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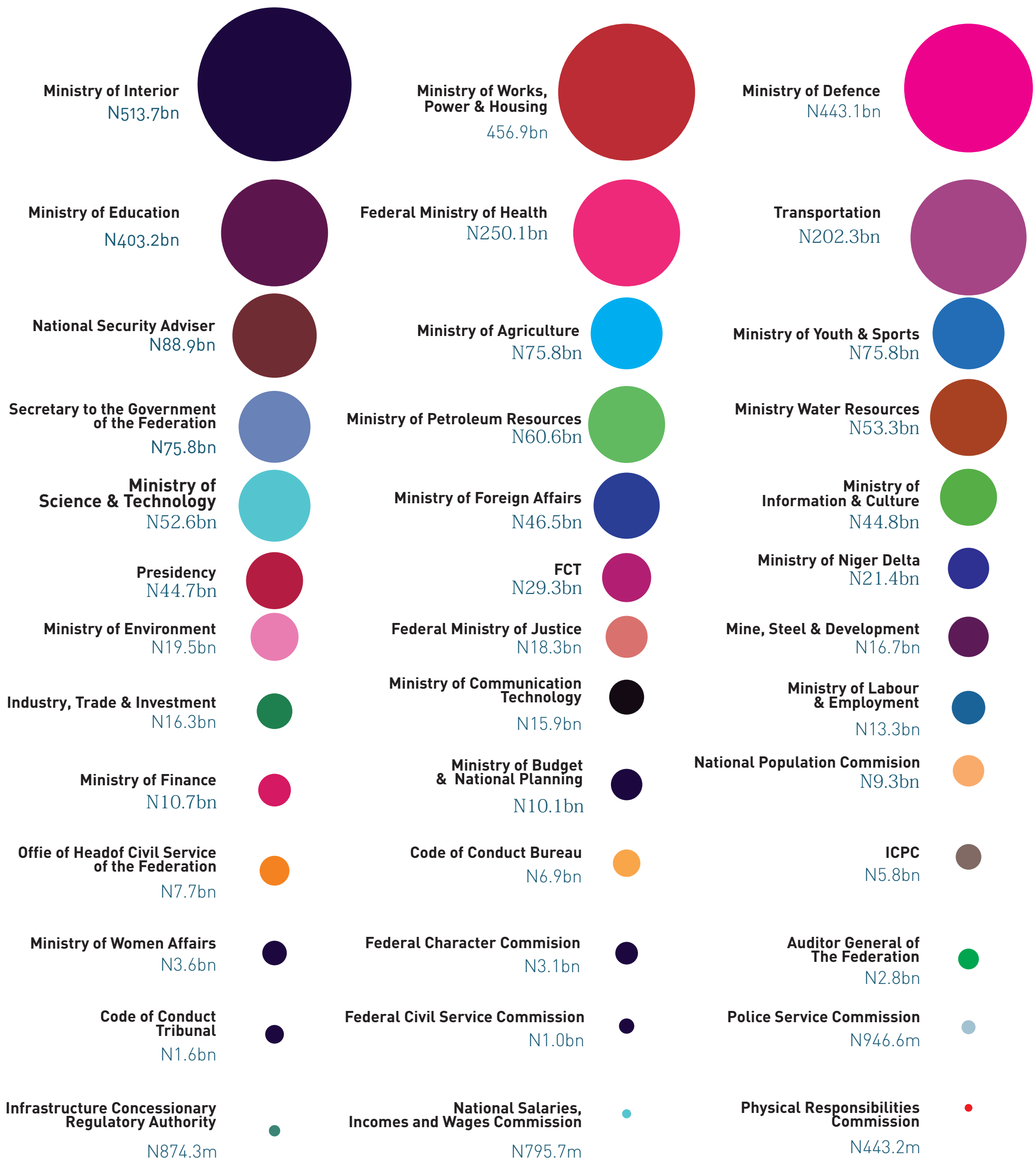
FG'S 2016 BUDGET

OPPORTUNITIES & TALKING POINTS

2016 APPROVED BUDGET



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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OSIWA's mission is to enable open societies and inclusive democratic governance that are based on transparent and accountable institutions and an active citizenry.

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INTRODUCTION

STATE OF THE ECONOMY

Nigeria's economy shrank in the first quarter of 2016; an expected development, as the fiscal injection needed to turn around its increasing vulnerabilities failed to come as at when due. The Gross Domestic Product (GDP) of Africa's largest economy - the sum total of its economic activities undertaking - in the first three months of 2016 contracted by 0.36% compared to the same period a year earlier. The last time the economy contracted was well over a decade ago, in the second quarter of 2004. The system suffered severe shocks mainly related to energy shortages, a scarcity of foreign exchange and depressed consumer demand. Businesses could not undertake new investments or procure needed raw materials, while a dearth of forex precipitated by undulating crude oil prices and production shortfalls resulted in low replacement levels for inventories including raw materials and other essential inputs.

As investors remain increasingly reluctant to undertake new investments or widen the scope of their exposure, the Nigerian economy risks falling into recession and the outlook is increasingly tilted towards the bleak, when other factors are considered.

Specifically, activities in the Construction, Oil and Gas sectors; the Electricity, Gas, Steam and Air Conditioning Supply sectors; the Finance and Insurances sector as well as the Manufacturing, Mining and Quarrying sector all contracted significantly, impacting the current and future ability of the country to retain and create jobs.

The unemployment rate in turn spiralled to 12.1% in Q1 2016 (or 32.8% using old methodologies), from 10.4% in Q4 2015, with underemployment remaining at 19.9% in Q1 2016 - similar to Q4 2015. For a country with a working-age population of 106 million people, the prognosis, in terms of security and stability, is fearsome and calls for urgent action.

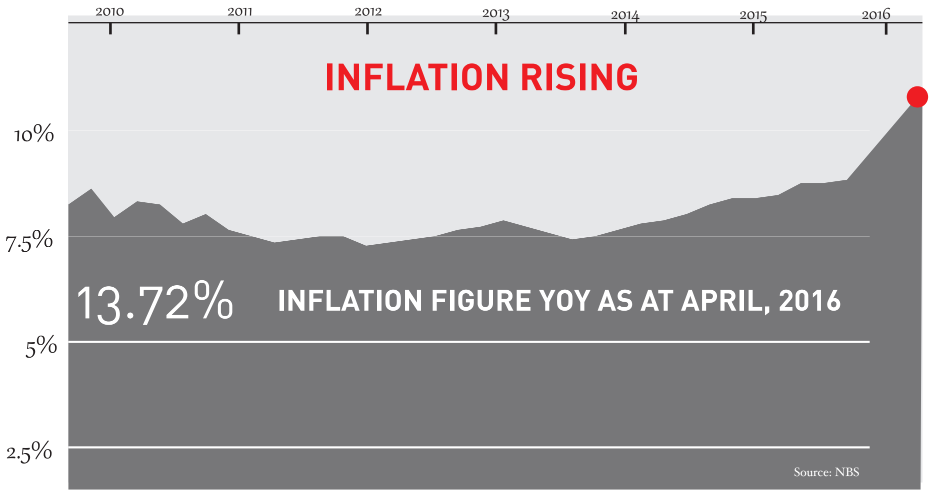
On one hand, Nigeria's economic woes are strongly connected to supply-side factors such as fuel scarcity; a sustained deterioration in electricity supply and increases in tariffs; a hike in petrol prices; higher input costs due to a scarcity of forex; inflation, persistent security challenges and fiscal gridlocks brought on by less than stellar disbursement, management and auditing of funds across the board. On the other hand, the lack of clear-cut economic policy direction, coupled with monetary and fiscal misalignment and the exchange rate crisis have exerted strain on business, forcing them to cut down on transaction volumes and jobs. The government's seemingly slow response is further exacerbating a crisis which may snowball into a full blown economic depression.

One of several indices that come to mind is Gross fixed capital formation (GFCF), a leading indicator that captures total investment activities undertaken by government, as well as domestic and foreign investors. This figure is declining, and stands at 14.73% of GDP as at 2015, compared to 15.08% of GDP in 2014. Meanwhile, the Industrial Sector which contributes approximately 25% to Nigeria's GDP is already in recession (it has had a negative GDP spanning 6 consecutive quarters). The Services sector we also note has slowed significantly, with a GDP growth rate pegged at 0.80% in Q1 2016, against 7.04% recorded in Q1 2015. Many see this as a crucial pointer, because the Services sector contributes 55% to Nigeria's GDP is boosted by the spending power of Nigeria's middle class and is a very important linchpin, if the government intends to boost non-oil related tax revenue.

In the midst of overwhelming uncertainty, one oasis remains Agriculture. Though largely informal and mostly untaxed, this sector has exhibited resilience, growing at a modest rate of 3.09% in Q1-2016. Unsurprisingly, the Government is banking on this sector to diversify the foreign exchange earnings of the country.

THE CHARTS

1



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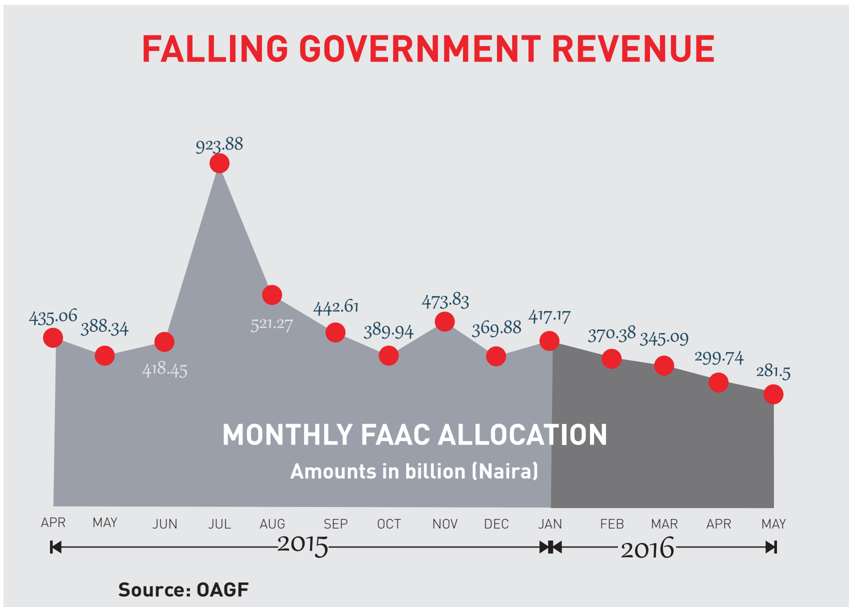

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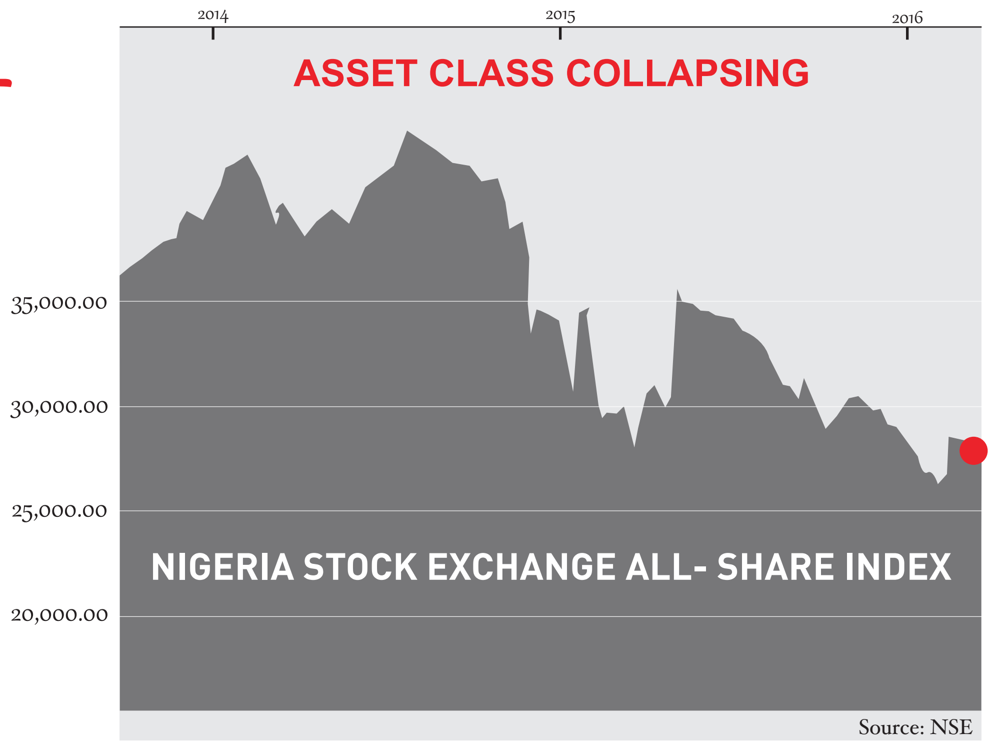
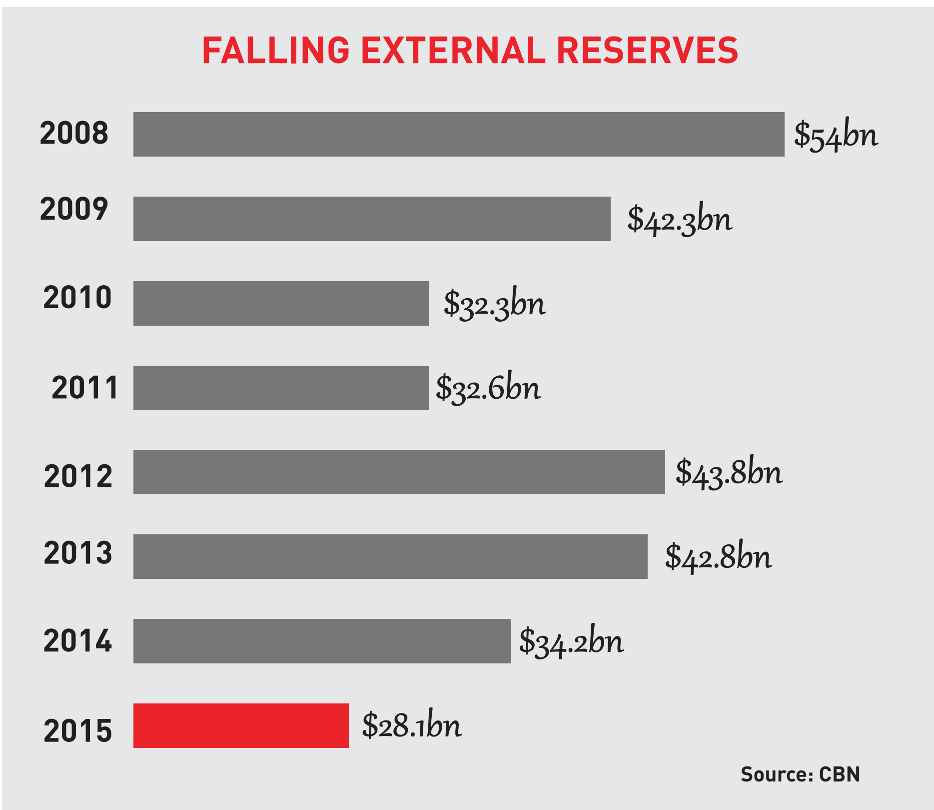
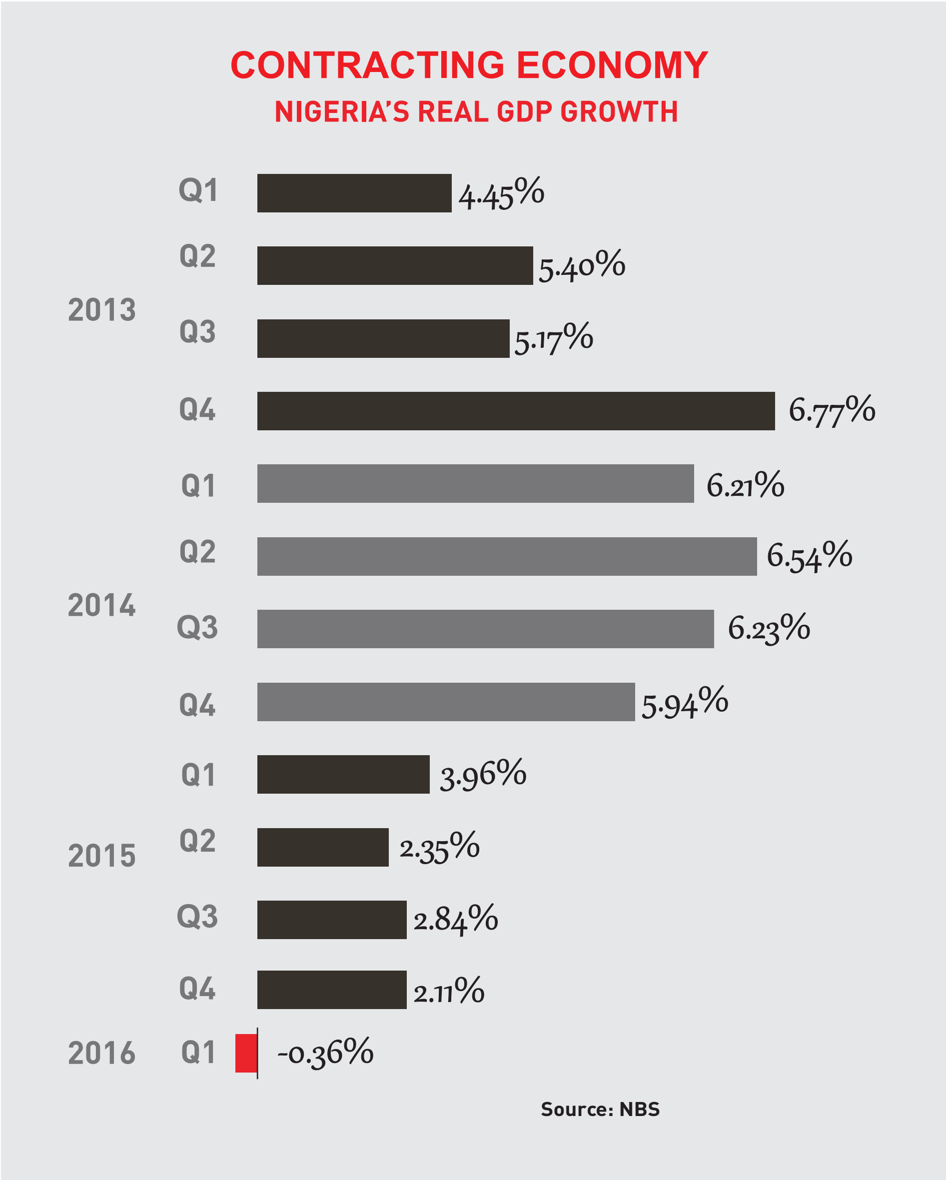

2014
2015
2016
ASSET CLASS COLLAPSING
35,000.00
30,000.00
25,000.00
20,000.00
NIGERIA STOCK EXCHANGE ALL- SHARE INDEX
Source: NSE

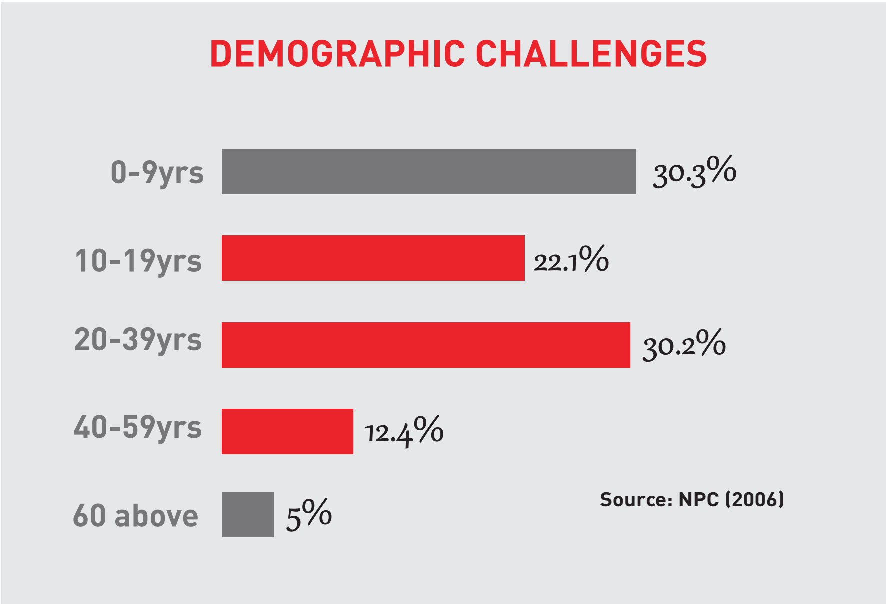
5


FALLING EXTERNAL RESERVES
2008
$54bn
2009
$42.3bn
2010
$32.3bn
2011
$32.6bn
2012
$43.8bn
2013
$42.8bn
2014
$34.2bn
2015
$28.1bn
Source: CBN

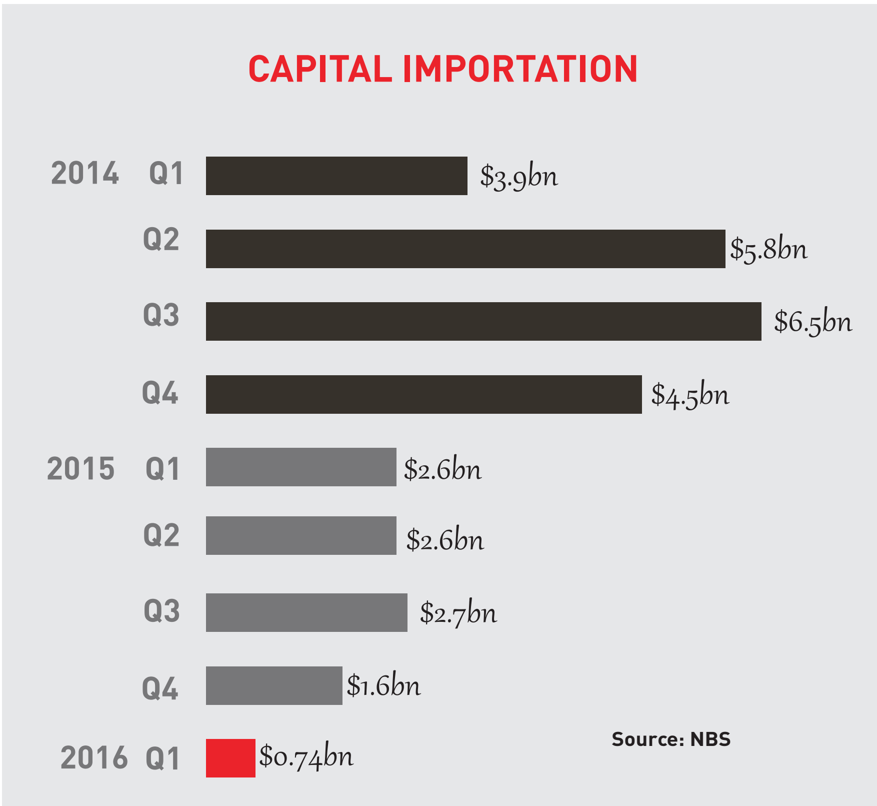
6


CONTRACTING ECONOMY
NIGERIA'S REAL GDP GROWTH
2013
Q1 4.45%
Q2 5.40%
Q3 5.17%
Q4 6.77%
2014
Q1 6.21%
Q2 6.54%
Q3 6.23%
Q4 5.94%
2015
Q1 3.96%
Q2 2.35%
Q3 2.84%
Q4 2.11%
2016
Q1 -0.36%
Source: NBS

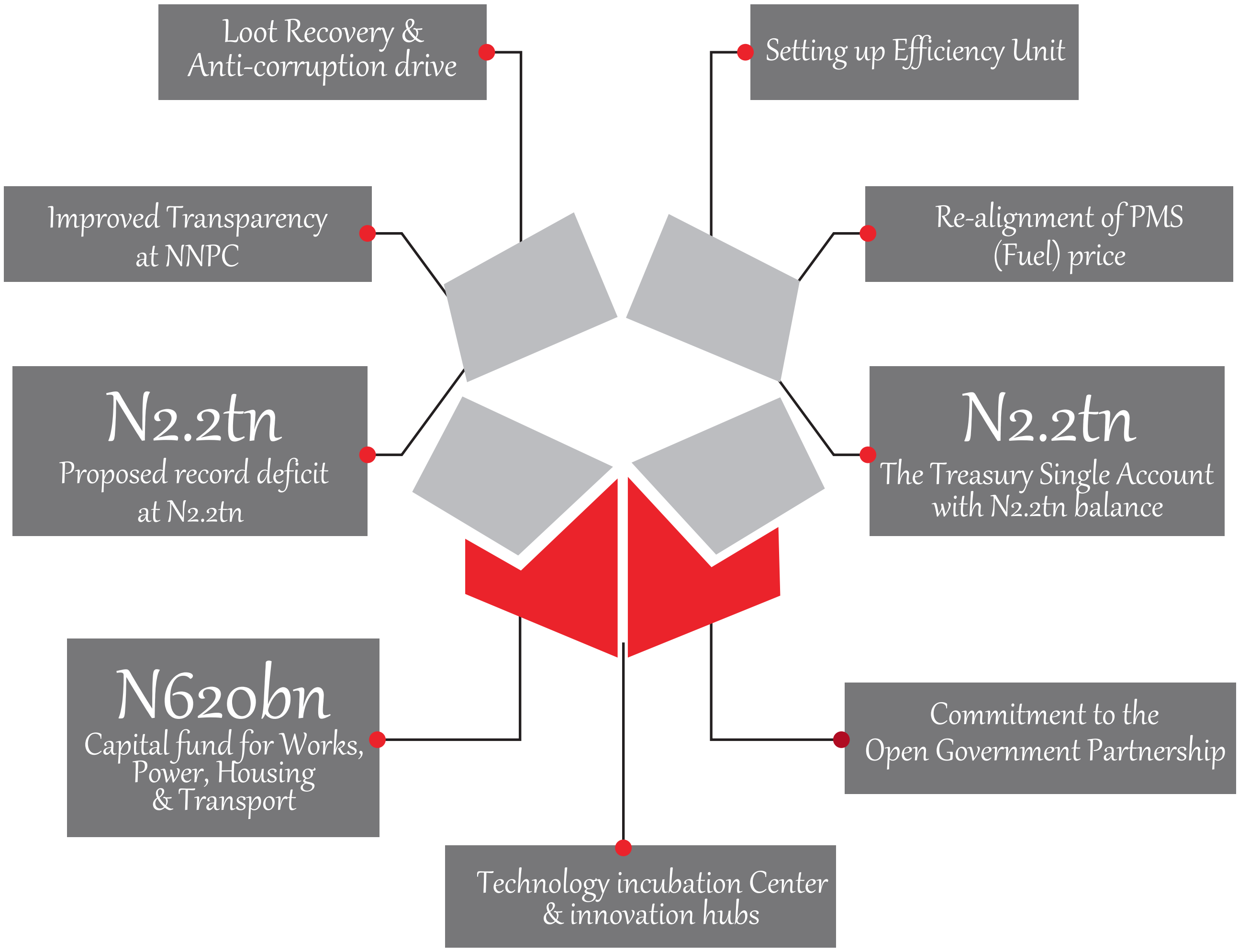
7


DEMOGRAPHIC CHALLENGES
0-9yrs
30.3%
10-19yrs
22.1%
20-39yrs
30.2%
40-59yrs
12.4%
60 above
5%
Source: NPC (2006)

8


CAPITAL IMPORTATION
2014 Q1
$3.9bn
Q2
$5.8bn
Q3
$6.5bn
Q4
$4.5bn
2015 Q1
$2.6bn
Q2
$2.6bn
Q3
$2.7bn
Q4
$1.6bn
2016 Q1
$0.74bn
Source: NBS

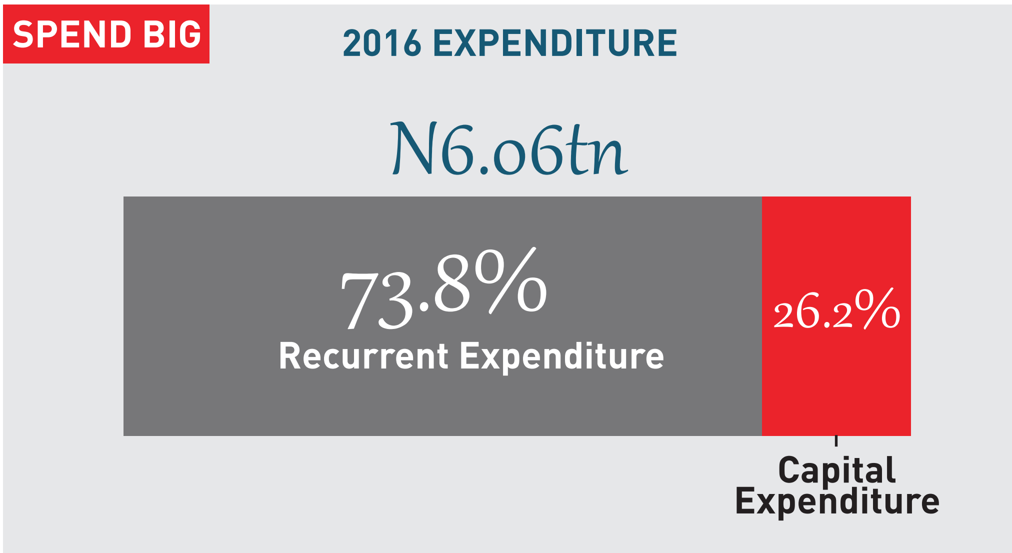
BUHARINOMICS SO FAR



THE GOVERNMENT'S SOLUTIONS

Nigeria's 2016 budget plans suggest that its strategy out of the economic downturn and slow growth is to resort to substantial government borrowing and huge spending. Public spending should ordinarily be directed at improving Gross capital formation as a percentage of GDP, yet this indicator has in the recent past declined by -1.28% Q3 &-4.39% in Q4 2015.

By and large, the Nigerian government seems to be focused on following the tenets of the "Keynesian" school of thought, which emphasises the role of fiscal policy in stabilising the economy.



However, policies will have to be matched a ramp up of implementation and the requisite political will; particularly because at N6.06tn, the Federal Government's expansionist spending plan as enacted, mildly falls short of the N6.08tn estimated earlier in the president's proposal.

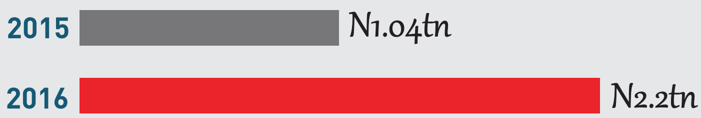
Within the document, the Federal Government (FG) is projecting its revenue at N3.86tn, resulting in a deficit of N2.22tn. This current deficit figure is the country's biggest yet; according to data from the Central Bank of Nigeria (CBN). In the last 34 years, Nigeria has managed to post only two years 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 working with 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 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.

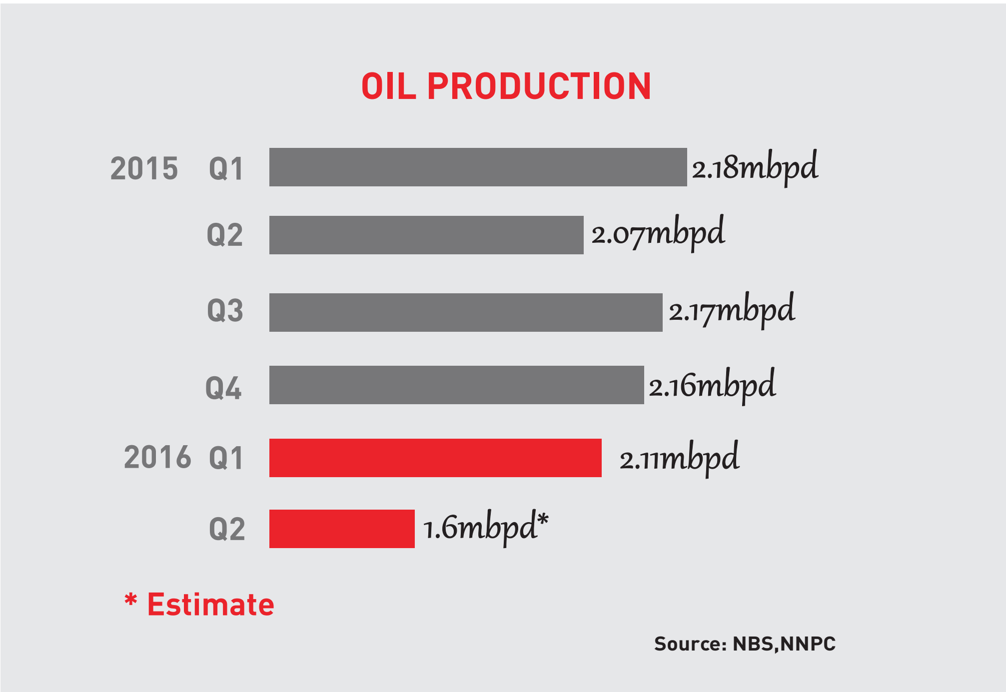


REVENUE

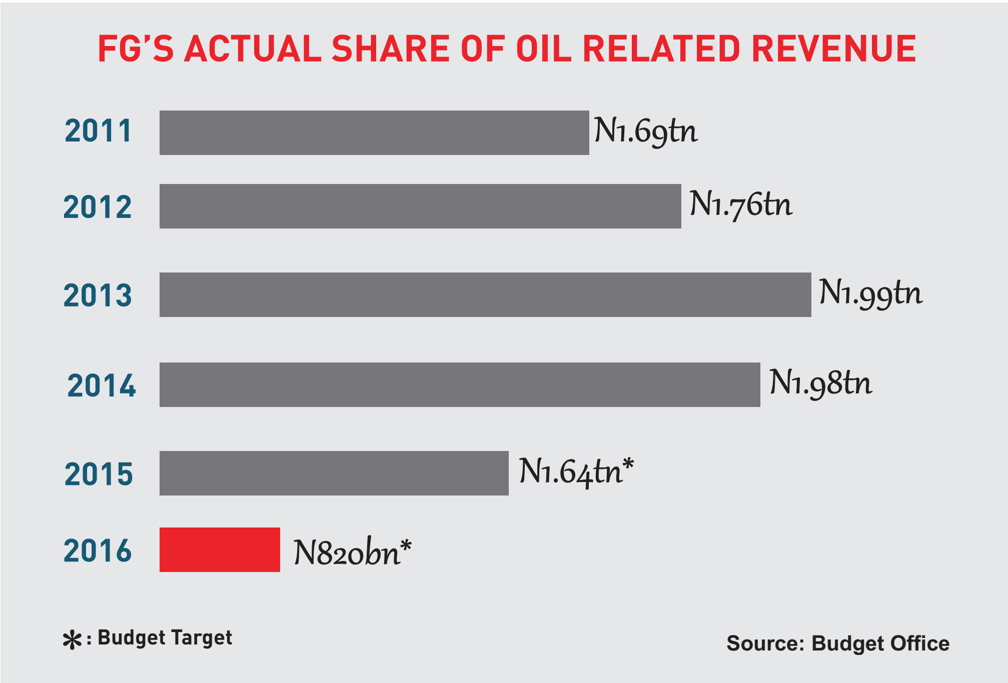
OIL REVENUE

The budget for Africa's most populous nation is hinged on a proposed benchmark oil price of $38 per barrel through 2016. At the start of the 2016 fiscal year, Crude prices were battered by a glut in global supply, mainly caused by record production by OPEC nations, the refusal of oil producers to commit to cuts in production, including Nigeria as well as the return of Iran into the global oil market and its drive to increase output by 500,000 barrels per day while standing ready to offer the product at a discount.

Nigeria's budget is also predicated on oil production topping 2.2million barrel per day (mbpd) - an ambitious target - as against a daily average of 2.11mbpd achieved between January and March 2016. In the first quarter of 2016, oil production averaged 2.11million barrels per day (mbpd) as against budget benchmarked rate of 2.2million barrels per day(mbpd). This was 0.05mbpd lower than production in Q4 of 2015. Oil production was also lower relative to the corresponding quarter in 2015 by 0.07mbpd, when output was recorded at 2.18mbpd. Oil Production in Q1, Q2, Q3 and Q4 of 2015 averaged 2.18mbpd, 2.07mbpd, 2.17mbpd and 2.16mbpd respectively.



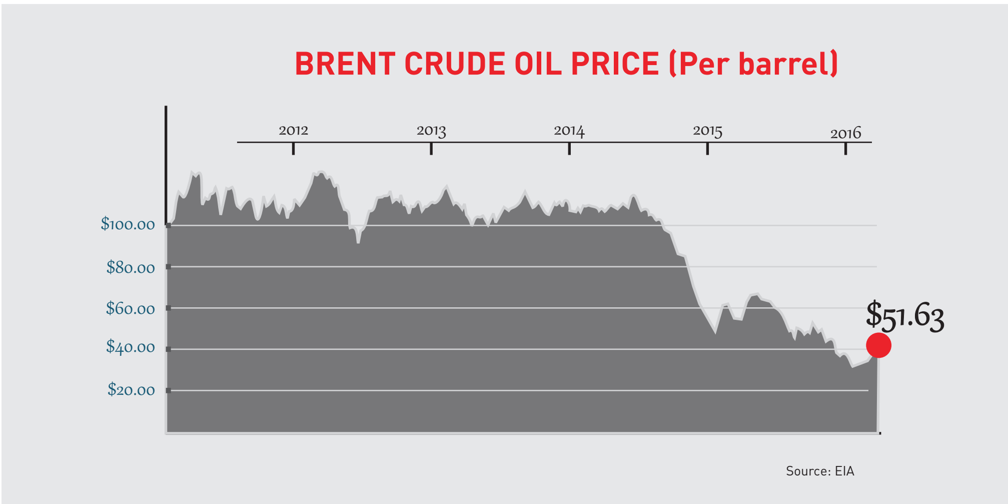
The figures are further compounded as output is now down to a 27-year low of 1.4mbpd, brought on by a wave of attacks by militants on oil installations in the creeks and swamps of the Niger Delta. Production from onshore and shallow-water oil fields remain very vulnerable to similar attacks, while deepwater facilities may be at risk too, except something is done urgently to stem the tide that decimates Nigeria's position as Africa's biggest crude producer.



Heartening news is that oil prices are trending favourably, with Brent Crude trading above $50 for the first time in over six months. A demand-supply mismatch persists, but the current oil surpluses may not be sustainable going forward if the spike in attacks continue in the Niger Delta. Already, Nigeria is getting the short end of the stick in this regard. Due to current pipeline shutdowns, rather than produce 2.2million barrels per day, Nigeria is presently doing 1.4million barrel per day. As the price of crude increases because of supply disruptions, global producers may begin to see benefits, in terms of income and profit. Countries like Angola (still producing at optimal capacity) are now reaping windfalls in crude price increases caused by Nigeria's production shortfalls.

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

In 2015, the FG's projected revenue from the oil sector as contained in the 2015 budget was N1.63tn. With production already behind due to renewed restiveness in the Niger Delta and consequently eroding 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 Nigeria is hoping to achieve half of its 2015 earnings from oil in the entire fiscal year of 2016 is the clearest signal that now is the time to tangibly diversify the country's revenue streams.



With profitability in the sector already depressed on the back of lower and fluctuating prices while global average lending rates remain increasing, a reduced investment appetite in the sector is to be expected. The average investor worldwide would be wary of making commitments towards ramping up oil production in the face of increasing restiveness without significant price increases to cover the undertaking of such potent risks.

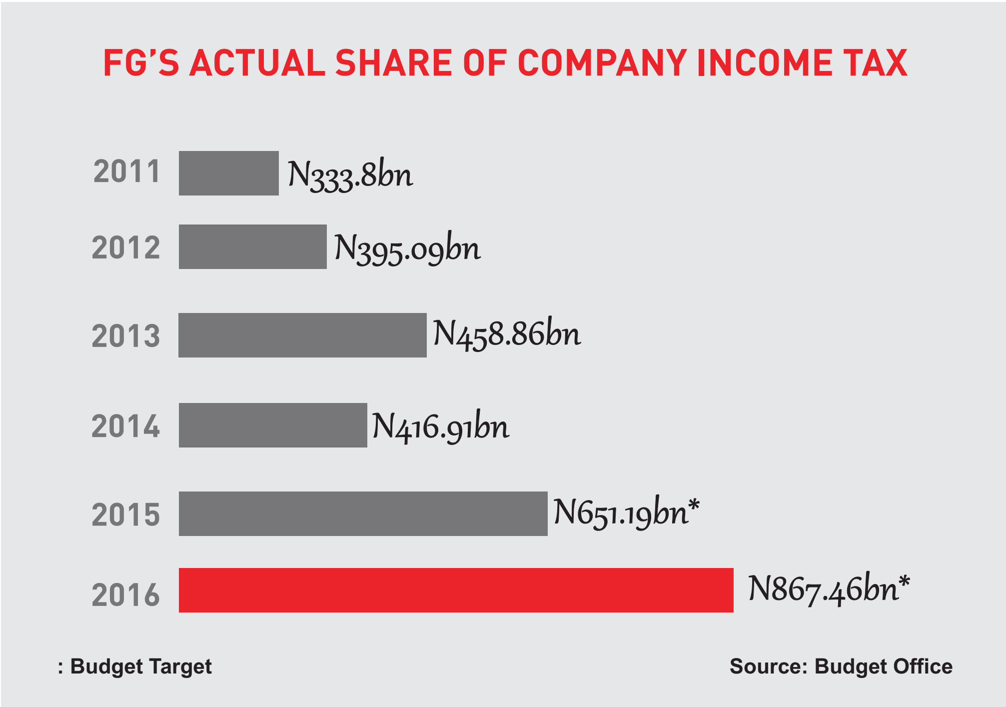
QUICK THOUGHTS

Given that production shut-downs have shaved 30% off oil production, the current oil revenue assumptions are too wide, at a great tangent with the fiscal realities of the Nigerian market as juxtaposed against global market forces. Government may therefore struggle to make 50% of its 820bn oil revenue target in 2016. This means that most of the money spent could likely come from non-oil revenue, lending credence to the sentiment that this is truly a non-oil budget.

NON-OIL REVENUE

COMPANY INCOME TAX

By contrast, the FG's share for Company Income Tax (CIT) - a tax on corporate profits - is projected at N867bn in 2016; a 33.2% increase from 2015 targets of N651bn. As at September 2015, CIT collected was N343bn; this is 52% off the initial projections and at the current run rate, CIT was extrapolated 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 CIT rates are brought in line with the global average of 23%. Given that personal income tax rates are lower, the outlook for strong CIT uptake is not good because company profitability is declining, amid a shrinking economy and a lack of incentives for businesses to operate under corporate cover.

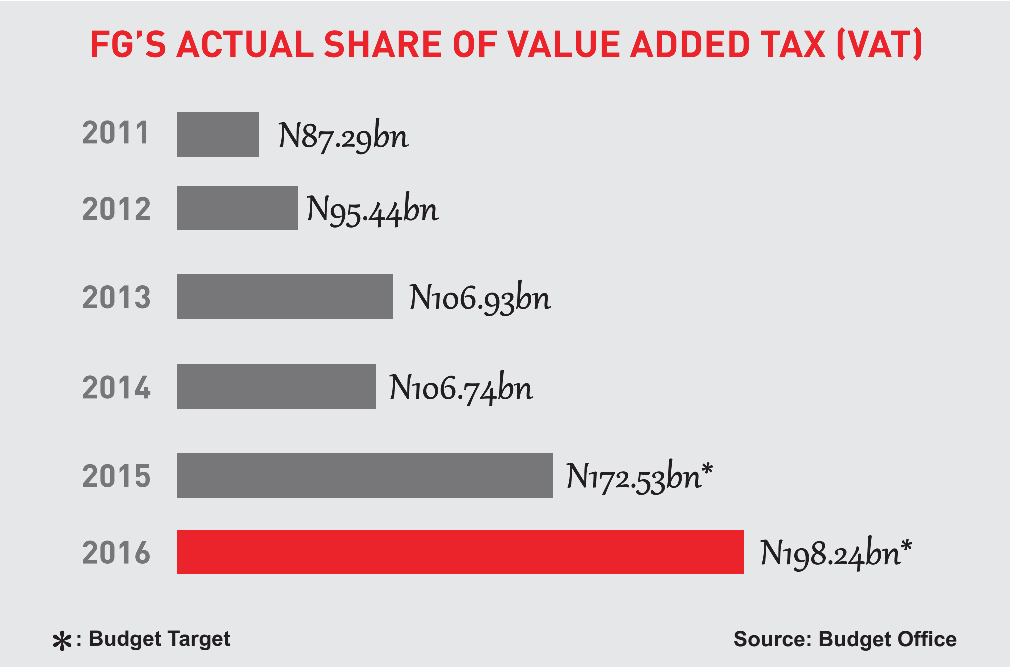
Rising inflation, increasing energy costs, forex shortages and rising costs of fund may further weaken the ability of the government to collect tax as projected. These factors force the belief that the CIT projections are ambitious and overly optimistic.

VALUE ADDED TAX (VAT)

The Federal Government is projecting an increase in VAT uptake from 2015 levels of N172bn to N198bn in 2016, though actual collection as at September 2015 stood at about N80bn, or approximately 46% of 2015 targets.

The FG's share of VAT revenue in Q1 of 2016 was only N28.31bn, as against N26.30bn in Q1 of 2015, which shows very little improvement in VAT collection rates. This is no surprise, as Household consumption expenditure declined by 1.24% in Q4 and by 3.22% in Q3 2015, resulting in a full year decline of -0.33% in 2015.

Interestingly, salaries paid out to employees declined -7.9% in Q3 and -9.22% in Q4 2015. With Nigerians not earning enough and with resulting effect on consumer spending. We can safely say VAT earning targets for fiscal year 2016 are wide off the mark.



Presently using the invoice method for VAT collection, government revenue from VAT is about one of the lowest worldwide. Rates are at the lowest threshold of 5%. About a quarter of VAT (23.3% (, which is 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 and Federal government spendings directly constitute 42% of

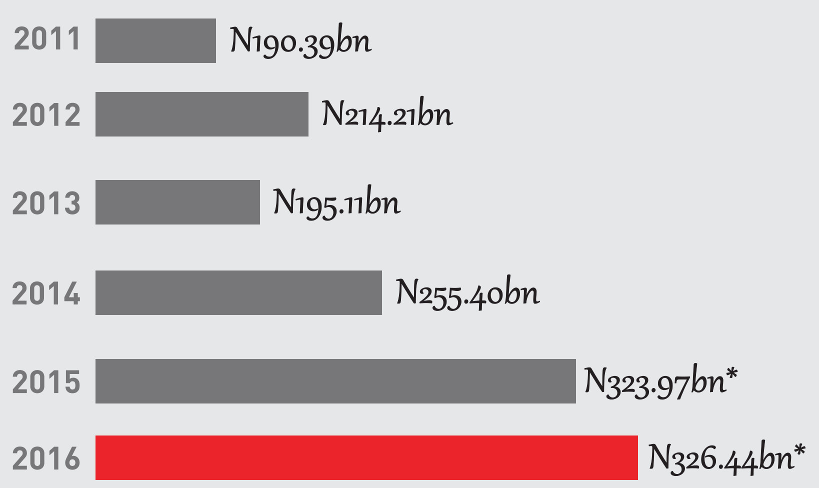
Nigeria's VAT pool. With State governments routinely struggling to meet basic obligations including the payment of salaries, their earning power - and by extension their VAT contributions could be severely reduced this year, leading to significant income shortfalls. Interestingly, government's consumption expenditure declined by -5.42% in Q3 and -6.11% in Q4 2015, resulting in a full year decline of -0.44% in 2015.

Also, the FG's failure to inject money into the economy in the first and the larger part of the second quarter of 2016 may result in significant time lapses, which may further depress the States' ability to collect tax as at the time it is required. Consumer demand and spending is also under pressure due to spiraling food inflation despite relatively stagnant income, increasing the cost of energy and electricity, thereby creating a tight economic cycle.

CUSTOMS AND EXCISE DUTIES

The CBN's currency control system and the lack of a flexible exchange rate regime are the main factors behind the unfolding consequence of an increasing a list of items which cannot be imported with officially-sourced forex. Against the backdrop of an ailing manufacturing sector, this has significantly reduced the import portfolio of some business hoping to replenish inventories, including raw materials and other essential inputs.

FG'S ACTUAL SHARE OF CUSTOMS' AND EXCISE DUTIES



*: Budget Target

Source: Budget Office

Trade volume is also contracting, going by trends reported for 2015. The Lagos Port Complex (LPC) and Tin can Island Port recorded a Gross Tonnage of 21.35million and 16.26million, showing a decrease of 3.9% and 7.1% respectively. Calabar Port complex reported a total GT of 2.13million, which translates to a decline of 9.2%; Rivers Port complex notes 4.46million GT - a 29% drop while Onne Port complex recorded 26.57million GT, reflecting a marginal decrease of 1%. For Delta Port Complex, its figures of 7.55million GT show a decrease of 33.5% from the 2014 figures of 11.37million GT.

Nevertheless, revenue projections expected to come 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 the ports earning capabilities.

Low volumes of imports by businesses will likely mean low revenue from tariffs for the Nigeria Customs Service. More conservative projections, which would take into account these ongoing occurrences would have been expected, to better appraise the prospects of the country's import-export volumes. Therefore, this revenue stream remains one to be keenly watched, in this fiscal year where Nigeria faces the burden of its largest budget deficit.

FG INDEPENDENT REVENUE

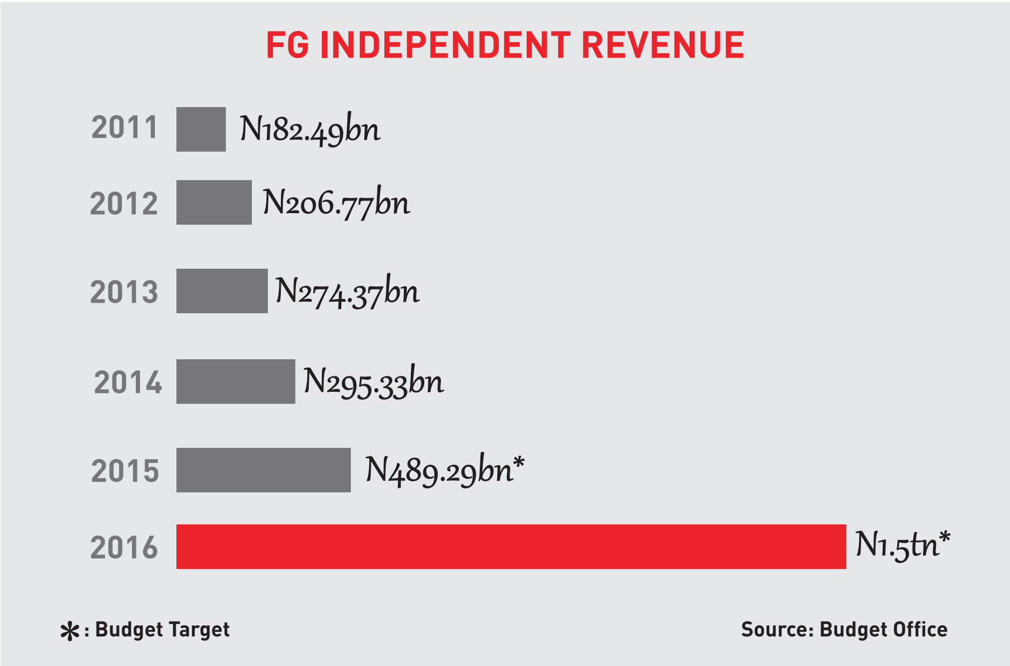
POWERED BY THE TREASURY SINGLE ACCOUNT (TSA)

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 loopholes and squeeze significant revenue from the agencies via 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 N2.2tn in its coffers as at March 2016.

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

TOP 12 MINISTRIES

N513.7bn
Federal Ministry of Interior

N480.3bn
Federal Ministry of Education (including UBEC)

N456.9bn
Federal Ministry of Works, Power & Housing

N250.1bn
Federal Ministry of Health

N202.3bn
Federal Ministry of Transportation

N88.9bn
National Security Adviser

N75.8bn
Federal Ministry of Agriculture

N75.8bn
Federal Ministry of Youth & Sports Development

N75.8bn
Secretary to the Government of the Federation

N60.6bn
Federal Ministry of Petroleum Resources

N53.3bn
Federal Ministry of Water Resources

N52.6bn
Federal Ministry of Science and Technology

STATUTORY TRANSFERS

THE NIGER DELTA DEVELOPMENT COMMISSION

The NDDC is an agency of government established in 2000 with its mission documented as facilitating the rapid, even and sustainable development of the Niger Delta. In the budget, the organisation was allocated N41.05bn in 2016, down from N46.72 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. One wonders what the judiciary plans to do with the allocation as the projects and programmes under its purview are not made public knowledge, despite the significant amount of money placed at the NJC's discretion.

THE UNIVERSAL BASIC EDUCATION SCHEME

At N77.11bn in 2016, allocations to the UBE are up 12.77%, as against the 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, there are still a lot of States who have not put up their matching grants to enable access to the fund, which potentially defeats the aim to raise education standards in the country .

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. This opacity in public finance administration can only be corrected if the National Assembly takes the lead in ensuring details, as well as the costs and impact of programmes are 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 public who elected the lawmakers, even in a year when Nigeria is facing her biggest fiscal challenges, which are likely to be intensified by a record-breaking deficit.

RECURRENT EXPENDITURE

The Government plans to spend a total sum of N1.475tn on debt servicing, while N2.65tn will be expended on salaries, allowance, pensions , gratuity and Overheads by the Federal Government. Significant portions of recurrent expenditure allocations are directed at key government services such as Education (N367.7 billion); Defence (N312.2 billion); Health (N221.4 billion) and N451.9 billion to the Ministry of Interior.

Specifically, if the budget is 100% implemented, N1.898tn is projected to be spent on Salaries and Overhead costs for government workers at Ministries, Department and Agencies, while N13.2bn will go to federal executive bodies for spending on recurrent items including the: Code of Conduct Bureau; Code of Conduct Tribunal; Federal Character Commission; Federal Civil Service Commission; National Population Commission; Police Service Commission and the Revenue Mobilisation, Allocation and Fiscal Commission. The balance will be spent on pensions and other government initiatives such as the Presidential Amnesty Programme and Military operations.

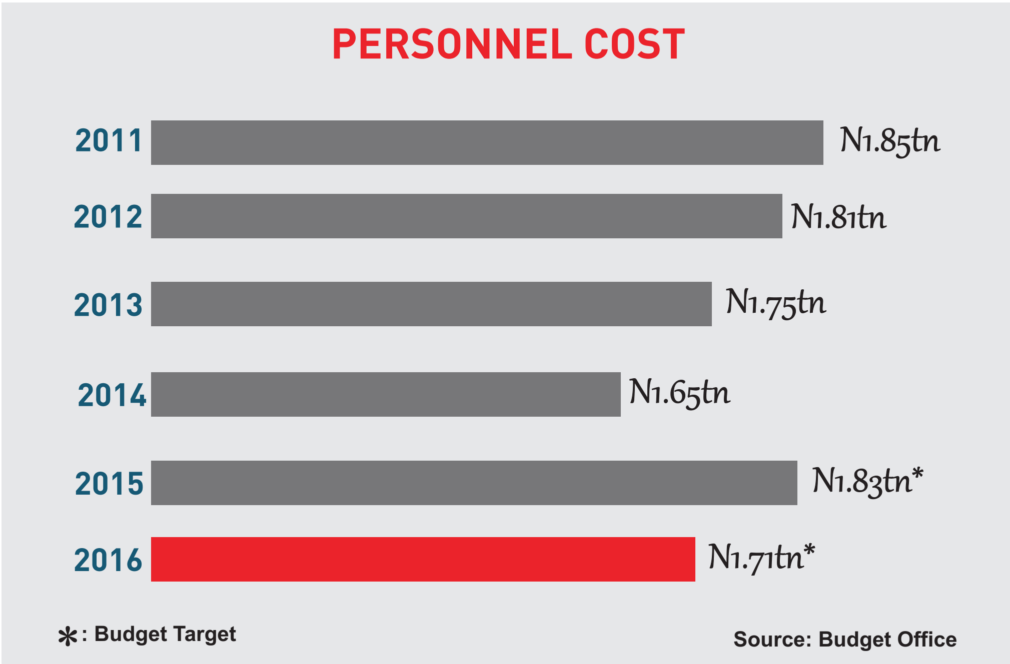
PERSONNEL COST

Nigeria plans to spend N1.71tn in 2016, or 28.14% of its total expenditure, on the salaries and remuneration of its workforce - down from N1.83tn (or 40.7%) in 2015 of the approved budget. Interestingly, Nigeria spent N1.76tn 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. Second, reductions have been witnessed in the numbers of permanent secretaries and directors across MDAs. Third, and most important is the migration to a central payroll management system, to trim the incidence of ghost workers and associated fraud.

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.

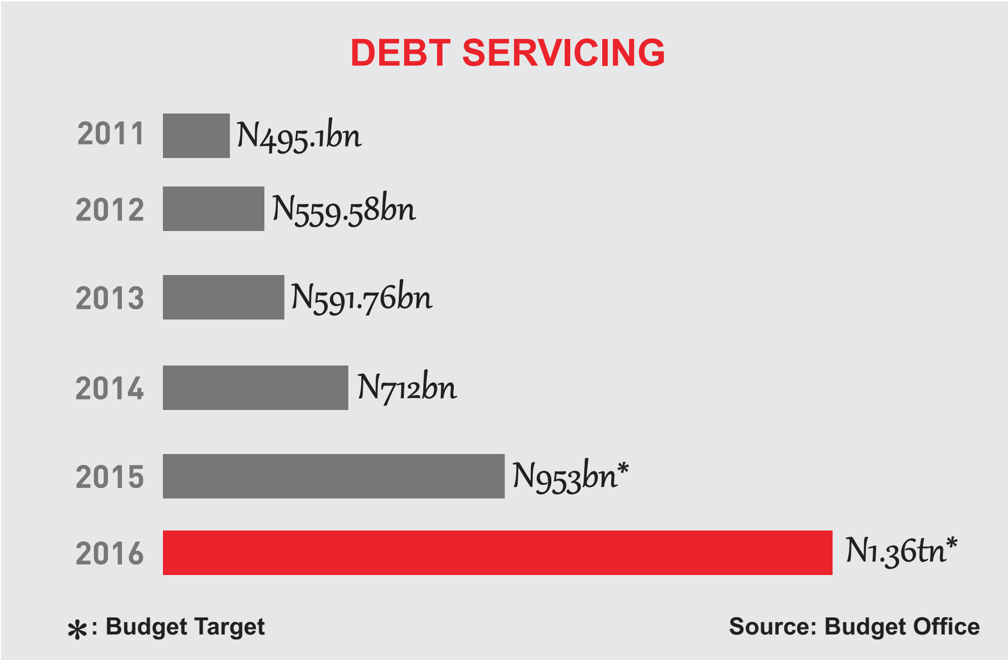
The breakdown of the Federal government's personnel costs show that N1.3tn will be paid out as salaries, N330bn as non-regular allowances and approximately N63bn or 3.7% of all personnel costs will be expended on health insurance, under the National Health insurance scheme. The government plans to pay up to N79.2bn into retirement accounts of individuals on its payroll.



Nevertheless, it bears reiterating that all personnel costs for the government may not be fully captured in this budget, 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 debt.



OVERHEAD COSTS

The overhead costs of running government are down from 2015 levels of N177.6bn, to N163.39bn for 2016. 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 and realign fuel prices may not have been factored into the budget preparation phase, as these factors alone can contribute to a significant spike in eventual overhead costs.

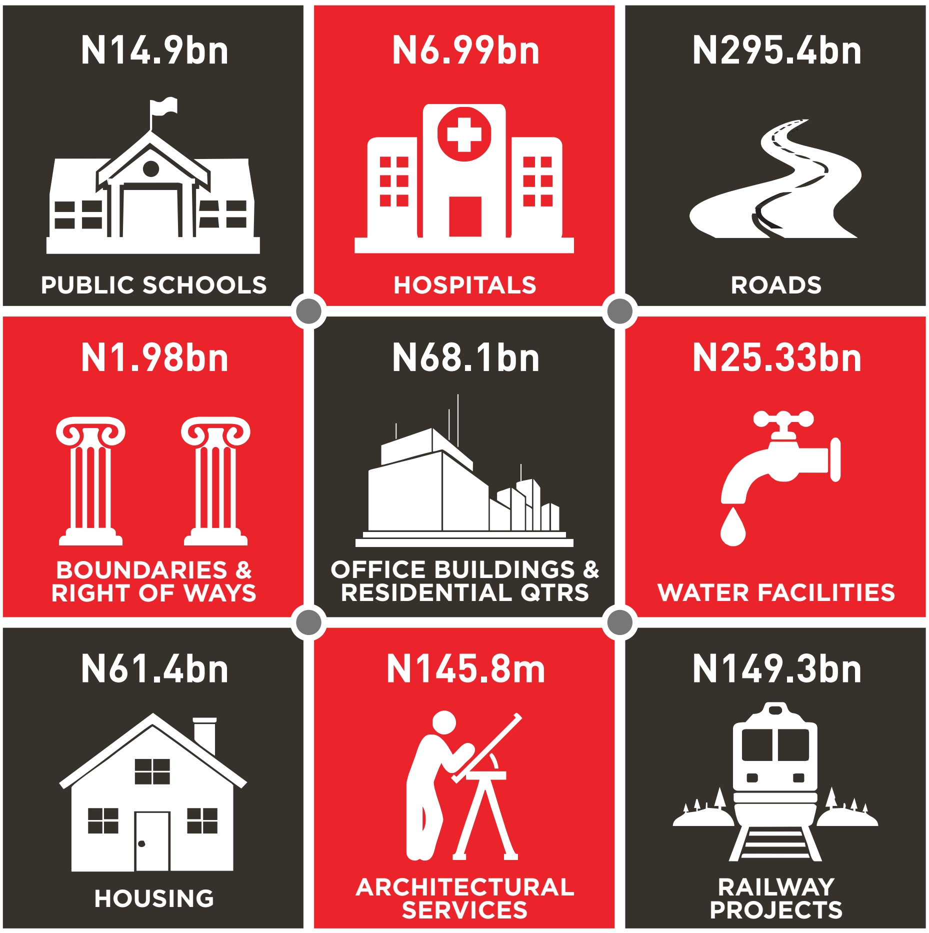
The FG plans to buy stationeries and computer consumables worth N5.4bn for its workforce; N448.2m on books, another N471.6m on magazines and periodicals and N1.03bn on newspapers. A further N38.4bn will be spent on trainings, international and domestic travels, while the bulk of the balance will be for utility bills and general maintenance. We think 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 the 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.

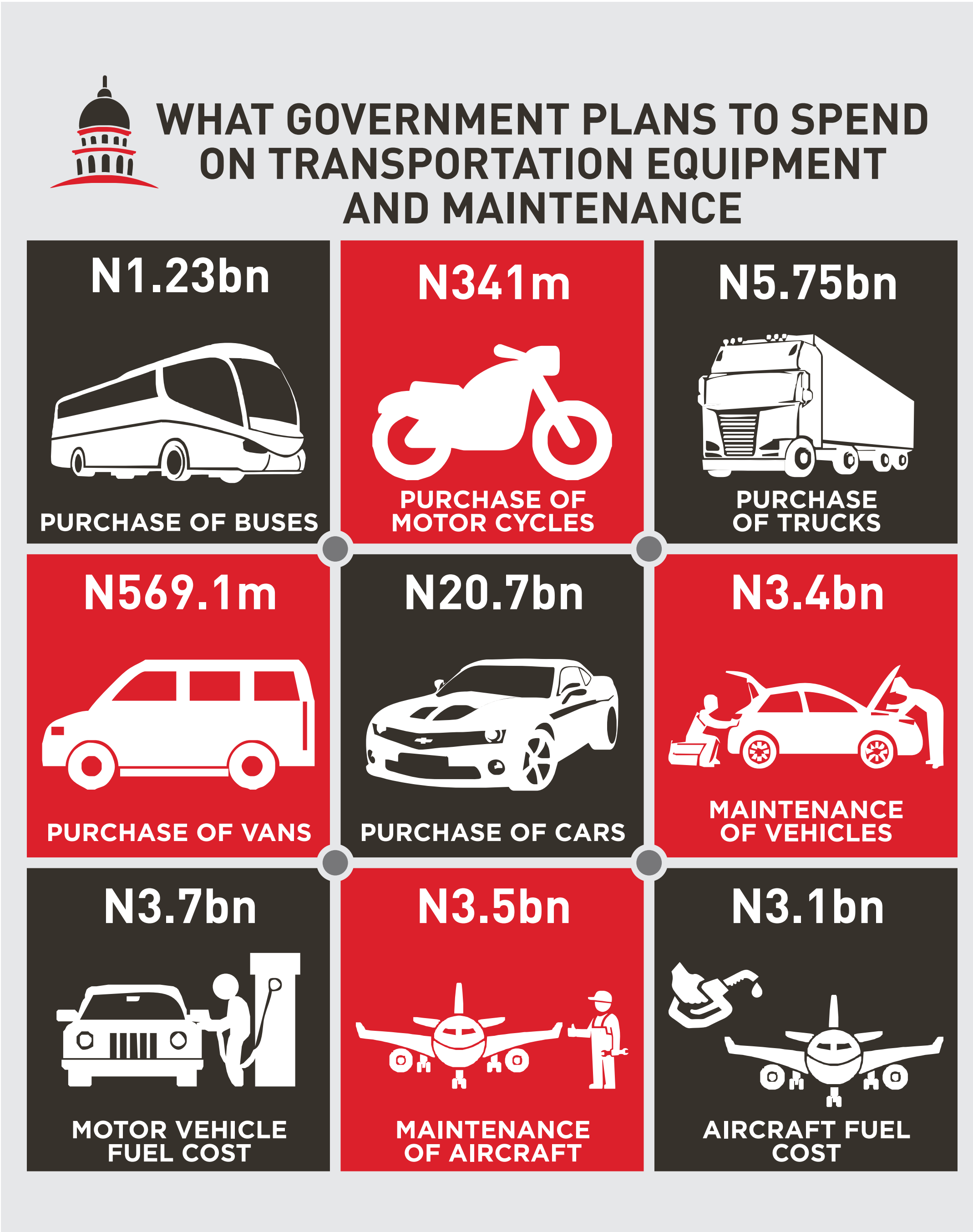
CAPITAL EXPENDITURE

The capital expenditure portion of the 2016 spending plan is up 223%, from N557 billion in the 2015 budget to N1.8 tn in 2016. Increased capital expenditure allocations commit more resources to critical sectors including: Works, Power and Housing - N422.9billion; Transport - N188.67 billion; Special Intervention Programmes - N200.0 billion; Defence - N130.86 billion; and Interior - N61.7 billion. 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, and are thereafter audited speedily to gauge implementation.

Beyond the blanket allocations, Nigeria plans to spend N25.09bn on the construction and provision of electricity; N61.4bn on housing; N295.4bn towards road construction; N149.3 bn on the construction of railways; N52.75bn on the waterways and N10.626 bn for the construction and retrofitting of Nigeria's airports/aerodromes.

HIGHLIGHTS




WHAT GOVERNMENT PLANS TO SPEND ON TRANSPORTATION EQUIPMENT AND MAINTENANCE
N1.23bn
PURCHASE OF BUSES
N341m
PURCHASE OF MOTOR CYCLES
N5.75bn
PURCHASE OF TRUCKS
N569.1m
PURCHASE OF VANS
N20.7bn
PURCHASE OF CARS
N3.4bn
MAINTENANCE OF VEHICLES
N3.7bn
MOTOR VEHICLE FUEL COST
N3.5bn
MAINTENANCE OF AIRCRAFT
N3.1bn
AIRCRAFT FUEL COST

STRATEGIC IMPLEMENTATION PLAN

CAPTURING FG's FOCUS AREA

POLICY, GOVERNANCE & SECURITY

1. Achieve an Appropriate Foreign Exchange Regime

2. Increase low interest lending to the Real Sector

3. Maintain Capital Spending in the Budget at a minimum of 30%. Complement this with funds from the Infrastructure Fund for commercial projects

4. Intensify the Implementation of Public Financial Management Reforms to Grow Revenues & Cut Costs

5. Maintain a Sustainable Debt Management Strategy

6. Introduce Fiscal Incentives to Improve Collections

7. Intensify the Fight Against Corruption by Increasing Transparency, Accountability & Compliance with Law& Order

8. Intensify Public Procurement Reforms in Projects to obtain Value for Money and cut Cost

9. Sustain the Fight Against Insurgency, Kidnapping and Other Violent Crimes, Terrorism, Cyber-Crimes, Piracy, Oil Theft and Illegal Mining Activities. Intensify the reorientation of the populace through Integrity Campaigns

DIVERSIFY THE ECONOMY

10. Implement Measures to Achieve Self-Sufficiency &Become Net Exporters of a certain agric. Items: rice-2018, tomato paste-2016,wheat-2019. Increase local production of maize, soya, poultry& livestock, so as to achieve self-sufficiency: deadlines to be announced in due course 11.Revitalize & Expand Agro-Allied Processing to intensify local production & processing of cassava, cocoa, cashew, fruits and sesame seed

12. Utilize 5,000 hectares of Irrigable Land in the 12 River Basin Development Authorities & utilize 22 Dams for Commercial Farming activities by prospective investors

13. Concession the Dadinkowa, Gurara (Phase I) & Oyan Dams with capacity to contribute a total of 82.5MW to the National Grid

14. Adopt & Implement a Roadmap to Stimulate Investment into the Solid Minerals sector & Plug Revenue Leakages in the Sector

15. Implement the National Industrial Revolution Plan & Launch 'Made in Nigeria' Campaign

16. Increase Manufacturing Capacity by operationalizing Industrial Parks, Free & Export Processing Zones, etc.

17. Enhance support facilities to provide increased financial, technical assistance, networking & information to new investors and existing enterprises

18. Implement a Roadmap to Increase Private Sector Investment into Tourism, Entertainment& Sports 19.Create high-technology innovation hubs to support growth in the Digital & Technology Sector

POWER, RAIL, ROADS AND HOUSING

20. Optimize the 7,000MW installed power capacity & ensure associated infrastructure to Fuel, Transmit & Distribute this capacity is operational and effective. Complete the privatization of NIPP plants & improve the management and performance of TCN

21. Ensure Tariff includes all costs of transmission, generation & gas at the new price, as well as Disco costs required to operate, maintain &upgrade distribution networks

22. Resolve all Issues on Gas Pricing, Tariff, & Payment Assurance. Conclude Roadmap on Gas Development

23. Complete the Kaduna-Abuja & Ajaokuta-Warri Rail Lines scheduled for 2016; revise the National Rail Master Plan; commence construction of the Lagos-Kano standard gauge Rail Line; &finalize negotiations for the Calabar-Lagos Rail Project

24. Undertake the Rehabilitation & Construction of 31 major Projects to restore degrade sections of the Federal Highways & Improving Connectivity over a distance of 2,193km (through public works, maintenance, PPPs & other interventions) 25.Complete the Rehabilitation of 4 Airports (i.e. Abuja, Kano, Lagos & Port Harcourt) & explore options for the Concessioning of Airports 26.Undertake the construction of 3552 Mixed housing Units as Pilot scheme in the 36 States of the Federation and FCT under the National Housing Programme (NHP) in a secured and planned environment.

OIL & GAS REFORMS

27. Adopt & Execute a Comprehensive National Oil &Gas MasterPlan (NOGM) as the roadmap for the Petroleum Industry's Development, Diversification, Privatization & Governance. Adopt & Execute a Roadmap of Gas Development & Flare Elimination

28. Set a 3-year Deadline to be Self-Sufficient in Refined Petroleum Products & become a Net Exporter 29.Work with the National Assembly on the passage of a Revised Petroleum Industry Bill (PIB) or Bills to give effect to the NOGM & to resolve Fiscal & Governance Issues of the Sector, including setting a timeframe for the privatization of NNPC & Refineries to achieve total deregulation of the downstream petroleum sector; & Eliminate Gas Flaring 30.Conclude negotiations to deal with all funding gap issues in the Upstream Sector

EASE OF DOING BUSINESS

31. Move 20 places up the Ease of Doing Business Rankings, by implementing fast track measures for business approvals, acquisition of land titles, etc. (Nigeria is currently ranked 169 out of 189 countries by the World Bank – 2015 Survey)

32. Fast-track visa application & issuance processes

SOCIAL INVESTMENT

33. Implement Social Intervention Programme and specific Health / Education projects included in 2016 Budget

34. Health Sector Interventions including Flagging off the Revitalization of 1 Primary Health Centre per Ward (a total of 10,000 nationwide in 2016 a n d 2017)

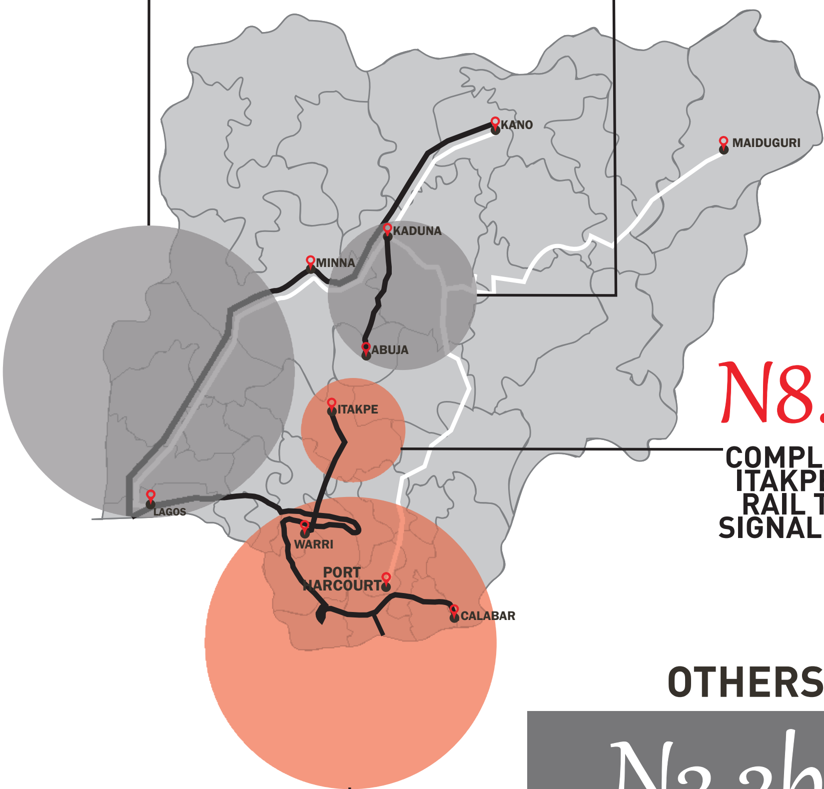
PROVISION FOR RAILWAYS

N149.3bn

SELECTED RAILWAY PROJECTS

N60bn
RAILWAY MODERNIZATION LAGOS-KANO

N19.8bn
COMPLETION OF ABUJA-KADUNA SINGLE TRACK RAIL-LINE



N8.5bn
COMPLETION OF ITAKPE-WARRI RAIL TRACK & SIGNAL SYSTEMS

N60bn
CONSTRUCTION OF CALABAR-LAGOS RAILWAYS

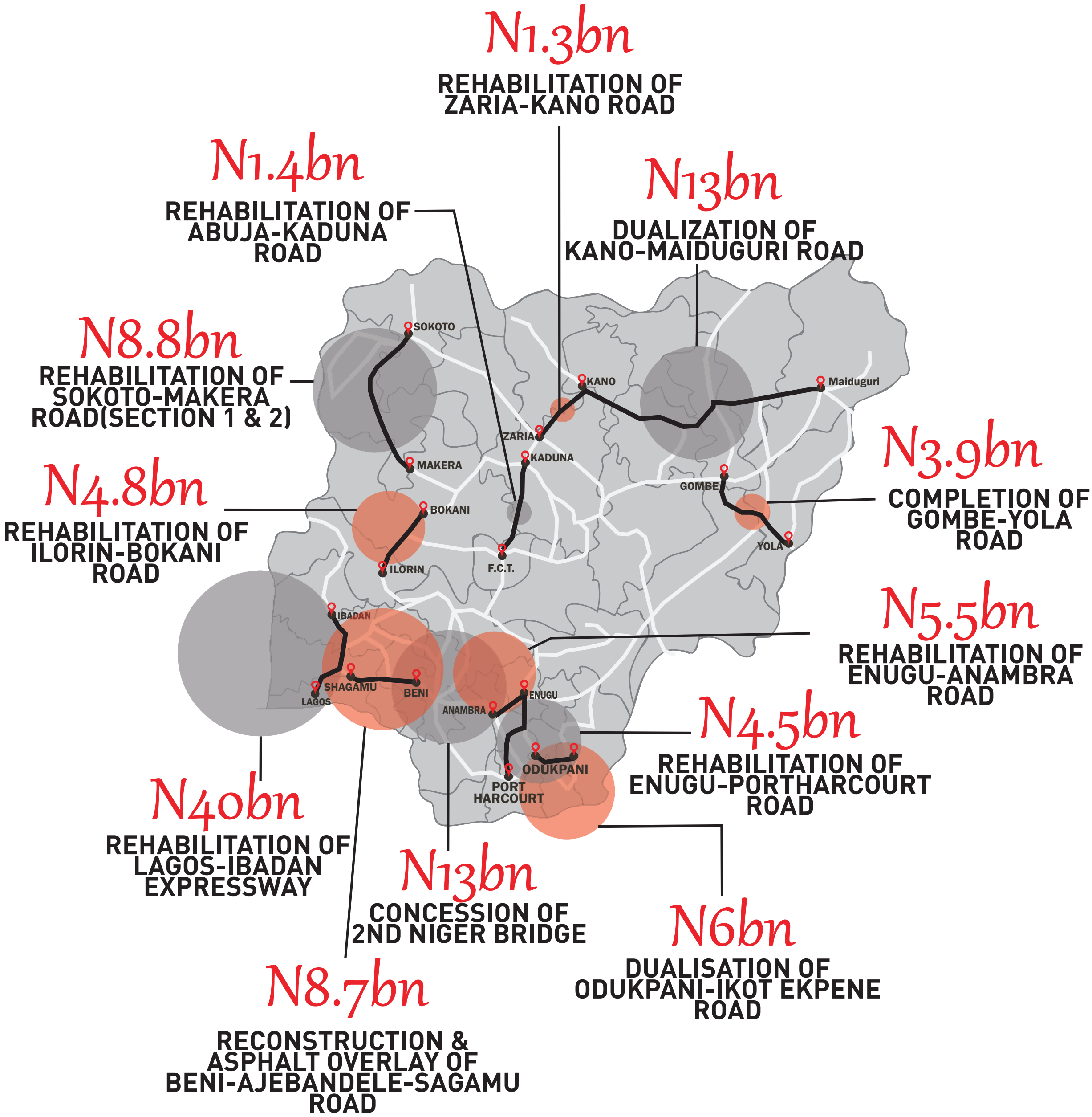
OTHERS

N3.2bn
for Provision of Power, Water, Station building, Fence, etc for rail lines

PROVISION FOR ROADS

N295.4bn

SELECTED ROAD PROJECTS



AVIATION PROJECTS HIGHLIGHTS

N432.5m	for Procurement and Illumination of Thales Navigational Aids at Kano, Jos, Minna, Maiduguri & Port-Harcourt
N865m	for Procurement and Installation of Airfield Lightening System at Port Harcourt, Kano, Lagos, Kaduna, Sokoto, Yobe, Akure
N1.06bn	for Airside Rehabilitation of Nnamdi Azikiwe Airport, Abuja
N497.5m	for Construction of Terminal Building at Enugu Airport
N2bn	for Purchase of Calibration Aircraft and Equipment
N870.4m	for Procurement, Illumination and Flood Lightening of 16 Airports

PROVISION FOR AIRPORTS

N10.6bn

SELECTED AVIATION PROJECTS

N69m
UPGRADE OF TERMINAL BUILDING KATSINA

N69m
CONSTRUCTION OF A NEW FIRE & RESCUE BUILDING KANO

N79m
UPGRADE OF TERMINAL BUILDING MAIDUGURI

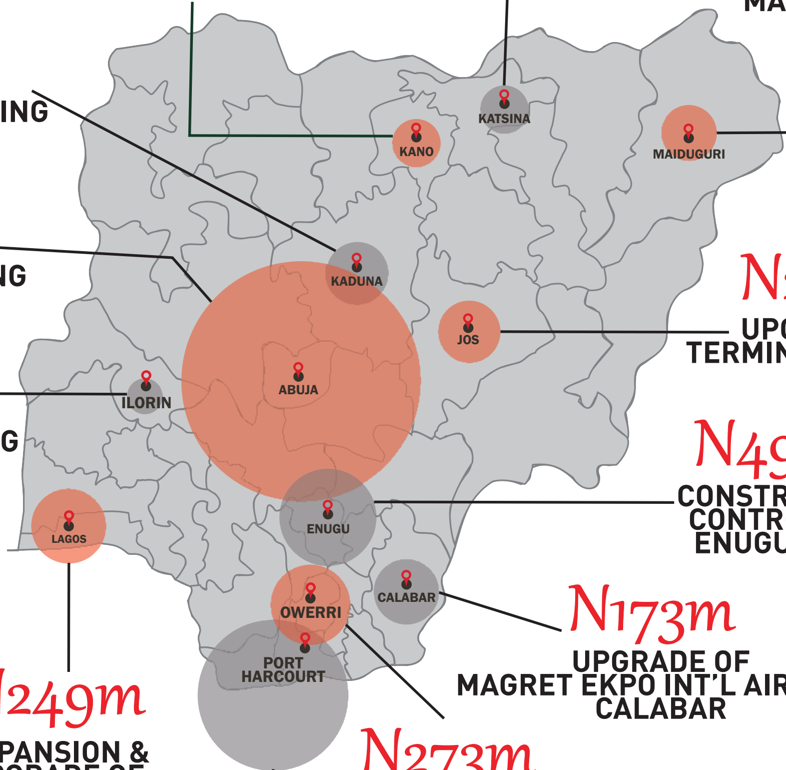
N224m
UPGRADE OF TERMINAL BUILDING KADUNA

N1.6bn
UPGRADE OF TERMINAL BUILDING ABUJA

N250m
UPGRADE OF TERMINAL BUILDING JOS

N24m
UPGRADE OF TERMINAL BUILDING ILORIN

N497.5m
CONSTRUCTION OF CONTROL TOWER ENUGU AIRPORT



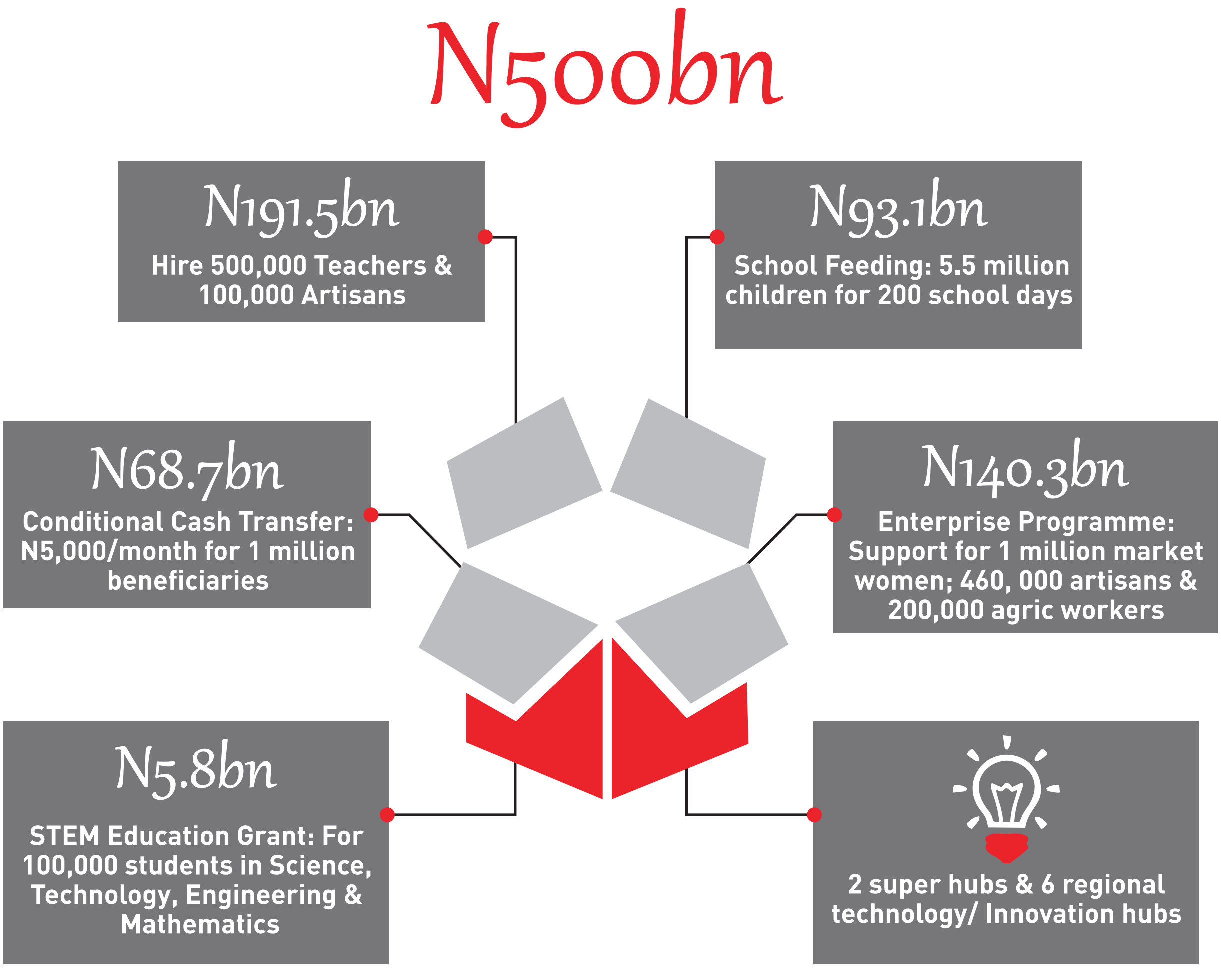
N173m
UPGRADE OF MAGRET EKPO INT'L AIRPORT CALABAR

N249m
EXPANSION & UPGRADE OF MMIA LAGOS

N273m
EXPANSION OF OWERRI AIRPORT

N822m
UPGRADE OF TERMINAL BUILDING PORT HARCOURT

SOCIAL INTERVENTION PROGRAMMES



The FG may have increased the size of the budget for its share of capital expenditure in 2016 from 18% to 26.2%, but it has also raised the actual size of recurrent expenditure by N400bn - from N3.9tn to N4.31tn. This is mainly due to: expected savings made from personnel costs, 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 N500bn is voted for social intervention schemes, which include: the Conditional Cash Transfer; the Home-grown School Feeding programme; the post-NYSC Entrepreneurial Development programme; Free Tuition for Tertiary Education Student (sciences); Micro credit loans (for SMEs, market women), and the Teach Nigeria programme, which aims to recruit 500,000 teachers.

TALKING POINTS

1. POOR CAPITAL BUDGET IMPLEMENTATION

In terms of numbers, Capital Expenditure has tripled from N557bn in 2015 to N1.75tn in 2016, 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.

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

It must be noted that the budget did not consider some of the provisions in the 2014 National Health Act, including:

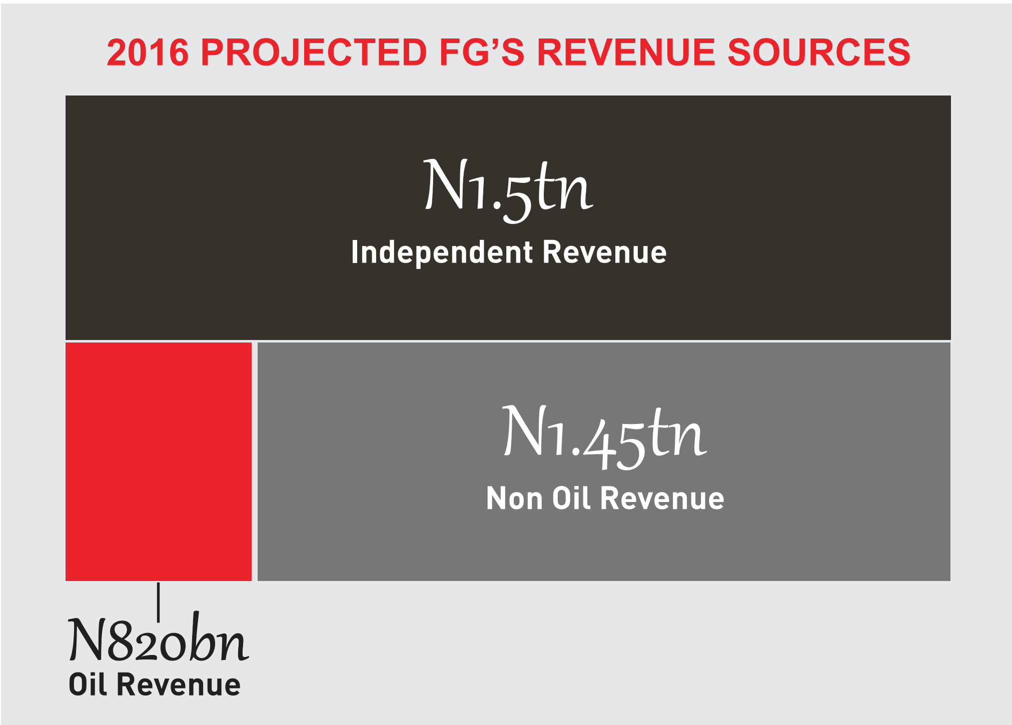
- The National Health Care Development Agency which will manage 45% of the fund, to be disbursed through each State and the FCT Primary Health Care Development Board - for the provision of essential drugs, vaccines and consummates.
- The National Health Insurance Scheme, which will manage 50% of the fund for the provision 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 reforms. This is crucial, when juxtaposed with the fact that the current system allows officials express powers to procure items, a privilege which was notably abused by the former National Security Adviser, Col. Sambo Dasuki (Rtd).

2. OIL WON'T FUND THE BUDGET; TAXATION MIGHT

The Oil-related funding component of the 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 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.



3. BALANCING THE BUDGET: DEFICIT FINANCE SHOULD REMAIN FRONT BURNER

The deficit, which is equivalent to 2.16% of Nigeria's GDP or 36.51% of the 2016 government spending plan, will take Nigeria's overall debt profile to 14% of 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 attaining record highs,, containing the budget deficit remains imperative and non-negotiable. 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.

4. OPEN GOVERNMENT PARTNERSHIP

The most useful tool to tackle and eradicate corruption in any society is radical transparency. Institutional opacity and the absence of responsiveness strengthen the misappropriation of public funds. The Open Government Partnership provides an international platform for domestic reformers committed to making their governments more transparent, accountable, and receptive to citizens. Following the formal declaration of intent by President Buhari, the Open government partnership will help government improve on service delivery using technological tools where applicable, promote openness in public institutions and foster citizen-government relationships to drive sustainable change in the quality of service delivery from government to the people. Principles on which the OGP operates revolve around promoting accountability, the adoption of technological innovation in governance, as well as encouraging transparency and encouraging citizen participation.

KEY PRINCIPLES OF THE OGP

1. Fiscal Transparency - Ensure public documents such as the budget, financial statements of accounts, audit reports and budget implementation reports are published on time and easily accessible by all citizens. Accessibility includes publishing documents in the public domain and also providing for availability of same in hard copy to requesting agencies, organisations and individuals.

2. Public participation - Provide avenues for citizens to understand and participate in government activities, contract processes, budget preparation and formulation, resource planning, Bill passage and debate, monitoring and evaluation of capital projects and all financial audit processes.

3. Proactive Disclosure - Dissemination of information through varying media to effectively communicate local, federal and State governments' plans, actions, strategies and also create an efficient feedback mechanism. Also covered here is the strengthening of the Access to Information law amongst public agencies, to enable them serve citizens and speedily provide information and data related to public spending.

4. Technological Innovation - The use of technology to create solutions that could improve service delivery, monitoring and evaluation, whilst enabling social inclusion of digitally-savvy citizens

5. OPEN DATA CHARTER

The Open Data Charter advocates a culture of open data and open government data in any country , and is implemented through the Open Government Partnership National Action Plan. Open Data refers to digital data made available with the requisite technical and legal characteristics necessary for it to be freely used, reused, and redistributed by anyone, anytime, anywhere in machine readable formats such as .xls , .pdf, .csv and .docx. Opening up government data can encourage the building of more interconnected societies that better meet the needs of all citizens and kickstart or strengthen innovation, efficient service delivery, employment, informed civic decisions, citizen engagement and inclusive governance. Embracing Open Data will ultimately improve reduce corruption due to the availability of publicly-accessible information.

6. OPEN CONTRACTING

Making public the knowledge of how taxpayers' money is disbursed is crucial to the development of every society. It is in the interest of the government and the governed to promote the understanding of procurement processes, contract award processes, contract costs, bidders' information and the identities of those who monitor contract implementation. The Open Contracting principle requires timely, current, routine publication of sufficient information about the formation, award, execution, performance of all entities involved in the contract process from initiation to completion. The purpose of this is to reduce corruption at procurement level and ensure Nigerians are not equipped with substandard materials for infrastructure, or shortchanged by contractors who fail to deliver; this will also ensure the government spends judiciously.

Specifically, the concept of Open Contracting is summed up via the Open Contracting Data Standard, which enables disclosure of data and documents at all stages of the contracting process by defining a specific model as follows:

CONCLUSION

The expansionist approach of the 2016 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 budget. If the recovery and repatriation 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 stabler balance from their current precarious position in record time.

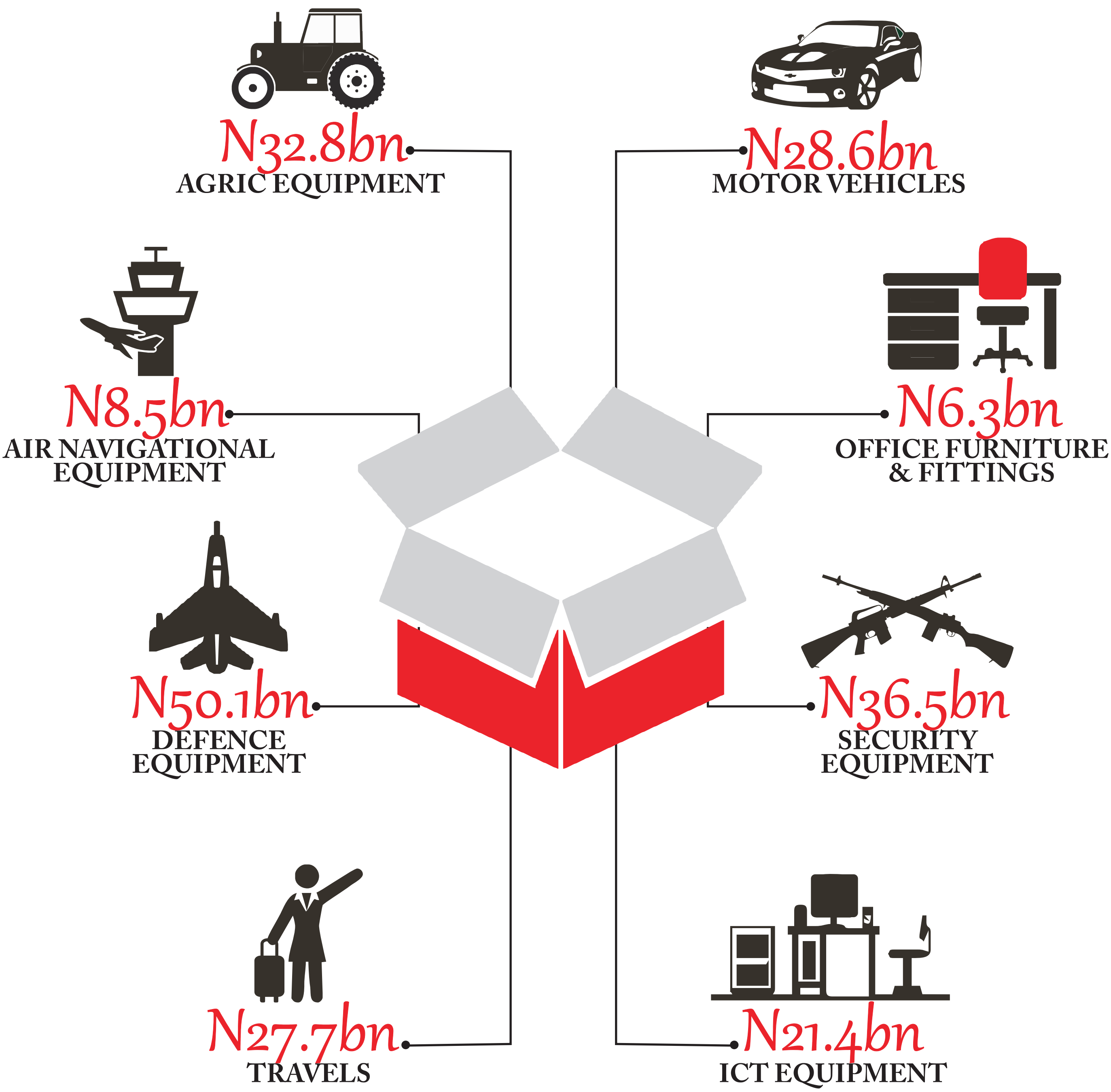
The Treasury Single Account represents one of the surest opportunities to instil expenditure control in independent revenue agencies and increase their contribution to the revenue pool. There is a need to block all leakages, while expanding Nigeria's revenue base, otherwise the country risks languishing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

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.

OPPORTUNITIES

2016 Spending Plans



SIMPLIFYING THE NIGERIAN BUDGET

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