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Nigeria: Budget of Consolidation

DOCUMENT

Lagos — *Being text of the 2007 budget speech presented by President Olusegun Obasanjo at the joint session of the National Assembly in Abuja on Wednesday*

It is with great honour that I present to this Joint Session of the National Assembly, the 2007 Budget Proposal of the Federal Government of Nigeria.

As with the budgets for the last three years, the 2007 budget 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 National Economic Empowerment and Development Strategy (NEEDS) and the Millennium Development Goals (MDGs).

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).

These Medium-Term Sector Strategies detail fully costed initiatives and expenditure plans within the limits of available resources and set out well-defined performance measures including outputs and outcomes. These strategies have been prepared with the active participation of Civil Society, the Organised Private Sector and members of the relevant Committees of this Distinguished and Honourable Assembly.

I am personally gratified by your enthusiasm, commitment and invaluable contribution to the development of these strategies, which form the basis of, and accompany, the 2007 budget, which I will lay before you.

As part of our continuous efforts to strengthen public expenditure management and ensure transparency, accountability and value for money, the 2007 budget presents unprecedented level of details for our spending proposals. Specifically, we present before you, Payroll proposals with detailed Nominal Rolls, including names, file numbers and other information on the employees on the payroll of the Federal Government, Overheads proposal with detailed breakdown of cost components and unit costs, Capital spending proposals with project details, full information on project funding history, percentage completion and estimates of full completion costs.

Providing this level of detail has helped us to make significant spending efficiency gains and it is our hope that this level of detail will further foster transparency, accountability and value for money. We will use the payroll data, which we have now gathered to build an Integrated Personnel and Payroll Information System to better control payroll spending.

What is the 2007 budget all about? It is about "Accelerating Physical and Human Infrastructure for Wealth Creation and Poverty Reduction". It builds upon and consolidates the work that has been done with the budgets for the past three years and continues the reform of our national economy. As with the 2006 budget, it makes ample provision for improving physical infrastructure, particularly, water, power and roads. We have also accorded priority to social safety nets and measures aimed at reducing the incidence of poverty and improving our social indicators.

Specifically, the 2007 budget provides:-

- N11 billion for the dredging of the River Niger from Lokoja to Warri;
- N36 billion for the construction of the much awaited East-West Road;
- N21 billion for the construction of the Kano-Maiduguri Road dualisation;
- N17 billion for the completion of the Gurara Water Project;
- N80 billion for Pensions under the Pay-As-You-Go System;
- N50 billion to continue with and accelerate the on-going reforms of the public service.

Consistent with our commitments under the Paris Club Debt deal, the 2007 budget channels all the debt relief gains amounting to N110 billion to carefully selected poverty reduction initiatives and programmes in Health, Education, Water, Power, Housing, FCT, Youth and Agriculture, as additional, incremental spending for the attainment of the MDGs.

The 2007 budget is about the ordinary citizen, it is about accelerating the provision of basic infrastructure to improve the quality of life of our people and to enable businesses to thrive, create jobs and thereby reduce the incidence of poverty.

REVIEW OF BUDGET 2005

The total projected revenue for 2005 was N1.6 trillion (this included N165 billion from the "Excess Crude" account and N100 billion from independent revenue).

In the course of the 2005 fiscal year, revenue projections had to be revised downwards because of the situation in the Niger Delta. Total actual revenues in 2005 was therefore only about N1.4 trillion.

Against the actual revenues of N1.4 trillion in 2005, the 2005 Appropriation Act authorized aggregate spending of N1.8 trillion, representing a growth of 38%. This was made up of statutory transfers of N90 billion, debt service of N356 billion and MDA spending of N1.4 trillion representing a growth of 52%. The MDA spending comprised Recurrent (Non-Debt) Expenditure of N737 billion and Capital Expenditure of N617 billion respectively.

As a result of the significant reduction in available revenues, we could only implement N1.5 trillion out of N1.8 trillion authorised by the 2005 Appropriation Act. While N90 billion was planned for Transfers, actual Transfers was N79 billion because transfers to the Niger Delta Development Commission and the Universal Basic Education Commission are dependent on actual revenues. For Debt Service, N356 billion was planned but actual Debt Service was N394 billion.

The sum of N737 billion was planned for Recurrent (Non-Debt) while actual spending was N730 billion. For capital spending, N617 billion was appropriated and N519 billion was released and cash-backed but only N494 billion was utilised. Total capital budget implementation was thus 80% after taking into account the proportion of the spending that spilled over into 2006.

The fiscal deficit for 2005 was N100 billion or 0.8% of GDP, well below the budget forecast of N354 billion or 2.8% of GDP. The fiscal deficit for 2005 was financed from privatisation proceeds and signature bonuses received.

REVIEW OF BUDGET 2006

The 2006 Budget was predicated on oil production of 2.5 million barrels per day and a benchmark oil price of US\$35 per barrel. Based on these assumptions, we projected that total revenue available to fund the federal budget would be N1.5 trillion.

Early in the second quarter of 2006, we lost production of 600,000 barrels per day from the Joint Venture operations due to disruptions in the Niger Delta. These losses are likely to continue until year-end. Due to these losses, we estimate that revenue accruing to the Federation Account will be N570 billion less than planned. The impact of this on the federal budget is about N216 billion.

In order to ensure smooth implementation of the budgets of the Federal, State and Local Governments, we sought your understanding to draw up to N570 billion from the excess crude account to make up for this shortfall. Half of this sum was distributed in July 2006. The other half will be distributed in October after reviewing the situation for the first three quarters of the year.

As at 31 August 2006, out of the N92 billion appropriated for Transfers, a total of N52 billion had been released.

For Debt Service, implementation stood at N159 billion or 55% of the appropriated sum of N290 billion. The Recurrent (Non-Debt) Expenditure comprising Payroll and Overheads was implemented in full. For Capital Expenditure, a total of N426 billion, or 75% of the appropriated amount of N569 billion has been released.

With respect to healthcare, we have completed the rehabilitation and re-equipping of four of our Teaching Hospitals and they are now centres of excellence for tertiary healthcare, training and research. Another four are to be completed very soon. A total of 200 Primary Health Care Centres have been completed and fully equipped. An additional 93 Primary Health Care Centres are close to completion. Contracts for the construction and equipping of an additional 150 such Centres and the refurbishing of 100 existing Centres will soon be awarded.

National HIV/AIDS prevalence rate has dropped in 2005 to 4.4% from 5.0% in 2003. This development is a direct result of the increased awareness advocacy that we have embarked upon and the establishment of 190 Voluntary Counselling and Testing (VCT) Centres nationwide. We are supporting infected persons with Anti-retroviral drugs through over 100 Treatment Centres which we have established nationwide.

To combat malaria, over 10 million Insecticide Treated Nets have been distributed. We are presently procuring 3 million additional Insecticide Treated Nets for distribution to pregnant women and children under the age of 5. We have trained about 4,000 health workers and over 3,000 community leaders on the new malaria treatment policy. Two and a half million doses of new treatment drugs have been distributed to 18 States and the FCT. Another 2.9 million doses are currently being distributed to the remaining 18 States. These drugs are being distributed free of charge for use by children under the age of 5.

We have procured chemicals and spray pumps in readiness for the commencement of house-to-house and outdoor spraying to destroy mosquitoes.

We believe that these will help reduce the incidence of malaria and malaria related deaths.

Works

As at 31 August 2006, we had released N52 billion or 71 % of the N73 billion appropriated for capital for Works for the construction, rehabilitation and repairs of roads nationwide. Road construction, rehabilitation and repair works are at various stages of completion. Roads such as, Ibadan-Ilorin, Abuja-Keffi, Kaduna Eastern Bypass, Kano-Kaduna Dual Carriageway, Bodo-Bonny, Eleme Junction Fly Over, Warri-Benin, Benin Bypass and Onitsha-Owerri, are receiving priority attention.

Power

On Power, we have made significant progress in the rehabilitation and expansion of generation capacity, transmission and distribution. Work is progressing on the seven new medium-sized Power Plants in the Niger Delta Region, at Ihovbor, Sapele, Gbarain, Egbema, Calabar and Omoku. 4 additional Power Stations in Geregu, Papalanto, Omotosho and Alaoji are now nearing completion. The procurement process for the development of the 2,600 MW Mambilla Hydro Power Station is almost completed and all contracts for the procurement process are expected to be finalised soon.

Following the enactment of the Electricity Power Reform Act, we have made far-reaching institutional changes in the power sector. These changes include the unbundling of NEPA, deregulation of the sector to admit participation by other tiers of government and the private sector, the establishment of the Nigerian Electricity Regulatory Commission and the Rural Electrification Agency.

We are on course to complete about 557 electricity constituency projects, which were awarded in 2006. We have commissioned 2 Pilot Solar Projects in Katsina and Bauchi States and have recently awarded the contract for another 2 such projects in Cross River and Ogun States.

Aviation

We are taking decisive steps to reposition the aviation sector. We are deploying modern and efficient navigational aids through the Total Radar Coverage Project and the Safe Tower Project. We are rehabilitating and resurfacing runways, erecting perimeter fencing and upgrading meteorological services to ensure the safety of air travel.

We have procured search and rescue training equipment and are strengthening institutional capacity in the aviation sector. Our immediate goal is to ensure that the aviation industry passes the International Civil Aviation Authority (ICAO) audit slated for November 2006.

Agriculture

Our strategic programmes in Agriculture are helping to ensure sustainable production of adequate nutritional food for Nigerians and for the export market.

Output of staples such as maize, millet, sorghum, cassava, rice, vegetable oil and yam have increased tremendously as a direct result of the Presidential Initiatives in these areas and our fertilizer procurement and distribution programme through which we continue to

subsidize the price of fertilizer. Specifically, annual production of cassava tubers has increased by about 14 million metric tonnes, annual production of rice has increased by more than 1 million metric tonnes and annual production of maize has increased by well over 1 million metric tonnes.

To curb post harvest losses and protect the gains of increased production, we have increased our silo storage capacity to 1 million metric tonnes with the recent completion and commissioning of four additional silo complexes.

The Presidential Initiatives in other areas such as livestock production, fisheries and aquaculture and economic trees are also helping to increase production significantly and create employment in these areas.

At the beginning of this year, our stock of poultry was threatened with the outbreak of the highly pathogenic Avian Flu disease. Our "Diseases Emergency Preparedness Plan" enabled us to curtail this outbreak promptly and with minimal losses.

We are sustaining the over 7% growth rates in the agricultural sector. It is our expectation that, as in 2005, the agricultural sector will remain the principal driver of non-oil growth.

We are upgrading facilities, and teaching and research equipment in our tertiary educational institutions nationwide to improve the quality of educational services in these institutions. We have provided and released direct teaching and research grants to these tertiary institutions to help upgrade the quality of tuition.

Work is presently ongoing on the revision of school curricula at all levels to improve the quality, relevance and practicality of education. Special attention is being paid to vocational and science education.

Before the end of this month, we will have a stakeholders' forum on education to redirect our educational policy and ensure value for money. We must realistically face the following issues: education for all; education for what; quality of education; paying for education; and product of education.

Special, targeted training programmes are being implemented to improve the quality of our teachers across all levels of education, particularly at the primary and secondary school levels. We are also establishing Federal Colleges of Education or Polytechnics in States that have no Federal tertiary educational institutions.

As at 31 August 2006, we had released N15.2 billion of the N30.5 billion appropriated for the Universal Basic Education Commission for the provision of grants to States and Local Governments to help support basic education.

These grants are being applied to upgrade facilities, train and re-train primary school teachers and fund our Home-Grown School Feeding Programme for primary school pupils.

Water

As at 31 August 2006, we had released N55 billion or 72 % of the N76 billion capital allocation to Water for the execution of various water supply, dams and irrigation projects nationwide. Only recently, we commissioned the Kano Irrigation Project, which supplies irrigation water to over 22,000 hectares of farmland.

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.

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.

Pension Arrears

With your understanding, we have issued bonds to financial institutions and raised the sum of N75 billion to payoff arrears of pensions owed to about 270,000 pensioners. Payments have commenced and all verified pensioners are presently being paid. We have thus laid to rest, the lingering and seemingly intractable issue of arrears of pensions. We now have a biometric database of pensioners under the Pay-As-You-Go system. This means that we now have a firm grip of how much is payable to each pensioner. We are also strengthening the administration of pension to ensure that going forward, pensions are paid as and when due.

Local Contractors

We have also solved the problem of arrears owed to local contractors. Contractors owed below N100 million and whose claims have been verified have been paid. For contractors owed N1 billion and above whose claims have been verified, we have issued them with bonds to securitize our indebtedness. These two groups represent over three quarters of arrears owed to local contractors. The contractors owed the remaining one quarter of the arrears will be issued with their bonds before 31 December 2006 and consequently reflate the economy.

We have been resolute in our resolve to payoff these lingering liabilities in the firm belief that by so doing, we would help inject fresh funds into the businesses of these contractors - fresh funds, which will enable them grow their businesses.

Debt Relief Savings

The choice of directing all savings from Debt Relief towards projects and programmes related to the MDGs are beginning to bear fruit. Nine out of our MDG related Ministries have scaled up their efforts to reduce poverty at the State and Local Government levels. For example, in the education sector, we are currently facilitating in-service training for over 145,000 teachers nationwide. Targeted capacity building on this scale has not happened in the last two decades. Other such initiatives in Health, Water and Agriculture are also being implemented. We continue to track resource utilisation and performance in these areas through the Oversight of Public Expenditure in NEEDS (OPEN) - our accounting based expenditure tracking system.

Outlook for the Rest of 2006

We expect expenditure plans for the rest of 2006 to remain largely in line with budget. Accordingly, we expect the fiscal deficit to remain within the set target of N352 billion or 2.4% of nominal GDP.

2007 BUDGET

THEME AND FOCUS

Basic Physical and Human infrastructure remain central to the realisation of our developmental aspirations. Whilst we have made significant improvements in this regard with the budgets of the last three years, there remains a compelling need to do more and

accelerate the pace of work in these areas. Against this background, the central theme of the 2007 Budget is to "Accelerate Investments in Basic Physical Infrastructure and Human Resource Capital".

In line with its theme, the 2007 Budget gives impetus to the ongoing work in power, water, roads, security, education and health. These investments are targeted at improving the quality of life of our citizens and addressing the infrastructural inadequacies presently constraining the ability of our business people to operate efficiently, grow their businesses, create wealth, generate employment and take their rightful place as the drivers of growth of our national economy.

A total of N446 billion representing 24% of spending by Ministries, Departments and Agencies and 61% of the capital budget is proposed for developmental spending.

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 improvement in our social indicators and the quality of life of our citizens.

In the pursuit of our developmental aspirations, we have remained mindful of the need to maintain macroeconomic stability and remain fiscally prudent. As with the budgets of the last three years, our strategy is to focus on the completion of ongoing projects; but we have taken onboard a few new projects targeted at providing long-term solutions to lingering infrastructure deficiencies.

KEY ASSUMPTIONS AND TARGETS

The 2007 Budget is based on a number of assumptions and is driven by the need to meet certain targets, which we have set for ourselves. The assumptions and targets are as follows:

- Oil price of \$40 per barrel - (US\$35 in 2006)
- Crude oil production of 2.5 million barrels per day - (2.4 million barrels per day in 2006)
- Joint Venture Cash Calls of US\$4.5 billion - (US\$4.2 in 2006)
- GDP growth rate of 10% - (7% in 2006)
- Inflation rate of 9% - (10% in 2006)
- Exchange rate of N126 to US\$1 - (N129 to US\$1 in 2006)

We have increased the benchmark price of oil to US\$40 per barrel to ensure that we fund the budget with predictable revenues whilst ensuring that the benchmark price remains prudent. We have remained conservative in our estimate of crude oil production given the present disruptions in the Niger Delta. Joint Venture Cash Call has been raised by about US\$300 million.

Our growth projections of 10% are admittedly ambitious but realistic. We expect Agriculture, Solid Minerals and Telecommunications to drive this growth. Improvements to basic infrastructure and continued macroeconomic stability are expected to continue to spur investments, growth in output, and wealth creation.

We expect the exchange rate to remain stable and to maintain the gains achieved with the convergence of rates in both the official and inter-bank markets as well as the parallel market.

REVENUE PROJECTIONS:

Federation Account

Based on the previously mentioned assumptions, we expect N4.3 trillion to accrue to the Federation Account. This represents an increase of 23% over 2006. Oil Revenue is estimated at N3.2 trillion, while Non-Oil Revenue is estimated at N1.1 trillion. Oil Revenue represents 84% of total estimated revenue while Non-Oil Revenue represents 16%.

Oil revenue, representing 84% of total estimated revenue is uncomfortably too high. I have addressed the leadership of the National Assembly on the issue of VAT. We will need to continue to grow the non-oil revenue. Revenue from one commodity or product should not be more than 50% of our total revenue for now to ensure security and stability.

Oil Revenue

Of the N3.2 trillion that we estimate will accrue from Oil Revenue, Crude Oil Sales is expected to contribute N1.6 trillion (49%) as against N1.3 trillion in 2006; Petroleum Profits Tax is estimated at N1.1 trillion or (35%) compared to N984 billion in 2006; while Royalties and Others should account for N532 billion or (16%), as against N474 billion in 2006.

Non-Oil Revenue

This is made up of Companies' Income Tax, Value Added Tax and Customs & Excise Duties. Of the sum of N1.1 trillion expected to accrue to the Federation Account from Non-Oil Revenue; Companies' Income Tax is expected to account for N299 billion (28%), as against N230 billion in 2006; Value Added Tax should contribute N530 billion (50%) as against N225 billion in 2006; while it is estimated that Customs & Excise Duties will account for N230 billion (22%) as against N197 billion in 2006.

FEDERAL GOVERNMENT REVENUE

The revenue accruable to the Federal Government from the Federation Account for 2007 is estimated at N1.8 trillion. This represents an increase of 20% over 2006.

FEDERAL BUDGET SHARE

Of the estimated N1.8 trillion that will accrue to the Federal Government from the Federation Account, the revenue accruable to the Federal Budget will be N1.7 trillion as against N1.4 trillion in 2006. This is after deducting amounts that go to the Ecology Fund (N35 billion), Stabilization Fund (N17 billion), Development of Natural Resources (N58 billion), and the FCT (N35 billion).

INDEPENDENT REVENUE

Independent Revenue made up of revenues that accrue exclusively to the Federal Government from the, operating surpluses and dividends of commercial enterprises the country owns is expected to be N86 billion as against N75 billion in 2006.

TOTAL REVENUE ACCRUABLE TO FEDERAL BUDGET

Our estimate of total revenue available to fund the 2007 Budget is N1.8 trillion. This is made up of N1.7 trillion share of the Federation Account and N0.1 trillion of Independent Revenue. This represents a 20% growth relative to 2006.

FEDERAL GOVERNMENT EXPENDITURE

Proposed aggregate expenditure for 2007 is N2.3 trillion. This represents a 21% increase over the N1.9 trillion authorised by the 2006 Appropriation Act.

The proposed level of aggregate expenditure is made up of the following -

- Statutory Transfers of N102 billion
- Debt Service of N326 billion
- Spending of Ministries, Departments and Agencies of N1.8 trillion

Given estimated total revenue available to fund the federal budget, we plan a fiscal deficit of N0.5 trillion or 2.9% of GDP. This deficit will be financed from the proceeds of sale of government properties and domestic borrowings.

I will now provide details of the expenditure heads.

STATUTORY TRANSFERS

In compliance with the obligations imposed on us by law, we shall transfer the sum of N43 billion to the National Judicial Council (NJC), as against N35 billion in 2006; N24 billion to the Niger Delta Development Commission (NDDC), as against N26 billion in 2006; N35 billion to the Universal Basic Education Commission (UBEC) as against N31 billion in 2006.

DEBT SERVICE

Total debt stock stands at N2.4 trillion, as at the end of June 2006. This is made up of domestic debts of N1.8 trillion and external debts of N616 billion (US\$4.8 billion).

DOMESTIC DEBT

The stock of domestic public debt is expected to reach N1.8 trillion at the end of this year compared to N1.5 trillion as at 31 December 2005. This figure represents an increase of N285 billion or 20% above 2006. The increase in the debt stock is due principally to the clearance of contractor and pension arrears amounting to N150 billion and N75 billion, respectively.

In 2007, we propose to borrow N200 billion from the domestic market to partly finance the budget deficit; we therefore, expect that the stock of the domestic debt will increase to N2 trillion by the end of 2007.

We propose to borrow N200 billion from the domestic debt market instead of drawing down on the excess crude account because to do so will increase liquidity significantly and the cost of mopping this up will significantly exceed the cost of servicing the proposed borrowing.

The cost of servicing domestic public debt is estimated at N265 billion in 2007. This represents an increase of 20% relative to 2006 and includes an amount set aside for the Central Bank of Nigeria for liquidity management.

EXTERNAL DEBTS

Total external debt stock outstanding as at the end June of 2006 stood at US\$4.8 billion.

This is made up of -

1. London Club - US\$1.4 billion
2. Multilateral Debts - US\$2.7 billion
3. Promissory Notes - US\$0.6 billion
4. Other Non-Paris Club Debt - US\$0.1 billion

For 2007, we have earmarked the sum of N61 billion for servicing of our external debts.

Going forward, we are finalizing a strategy that will ensure the redemption of our London Club debts as well as the Promissory Notes. By mid 2007, the only loans that will be in our debt portfolio would be the Multi-lateral debts and non-London Club (Bilateral) debts. The implementation of this strategy will further alter the composition of our external debt stock to more manageable levels, while ensuring an optimal mix.

By the end of 2007, we expect our total debt to GDP ratio to be 15%.

Nigeria is now one of the few countries outside the Organisation for Economic Co-operation and Development (OECD) with a debt to GDP ratio below 20%. This manageable debt level continues to allow us to redirect expenditure away from debt service payments to spending on pro-poor projects.

SPENDING BY MINISTRIES, DEPARTMENTS AND AGENCIES

We propose a total of N1.8 trillion for spending by Ministries, Departments and Agencies. This represents a 20.7% growth relative to 2006. This is made up of -

- Payroll of N652 billion, representing an increase of 3.8% relative to 2006;
- Overheads of N405 billion, representing an increase of 24.1% relative to 2006; and
- Capital Expenditure of N781 billion, representing a growth of 38.1% relative to 2006.

Payroll and Overheads, which together constitute Recurrent (Non-Debt) Expenditure account for 57% of total spending while Capital Expenditure accounts for 43%.

The significant increase in proposed spending by Ministries, Departments and Agencies is largely attributable to increased developmental spending targeted at accelerating and scaling up the provision of basic infrastructure and developing our human resources capital. These account for about 77% of the growth in spending.

Reforms to our public expenditure management system and other initiatives to better control spending, makes us confident of our ability to deliver better value for our spending and counter balance any adverse short-run macroeconomic effects of our planned acceleration and scaling-up of developmental spending.

HIGHLIGHTS OF KEY PROJECTS

Transport

We propose capital expenditure of N13 billion for the Transport Sector.

Specifically, we have set aside the sum of N11 billion for the dredging of the River Niger from Lokoja to Warri, (including the construction of jetties). We expect these investments to greatly improve the movement of goods and persons and help increase the pace of productive economic activities.

Water

A total of N95 billion is proposed for the water sector, up by 18% from N80 billion in 2006. The Completion of the Gurara Water Project for the supply of water to the residents of Abuja and its environs is accorded priority. N17 billion is provided for this purpose.

Huge investments are proposed for the construction of dams such as the Owiwi Dam, Shagari Dam, Ile-Ife Dam, Jada Multipurpose Dam, Kashimbila Dam Project and the Galma Multipurpose Dam. Similarly, significant funds are being provided for various irrigation and water supply projects nationwide.

Works

A total of N191 billion has been allocated to works sector for 2007. This represents an increase of 110% over the N91 billion provided in 2006.

Specifically, N17 billion has been provided to the Federal Road Maintenance Agency (FERMA) for the maintenance of Federal Highways which currently owes a debt of about N12 billion; N36 billion is provided for the construction of the East-West Road; N21 billion for the construction of the Kano-Maiduguri Road; and N6 billion for the Abuja-Lokoja Road. Funds have also been provided for other key road projects nationwide.

To augment government spending on the provision of roads we are seeking to attract private investments into the road sector. In this regard, we have already received and are presently appraising private sector proposals for the construction of the second Niger Bridge at Onitsha/Asaba and a Bridge across River Benue at Bagana on the basis of public-private partnership.

Agriculture

For the Agriculture sector, the focus of the 2007 budget continues to be to support small holders' agricultural production and processing. A total of N38 billion is proposed for this sector, up by 23% from N31 billion in 2006. Specifically, funds have been provided for key projects and initiatives, including -

- Procurement of Tractors and Implements supplied at subsidized rates
- Buyer of Last Resort Programme with expected bumper harvest
- Agricultural Credits and Subsidies, including the Fertilizer Subsidy Programme
- Presidential Initiatives on Rice, Cassava, Vegetable Oil, Livestock, Fisheries and Tree Crops
- Chinese South-South Cooperation Programme

We propose a total allocation of N186 billion for the education sector in 2007 up from N166 billion in 2006. This represents a growth of 12%. The bulk of the allocation is targeted at human resource capacity building, upgrading of facilities in our educational institutions and bold new reforms to improve the quality of and access to education.

This excludes our intervention through the Universal Basic Education Commission, through which we are providing additional resources of N35 billion to States and Local Governments to support basic education. These additional resources are being used to upgrade infrastructure and teaching facilities in our primary schools across the nation and to fund, among other initiatives, our homegrown school feeding programme through which we are providing one full meal to our pupils.

For the Health Sector, we propose a total allocation of N122 billion for 2007, a 14% increase over the 2006 allocation of N107 billion.

Funds have been provided for the following projects, among others,

- Refurbishing and equipping all Federal Tertiary Health Institutions (including the VAMED programme for Teaching Hospitals)
- National AIDS/STI Control Programme, including the procurement and distribution of ARVs and test kits
- Rollback Malaria Programme, including the procurement of new drugs for malaria case management and Insecticide Treated Nets
- National Programme on Immunisation for routine immunisation
- Capacity building and training for 5,000 health workers on integrated management of childhood illnesses.

Power

We have allocated a total of N105 billion to the Power and Steel Sector. This represents an increase of 35% over the 2006 allocation of N78 billion. The following are the key projects for which funds have been provided in the 2007 budget -

- Completion of 32 ongoing Transmission Projects
- Implementation of ongoing Rural Electrification Projects
- Establishment of Rural Access Trust Fund
- Distribution projects to remove bottleneck in supply
- Completion of Generation projects in 2007 to complement the National Integrated Power Project

These exclude the ongoing work on National Integrated Power Project in the Niger Delta region with expected output of 2,555MW in 2007.

Security

We are providing additional resources to our security services, particularly Defence and the Police, to help ensure the security of lives and property. A total of N213 billion is proposed for the Police and Defence. We are providing our security services with arms and ammunition, improved information and telecommunications equipment and facilities, riot control equipment and logistics support.

We are also rehabilitating the residential and office accommodation of the security services, recruiting additional personnel and training and retraining existing personnel.

MDGs

Included in these allocations are the debt relief savings for 2007 totalling N110 billion. As in 2006, these savings are being used exclusively to support and scale up spending on MDG related initiatives and programmes. We propose to increase investments in areas that performed well in the 2006 budget and reinforce other projects and programmes in Health and Education.

Of the N110 billion debt relief savings, we propose to allocate N22 billion to States and the FCT as Conditional Grants, for targeted results-oriented expenditure in the States. This is a Safety Net programme targeted at ensuring that the rural poor have access to markets and credit.

It is my sincere belief that the MDGs are better attained through the States and Local Governments. Our role at the Federal level is to maintain oversight over these grants and to support the efforts of States and Local Governments that have demonstrated their commitment to reform, good governance and the socio-economic development of their people. We are presently working with all stakeholders, including the relevant Committees of this Distinguished and Honourable Assembly to document eligibility guidelines and oversight modalities.

The detailed budget contains a list of the priority projects slated for completion this fiscal year in each sector. Let me now turn to some special issues.

Shortfall in 2006 Provision to Support Pump Price of Petroleum Products

In 2006, we provided N75 billion, as the federal government's share, to support the pump prices of petroleum products.

As at half year total amount spent was N120 billion and we expect this to grow to N250 billion by year-end. The Federal Government's share of this will be N125 billion. This means that there will be a shortfall of N50 billion in 2006. We have provided for this in the 2007 budget.

This level of subsidy impairs our ability to direct spending to other areas; therefore in 2007, we are providing only N50 billion for this purpose. Total provision in the 2007 budget is therefore N100 billion. States and Local Governments are also expected to provide a similar amount.

Pensions

We are providing N80 billion for pensions under the Pay-As-You-Go System for the 2007 fiscal year to ensure that our pensioners are paid as and when due.

Public Service Reforms

To ensure that our Public Service Reform continues, we have set aside the sum of N50 billion in 2007 to support this programme. Our aim is to improve service quality in the Public Service by -

- Improving the quality and mix of our staff;
- Ensuring that staff work with modern tools
- Rightsizing staffing levels; and
- Providing timely and relevant continuing education to our staff.

2007 General Elections

Funding is also being provided to the Independent National Electoral Commission to ensure adequate preparations for the 2007 general elections. We have earmarked the sum of N27 billion in the 2007 Budget for this purpose. This is in addition to the N55 billion which we provided in the 2006 budget for the same purpose.

FINANCING OF MAJOR DEVELOPMENTAL PROJECTS FROM THE EXCESS CRUDE ACCOUNT

All tiers of government have committed to jointly execute and fund six (6) major developmental projects, with large foreign exchange components. These projects are in three (3) sectors, namely, Railways, Power and Oil and Gas. The projects under each sector and their estimated cost are as follows

Railway

- PHASE I: Lagos - Minna - Kano with Minna - Abuja - Kaduna Spur, Standard Gauge Double Track, (150km per hour design Speed) Railway Line - estimated to cost US\$8.3 billion in four years.

Power

- Niger-Delta Integrated Power Plants (Phase I) - estimated to cost US\$3.8 billion; including transmission and provision of gas.
- Mambila Hydro Power Project - estimated to cost US\$3.2 billion; over a period of four years; and
- Combined Cycle for Geregu, Alaoji, Papalanto and Omotosho Power Plants - estimated to cost US\$1.7 billion to increase the generation from these facilities by 2,300 MW over the next three years.

Liquefied Natural Gas (LNG)

- Equity investment in OK LNG Plant - estimated to cost US\$9.8 billion;
- Equity investment in OK Pipeline Project- estimated to cost US\$2.0 billion; and
- Equity investment in Brass LNG Plant - also estimated to cost US\$8.5 billion.

These projects are to be jointly funded by all tiers of government from the Excess Crude Account.

We will seek your authorisation for the Federal Government's share of these major expenditures. Other tiers of government will also seek authorisation for their portion of the spending from their respective legislative arms.

The Honourable Minister of Finance, will provide comprehensive information on each of these projects to this Distinguished and Honourable Assembly.

IMPACT

It is our expectation that the carefully targeted spending proposed in the 2007 Budget, will help stimulate investment, growth in output, and wealth creation.

Concerns have been expressed about the impact of our proposed additional developmental spending on inflation and exchange rates. However, we are confident that the spending proposals, which we have presented before you, will have no material adverse effect on exchange rate and inflation.

We expect the exchange rate and interest rates to remain stable for the following reasons -

- Our strengthened public expenditure management system has improved the quality of our spending;
- A large percentage of the spending is in foreign exchange and will therefore not be inflationary in the local economy;
- The size of our reserves will help ensure that we pay for these expenditures without any significant adverse effects on exchange rates; and
- As part of Domestic Service costs, funds have been allocated in this budget to the Central Bank of Nigeria for liquidity management.

CONCLUSION

Distinguished Senators, Honourable Members of the House of Representatives, Distinguished Ladies and Gentlemen, our financial condition is stronger than at any other time in the last two decades and we expect it to become even stronger. With your cooperation, we expect it to become even stronger. The economic management reforms of the last three years and the prudent management of our fiscal affairs continue to deliver strong growth, low inflation and stable exchange rates.

In spite of 2007 being an election year, we must maintain fiscal responsibility, prudence, value-for-money in our expenditure at all levels and have courage to do what needs to be done for the health and stability of our economy.

Before I conclude, let me thank you for your support and cooperation over the course of the last seven years and let me appeal to you for expeditious passage of the critical and essential bills to propel our reform agenda as I have indicated to you in my recent letter.

Let me thank you also for joining hands with the Executive in waging war against corruption. Our aim and objective is prevention, investigation, restitution and prosecution in that order and not wholesale criminalisation or demonisation.

The 2007 Budget follows in the tradition of fiscal prudence and judicious utilisation of resources, pursued in recent years. The spending proposals therein are expected to help accelerate physical and human infrastructure for wealth creation and poverty reduction.

I therefore lay before you the 2007 Budget of the Federal Government of Nigeria for your consideration. It is my fervent hope that given the early presentation of this budget, it will be passed and signed into law before the commencement of the 2007 fiscal year, as a worthy legacy in the final year of our second term.

I thank you most sincerely for listening. God bless the Federal Republic of Nigeria.

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