A REVIEW OF NIGERIA'S 2016 BUDGET

Towards Infrastruture and Socio-Economic Development

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A Review of Nigeria's 2016 Budget: Towards Infrastructure and Socio-Economic Development

CSEA Budget Evaluation Report

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Executive Summary

This study reviews and assesses the 2016 budget of the Federal Republic of Nigeria in line with IMF's[1] budget assessment indicators, namely: comprehensiveness, transparency, and realism. The assessment is based on clear understanding of the present administration's objectives, which are: to achieve socio-economic and infrastructural development, to diversify the Nigerian economy, and to achieve improved security of lives and properties.

The approved 2016 budget has some attributes of comprehensiveness, which are motivated by the implementation of the Treasury Single Account (TSA) policy. The TSA policy is expected to make spending more transparent, reduce fund misallocation and corruption within the Ministries, Department and Agencies (MDAs). Meanwhile, the budget is assessed to be weak in terms of transparency and realism. Specifically, there is evidence of opaqueness in the estimated budget spending, as some allocated funds were not well matched with proposed projects and programmes of MDAs. This has serious implication for the transparency of budget.

The realism of the budget is mostly affected by lingering economic challenges, which makes some of the basic assumptions of the budget, such as the benchmarks for exchange rate and oil revenue, obviously unrealistic. The current official exchange rate of about N280/$ which exceeds the N197/$ benchmark, as well as the revenue effect of the recent oil facilities vandalism in the Niger Delta region, unavoidably creates implementation challenges. Although, the current increase in the price of crude oil in the international market, which makes it above the budget benchmark of $38 per barrel is supposedly a positive development - as it is expected to raise oil revenue above the target level; however, this would be conditional upon the realization of oil production benchmark, which is currently being threatened by the activities of Niger Delta militants.

In addition, the huge non-oil revenue projection totalling N3.36 trillion seems too ambitious, as it appears to be the highest budgeted ever. Meanwhile, the current very low Value Added Tax (VAT) rate of 5%, weak tax administration system, as well as declining investment position of Nigeria, remains part of the key challenges facing successful realization of the projected non-oil revenue.

Similarly, the realism of the 2016 appropriation bill is being threatened by the anticipated shortfall in government revenue, owing to potential failure in the realization of the projected borrowing from domestic sources. The budget being an expansionary type relies on borrowing, which is estimated to be financed mainly from domestic sources; however, this possibility seems to be undermined by the recent economic downturn. Besides, the low reserves-to-imports ratio of about 7 months imports cover, points to a problem of short-term liquidity of the economy to meet its debt obligations.

[1] https://www.imf.org/external/pubs/ft/expend/guide3.htm

Generally, the 2016 appropriation bill is expansionary in nature, given that its projected expenditure is higher than revenue. The proposed budget deficit is anticipated to be financed through borrowing from domestic sources. Sinking Fund to Retire Maturing Loan was treated specially in the 2016 budget, as it appears under Debt Service section for the first time. The budget is also characterised with higher capital expenditure, which is 183.9% above the corresponding 2015 figures. This is however anticipated, given the objective of the government to diversify the economy, which invariably requires more investment in infrastructural development. Most importantly, the aim of the government to improve Nigeria's socio-economic development is conspicuously revealed in the 2016 budget, through unprecedentedly huge allocation to Federal Government Special intervention programmes, which is 900% higher than the 2015 estimates.

In conclusion, the potential of the 2016 budget to deliver its policy objectives depends largely on the ability of the policymakers to address the identified challenges, especially as related to budget realism. This will require the policymakers to move for necessary adjustment to reflect the current economic realities. Similarly, careful attention to how allocated funds is matched with proposed projects and programmes of MDAs will be recommended in subsequent budgets to promote budget transparency. Meanwhile, if there is adequate, timely and effective implementation, monitoring and control, as well as a timely address of some of the highlighted challenges, the 2016 budget could successfully lay a good foundation for infrastructural and socio-economic development in Nigeria.

1. Introduction

The 2016 Federal Budget was prepared using the Zero Based Budgeting (ZBB) program. This system requires Ministries, Departments and Agencies (MDAs) to conduct a thorough evaluation of ministry programmes to determine the funding required for each programme. Unlike the incremental budgetary system, which the Federal Government (FG) has used to prepare past budgets, the ZBB system requires all spending agencies to develop a fresh request for spending every year, based on cost analysis of programmes. This makes the system more difficult and requires budget officers to be trained to carry out project evaluations. However, the ZBB system makes budget allocation more efficient and effective by discouraging wastages, as spending are tied to projects and programmes which gives no room for un-earmarked expenditure. This is the first time such a system is being implemented in Nigeria.

The 2016 appropriation bill titled "Budget of Change" was passed by the National Assembly[2] on March 23, 2016 and signed into law by the President on May 6, 2016. The N6.06 trillion proposed budget, based on the 2016-2018 Medium Term Expenditure Framework (MTEF), is 35% higher than the budgeted N4.49 trillion in 2015 (Table 1). The MTEF[3] serves as a guide for long term fiscal projects and also provides a fiscal backdrop to guide allocation decisions. The deficit of N2.2 trillion, translating to 2.14% of GDP is expected to be financed largely by domestic borrowing. Notably, provision for fiscal deficit in the 2016 budget declined by 4.8% compared to 2015 budget. The 35.0% growth in projected revenue is expected to be derived from other internally generated revenue sources, such as VAT and Corporate Tax. Further, capital expenditure allocation of N1.59 trillion (which is 183.9% higher than the budgeted amount in 2015) and special intervention expenditure of N0.2 trillion (which is 900% higher than the budgeted amount for SureP in 2015) show government's commitment to achieve the objectives of improved infrastructure and social development.

[2] This is after the approval of the MTEF report by the Federal Executive Council, the issuance of "call circular" by the Federal Ministry of Finance to MDAs to present their spending projections (capital and recurrent) within the restrictions of the MTEF Report, and the compilation of the draft budget by the Budget Office.

[3] The MTEF is further developed into the MTEF Report, which contains the Fiscal Strategy Paper (FSP)[3] and MDA expenditure ceilings. This document is submitted by the Federal Ministry of Finance (FMOF) to the Federal Executive Council (FEC) and the National Assembly (NASS) for consideration.

Table 1. Key Elements in the 2016 budget

Items	2015	2016	Change (%)
Consolidated Revenue Fund of the Federation (N trillion)	4.49	6.06	35.0
Projected revenue (N trillion)	3.45*	3.86	35.0
Fiscal Deficit (N trillion)	2.21	2.20	-4.8
Fiscal Deficit (% of GDP)	2.31	2.14	-7.4
Statutory Transfers (N trillion)	0.38	0.35	-7.9
Debt Service (Total, N trillion)	0.95	1.48	55.8
Debt Service (Domestic, N trillion)	0.89	1.31	47.2
Debt Service (Foreign, N trillion)	0.06	0.05	-16.6
Recurrent (Non-Debt) Expenditure (N trillion)	2.61	2.65	1.5
Capital Expenditure (N trillion)	0.56	1.59	183.9
FGN Special intervention Programmes (N trillion)	0.02	0.20	900.0

Sources: 2015 and 2016 Appropriation Bills and Speech of Honourable Minister of Budget and National Planning, May 12, 2016.

Note: *The projected revenue for 2015 Budget was N3,452.35 billion but was later revised downward to N2,855.80 billion partly due to inability to achieve projected oil production arising from pipeline vandalism.

2. Assessing 2016 Appropriation Bill

The 2016 budget will be assessed based on three main criteria, namely; comprehensiveness, transparency and realism. These are standard conditions by which the soundness of budget systems can be judged.

2.1. Comprehensiveness

Comprehensiveness of Budget explains the extent to which government operations are covered in the Budget. The 2016 budget, much like the past budgets in Nigeria, is structured under six schedules, these are; the Statutory Transfers, Debt Service, Ministries, Department and Agencies (MDAs), Federal Executive Bodies, Service Wide Votes and Capital Supplementation. However, being the first budget to be presented by the first opposition party to assume power, topical changes may not be unanticipated.

Meanwhile, the observed changes in the coverage of the 2016 budget relative to that of 2015 appear intangible, indicating no significant improvement in the comprehensiveness of the budget. Specifically, the merging of MDAs as noticed in the 2016 budget could be explained in terms of the trade-off between the numbers of MDAs and the size of MDAs. Since this does not reflect real extension/contraction in the budget coverage, the comprehensiveness of the budget is not affected. Similarly, no significant change is observed in some budget sections; such as the Statutory Transfers, Federal Executive Bodies, Service Wide Votes and Capital Supplementation schedules. One notable extension in comprehensiveness of the 2016 Budget is the inclusion of Sinking Fund provision under the Debt Service Schedule (Table 2); however, this could not be considered as real extension, as the said item also appeared under Capital Supplementation in the 2015 Budget.

In addition, in analysing comprehensiveness of budget, the nature of estimates - whether gross or net, must be taken into account. With the full implementation of the Treasury Single Account (TSA) policy, which necessitates direct lodgement of the realized revenue by the MDAs into the Consolidate Federation Account through e-payment transactions, estimated revenues and expenditures in the 2016 budget is a form of gross estimate. A gross estimate is distinguishable from the net estimate, which treats federal revenue allocation to MDAs (especially income generating ones) as being supplementary to the estimated internally generated revenue by such MDAs. Although it reduces bureaucracy, the operation of the net estimate is vague and may encourage fund misallocation and corruption. However, gross budgeting system is more transparent in its operation, and tends to reduce fund misallocation and corruption within the MDAs.

Table 2. Structural Changes in 2016 Budget

Budget Schedules	2015 Budgets	2016 Budget
Statutory Transfers	Consists of transfers to: • National Judicial Council, • Niger-Delta Development Commission, • Universal Basic Education, • National Assembly, • INEC, and • National Human Right Commission.	No changes
Debt Service	Consists 2 Debt items: • Domestic Debts and • Foreign Debts	Consists 3 Debt items: • Domestic Debts • Foreign Debts and • Sinking Fund to Retire Maturing Loan
Ministries, Department and Agencies (MDAs)	Consists of 41 MDAs	MDAs reduced to 33 through merging of related MDAs. Thus, 15 MDAs were compressed into 7. The 7 newly emerged MDAs are: 1) Works, Power and Housing; 2) Youth and Sports Development; 3) Solid Minerals Development; 4) Labour and Employment; 5) Information and Culture; 6) Industry, Trade and Investment; and 7) Budget and National Planning.
Federal Executive Bodies	Consists of 8 Bodies: • National Population Commission (NPC) • Code of Conduct Bureau (CCB) • Code of Conduct Tribunal (CCT) • Revenue Mobilization Allocation and Fiscal Commission • Federal Civil Service Commission • Police Service Commission • Federal Character Commission	No Change

Service Wide Votes	Consists of: • Pensions, Arrears and Gratuities • Presidential Amnesty Programme • Other Service	No Change
Capital Supplementation	• Job Creation Scheme • Sure-P • Other Developmental Projects	Sure-P is replaced by FGN Special Intervention Programme including: • job creation, • school feeding, • conditional cash, transfer, • enterprise programme, and • stem education grant

Source: CSEA Compilation

2.2. Transparency

Budget transparency refers to the extent and ease with which citizens can access information about, and provide feedback on government revenues, allocations, and expenditures. It is facilitated by opening up of budgets and democratizing the budget process in order to give citizens a say in policy formulation and resource allocation. In achieving this, OECD in its Best Practices for Budget Transparency recommends the preparation and circulation of Pre-Budget statement. The Pre-Budget Statement, often called the Fiscal Strategy Paper, the Budget Strategy Document, or the Budgetary Framework Paper — sets out the government's budget strategies for the coming budget year and, frequently, for the two subsequent budget years[4]. This is often issued in the fourth or fifth month of the current budget year to facilitate discussions by legislative committees and the public on the next year budget.

Nigeria is operating a transparent budget process in line with the provisions of Fiscal Responsibility Act 2007, which requires the executive officers to present Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) to the National Assembly. Hence, the process for preparing the 2016 budget could be said to be transparent to some extent, as the MTEF and FSP for year 2016, 2017 and 2018 – used as the basis for its preparation, was earlier sent to the National Assembly on December 8, 2015. Meanwhile, budget transparency is not a goal in itself, but a prerequisite for public participation and accountability. While the presentation of preliminary budget to the public and National Assembly may promote public participation, the budget has to be presented in a simplified, accurate and explanatory form to ensure accountability. Thus, a budget is still not transparent if it does not demonstrate high level of accountability. A budget cannot be properly analysed, and its implementation cannot be thoroughly monitored nor its outcomes evaluated, if it is lacking in accountability.

The issues of accountability in the 2016 budget is analysed in Table 3. The focus is on the key allocations to the federal ministries vis-à-vis the major projects highlighted by each of the

[4] https://www.oecd.org/gov/budgeting/49941624.pdf

ministries. Although not clearly stated, this key allocation could be viewed as the functional classification of government budget, as it summarizes government's planned activities under broad objectives or purposes and describes expenditure that goes directly into real economic activities. Further classification of the budget using standard classification system (which provides functional, economic, and administrative classification of the budget) may have enhanced understanding of the budget. The key allocations, as described in the overview of the 2016 budget document represent 70.64% of the total budget; implying that about 30% of the 2016 budget (not being statutory transfers and public debt service) is not allocated into real economic activities.

More so, the problem of accountability is revealed when matching the major projects highlighted by each ministry with the budget allocated to the ministry. Generally, it was noticed that the largest percentage of the budget allocated to the ministries is not matched with specific projects. For instance, as shown in Table 3, Defence, Interior, Solid Minerals and Youth and Sport Development do not have any specific major project, while more than 90% of the total allocation to Education, Health and Agricultural and Rural Development is also not matched with specific projects. Only Special Intervention Programme could be said to satisfy the accountability requirement with about 99.8% matched with specific projects, while the Transport ministry also perform fairly well with about 77% of the allocation matched with specific projects.

Table 3: Transparency and Accountability in the 2016 Budget

S/N	Ministry	Total Budgetary Allocation (₦' billion)	Specified Major Projects (₦' billion)	Allocation for Minor/ Unspecified Projects (₦' billion)	Budget allocated to Minor/ Unspecified Projects (%)
1.	Power, Works and Housing	456.93	177.22	279.71	61.22
2.	Transport	202.34	155.73	46.61	23.04
3.	Defense	443.07	N/A	443.07	100
4.	Interior	513.65	N/A	513.65	100
5.	Education	403.16	3.26	399.9	99.19
6.	Health	250.06	13.9	236.16	94.44
7.	Agriculture and Rural Development	75.8	5.42	70.38	92.85
8.	Solid Minerals	16.73	N/A	16.73	100
9.	Youth and Sport Development	75.79	N/A	75.79	100
10.	Water Resources	53.3	7.16	46.14	86.57
11.	Special Intervention Programmes	500	499.4	0.6	0.12

Source: Compiled by the CSEA

2.3. Realism

Realism of the budget is judged from the verisimilitude of the key assumptions on which it is based. Four key assumptions stand out in the 2016 fiscal proposal; exchange rate of N197/$, oil revenue projection of 2.2 million bpd, oil price benchmark of $38 per barrel and non-oil revenue of N3.36 trillion (Table 4).

Table 4. Key assumptions on revenue projection

Items	2015	2016	Change (%)
Projected Oil Production (mbpd)	2.3	2.2	-4.3
Oil price benchmark ($pb)	53	38	-28.3
Exchange rate (N/$)	190	197	3.6
VAT (N Trillion)	1.28	1.48	15.6
Corporate tax (N Trillion)	1.42	1.88	32.4

Source: Speech of Honourable Minister of Budget and National Planning on May 12, 2016.

Oil Revenue Projection

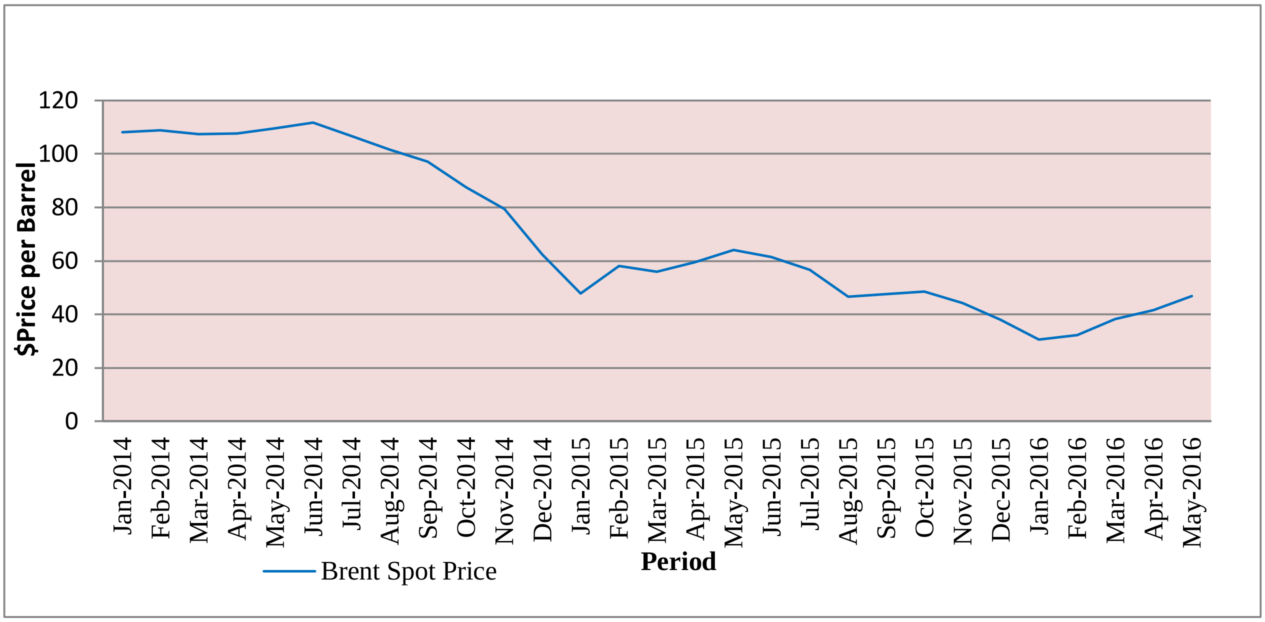
Oil revenue forecast for the whole fiscal year is tied to oil production projection of 2.2 million bpd at oil price benchmark of $38 per barrel (Table 4). While oil production projection remains almost the same with the corresponding values in the past two fiscal periods, marked changes in crude oil price and exchange rates benchmarks exist in 2016, in reaction of the Nigeria economy to the current global economic slowdown. Despite the low oil parameters benchmark of the 2016 budget compared to 2015, total budgeted revenue estimates is higher than the corresponding 2015 figures.

The 2016 budget assumption, in relation to oil revenue, presents both opportunities as well as challenges. For example, there are clear indications that oil price will rebound above the $38 oil price benchmark[5]. Figure 1 presents crude oil Brent Spot price between January 2014 and May 2016. It can be observed that oil price is above $40 in April and May 2016, which is higher than the budget benchmark. This development is a positive one to the budget, as it might improve revenue above the target level conditional upon the realization of oil production benchmark. However, the attainment of targeted oil production level is facing a great challenge, considering incessant vandalism of pipelines and destruction of oil facilities across the major oil producing regions in the country. Table 5 displays quarterly crude oil production in Nigeria between 2014 and 2016. Data from the table shows a decline in crude oil production from 2.16 mbpd to 2.11 mbpd between 2015Q4 and 2016Q1 respectively. Outlook for improved oil production in 2016Q2 is bleak, considering the recent activities of the Niger Delta Avengers on oil infrastructure[6]. The actualization of revenue projections hinges on how the two effects (i.e. increase in oil price and fall in oil output) counter-balanced each other.

[5] OPEC Weekly Oil Price. Accessed March 24, 2016. http://www.opec.org/opec_web/en/data_graphs/40.htm http://www.vanguardngr.com/2016/03/oil-prices-rise-to-39-beat-budget-benchmark-of-38/ http://www.cnbc.com/2016/06/01/chart-heres-why-oil-prices-may-be-headed-up.html

[6] http://sunnewsonline.com/niger-delta-avengers-blow-up-more-facilities-in-delta-bayelsa/

Figure 1: Brent Spot Price



Source: IEA and CBN statistical database, 2016

Table 5: Quarterly crude oil production in Nigeria

Year	Crude Oil Production (mbpd)
2014 Q1	2.26
2014 Q2	2.24
2014 Q3	2.12
2014 Q4	2.21
2015 Q1	2.16
2015 Q2	2.02
2015 Q3	2.17
2015 Q4	2.16
2016 Q1	2.11

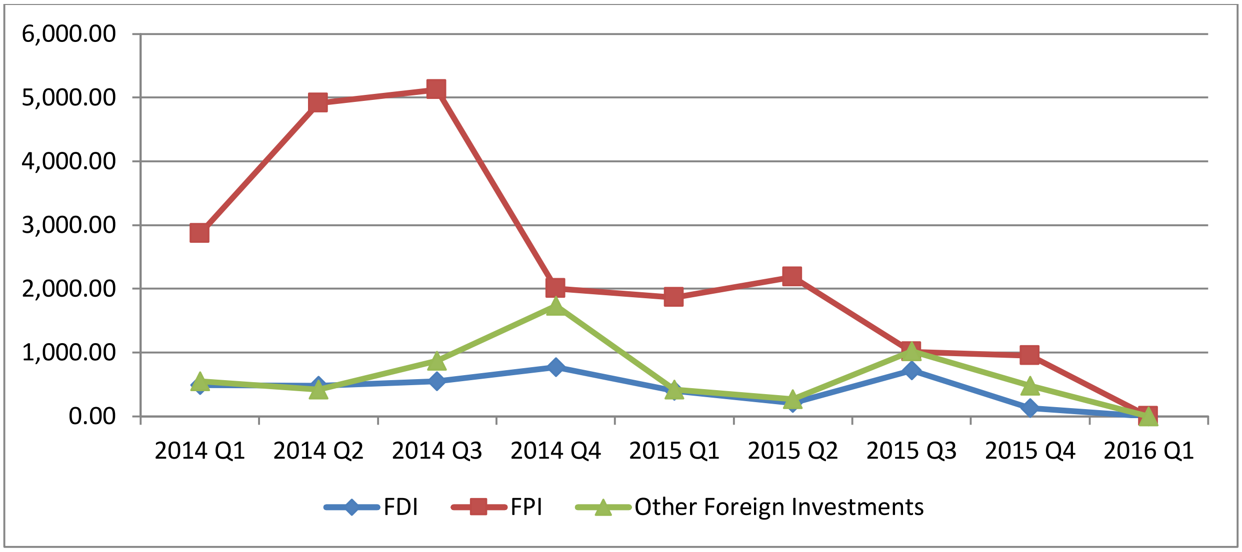
Source: CBN statistical database, 2016

Non-Oil Revenue Projection

Non-oil revenue (e.g. VAT, Corporate Tax) is expected to be the major contributor of the 2016 revenue. Projected VAT and Corporate Tax revenue of ₦1.48 trillion and ₦1.88 trillion represent about 15.6% and 32.4% increase respectively, over the provision in the 2015 budget. However, given the weak tax administration system, the current VAT rate of 5% (which is the lowest in Africa and one of the lowest in world), the declining investment position of Nigeria (Figure 2) as well as other challenges related to forex scarcity and slow economic growth, realising the targeted non-oil revenue through taxes is doubtful. The customs duties on imported cargoes was recently increased from 35% to 43%[7] following the commencement of the implementation of the new foreign exchange policy, which moves the naira to dollar exchange rate from N197/$ to a minimum of N280/$. While import duties remain one of the ways of meeting non-oil revenue target, continuous decline in import, coupled with weak and declining export base to generate the needed forex (Figure 3), creates a potential negative effect on the income accruable to the Federation Account to meet non-oil revenue projection. Besides, increase in import duties creates additional challenges to local manufacturers and investors who are already struggling in a harsh investment environment, orchestrated by forex scarcity and weak domestic demand.

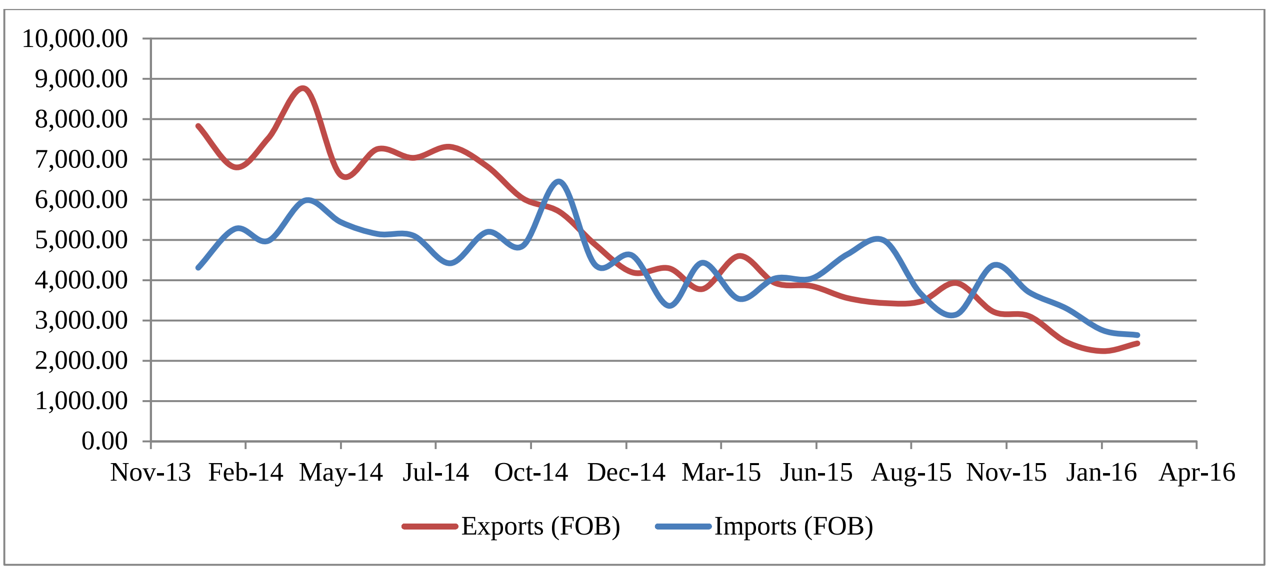
[7] http://punchng.com/new-forex-policy-raises-import-duty-by-43/

Figure 2: Nigeria's Investment positions (Million US$)



Source: CBN database

Figure 3: Imports and Exports trend in Nigeria (US$ Million)



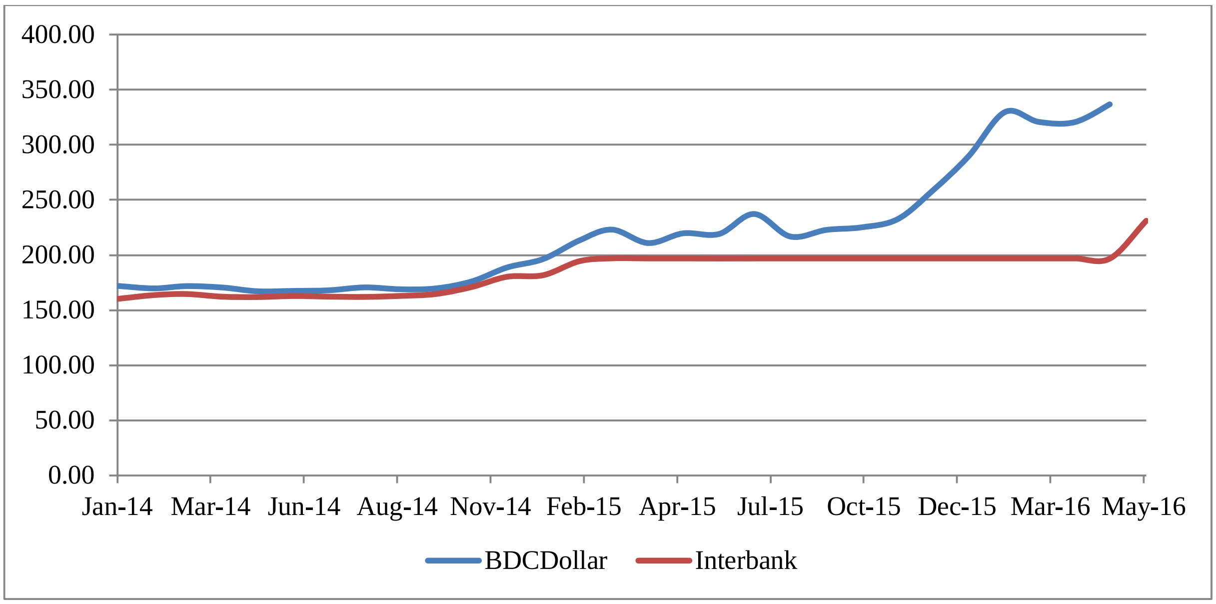
Source: CBN database

Exchange Rate Assumption

Average exchange rate is also assumed at ₦197/$. This contrasted sharply with the current reality where average interbank exchange rate stood at N231.26 for the month of June following the flexible exchange rate arrangement, which became effective on the 20th of June, 2016 (Figure 4).

As at July 22nd, 2016, the interbank exchange rate recorded N299.5/$ (CBN database). In terms of realism of costing policies and programmes, exchange rates constitute major downside risks to the budget performance. Given the new floating exchange rate policy, the country's weak supply response and its associated dependence on foreign items, the benchmark exchange rate of ₦197/$ appears unrealistic. This may consequently impinge on the domestic prices, by intensifying inflationary pressures on the economy (as indicated in Figure 5). Inflation has hit double digits[8]- above the target band of the Central Bank Nigeria (CBN). Higher inflation implies the budget can now deliver lesser projects/programmes, as cost structures would need to be redesigned to reflect the increase in price level.

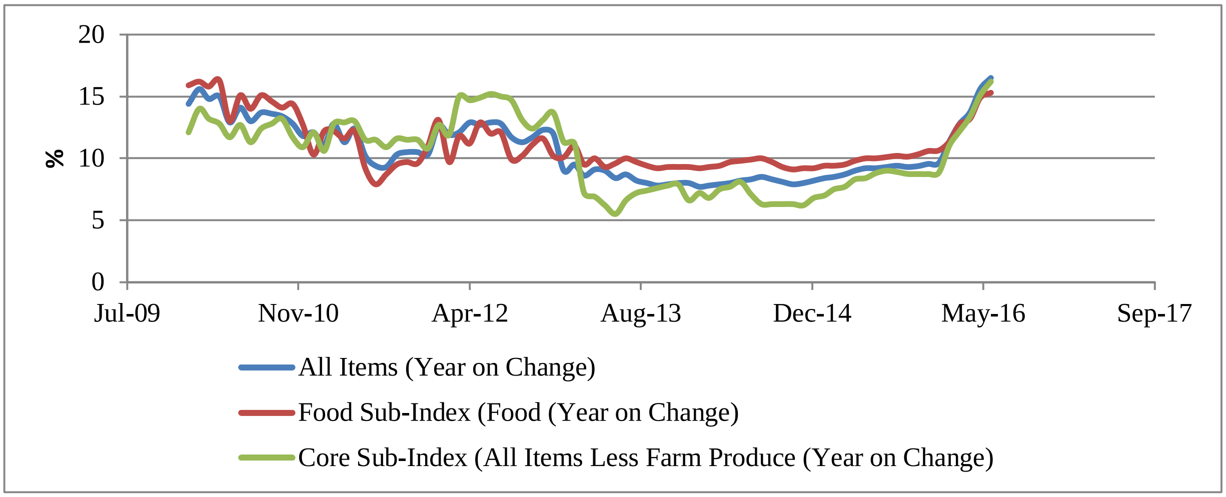
Figure 4: Exchange Rate Trend (N/$)



Source: CBN database

[8] About 13.7% in May 2016

Figure 5. Inflation Rate Trend



Source: CBN database

Budget Balance Considerations on Realism of 2016 Budget

The 2016 budget appropriation authorized a release of ₦6.06 trillion from the Consolidated Revenue Fund of the Federation; balancing this against an estimated revenue of about ₦3.85 trillion left approximately ₦2.21 trillion as deficit. Out of this shortfall, ₦1.8 trillion is expected to be financed by internal and external borrowing. Raising such huge amount can be a daunting challenge for a country with record of weak economic performance over the last few quarters. Available data on economic indicators points to a record of high inflation, high interest rates, negative current account balance, low external reserves, and slow output growth. Also, a record of low international reserves-to-imports ratio (of about 7) was observed in 2015 (Table 6). This is an indication that foreign reserves can only finance about 7 months imports in the country; which points to a problem of short-term liquidity of the economy to meet up her debt obligations. These indicators point to low credit-rating and low credit-worthiness of the country. Combined with the economic risks is a surge of political imbalance in the country which can impinge on borrowers' confidence. However, the country has Debt-to-GDP of about 13% in 2015 (Table 7), which indicates low constraint on fiscal sustainability. In addition, some sorts of growing commitment of the present administration to ensure transparency in governance may boost the country's goodwill on the international arena – and this might facilitate improvement in borrowers' confidence.

Table 6: Foreign reserve-Import ratio

YEAR	FOREIGN RESERVE/IMPORT
Jan-14	9.44
Feb-14	7.00
Mar-14	7.51
Apr-14	6.20
May-14	6.51
Jun-14	7.25
Jul-14	7.65
Aug-14	8.76
Sep-14	7.36
Oct-14	7.48
Nov-14	5.47
Dec-14	7.83
Jan-15	7.19
Feb-15	8.10
Mar-15	6.03
Apr-15	7.58
May-15	6.97
Jun-15	6.73
Jul-15	6.99
Aug-15	6.66
Sep-15	8.55
Oct-15	9.57
Nov-15	6.54
Dec-15	7.62

Source: Computed by the Author using data from CBN Statistical Bulletin, 2015Q4

Table 7: Debt-to-GDP Ratio

Year	GDP (N Billion)	Total Public Debt (N Billion)	Debt/GDP (%)
2012	71713.94	6537.54	9.12
2013	80092.56	7118.88	8.89
2014	89043.62	11259.44	12.64
2015	94144.96	12603.71	13.39

Source: CBN Statistical Bulletin, 2015Q4, 2014, and NBS GDP 2016 Q1 Report

2.3.1 **Realism of 2016 Budget: Ministries Outlook**

Performance of MDAs is hinged on efficient services delivery. One of the key initiatives to ensure quality services delivery, in the present administration, is the implementation of TSA, which ensures accountability and reduces misallocation of resources. Other development partners have been supportive of this initiative. Very recently, the United Nations Development Programme (UNDP), in an effort to enhance operational efficiency in the delivery of services within the country's transport (seaport) sector, initiated harmonised Standard Operating Procedures (SOPs) of all agencies and operators at the country's seaports, following recommendations from the Corruption Risk Assessment of 2013. The aims are to establish operational standards, foster accountability and serve as a corruption prevention tool to ensure that Nigerian Ports are efficient, cost effective and competitive enough to become a regional trade hub. While these initiatives are a welcome development at enhancing efficient services delivery, it is imperative for other ministries to key into these proactive changes.

Beyond this, a cursory look at the allocations across key ministries in Table 8 further reveals priorities of government and the extent to which it is determined to achieve its objective of diversification, infrastructure and socio-economic development. Major ministries and thematic areas of government are considered as follows:

Interior

Ministry of interior, which comprises of services ministries such as Consular and Immigration, Fire, National Emergencies, Prison, Police, and Nigeria Security and Civil Defence Corps (NSCDC), has the highest share in 2016 budget. This is justified based on the drive towards enhancing internal security. However, a careful look at the structure of capital and recurrent expenditure shows that capital expenditure account for only 12.0%. This implies that the bulk of the allocation goes into servicing salaries and remunerations of personnel rather than investment in capital items that are needed to fight crimes and during emergencies.

Works, Power and Housing

Besides the huge allocation to social intervention as previously indicated, the ministry of Works, Power and Housing is one of the ministries given priority in the 2016 budget. This is a step in right direction to achieve the economic diversification objective of the present administration. In other words, diversification of the Nigerian economy towards manufacturing activities requires adequate investment in power and adequate transportation infrastructure. Part of the goals of 2016 budget is to invest in critical infrastructure so as to ease the cost of doing business and enhance productivity. A number of infrastructural facilities received the attention of the federal government in the 2016 budget of change. These include construction and rehabilitation of new and existing roads and bridges, construction and completion of new and ongoing power plants, completion of railway projects, procurement of gadgets to improve security of airports and airways, construction and rehabilitation of new and existing water irrigation projects, dams, and rural water supply/sanitation projects. The total of N432 billion is the proposed capital expenditure in the works, power and housing ministry's budget. The implication of budgeted recurrent expenditure representing only 7.4% in total, is that accountability and efficiency of projects will be based on market-like incentives rather than administrative mechanisms, which often gulp huge recurrent expenditure.

However, there are challenges given that similar huge resources had been devoted to power sector in the past with little results to show for it and the current generation which is significantly below the targeted 5000mw[9] (compared to 160,000mw in South Africa). These challenges can be summed in inadequate coordination across relevant ministries that are keys to power generation process. For instance, building gas plants and dams to generate electricity require adequate gas supply and water resources respectively, which are under other ministries (the ministry of petroleum and water resources). Solutions to some of these challenges, besides effective coordination among relevant ministries, include diversification of energy sources as well as effective public-private partnership especially at the upstream (generation) sector.

Defence

One of the promises of the present administration is to improve on both internal and external security, specifically to curb the recent insurgency plaguing Nigeria. This is reflected in the allocation to defence. Also, there is significant allocation of 29.5% to capital expenditure for the ministry of defence, unlike what obtained in the interior ministry which has 12.0% capital expenditure allocation. Hence, the current victory over insurgency and other external aggression is likely to be sustained if the budgeted expenditure is well implemented.

Education

Government education objectives in 2016 budget focus on improvement in standard and education access. Notable proposed projects to ensure the achievement of the above goals involve quality assurance programme in secondary schools, statutory visitation and monitoring of Federal Tertiary Institutions, and servicing of ongoing and new local and foreign scholarships among others. In this regard, about N403 billion is proposed for education in the 2016 budget. Although the 7% allocation is an improvement over the budgeted in 2015, it is however, far below the UNESCO and Dakar Framework benchmark of 26% and 20%, respectively. Besides, gap between the capital and recurrent expenditure does not indicate strong intention to invest in educational infrastructure, the paucity of which has been one of the major problems in Nigerian educational system.

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[9] http://www.power.gov.ng/download/POWER%20SUPPLY%20IMPROVES%20AS%20GOVT%20TARGETS%205000MW.pdf

Health

Central in government health intervention programmes in 2016 are the reduction of polio, measles, yellow fever etc. as well as prevention and management of HIV and other related diseases. About ₦12.6 billion is earmarked for the procurement of vaccines, while another ₦1.3 billion is earmarked for antiretroviral drugs and contraceptive commodities. Altogether, a sum of ₦250 billion (comprising N221 billion recurrent and N28 billion capital expenditure) is proposed for the health sector. This is about 4% of the total proposed spending for the 2016 fiscal year – way down to meeting the Abuja declaration commitment of 15%. More importantly, the greater amount of allocation (about 89%) to health is for manpower in form of salaries, administrative and running costs, while capital projects only received paltry 11% of the health capital budget. This is an indication that health intervention projects would be largely restricted to treatment and management of preventable and communicable diseases, while chronic diseases that require high capital-intensive technology and sophisticated therapy would still be managed in countries with adequate facilities.

Transport

In the transport ministry, the capital expenditure represents 93.3% of the total proposed budget, while a total of ₦150 billion was earmarked for various projects mainly within railway and aviation sub-sectors. This represents about 74.1% of the total capital expenditure budgeted for the sector. There is a likelihood of high level performance in this sector if the provisions are implemented, because the spending are significantly project-driven. Although this may not guarantee efficient implementation, it gives room for tracking spending, thus enhancing accountability. As previously indicated, special attention has been drawn to this sector, especially seaport sector, to enhance more efficient service delivery.

Agriculture

Achieving self-sufficiency in food production is at the heart of the country's national goals and objectives. In this pursuit, the federal government has proposed key projects which aim to improve infrastructure and boost farming activities in rural areas. Some of the programmes involve construction and rehabilitation of rural roads, provision of up to ₦1.3 billion assistance to (187,500) farmers, extension service to farmers, development of strategic grazing reserves, and agricultural product price guarantee scheme. In order to make this a reality, a sum of ₦46 billion, representing 60.9% of total, has been earmarked in the budget for capital projects in the Agriculture sector. The allocation to agricultural sector is one of the least, but the proportion of the proposed capital expenditure can be regarded as adequate to drive desired food security in the sector.

Table 8. Allocation across key Ministries and Thematic Areas of Government

Ministry	Recurrent Exp (N Billion)	Capital Exp (N Billion)	Total Allocation to Ministry (NBillion)	Recurrent Exp/Total Ministry Allocation (%)	Capital Exp/Total Ministry Allocation (%)	% Allocation to Ministry in Total Expenditure
Interior	451.94	61.71	513.65	87.99	12.01	8.48
Special Intervention Programme	300	200	500	60	40	8.25
Works, Power, and Housing	33.97	422.96	456.93	7.43	92.57	7.54
Defence	312.21	130.86	443.07	70.47	29.53	7.31
Education	367.74	35.43	403.16	91.21	8.79	6.65
Health	221.41	28.65	250.06	88.54	11.46	4.13
Transport	13.67	188.68	202.34	6.76	93.25	3.34
Agriculture & Rural Development	29.63	46.17	75.8	39.09	60.91	1.25
Youth & Sports	72.3	3.5	75.79	95.4	4.62	1.25
Water Resources	7.21	46.08	53.3	13.53	86.45	0.88
Solid minerals	9.4	7.33	16.73	56.19	43.81	0.28

Source: Compiled by CSEA

3. Conclusion

The spending priorities of the 2016 budget clearly indicates the determination of the present administration to achieve its objective of socio-economic development, diversification of Nigerian economy and improved security of lives and properties. It is a zero-based budget and based on the 2016-2018 MTEF. This confirms the objective of the government to allocate resources more efficiently by discouraging wastages, and the intention to carefully track spending and revenue.

The approved 2016 budget has some attributes of comprehensiveness with the implementation of the Treasury Single Account (TSA) policy, which is expected to make spending more transparent, reduce fund misallocation and corruption within the Ministries Department and Agencies (MDAs). However, it is weak in transparency and realism as revealed by relevant indicators. While spending are opaque in terms of projects and programmes to be undertaken by some ministries, some of the assumptions, such as exchange rate and oil revenue, on which the budget is built are no longer realistic. The current official exchange rate of about ₦280/$ above the estimated ₦197/$, as well as the level of recent oil facilities vandalism in the Niger Delta creates implementation challenges. The current higher price of crude oil above the benchmarked price of $38 per barrel is a positive development, as it may improve the oil revenue above the target level, conditional on the realization of oil production benchmark. The huge non-oil revenue projection totalling N3.36 trillion is a significant departure from what used to obtain. However, the current very low Value

Added Tax (VAT) rate of 5% as well as declining investment position of Nigeria remains part of the key challenges to realizing projected non-oil revenue.

The 2016 appropriation bill is expansionary in nature given huge government expenditure above projected revenue. This is to be financed from domestic and external sources. However, the low reserves-to-imports ratio of about 7 months imports cover points to a problem of short-term liquidity of the economy to meet up her debt obligations. The 2016 budget is also characterised with higher capital expenditure of 183.9% above the 2015's. This is desirable given the objective of government to diversify the economy by increasing investment in infrastructural development. Nevertheless, implementation remains daunting especially with some of the challenges facing the power sector in the areas of inadequate coordination among other relevant ministries and limited energy sources.

The aim of the government to improve Nigeria's socio-economic development is also indicated in the huge allocation to Federal Government Special intervention programmes which is 900% higher than specified in 2015. The well laid out activities to be implemented points to its transparency. However, its realism depends on ability to realise projected revenue.

Meanwhile, the ability of the 2016 budget to deliver its objectives, based on the outcome of this report, depends on two key factors. First, there should be necessary adjustment to reflect the current economic realities. Second, there should be continuous and effective implementation monitoring and evaluation in order to identify the budget's achievements and bottlenecks. Besides periodic reporting, audit, and inspection, one way of going about budget control and monitoring is to leverage on public-private partnership in order to have an assessment devoid of sharp practices. If the identified challenges can be timely addressed, the 2016 budget could lay the foundation for achievement of infrastructural and socio-economic development in Nigeria.

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