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UNBOXING FG'S 2016 PROPOSED BUDGET

2016 PROPOSED BUDGET

Changes over 2015 Allocation

2016 BUDGET
Difference between 2016 and 2015 Budget

Ministry of Works Power & Housing
467,645,043,369
+405,740,224,377

Police Formations and Command
300,100,330,698
-21,521,893,913

Ministry of Interior
198,352,766,543
42,132,744,083

Ministry of Agriculture
76,753,672,273
+36,132,651,556

Ministry of Foreign Affairs
49,526,208,900
+1,376,826,734

Ministry of Information & Culture
45,162,778,886
+21,017,304,459

Capital Territory Administration
37,756,697,983
24,256,697,983

Ministry of Environment
19,678,214,892
+2,178,880,551

Industry, Trade & Investment
16,682,662,867
+3,924,803,387

National Population Commission
9,976,786,028
+182,985,974

Federal Ministry of Women Affairs
3,974,395,038
881,321,175

Code of Conduct Bureau
2,224,598,099
-98,669,245

Police Service Commission
980,705,292
-9,771,893

Code of Conduct Tribunal
784,319,234
-22,670,188

Ministry of Defence
429,098,182,742
+53,600,963,311

Federal Ministry of Health
257,382,151,746
-2,369,591,101

Ministry of Youth & Sports Development
75,476,387,061
+4,591,959,582

Ministry of Petroleum Resources
62,115,123,639
+2,340,693,664

Ministry of Water Resources
44,206,418,733
+20,759,465,171

Ministry of Water Resources
44,206,418,733
+20,759,465,171

Federal Ministry of Justice
18,836,291,016
-1,108,347,334

Communication Technology
15,997,128,516
+4,405,080,136

Civil Service of the Federation
8,042,152,611
+951,595,883

Federal Character Commission
3,371,278,211
1,053,347,143

Revenue Mobilisation, Allocation & Fiscal Commission
2,111,195,904
-346,017,552

Infrastructure Concessionary Regulatory Commission
897,835,007
-57,333,497

Fiscal Responsibility Commission
494,065,768
+148,802,634

Ministry of Education
406,556,376,895
-9,327,407,759

Ministry of Transportation
215,797,393,980
+186,032,692,056

National Security Adviser
90,350,068,052
+1,623,296,054

Secretary to the Government of the Federation
62,358,813,315
+4,345,113,731

Ministry of Science & Technology
53,743,337,717
+23,893,234,653

Presidency
39,124,978,811
+14,651,113,694

Ministry of Niger Delta
26,332,596,554
+15,898,395,817

Mines & Steel Development
18,625,703,622
+7,594,594,082

Labour & Employment
13,397,589,915
+4,576,312,607

Independent Corrupt Practices & Related Offences Commission
4,618,378,795
-292,558,048

Auditor General for the Federation
2,996,054,797
-221,243,217

Federal Civil Service Commission
1,053,055,043
-221,950,071

National Salaries, Incomes $ Wages Commission
811,119,532
-13,990,001

Federal Ministry of Special Duties SGF
72,894,125
-14,590,912

About BudgIT

BudgIT is a civic organisation driven to make the Nigerian budget and public data more understandable and accessible across every literacy span. BudgIT's innovation within the public circle comes with a creative use of government data by either presenting these in simple tweets, interactive formats or infographic displays. Our primary goal is to use creative technology to intersect civic engagement and institutional reform.

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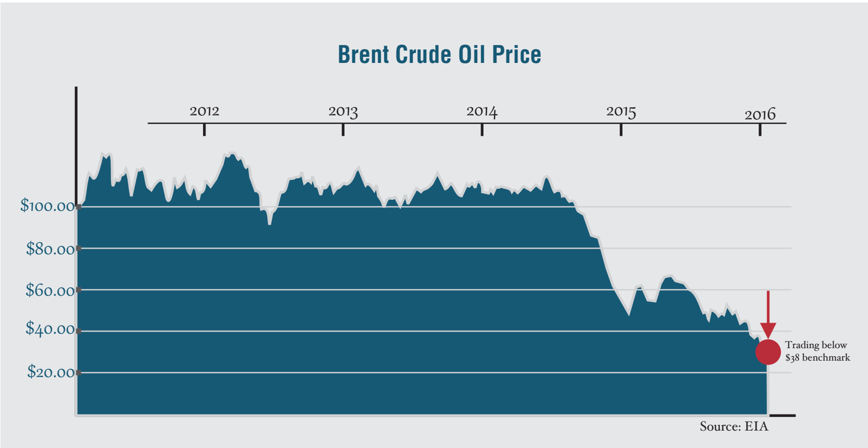
INTRODUCTION

Is the 'ungolden' era of oil over?

The proposed 2016 Federal Government Budget will be mainly funded by taxes, debt and independent revenue. However, Nigeria's 2016 spending plan is optimistically predicated on oil production topping 2.2million barrels per day, as against a daily average of 2.05million barrels achieved between January and September 2015. The budget for Africa's largest economy is hinged on a proposed benchmark oil price of $38 per barrel through 2016. In actual terms, oil prices have been battered by a glut in global supply, mainly caused by record production by OPEC nations, while demand is failing to keep up. In the first weeks of January 2016, Brent Crude prices fell well below $30, significantly distant enough from Nigeria's benchmark to possibly exert pressure on the country's finances.

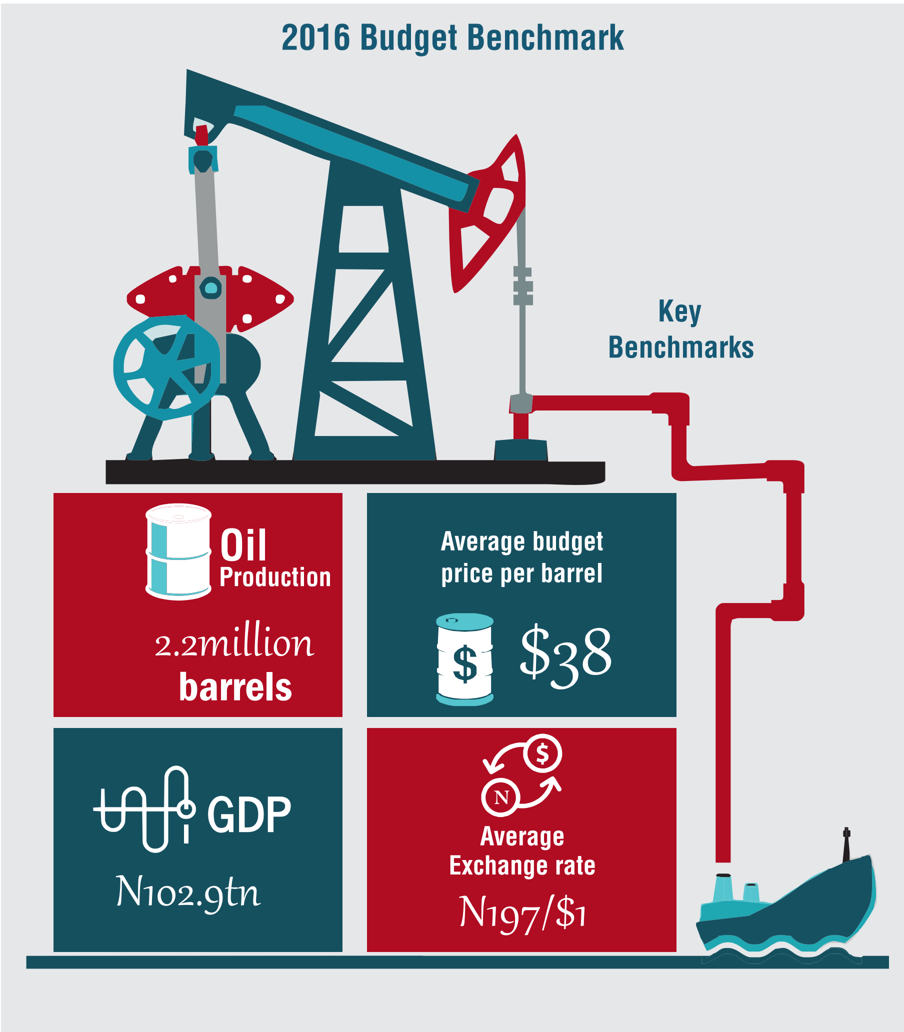
The market prognosis for crude - the anchor of Nigeria's fiscal stability - remains bleak; the World Bank has slashed its crude price forecasts, while latest reports from the International Energy Agency's (IEA) express the same sentiments for 2016, as a surfeit of the commodity is expected to likely continue to force prices downwards.

Despite this, no country is willing to commit to cuts in production, including Nigeria. Amid these dynamics, Iran hopes to increase oil output by 500,000 barrels per day and stands ready to offer the product at a discount, while the United State's 40-year-old ban on exporting U.S. crude has been lifted.



Other crucial trends that will directly impact Nigeria's treasury are the recent slowdown in China (the world's second-largest user of crude), as well as the economic uncertainty in Brazil and other commodity-powered economies, which may ensure the demand for crude oil falls significantly.

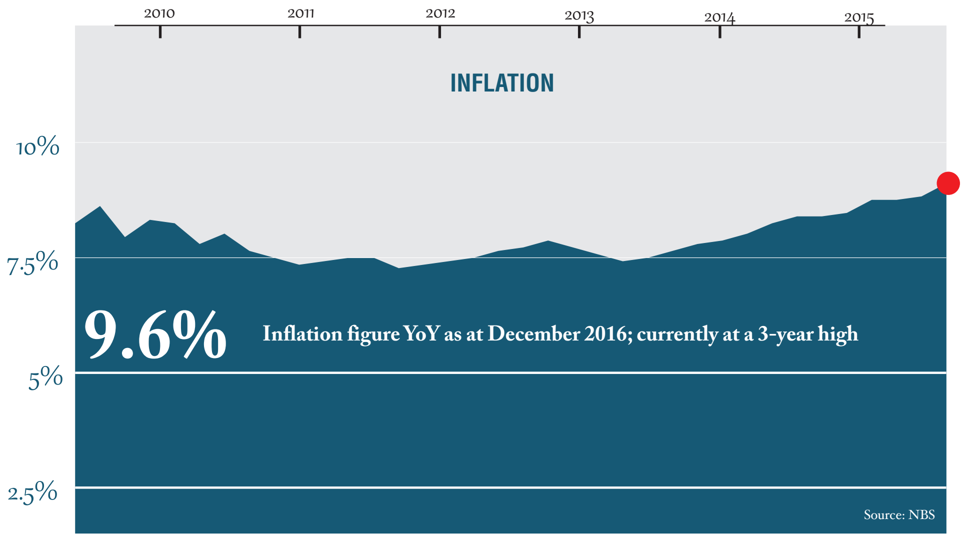
Nigeria has so far failed to learn from its peer in North America; Mexico, where oil sales consistently make up about a third of the country's budget. Mexico's Crude Oil Hedging Programme allows the sale of oil at a predetermined price, guarding the government's finances against the volatility of the crude oil markets. The reality is that Nigeria's economic growth, its stock market performance, foreign exchange earnings and government finances are connected to the price of crude oil price. Therefore, in these times when the commodity is taking a severe hit, fiscal woes are sure to follow , unless public spending is circumspect and cognisant of the consequences of a virtually total dependence on black gold.



THE RED CHART

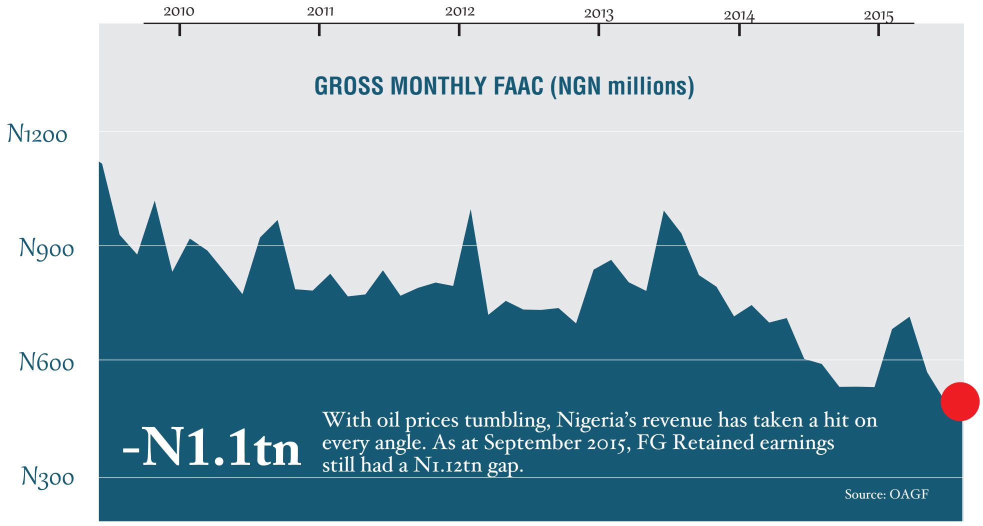
1

INFLATION RISING MILDLY



2

FALLING GOVERNMENT REVENUE



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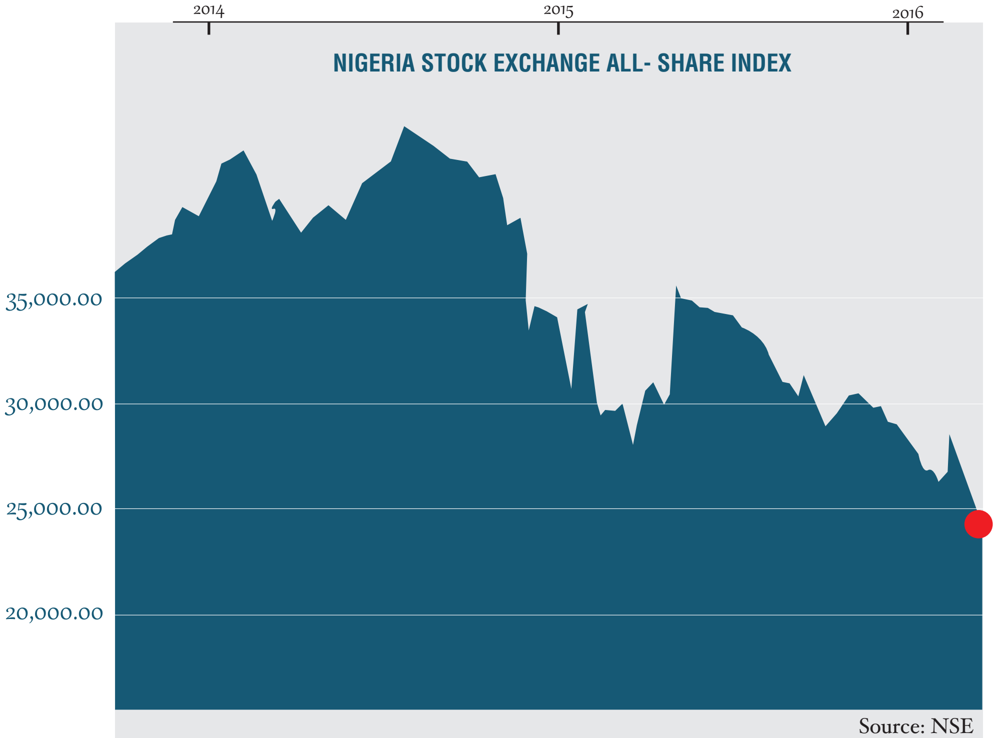
GOVERNMENT DEBT STOCK RISING

4

ASSET CLASS COLLAPSING



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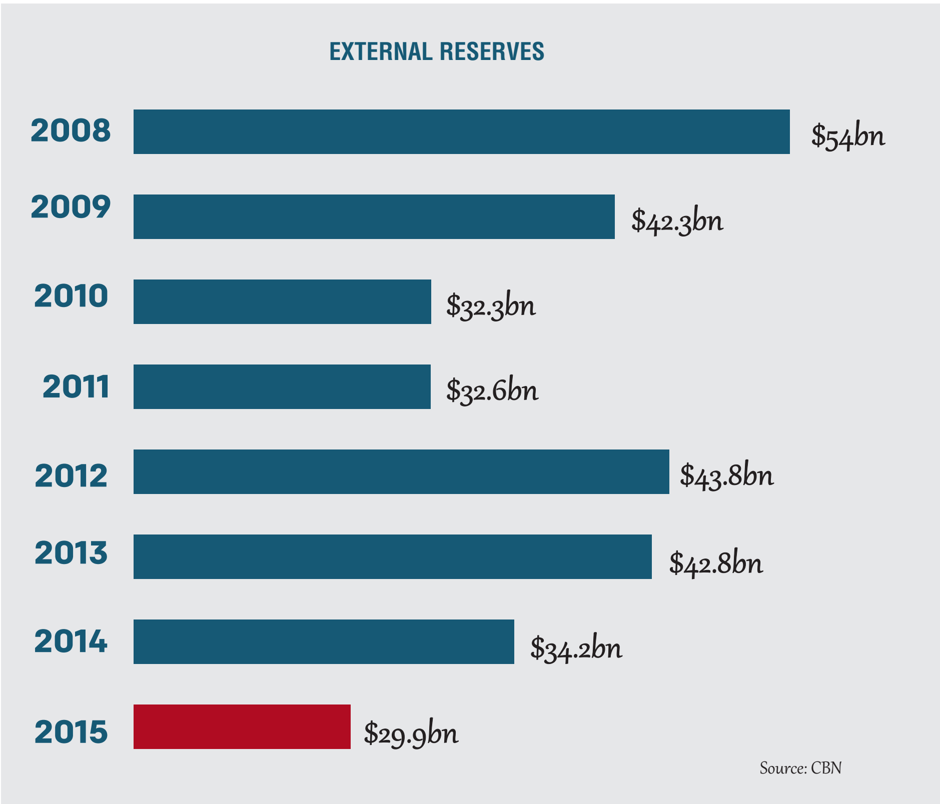
FALLING EXTERNAL RESERVES



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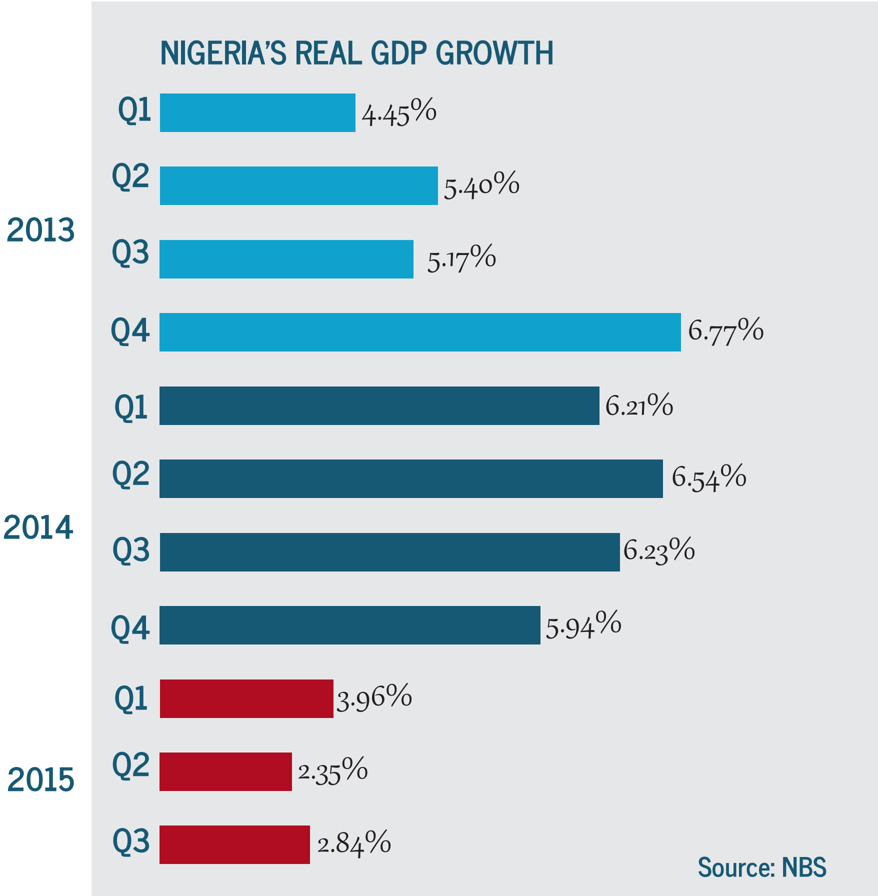
SLOWING ECONOMIC GROWTH



BUHARINOMICS SO FAR

Loot Recovery

Setting up Efficiency Unit

Improved Transparency at NNPC

Unwilling to remove fuel subsidies

N2.2tn
Proposed record deficit at N2.2tn

N1.7tn
The Treasury Single Account with N1.7tn balance

N620bn
Capital fund for Works, Power, Housing & Transport

Diversification - firm leadership at FIRS, Customs & Solid Minerals

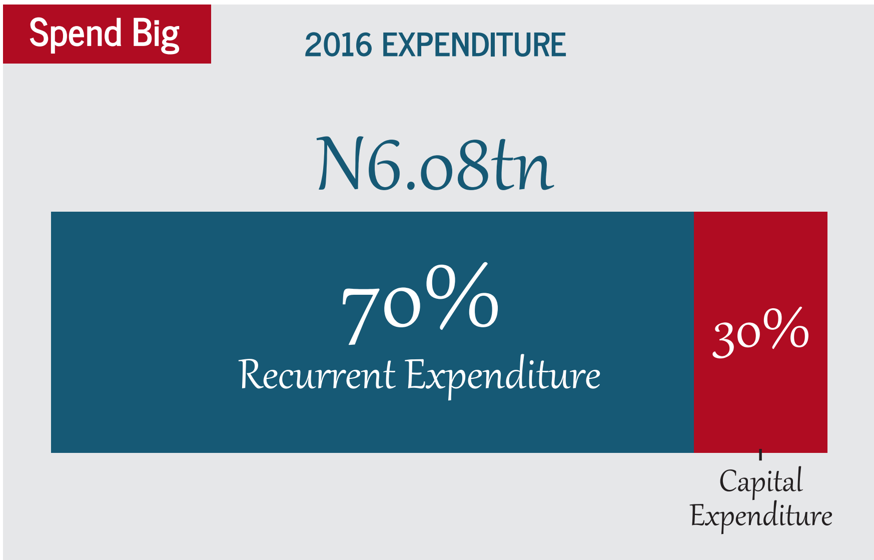
Raise liquidity for banking sector-specific investments

UNBOXING THE PROPOSAL

Nigeria's 2016 budget plans suggest that its strategy out of the current sluggish growth is to resort to substantial government borrowing and huge spending.

The concept that government should respond to any economic downturn by using fiscal policies to stimulate the economy and in turn, boost demand for goods and services is not new. The "Keynesian" school of thought on fiscal policy, named after John Maynard Keynes who laid its groundwork in 1936 with his "General Theory of Employment, Interest, and Money" emphasises the role of fiscal policy in stabilising the economy. By and large, the Nigerian government seems to be focused on following its tenets.

At N6.08tn, the Federal Government's expansionist spending plan, as presented to the National Assembly (NASS), falls short of the N8tn estimated earlier in the public sphere.



Within the document, the Federal Government (FG) is projecting its revenue at N3.86tn, resulting in a deficit of N2.22tn. This deficit projection is the country's biggest yet; according to data from the Central Bank in the last 34 years, Nigeria has managed to post only two years of fiscal surpluses. A budget surplus of N1bn and N32.05bn was recorded on the back of a N248.77bn and N337.22bn spending plan in 1995 and 1996 respectively. Therefore, the longest uninterrupted stretch of deficit spending began in 1997, with 2016 deficits set to reach record highs.

In percentage terms, Nigeria is essentially planning a budget deficit worth 36.51% of what it hopes to spend in 2016. As amazing as these facts seem, they are hardly novel. In 1991, Nigeria borrowed 53.70% of its budget. In 1982, 1986 and 1988, the Federal Government borrowed 51.20%, 50.88% and 43.82% of its spendings respectively. In 1994, 43.68% of the budget was also financed by borrowing.

The crux here is that, as the headwinds to revenue growth (chiefly oil) intensify, the current deficit may correspondingly grow wider during the fiscal year. Deficits have the effect of raising debt service cost and reducing available future revenues in the long run. This is why Nigeria needs to be conservative in applying debt instruments unless such measures are tied to growth, increase tax take and necessary infrastructure.

THE STAGGERING DEFICIT

N2.2tn

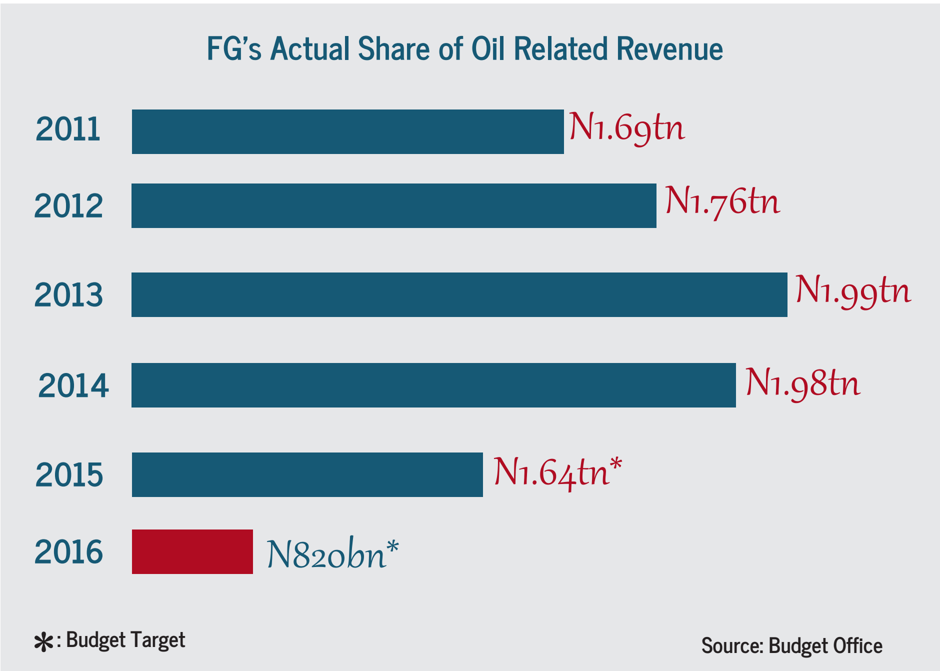
The Deficit, which is equivalent to 2.16% of Nigeria's GDP or 36.51% of the total government spending plan for 2016.

REVENUE

OIL REVENUE

In 2015, the FG's projected revenue from the oil sector as contained in the 2015 budget was N1.63tn. With the price of crude heading south, taking with it profitability in the sector, Nigeria is hoping to squeeze out N820bn as oil revenue. This is a 50% drop from 2015 projections - an amount that can barely fund the salaries of Nigeria's civil servants over a five-month period. That this year, Nigeria is hoping to achieve half of its earnings from oil in 2015 is a clear warning on the urgent need to tangible diversify the country's revenue streams.

The budget is predicated on oil production topping 2.2million barrels per day - an ambitious target - as against a daily average of 2.05million barrels achieved between January and September 2015. Ideally, Nigeria should not be seen debating on improvements in the pricing of crude while simultaneously working to increase production - a move that can only further depress an oversupplied market. With profits from oil falling and lending rates increasing, a reduced appetite for the sector is to be expected. The average investor worldwide would be wary of making commitments towards ramping up oil production.

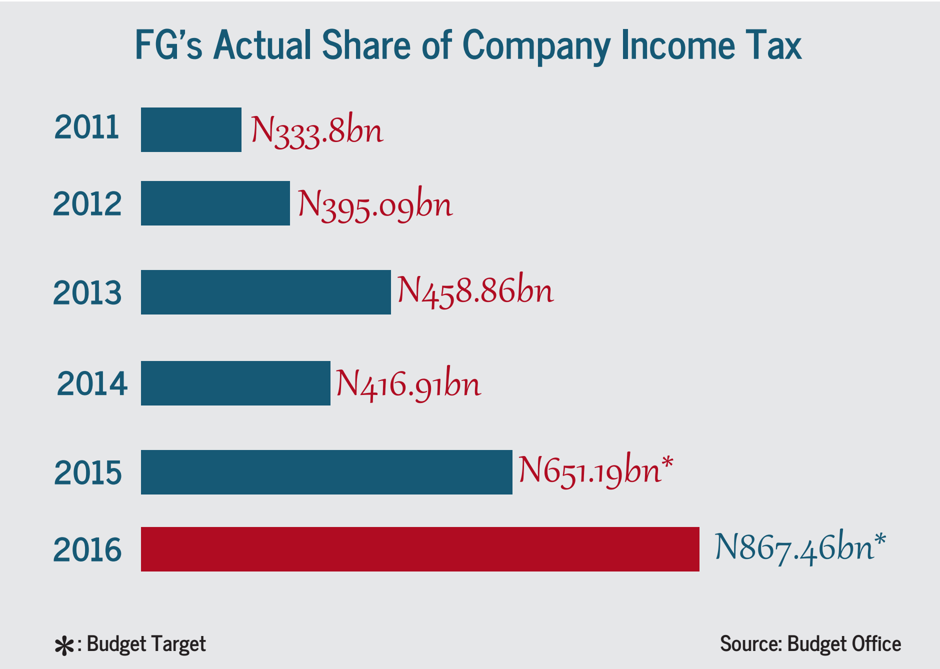


NON - OIL REVENUE

COMPANY INCOME TAX

By contrast, the FG's share for Company Income Taxes (CIT) - a tax on corporate profitability - is projected at N867bn in 2016; a 33.2% increase from 2015 targets of N651bn. As at September 2015, CIT collected was N343bn - 52% off the initial projections. At the current run rate, collection was pegged at N457bn as at December 2015.

Nigeria's CIT rate, at 30%, is one of the world's highest. The long-term benefits would possibly outweigh the short-term costs, if the rates are brought in line while the global average of 23%. Company profitability is declining, with economy growth is tanking. There is a lack of incentives to operate businesses under corporate cover, given that personal income tax rates are lower. Rising inflation is also a factor, while increasing electricity and capital costs assume predatory proportions. These indices force the belief that the CIT projections are ambitious.

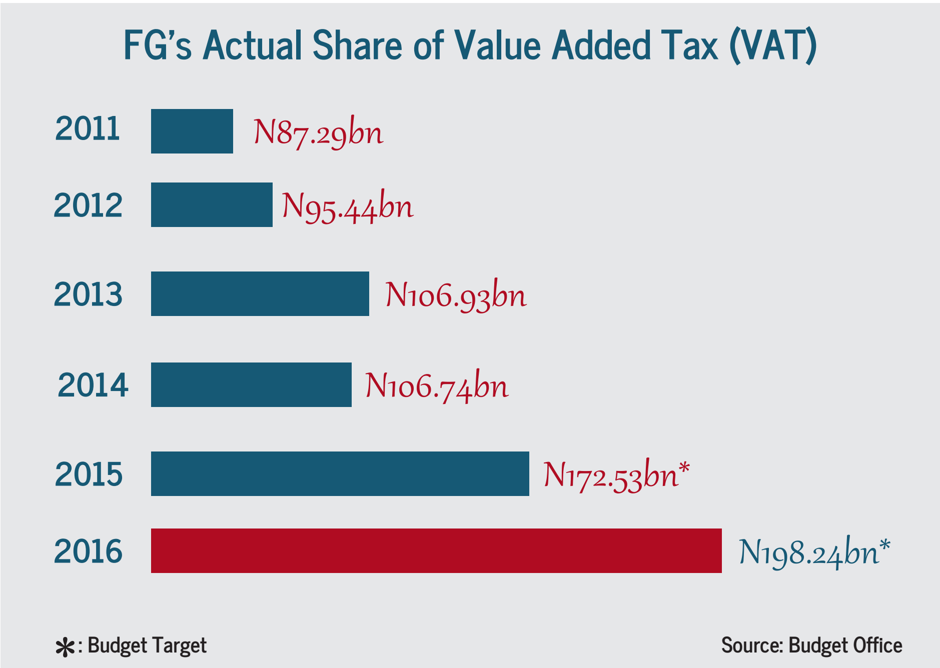


VALUE ADDED TAX (VAT)

Presently using the invoice method for VAT collection, government revenue from Value Added Tax (VAT) is about one of the lowest in the world. Rates are at the lowest threshold - at 5%. About a quarter of VAT - 23.3% (N13.15bn out of a total VAT collection of N56.39bn) in Q3 of 2015 was achieved at the country's ports. Figures from the Federal Inland Revenue Service show that VAT receipts from the petroleum industry, State government and Federal Government spendings directly contribute approximately 42% into Nigeria's VAT pool.

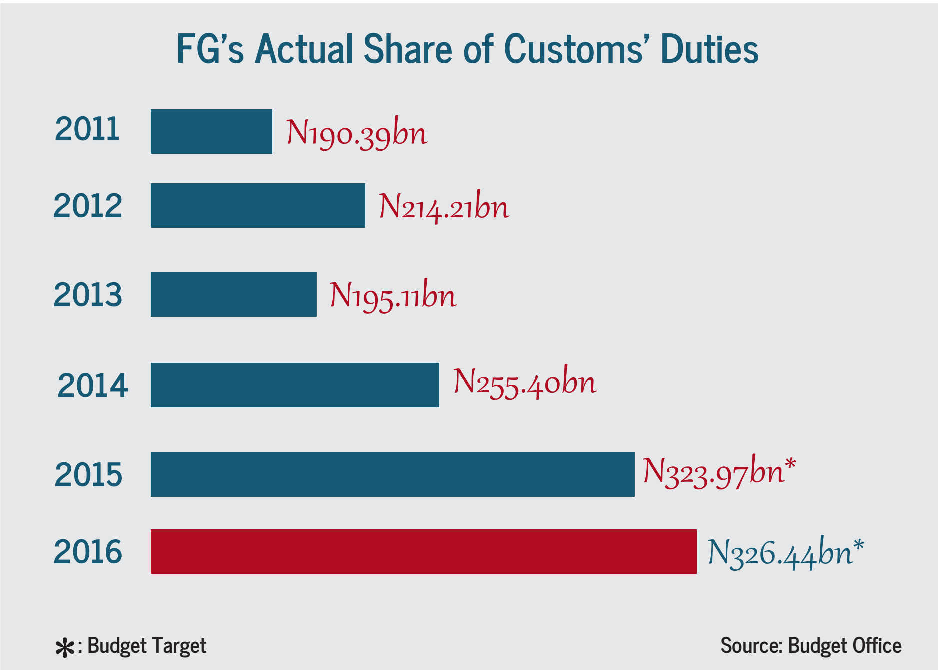
With State governments routinely struggling to meet basic obligations including the payment of salaries, their earning power - and by extension their VAT contributions could be severely reduced, leading to significant income shortfalls. The Federal Government is projecting an increase in VAT receipt from 2015 levels of N172bn to N198bn in 2016, though actual collection as at September 2015 stood at approximately N80bn, or approximately 46% of 2015 targets.

Clearly, this revenue segment will witness the strongest pressure, but not necessarily the best outcomes, as Nigerians' spending is concentrated around basic food items and transportation, both of which are tax-exempt areas.



CUSTOMS AND DUTIES

Federal Government share of revenue projections from the Nigeria Customs Service's duties increased from N323bn in 2015 to N326bn in 2016. Considering that the FG's share of actual collection as at September 2015 stood at N173bn - a little over half the amount expected to accrue to the Treasury - these collection rates, at 53%, indicate a gross overestimation of Nigeria's earning capabilities. The CBN recently introduced a currency control system, increasing a list of items that cannot be imported with officially-sourced forex, effectively reducing the import portfolio of some businesses. As this policy takes hold, it is possible that trade volume may witness a reduction; low imports by companies may mean increased production on home soil, but could also translate to low revenue from tariffs by Customs. More conservative projections, which would take into account these realities would have been expected.

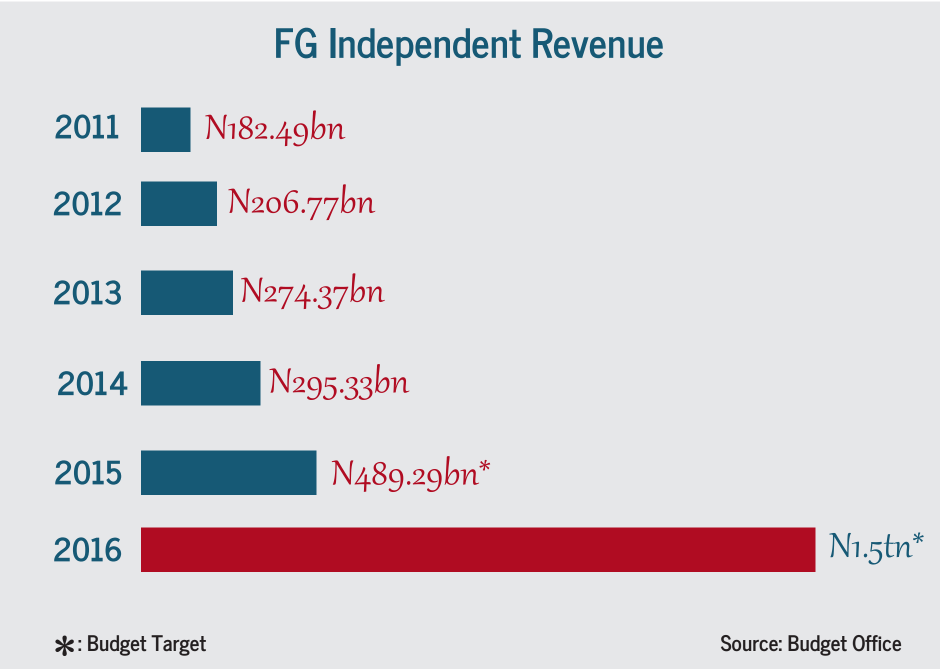


FG INDEPENDENT REVENUE

Independent Revenue agencies are Federal Government Agencies that earn income but are required by law to remit 80% of their "Operating Surplus" to the Treasury. Unfortunately, the term "operating surplus" has been ill-defined, with many agencies running prohibitive operational costs. The government hopes to plug the loops and squeeze significant revenue from the agencies with a dedicated Treasury Single Account (TSA).

For 2016, the FG expects some N1.5tn from independent revenue sources. So far, actual receipts jumped significantly from N300bn in 2014 to N489bn as at September 2015. The Government has touted the TSA as a main vehicle for eradicating collection and disbursement inefficiencies, especially given that the TSA had N1.7tn in its coffers as at September 2015.

So far, we are in agreement that the TSA presents the best opportunity to streamline fiscal remittances and the system will be closely watched as a possible case study for tangible progress towards transparency and frugal fund management by the government.



FG 2016
SPENDING PLAN

NIGERIA'S 2016 SPENDING PLAN

STATUTORY TRANSFERS

THE NIGER DELTA DEVELOPMENT COMMISSION

The NDDC, is an agency of government established in 2000 with its mission noted as facilitating the rapid, even and sustainable development of the Niger Delta. The organisation was allocated N41.05bn in 2016, down from N46.72bn in 2015. Curiously, the projects and programmes which the NDDC will undertake are locked away from public scrutiny, making it difficult to identify and analyse these against the noted objectives of the organisation. This development usually leads to costing disparities and periodic duplications of such programmes and projects.

THE NATIONAL JUDICIAL COUNCIL

The National Judicial Council, a federal body created to insulate the Judiciary arm of government from the whims and caprices of the Executive, was allocated N70bn in 2016, down 4.3% from its 2015 allocation of N73bn. Any cut in government spending is welcome, particularly where the projects and programmes which the NJC is expected to utilise these funds for are not made sufficiently clear to the public.

THE UNIVERSAL BASIC EDUCATION SCHEME

At N77.11bn in 2016, allocations are up 12.77%, as against N68.38bn allocated in 2015. The financing of basic education is the responsibility of state and local governments. However, the Federal Government has decided to intervene in the provision of basic education by committing 2% of its Consolidated Revenue Fund allocation. This intervention is laudable, and will go a long way in helping struggling States. However, many State have not put up their matching grants to access the fund.

THE NATIONAL ASSEMBLY

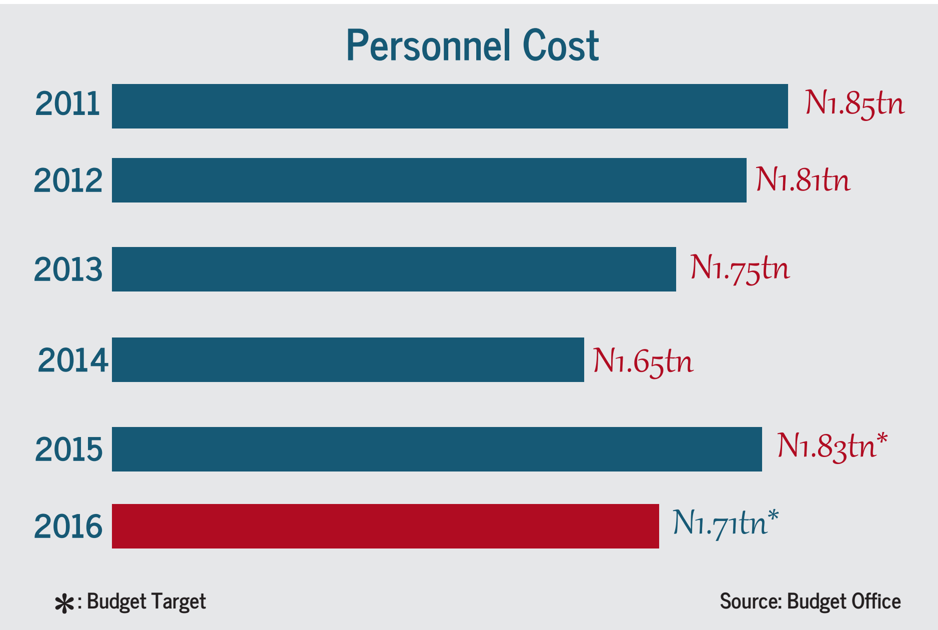
The National Assembly will be getting a whopping N115bn in 2016; without clearly stating what exactly the money will be spent on, and how. The perversive opacity in public finance administration can only be corrected if the National Assembly takes the lead in ensuring details, cost and impact of programmes is undertaken. The greatest irony in Nigeria's public life is that the National Assembly's spending plan is kept away from scrutiny by the same citizens who elected the lawmakers, even in a year when Nigeria will potentially face her biggest budget deficit.

RECURRENT EXPENDITURE

Significant portions of the recurrent expenditure allocations are directed at key government services such as Education, Health, Police Defence, Interior and Interior Ministry. Planned for Education is N369.6 billion; N294.5 billion to Defence; N221.7 billion to Health and N145.3 billion to the Ministry of Interior. This is not at a marked tangent from what was previously allocated, but nevertheless, it is impressive that the Federal Government has decided to put a cap on Ministries bloating the recurrent component of their budgets.

PERSONNEL COSTS

Federal Government plans to spend N1.71tn in 2016, or 28.14% of total expenditure, on the salaries and remuneration of its civil workers; down from N1.83tn in 2015 or 40.7% of the approved budget. Interestingly, Nigeria spent N1.65tn as personnel costs in 2014. The reductions in 2016 allocations can be ascribed to several reasons. First, the Federal Government's failure (or intentional decision not) to recruit, as planned in 2015.



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Instances of Suspicious/Wasteful Spending in proposed 2016 Budget

- N19.8bn — Travels
- N6.78bn — Purchase of Computers
- N13.49bn — Software Acquisitions
- N1.6bn — Budget Preparations
- N4.02bn — Office stationery/ Computer Consumables
- N24.8bn — Purchase of Vehicles
- N12.2bn — Monitoring and Evaluations
- N16.03bn — Rehabilitations/Repair of Office Buildings
- N1.7bn — Office Rent
- N10.9bn — Purchase of Furnitures and Fittings

Total N111.32bn

If the N111.32bn (Suspicious/Wasteful Spending) is reallocated, it can be used to:

Buy

27,830 units
Social housing at N4m/unit

Provide

5.2million
Tablet Computers at N20,000/unit

Build

550MW
Gas fire power plant

Give

8million
School desks/chairs at N15,000 per unit

Construct

₦140BN
A 2nd Niger Bridge

Construct

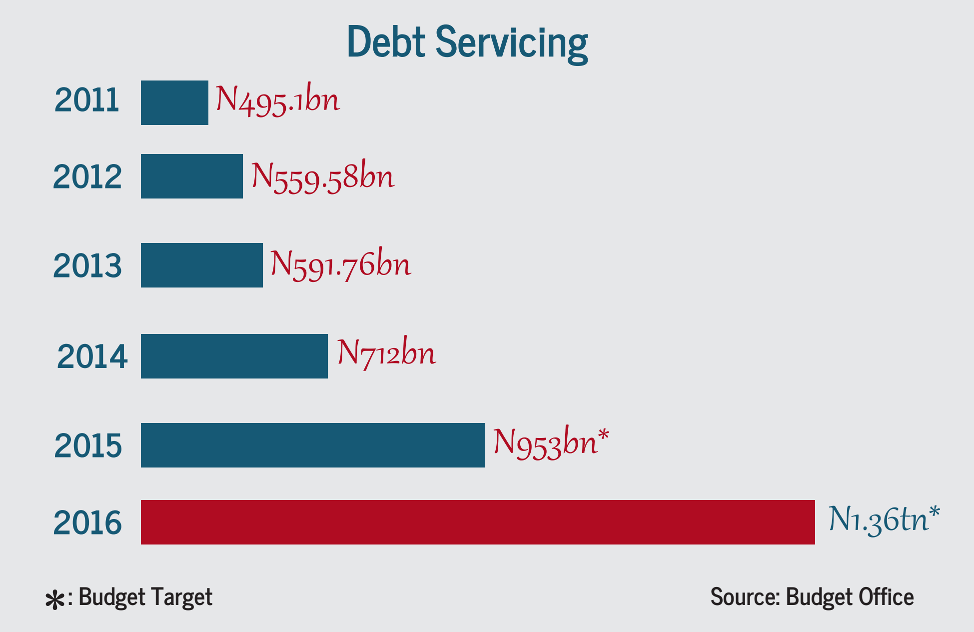
1,387.5km
of township roads at N80m/km

Second, reductions have been witnessed in the numbers of permanent secretaries and directors across Ministries, Departments and Agencies (MDAs). Third, and most importantly is the migration to a central payroll management system. The Federal Government directly contributed 7.75% and 6.63% of salaries and allowances paid out to Nigerian workers in the first and second quarter of 2015. The FG's payout of N440.79bn and N419.29bn as salaries and remuneration in Q1 and Q2 2015 (as against a prior quarterly target of N457.56bn) shows that efficiency in the government's administrative processes is gaining ground.

Nevertheless, the total personnel costs of government may not be fully captured in this proposal, as remuneration "in kind" is known to still find its way into line items and programmes at MDA level. It is also worth noting that the recruitment of 500,000 teachers by the Federal Government will undoubtedly hike personnel costs in the near-term.

DEBT SERVICING

The cost of servicing the Federal Government's debt, relative to its revenue, is entering uncharted territory. From 2015 projections of N953.62bn, the figure is now N1.361tn. At 35.29% of projected revenue in 2016 - the highest level since 2003, Nigeria may be sliding into a debt trap.



The country is borrowing big in 2016, at a time when yields on Eurobonds periodically attain highs and the cost of funding from domestic sources is more often than not astronomically prohibitive. The cumulative effect could further feed into amounts dedicated to servicing the debt, driving this noted figure upwards. Worse still, over the fiscal year we are hard-pressed to see clear links between debts and projects which can offset these costs.

OVERHEAD COSTS

The overhead costs of running government are down from 2015 levels of N177.6bn to N163.39bn. Interestingly, Nigeria actually spent N127.7bn and N82.2bn in Q1 and Q2 2015 respectively, against a target of N105.64bn. Clearly, the government's decision to readjust the unit cost of electricity may not have been factored into the budget preparation phase, as this sole factor can contribute towards hiking eventual overhead costs.

The FG plans to buy stationeries and computer consumables worth N4.1bn for its workforce; N372m on newspapers and periodicals. A further N19.8bn will be spent on international and domestic travels, while the bulk of the balance will be for utility bills and general maintenance. We think the Federal Government, with its Efficiency Unit set up by the Ministry of Finance, needs to perform a holistic review of overheads and also encourage collective bargaining based on proven pressing needs of Ministries. It is disappointing that several line-items as noted earlier still exist, or are marked up in a budget proposal that was touted as being zero-based.

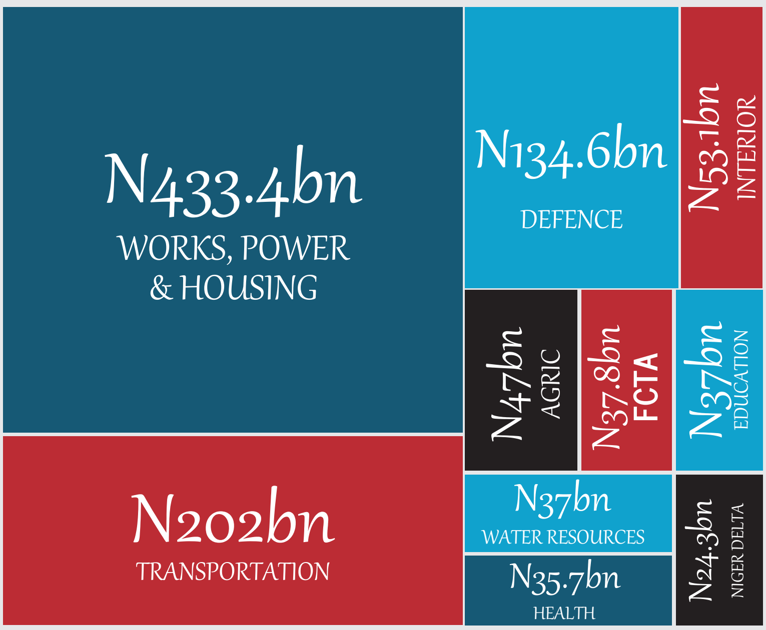
CAPITAL EXPENDITURE

The capital expenditure portion of the 2016 spending plan is up 223%, from N557bn in the 2015 budget to N1.8tn or 30% of the total budget. The increased capital expenditure allocations commit significant resources to critical sectors including: Works, Power and Housing – N433.4bn; Transport – N202.0bn; Special Intervention Programmes – N200.0bn; Defence – N134.6bn; and Interior – N53.1bn. The investments in infrastructure and security are meant to support the Agriculture, Solid Minerals and other core job-creating sectors of the economy. This is one area where such an increase is welcome, provided allocations go on to be disbursed to achieve pre-set goals for the benefit of all Nigerians.

Beyond the blanket allocations, Federal Government plans to spend N25.09bn on the construction and provision of electricity; N44.5bn on housing; N224.12bn towards road construction; N90.04 bn on the construction of railways; N52.75bn on its waterways and N17.626bn for the construction and retrofitting Nigerian airports/aerodromes. In total, Federal Government plans a N550.9bn spend on critical infrastructure - approximately 24.11% of its capital allocation.

These glimmers of promise are overshadowed by a few other pitfalls, such as the government's plan to spend almost N42.48bn of the capital allocation budget (2.4% of the capital budget) on the procurement and purchase of office furniture and fittings, computer software and new vehicles.

KEY CAPITAL ALLOCATIONS



SOCIAL INTERVENTION PROGRAMMES

The FG may have increased the size of the budget for its share of capital expenditure from 18% to 30%, but it has also raised the actual size of recurrent expenditure by N400bn - from N3.9tn to N4.31tn. This is mainly due to a rise in debt servicing costs and also the additional N300bn recurrent cost on its social intervention programmes. The MTEF document/budget shows this sum of N300bn is voted for social intervention programs which are: the Conditional Cash Transfer; the Home-grown School Feeding programme, the post-NYSC Entrepreneurial Development programme and Micro credit loans (for SMEs, market women, etc.).

Separately included in the budget as "Special Intervention" (and not

Social Intervention Programmes

Teach Nigeria Hire 500,000 graduate teachers	**Youth Employment & Empowerment** Skills acquisition and vocational training
Conditional Cash Transfer N5000 to 1million given to extremely poor Nigerians	**Home Grown School Feeding** A meal a day in public primary schools
Free Tertiary Education 100,000 science, engineering & technology students	**Micro Credit Scheme** N60,000 soft loans to market women and artisans

“Social intervention”) is the Teach Nigeria programme, which aims to recruit 500,000 teachers, and the Free Tuition for Tertiary Education Student (sciences). This play on words is reminiscent of past budgets, and therefore does not inspire confidence that a streamlined, lean budget is what every Nigerian is getting.

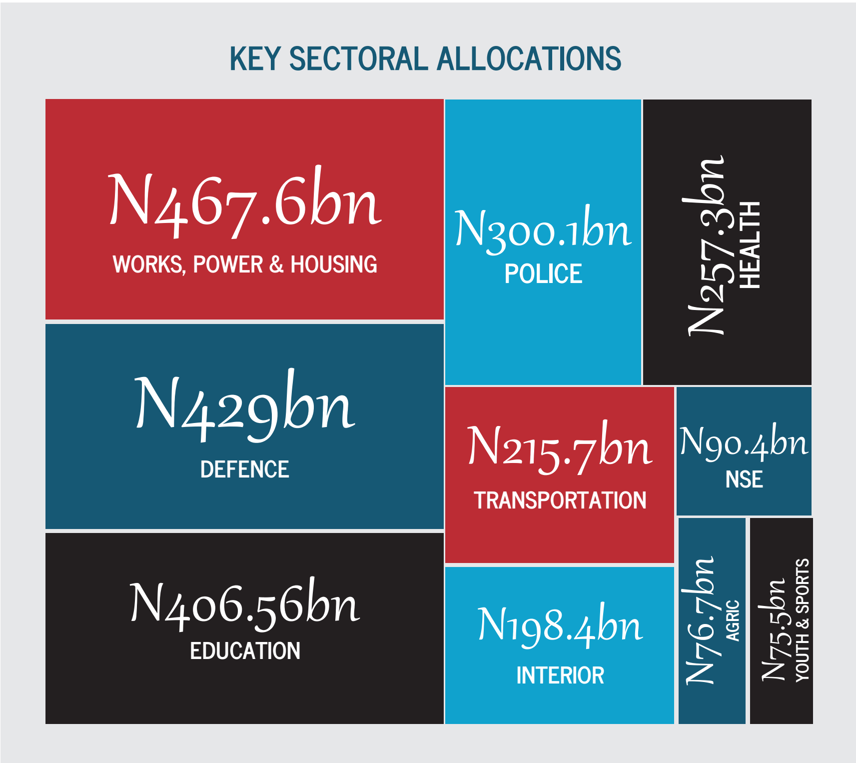
Notably, while the government pledged the post-NYSC payout scheme during its pre-election campaign, the state of Nigeria’s finances imply that unless this is implemented in a phased approach, the country’s coffers will likely be unable to sustain this. The social intervention scheme could end up being mainly funded by debt, inevitably perpetuating a culture of fiscal indiscipline buoyed by unrealistic campaign promises.

In terms of numbers, Capital Expenditure has tripled from N557bn to N1.75tn, which appears praiseworthy, on the surface. However, of keener interest will be its execution, considering the poor history of implementation of parts of the budget meant to directly impact the populace.

SECTORAL ALLOCATIONS

The biggest jump in the 2016 Budget in terms of capital expenditure comes mainly to the Ministries of Works (N405bn), Transport (N186bn), Interior (N42bn) and Defence (N53bn). It is important to state that these key ministries might be termed as the major policy anchors for the current All Progressives Congress-led government. While allocations to the ministries have risen, it is important to note that equally critical social sectors such as Education and Health did not get a substantial boost.

A telling sign of the spirit with which this budget was made is that, despite Nigeria's proposed spending plan increasing by approximately 21%, unfortunately, the education budget was cut by 2.24%, and the Health budget slashed by about 0.91% Also cut were the proposed spending for agencies that tackle corruption and security, such as the Independent Corrupt Practices Commission (ICPC), the Office of the Auditor-General and the Police.



CAPITAL SUPPLEMENTATION AND OTHER RECURRENT ITEMS

A lot of funding is also vested in capital supplementation items, rising to total N775bn. It is important to note that the lack of a detailed breakdown regarding the management of funds of this magnitude has not helped in defining the government's stance on the level of accountability needed in these austere times.

Significant funding is attached to capital supplementation items which include: the National Job Creation Scheme (N8bn); the sinking fund for infrastructural development (N8bn); SDGs programmes (N11bn); the Mortgage Refinancing Company (N2bn); Constituency Projects (N60bn); the North East Pilot Programme (N12bn); seed funding for Nuclear Programme (N2bn) as well as N500bn for social intervention programmes.

Simultaneously, it would seem Nigeria has not done enough to apply austerity measures; no cuts have been made to the payments allocated to ex-Heads of State, which is pegged at N2.3bn. Also, cuts were made to the pilgrim support programmes - from N1.8bn to N500m - which many analysts advocate should have been entirely scrapped. It is worth noting that the amnesty budget was cut from N62bn in 2015 to N20bn, as proposed for 2016. This, we posit, could do with a further reduction, or a total eradication. Rather, the funds could be channeled into skill building programmes in the Niger Delta, or to augment the internal work of the Armed Forces and insurgency containment in the North East, to which a budget of N25bn is proposed.

Nigeria's pension and outstanding benefits bill is put at N323bn, while its wage increase will gulp N47.5bn, as well as N300bn allocated towards social intervention programmes which includes N5,000 for each member of the most vulnerable segments of society.

It must be noted that the budget did not consider the proviso in the 2014 National Health Act which mandates 1% of the Consolidated Revenue Fund to be set aside for funding health-related programmes. The National Health Act mandates that:

- The National Health Care Development Agency which will manage 45% of the fund, to be disbursed through each state and the FCT Primary Health Care Development Board for the provision of essential drugs, vaccines and consummates.

- The National Health Insurance Scheme which will manage 50% of the fund for the of basic minimum package of health facilities

- The Federal Ministry of Health will manage 5% of the fund for the provision of basic minimum package of health facilities.

In the same vein, no major pronouncement has been made on procurement reform. This is crucial, when juxtaposed with the fact that the current system allows officials express powers to procure items, powers which were notably abused by the former National Security Adviser, Col. Sambo Dasuki (Rtd).

Opportunities

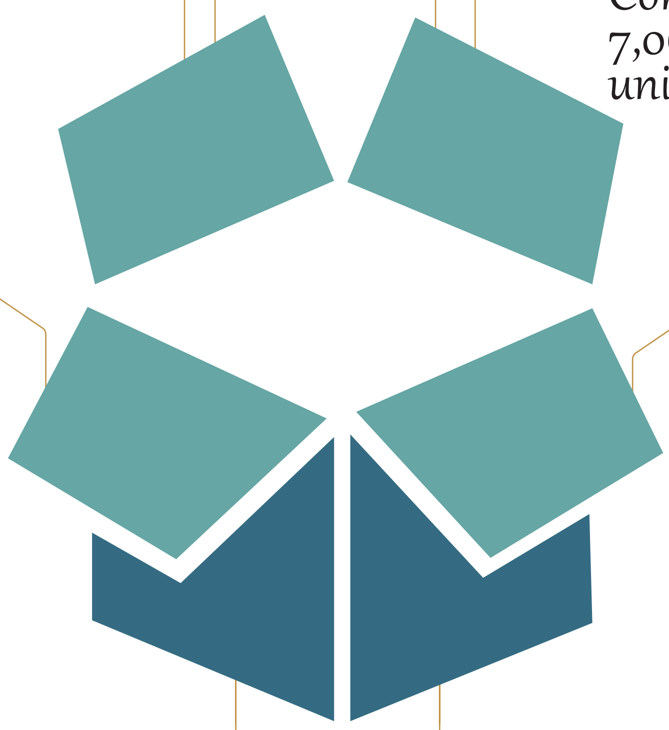
2016 Spending Plans

N22.0bn
Acquisition of computers & software

N236.89bn
Capital allocation on National Security

N984bn
Domestic Government Bonds offerings

N44.5bn
Construction of 7,068 housing units



N500bn
Social and welfare spending

N24.8bn
Procurement of vehicles

N224bn
Investments in road construction

N90bn
Investments in the railway sector

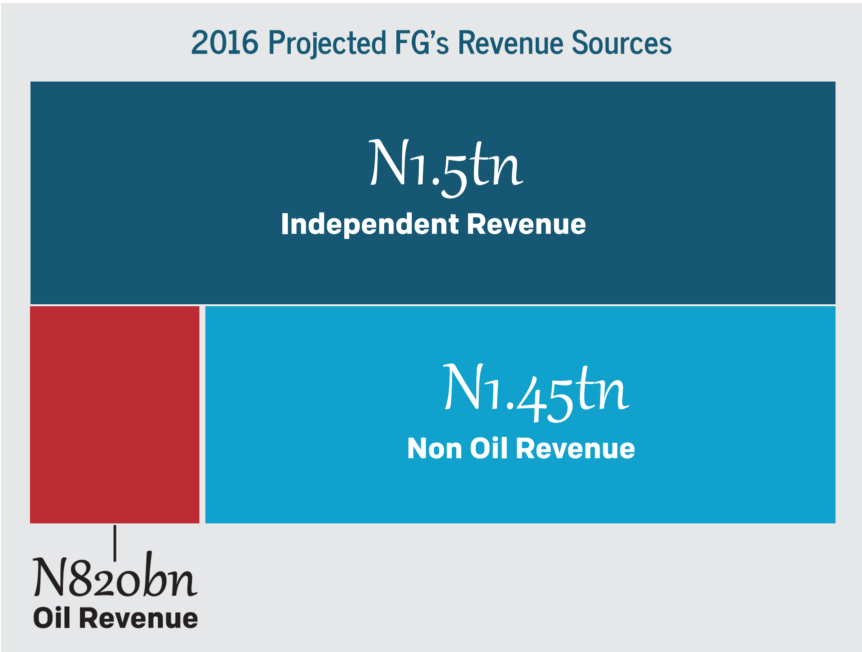
OUR POSITION

OUR POSITION

1 OIL WON'T FUND THE BUDGET; TAXATION COULD

The oil-related funding component of the proposed budget is N820bn, representing 13% of the entire spending plan. That said, a year from now, the numbers will testify clearly on the abilities of Nigeria's taxmen -Hameed Ali (the Customs Service) and Tunde Fowler (the Federal Inland Revenue service) - to live up to their credentials, in terms of revenue collection.

Taxation will go a long way to guarantee or undermine the performance of Nigeria's budget and determine how wide the deficit will become. Messrs Ali and Fowler will have to swim against the tide, surmounting challenges including falling corporate profitability; a drop in the value of imported goods and services; and the global hurdles dogging the biggest contributor to the VAT pool - the oil companies and ministries of the state governments.

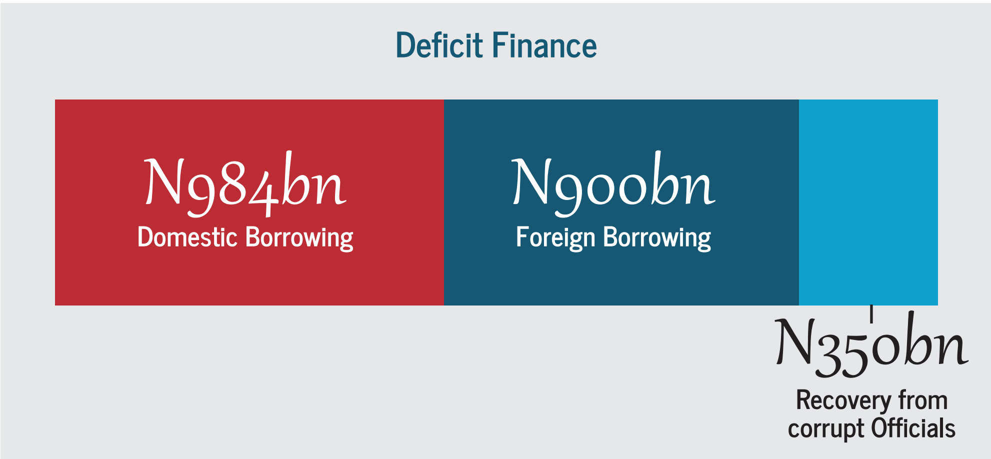


2 DEFICIT FINANCE SHOULD REMAIN FRONT BURNER: FIGURE COULD RISE TO N3TN

The deficit, which is equivalent to 2.16% of Nigeria's GDP or 36.51% of the 2016 government spending plan, will take our country's overall debt profile to 14% of our GDP, or approximately N14tn.

This deficit will be financed by a combination of domestic borrowing to the tune of N984 billion, and foreign borrowing worth N900 billion, while the balance will be plugged by ploughing amounts recovered from corrupt government officials, which the FG puts at N350bn.

Given that the government's total debt stock is approaching record heights, containing the budget deficit remains imperative. Domestic debts of the Federal Government stood at N8.39tn as at June 30, 2015, up from N794.81bn recorded in 1999. That represents almost 246% of the government's projected revenue in 2016 - a figure many pundits see as overly optimistic. In contrast, the USA debt-to-revenue ratio is approximately 110%, and the consensus is that this rate is unhealthy.



Nigeria's external debt stock stood at N2.06tn ($10.3bn) as at June 20, 2015 and is fast approaching the "Pre-Paris club" bailout peak of N4.89tn in 2004. As crude oil prices stay below budget projections, the resulting shock could see Nigeria's debt servicing attaining unmanageable proportions. Already, debt servicing costs have risen from N527bn in 2011 and are projected to top N1.3tn in 2016.

While debt is needed for expanding infrastructure, the cost of raising debt in the local markets seem too high and if proposed borrowing will reach N1.8tn as proposed in 2016, the operating conditions will be compounded further. There is a likelihood that erratic taxation at all levels and sub-quality service delivery will be the common resort of local and state governments, as was seen when debt levels were much lower. This government therefore needs to be cautious concerning how it raises debt, especially if revenue growth is not proceeding apace. While the FG's retained revenue dipped by 10.4% between 2013 and 2014, debt servicing grew by 15% within the same period; an alarming trend by any accounting yardstick.

Debt should be tied to capital projects, according to the Fiscal Responsibility Act. It is counterproductive to see several duplicated items without tangible effects on the populace being classified as "capital projects."

3 SPENDING PLAN PREPARATIONS NEED FINETUNING

In a bid to ensure this incremental budgeting process is not the habitual norm, the government commendably introduced a new budgeting process altogether as a corrective mechanism-the Zero-based budgeting process - a modified version of what former President of the United States, Jimmy Carter tried to implement in 1977. Here, agencies are required to justify each allocation, meaning spending must largely align with the government's plan and programmes. Instructively, this move shows the President as aiming to diversify the government revenue source away from crude oil, boost jobs and ensure efficiency.

In his inaugural speech, the President stated that: "we intend to attack the problem frontally through revival of agriculture, solid minerals mining as well as credits to small and medium-size businesses to kick–start these enterprises. We shall quickly examine the best way to revive major industries and accelerate the revival and development of our railways, roads and general infrastructure."

However, figures from the 2016 budget proposal show a glaring disconnect between government's social programmes and its allocations. There is no fact to state that the proposed 2016 Budget was formulated on a zero-based approach. More priority is admirably placed on Power, Works and Transport and Defence but the vast majority of line items leave the impression that the level of scrutiny stipulated by Zero-Based Budgeting techniques were not applied to the proposed 2016 Budget.

4 EXCHANGE RATES DEMAND IMMEDIATE ATTENTION

The ubiquitous sign of fiscal strain in Nigeria is often embodied in two words: Exchange Rates. These two words reverberate from the streets of Kano, to the homes of Nigerians in diaspora and every office and market stall in-between. Regardless of literacy and social class, every Nigerian is conditioned to realise that something is amiss whenever the Naira drops low to the dollar. Though the CBN has been fiddling with N197 as the official rate, black market rates have soared to N270 and above to the greenback. There are reports of Nigerians in diaspora bearing the brunt, as their Nigerian bank accounts have lower withdrawal limits, and some have notably woken to a N14 increase in exchange rates willy-nilly pegged by Nigerian banks. The government must look into these predatory measures targeting citizens abroad and filtering down to negatively impact business and investment at the small to large-scale level.

Back home, the Medium Term Expenditure Framework (MTEF) Document projects N197 to the dollar but how long will CBN maintain this rigid position, considering the freefall of guarded reserves, now valued at $28bn? The most favourable choice for the CBN would be to devalue the currency. Though the risk of inflation remains present, this move could possibly lead to increased revenue for government, particularly with regards to oil.

CONCLUSION

The expansionist approach of the 2016 proposed budget is very bold but the assumptions on which the document was made straddle the edge of unfeasible expectations, specifically with respect to non-oil revenue and independent revenues. The ability to instil a sense of thrift in public service; adequately price government contracts and also aggressively reform independent revenue agencies will make a distinct change to the realisation of fiscal targets contained in the proposed budget. If the recovery of misappropriated funds - such as the illegal payments from security funds and the Natural Resources Funds account, the opaque sales of oil and other commodities - is swift, there is a greater chance that Nigeria's books will attain a stabler balance from their current precarious position.

The Treasury Single Account represents one of the surest opportunities to instil expenditure control in independent revenue agencies and increase their contribution to the revenue pool. There is a need to block all leakages while expanding Nigeria's revenue base, otherwise the country risks languishing in self-inflicted fiscal subjugation.

A single example of the scale of what is at stake is that: the reported N701bn alleged illegal withdrawals from the Natural Resources Fund could have offset the bailout several Nigerian states received in 2015.

Budget projections are the norm the world over, but most pertinent is the actual variance between projections and reality. These assumptions will remain no more than meaningless numbers presented without cognisance of Nigeria's fiscal capabilities and realities, unless accompanied with actual measures towards implementation, efficient management and the transparent auditing of budgets.

Anything short of this will be like a scenario where the Nigerian economy is a race car, its President the race driver and 2016, the race track. With all our country has been through, it would be a shame for the FG to stay sitting atop a gleaming racecar, gunning the engines, accepting the cheers of the assembled crowd , raising dust, yet never leaving the starting blocks to greater fiscal prosperity.

PROPOSED 2016 BUDGET: PEOPLE TO WATCH OUT FOR

Professor Yemi Osinbajo, Vice President of Nigeria

The Vice President will be in charge of the prior-mentioned social intervention programmes, which have a collective funding up to N500bn. Professor Osinbajo has also declared himself as being in charge of the economy, and will therefore be central to the execution of the budget.

Senator Bukola Saraki, Senate President of Federal Republic of Nigeria

Any hope of ever getting the details of the N115bn budget of the National Assembly will rest on its leadership. The National Assembly will also need to exhibit tougher oversight functions on the budget and the review of relevant laws and bodies governing budget implementation, such as the Fiscal Responsibility Commission.

Babatunde Fashola , Minister of Works, Power and Housing

He has been dubbed the "Super Minister," considering the size of the ministries he will lead. With a budget of N467bn, approximately 25% of the entire capital spending will be under his purview. Therefore, Babatunde Fashola will be an important force in actualising the seismic shift needed toimprove infrastructure in Nigeria.

Senator Udo Udoma, Minister of Budget and National Planning

With the severance of the Budget Office from the Ministry of Finance, Senator Udo Udoma will be critical, in terms of resource allocations, the planning and coordination of the budget. A provision of N1bn has been made for Nigeria's infrastructure Masterplan and the finer disbursement details of these funds will be very important to long-term planning and could possibly constitute a yardstick for future endeavours.

Rotimi Amaechi, Minister for Transport

Rotimi Amaechi oversees the largest portion of the capital budget, including allocations for the railway project (this is up to N90bn, covering Lagos, Kano, and Itakpe) as well as a commitment of N52bn for the nation's inland waterways. Should he utilise strategic actions and an unwavering stance, Mr Amaechi has the capacity to be credited with the ability to tangibly create jobs and also opportunities for sustainable income redistribution across Nigeria.

Major-Gen Abayomi Gabriel Olonisakin, Chief of Defence Staff

The Federal Government allocated N134.57bn for capital expenditure at the Ministry of Defence, with the overall objective of ending the nation's security challenges. It is expected that N1bn will be spent on the procurement of security equipment; N1.39bn on procurement of houseboats; N5.6bn on defence equipment; N2bn to kit armed forces personnel; N4bn for the procurement of ammunitions and N14.8bn for the acquisition of capital patrol platforms, among others. Going forward, as Nigeria battles to end insurgency and regional and international forces merge to contain global terrorist threats, this office will remain pivotal, particularly with respect to the disbursement and management of resources at its disposal.

Audu Ogbeh,Minister for Agriculture

Curiously, the Federal Ministry of Agriculture and Rural Development plans to spend more than a fourth of its budget - 86%, which is worth N32bn - on research and development. Very scant information is available on the type of research and development activities to be undertaken. As a country which was once a cash-and-staple-crops powerhouse but is now one where (though about 75% of its land is arable) only about 40% of its land is cultivated, the Ministry of Agriculture therefore deserves closer scrutiny, alongside enhanced budgetary allocations.