The Senate

Federal Republic of Nigeria

Report On The

2017 – 2019 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF) & FISCAL STRATEGY PAPER (FSP)

January, 2017

REPORT OF THE JOINT COMMITTEE ON FINANCE; APPROPRIATIONS; AND NATIONAL PLANNING ON 2017 – 2019 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF) AND FISCAL STRATEGY PAPER (FSP)

1.0 INTRODUCTION

The Senate at its Sitting on Wednesday, 23rd November, 2016, considered the request of Mr. President, Commander-in-Chief of the Armed Forces of the Federation on the 2017 – 2019 Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) and referred same to the Committees on Finance; Appropriations; and National Planning for further legislative action.

1.1 Background

Pursuant to section 11 (3) of the Fiscal Responsibility Act, 2007, the Federal Government should prepare the Medium Term Expenditure Framework (MTEF) and Fiscal strategy Paper (FSP) which entails a three-year planning tool defining the Government's economic, social, and developmental objectives and priorities. The MTEF and

FSP encompasses the plan of action intended to be undertaken by the Government with the sole aim of achieving its set objectives. It therefore highlights the key assumptions behind revenue projections, strategic objectives behind the expenditure framework and fiscal targets over the period. In addition, it articulates the nature and fiscal significance of Government's debt and measures to subdue such liabilities.

2.0 MEMBERSHIP

2.1 Committee on Finance

1.	Sen. John Owan Enoh	-	Chairman
2.	Sen. Umaru I. Kurfi	-	Dep. Chairman
3.	Sen. Usman B. Nafada	-	Member
4.	Sen. Joshua C. Dariye	-	Member
5.	Sen. Hope O. Uzodimma	-	Member
6.	Sen. Adeola O. Solomon	-	Member
7.	Sen. Mustapha M. Sani	-	Member
8.	Sen. Yahaya A. Abduallahi	-	Member

9.	Sen. Nelson A. Efiong	-	Member
10.	Sen. Yusuf A. Yusuf	-	Member

2.2 Committee on Appropriations

1.	Sen. Mohammed D. Goje	-	Chairman
2.	Sen. Sunny O. Ogbuoji	-	Dep. Chairman
3.	Sen. Barau I. Jibrin	-	Member
4.	Sen. Adamu M. Aliero	-	Member
5.	Sen. Aliyu A. Sabi	-	Member
6.	Sen. Rafiu A. Ibrahim	-	Member
7.	Sen. Donald O. Alasoadura	-	Member
8.	Sen. Buhari Abdulfatai	-	Member
9.	Sen. Akpan B. Albert	-	Member
10.	Sen. Matthew A. Urhoghide	-	Member
11.	Sen. Mohammed Hassan	-	Member
12.	Sen. Francis Alimikhena	-	Member
13.	Sen. Umaru I. Kurfi	-	Member
14.	Sen Ibahim Abdullahi Danbaba	-	Member

15.	Sen. Mao A. Ohuabunwa	-	Member
16.	Sen. Addullahi Gumel	-	Member
17.	Sen. Ahmed Salau Ogembe	-	Member

2.3 Committee on National Planning

1.	Sen. Rabiu M. Kwankwaso	-	Chairman
2.	Sen. Omogunwa O. Yele	-	Dep. Chairman
3.	Sen. Mustapha Bukar	-	Member
4.	Sen. Gershom O. Bassey	-	Member

2.4 Secretariat

1.	Abdullahi El-Rasheed	-	Committee Clerk, Finance
2.	Dr. Innocent Mebiri	-	Committee Clerk, Appropriations
3.	Lawal Omolade	-	Committee Clerk, National Planning

3.0 METHODOLOGY

The Joint Committee requested from identified Stakeholders the 2016 Budget Performance for both the revenues and the expenditures; and the justifications for 2017 projections.

It also held an interactive session during which oral submissions were received from the following:

(a) Federal Ministry of Finance (FMF);

(b) Federal Ministry of Budget and Planning;

(c) Federal Ministry of Mines and Steel Development;

(d) Nigeria National Petroleum Corporation (NNPC);

(e) Nigeria Customs Service (NCS);

(f) Federal Inland Revenue Service (FIRS); and

(g) Debt Management Office (DMO).

In its determination to arrive at a realistic MTEF and FSP for the next 3 years, the Committee considered the actual performance of the 2016 Budget and the previous MTEF and FSP. In addition the following documents were also consulted:

(i) Fiscal Responsibility Act, 2007;

(ii) Review of the 2017- 2019 MTEF and FSP by National Assembly Budget and Research Office (NABRO); and

(iii) Review of 2017-2019 MTEF and FSP by National Institute for Legislative Studies (NILS).

4.0 2016 BUDGET REVIEW

The 2016 Budget which had an aggregate expenditure of ₦6.060 trillion was signed into law on 6th May, 2016. The core parameters of the 2016 budget were based on a bench mark oil price of US$38pb, oil production of 2.2.mbpd and exchange rate of ₦197/US Dollar. The projected FGN retained revenue and fiscal deficit for the

Budget was ₦3.855 trillion and ₦2.204 trillion respectively. The aggregate expenditure included statutory transfer of ₦351 billion, Debt Service of ₦1.361 trillion, recurrent non-debt of ₦2.646 trillion and capital expenditure of ₦1.587 trillion. The new borrowing which stood at ₦1.818 trillion included ₦1.182 trillion from domestic sources and the balance of ₦635.877 billion was from foreign sources.

4.1 Revenue Inflow

The 2016 Budget was predicated on the assumption that the country will produce oil at 2.2million barrels per day. However, available records shows that between January to October, 2016 the country produced an average of 1.7 million barrels per day. Frequent destruction of oil installation by the Niger Delta militants have been blamed for the decline. During the year 2016, global oil price recorded some impressive increase after crashing below the bench mark price of US$38pb. However, these increases could not compensate for the drastic decline in the quantity of oil produced by the country.

The Nigeria National Petroleum Corporation (NNPC) remitted to the Federation Account a net inflow of ₦573.356 billion for the period of January – September, 2016 slightly higher than the projected target of ₦441.283 billion while the Department of Petroleum Resources (DPR) remitted to the Federation Account a net inflow of

₦285.729 billion lower than the projected collection of ₦382.219 billion.

The non-oil revenue collections were unable to meet the projection. Federal Inland Revenue Service (FIRS) and Nigeria Customs Service (NCS) collected below their projections. The collection for corporate Taxes, Value Added Tax (VAT) and other taxes for the period of January – October, 2016 stood at ₦2.804 trillion representing 69%. While the Nigeria Customs Service collected a total sum of ₦585.381 billion (representing 62%) between January-October 2016. The 2016 Budget envisaged borrowing the sum of ₦1.182 trillion from the domestic markets. However, as at November, 2016, the whole sum had already been borrowed. On the external borrowing the African Development Bank (ADB) had approved the sum of USD 600million which was expected to be disbursed before the end of 2016. The under performance of the non-oil revenue is attributed to the following reasons:

(i) Global drop in oil price which has impacted on key sectors of the economy that are dependent on the oil sector, such as oil servicing companies, construction companies and financial institutions;

(ii) Foreign exchange policy, unavailability of forex has negatively affected imports and payments of taxes;

(iii) The general slowdown in the economy which has impacted business activities across all sectors of the economy and tax collection too; and

(iv) Late passage of 2016 Budget delayed capital expenditure thereby affecting Withholding Tax (WHT) and VAT payment from contracts.

4.2 Expenditure Outturns

Available data shows that the actual aggregate expenditure had always fallen short of the projection since 2011. As at the end of September 2016, out of the total appropriation of ₦6.06 trillion, ₦3.58 trillion had already been expended on both capital and recurrent. The total capital release as at the end of October 2016, stood at ₦753.6 billion (47%) which is behind targeted estimates, while recurrent expenditure was to the tune of ₦1.686 trillion as at end of October 2016.

The sum of ₦1.094 trillion (80%) was expended on domestic and foreign debt service out of ₦1.361 trillion appropriated as at September, 2016. Personnel cost obligations was met fully during 2016.

5.0 2017-2019 MEDIUM-TERM EXPENDITURE FRAMEWORK AND FISCAL STRATEGY

The 2017-2019 MTEF is framed to fundamentally restructure the economy for enhanced productivity, efficiency and accountability in the management of national resources, and unlocking the real and private sector potentials for bolstering inclusive growth. This will require more than a coordinated and focused spending on critical sectors that have strong impact on economic diversification potentials and fiscal, monetary and exchange rate policies to deliver the needed economic transformation.

Provisions in the MTEF are drawn from the government development priorities. The objective of Government's medium term strategy is to provide policy responses to position the economy for global competiveness. To achieve this, Government pledges to make the need to rebuild the macro fiscal and economic fundamentals of the economy a top priority. Thus proposing to make provision for targeted spending on critical economic sectors and infrastructure such as agriculture, solid mineral development and social investment to revamp the economy. There are also measures to enhance transparency and efficiency in the utilization of national resources to achieve more inclusive growth.

6.0 SUMMARY OF THE REVISED 2017 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF) AND FISCAL STRATEGY PAPER (FSP) PROJECTIONS

i. Daily crude oil production of 2.2mbpd;

ii. Benchmark oil price of $42.50 per barrel;

iii. Exchange rate - ₦305/USD;

iv. GDP growth rate 2.50%;

v. Inflation growth rate at 12.92%.

vi. Gross Federally collectible revenue ₦10.407 trillion;

vii. Gross Oil Revenue (Net of Cost of recovery and Solid minerals) ₦5.010 trillion

viii. Gross Non- Oil Revenue (inclusive of VAT dividend) ₦5.127 trillion

ix. Gross Non- Federation Account ₦265.00 billion

x. Net Federally Collectable Revenue ₦8.247 trillion

xi. Net Oil Revenue (after derivation and other cost) (inclusive of minerals) ₦4.095 trillion

xii. Net Non –Oil (inclusive of VAT dividend) ₦4.152

xiii. Net distributable pool Account (main FAAC and VAT) ₦8.231 trillion

xiv. Special distribution (signature bonus) ₦124.149 billion

xv. Net distributable pool (FAAC. VAT and special distribution) ₦8.355 trillion

xvi. FGN retained revenue ₦4.942 trillion

xvii. Total FGN proposed expenditure ₦7.298 trillion

xviii. Fiscal deficit ₦2.356 trillion

xix. Real deficit (% of GDP -2.18%)

xx. New Borrowing – ₦2.321 trillion;

xxi. Statutory transfers – ₦419.02 billion;

xxii. Debt Service – ₦1.663 trillion;

xxiii. Sinking Fund ₦177.46 billion

xxiv. Total Recurrent (Non-debt) – ₦2.629 trillion;

xxv. Aggregate Capital expenditure – ₦2.243 trillion;

xxvi. Special Intervention (Recurrent) – ₦350 billion;

xxvii. Special intervention (Capital)- N150 billion

7.0 JOINT COMMITTEE OBSERVATIONS/RECOMMENDATIONS ON KEY ASSUMPTIONS ON 2017 – 2019 MTEF AND FSP

7.1 Observation

7.1.1 Oil Production

Daily Oil production has been projected to the average of 2.2mbpd, 2.3mbpd and 2.4mbpd for 2017, 2018 and 2019 respectively.

Revenue derived from oil has gained prominence in Nigeria's finances since the 1960s. However, in the recent years, the challenges facing oil production (such as crude oil theft, pipeline vandalism and production shut-ins) have continued to undermine Government's investments in the sector. In dealing with these setbacks, Government is working towards coordinated reforms in order to make the industry attractive to both local and international investors.

More so, the Government would expect a drastic increase in oil production and revenue generated through oil sources, with the meaningful and inclusive engagement of all stakeholders in the Niger Delta region towards bringing peace and stability in the region.

Though, the oil production target of 2.2mbpd is achievable, it is dependent on the ability of the Federal Government to curtail the Niger-Delta militant activities in order to halt the drop in crude oil production which declined from 1,912mbpd in January 2016 to 1,818mbpd in June 2016 and thereafter, to 1,721mbpd in October, 2016.

RECOMMENDATION

The Joint Committee recommend the adoption of **2.2mbpd** as proposed by the Executive for the 2017 Budget.

7.2 Oil Price Benchmark

The price of crude oil in the international market fell to as low as about $25 per barrel in mid-January with an increase to more than $50 per barrel in October, 2016. These recent bumpy oil price variations were driven principally by international oil market dynamics such as the decline in the Organization of Petroleum Exporting Countries (OPEC) output, US oil sale and temporary supply disruptions to Countries like Kuwait, Iraq, Libya, Canada and

Nigeria. However, while global oil demand growth has proved slightly better than expected, a weaker US dollar and improving sentiment on broader financial markets have also boosted crude oil price.

Against this backdrop, the international oil industry watchers forecast oil prices heading slowly towards an average of over $60pb in the near term.

RECOMMENDATION

The Joint Committee recommends the adoption **of $44.5 per barrel** as benchmark price for 2017 Budget.

7.3 Exchange Rate

The 2017-2019 MTEF and FSP projects an exchange rate of ₦305 per dollar for the period of 2017 fiscal year. Notwithstanding, a judicious monetary fiscal policy mix and deliberate Government policies to expand the productive base of the economy would be expedient to improve the exchange value of the naira relative to the dollar. It has become obvious that the fixed exchange rate regime as implemented in Nigeria was no longer useful. The sustained and widening gap between the official exchange rate and the parallel market has created several loopholes in the system. However, the recent transition from fixed exchange rate regime to flexible exchange regime appears commendable.

RECOMMENDATION

The Joint Committee recommends the adoption of **₦305/US Dollar** as proposed by the executive for the 2017 Budget. However, the CBN should initiate measures that will close the gap between the parallel market and the official exchange rate.

7.4 Non-Oil Revenue Projection

For the 2017-2019 period, the underlying assumptions for non-oil revenue remain guided by the improved efficiency of collection and expected growth in the non-oil sector; basically reflecting the major non-oil contributors to Nigeria's GDP. The non-oil revenue sources comprise mostly of the Customs collections, companies Income Tax (CIT) and Value Added Tax (VAT). The projections for CIT are promising as the efficiency factor is expected to improve given the heightened efforts of the FIRS in broadening and strengthening the tax net. Tax income is expected to increase as government continues in its effort to improve on the business environment. Also, VAT projections over the Medium Term are currently based on maintaining the rate at 5% while focusing intensely on broadening the coverage. On the other hand, customs collections are projected on the Cost Insurance and Freight (CIF) value of imports, applicable tariffs and an efficiency factor.

Non-oil revenue in 2017 is projected at ₦5.122trillion which is lower than ₦5.749 trillion approved in 2016 on the account of lower Corporate Tax, VAT and Customs revenue collection in 2016.

RECOMMENDATION

The Joint Committee recommends the adoption of the projected **₦5.122trillion** for non-oil revenue in 2017. In addition, revenue generating agencies should intensify their revenue collections drive in order to boost the non-oil components of the revenue.

7.5 Federal Government Independent Revenue

The present administration has embarked on the following initiatives to either improve revenue or reduce wastages in Government expenditure:

a. Setting up of the efficiency unit to reduce the high cost of overhead costs;

b. Strengthening the implementation of the Treasury Single Account by moving all Government Accounts in the Commercial Banks to Central Bank of Nigeria; and

c. Enrolment of more Agencies including the Police, Paramilitary and the Military in the Integrated Personal Payroll Information systems (IPPIS).

Failure of some Agencies to remit their operating surplus into the Consolidated Revenue Fund (CRF) in line with the Fiscal Responsibility Act, 2007 as most claimed to be operating at a loss and enabling Act establishing various Agencies that allow them to spend their revenues outside the CFR is the major problem associated with low remittance of the FGN Independent Revenue. The Federal Government independent Revenue projection for 2017 stand at ₦807.57 billion, it was reduced significantly from the highly optimistic level of ₦1.505 trillion approved for 2016, and the earlier projection of ₦1.207 trillion for 2017. This reflects the poor level of collection and remittance or inefficiency in the collection and management of independent revenue by MDAs and Government owned enterprises.

RECOMMENDATION

The Joint Committee recommends the adoption of **₦807.57 billion** for Federal Government Independent Revenue for 2017. It further recommends the review of the legal frame work of relevant MDAs and Government owned enterprises. This will ensure that agencies pay operating surplus and remit appropriately their gross revenues into the Consolidated Revenue Fund (CRF). This step may also include repealing of the existing Acts of some agencies which currently allows them to utilize their revenues outside the CRF.

7.6 Domestic and Foreign Debts

The globally acceptable ratio of debt to GDP is 56%. Nigeria still operates within its country specific ratio of 19.39% of debt to GDP. This implies that Nigeria can still potentially borrow or/ increase its country borrowing limit. Total outstanding external debt stock is at $11.26 billion, thus Nigeria's external debt has been rising at an average of 9.2% per annum. In the case of domestic debt, the total domestic debt stock of the Federal Government is $37.44 billion.

In 2017 FGN is projecting an additional borrowing of ₦2.321 trillion comprising of ₦1.253 trillion (domestic) and ₦1.067 trillion (foreign).

RECOMMENDATION

The Joint Committee recommends the adoption of the 2017 borrowings, but insists that they should be on project-tied basis. In borrowing more, government must remain focused and ensure it is used to fund critical projects that will increase productivity and also contribute to financing such debt.

7.7 National Social Development Programs

Owing to the recent economic recession, the Government has resolved to remain committed to cushion the effects, especially on the ordinary citizens through an integrated social inclusive development strategy. Government will also continue to pursue gender-sensitive and inclusive job creation, social intervention schemes and encourage entrepreneurship and innovation among young graduates. In fulfillment of the implementation of social development program, a special intervention (Recurrent and Capital) to the tune of ₦350 billion and ₦150 billion is budgeted in the 2017 Fiscal year.

RECOMMENDATION

The relevant committees of the National Assembly should closely and constantly oversight the MDAs on the implementation of these programs to ensure effective, widespread and representative targeting of beneficiaries.

7.8 ECONOMIC DIVERSIFICATION

In the previous years, the main source of revenue to the federation comes from oil but owing to the recent vandalization of the pipelines in the Niger-Delta region, the income accrued from oil sources has drastically dropped. Therefore, imbibing a Corporate Strategy in which the country would acquire or establish a business especially through Agriculture, Solid mineral and mining other than concentrating majorly on oil revenue would be of great importance to the economy's growth most especially in this critical period of economic recession.

RECOMMENDATION

The joint committee recommends that, Government should implement drastic measures to achieve self-sufficiency and become an exporter of certain agricultural and mining products. In addition, increase local production of maize, soya, poultry and livestock etc, so as to achieve self-sufficiency as well as attracting investment into the Solid minerals; Tourism and Entertainment sectors.

8.0 CONCLUSION

The joint Committee sincerely expresses its appreciation to the Senate leadership, and the entire Senate for the opportunity to serve in this capacity.

Thank you.

Senator Hope O. Uzodimma
Member

Senator Yusuf A. Yusuf
Member

Senator Adeola O. Solomon
Member

Senator Matthew A. Urhoghide
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Senator Mustapha M. Sani
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