

Fiscal Analytic Snapshot: Nigeria¹

Prepared by the Centre for the Study of the Economies of Africa (CSEA) and Oxford Policy Management²

Key messages:

- **Nigeria's economic growth was already weak before the COVID-19 pandemic. COVID resulted in a significant downturn.** GDP growth averaged only 1.2% between 2015 and 2020, resulting in GDP per capita declining every year after 2016. At the onset of the pandemic, GDP was forecast to decline by 3.2% in 2020, but the actual result was a smaller decline of 1.8% on account of higher-than-expected oil prices and resilience in the agricultural sector. Despite this, GDP is still significantly below the pre-crisis trend level, and it is not expected to reach the level of pre-crisis projections, even by 2023, indicating significantly scarring to the economy.
- **Nigeria's long-run fiscal situation is weak due to poor collection of non-oil revenue. Oil revenue, which makes up a significant though declining share of the resources available, is volatile.** Pre-crisis, Nigeria was collecting about 8% of GDP as revenue. Following the pandemic, this has fallen closer to 7%. Expenditure was consistently above 12% of GDP and has recovered to this level, even after decline during 2020. The result is a wide deficit of more than 4% of GDP.
- **Despite this, debt levels are fairly low and only increasing slowly.** Although debt levels are now higher than expected before the pandemic, the crisis has had a very little impact on medium-term projections, which suggest that debt will stabilise at around 35-36% of GDP by 2023. However, there are still some risks because of the worsening debt to revenue ratio.
- **Improved economic prospects reduce the constraint on fiscal space in the near term, but this will mean a lack of (previously expected) cuts to expenditure, rather than increased expenditure.** Nigeria is planning to use the proceeds from the oil price increase to sustain current levels of spending rather than to enable a soft-landing fiscal consolidation imminently. The central projection for the public sector does not assume any reforms aimed at improving non-oil sector growth or non-oil sector revenue mobilisation. This means that expenditure is likely to be maintained at the current level of 12% of GDP, which is inadequate given the size of Nigeria's developmental needs but does avoid some painful cuts that were anticipated mid-2020.

Given the above, the following issues warrant close monitoring over the coming year:

- **A perennial issue for Nigeria is the need to collect more non-oil revenue.** Capacity needs to be developed to do this. Collection rates can be monitored, although in the short-to medium-term, fiscal outcomes will be determined more by international oil prices than by any domestic developments. Therefore, it will be interesting to monitor any concrete steps taken to expand non-oil revenue generation.
- **Whether recent improvements in budget credibility are maintained or not.** There was quite a high level of credibility in the 2020 budget – the execution rate was in excess of 90%. It will be interesting to see whether this continues into the future – if so it means debates about what is included in the budget have real meaning, and are connected to what is actually implemented.
- **Will primary care be the new priority in health?** As part of the Economic Stability Programme (the government's response to the COVID-19 pandemic) the government has

decided to shift the focus of healthcare provision towards primary care. It will be important to monitor whether government's health allocations are executed.

Table 1: Key indicators (Fiscal year: January – December)

| (% GDP except where indicated) | 2020 estimate | 2021 | 2022 forecast | 2023 | 2024 extended forecast |
|----------------------------------------|------------------|-------|------------------|-------|------------------------------|
| GDP (billion, 2019 prices) | 440.9 | 451.5 | 463.2 | 476.2 | 489.5 |
| Change in GDP | -1.8% | 2.4% | 2.6% | 2.8% | 2.8% |
| Change in agriculture | 2.2% | 2.2% | 2.2% | 2.5% | 2.5% |
| Change in industry | -5.9% | 2.8% | 2.3% | 2.3% | 2.3% |
| Change in services | -2.2% | 2.4% | 2.9% | 3.1% | 3.1% |
| Change in gross investment | 19.0% | 6.6% | 5.1% | 8.5% | 8.5% |
| Change in gross exports | -32.2% | 10.0% | 6.1% | 4.6% | 4.6% |
| Current account balance | -2.4% | 1.2% | 1.1% | -3.8% | -3.8% |
| Gross revenue | 6.0% | 7.0% | 7.1% | 6.9% | 6.9% |
| Gross public expenditure | 11.8% | 12.6% | 12.6% | 12.8% | 12.2% |
| Public investment | 2.6% | 4.3% | 4.3% | 4.4% | 2.5% |
| Recurrent expenditure (excl. interest) | 7.5% | 7.7% | 7.8% | 7.8% | 7.8% |
| Debt interest | 1.7% | 1.6% | 1.7% | 1.8% | 1.8% |
| Fiscal balance | -5.8% | -5.6% | -5.5% | -5.9% | -5.3% |
| Public debt | 34.3% | 34.6% | 34.8% | 35.5% | 36.2% |
| <i>memo items</i> | | | | | |
| Headcount poverty (\$1.9 in 2011 PPP) | 41.1% | 41.2% | 41.2% | 41.1% | 41.1% |

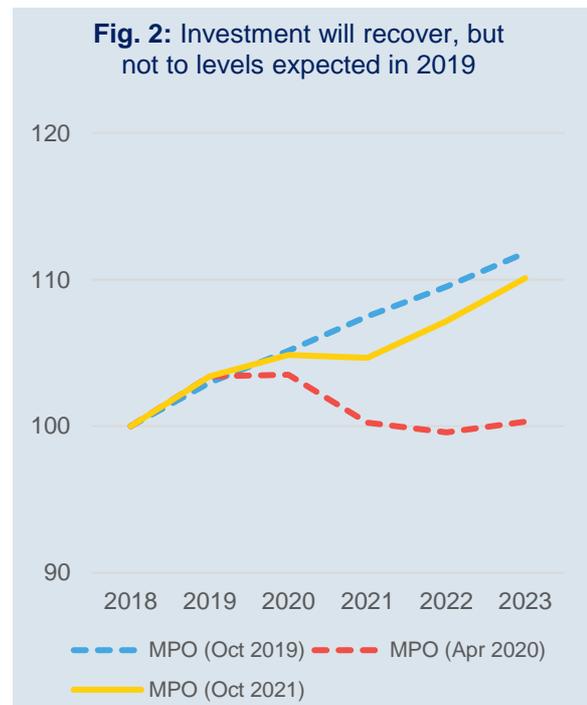
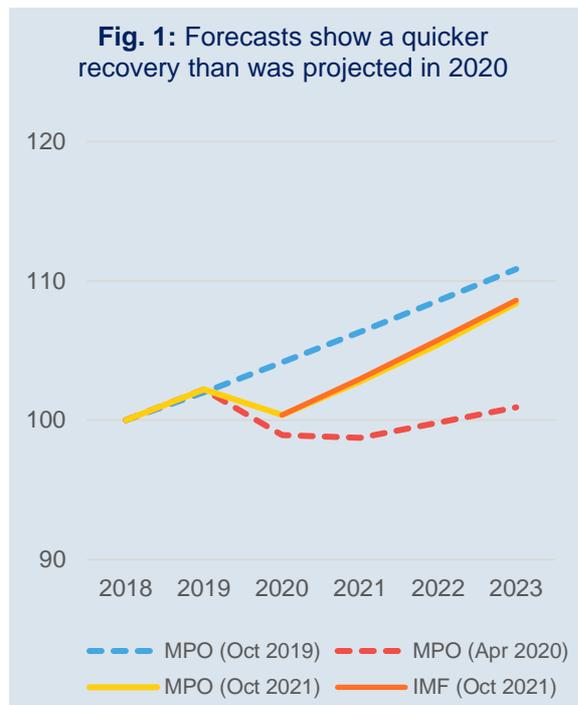
Source: All figures are taken from the World Bank's Macro-Poverty Outlook (October 2021) except the figures for public debt which are taken from the latest IMF Debt Sustainability Analysis for Nigeria (February 2021).

I. Macroeconomic context and outlook

The Economy, Growth, and Investment

Nigeria's economy was growing slowly in the period before the COVID-19 pandemic, with an average growth rate of only 1.2% between 2015 and 2020. This was a steep reduction from the period from 2010 to 2014 when growth averaged 6.4%. GDP per capita declined every year after 2016, and the projected GDP per capita for 2021 is below that of 2010. The slowdown in growth has been driven by services and industry. Services, which make up 46% of GDP, had average annual growth of 1% between 2018 and 2021. Industry, which makes up 28% of the economy, including the oil sector, hardly grew at all, with an average rate of 0.3%. In the same period, primary industries grew by 2.2% on average.³

The impact of the pandemic was not as severe as it was expected to be in 2020. In Figure 1 below, the GDP forecasts from April 2020 show a steeper decline in GDP than what actually occurred. The World Bank expected GDP to contract by 3.2% but the actual decline was only 1.8%. The decline was mostly concentrated in the oil sector. Non-oil GDP fell by 1.3% but oil sector GDP fell by 8.9%.⁴ The better-than-expected outcome is partly because oil prices rose significantly during 2020, so the decline in the oil sector was less bad than expected, even though it was still quite severe. The price of Brent crude oil fell as low as \$18 per barrel in April 2020,⁵ but has risen substantially since, and as of January 2022, was above \$80 per barrel.

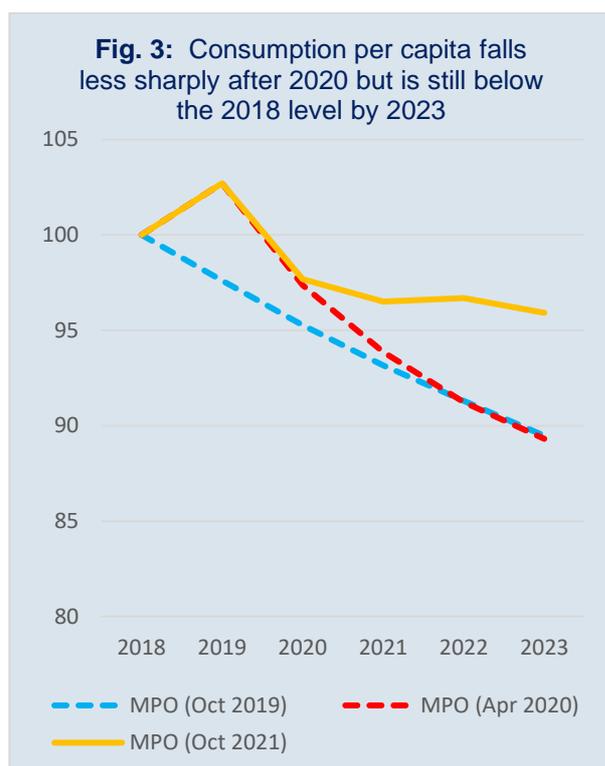


Source: World Bank Macro Poverty Outlook (Oct. 2019, Apr. 2020, and Oct. 2021) & IMF World Economic Outlook (Oct. 2021). **Note:** Both charts use an index starting from 100 in 2018. Data are on calendar year basis.

Investment has closely tracked GDP, and while it has recovered compared to the 2020 outlook, it is still below the 2019 projections. The long-term view now is that the economy will not return to the growth path projected in 2019. GDP in 2023 is forecast to still be 2.1% below the level projected in 2019, while investment will be 1.5% lower. This is drastically better than the 10% output gap previously forecast for 2023. The World Bank forecasts that GDP growth will reach 2.8% in 2023. If this growth rate is achieved, it would be a faster trend growth rate than during the period before the crisis, allowing the new GDP trend to catch up lost growth, albeit with a limited impact on per capita incomes.

The COVID-19 pandemic led to a rise in unemployment. Nigeria’s unemployment rate rose from 27.1% in 2020-Q2 to 33.3% in 2020-Q4. The high unemployment rate was partly induced by lockdown measures implemented to curtail the spread of COVID-19, which in turn, led to weak demand and weaker supply of labour. The number of people working or trying to work reduced from 80.3 million in 2020-Q2 to 69.7 million in 2020-Q4. While both men and women dropped out of the labour market, women were more severely affected as school closures at the peak of the pandemic increased the childcare burden on women.⁶

Unemployment and the slowdown in business activity help explain why consumption per capita fell at an accelerated rate in 2020 and will continue to fall into the future. Consumption per capita has been falling in Nigeria for several years due to sluggish growth, although it increased in 2019 just before the pandemic struck. It fell sharply in 2020. In the latest forecasts, the continuing fall in per capita consumption is less than previous forecasts, because of improved GDP growth. However, this still represents a deterioration in average living standards in the medium term.



Source: World Bank Macro-Poverty Outlook (Oct. 2019, Apr. 2020, and Apr. 2021). **Notes:** Fig.3 uses an index starting from 100 in 2018. Fig. 4 presents the proportion of the population under the international poverty line (\$1.9/day in 2011 PPP). *MPOs in 2019 and 2020 (right hand scale) have poverty based on 2009 data and a poverty elasticity applied to growth. This did not predict the level shown in the 2018 survey. 2021 figures are based on the 2021 survey (left hand scale).

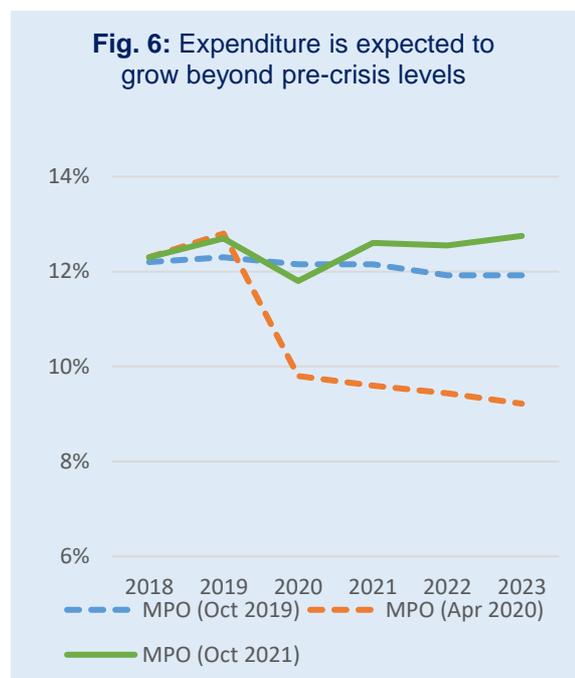
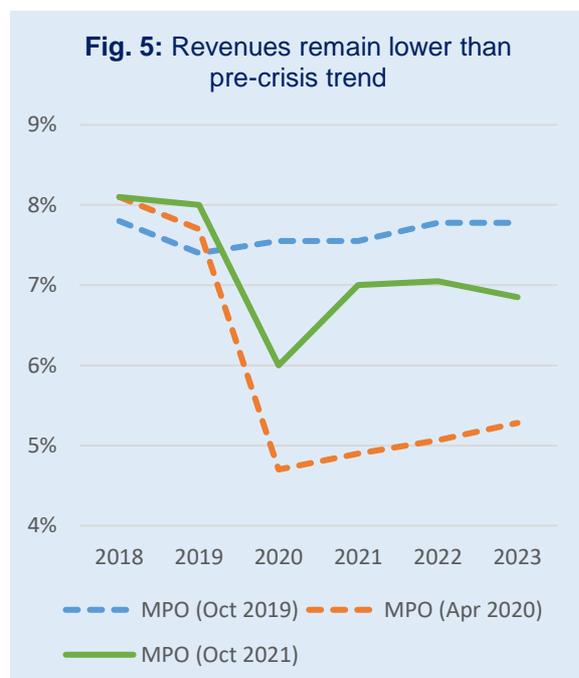
New data suggest that poverty decreased in Nigeria between 2009 and 2018. The living standards survey from 2009 put the poverty headcount ratio (at \$1.90 a day, 2011 US prices) at 56.4%. Since then, falling per capita GDP and consumption seemed to be creating a modest decrease in poverty before 2016 and then increases in poverty estimates after 2016. However, the results of the 2018 survey suggest poverty fell more quickly across this period, to 39.1% in 2018.⁷ This is good news – Nigeria’s poor seem to have benefited more from what growth there was 2009-2018. Poverty was much higher in States in the north of the country. For example, in Lagos State only 4.5% of the population was below the poverty line, but in Sokoto State in the northwest, 87.7% of the population was. In urban areas, 18% of the population was below the poverty line but this increased to 52.1% in rural areas.⁸ Government has a goal of lifting 100 million Nigerians out of poverty and claimed to have lifted 10.5 million out of poverty in 2019 and 2020.⁹

The World Bank estimates that in 2020 about seven million Nigerians were pushed into poverty, partly due to high inflation. This is over 3% of the population. And in the latest forecasts, poverty increased by 3% points in 2020 and will continue to increase thereafter. Inflation rose from

12.1% in January 2020 to 15.8% at the end of December 2020, but food inflation rose by 20.2%. On average, Nigerians spend 56% of income on food, so food inflation can have significant effects on poverty.¹⁰ What these estimates (not yet solid observations) also suggest is that if there were many Nigerians who exited poverty 2009-2018, but who were only just over the poverty line, then the sharp drop in consumption in 2020 was enough to push many households back into income poverty.

Revenue and Expenditure

Before the crisis, Nigeria collected relatively little revenue and expenditure was significantly higher than revenue. Nigeria collected revenue to the value of only 8% of GDP in 2019. In the absence of increasing non-oil revenue as a share of GDP, Nigeria's fiscal space will depend on an oil-related revenue stream which is usually inadequate, which is volatile and fluctuates according to global oil demand and prices, and which therefore hampers the state's ability to deliver social programmes and much-needed infrastructure investment for growth. In 2019, non-oil revenue equalled only 4.2% of GDP, compared to 18% in Kenya, for example.¹¹ Nigeria's revenue performance is dismal compared to its neighbours', such as Benin (14.8%), Ghana (12.3%), and Senegal (21.1%). The average revenue collection for sub-Saharan African countries was 23.4% of GDP in 2018.¹² To compound problems, expenditure was structurally higher than revenue, at roughly 12% of GDP and forecast to decline very slightly to 11.9% of GDP in 2023. A structural deficit of this nature will result in declining fiscal space and will require policy changes to resolve the problem. High oil prices could mask the significance of the problem.



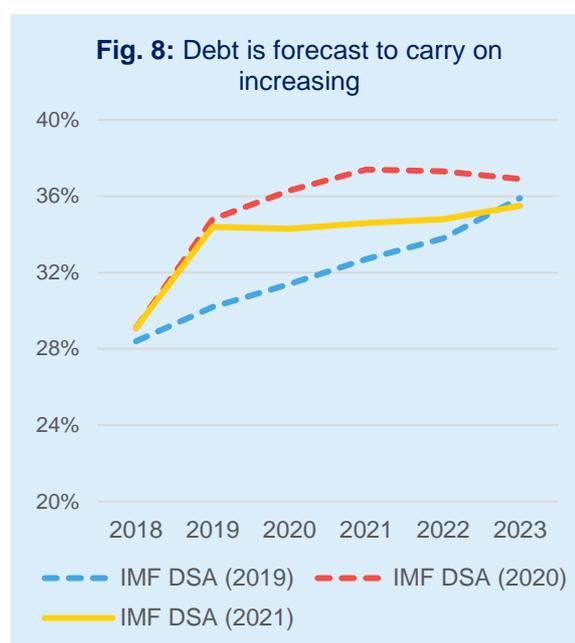
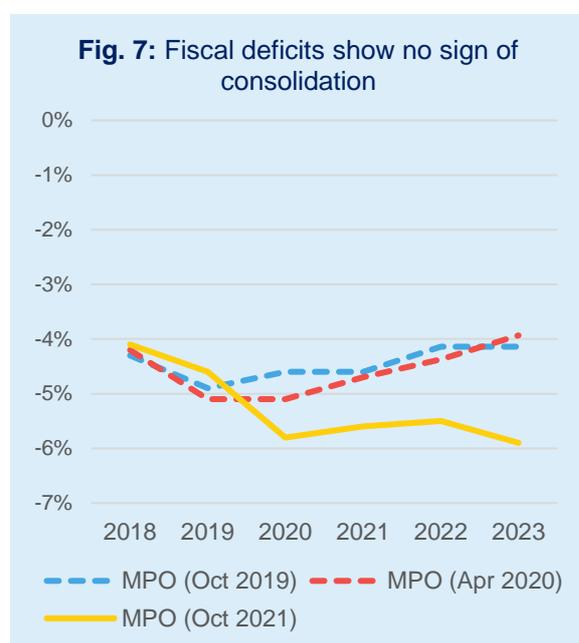
Source: World Bank Macro-Poverty Outlook (Oct. 2019, Apr. 2020, and April 2021). **Notes:** Both figures express data as a percentage of GDP.

The pandemic worsened the issues on the revenue side. As can be seen in Figure 5, revenue fell to 6% of GDP in 2020. While this was better than the projection in early 2020 of revenue falling to 4.7% of GDP, it is still a poor performance. The World Bank expected the pandemic to result in substantially less expenditure, falling from 12.8% to 9.8% of GDP, but while there was a decline in expenditure, it was only by about 1 percentage point, not the 3 percentage points expected. Moreover, the World Bank projected that expenditure would stay at the lower level in the medium term, but instead expenditure is now forecast to recover to pre-pandemic levels in 2021. Revenue, however, does appear to be slightly lower than pre-crisis levels, projected to fall to 7% of GDP in 2021 and 2022 from levels closer to 8% of GDP before. This will exacerbate fiscal concerns over the medium-term.

On the expenditure side, Nigeria is projected to avoid austerity measures, but there will be no ongoing increases in fiscal space unless reforms drive non-oil sector growth and the mobilization of greater non-oil revenues. There was insufficient space for a significant fiscal stimulus in response to the COVID-19 pandemic. A N500 billion (\$1.2 billion) fund was announced to support the real sector. The Central Bank of Nigeria cut the monetary policy rate from 13.5% to 11.5% in September 2020, created a fund to support businesses and provided N3.6 trillion (\$8.7 billion) to the banking sector.¹³ Over the medium term, expenditures are expected to grow in line with GDP – but expenditures net of debt service barely grow at all and will fall in per capita terms.

Fiscal Balance, Debt Sustainability and Vulnerability to Future Shocks

There were some signs of fiscal consolidation in the pre-pandemic period. The Fiscal Responsibility Act, 2007 targets a deficit of 3% of GDP. As can be seen in Figure 7, the fiscal deficit was 4.6% of GDP in 2019 and was then expected to close slightly by 2023. Debt is at low levels compared to GDP although the ratio of debt service to public revenue is high – because revenue is low. While debt of 30.2% of GDP and a deficit of 4.9% of GDP would not usually be a significant cause for concern, they are more problematic in a country with such a small revenue base, and also heavily dependent on volatile oil revenue.

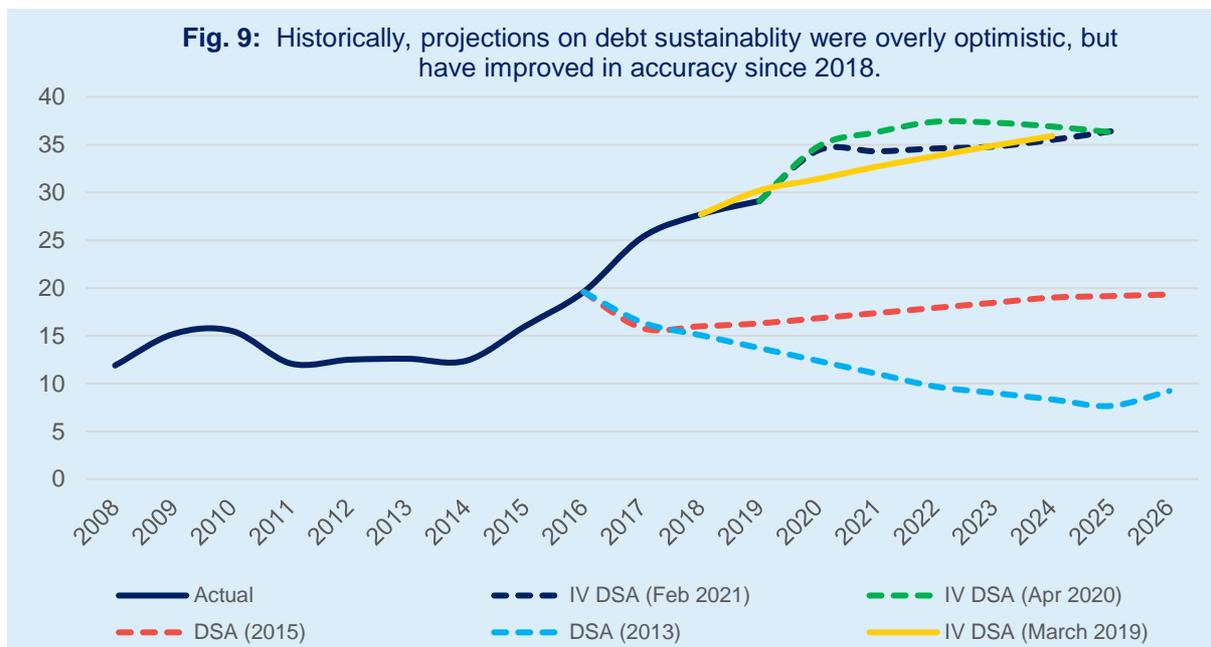


Source: World Bank Macro-Poverty Outlook (Oct. 2019, Apr.2020, and April 2021). **Notes:** Both figures express data as a percentage of GDP.

Surprisingly the pandemic did not lead to a significant worsening of the fiscal dynamics. The size of the deficit increased from 4.6% to 5.8% of GDP in 2020 but there was virtually no impact on forecasts of debt levels, because of the increase in forecast GDP growth from 2021.

In the latest outlook, Nigeria abandons the pretence of fiscal consolidation and keeps high deficits and steadily increasing indebtedness in the medium term – things have improved because of the oil price hike but this means Nigeria remains vulnerable to adverse price movements. Also, pressure to implement reforms to raise more revenue will lessen, which could exacerbate the longer-term issues. Debt levels continue to move upwards, but only slowly and from quite a low base. The IMF assessed Nigeria’s debt as sustainable but subject to high risks. A direct consequence of limited public revenue and rising public debt is increased debt servicing in place of public investments. In 2020, debt service payments accounted for a third of government expenditure and was double the size of the capital expenditure. This is why stress tests showed that Nigeria was very vulnerable to a negative shock to interest rates, which would push up the debt service bill. It is also vulnerable to a further shock to oil prices which would undermine revenue collection. On the positive side, about half of external debt is owed to multilateral institutions.

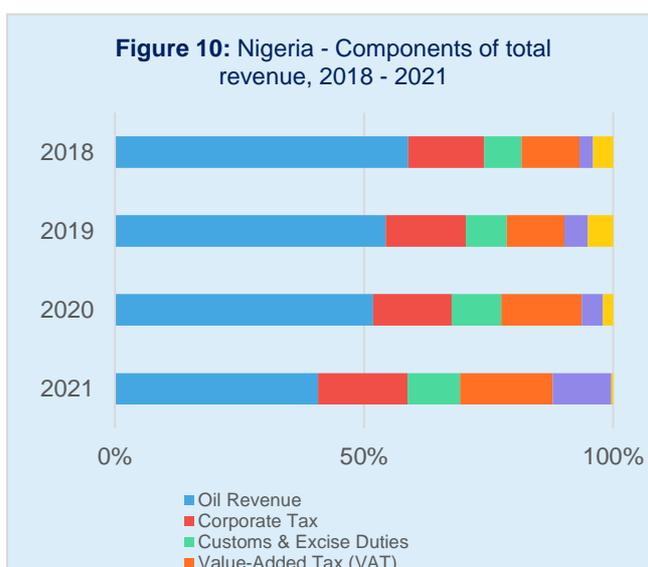
Fig. 9: Historically, projections on debt sustainability were overly optimistic, but have improved in accuracy since 2018.



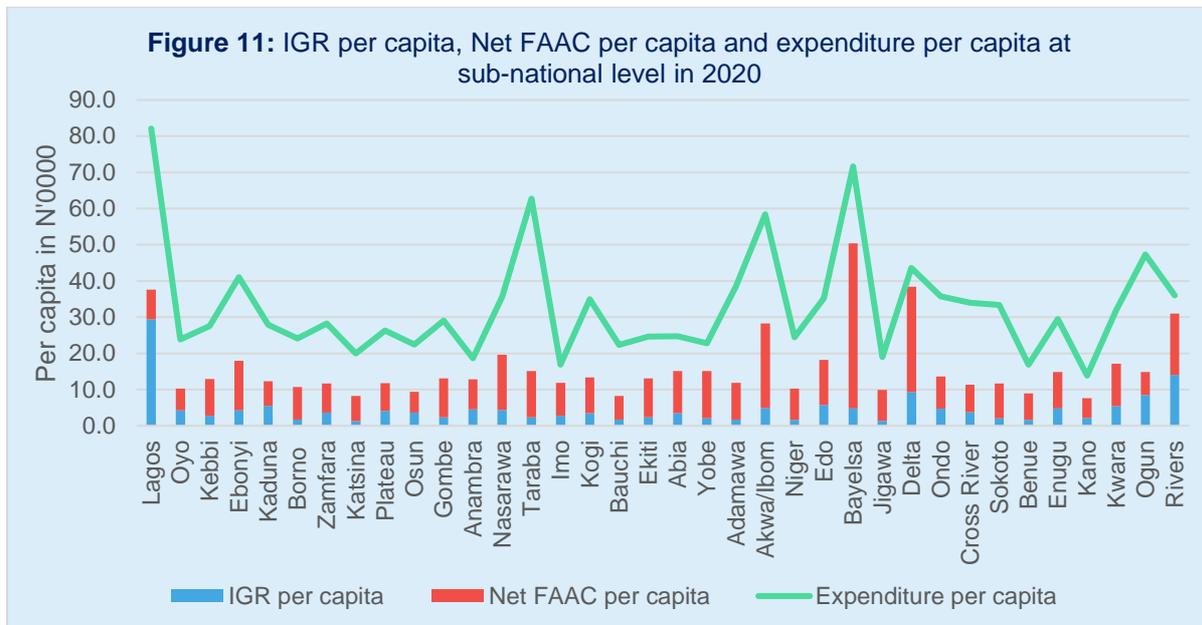
Source: IMF Debt Sustainability Analyses (DSA) conducted in 2013, 2015, 2019, 2020 and 2021. **Note:** The figure illustrates total public debt (domestic and external) as a percentage of GDP.

II. Revenue and expenditure overview

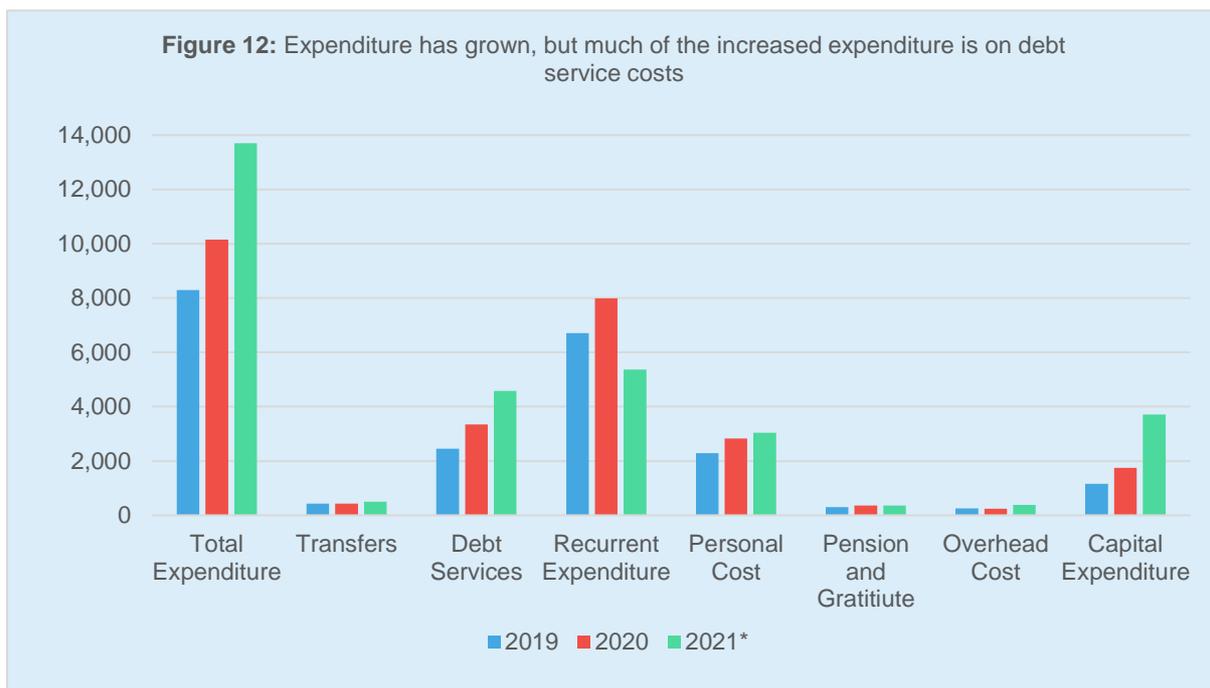
Revenue has consistently fallen short of projections in recent years resulting in larger than expected deficits and higher debt, but this trend could be reversed. In the 2022 approved budget, the oil production assumption of 1.88 mbpd is overly optimistic given the declining trend in production and an OPEC quota of 1.7 mbpd beginning from February 2022. The shortfall in production is unlikely to cause a revenue deficit as it was assumed that the oil price would average \$62 per barrel, below forecast levels for 2022. Another positive is that VAT revenue increased by 25.4% in 2020 and represented 16.1% of total government revenue on account of an increase in the rate from 5 percent to 7.5 percent. VAT revenue share of total revenue further rose to 18.6% in 2021. These two factors suggest that revenue will be above forecasts in the near future, provided oil prices remain at elevated levels.



The fiscal performance of states is mixed, with half of the States recording lower internally generated revenues (IGR) in 2020 than in 2019. IGR is revenue that is collected at the state level, such as personal income taxes. States that can collect more revenue can provide more public goods. The wide variation in IGR reflects different levels of economic activity and capacity to collect revenue. In some states, revenue collection is collected but not remitted to the fiscus.¹⁴ Total state revenue declined by 6.4% in 2020 and the IGR declined by 3.6%. Notably, all the oil producing states recorded lower IGR year-on-year. Lagos sustained its position as the most viable state recording a positive IGR. The states sometimes creatively transfer some of their financial shortfall to the federal government through debt or transfers.

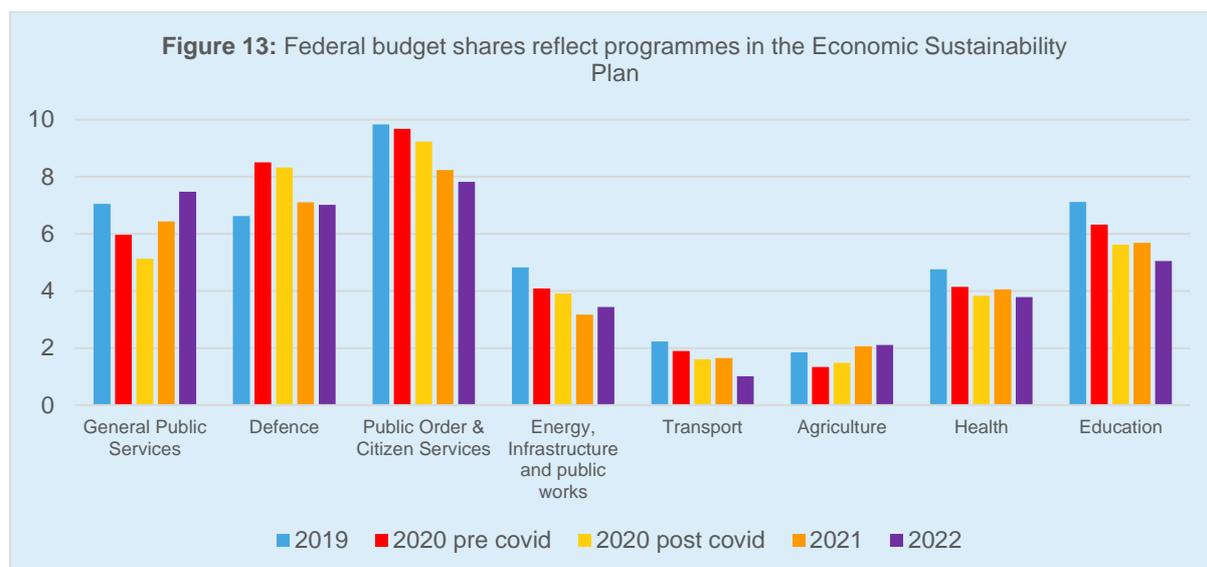


Nominal gross government expenditure grew by 34.9 % in 2021. The two fastest growing categories of expenditure were capital and debt service costs. In fact, these two categories of spending grew by more than gross government expenditure, meaning that other types of spending declined and the funding was reallocated to capital and debt.¹⁵ Personnel costs also increased by 7.7%. Increasing expenditure, in line with higher revenue, should support the economy in the short-term but will result in a larger deficit and higher debt levels.

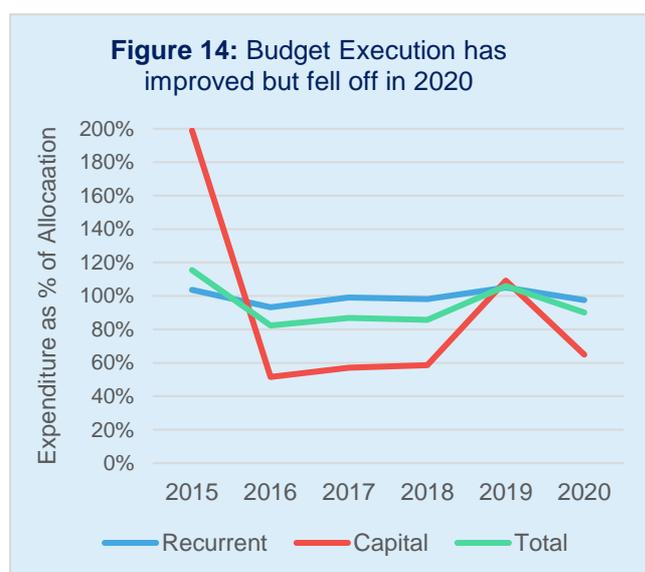


Budgeted allocations increased in FY2021 and FY2022 in response to Covid-19 and security challenges. A total of ₦ 17.13 trillion (\$41.78 billion) was appropriated for the FY2022, an increase of 26% from ₦14.57 trillion (\$35.4 billion) in FY2021. The 2021 budget comprises of an initial budget of ₦ 13.59 trillion (\$33 billion) and a supplementary budget of ₦ 982.73 billion (\$2.3 billion), which was passed in mid-2021, bringing the expenditure plan to ₦14.57 trillion (\$35.4 billion). Of the ₦17.13 trillion (\$41.8 billion) appropriated in the 2022, ₦5.47 trillion (\$13.3 billion) was allotted to capital expenditure, which represented 31.9% of total expenditure and is 9.8% higher than 2021 allocation. Likewise, non-debt recurrent expenditure rose from ₦5.77 trillion (\$14.07 billion) in 2021

to ₦6.91 trillion (\$16.9 billion) in 2022, an increase of 19.8%. The present administration seems to be focussing on infrastructure development in its last full fiscal year in office. Debt service costs rose from ₦3.12 trillion (\$7.6 billion) in 2021 to ₦3.61 trillion (\$8.8 billion) in 2022.



The 2022 federal budget focuses on sectors with potential for job creation. The budget saw a reduction in allocation to four sectors: communications; labour and employment; environment; and water resources. The administration of COVID-19 vaccine is assigned to the National Primary Health Care Development Agency and in the 2022 budget, the agency was allocated ₦24.4 billion (\$59.5 million), about 3.4% of Federal Ministry of Health total budget. As part of the service-wide votes, immunisation was allocated ₦49.4 billion (\$120.5 million), which is slightly higher than 2021 allocation and almost double that of 2020. In addition, ₦56.14 billion (\$136.9 million) was allocated to the Basic Health Care Fund, which was 60.3% higher than the ₦ 35.03 billion (\$85.4 million) allocated to the agency in 2021. In the 2021 budget, statutory transfers to states for Universal Basic Education rose by 32.4% from ₦52.9 billion (\$128.6 million) in 2020 to ₦70.1 billion (\$170.4 million) in 2021. This allocation was further increased in the 2022 budget to ₦112.29 billion (\$273.9 million), a 60% increase across two fiscal years. Agriculture, general public services, energy, infrastructure and public works; health; youth, sport and culture received the largest increases as a share of the budget.



Budget execution has improved in recent years. Expenditure exceeded allocations in 2015, with capital expenditure of twice the initial allocation. Between 2016 and 2018, average budget execution at the aggregate level was only 85%, where levels closer to 100% show improved budget execution. In 2020, budget execution was 90.1%, but government expenditure was made more difficult by lockdowns. As in most countries, execution of capital is more difficult than recurrent expenditure. A total of ₦ 2.5 trillion (\$6.1 billion) or 16.6% of the budget was allocated to capital expenditure in 2020, which is lower than the 30-35 percent target set in the Economic Recovery and Growth Plan (ERGP). Implementation challenges are sometimes

due to liquidity shortages, as capital expenditure can be easily delayed while government faces

contractual obligations in other spending areas. Virements and reallocation of budget items are not reported therefore a complete picture of budget implementation is not clear.

Capital expenditure is prioritized in subnational governments spending, receiving about 54% of the total allocations across states. Out of the 36 States, the Ministry of Works had the highest allocation in 19 States (52.8%). For the remaining States, the other priority areas are education (11 States) and health (6 states). The extent to which this reflects actual implementation remains unknown, given the absence of mid-year and end-year budget implementation reports and audited budgets for most states.

In summary, Nigeria is somewhat fortunate to be facing a better macroeconomic and fiscal outlook than initially expected but must confront a challenging set of medium-term issues. COVID-19 had a very harmful impact on the Nigerian economy, resulting in rising unemployment and poverty. However, higher oil prices and the government's (limited) macroeconomic policy responses has, moderated its effect and the economy has begun growing again. Fiscal pressure has been alleviated (for the time being) not by improved management of the public finances per se, but by the rise in oil prices since the height of the pandemic. However, this does not mean that expenditures are rising, merely that harsh fiscal consolidation can be avoided (for now). Fiscal space is currently largely determined by the (volatile) oil price; hence, longer-term fiscal expansion and greater investment in priority sectors will depend on measures to spur growth in the non-oil economy that in turn generate higher non-oil revenue. While public debt is moderately low, debt interest continues to account for a large percentage of expenditure, meaning that Nigeria is vulnerable to an external shock that hits revenue (e.g. another decline in the oil price).

Agriculture

Agriculture is prominently featured in the Economic Sustainability Plan. The goal is to bring between 20,000 and 100,000 hectares of land into cultivation across 36 states of the nation and FCT, set up a reserve price for produce, and construct additional rural roads. This is expected to be financed together with the Central Bank of Nigeria at an estimated cost of ₦635 billion. This is more than two times the agriculture sector budget for 2021.

There has been a substantial increase in the budget allocated to agriculture consistent with government renewed priority to the sector. Between 2015 and 2018, the national budget allocated to agriculture increased significantly from ₦40 billion to over ₦200 billion. However, the budgeted amounts devoted to agriculture reduced substantially in 2019 and 2020. The budget was reduced in 2019 to ₦164 billion but remained over four times higher than the level in 2015. It increased by 11 percent to ₦183 billion in the 2020 pre-covid budget, and then fell again in the 2020 post-covid to ₦160 billion.

The increase in the agriculture budget over the past 5 years (since 2016) is primarily driven by the increase in capital expenditure. Capital expenditure has increased by over 350 percent compared to recurrent expenditure which doubled over the same period. These changes reflect the current administration's commitment to improving productivity in the agricultural sector through targeted investments.

Table 1: Budgeted spending on agriculture (billions of naira)

| Year | Approved Agriculture Budget | Recurrent expenditure | Capital expenditure | Capital expenditure as % of total | Total national budget | Agriculture as % of total national budget |
|-------------------|-----------------------------|-----------------------|---------------------|-----------------------------------|-----------------------|-------------------------------------------|
| 2015 | 40.66 | 31.87 | 8.79 | 21.6% | 4,493.34 | 0.87% |
| 2016 | 75.8 | 29.63 | 46.17 | 60.9% | 6,060.68 | 1.25% |
| 2017 | 135.54 | 31.75 | 103.79 | 76.6% | 7,441.18 | 1.82% |
| 2018 | 203.3 | 53.81 | 149.49 | 73.5% | 9,120.34 | 2.23% |
| 2019 | 164.9 | 57.68 | 107.22 | 65.0% | 8,826.68 | 1.85% |
| 2020 (pre-covid) | 183.082 | 58.687 | 124.395 | 67.9% | 10,594 | 1.73% |
| 2020 (post-covid) | 160.458 | 57.965 | 102.493 | 63.88% | 10,811 | 1.48% |
| 2021 | 280.316 | 69.238 | 211.077 | 75.30% | 13,588 | 2.06% |

The budget figures in Table 1 do not fully reflect the government's expenditure on the agricultural sector. This is because it does not capture special intervention programmes run by the Federal Government of Nigeria and the Central Bank of Nigeria (CBN) through risk guarantees and subsidized interest rates. They also exclude the value of preferential access to foreign exchange extended to participants in the agricultural sector.

WASH

WASH makes up about 1% of the total national budget.¹⁶ Policies and implementation of WASH is mainly the responsibility of federal and state ministries of water resources. The "Clean Nigeria Campaign", launched in 2018, aims at eradicating open defecation, still practiced by 20% of the population. Government committed an annual budget of ₦10 billion (\$24.3 million)¹⁷ but the COVID emergency has stalled these plans, resulting in an allocation of only ₦12 million (\$29,184), in the 2020 budget. In 2020, the Economic Sustainability Plan included the WASH Emergency Response to Covid-19, with an estimated cost of ₦10 billion (\$24.3 million), to increase water supply to public utilities and public places, and to strengthen resilience to spread of infectious diseases. This will, inter alia, include activities initially planned under the Clean Nigeria campaign.¹⁸

These trends, although positive, are not enough to guarantee successful achievement of targets. Nigeria needs to spend more and spend better on WASH services. Indeed, WASH allocations remain lower than in countries with similar WASH challenges. Kenya, for example, allocates up to 4% of the national budget to WASH. With over 20% of its population without adequate water and 25% without a handwashing facility, substantial challenges remain.¹⁹ Greater transparency in the way the WASH budget is allocated (by sub-sector, e.g., urban or rural water) and implemented could enhance the effectiveness of the programme, especially as rural areas are lagging behind.

Nutrition

Child undernutrition remains a significant burden, and Covid-19 has exacerbated the overall food crisis. As of 2020, 35.3% of children under five in Nigeria were stunted, while 6.8% suffered from wasting.²⁰ These levels are both higher than the average for the Africa region: 29.1% stunted and 6.4% wasted across the region. While there has been a slight decrease in rate of stunting nationally since 2012 (38%), the pace of improvement is much too slow to achieve established goals. Further, there are large differences across states and regions in Nigeria with child stunting rates higher, affecting more than 50% of children, in the north of the country. Anaemia affects the majority of under-fives in Nigeria (55.1% in 2020) reflecting both poor diet in young children as well as frequent infection. No progress has been made towards achieving the target of reducing anaemia amongst women of reproductive age, with 49.8% of women aged 15-49 years now affected²¹. The prevalence of severe food insecurity in the total population has increased from 6.6% in 2014-16 to 21.4% in 2018-20.

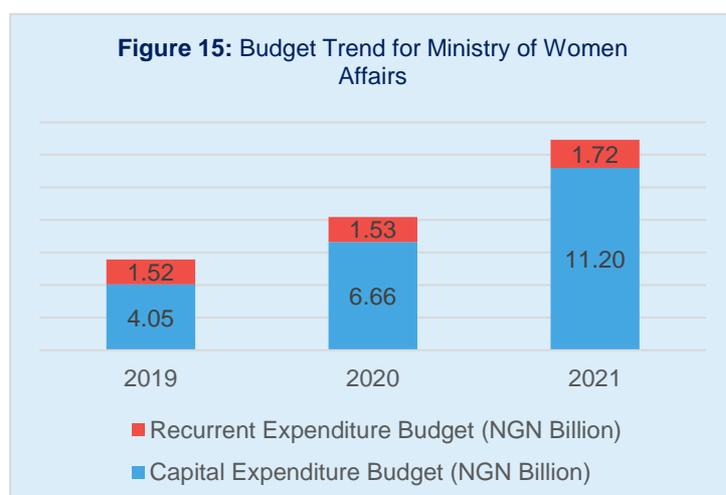
The COVID-19 pandemic has worsened Nigerians' ability to access nutritious food. Analysis by the FAO shows that between October 2020 and January 2021 Nigeria experienced a significant increase in moderate and severe food insecurity, one of the most marked upwards shifts amongst the 20 countries compared. Further, the total number of Nigerians at risk of acute food insecurity doubled between October and December 2020, compared to the same period in the previous year²². For the most affected regions, particularly North-East states, hospital admission rates attributable to severe child malnutrition increased by about 80% when compared to 2019.²³ Conflict is the main driver of food insecurity and malnutrition in the Northeast States in particular, while the country as a whole is the only low-middle income country affected by three concurrent drivers: conflict, climate extremes and economic downturns.

A new five-year national malnutrition strategy was introduced with the goal to halve child stunting and boost food security: this Plan is intended to guide interventions targeted at reducing hunger and stunting, promote exclusive breastfeeding, and place priority on a range of proven, cost-effective nutrition specific and nutrition sensitive interventions. The Plan would cover the period 2021 to 2025. It is noteworthy that the launch of the new Plan was not accompanied by any new resources for nutrition. The NMPFAN is expected to be implemented and funded by

a broad range of stakeholders including, various federal ministries, subnational governments, development partners and the private sector. The spending required to finance the plan is estimated at ₦58.9 billion (\$140 million). It is not possible to assess whether 2021 budget allocations for nutrition align with this estimate because budget documentation does not report nutrition spending specifically. That said, there is evidence that Nigeria spends around \$0.6 per child on nutrition, significantly lower than the \$1.3 per child which is the low-middle-income country median.

Gender

The increase in allocations for women affairs was retained post-Covid-19. In 2021, the combined allocation for the Federal Ministry of Women Affairs and Social Development (FMWASD) and the National Centre for Women’s Development (NCWD) increased significantly. ₦12.9 billion (\$31.3 million) was earmarked for both FMWASD and NCWD, representing a more than 50% surge from the prior year. This is in line with the government’s plan for advancing and prioritising gender equality and adopting a gendered lens in the country’s COVID-19 recovery strategy.



Source: Appropriation Act 2019–21

The total budget allocation ratio between the FMWASD and NCWD remained approximately the same as prior year at 56%:44%. The rise in the total capital expenditure budget is even more significant than the overall budget surge (over two-thirds more than prior year). That said, the utilisation rate for capital releases to the ministry in 2020 was only 86%.²⁴

Donor funding for gender equality and women rights groups and institutions in the country increased in 2019 (the latest available) by a third within the span of one year.

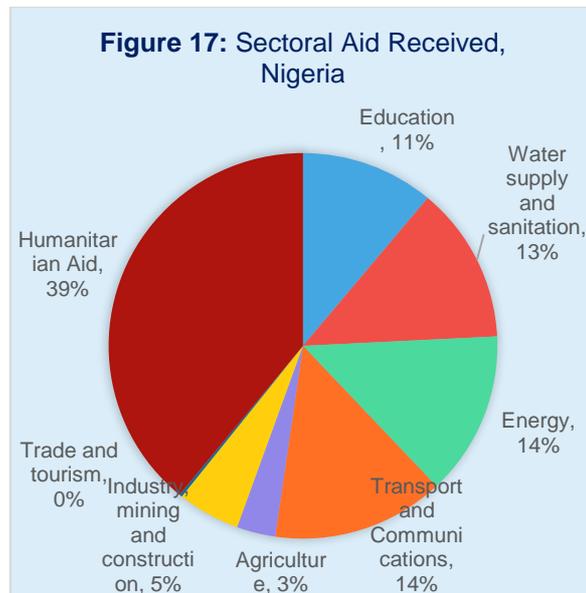
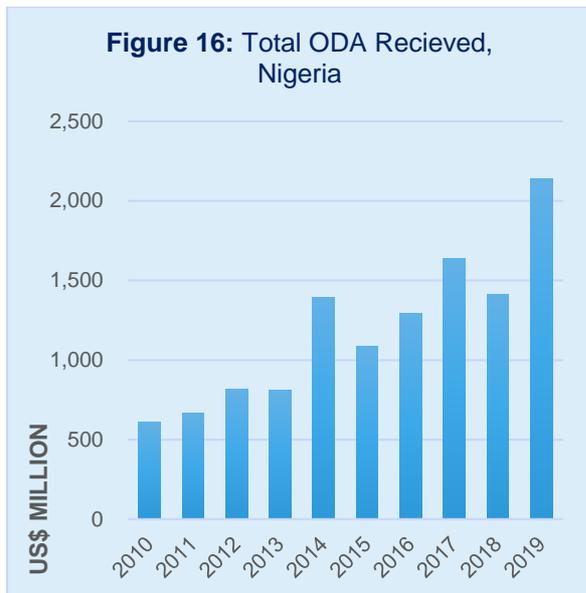
Nigeria’s performance on the 2021 Global Gender Gap Index worsened, in comparison with the previous year (rankings dropped from 128th to 139th).²⁵ This is mostly due to the impact of the pandemic on economic opportunities and labour force participation for women in the country. It is therefore important to ensure that the allotted capital budget is targeted at interventions to support women’s capacity for income generation and self-sufficiency.

III. Aid update

Data on ODA flows is slightly dated, so it does not include the recent cuts to aid by certain donors. For instance, in 2019, the United Kingdom spent about £3.8 billion on bilateral aid, and it was reduced to £1.5 billion in 2021.

Total ODA inflows increased to \$3.5 billion in 2019, a substantial rise of 51.7% from 2018. This represents 0.7% of GDP and is 51% larger than FDI inflows. Multilateral funding represents the largest share of ODA in Nigeria at 54% of total inflows. Multilateral aid to Nigeria increased by 20% from \$1.7 billion in 2018 to \$2.1 billion in 2019. Development Assistance Committee (DAC) countries contribute 46% of total development assistance but their share has declined over the last four years. On a bilateral basis, the United States is the largest contributor, accounting for 22% of total aid, but its contribution declined between 2018 and 2019.

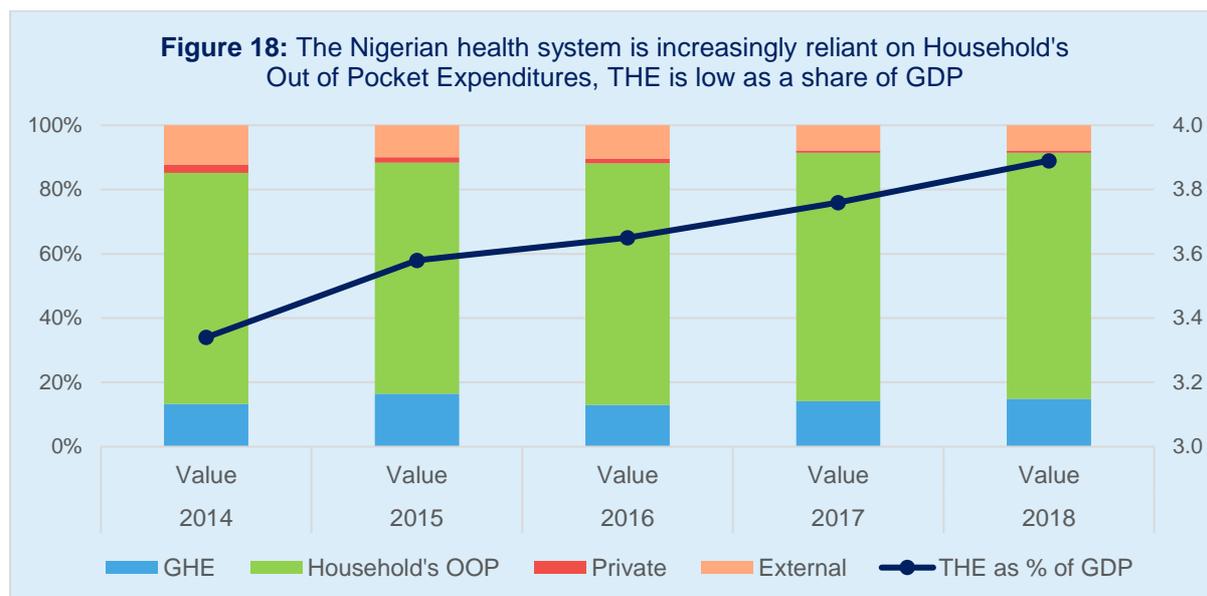
The allocation to humanitarian aid has dominated ODA inflows, rising from \$1.2 million in 2009 to a peak of \$728 million in 2018, before declining to \$496 million in 2019. The insurgencies in the North-East region have displaced more than 2.4 million people leading to increased need for humanitarian assistance.



IV. Health drill-down

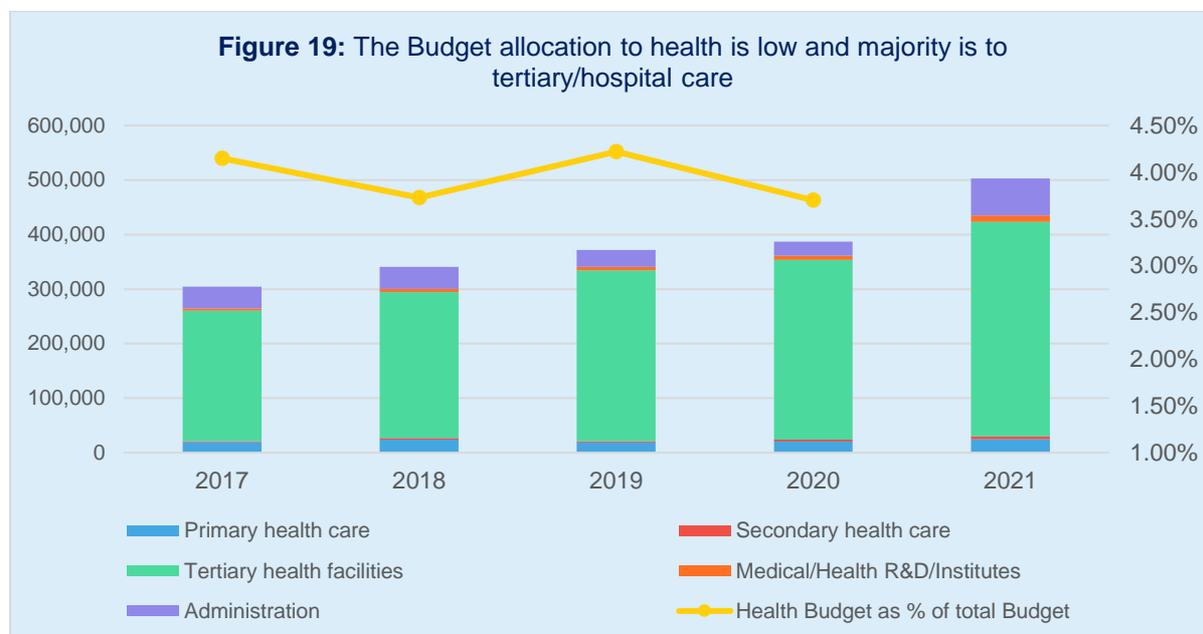
National Health Accounts data shows Nigerian households are increasingly spending more for health expenditures. Households Out of Pocket (OOP) Expenditures accounted for 77% of Total Health Expenditure (THE) in 2018. The Government's share has fallen to 15% of THE even as external funding for health also declined, from 12% in 2014 to 8% in 2018. The nominal value of government funding to health has declined from \$20 to \$14 per capita over the past five years. THE as a share of GDP has remained low at 3.9%.

Small allocations prevent citizens accessing health care services without financial risk and the government meeting its target of Universal Health Coverage (UHC)²⁶. The WHO argues an OOP rate of more than 20% of THE increases the risk of catastrophic health expenditures – whereby spending on health care can push households into poverty. This conclusion is supported by survey data showing that in 2021, 71% of households that were unable to access needed health services, could not gain access because they could not afford it²⁷. Moreover, the level of official health expenditures (GHE and external funding) amounted to \$21 per capita in 2018, well below the \$86 level said to be a minimal need for UHC and compares to 72 USD per capita for OOP.



Source: WHO Global health Expenditures Database

Resources allocated to health are very lean and may be significantly underspent. The allocation to health has been roughly 4% of the total budget over the past 5 years but how much is actually spent is not known because current data is not available. Historic budget execution rates averaged only 74% between 2012 and 2015 (when spending outturn data is available), suggesting that actual government health expenditures may be significantly lower. Government increased the allocation to healthcare in the ESP.²⁸ The ESP aims at building a resilient health sector based on four key priorities: boosting the response to the COVID-19 pandemic; ensuring every Nigerian has access to quality health services particularly primary health care; building preparedness for the threat posed by infectious diseases and boosting local research and development efforts aimed at the production of medical and pharmaceutical products.



Source: Federal Ministry of Finance Budget and National Planning Arm²⁹

Between 80 to 90% of public expenditure on health is for payments to recurrent spending, thereby leaving too little for health infrastructure. The states which invest in primary health care experienced drastic reductions in maternal and infant mortality, compared to states which invested in tertiary institutions (which provide specialised care for very few patients).

Looking forward, the ESP envisions more funding for infrastructure and UHC. The ESP includes provision for a ₦ 86 billion (\$209.1 million) fund for health infrastructure, reform the NHIS to promote UHC and cover the poorest and most vulnerable by aligning the National Health Insurance Scheme to the National Social Register. It also plans to achieve at least a 65% increase in the share of the population covered by primary healthcare by 2023 (from the 0.2% currently).

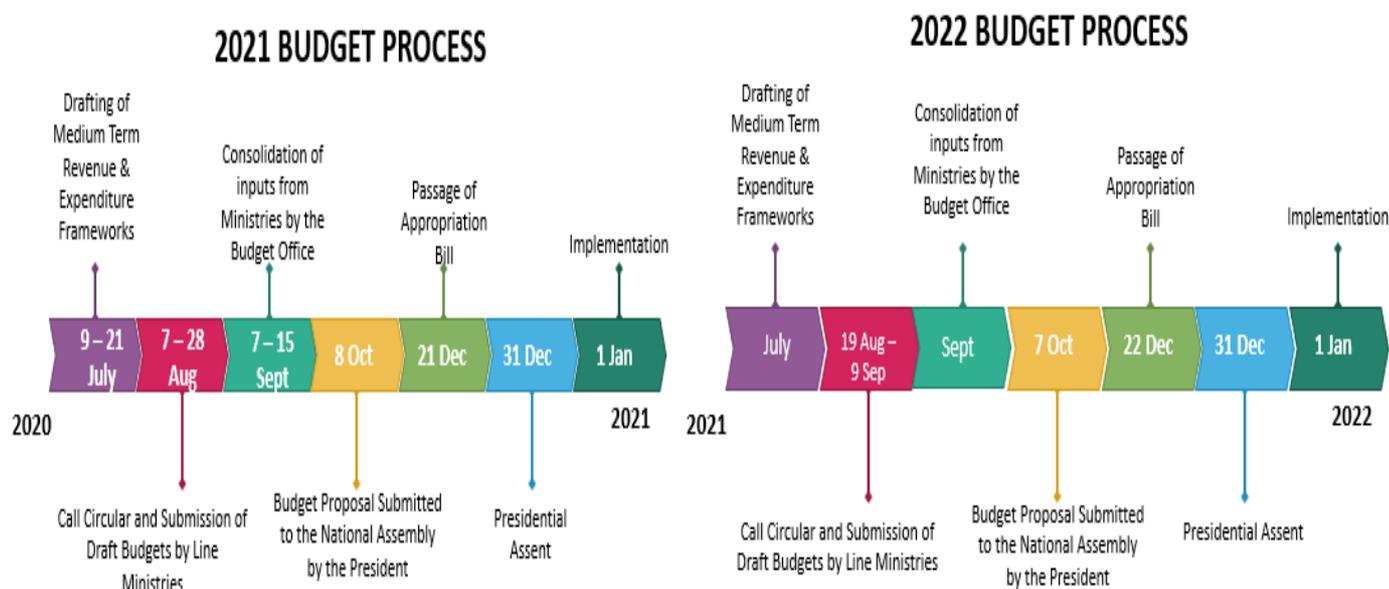
For the 2021 fiscal year, the allocation fell to 4.5% of the budget, rather than the expected increase due to COVID-19 health shocks. The impact of COVID-19 means an increase in the demand for healthcare resources to provide for mounting personnel costs, hazard pay, emergency equipment, ventilators, oxygen tanks, testing facilities, isolation centres and drugs.

The Nigerian ESP aims to build on World Bank Regional Disease Surveillance Systems Enhancement (REDISSE) programme to support COVID-19 interventions at state level³⁰. In the face of COVID-19 the REDISSE programme in Nigeria provided a ₦100 million grant, technical advisors and Surveillance. Outbreak Response Management and Analysis System (SORMAS) were deployed to 36 States to support the implementation of Incident Action Plans developed by the States³¹. 17 states began to deploy SORMAS for scaling real-time COVID-19 data reporting in early 2020, but with NCDC's swift intervention, all states, the Federal Capital Territory, and local government authorities have adopted SORMAS for disease reporting since November 2020³².

V. Institutional update

The 2021 and 2022 budget process maintained the new January–December cycle. The 2022 Appropriation Bill was passed by parliament in December 2021 and assented to by the President in the same month, ahead of commencement of the new fiscal year in January 2022.

Figure 20: Nigeria’s budget process, 2021 and 2022



Source: Budget Office

The government is in the process of finalizing a new Medium Term National Development Plan (MTNDP) 2021-2025 to guide its economic response and recovery efforts: The MTNDP was released in November 2021, and has the ambitious objective to lift 25 million or more Nigerians out of poverty.³³ It further aims to ensure an average GDP growth of 3.8% that would be achieved through nine priority areas including: agriculture, energy, transport and infrastructure, security, entrepreneurship and industrialization, education/healthcare/productivity, social inclusion, national cohesion, and sustainability.

Extrabudgetary entities and funding are becoming common, but there is limited oversight and transparency built around them. The Central Bank’s non-conventional monetary policy has expanded significantly in recent years providing budget support to key sectors of the economy. The Central Bank of Nigeria provides loans to companies in the agriculture, non-oil exports and healthcare sectors. In addition, the Nigerian National Petroleum Corporation (NNPC) directly funds the petroleum subsidy through its under-recovery process. Extrabudgetary items are not subjected to parliamentary oversight and have limited transparency guidelines in place. In more than four decades, NNPC only made public its audited account in 2019 and 2020. The use of off-budget financing reduces Parliament’s ability to regulate these activities and could result in higher levels of inflation.

Key developments with the new Petroleum Industry Act (PIA) and ongoing judicial review of VAT have the potential to change the long stagnant fiscal structure in Nigeria. After more than two decades, President Buhari assented to the Petroleum Industry Bill in 2021 setting up a new fiscal regime for the oil sector. In addition to the 13% derivation allocation which is retained, the oil producing states could benefit further from the 3% of oil company’s operating expenses to be disbursed for host community development. A 2021 court ruling (*FIRS vs Rivers State*), if sustained, will also influence the existing fiscal allocation structure with states tax jurisdiction extended to include VAT collection. While these developments will affect the size and structure of the revenue allocation to different tiers, the actual direction is still unclear. However, oil producing, and high revenue generating states are in a much better position due to the various fiscal changes.

The Budgeting process remains opaque. While the Open Budget Index (OBI) has not been updated since the last round in 2019 where Nigeria scored 21 out of 100 and ranked in the bottom 20 percentile, the performance on key metrics on the OBI has not changed significantly to suggest greater transparency. The key weakness in terms of timeliness of audited budget to ensure effectiveness and compliance with appropriation has not improved over the years. The audited budget for 2019 was submitted to the National Assembly in 2021 and is not yet publicly available.

Conclusion

Prior to the COVID-19 pandemic, Nigeria had a period of weak growth, partly because global oil prices were low. GDP growth averaged only 1.2% between 2015 and 2020. GDP per capita declined in each year after 2016. During the pandemic, GDP was forecast to decline by 3.2% in 2020, but the actual result was a smaller decline of only 1.8%. Despite this, the GDP is still below the pre-crisis trend and is not expected to reach the previous growth trend level before 2023.

Nigeria's long-term fiscal position is tenuous because non-oil revenue is so small and oil revenue, which makes up most of the resources available, is so volatile. In the pre-crisis period, Nigeria was collecting about 8% of GDP as revenue. Following the pandemic, this has fallen closer to 7%. Expenditure was consistently above 12% of GDP and has recovered to this level, even after decline during 2020. The result is a wide deficit. Pre-pandemic forecasts were that the deficit would narrow slightly but newer projections are that the deficit will in fact increase. If this situation persists, at some stage the government will need to take strong positive action to reduce the deficit.

Despite this, debt levels are fairly low but increasing gradually. The pandemic has made very little impact on debt projections. While an ever-increasing debt trajectory is slightly worrying, debts levels are fairly low and half of debt is owed to multilateral institutions.

The key determinant of the future path of Nigeria's debt is the oil price. If the high prices seen in 2021 persist, then debt will not be a concern. This indeed, is the finding of the IMF's Debt Sustainability Analysis. Lower oil prices will expose the vulnerability of a weak non-oil sector and low non-oil revenue.

Low levels of revenue hamper government's ability to provide public services on an adequate scale to its citizens. This is particularly apparent in the health sector where government devotes few resources and is not always able to spend them effectively. This results in individuals having to pay for healthcare out of pocket. The result is that health care provision is poor, and citizens are at risk of falling into poverty, or further into poverty, because of the costs of paying for care.

Nigeria's fiscal institutions are weak. Audited expenditure information is produced late in the process, hamstringing parliament's oversight. The use of institutions outside the budget, such as the Central Bank of Nigeria and the Nigerian National Petroleum Corporation to finance spending could further weaken controls.

The main issue for Nigeria is to develop the capacity to collect more non-oil revenue. Thus, collection rates need to be monitored. In the short- to medium- term, fiscal outcomes will be determined more by international oil prices than by any domestic developments. As part of the ESP, government has decided to shift the focus of healthcare provision towards primary care. It will be important to monitor whether government's health allocations are used to construct primary healthcare clinics or to pay for recurrent costs.

Endnotes

- ¹ This brief provides an analytical snapshot of the economy and public finances in Nigeria. It is based on publicly available data produced by the Government of Nigeria, and a range of secondary analyses. It is part of a package of 6 country briefs commissioned by BMGF and is intended to provide a common analytical backdrop to BMGF programming in the country.
- ² The lead authors of this brief are Owen Willcox, Dumebi Ubogu, Adedeji Adeniran, Mma Ekeruche, Dozie Okoye, Sone Osakwe and Gbadebo Odularu
- ³ World Bank MPO and World Bank World Development Indicators.
- ⁴ Nigerian Bureau of Statistics
- ⁵ <https://fred.stlouisfed.org/series/MCOILBRENTU>
- ⁶ Nigerian Bureau of Statistics. Labour Force Statistics. <https://nigerianstat.gov.ng/elibrary/read/1238> The unemployment rate includes those who have not worked in the period, or who worked an average of 1-19 hours per week. Those who worked more than 20 hours per week but less than 40 hours per week are classified as underemployed.
- ⁷ Using the national poverty line, the Nigerian Bureau of Statistics found that in 2019, 40.1% of the population were living in poverty, using a national poverty line of ₦ 519 per day, equivalent to US\$ 1.40 at the prevailing official exchange rate.
- ⁸ Nigerian Bureau of Statistics. <https://nigerianstat.gov.ng/download/1092>
- ⁹ <https://theconversation.com/nigerias-poverty-profile-is-grim-its-time-to-move-beyond-handouts-163302>
- ¹⁰ <https://theconversation.com/nigerias-poverty-profile-is-grim-its-time-to-move-beyond-handouts-163302>
- ¹¹ IMF (2020a); IMF (2020c).
- ¹² World Bank MPO and World Bank World Development Indicators.
- ¹³ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N>
- ¹⁴ <https://leadership.ng/weak-institutions-draining-states-igr/>
- ¹⁵ Central Bank of Nigeria, Quarterly Statistical Bulletin. https://www.cbn.gov.ng/out/2021/std/2021q1%20statistical%20bulletin_contents%20and%20narratives_final.pdf The data in the graph includes overlapping categories, so individual categories will not sum to the total expenditure number. 2021 values are projected on a pro-rata basis from 11 months of data.
- ¹⁶ Budget Office of the Federation.
- ¹⁷ <https://www.pulse.ng/news/local/fg-approves-inauguration-of-clean-nigeria-campaign-to-tackle-open-defecation/6vzbz9q1#:~:text=He%20revealed%20that%20the%20council,and%20grants%20from%20development%20partners.>
- ¹⁸ Budget Office of the Federation (2020): Bouncing Back: Nigeria Economic Sustainability Plan. See <https://www.budgetoffice.gov.ng/index.php/nigeria-economic-sustainability-plan>
- ¹⁹ UNICEF & WHO (2019); Government of Nigeria (2020): Bouncing Back: Nigeria Economic Sustainability Plan
- ²⁰ [2021 State of Food Security and Nutrition in the World – Report and In Brief by FAO](#)
- ²¹ Global Nutrition Report, 2020. Country Profile: Nigeria.
- ²² [OECD Secretariat's Snapshot of Nigeria's Food Crisis](#)
- ²³ [OECD Secretariat's Snapshot of Nigeria's Food Crisis](#)
- ²⁴ [2020 budget implementation report. Released budget is the amount disbursed to the MDAs whereas utilised budget is the amount that the MDAs actually spent during a fiscal year.](#)
- ²⁵ [WEF Gender Gap Report](#)
- ²⁶ See, Federal Ministry of Health (2020) Basic Healthcare Provision Fund, Federal Republic of Nigeria.
- ²⁷ Poverty GP, Nigeria COVID-19 Household Survey, cited in World Bank (2020).
- ²⁸ [ESC-Plan-compressed-1.pdf \(premiumtimesng.com\)](#)
- ²⁹ [Budget and National Planning – The Federal Ministry of Finance, Budget and National Planning \(Budget and National Planning arm\).](#)
- ³⁰ REDISSE project became effective on February 13, 2021. ESC measures and policies aimed at strengthening the health sector include: (i) covert World Bank REDISSE programme to support COVID-19 interventions in the states; (ii) provide funding to pharmaceutical sector to support the procurement of raw materials and equipment required to boost local drug production; (iii) provide N100 billion Intervention Fund for the health sector (out of which N86 billion intervention fund will be targeted at health infrastructure); (iv) accelerated procurement of health material and equipment; (v) reform the NHIS to promote universal health coverage; (vi) develop incentive package for frontline healthcare workers.
- ³¹ REDISSE 2020 Annual Report. In response to COVID-19, NCDC, and World Bank through the REDISSE project supported all States with N100 million to implement their respective Incident Action Plan (IAP). Copies of States-level IAPs are available online at: [Nigeria Centre for Disease Control \(ncdc.gov.ng\)](http://nigeria-centre-for-disease-control.ncdc.gov.ng)
- ³² SORMAS is an innovative system which digitally harmonizes surveillance towards ensuring early reporting of public health emergencies, thereby improving the surveillance of priority infectious disease. For instances, States with SORMAS at the beginning of COVID-19 pandemic were better prepared in collecting, collating, and analysing pandemic related data and enforcing contract tracing. [REDISSE 2020 Annual Report v3.cdr \(ncdc.gov.ng\); 42fc95f7841843a972638195052a7954.pdf \(ncdc.gov.ng\)](#)
- ³³ [Nigeria MTNDP 2021 2025 Overview-of-Draft-Plan.](#)