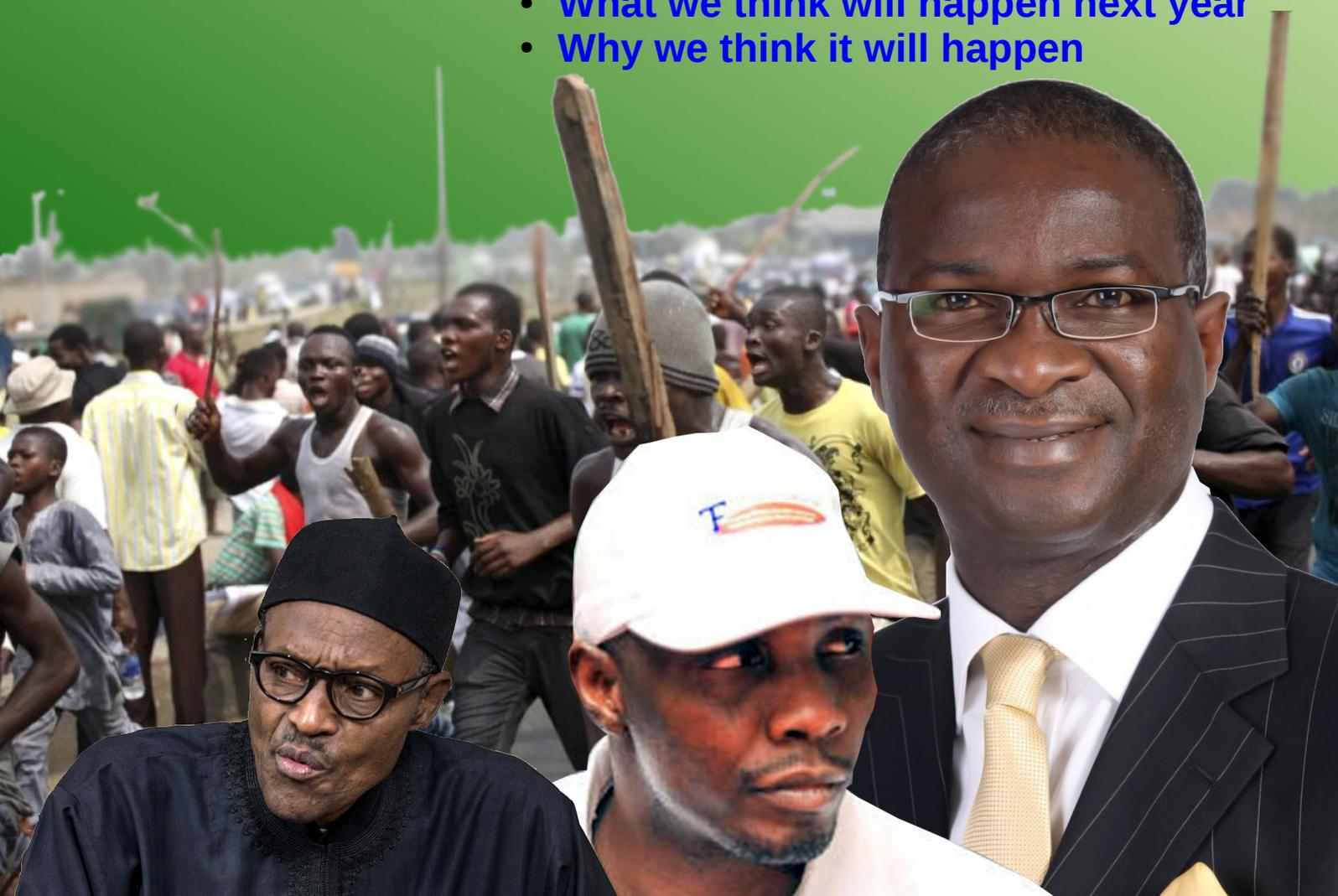




NIGERIA IN 2016

- A review of 2015
- What we think will happen next year
- Why we think it will happen



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Disclaimer

The data contained in this report is only up-to-date as at Tuesday, 14 December, 2015. Some of it is subject to change during the natural course of events. SB Morgen cannot accept liability in respect of any errors or omissions that may follow such events that may invalidate data contained herein.

Our researchers employed methods such as one-on-one interviews, desk research, focus group discussions and polling to collate the available data. Our editors sifted through the data and prepared the report, using various proprietary tools to fact-check and copy edit the information gathered.

All forecasts were built using data from a variety of sources. A baseline of accurate and comprehensive historic data is collected from respondents and publicly-available information, including from regulators, trade associations, research partners, newspapers and government agencies.



Introduction

2016 is going to be a challenging year. The challenges can be surmounted with the right planning; openness, so that the people of Nigeria are prepared for those challenges; and political will, in order to steer the country through the trying times.

While the legal system is speedily reformed to ensure redress of the perceived massive looting and stealing of the past (President Jonathan led) government, the President Buhari led government should quickly quit the blame game as the 180 million citizens and daily population additions will become impatient once Year 2016 bills start coming up. With the exposure to social media and ghost radio stations, a one-man riot will quickly turn to a one million-man riot.

2016 is a promising year for Nigeria despite these challenges. The economic challenges are global and Nigeria has a young population which creates great opportunity for labour. With the right policies and quick implementation, we can easily witness a surge in local production and the reopening of small scale manufacturing centres, greater emphasis on food processing and industrial farming.

Agriculture is not the new oil. However, self sufficiency in more areas will save us a lot of foreign exchange. While our lawmakers take their lessons in FaceBook, the APC led Government should encourage and support real technological achievements that will encourage local manufacturing.

The government also must find money to invest in education in order to prepare our growing population for the challenges of the 21st century.



Cheta Nwanze
Head of Research,
SBM Intelligence

2015 proved to be a year of contradictions for Nigeria. The year commenced with Nigeria readying itself for what was touted to be the biggest political event on the African continent as the country prepared to go to the polls in presidential, gubernatorial and legislative elections.

Initially scheduled to take place on 14 February, the ballot was postponed to 28 March as the administration of President Goodluck Jonathan launched an intensive counter-insurgency offensive against the Boko Haram Islamist extremist sect as to ensure that the voting could occur in a secure environment.

The presidential leg of the vote was eventually won by former military general and leader of the All Progressives Congress (APC) candidate, Muhammadu Buhari. There were minor acts of violence in the country's north eastern states, which remain the focal points of the Boko Haram insurgency, and also a few isolated incidents in the southern states of Rivers, Akwa Ibom and Delta, but overall, voting concluded relatively peacefully.

Despite the unprecedented heat generated by the politicking leading up to the elections, concerns that Jonathan would contest Buhari's

electoral victory, thus potentially catalysing a political crisis with violent religious and ethno-political undertones, were quickly allayed when Jonathan conceded defeat, marking the first time in Nigeria's history that an incumbent was removed through the ballot box. Buhari was formally inaugurated as Nigeria's Head of State on 29 May 2015. While the presidential election peacefully ended, various



*Goodluck Jonathan hands over to Muhammadu Buhari
Image credit: Sahara Reporters*

governorship and other elections are still undergoing different levels of battle in the courts.

Towards the end of the year, in Kogi and Bayelsa states, there were governorship elections, neither of which ended cleanly. In Kogi, the governorship candidate, Abubakar Audu died just after the Independent National Electoral Commission declared the vote inconclusive. There was a protracted dispute over who would replace him on the rerun ballot, and eventually, his party settled on Yahaya Bello, a choice promptly rejected by James Faleke, Audu's running mate. The result of the rerun has been rejected by Bello's

opponent, the incumbent, Idris Wada. Bayelsa also faces a rerun following an inconclusive first round, the incumbent governor, Seriake Dickson is in the lead. The elections in Bayelsa were marred by violence, with an as yet to be ascertained number of deaths.

Despite the peaceful transition of power at the federal level, however, there are a number of socio-political and economic factors which continue to render Nigeria's political outlook tenuous in 2016.

The authority and legitimacy of the Nigerian government continues to be challenged by the Boko Haram Islamist extremists in the country's north eastern Adamawa, Borno and Yobe states where in spite of being pushed back from most of the territory captured, the group has resorted to a combination of a relentless bombing campaign, as well as hit and run tactics to which the security agencies are yet to respond appropriately.

The government has, and continues to recapture rebel-held territory, while Boko Haram continues to perpetrate acts of mass violence across large parts of Nigeria on a regular basis, tainting claims by Buhari that Boko Haram will be defeated by the conclusion of 2015.

One of the advantages that the

insurgents had during the last few years was the poor state of the Nigerian military, and new evidence is coming to light on the role of corruption in weakening what was once a proud institution.

Former National Security Adviser, Rtd. Col. Sambo Dasuki is currently under investigation, and has been charged on some counts, of embezzling at least \$2.1 billion, and ₦600 billion, meant for the purchase of equipment for the military to fight the insurgency.

The government has, unfortunately, done next to nothing to rebuild infrastructure. This means that those displaced from the territories previously under Boko Haram control still cannot return to a semblance of normalcy. This has greatly affected the legitimacy of the government in these areas in spite of military gains against Boko Haram.

In the absence of a regionally coordinated counter-terrorism initiative involving Nigeria's Lake Chad neighbours, where the sect has also secured an operational presence, it is likely that Boko Haram's violence will continue to burgeon in 2016.

Shortly after being sworn in, President Buhari, in recognition of this fact, made several visits to the Lake Chad countries to galvanise support. This has however not yielded the expected results so far as Boko Haram's bases in these countries remain largely unassaulted, providing a safe haven for the insurgents to retreat to in the face of

the onslaught from the Nigerian army.

With the militant group pledging allegiance to the Islamic State (IS) in March 2015, Boko Haram violence may also increasingly assume a discernible anti-Western flavour, potentially spreading to the Nigeria's commercial and political epicentres.

Recent reports of a heavy influx of battle-hardened fighters from the IS takeover of the Libyan town of Sirte into the Boko Haram ranks point to a build-up to a major offensive.

In addition to placing Buhari's nascent presidential tenure under political pressure, the insurgency is also having a significant impact on the Nigerian economy. A significant portion of Nigeria's budget is expected to be allocated to the country's defence sector, suggesting

that government investment in other sectors will be sacrificed.

Plummeting oil prices and an associated loss of revenue are expected to place further economic strain on the Nigerian government who may in turn try to offset the financial shortfall by implementing austerity measures. Of particular concern is the possibility that the Nigerian government may revisit its fuel subsidy initiative which local and international economists alike have derided as costly, inefficient and susceptible to corruption.

Previous attempts to remove the fuel subsidy have catalysed periods of political instability in Nigeria with trade and labour unions, public transportation providers and civilians holding protracted strikes and protest action demanding its reinstatement. These protests have rendered both the political and security environment in the country tenuous.



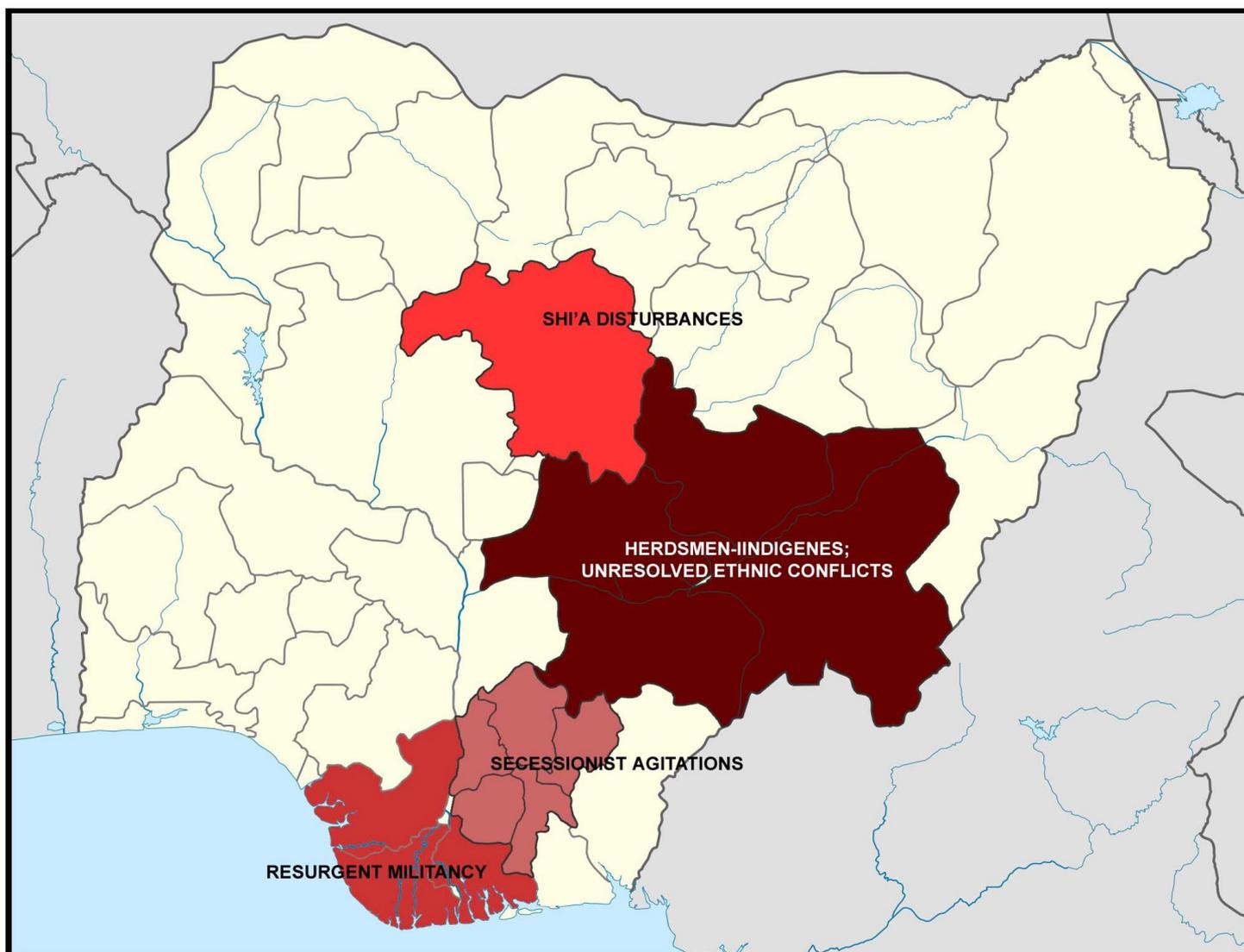
down their arms.

Internal security

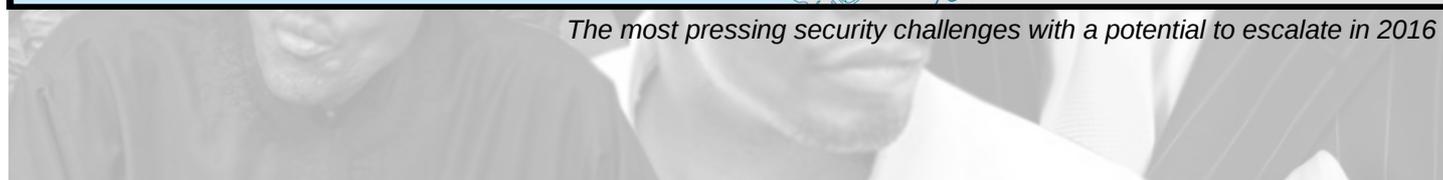
2015 will also mark the end of the Presidential Amnesty Programme (PAP) which ended a petro-insurgency in Nigeria's oil-rich Niger Delta region. Signed in 2009, the PAP offered militants such as those of the Movement for the Emancipation of the Niger Delta (MEND) vocational training, financial incentives and lucrative security contracts in exchange for laying

However, in the wake of dwindling oil revenues and the redirecting of state resources to counterinsurgency operations against the Boko Haram Islamist extremist sect, the government of President Muhammadu Buhari may lack the financial fortitude to extend the PAP.

Discontinuing access to state patronage may prompt militant leaders to resume their insurgency in the Niger Delta, with the potential to cut crude oil outputs sharply and further reduce government revenues.



The most pressing security challenges with a potential to escalate in 2016



Precedent suggests that militants could resume attacks on oil installations (both on-shore and offshore) and resume targeting foreign expatriates in acts of kidnapping for the purposes of ransom and extortion.

The coming year may also see the intensification of ethno-political violence in both Nigeria's South-East and North-Central regions. In south eastern Nigeria, agitation, the arrest of Radio Biafra director and secessionist Indigenous People of Biafra (IPOB) leader, Nnamdi Kanu, on 20 October 2015 has, and continues to incite pro-Biafra agitation in the region. Agitation demanding Kanu's release is likely to continue in major cities in the region, in the near-term and carry the potential to intensify significantly. Triggers which could inflame the agitation and lead to a rapid deterioration in the South-East's security environment include the perceived treatment of Kanu during his incarceration and/or the charges levied against the separatist leader. This has the potential to spill over into the South-South, further destabilizing the region.

Conversely, Kanu's release from police custody may placate the activists and lead to a decrease in protest activity. In North-Central Nigeria, a failure by the government to formulate a solution to the myriad of social, economic and political factors fuelling mass violence

between herdsmen and host communities will likely see an already deteriorating situation only spiral further out of control.

Key player profile: Tompolo



Government Ekpemupolo (born 1971), was first a member of the Ijaw Youth Council, then was for years a commander in various guerrilla groups in the Niger Delta including MEND, all of which were agitating against the Federal Government and international oil companies over the degradation of the Niger Delta.

Better known as Tompolo, Ekpemupolo made a lot of money from oil bunkering. Tompolo embraced the amnesty on June 27, 2009.

Key player profile – Nnamdi Kanu

Nnamdi Kanu was born in Isiama Afaraukwu, in the old Imo State and runs Radio Biafra from the United Kingdom. Broadcasting via the internet and short-wave broadcasts, his radio station targets audiences mostly around Eastern Nigeria.



He was arrested in October, 2015 by the DSS in Lagos, an event which triggered mass protests across parts of Delta, Enugu, Rivers, Abia, Imo, and Anambra States.

On December 16, the DSS withdrew the criminal conspiracy case against him at the Magistrate's Court in Abuja, in order to head for the High Court. This indicates a treason charge coming up. Meanwhile, on the same day, his supporters held protests in Nigeria's economic capital, Lagos.

Key player profile – Ibraheem Zakzaky

Born on 5 May 1953, Zakzaky's early education was at the traditional Quranic and Islamic Schools until he was sixteen. His first contact with formal education was in 1969 at the Provincial Arabic School, Zaria-a school where the then Zaria NA was locally training Arabic teachers for its primary schools.



He studied Economics at ABU Zaria where he was an active member of the Muslim Student Society (MSS) at both campus and national levels. In 1978, then Secretary - General of the MSS (ABU), was believed to be the main brain behind the nation-wide demonstrations in support of the inclusion of Shari'ah in the Nigerian Constitution. He was jailed several times for sedition, most famously in Enugu (1981-1984), Kiri-Kiri (1985), Port Harcourt (1987-1989 and 1996-1997) and Kaduna (1987 and 1997-1998). He is highly regarded in Shi'ite circles, and has alleged links with the Hezb'Allah organisation.

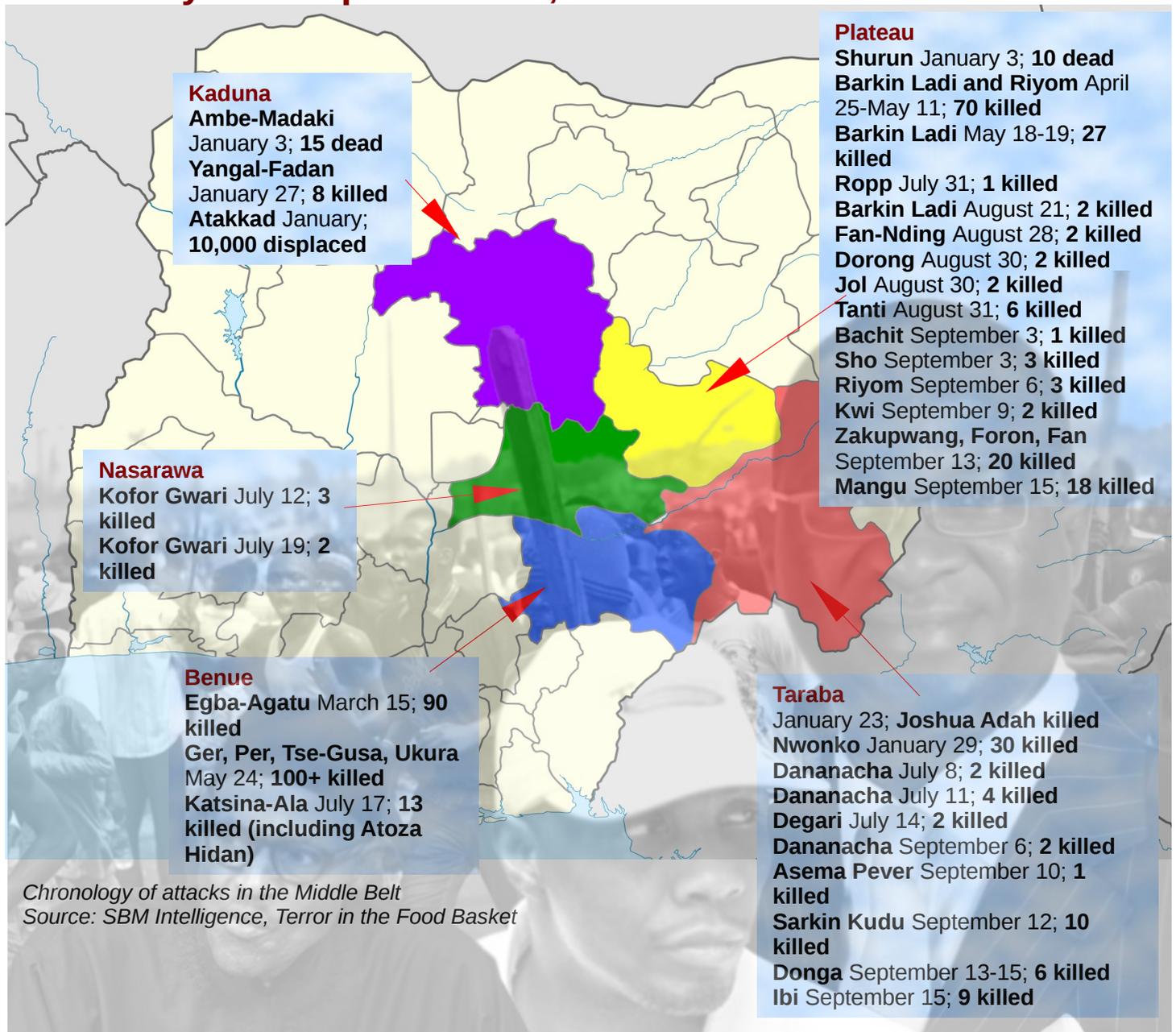
region of the country collectively known as Nigeria's 'food basket'.

More than 2,000 people were killed in violence between nomadic herdsman and indigenous communities in Benue, Nasarawa and Plateau states in 2015 alone. A continuation of violence on this scale will not only adversely impact affected communities but could have much wider ramifications for the Nigerian state given its impact on national food production in a

There is also a gradual but significant increase in intolerance between Sunni and Shi'a groups in the North-West. The bombing of the procession in Zaria in November, and pronouncements by Ibraheem Zakzaky following this are indicative.

Some of the moderating, older Shi'a voices have aged and their influences are in decline, with

Chronology of attacks in the Middle Belt January 1 to September 20, 2015



younger and more militant sheikhs rising. Mismanaging this can lead to serious escalations of violence in the North-West in the coming year. On the 12th of December, this boiled over in the alleged attempt on the life of the Chief of Army Staff by members of Zakzaky's group in Zaria and the resultant response of the soldiers that led to the loss of several lives.

Zaria the focal point of the clashes between the Shi'a and the military, is strategically positioned to meet major economic logistic needs from North-West Nigeria and other locations. It is not far from a military armoury and base. It's only three to four hours' drive from Abuja.

Nigeria cannot afford to ignore this problem, or handle it like it did with the Maitatsine group in Kano in the 1980s, and more recently, with Boko Haram in Borno State. An urgent intervention to mediate and de-escalate the situation is necessary to forestall the militant terrorism in the North-West.



Ayo Sogunro is a lawyer and writer. He is author of *The Wonderful Life of Senator Boniface and other Sorry Tales* and, most recently, the collection of critical essays: *Everything in Nigeria is Going to Kill You*. He indulges on his blog - ayosogunro.com.

Nigeria's 2016

Ayo Sogunro

The challenges that Nigeria would be facing in 2016 are typical enough to pass as mundane: domestic insecurity, declining revenue generation, economic recession, and the failing educational, health and other public utilities and infrastructure. But these are not mundane; they are serious issues.

Yet, most (if not all) of these challenges are traceable, still, to the refusal by the Nigerian government—and most informed Nigerians who benefit from the existing setup—to acknowledge that the political system as currently constituted is dysfunctional and requires a reset if the other challenges are to be handled efficiently.

When the “Change” campaign swept the country earlier this year, the word (as I understood it) was used, not just with reference to the individuals in government, but to the system of government. This is a system that, due to the centrality of the President and the Federal Government, is no more than a gangland patronage system. Even though this system is currently packaged as a democracy, it is in reality, an anocracy. Even though it claims to be federal, it is unitary in implementation. In reality, the constituent states were created by the military as administrative divisions of the central government; and, practically, *all* economic resources are tied to the direction of the Presidency.

The ability of Nigeria to face the challenges of the coming year will be dependent—to an extent—on the willpower of the current administration to change these political aberrations and introduce long term reforms.

Yet, sometime in October, this year, when I had a meeting with Mr. Laolu Akande, the spokesperson to the Vice President, I wasn't quite sure where the Presidency stood on this. It was a short and private affair, with a couple of us—public interest commentators—and a few media aides to the Presidency in attendance. Our conversation had focused on the bailout of the states by the federal government, the seeming improvements in the power sector and, importantly, the economic direction of the Buhari administration.

The responses I received on that last point were no different from what I had been reading in the news: the effective implementation of the Treasury Single Account, a conditional cash transfer programme, and similar proposals to block leakages, curb the bloated payrolls, reduce or terminate corruption and generate money for social investment.

All of these were nice and good, I had responded. But, what were the long-term plans—the constitutional

and legal reforms—to ensure that these good ideas didn't collapse when President Buhari leaves office? To what extent was the Presidency working with the legislature in shaping sustainable reforms in the political system?

Nigerian policy is intrinsically tied to the wishes and opinions of the President. From the allocation of oil blocs to the fines imposed on erring telecoms operators, the President's opinion matters far more than regulatory or legal provisions. Would President Buhari's orders outlive his tenure? If not, then why are we not focusing, first, on changing the constitutional challenges to sustainable policies?

It seemed to me that Mr. Akande hedged on this question. He agreed, personally, with the validity of my point, but he was sketchy with the views of the Presidency. But he had been gracious with his time and I didn't want to delay further with my questioning.

Three months later, I posed a similar question to Governor El-Rufai at an event in Abeokuta. El-Rufai was more expressive. He agreed that devolution of federal government powers to local and state governments was necessary, and he assured me that the APC was working on reforming the constitutional barriers to sustainable economic policies. However, he did not state when this would happen.

And so, it is difficult—right now—to imagine anything exciting in Nigeria’s 2016.

This is not because the composition of the Buhari administration is unimpressive. It is because tackling Nigeria’s challenges requires strong institutions and not “strong men”. These challenges require public officials who work under the law, and not under their bosses. They require the empowerment of the average civil servant and the dis-empowerment of the average politician. They require a trim to the powers of the Federal Government and the President. In short, to face these challenges, we need constitutional and similar long-term legal and policy reforms.

And this, for me, is the question mark against the intentions of the Buhari administration in 2016. President Buhari is yet to clearly outline his long-term policy goals—with decisive and measurable indicators—and task the bureaucracy and the legislature with the responsibility of carrying these out within a set time.

What we have had, so far—and which seems to be the pattern for the foreseeable future—is the usual modus (arguably, from Tafawa Balewa to date) of issuing orders and directives and then promptly moving past these to issue newer orders and directives in an unimpressive strut of Commander-in-Chief authority. Set this ad hoc attitude against the

backdrop of Ministers who have to implement their personal opinions—instead of a measurable policy direction—and it is clear that while 2016 may start out with the bright optimism of opportunity, it is likely to end with the weary hope of unfulfilled expectations.

Yes, there will be the usual corruption cases and sensational trials—there was plenty of this in the heydays of the EFCC. Yes, there will be new roads and refurbished infrastructure. Yes, there will be an upsurge in government project as agencies and ministries try to impress the President. But there is unlikely to be an improvement in: the economic standard of the average Nigerian entrepreneur, the quality of education provided to the average Nigerian child, or the welfare and health of the average Nigerian worker. Yet, these are the key indicators of “progress”.

President Buhari has already failed to seize the imagination of the country in these past seven months. He has not challenged Nigerians to “think big” in the scope of what can be changed—our constitutional flaws. Instead, he has focused on the usual suspects—revenue generation and government projects—following the old pattern in a world that no longer has use for this type of political economy.

True, the individuals in government may have changed, but our system of government is still intact—and it is unlikely 2016 will be the better for it.

The economy

On the economy, Nigeria in 2016 will be defined by economic pressures. Oil prices are expected to remain low, at least for Q1 & Q2, especially with Iran's expected re-emergence as a major oil exporter. This, combined with the continued trend of a reduction in the number of buyers and quantity of buyers for Nigerian crude will put government revenues in a tight squeeze. Next year will be defined by how government at all levels will react to financial pressures. There remains a clear risk of recession and debt default by some states.

The Federal Government (and the CBN) has a number of key economic decisions to make such as decisions on devaluation, subsidy, diversification, lending rates and capital controls and these decisions will have effects on how businesses

can invest and cover their operating costs. There are clear expectations of economic slowdown and slight increase in unemployment in the first two quarters of 2016. This may be followed by an increase in entrepreneurial activities as Nigerians try to make ends meet in such situations. It is important that these decisions are made quickly in order to indicate clear direction of the government's economic policy to enable investors make their own decisions.

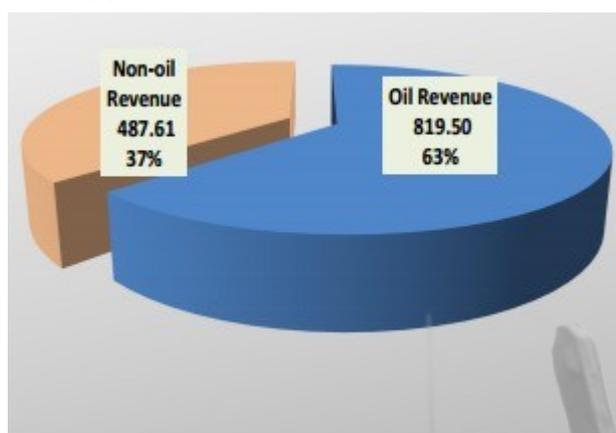
Another economic pressure the country may face is a late budget. The longer the budget is delayed before being passed by the National Assembly, the more companies that need to make investment decisions may delay. This will affect B2B businesses.

The Medium Term Expenditure Framework, due in August 2015, was finally completed this December. The government in the document recognized the macroeconomic situation and the economic pressures



Oil prices, 15/12/14 to 15/12/15.
Source: Bloomberg

and made the relevant promises. Clearly, the government intends to spend to stimulate the economy. The government has said that capital expenditure will take up 30% of the 2016 budget, up from 17% in previous budgets. This is coupled with the fact that the 2016 budget figure is tentatively put at ₦6 trillion, which is the largest budget we have ever had in Nigeria, and is 50% more than the 2015 budget. Funding this budget in the face of dwindling oil revenues remains a challenge the Buhari administration will need to resolve.



Gross federally collected revenue, Q2, 2015
Source: CBN

The fact remains though, that at this point in time, Nigeria's income is largely dependent on direct oil revenue, with oil related activities coming a distant second before taxation, an even further third. Unfortunately, the price of oil, which as if the second week of December, 2015, is trading below the \$40 per barrel mark, is expected to go even lower in the coming year.

The 2016 budget is hinged on expectation of oil price of \$38 per barrel and a production quota of 2.2 million barrels per day. The possibility of renewed Niger Delta unrest may affect these quotas, and a global oil glut will slow sale. We do however, expect that the government's revenue generation specifics will be made clearer when the first draft of the 2016 budget is presented.

The APC government will also try to stamp its identity on governance by rolling out schemes and projects especially in agriculture, environment, health and education.

It must be pointed out that the new government initially tried to deny some of these programmes, which had been an integral part of the APC's campaign manifesto. But, bowing to pressure both from some of their own supporters, and from the opposition, they have "smuggled" some of these plans into the 2016 budget (like welfare payments and feeding students). We believe that those promises are near impossible to implement and bowing to that pressure in the face of economic realities may be setting the government up for ridicule. With a borrowing plans of almost ₦2 trillion, Nigeria cannot afford to finance consumption and welfare packages that are not tied to production.

The Buhari led Government was slow in setting up their governing structure and this resulted to a lot of economic uncertainty and undeniably hurt the economy badly.

From the stock market crash and reduction in All Share Index from 34,000 in May 2015 to about 28,000 in December 2015, to the exit of foreign investors, to the CBN's stance on capital movement restrictions and the resultant massive devaluation of the Naira in the parallel market.

We believe that the government, probably because of

Naira. For economic reasons, the Naira will continue to loose value on a daily basis, whether devalued, pegged, or left to float.

The CBN restrictions and controls have hurt business in Nigeria and created a lot of uncertainty, scaring away existing and intending investors, while depleting the country's reserves and invariably enriching the speculators they claim to be keeping away. Nigeria's



Nigeria's Naira versus US Dollar Official rates over the course of 2015
Source: XE.com

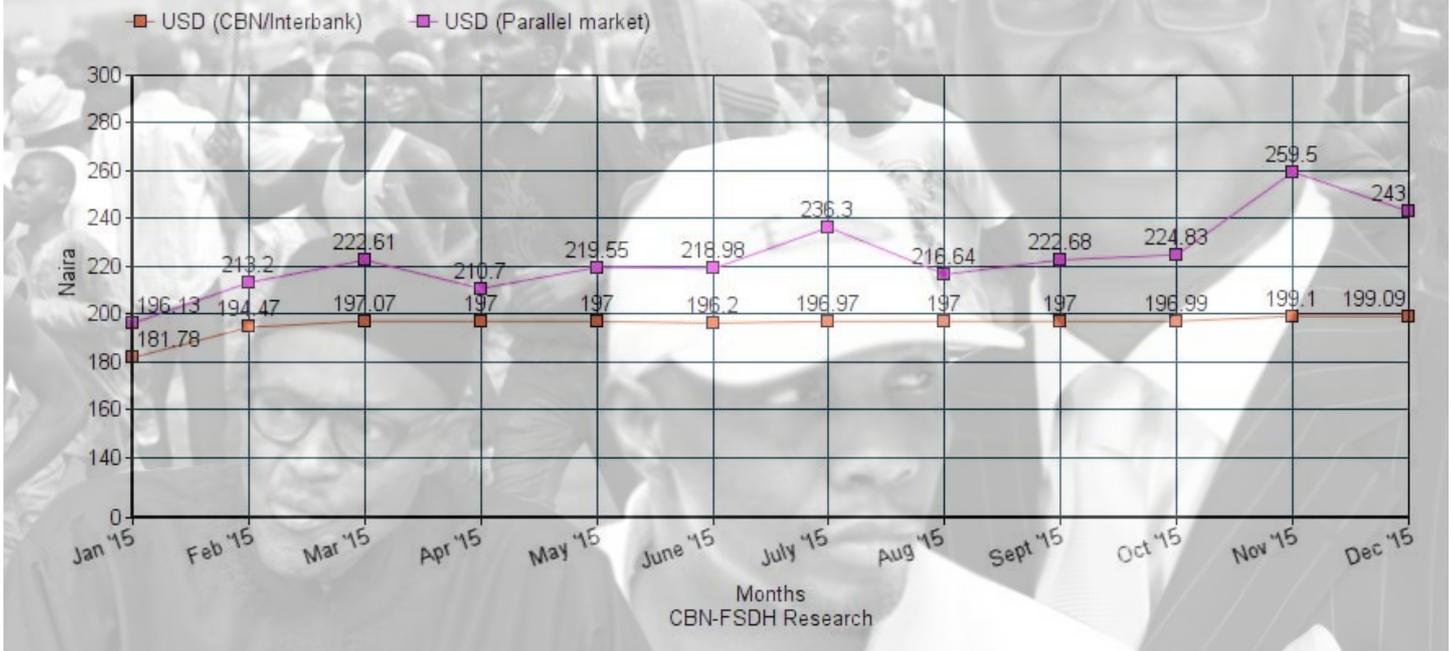


Nigeria's ASI, 15/12/14 to 15/12/15
Source: Bloomberg

their campaign promise of stabilising the Naira against the American Dollar, is greatly influencing the CBN and its indefensible stance to continue pegging the value of the

reserves have also been deeply burned into given the dichotomy in the CBN and parallel market rates. If this trend continues, the Naira will trade at ₦300 / dollar by the end of the first quarter of 2016 and close up at ₦300 – ₦350 by end of 2016 (even if oil prices appreciate).

Monthly average exchange rates of the Naira



are debited upfront on behalf of the lending banks from their state allocation

In the first half of 2015, 18 out of 36 States were unable to meet their recurrent expenditure demands.

RANKINGS - ABILITY OF STATE TO MEET MONTHLY RECURRENT EXPENDITURE COMMITMENTS (JAN - JULY 2015)

RANKS	States	Average Monthly Commitments Recurrent Expenditure N	Total Average Monthly Revenue N	Average Monthly Residual Revenue After meeting Recurrent Expenditure (Shortfall) N	
36	OSUN	7,550,000,000.00	4,095,550,015.50	(3,454,449,984.50)	STATES WITH SHORTFALLS (MONTHLY)
35	PLATEAU	7,700,000,000.00	4,475,987,301.06	(3,224,012,698.94)	
34	OGUN	6,911,666,666.67	4,946,200,023.49	(1,965,466,643.17)	
33	NASSARAWA	5,283,333,333.33	3,649,859,736.01	(1,633,473,597.33)	
32	OYO	7,226,666,666.67	5,604,390,430.54	(1,622,276,236.12)	
31	BAYELSA	12,945,833,333.33	11,557,528,420.98	(1,388,304,912.35)	
30	ADAMAWA	4,833,333,333.33	4,047,083,385.53	(786,249,947.80)	
29	BORNO	5,241,666,666.67	4,634,762,356.99	(606,904,309.68)	
28	AKWA IBOM	17,416,666,666.67	16,811,466,753.06	(605,199,913.61)	
27	KWARA	4,857,500,000.00	4,291,435,098.33	(566,064,901.67)	
26	ONDO	6,391,666,666.67	5,850,027,773.64	(541,638,893.02)	
25	EKITI	4,059,166,666.67	3,546,250,853.53	(512,915,813.14)	
24	BAUCHI	5,233,333,333.33	4,724,946,836.29	(508,386,497.04)	
23	ABIA	5,183,333,333.33	4,897,687,382.85	(285,645,950.49)	
22	ZAMFARA	4,166,666,666.67	3,884,719,045.13	(281,947,621.54)	
21	KADUNA	6,066,666,666.67	5,830,244,606.05	(236,422,060.62)	
20	IMO	5,058,333,333.33	4,883,438,576.77	(174,894,756.56)	
19	GOMBE	3,887,500,000.00	3,843,395,636.26	(44,104,363.74)	
18	EDO	5,891,666,666.67	5,988,685,364.94	97,018,698.27	
17	ANAMBRA	4,459,750,000.00	4,561,095,027.01	101,345,027.01	
16	CROSS RIVER	4,858,333,333.33	4,962,212,419.17	103,879,085.83	
15	TARABA	3,601,666,666.67	3,783,649,379.10	181,982,712.44	
14	YOBE	3,608,333,333.33	3,802,627,155.59	194,293,822.25	
13	SOKOTO	4,233,333,333.33	4,432,763,591.77	199,430,258.43	
12	KOGI	4,179,166,666.67	4,495,621,445.09	316,454,778.42	
11	BENUE	4,375,000,000.00	4,744,986,015.33	369,986,015.33	
10	JIGAWA	3,975,000,000.00	4,601,097,348.23	626,097,348.23	
9	KANO	6,266,666,666.67	7,029,272,593.24	762,605,926.57	
8	KEBBI	3,327,500,000.00	4,120,608,619.50	793,108,619.50	
7	EBONYI	3,332,500,000.00	4,171,406,058.29	838,906,058.29	
6	NIGER	3,513,666,666.67	4,706,483,293.99	1,192,816,627.32	
5	ENUGU	3,482,500,000.00	5,302,030,178.39	1,819,530,178.39	
4	KATSINA	2,690,875,000.00	5,037,784,237.41	2,346,909,237.41	
3	DELTA	13,467,166,666.67	16,594,886,404.45	3,127,719,737.78	
2	RIVERS	9,916,666,666.67	18,933,794,597.87	9,017,127,931.20	
1	LAGOS	20,164,166,666.67	33,115,884,930.60	12,951,718,263.93	

Source: OAGF, NBS Nigeria

Image credit: BudgetIT

With dwindling allocations accruing from the Federation Accounts Allocation Committee (FAAC), a lot of states had over the last four years, borrowed heavily to finance non-income generating projects and in most cases exhibited poor sense of judgement in prioritizing their developmental needs. The accruing interest charges on these loans collected at commercial bank rates (i.e. 20%p.a. and above) has introduced another burden for the states as in most cases, the states

While states go through some budgeting process, majority of them consistently fail to plan for budget financing. While it is difficult to suspend recurrent expenditure, largely due to the immediate action of organized labour and the shut down of government services and facilities which cannot go unnoticed, the common victim remains the entire citizenry (including civil servants) who continue to lack basic infrastructure.

It is difficult, perhaps almost impossible, to mention a single state in Nigeria that has developed an income yielding structure independent of the FAAC, and has employed its citizens as a result of that investment. We often hear about new employments, and this just worsens an already bad case. In some cases, arbitrary salary increases to gain political capital (like was witnessed in Anambra State under Governor Obiano) have added more strain to state purses.

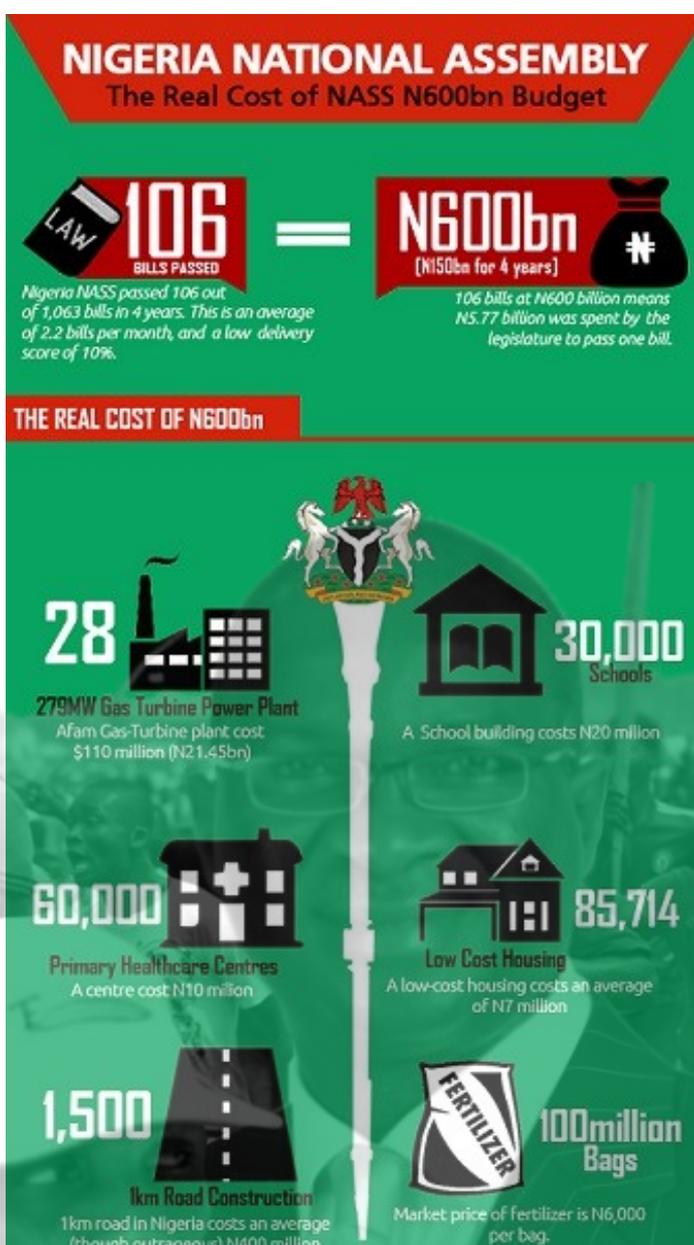
Up to 140% of states' revenue is currently expended on salaries for 20% of the states' population who are state government employees. Simply put, our states are not solvent. The major problem perhaps, is that the states have over-bloated workforces, caused by an over reliance of previous administrations on the civil service to generate employment in their jurisdiction. This is in addition to ghost workers, who make up a large part of this workforce.

Another expected trend is a flurry of anti-corruption cases. It is hoped that they will lead to convictions and will be followed through due processes. It is also hoped that anti-corruption efforts are not limited to sanctions; it is hoped that the Buhari-led government will strengthen internal controls and plug loopholes as promised. One of the most anticipated reforms from this government is that of the Judicial sector. The Vice President did a lot of good work in this regards when he was the Attorney-General of Lagos State and it is expected that he will bring this experience to bear on the judiciary at the federal level. 2016 will be the year that will determine whether this will be the case.

The most critical institution in 2016 will probably be the National Assembly. It is expected that this institution will come under increased scrutiny (from the public) as the year 2016 wears on. It is also important to know that the power struggle within the APC NASS may make progress difficult.

Key members will also continue to experience actions by Law Enforcement Institutions and the outcome of such actions will be slightly important in determining the pace of progress.

It is no secret that Nigerians yearn for a lot more from their current National Assembly than its previous incarnations. For instance, the previous Senate passed only 106 laws in its 8 year existence, costing Nigeria ₦600 billion in the process. Note that we did not include the 46 laws passed in 5 hours on June 3, 2015, as that Assembly was winding down. The current crop, having been swept into office on a ticket promising “change” for Nigeria, have weighty expectations on their shoulders.



The cost of Nigeria's 7th Assembly
Source: Premium Times

It has, however, not been an auspicious beginning, as the Upper and Lower Chambers of the Federal Legislature spent weeks embroiled in battles over leadership positions, with the Senate eventually producing Senator Bukola Saraki as Senate President following manoeuvrings that would have made Machiavelli hand over his teacher's cap. Senator Saraki has since become involved in another fight for his freedom and political future as he battles charges at the Code of Conduct Tribunal.

With this atmosphere, it is safe to say that it does appear that the issues which the majority of Nigerians would dearly love to see tackled will be consigned not so much to the back burner as not even placed upon the flames at all. It was therefore no surprise to see that rather than the pressing issues, Bills have been brought by members seeking to muzzle social media.

In the event that the Honourable Members of both chambers are eventually capable of turning to relevant concerns, it would be proposed that the following issues should, in no particular order, command their attention:

- *Electronic voting*
The amendment of the electoral act to enable electronic voting, and voting by Nigerians in the diaspora.
- *Social Security*
The establishment of a social

security system into which citizens would be enrolled at birth.

- *State policing*
Amendment of the Constitution to create state and municipal Police forces, with provisions for Federal oversight to guard against civil rights abuses: This is one of the key promises of the APC government on the campaign trail. It is important that this is done in order to improve policing and intelligence gathering of our security agencies.
- *Freeing the states to build ports*
The enactment of legislation permitting the development of ports by states, with relevant Federal oversight is important to enable states develop their economic potential and leverage their advantages to develop at their own pace. It is inefficient to place the responsibility for development of ports on the FG. Also, it will free up Lagos which is on the verge of collapsing on itself due to population pressures caused by its population growth rate being six times the national average
- *Age of marriage*
The passage of legislation barring the marriage of any person below the age of 18.: This is absolutely important, but we doubt it will ever happen because of sentimental reasons.
- *Citizenship rights*
The amendment of the Constitution to allow conferment of Nigerian citizenship on foreigners

married to Nigerian women.

- *The repeal of the Land Use Act*

The Land Use Act of 1978 is a barrier to Nigeria's housing. With the current system, it is estimated that less than five per cent of housing units have formal title registration. Currently, close to 85 per cent of urban dwellers in Nigeria live in rented accommodation. Reforming the land management system will release the choke-hold on private sector urban housing developers who have the ingenuity and energy to tackle the multi-million housing deficit.

- *The Exclusive List*

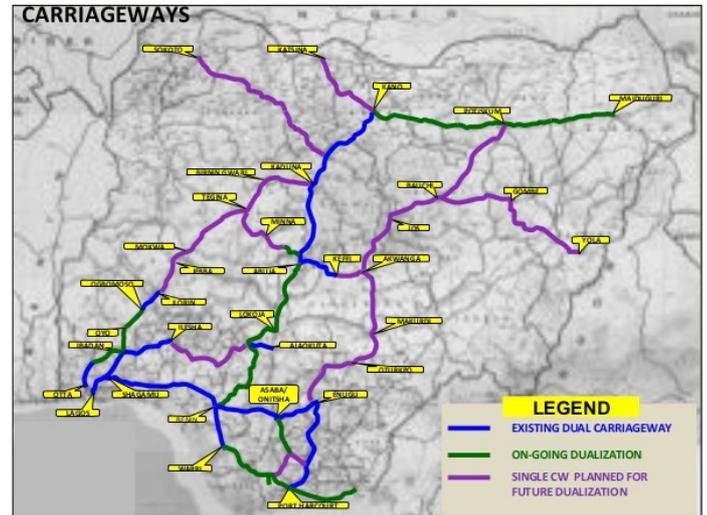
Pruning the Exclusive Legislative List to confer ownership of Solid Minerals in States, to enable them exploit this in conjunction with the Federal Government: As states see-saw at the edge of bankruptcy, perhaps the most important way the FG can help is not with bailout funds from crude rents, but with legitimizing the current arrangement many states operate where they allow miners operate within their states unofficially and collect minimal rents from them. Legitimizing this will give the states the incentive and the authority to develop this sector and create much needed employment in their states outside government and also tax appropriately, generating much needed IGR.



The key to success

No other individual in Nigeria will be as crucial to the success of the Buhari Government as the Minister of Works, Power and Housing. Nigeria's biggest challenge, is unemployment, and this feeds all the other problems the country will face in 2016. Babatunde Fashola sits atop a ministry that can on its own, take a huge bite out of the unemployment pie with good planning, implementation, and follow through. Nigeria's infrastructure deficit is an opportunity.

Road works are important. As Mr. Fashola pointed out, Nigeria has about 200,000 km of roads. 16% of this belongs to the Federal Government, and needs to, in the main, be recovered. There is a lot of work to be done in terms of road resurfacing, and clearing roadways.



Nigeria's existing federal roads
Source: Federal Ministry of Works and Housing, Q1, 2015

The numbers are clear. An immediate start to maintaining the existing roads will put almost 30,000 people back into work.

On housing, the numbers do not add up for Mr. Fashola. Publicly available records indicate that Nigeria has a housing deficit of 17 million units. Mr. Fashola has said he hopes to spend ₦360 billion per year on government directly building houses and deliver 17,760 flats in the first year. This means that the average cost of each apartment he hopes to build is ₦20.27 million. These are too expensive, and the number of apartments that will be put up at that rate, will not make a dent in Nigeria's housing deficit.



responsibility on Mr. Fashola.
Image Source: NAN

On 8 December, Mr. Fashola unveiled his plan for action for the three areas he will be facing. He made clear that his short term strategy on roads will be to complete roads that have already started, and achieve interconnectivity quickly. If he is able to achieve this, then intra-Nigeria trade will be bolstered.

SBM research indicates that N20 million is the cost of high end accommodation. The people who need accommodation the most need something cheaper. Decent accommodation can be built at a quarter of the amount that Mr. Fashola is proposing. At N5 million per building, Mr. Fashola's N360 billion will get us 72,000 housing units.

However, this is still not enough to put a dent in Nigeria's housing deficit. The APC promised Nigerians a million housing units a year for four years. 72,000 housing units per year will build just over a quarter of that in four years. For the government to meet that campaign promise, directly building houses will not be the answer.

ITEM	Festac 77 Houses	Today's Equivalent of Festac	Proposition By Housing Ministry
Type of Apartment	3 Bedroom Flat	3 Bedroom Flat	3 Bedroom Flat
Cost to Citizens (Naira)	25,000	11,000,000	20,270,000
Tenor	25 Years	25 Years	10 Years
Monthly Repayment (Naira)	65	28,600	260,000
Civil Servant Level	8	8	8
Monthly Salary (Naira)	300	132,000 (This is what the civil servant should be earning to be able to afford the Festac cost houses)	75,000 (This is what they actual earn)
Down Payment Needed?	No	No	No

Table: comparing the realities of 1977, those of today, and Mr. Fashola's proposal.
 Source: SBM Intelligence, Closing Nigeria's Housing Deficit

Unfortunately, the Land Use Act, in its current form, does not encourage investors to make the kind of investment needed to unleash the full power of the housing sector.

We believe that Mr. Fashola's second biggest challenge in getting

the APC plan to work lies not in direct building, but in directly engaging the legislature to repeal, or at least amend the LUA to encourage large scale private participation in the building industry.

However, Mr. Fashola's biggest challenge will come in power. Nigeria's power generation attained a peak of 4.9 GW in November, 2015. For a country of Nigeria's size, this is puny.

The power sector is in the second year of privatization. The biggest challenge that most investors in the power sector faced in 2015 was the uncertainty around the election and its impact on investment in the power sector. For months leading to the election fund providers withheld critically needed funds that would have seen some of the initiatives currently being embarked upon occur earlier. The result was high collection and commercial losses.

At the moment, the distribution companies are finalizing details of their cost reflective tariffs with the Nigerian Electricity Regulatory Commission. They are also embarking on a massive investment drive that may see them invest in consumer metering and customer enumeration. However, the DISCOs are dissatisfied with the staff they inherited from the old government run power utility, so there will be job losses as they seek to replace legacy staff with a younger, more vibrant workforce. This will lead to labour problems in 2016.

Our predictions

Making predictions of the future is easy. The problem is those predictions actually coming to pass. Not many would have a year ago predicted the tsunami-like proportions by which the APC won elections in the North-Central. As a matter of fact, even the 'best' prophet would have been quite surprised by the APC's wins in Benue, Kogi and Plateau states, hitherto core PDP territory. It was on the back of these victories that the APC won the Presidency, these, and just over half the votes from the South-West.

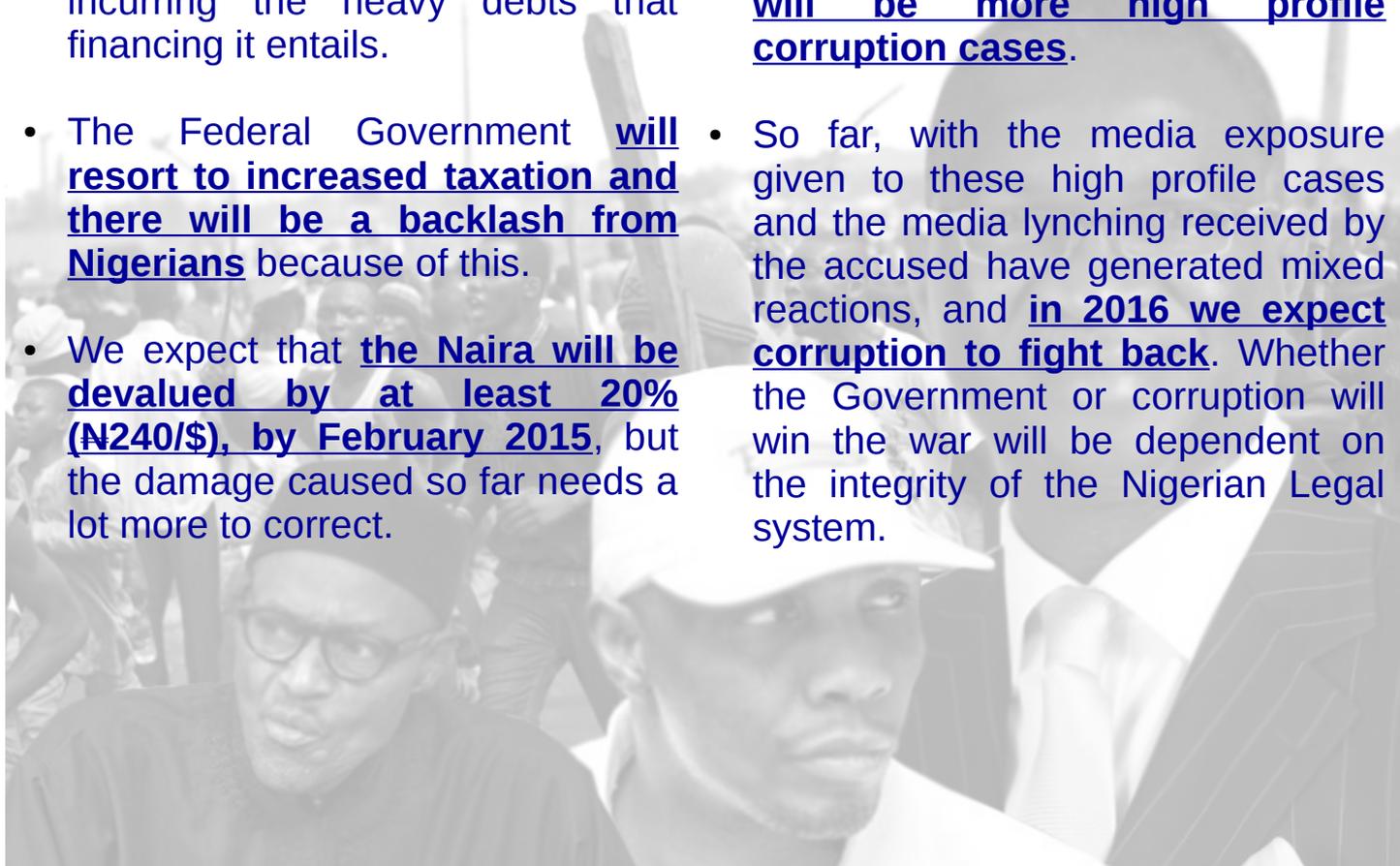
Between March and June, a lot of Nigerians are eagerly anticipating that tangible and real change from the Buhari administration and a turn in their fortunes. So far, the performances of the administration have been mixed, and largely discouraging as it squandered its honeymoon period by being too slow to act, even in appointing a cabinet.

Over the next one year, it can be expected that the following will happen:

- **2016 will witness consistent and sustainable efforts at resettling 2.5 million people displaced across Nigeria**, in formal and informal camps.

- Boko Haram **will be dislodged from all their bases** in the North-East. However, there will continue to be active cells which shall attempt to set off improvised explosive devices and suicide bombings.
- With the inaction of our Lake Chad neighbours, their territory will continue to provide a base to retreat to and launch attacks from. **Expect most of the hit and run attacks to come from Chad, and the Diffa Region of Niger Republic** which has seen minimal policing.
- Tensions will remain in the Middle Belt between nomadic herdsman and farmers as they clash over resources. The FG will continue to be too focused on the North-East to pay attention to this low-intensity warfare situation. This problem, slowly affecting food supply nationwide, is being largely ignored. With the expanding impact of desertification, **there will be an escalation of the conflict in the Middle Belt in 2016**.
- Given the events of early December 2015, there will be an escalation of the Sunni/Shi'a crises in the North West. However, **it will not get to the levels of full blown insurgency**.
- The amnesty programme will be discontinued and **there will be a renewal of militancy** in the Niger Delta.

- One of the fallouts of the renewed militancy in the Niger Delta will be a rise in piracy off the Gulf of Guinea, and kidnapping in South-Eastern Nigeria.
- Crime fighters, like most other Nigerians, will witness hard times, which will affect their commitment to their work. This lack of commitment will lead to an even worse security situation.
- The price of crude oil will go even lower, considering that OPEC has refused to place production quotas and Iranian oil is about to enter the market. This means a further reduction in earnings for Nigeria.
- The Federal Government will end fuel subsidies in order to avoid incurring the heavy debts that financing it entails.
- The Federal Government will resort to increased taxation and there will be a backlash from Nigerians because of this.
- We expect that the Naira will be devalued by at least 20% (N240/\$), by February 2015, but the damage caused so far needs a lot more to correct.
- The reduced revenues will also hamper the efforts of state governments to borrow from the capital market to finance their recurrent expenditure.
- State governments will continue to struggle financially, leading to many months of owed salaries and pensions.
- States will be forced to either cut down their workforces or continue to be in the financial red, delaying on salaries.
- Whatever direction the states take, they will come into conflict with the labour unions. 2016 will be a year of industrial action.
- The Buhari government appears bent on exposing the alleged massive looting by members of the previous administration, and 2016 will be an interesting year as there will be more high profile corruption cases.
- So far, with the media exposure given to these high profile cases and the media lynching received by the accused have generated mixed reactions, and in 2016 we expect corruption to fight back. Whether the Government or corruption will win the war will be dependent on the integrity of the Nigerian Legal system.



- Most of the alleged looters, especially those in the top echelons of the Goodluck Jonathan government will spend a lot of their 2016 in court. With the expected review of the legal system and change in the leadership of the Economic and Financial Crimes Commission, we expect to see quicker acquittals or convictions.
- The war on corruption will also be viewed as one sided as many members of the now ruling party APC who are also accused of corrupt practices will not undergo any trials. The opposition PDP will make a lot of noise about this.
- Considering the position of the Minister for Power, Housing and Works in his agenda setting address, we expect that some perennial road projects, which were hitherto seen as white elephants, will be concluded.
- There will be improvements in power generation helped by the ongoing upgrades by existing generators and IPPS.
- 2016 will witness a market driven power sector aided by massive investment in infrastructure. More investment will pour into the sector as cost reflective tariffs take hold
- Some of the embedded generation plans currently on stream will also materialize improving power in general. Nigeria will likely transmit an average 5.5 GW next year
- There will continue to be emigration from cities in the North-East caused not just by the insurgency but by overall worsening economic conditions. Cities such as Lagos, Abuja, Jos, Bauchi, Gombe and Kano will be net recipients of the migrants.
- While President Buhari's popularity in the North-West and North-East geopolitical zones will be largely unaffected among most Muslims. Among the Shi'a, his popularity will plummet. His popularity will also take quite a hit in other regions where the APC won as he struggles to deliver on campaign promises.

