NIGERIA PUBLIC FINANCE REVIEW

Fiscal Adjustment for Better and Sustainable Development Results

November 21, 2022
NIGERIA HAS ENORMOUS DEVELOPMENT CHALLENGES AND NEEDS TO SPEND MORE TO ADDRESS THEM
A child born in Nigeria today will only be 36 percent as productive when she grows up as she could be if she had access to effective education and health services.

Enrolment rates in primary and secondary education have plateaued at 60 and 47 percent.

36 percent of children under the age of 5 face stunting.

Only 55.4 percent of the population have access to electricity.

Average life expectancy stands at only 55 years, lower than the average for Sub-Saharan Africa of 61 years.
MEETING NIGERIA’S DEVELOPMENT CHALLENGES WILL REQUIRE MORE PUBLIC SPENDING, CURRENTLY AMONGST THE LOWEST ANYWHERE…

Nigeria’s government expenditures are the lowest globally

Source: World Bank staff calculations based on WB MFMod
NIGERIA IS ALSO SPENDING LESS THAN IT USED TO

Public spending has decreased, and it has become more rigid

Source: World Bank staff calculations based on data from BOF and OAGF
SPENDING ON SOCIAL SECTORS IS PARTICULARLY LOW...

Public spending per person on education was US$22 in 2021; on health: $15

General government (federal and state) budget allocations across government functions (2021)

Note: Estimates exclude FCT, local governments, Federal Government-owned enterprises, and extrabudgetary funds receiving Federation Account allocations.
Nigeria's per capita spending on education is half of the SSA average of US$52 per capita

Another example – healthcare:

Nigeria spends US$15 per person per year on public healthcare, much lower than Indonesia’s spending of US$55 per person

Source: World Bank staff calculations World Development Indicators and data from OAGF and BOF
SPENDING IS ALSO INSUFFICIENT TO CLOSE THE INFRASTRUCTURE GAP

At the current rate of capital spending, it would take 300 years to close Nigeria’s infrastructure gap

Public investment spending in Nigeria lags those in other countries…

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Public investment spending in Nigeria lags those in other countries…

…resulting in poor quality of and access to infrastructure

<table>
<thead>
<tr>
<th>Country</th>
<th>Public Investment Spending in % of GDP (2018-2021)</th>
<th>Access to Electricity 2021 (percent of population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>1.7</td>
<td>55.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.2</td>
<td>64.6</td>
</tr>
<tr>
<td>Ghana</td>
<td>2.3</td>
<td>85.9</td>
</tr>
<tr>
<td>Egypt</td>
<td>3.2</td>
<td>97.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>6.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: MFMod and World Development Indicators
BORROWING MORE IS NOT THE SOLUTION: DEBT COSTS ARE RISING RAPIDLY, SQUEEZING NON-INTEREST SPENDING

Debt servicing has surged over the past decade and is expected to continue increasing over the medium-term, crowding out productive spending.

Source: World Bank staff calculations based on data from OAGF and DMO
PART OF THE SOLUTION: SPENDING BETTER
NIGERIA SPENDS A LARGE SHARE OF ITS LIMITED RESOURCES ON UNTARGETED AND INEFFICIENT SUBSIDIES

For years, a large share of Nigeria’s resources have financed subsidies for petrol and electricity that are more than the amount spent on education, health, and social protection combined.

Federal budget on social sectors and subsidies

Source: Budget Office of the Federation for budgeted figures; NNPC, Nigerian Electricity Regulatory Commission, CBN, and World Bank estimates for subsidies.

Note: Premium Motor Spirit (PMS) and exchange rate subsidies are reported in total, and their costs fall to all tiers of government.
PETROL SUBSIDIES: DISPROPORTIONATELY BENEFIT RICHER HOUSEHOLDS AND LEAK TO NEIGHBOURING COUNTRIES

Nigeria’s low petrol prices create incentives for smuggling petrol to neighboring countries and benefit mainly the rich

Nigeria’s petrol prices are by the lowest in the region, creating strong incentives for smuggling

Petrol prices in Nigeria and neighboring countries in September 2022 (naira)

The poorest 40 percent of the population purchase just 3 percent of all subsidized petrol

Petrol consumption by quintile (million liters)

Source: Global petrol prices

Source: NBS and NNPC
ELECTRICITY SUBSIDIES: REFORMS HAVE BEEN SUCCESSFUL AND SHOULD BE SUSTAINED

Electricity tariffs have become more (though still not fully) cost-reflective since 2021...

Electricity Tariff Shortfalls (Billion Naira)

Source: Nigerian Electricity Regulatory Commission, Power Sector Recovery Programme
EXCHANGE RATE SUBSIDY: PARTIAL RATE HARMONIZATION IN 2021 HELPED BUT LARGE IMPLICIT SUBSIDIES REMAIN

Fiscal costs from multiple exchange rates persist

Between 2017 and 2021, the difference between the I&E and the official FX rate cost the Government over US$13 billion

Source: CBN, Aboki, BDC.
RECURRENT COSTS: SPENDING BETTER IS ALSO ABOUT MAINTAINING DISCIPLINE IN RECURRENT EXPENDITURES, SUCH AS PERSONNEL

PERSONNEL COSTS OF THE GENERAL GOVERNMENT

Source: World Bank staff calculations based on data from OAGF and BOF
**BUDGETING BETTER WOULD ALSO HELP TO GENERATE SIGNIFICANT FISCAL SAVINGS**

If budget deficit targets had been based on realistic revenue projections and achieved between 2016 and 2021, the Federal Government would have saved an estimated 1.4 percent of GDP by more cost-effective borrowing.

Fiscal deficits are consistently higher than budgeted due to over-optimistic revenue projections...

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The cumulative additional financing since 2016 has been N57,122 per capita.

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...forcing the government to rely on expensive and inflationary CBN financing to fund the unbudgeted shortfall.

**Percent of GDP**

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Sources: BOF and OAGF

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Sources: CBN and OAGF
ANOTHER PART OF THE SOLUTION: RAISING REVENUES
Low revenues are the key risk to fiscal and debt sustainability

NIGERIA’S GOVERNMENT REVENUES ARE ONE OF THE LOWEST IN THE WORLD...

Source: World Bank MFMod
Both oil and non-oil revenues have declined over the last decade.

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil Revenues</th>
<th>Non Oil Revenues</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>6.4</td>
<td>7.0</td>
<td>13.3</td>
</tr>
<tr>
<td>2012</td>
<td>5.8</td>
<td>6.4</td>
<td>12.2</td>
</tr>
<tr>
<td>2013</td>
<td>5.8</td>
<td>6.0</td>
<td>11.9</td>
</tr>
<tr>
<td>2014</td>
<td>5.1</td>
<td>5.1</td>
<td>10.3</td>
</tr>
<tr>
<td>2015</td>
<td>4.3</td>
<td>7.5</td>
<td>9.8</td>
</tr>
<tr>
<td>2016</td>
<td>4.3</td>
<td>5.9</td>
<td>9.2</td>
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<tr>
<td>2017</td>
<td>4.5</td>
<td>6.8</td>
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<td>2020</td>
<td>4.5</td>
<td>6.5</td>
<td>10.9</td>
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<tr>
<td>2021</td>
<td>4.8</td>
<td>7.0</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on data from OAGF and BOF.
OIL REVENUES HAVE CONTINUED TO FALL DESPITE HIGHER OIL PRICES...

There has been a historically unprecedented decoupling between oil revenues and prices.

Source: OAGF, World Bank calculations based off NNPC annual statistical bulletins for oil production from 2015 to 2019, government oil production reports for 2020 and 2021, and World Bank commodity annual prices for Brent crude oil.
In H1 2022, oil production was the lowest in three decades

Source: OAGF, World Bank calculations based off NNPC annual statistical bulletins for oil production from 2015 to 2019, government oil production reports for 2020 and 2021, and World Bank commodity annual prices for Brent crude oil.
... BUT MAINLY DUE TO THE COSTLY AND REGRESSIVE PETROL SUBSIDY

FOR THE FIRST TIME IN NIGERIA’S HISTORY, HIGHER GLOBAL OIL PRICES ARE NOT PROVIDING A FISCAL BOOST

### Gross oil and gas revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Petrol subsidy</th>
<th>Other deductions</th>
<th>Net oil and gas revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>4098</td>
<td>-107</td>
<td>3991</td>
</tr>
<tr>
<td>2021</td>
<td>-1024</td>
<td>-1430</td>
<td>-831</td>
</tr>
<tr>
<td>2022 Projected</td>
<td>5631</td>
<td>-1171</td>
<td>4460</td>
</tr>
<tr>
<td>2023 Projected</td>
<td>9102</td>
<td>-4800</td>
<td>4302</td>
</tr>
<tr>
<td>2023 Projected</td>
<td>8605</td>
<td>-5000</td>
<td>7605</td>
</tr>
</tbody>
</table>

Source: OAGF, NETI, and World Bank estimates.
SIGNIFICANT EFFORTS TO BOOST NON-OIL REVENUES HAVE PREVENTED AN EVEN WORSE FISCAL SITUATION

THE STRATEGIC REVENUE GROWTH INITIATIVE HAS HELPED BOOST TOTAL REVENUES (ESPECIALLY IN 2021)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net oil revenues</th>
<th>Total revenues</th>
<th>Additional non-oil revenues from reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>2.0</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>1.8</td>
<td>4.6</td>
<td>0.5</td>
</tr>
<tr>
<td>2022 Projected</td>
<td>1.3</td>
<td>4.7</td>
<td>0.5</td>
</tr>
<tr>
<td>2023 Projected</td>
<td>0.6</td>
<td>4.7</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on data from NEITI, BOF, and OAGF
NGERIA’S TAX REVENUES REFLECT WEAK ACTUAL TAX COLLECTION COMPARED TO POTENTIAL…

Source: IMF and bank staff calculations. * Tax effort is defined as the ratio of actual tax revenues collected to tax capacity (or tax potential).
...LOW TAX REVENUE IS ALSO DUE TO LOW TAX RATES (EVEN AFTER RECENT REFORMS) AND INEFFICIENCIES IN ADMINISTRATION

The VAT rate is the lowest in SSA...

... and its collection is not very efficient

Value Added Tax rate (Percent)

C-efficiency rate: Nigeria vs peers (Percent)

Source: Deloitte 2020

Source: OAGF and MfMOD

VAT rate was raised from 5.0 to 7.5 percent in Feb 2020
RAISING REVENUES REQUIRES REBUILDING TRUST BETWEEN CITIZENS AND THEIR GOVERNMENT
CURRENTLY, TRUST IN GOVERNMENT IS LOW

As trust in government’s use of taxes is low…

Respondents who agree that government uses taxes for well-being of citizens (2011-2020)

… support for the government’s right to collect taxes has declined significantly

Changes in support for government to collect taxes (2011-2020)

Source: Afro Barometer (2021)
AN EXAMPLE OF HOW TRUST COULD BE BUILT:
A GOVERNMENT & CITIZEN COMPACT FOR REMOVING PMS SUBSIDIES

The domestic price of PMS is allowed to be cost-reflective…

…eliminating the PMS subsidy that is costing the federation about NGN 5 trillion a year in forgone revenues and mostly benefits the rich and those who smuggle PMS to neighboring countries…

PMS SUBSIDIES

Could cost NGN 4.8 trillion in 2022 and potentially 5 trillion in 2023

…and the amount recovered from eliminating PMS subsidies is REDIRECTED to:

- Immediately deliver NGN 600 billion in CASH SUPPORT TO THE PEOPLE over the six months following the removal of PMS subsidies

…and to funds for development priorities at all levels of government:

- LGA development funds
- STATE development funds
- NATIONAL priority programs

NATIONAL PRIORITY PROGRAMS (NGN 1543 billion)
- Security
- Interstate connectivity
- Power sector recovery

STATE DEVELOPMENT FUNDS (NGN 1452 billion)
- Basic education
- Rural roads
- Industrial zones

LOCAL GOVERNMENT DEVELOPMENT FUNDS (NGN 1405 billion)
- Primary healthcare
- Water & sanitation
- Community development

CASH FOR THE PEOPLE
- NGN 5,000 per month

NATIONAL BASE (NGN 300 billion)
10 million beneficiaries

LOCALIZED STATE ADD-ON (NGN 300 billion)
10 million beneficiaries
PATHWAYS TO FISCAL ADJUSTMENT FOR BETTER AND SUSTAINABLE DEVELOPMENT RESULTS
A THREE-PRONGED APPROACH TO PUTTING NIGERIA ON A SUSTAINABLE FISCAL PATH WITH IMPROVED SERVICE DELIVERY

1. Spend better
   - Establish a **compact** with Nigerians to **eliminate the petrol subsidy**
   - Achieve and sustain fully **cost-reflective electricity tariffs**
   - Adopt a single and **market-reflective exchange rate**
   - Strengthen public investment management and achieve other spending efficiencies

2. Increase revenues
   - Increase the **Value Added Tax** rate and improve its collection
   - Raise **pro-health excise rates to regional averages**
   - Introduce **green taxes**
   - Require oil and gas payments in **cash**
   - Close legal **tax loopholes**
   - Strengthen tax administration

3. Strengthen institutions
   - Strengthen and implement existing **fiscal rules**
   - Improve **budget credibility**, especially by improving revenue and spending forecasts
   - Strengthen debt transparency and management
   - Improve **data foundations for fiscal management**
Thank you

The Nigeria Public Finance Review reports are available here


“Who am I”
Jimmy Nwanne