total FGN revenue of N4.94 trillion, exceeding FY 2016 projection by 28%. The Projected revenue receipt from oil is N1.985 trillion and Non-oil is N1.373 trillion. The contribution of oil revenue is 40.2% compared to 19% in FY 2016 driven mainly by JVC cost

reduction, higher price, exchange rate and additional oil related revenues.

20. The details of the revenue as summarised below:

	FISCAL ITEMS	2016 Approved Budget	2017 Budget Proposal	Variance	
	Oil Production Volume (mbpd)	**2.200**	**2.2000**	**-**	
	Projected Budget Benchmark Price (US$/b)	**38.00**	**42.50**	**4.50**	
	Average Exchange Rate (N/$)	**197.00**	**305.00**	**108.00**	
		N' Billion	**N' Billion**	**N' Billion**	**%**
	AMOUNT AVAILABLE FOR FGN BUDGET	**3,856**	**4,942**	**1,086**	**28%**
a	**Share of Oil Revenue**	**718**	**1,985**	**1,267**	**177%**
b	**Share of Dividend (NLNG)**	**96**	**30**	**(66)**	**-69%**
c	**Share of Minerals & Minning**	**7**	**1**	**(6)**	**-85%**
d	**Share of Non-Oil**	**1,455**	**1,373**	**(81)**	**-6%**
	Share of CIT	867	808	**(60)**	**-7%**
	Share of VAT	198	242	**44**	**22%**
	Share of Customs	326	278	**(49)**	**-15%**
	Share of Federation Acct. Levies	63	46	**(17)**	**-27%**
e	Independent Revenue	1,506	808	**(698)**	**-46%**
f	FGN's Share of Actual Bal. in Special Accts	11	7	**(4)**	**-38%**
g	FGN's Balances in Special Levies Accounts	14	9	**(5)**	**-35%**
h	FGN's Unspent Bal. of previous Fiscal Year	50	50	**-**	**-**
i	FGN's Share of Signature Bonus		114	**114**	
j	Recoveries & fines	-	565	565	

7.1 2017 Budget Expenditure Proposals – Where The Money is Going

21. The 2017 Budget has an outlay of N7.298 trillion. This represents an increase of 20.4% over the 2017 budget provision of N6.06 trillion. The details are:

(i) Statutory transfers of N419.02 billion

(ii) Debt service of N1.66 trillion (22%);

(iii) Sinking fund of N177.46 billion (2.4%) to retire certain maturing bonds;

(iv) Non-debt recurrent expenditure of N2.98trillion (40.8%); and

(v) Capital expenditure of N2.24 trillion (30.7%) inclusive of statutory transfers.

7.2 Financing the Deficit

22. The overall projected budget fiscal deficit of N2.36 trillion for 2017, which is about 2.18% of GDP. This is within the threshold stipulated in FRA. The budget deficit is to be financed mainly by borrowings which have been projected at N2.32 trillion. Of this amount, N1.067 trillion (46% of this borrowing) is intended to be sourced externally, while N1.25 trillion will be sourced domestically. The debt service to revenue ratio is projected to be about 33.7% in FY2017.

7.3 Break down of Recurrent (Non-Debt) Expenditure

23. The Recurrent non-debt expenditure of N2.98 trillion is made up of:

i.	Personnel costs	- N1.86 trillion	(63%)
ii.	Overhead	- N229.81 billion	(7%)
iii.	Service-Wide Vote pensions	– N89.98 billion	(3%)
iv.	Consolidated Revenue Fund Pensions	- N191.63 billion	(6%)
v.	Other Service-Wide Votes	- N116.50 billion	(5%)
vi.	Presidential Amnesty Programme	- N65 billion	(2%)
vii.	Refund to Special Accounts	- N50 billion, and	(2%)
viii.	Special Intervention Prog. (recurrent)	- N350 billion	(12%)

24. The largest recurrent allocations are for the following four MDA's namely:

i.	Ministry of Interior	- N482.37 billion;
ii.	Ministry of Education	- N398.01 billion;
iii.	Ministry of Defence	- N325.87 billion;
iv.	Ministry of Health	– N252.86 billion.

25. These four MDAs collectively take up about N1.46 trillion (about 70% of the combined provision for personnel and overhead). They have the largest share because of the size of their personnel. Some of the agencies and parastatals under these MDAs are yet to be captured on the Integrated Personnel Payroll Information System (IPPIS) platform. The sum of N2 billion has been provided in the 2017 Budget for the capturing to ensure all personnel that are not enrolled on the platform are captured.

7.5 Capital Expenditure in the Proposed 2017 Budget

26. The Administration has committed to allocating at least 30% of the Budget to Capital from 16% allocation in 2015. In dollar terms, the 2017 budget proposal at ($23.80bn) is lower than 2016 estimates ($30.76bn). As a % of GDP, we have grown the size of the Budget from 4.7% in 2015 to 5.9% in 2016 and to 6.7% in 2017. Compared with South Africa (20.7%) and Ghana (19.2%) as at 2015, this is very low. The ratio of capital spending in total increased from 16% in 2015 to 30% in 2016 and 30.7% in 2017. The increase in infrastructure spending is expected to enhance revenue generation opportunities and over time significantly reduce deficit.

7.6 MDAs Capital Allocations by Pillar

27. A significant part of the budgeting provision was allocated to reflect the Administration's development priorities. This is aimed at engendering good governance practices and providing enablers for economic recovery and growth. Some of the key sectoral capital allocations in the 2017 Budget are as follows:

(i)	Infrastructure	56%
(ii)	Governance and Security	20%

(iii)	Economic Reforms/Growth	12%
(iv)	Social Development	7%
(v)	States and Regional Development	4%
(vi)	Environment	1%

7.7. Major MDA Capital Allocations

28. There is a need to emphasize that the thrust of the 2017 Budget is to partner with private and development capital to leverage and catalyse resources for growth. By setting aside N2.24 trillion (inclusive of capital in statutory transfers), which is 30.7% of the total budget for capital expenditure, the objective, as set out in the SIP, of devoting at least 30% of the budget to capital expenditure has been achieved. Much of the capital provision is directed at those projects which will facilitate economic growth, diversification, competitiveness, ease of doing business, social inclusion, jobs as well as governance. This will ultimately engender the attainment of the Sustainable Development Goals (SDGs). In this regard, focus will be on initiatives in sectors such as agriculture, manufacturing, solid minerals, and services. Consequently, capital allocations to MDAs within these sectors were significantly enhanced.

29. The largest capital allocation goes to Federal **Ministry of Power, Works and Housing** – N564 billion (7.7%) (25% increase over 2016 estimate). To address contractors' liabilities the Federal Government intends to issue over N2 trillion worth of bonds to clear outstanding contractors' liabilities. These bonds would have a 10-year maturity and the amortisation is expected to begin in 2018. With regard to existing liabilities on bonds which were issued to contractors by past administration, we have set aside the sum of N177.46 billion in the 2017 budget as a sinking fund to retire the maturing bonds. The second

largest capital allocation is for the **Ministry of Transportation** which has the sum of N277 **billion**.

30. The 2017 Budget is an Infrastructure Budget. A total of N1.047 trillion is dedicated to key infrastructural spending, made up as follows:

i.	Power, Works and Housing:	- N529billion;
ii.	Transportation:	- N262 billion;
iii.	Special Intervention Programmes:	- N150 billion.
iv.	Defence:	- N140 billion;
v.	Water Resources:	- N85 billion;
vi.	Industry, Trade and Investment:	- N81 billion;
vii.	Interior:	- N63 billion;
viii.	Education	- N50 billion
ix.	Universal Basic Education Commission	- N92 billion
x.	Health:	- N51 billion
xi.	Federal Capital Territory:	- N37 billion;
xii.	Niger Delta Ministry:	- N33 billion;
xiii.	Niger Delta Development Commission	- N61 billion
xiv.	Agriculture	- N91 billion

8.0 Strategic Focus of the 2017 Budget

31. The thrust of the 2017 Budget is to partner with private and development capital to leverage and catalyse resources for growth. Much of the capital provision is directed at those projects which will facilitate:

(i) economic growth

(ii) diversification

(iii) competitiveness

(v) ease of doing business

(vi) jobs and social inclusion

(vii) improved governance and security

32. The spending focus will be on critical economic sectors that have quick transformative potentials such as infrastructure, agriculture, manufacturing, solid minerals, services and social development.

8.1 New Initiatives in the 2017 Budget

33. Some of the new initiatives introduced in the 2017 Budget are:

(i) A new Social Housing Programme
- N100 billion provisioned for a new Social Housing Programme towards a N1 trillion fund

(ii) Special Economic Zone Projects
- N50 billion for Special Economic Zone Projects to be set up in each of the geo-political zones to drive manufacturing/exports

(iii) Export-Expansion Grant (EEG)
- N20 billion voted for the revival of EEG in the form of tax credit

(iv) Recapitalization of Bank of Industry (BOI) and Bank of Agriculture (BOA)
- N15 billion provisioned to support these development finance institutions to support Micro, Small and Medium Scale Enterprises (MSMEs)

34. These new initiatives will support economic diversification and inclusion in our growth-drive.

8.2. Some Projects in the 2017 Budget

35. The highlight of some of the projects in the 2017 Budget are as follows:

❑ **Power**
- N20bn Rural Electrification projects in Federal Universities
- N18.7bn as counterpart funding for the construction of 3,050mw Mambilla hydropower project
- N7.12bn for the completion of power evacuation facility for 400mw Kashimbila hydropower plant.

- ❑ **Housing**
- N41bn federal government National Housing Programme nationwide.

- ❑ **Works**
- Over 65 roads & bridges construction and rehabilitation projects across the 6 geo-political zones of the country.
- N20bn nationwide intervention fund for roads.
- N31.5bn for the rehabilitation/reconstruction and expansion of Lagos – Shagamu - Ibadan dual carriageway sections I & II in Lagos and Oyo states.

- ❑ **Education**
- N5 billion for the provision of security infrastructure in 104 colleges (Perimeter fencing, Solar Street light, solar powered motorised borehole & CCTV).

- ❑ **Transportation**
- N213.14bn for various railway projects (Lagos-Kano, Calabar-Lagos, Kano- Kaduna, Ajaokuta-Itakpe-Warri, Kaduna-Idu) / counterpart funds and other rail projects
- N3.03bn for the construction of terminal building at Enugu airport.
- N2.08bn for airside rehabilitation of Abuja airport.
- N2.47bn for the construction of an inland river port and supply of cargo handling equipment at Baro, Niger State.

- ❑ **Health**
- N11.72 billion for joint venture investments in tertiary institutions with Nigeria Sovereign Investment Authority.
- N7.65 billion for procurement of vaccines and devices.
- N6.46 billion for Global Fund and GAVI counterpart funding.

- ❑ **Water Resources**
- N18.86 billion for water supply schemes nationwide.
- N14.3 billion for construction and rehabilitation of dams nationwide.

- ❑ **Agriculture & Rural Development**
- N6.5bn Rural Roads and Water Sanitation programme
- N2.61bn Promotion and Development Of Wheat Value Chain
- N4.13bn Guaranteed Minimum Price payment.

- **Mines & Steel Development**
  - N1.0 billion for the establishment of mega regulatory agency for the sector
  - N 2.58 billion for detail mineral resources evaluation, equipping national geo-science laboratories and other projects.

- **Communications**
  - N1 billion for extension of government service portal and deployment of additional National Spectrum Management System.

- **Niger Delta**
  - N6.55 billion for dualization of East-West Road {Sections 1 to 5 covering Warri – Kiama – Ahaoda – Port Harcourt – Eket – Oron - Calabar}.
  - N8 billion counterpart fund contribution for East-West road

- **Social Intervention Programmes**
  - N500 billion for FGN Special Intervention Programme (including Home Grown School Feeding Programme, Government Economic Empowerment Programme, N-Power Job Creation Programme, Conditional Cash Transfers and Social Housing Fund).

- **Regional Interventions.**
  - N65 billion for reintegration of transformed ex-militants under the Presidential Amnesty Programme.
  - N45 billion North East intervention fund.

- **SDGs**
  - N20 billion for SDGs conditional grants and social safety nets.

9.0 CONCLUSION

36. Nigeria is in recession. Inflation and unemployment have been rising. As a Government, we are determined to bring succour to our people. The only way we can do this is by taking strong action to change, in a fundamental way, the current trajectory of the Nigerian economy. This is not the time for a timid and cautious approach. This is a time for bold and focussed action. To get out of this recession and back on the path of growth, Government must find the resources to spend on

infrastructure, and to spend to reflate the economy. This spending will help to stimulate and attract private sector capital and private sector spending. This is what the 2017 Budget proposals seek to do.

37. We should not allow ourselves to be discouraged by those who say we can't find the money to fund the spending required to implement this budget. We must, and we can, find the resources. We will challenge our revenue generating agencies, particularly the FIRS and Customs to improve their efficiencies and broaden their reach so as to achieve the targets set for them in the 2017 Budget. They must be tasked to leverage technology to drive revenue collection. We will be issuing new guidelines and templates for computing the operating surpluses of the various Government Agencies so that we can achieve the targets we have set for independent revenues.

38. Most importantly, we must maximize the revenues we can generate from the oil and gas sector. We cannot determine the price of crude oil but we can engage more extensively with the communities and people of the Niger Delta to minimize disruptions to oil production. We can introduce creative measures to improve on the efficiencies in that sector so as to increase the Government take. Indeed, a Cabinet Committee has been set up by President Muhammadu Buhari to come up with innovative and creative ways to raise additional revenues from the oil sector, and other sectors, to support the funding of the 2017 Budget. The report of this committee will be ready in time for the National Assembly to take this into account in considering the Budget in the New Year, when they return from their Christmas recess.

39. Finally, our experience this year shows clearly that we have not just a revenue problem, but specifically, a foreign exchange problem. We must find ways of solving our foreign exchange shortages. 95% of our

foreign exchange comes from the oil sector so the work we are doing on improving the level of our oil sector receipts will certainly help.

40. However, we need to do more than this. Much more. We must reduce the demand for foreign exchange by producing as much as possible of what we need in Nigeria. From refined petroleum products to textiles, clothing and most of our food items. But we will continue to need imported items so we must increase the supply of foreign exchange by tweaking some of our policies to make them more investor friendly, and by creating the right incentives for non-oil exports. Ultimately, the sustained growth of our economy must be on the back of an export led revival. The proposals in the 2017 Budget are aimed at creating the right incentives for Nigerians to achieve all these. The 2017 Budget proposals are therefore also a call to action.

41. These are difficult times, no doubt. But with the indomitable spirit of the Nigerian we can turn these difficulties into opportunities. It is to that indomitable spirit that this Government now appeals. I am confident that Nigerians will respond to this call to action. To truly revive this economy, we must turn Nigeria into a nation of producers.

42. I wish you all a Merry Christmas and a better New Year during which we shall get out of recession.