AGORA POLICY

THE AGORA POLICY REPORT

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Options for Revamping Nigeria’s Economy

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List of Acronyms

ASYCUDA - Automated System for Customs Data
CAC – Corporate Affairs Commission
CAMA – Companies and Allied Matters Act
CBN – Central Bank of Nigeria
CIT – Companies Income Tax
COVID – Coronavirus Disease
CRF – Consolidated Revenue Fund
DSF - Debt Sustainability Framework
ECOWAS – Economic Community of West African States
ERGP – Economic Recovery and Growth Plan
FCT – Federal Capital Territory
FDI – Foreign Direct Investment
FGN – Federal Government of Nigeria
FIRS – Federal Inland Revenue Service
FPI – Foreign Portfolio Investment
GDP – Gross Domestic Product
GIS - Graduate Internship Scheme
HDI – Human Development Index
IMF – International Monetary Fund
IPPG - Independent Petroleum Producers Group
ITF - Industrial Training Fund
JTB – Joint Tax Board
JTF – Joint Task Force
MATR - Measure of Aggregate Trade Restrictions
MPR – Monetary Policy Rate
MW – Mega Watts
NAC-AfCFTA – National Action Committee on African Continental Free Trade Area
NAOC – Nigerian Agip Oil Company
NAPEP - National Poverty Eradication Programme
NBS – National Bureau of Statistics
NCJC - National Committee on Job Creation
NCS – Nigeria Customs Service
NDE – National Directorate of Employment
NEEDS - National Economic and Empowerment Development Strategy
NICIS II - Nigeria Integrated Customs Information System
NNPC – Nigeria National Petroleum Corporation
NOAS - National Open Apprenticeship Scheme
NOTN - Nigerian Office for Trade Negotiations
NPA – Nigeria Ports Authority
NPMS - National Production Monitoring System
NSW - National Single Window
NUPRC - Nigerian Upstream Petroleum Regulatory Commission
NUYEEP - National Urban Youth Employment and Empowerment Programme
OPEC - Organization of the Petroleum Exporting Countries
OPTS - Oil Producers Trade Section
PAAR - Pre-Arrival Assessment Report (PAAR)
PMS – Premium Motor Spirit
REER – Real Effective Exchange Rate
SCBA - Social Cost-Benefit Analysis
SCDI - State-Contingent Debt Instrument
SDGs – Sustainable Development Goals
SMEDAN - Small and Medium Enterprises Development Agency
SOW - School-On-Wheels
SSA – Sub-Saharan Africa
TFA - Trade Facilitation Agreement
TIN – Tax Identification Number
UNEDEP - University Entrepreneurship Development Programmes
USD – United States Dollar
VAT – Value Added Tax
WEF – World Economic Forum
WTO – World Trade Organisation
YOU-WIN - Youth Enterprise with Innovation in Nigeria

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Executive Summary

With a gross domestic product of $511 billion in 2021, Nigeria has the largest economy in Africa. However, the level of inclusive development is low: 40.09% of Nigerians are poor; the average years of education is 6.1 years; 14.3% of the population have never attended school; 36.8% of children under 5 suffer from malnutrition; the infant mortality rate is 75.7 per 1,000 live births. All these factors combine to give a life expectancy at birth of 52.7 years.

While economic growth has improved in the aftermath of the COVID-19 pandemic, many of the macroeconomic fundamentals have worsened. Inflation increased to 20.52% in August 2022; unemployment increased to 33.28% in the fourth quarter of 2020. The fiscal deficit of the federal government (FGN) grew to N3.09 trillion in Q1 2022. Consequently, FGN's debt stock increased to N35.67 trillion (comprising N20.95 trillion domestic and N14.72 trillion foreign) at the end of Q2 2022; with debt servicing surpassing revenue in Q1 2022.

As the country moves towards the end of an administration and prepares to usher in a new government, the economy will feature prominently in the build-up to the 2023 elections. This is because in addition to the low level of inclusive development and weak macroeconomic fundamentals, there are currently harsh economic realities at the global level. These can be attributed to issues such as the slow recovery from the COVID-19 pandemic, the Russia-Ukraine crisis, disruptions in the global supply of goods, the surge in oil prices, the rapid rise in inflation especially the food and energy components, and the response to hikes in interest rates. All these issues will pose serious challenges to economies across the globe in the next few quarters.

This report provides an analysis of the critical challenges currently facing the Nigerian economy and offers recommendations for overcoming the challenges.

Key Highlights

7000%

Ways and Means increased by over 7000%

✦ **The revenue of the FGN is too low to support expenditure, leading to high debt stock and high debt service payments.** FGN's budgeted aggregate expenditure increased by 179% from N4.484 trillion in 2011 to N12.512 trillion in 2021. Despite this increase, government expenditure in Nigeria is lower than in comparable countries. Between 2011 and 2021, budgeted FGN aggregate revenue increased by 102%, from N3.348 trillion to N6.772 trillion. However, actual revenue increased by 81%, from N2.566 trillion to N4.643 trillion. Thus, with revenue unable to keep pace with expenditure, government has resorted to more borrowing. The total debt stock of FGN has increased by 436% from N6.17 trillion in December 2011 to N33.11 trillion in December 2021. Domestic debt increased by 242%, from N5.6 trillion to N19.2 trillion; while foreign debt increased by 2,435% from N546 billion to N13.86 trillion. The official debt stock statistics do not include FGN's borrowing from the Central Bank of Nigeria (CBN) through Ways and Means which increased by over 7,000% from N265.7 billion in January 2014 to N18.89 trillion in March 2022. Thus, if the debt from Ways and Means as of December 2021 (N17.4 trillion) is added to official debt, the domestic debt stock as of December 2021 rises to N36.6 trillion. From January to April 2022, debt service was the largest component of expenditure; debt service exceeded revenue by N308 billion, meaning that government borrowed to pay back debt.

23.2 million

number of unemployed persons in 2020

✦ **Unemployment is very high, as more than a third of eligible workers are unemployed.** Between 2011 and 2020, the unemployment rate increased by nearly six times, from 5.9% in 2011 to 33.3% in Q4 2020. Consequently, the number of unemployed persons rose to 23.2 million in Q4 2020. Youth unemployment (15–34 years-old) increased from 8.04% in 2011 to 42.49% in Q4 2020. Nigeria's high birth rate suggests that the number of young people will continue to rise for some time. This poses serious challenges for the government in providing jobs. There are more men (39,519,925 or 56.72%) in the labour force than women (30,155,543 or 43.28%). However, unemployment rate among women (35.19%) is higher than the one for men (31.82%), suggesting a strong gender dimension to employment opportunities. There are wide regional disparities in unemployment. Unemployment is highest in the South East (44.54%). This is followed by the South South (43.85%), North East (41.29%), North Central (29.02%), North West (25.49%). The South West had the lowest unemployment rate of 22.07%.

82.9m
number of Nigerians living in poverty

✦ **Human welfare is very low, as four out of ten Nigerians are poor.** 40.1% of Nigerians live in poverty. This translates to 82.9 million poor people. There are spatial disparities in poverty. The prevalence of poverty in Nigeria is more severe in rural areas (52%) than the urban areas (18%). There are also wide disparities in poverty across geo-political zones. Poverty is highest in the North East (71.8%), followed by the North West (64.2%), North Central (43.5%), South East (42.5%), South South (19.1%), and South West (12.1%). There are gender disparities in poverty as well: poverty affects men more than women irrespective of the level of educational attainment. Poverty is associated with lower levels of education as the poorest group had no education or less than primary education. Workers in the agriculture sector are the most vulnerable to poverty, followed by households with diversified income-generating activities and those engaged as apprentices or not working at all.

–N1.9 trn
total trade balance bw export and import in 2021

✦ **The combination of restrictive trade policies, lower oil revenue and cumbersome procedures at ports have stifled investment, trade, and efficiency of operations**. The country has recorded persistent trade deficits in recent years. In 2021, total exports were N18.9 trillion, while total imports were N20.8 trillion, giving a trade balance of –N1.9 trillion. The current account balance decreased from +N13 trillion in 2011 to -N16 trillion in 2020 before moderating to -N2 trillion in 2021. There has been recent heightening of protectionist trade policies as evident through higher tariffs, levies, import bans on some commodities, land border closure, and foreign exchange restriction on the importation of 42 items by CBN. There are cumbersome custom procedures, and these combined with poor port management, infrastructure and congestion have resulted in the country sliding down all indicators of efficiency and trade facilitation: Nigeria was lowest (out of 167 countries) in a ranking for trade facilitation performance indicators; Nigeria ranked 138 in terms of efficiency of the customs clearance process; Nigeria ranked lowest (out of 179 countries) in ranking of trading across borders indicators; Nigeria ranked 116 (out of 140) in overall competitiveness.

20.52%
inflation rate in August 2022

✦ **In recent years, inflation has risen rapidly and the exchange rate has declined in value, needing active intervention by the CBN.** Since 2015, there have been at least three episodes when inflation has topped 18%. In August 2022, inflation rose to 20.52%. The surge in inflation has been driven mostly by food inflation which has exceeded 20% three times in the last decade and is still above 20%. Dwindling oil revenue and the subsequent fall in foreign exchange earnings have put enormous downward pressure on the naira. The parallel exchange rate of the naira has been volatile and rising, and reached a high of 710 per USD in the parallel and 415.72 per USD in the official interbank market in July 2022. Efforts are mainly directed at keeping the exchange rate of the naira as close to the dollar as possible, meaning that the exchange rate is effectively overvalued. Multiple exchange rates have led to big spreads. The loss of oil revenue into the Federation Account has reduced dollar inflows, thereby leading to conscious or unconscious devaluation.
The determination to keep the exchange rate at fixed levels is affecting external reserves. Capital restrictions are leading to exit of foreign investment.

Key Recommendations

✦ Blocking leakages in revenue: downstream oil sector reform through ending subsidy on petrol

For January to June 2022, subsidy payments totalled N1.59 trillion, and resulted in the NNPC not remitting any money to the Federation Account in 2022. It is clear that petrol subsidies are no longer sustainable. Expenditure on petrol subsidies are diverting resources from critical socioeconomic sectors. The N1.59 trillion gulped by petrol subsidy in the first half of 2022 exceeded the total annual budgeted expenditure for critical sectors such as Education, Health, Infrastructure, Social Development and Poverty Reduction Programmes. Ending the petrol subsidy will require effective communication by the government of the deleterious effects of the subsidies to the citizenry. In addition, the government will need to design and efficiently execute social transfers to the poorest sections of the population. A major hindrance to this is the lack of trust in government, which needs to be adequately addressed.

✦ Blocking leakages in revenue: upstream oil sector reform through ending oil theft

Nigeria's oil production fell from 2.49 million barrels per day in January 2011 to 1.08 million barrels per day in July 2022. In 2019, 42.24 million barrels valued at $2.772 billion was lost to oil theft and sabotage, while in 2020, 39.16 million barrels valued at $1.63 billion were similarly lost. Ending oil theft will require strong determination from the government and crucially, cooperation from host communities and the military. Recent efforts by the NUPRC (through the National Production Monitoring System) and NNPC (through the Crude Theft Monitoring Applications) should be intensified. Strategic communications and engagement with communities will be critical. The security architecture for combating oil theft should be reviewed.

✦ Blocking leakages in revenue: amendment and enforcement of Fiscal Responsibility Act on remittance of operating surplus by agencies

The Fiscal Responsibility Act mandates revenue generating agencies to remit 80% of their operating surpluses to the Consolidated Revenue Fund and retain 20% in their reserve fund. There are many revenue-generating agencies that either fail to remit any revenue, or remit a very small fraction to the government. The Fiscal Responsibility Act should be amended to stop funding revenue-generating agencies from the Federal budget; and set penalties for agencies that fail to remit their stipulated operating surpluses.

✦ Boosting tax revenue: ensuring compliance and widening the tax net to increase Company Income Tax

The FIRS has admitted that less than 20 million out of over 68 million business actively pay taxes, implying that less than 30% of businesses pay tax. The FIRS should collaborate with the National Bureau of Statistics and the Corporate Affairs Commission to ensure compliance in payment of CIT by companies.

✦ Boosting tax revenue: ramping up automation of VAT and extending to other sectors

The FIRS has started VAT automation, where they carry onsite visits and install software to automatically collect VAT. However, this has been restricted to some large cities and some sectors, largely retail. This VAT automation drive needs to be ramped up to all states and cities. In addition, it needs to be extended to all sectors of the economy.

Increase Value Added Tax (VAT) and Excise Taxes on Luxury Goods, Tobacco and Alcohol

✦ Excise taxes and VAT in Nigeria are amongst the lowest in Sub-Saharan Africa. Excise taxes on alcohol and tobacco can be increased to the ECOWAS average of 50%. Also, VAT can be increased to 10%, and subsequently to the ECOWAS average of 15%.

Sale and Concession of Government Assets

✦ There are many government assets that are either not generating revenue at all, or are generating revenue that is grossly below their potential. Some of the assets can be sold outrightly to provide immediate/short term funds for the government. In addition, some other assets can be offered to private operators who pay a lump-sum fee upfront, and then make payments at agreed regular intervals.

✦ Development of critical infrastructure

With a population of about 200 million, Nigeria has the capacity to generate only 12,000 MW of electricity, and realistically, is only able to distribute about 5,000 MW. Many businesses have to generate power individually and the high running costs of doing this have led to many SMEs shutting down and multinational companies exiting the country for other domains. Many roads are in a dilapidated state and are not motorable. The majority of agricultural produce is wasted due to inability to reach markets on time due to bad roads. Active efforts need to put in place to develop critical infrastructure to facilitate economic activities.

✦ Active Policy on Diversification and Promotion of Small and Medium Scale Enterprises

Diversification from oil has been a central piece of economic reform plans for many years. However, the reform objective remains unrealised, largely because oil revenue has provided easy funds for government. Such diversification can be promoted though active promotion and encouragement of SMEs which create 70% of jobs. More initiatives by government such as the tax concessions provided in the Finance Acts of 2019 and 2020 are needed to encourage SMEs. Insecurity needs to be tackled in rural areas; access to finance needs to be provided; and corruption, bureaucracy and red tape in administrative processes by government officials need to be addressed.

✦ Vocational training and skills acquisition programmes

The critical skills shortage among the youths needs to be addressed. There needs to be an upgrade of employable skills. This can be done through investments in high quality technical and vocational learning centres. Improvements in employable skills, particularly technical and vocational skills, can provide huge impetus to job matching and performance, thereby making more people employable.

✦ Revamping the educational system

Making the education system more responsive to labour market needs can help support recent graduates' employability, reduce skill imbalances, and improve workforce resilience to future changes in labour market demand.

✦ Providing and improving access to critical infrastructure

There is a need to urgently increase investment in digital technology in rural areas to create more jobs and economic opportunities. There is an urgent need to restructure the fiscal profile of MDAs that provide infrastructure (such as ministries of works, power, housing, water resources, etc.) and allied services by ensuring that recurrent expenditures are drastically reduced to boost capital expenditure.

✦ Scaling up social investment programmes and improving the targeting mechanism

The existing social investment programmes need to be scaled up to help address extreme poverty. The conditional cash transfer programme needs to be improved by increasing the amount from N5,000 to N10,000. Improving livelihoods, especially in rural communities, could be attained by developing a robust targeting mechanism that minimizes the risk of moral hazard and adverse selection.

✦ Reforming the trade policy framework and urgently shifting from non-tariff measures to import tariffs

Development of a comprehensive long-term trade policy framework and plan that can sustainably guide trade reforms. This would include robust monitoring and evaluation systems to gauge the implementation of regional and multilateral trade initiatives as well as impacts. Addressing the tariff regime and services restrictions would be critical. This would entail simplification of import duties and a gradual liberalization of the service sector given its pivotal role in job creation and transfer of knowledge required for the non-oil sector.

✦ Replace inefficient and distortionary non-tariff restrictions with import duties

The distortionary non-tariff measures need to be urgently reviewed and/or phased out. These include: (i) the foreign exchange restrictions on 42 products by the CBN; (ii) review of the import prohibition and absolute import prohibition lists and perhaps replacing these trade policy tools with tariff duties or import quotas; (iii) change in government policy on border closure from partial reopening to the full reopening of closed land borders.

✦ Tackle corruption, address informal leakages and cumbersome customs procedures at the ports

This would require standardisation of procedures, strengthening the e-governance portal towards paperless transactions, and establishing a functional grievance and redress mechanism. There is a need for addressing trade facilitation constraints ranging from cumbersome customs procedures to congested ports. This means that bold reforms are required by the Nigeria Customs Service (NCS) such as the implementation of the E-Customs modernization plan and the National Single Window (NSW) platform. Also, critical reforms would be required to help address port congestions and delays.

✦ Develop an overarching policy measure to improve manufacturing, support export diversification and higher value-added export

There is an urgent need to reduce oil sector dominance, counter-productive waivers and informal leakages that reduce public and private investment in export-oriented sectors. This would also entail addressing supply-side constraints that can unlock diversification from oil to high-value-added agriculture and manufactured products. This could be achieved by creating an enabling environment devoid of discretionary measures by the government such as border closure, foreign exchange restrictions, and import bans.

✦ The CBN should redefine its explicit exchange rate objective

The new objective should be one that positions Nigeria as a competitive economy with regards to present and potential non-oil exports. This objective would value the Naira not just against the dollar but against several other peer and competitor currencies (with the dollar just being one of them).

✦ The CBN will have to tighten monetary policy and raise interest rates to tame inflation

The tightening of monetary policy will have to go hand in hand with its implementation in practice by ensuring the market rates move in tandem with the monetary policy rate. The CBN will have to restore the credibility of the MPR such that bond yields and lending rates are reflective of the MPR and that the MPR is not merely a suggestion.

✦ The CBN should work with the FGN to end the "ways and means" financing

Part of this will involve helping the FGN to properly forecast its revenue as well as helping the FGN, on a technical level, identify potential sources of revenue. A strategy will also need to be developed to manage the current stock of FGN debt at the CBN.

1 Introduction

1. Introduction

Nigerians go to the polls to elect a new president in 2023. In line with previous elections, the state of the economy, and the strides that presidential candidates hope to make in improving the biggest economy on the African continent, will undoubtedly form a large part of manifestos and campaign promises. Indeed, the direction of macroeconomic policies such as fiscal, monetary, trade, investment, and performance of broader development indicators such as growth, poverty, unemployment and food security will be at the forefront of the discourse.

With a gross domestic product of $511 billion in 2021, Nigeria has the largest economy in Africa[1]. However, the GDP figures mask the low level of inclusive development in the country. The latest data on poverty revealed that 40.09% of Nigerians were living below the poverty line in 2019[2]. The average years of education is 6.1 years, and 14.3% of the population have never attended school[3]. In addition, 25.1% of Nigerians do not have access to toilet facilities, 37.4% of the people have health challenges, and on average, it takes about two hours to reach and receive consultations in the hospitals, and 50 minutes to reach a pharmacy[4].

In the latest Human Development Report (HDR) of UNDP, Nigeria had a score of 0.539, and the country was ranked 163 out of 191 countries.[5] Furthermore, 36.8% of children under 5 suffer from malnutrition as evidenced by stunting and infant mortality rate is 75.7 per 1,000 live births.[6] All these factors combined to give a life expectancy at birth of 52.7 years. For context, Switzerland, the highest ranked country in terms of HDI, has a life expectancy at birth of 84 years.

The economy will likely feature more prominently in the build-up to the 2023 elections than in past elections. This is because in addition to the low level of economic development that has persisted over time in Africa's most populous country, there are currently harsh economic realities on both the global and domestic levels. Emerging issues such as the slow recovery from the COVID-19 pandemic and the Russia-Ukraine crisis have transmitted shocks to the Nigerian economy through the trade, finance and investment channels. Women, youth and children remain the most vulnerable to these shocks.

Globally, there are fears that an economic recession is on the horizon, and could happen by late 2022 or early 2023. Factors responsible for this include the Russia-Ukraine crisis, disruptions in the global supply of goods, the surge in oil prices, the rapid rise in inflation, especially the food and energy components, and the response of hikes in interest

40.09%

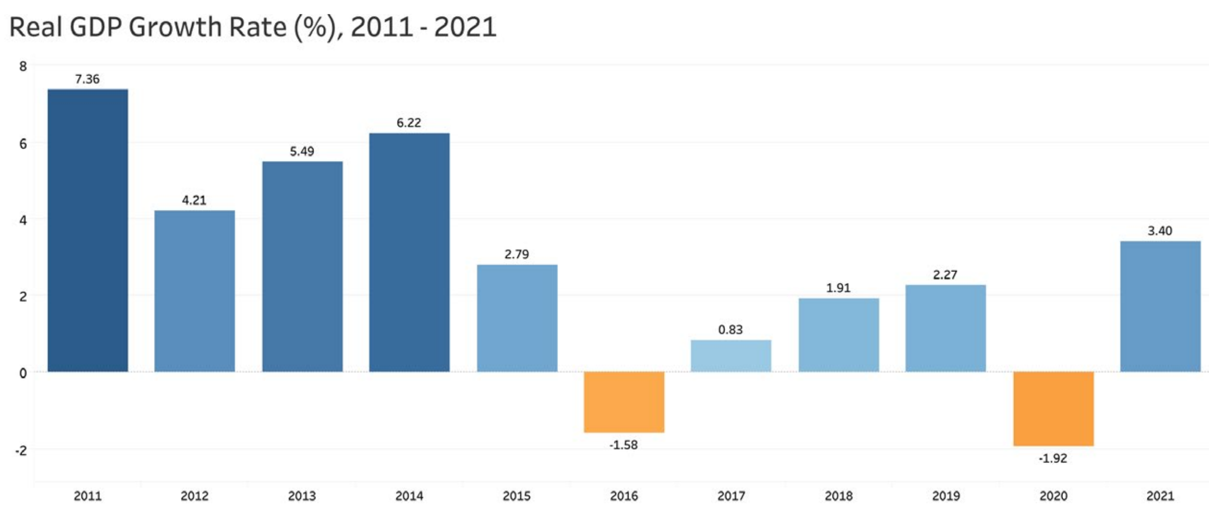
Nigerians were living below the poverty line in 2019

[1] World Bank (2021) World Development Indicators. Washington D.C.: World Bank
[2] National Bureau of Statistics (2020) Nigeria Living Standards Survey (2018/2019) A Survey Report by the Nigerian National Bureau of Statistics. Abuja: National Bureau of Statistics
[3] Ibid.
[4] Ibid.
[5] United Nations Development Programme (2022) Human Development Report 2021/2022: Uncertain times, unsettled lives. Shaping our future in a transforming world. New York: United Nations Development Programme
[6] United Nations Development Programme (2021) Human Development Report 2021. New York: United Nations Development Programme

rates. Fiscal and monetary authorities are working frantically to ease the pains of citizens from the rapid increases in the cost of living, while at the same time keeping their economies growing. The second half of 2022 will be a challenging period for economists and policymakers all over the globe.

On the domestic front, the economy is faced with the precarious situation of economic growth in the midst of worsening macroeconomic fundamentals. Economic growth has been positive following the negative growth rates recorded in Q2 2020 (-6.10%) and Q3 2020 (-3.62%), with six consecutive quarters of positive growth from Q4 2020 to Q2 2022.[7] Broadly speaking, the pace of economic activities has been on a downward trend for the past decade. The growth rate of real GDP growth in 2011 was 7.36% and by 2016 it was -1.58% (Figure 1.1). Following this, the economy started growing and the GDP growth rate reached 2.28% in 2019. Increases in oil prices and oil production fuelled the recovery. Also, the non-oil sector contributed significantly to economic growth, as the services sector, particularly telecommunications, expanded. Thereafter, economic growth started falling as the COVID-19 pandemic set in and was -1.92% in 2020, but increased to 3.39% in 2021. The economy grew faster than expected in 2021 and recovered growth losses from the COVID-19 pandemic. Although the GDP growth rebounded in 2021, it was driven by base effects due to the low level of GDP in the year of comparison (2020). A cheering development, however, is that this rate of economic growth exceeded the population growth rate.

Figure 1.1: Real GDP Growth Rate (%), 2011-2021



Source: National Bureau of Statistics GDP Final Report, various issues

The growth was driven by strong performances in some sectors such as agriculture, construction, information and communication, human health and social services, and real estate. The services sector continues to be the largest contributor to the economy, contributing 53.56% to GDP in 2021, up from 52.44% in 2020. The agricultural sector contributed 25.9% to GDP in 2021, sliding downwards from 26.21% recorded in the previous year, while the industrial sector contributed 20.56%, down from 21.36% in 2020. The non-oil sector contributed 92.76% to the economy in 2021, improving from 91.87% recorded in 2020, while the contribution of the oil sector dropped to 7.24% from 8.16% recorded in 2020.

However, while economic growth has improved in the aftermath of the COVID-19 pandemic, perhaps paradoxically, many of the macroeconomic fundamentals have worsened. Inflation increased to 20.52% in August 2022, from 19.64% in the previous month; unemployment increased to 33.28% in the fourth quarter of 2020. The fiscal

[7] National Bureau of Statistics (2022) Nigerian Gross Domestic Product Report Q1 2022, Abuja: National Bureau of Statistics

deficit of the federal government (FGN) worsened to N3.09 trillion in Q1 2022. Consequently, FGN's debt stock increased to N35.67 trillion (comprising N20.95 trillion domestic and N14.72 trillion foreign) at the end of Q2 2022[8]; with debt servicing surpassing revenue in Q1 2022. The parallel exchange rate of the naira has been volatile and rising. The exchange rate reached a high of 710 per USD in the parallel market and 415.72 per USD in the official interbank market in July 2022. Total foreign direct investment (FDI) in 2021 was $698.78 million, lower than quarterly FDI in some quarters in 2014 and 2015; while total foreign portfolio investment (FPI) was $3.385 billion, lower than quarterly FPI in some quarters in 2018, 2019 and 2020. Total merchandise trade stood at N11.7 trillion in the fourth quarter of 2021 which was 74.71% higher than the value recorded in the corresponding quarter in 2020. This has culminated in a persistent trade deficit over the last years except for the first quarter of 2020 and second quarter of 2021.[9]

Since the beginning of the Fourth Republic in 1999, presidents have delivered their agenda for the economy through economic reform plans. President Olusegun Obasanjo launched the National Economic and Empowerment Development Strategy (NEEDS) in 2004, while his successor, President Umaru Yar'Adua launched the Seven-Point Agenda in 2007. In 2013, President Goodluck Jonathan Launched the Transformation Agenda; while President Muhammadu Buhari introduced the Economic Recovery and Growth Plan (ERGP) in 2017 followed by a successor National Development Plan (2021-2025). These policies were effectively short to medium-term plans. However, since 2009 when President Yar'Adua produced the long-term Nigeria Vision 20:2020, successive plans have keyed into it, effectively establishing a long-term development agenda for the country.[10] The central and common theme running through all these plans from President Obasanjo to President Buhari is diversification of the economy[11].

Such economic diversification is needed now more than probably any other period in the past twenty years. Oil revenue, which used to be the main source of government's finances, has fallen precariously low, while non-oil revenue has been more or less stagnant. Thus, total revenue has not been able to fund expenditure, which has risen by almost 200% in the past decade. Borrowing by the FGN has risen enormously, resulting in debt servicing taking up a substantial component of recurrent expenditure. It is therefore critical to deepen and diversify sources of revenue, re-calibrate expenditure to spend smartly, and invest efficiently. To achieve this, a re-thinking of drivers of the economy is needed.

This paper provides an analysis of the critical issues currently facing the Nigerian economy. As we move towards the end of the current administration and into the election season, such issues should be of primary interest to all political parties and presidential candidates, who should have mapped out strategies for addressing them before elections. Ideally, after the elections, the elected president should hit the ground running and execute necessary policies to stimulate and stabilise the economy, reduce macroeconomic volatility, alleviate poverty and improve the general well-being of Nigerians.

Following other reports of the FGN and international organisations, this report focuses on the policies and actions of the FGN, and sub-national policies are not discussed. There is inadequate consistent data over the desired time period for states and local governments to facilitate their discussion.

The report focuses on four areas: FGN's fiscal position, human welfare, trade and investment and monetary policy. This is not an exhaustive list of the areas of the economy that need attention. However, it is not possible in a report of this nature to address all areas of the economy. These areas were selected after consultations with critical stakeholders and experts. Nigeria, the report submits, needs to undertake swift, bold and far-reaching reforms to halt the precipitous decline of its economy and the attendant negative impacts on citizens' welfare. These economic reforms must be undergirded by the principles of inclusion, transparency and acccountability.

This report consists of six sections. The next section provides a review of FGN's fiscal position and offers prescriptions on options for improving the current state. Section three provides insight into human welfare by analysing poverty and unemployment, and provides options for improved human development. The fourth section examines trade and investment trends and discusses strategies for improving trade and boosting investment. Section five analyses monetary policy in the context of the management of both interest and exchange rates, and makes recommendations for improved policy. The final section concludes.

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[8] Debt Management Office (2022) Nigeria's Total Public Debt as at June 30, 2022

[9] https://www.nigerianstat.gov.ng/pdfuploads/1ST%20NBS%20STATISTICS%20QUARTERLY%20BULLETIN%20Q1%202022.pdf

[10] Zainab Usman (2022) Economic Diversification in Nigeria: The Politics of Building a Post-Oil Economy, Zed Books

[11] Ibid.

2 Federal Government's Fiscal Position

2. Federal Government's Fiscal Position

2.1.Background and Context

The Federal Government (FG) is in a difficult fiscal position. While FG's expenditure has been consistently rising over the past decade, its revenue has been falling. The fall in revenue has become critical recently as oil sales' revenue, which used to be the largest contributor to government revenue, was zero in the first half of 2022. With revenue unable to keep up with expenditure, the FG has borrowed extensively to finance spending. This has led to increases in both the stock of debt and debt servicing.

For the debt stock, the domestic portion is being underestated as borrowing from the CBN has not been included in official statistics. This is a serious underestimation as the amount borrowed from the CBN is about the same size as the other domestic borrowings. For external debt, Nigeria, like many other African countries, developed a penchant for debt from private creditors in recent years, owing to record-low interest rates. However, with rising interest rates and depreciation of the exchange rate of the naira, the burden of paying back the debts has increased.

FG's fiscal position can be summed up with the fact that for the first four months of 2022, debt servicing exceeded revenue. This situation calls for urgent steps for reining-in wasteful expenditure and boosting revenue. While government expenditure has been increasing, it is still too low for the size of the economy, and Nigeria has the lowest ratio of government expenditure to GDP amongst countries with similar economy size. Thus, as far as expenditure is concerned, it ultimately needs to increase further, although measures should be put in place to curb wasteful spending. However, the critical policy actions will be for boosting revenue. The ratio of tax revenue to GDP in Nigeria is lowest amongst its peers. Innovative and strong measures will need to be put in place to significantly spur revenue to cope with expenditure, pay off debt already contracted, and keep further borrowing at sustainable levels.

2.2.Rising Expenditure

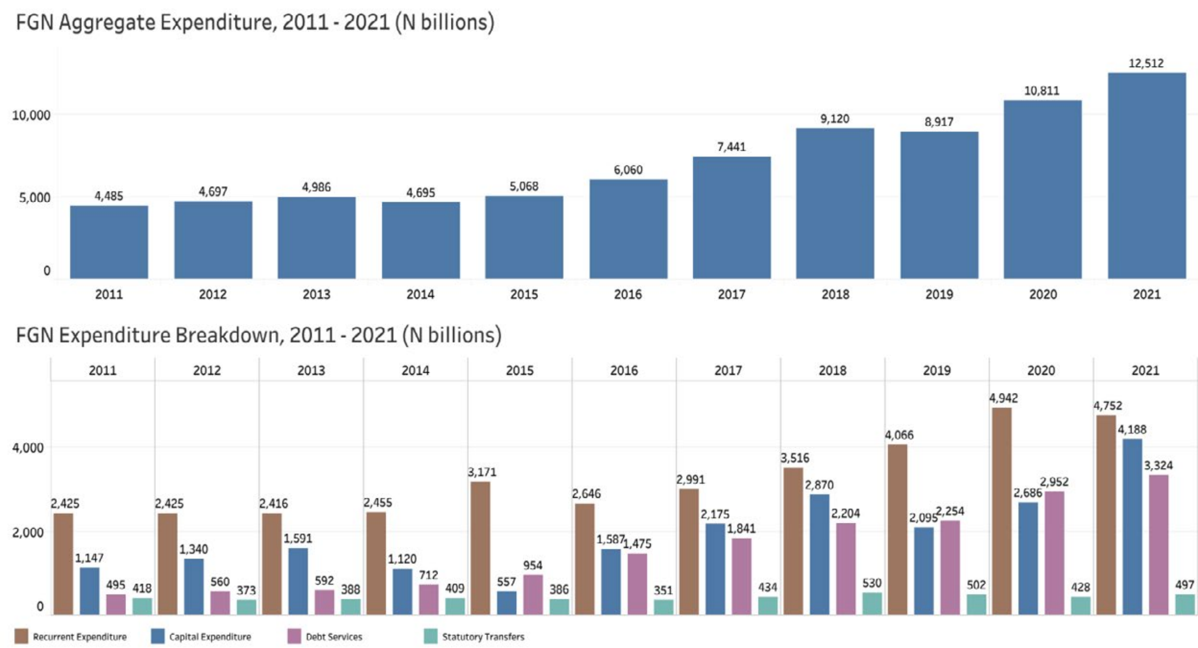
The FGN's budget has been rising consistently over the past decade. In 2011, the FGN planned to spend N4.484 trillion. By 2021, the budgeted aggregate expenditure was for N12.512 trillion, indicating an increase of 179% over an 11-year period. Figure 2.1 shows that recurrent expenditure, which has been the largest component over this period, has almost doubled as it increased by 95.9% between 2011 and 2021. However, the share of recurrent expenditure in total expenditure has been falling since its peak of 62.6% in 2015. The share of recurrent expenditure to total expenditure fell from 54.1% in 2011 to 37.9% in 2021. Debt service has had the largest increase, rising from N495.1 billion in 2011 to N3.3 trillion in 2021, an increase of 571.5%. By 2021, debt service

N12.512 trillion
budgeted aggregate expenditure in 2021

accounted for 26.6% of aggregate expenditure. Capital expenditure, which is critical for development of key infrastructure and human welfare, increased from N1.1 trillion in 2011 to N4.1 trillion in 2021, an increase of 265.2%. Despite this increase, the share of capital expenditure in total aggregate expenditure has only slightly increased from 25.6% in 2011 to 33.5% in 2021.

It is clear from Figure 2.1 that while recurrent expenditure has fallen, most of the decrease has been channelled to debt service. It would have been more beneficial to the economy and welfare of citizens if such increases had occurred in capital expenditure. The increase in debt service highlights the increasing and sometimes alarming levels of debt the FG has taken on in recent years.

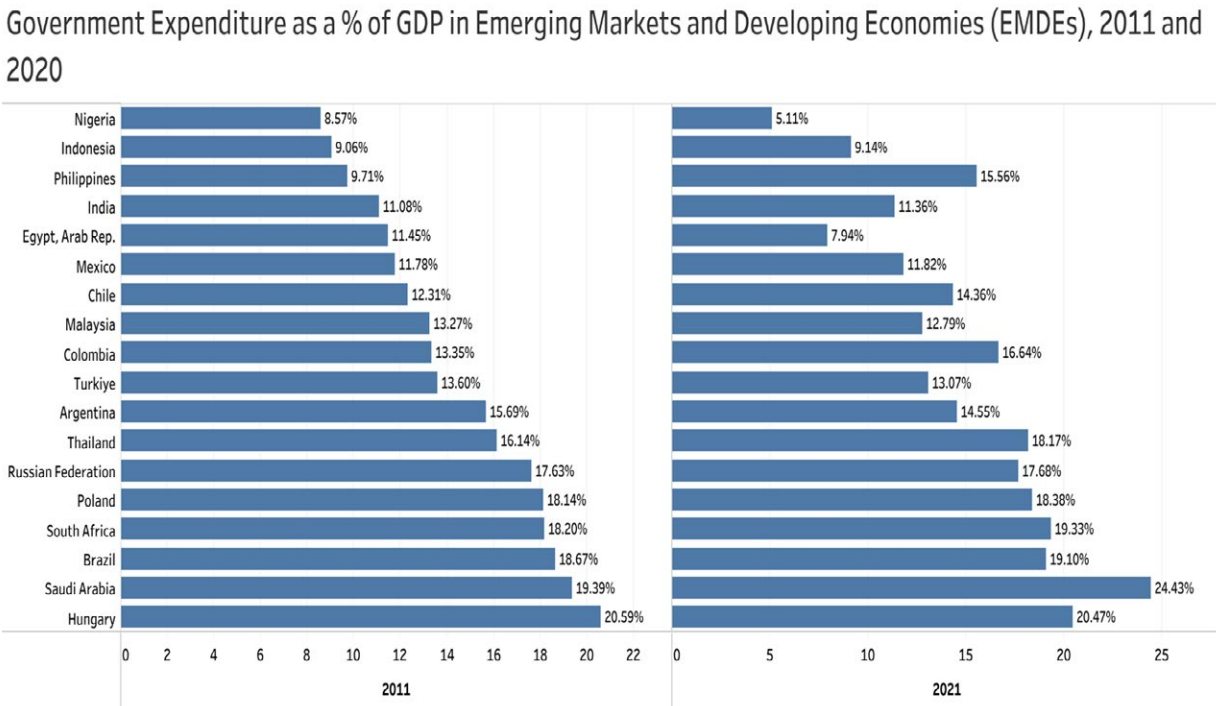
Figure 2.1: FGN Expenditure, 2011 - 2021



Sources: Budget Implementation Reports, various years, Budget Office of the Federation GDP Final Report, various issues

With the rapid rise in FG's expenditure, there are some concerns that it has increased by too much. This is not necessarily the case. A comparison of Nigeria's government expenditure as a percentage of GDP with other emerging markets and developing economies (EMDEs) shows that Nigeria actually has the lowest ratio of government expenditure to GDP amongst its peers (Figure 2.2). In 2011, Nigeria had the lowest government expenditure to GDP ratio of 8.57%, while Hungary had the highest with 20.59%. By 2021, this ratio had fallen to 5.11% in Nigeria and it was still the lowest amongst EMDEs. The highest ratio of government expenditure to GDP in 2021 was 24.43% in Saudi Arabia. Thus, considering the size of the economy, FGN expenditure needs to further increase.

Figure 2.2 Government Expenditure as % of GDP in EMDEs, 2011 and 2021



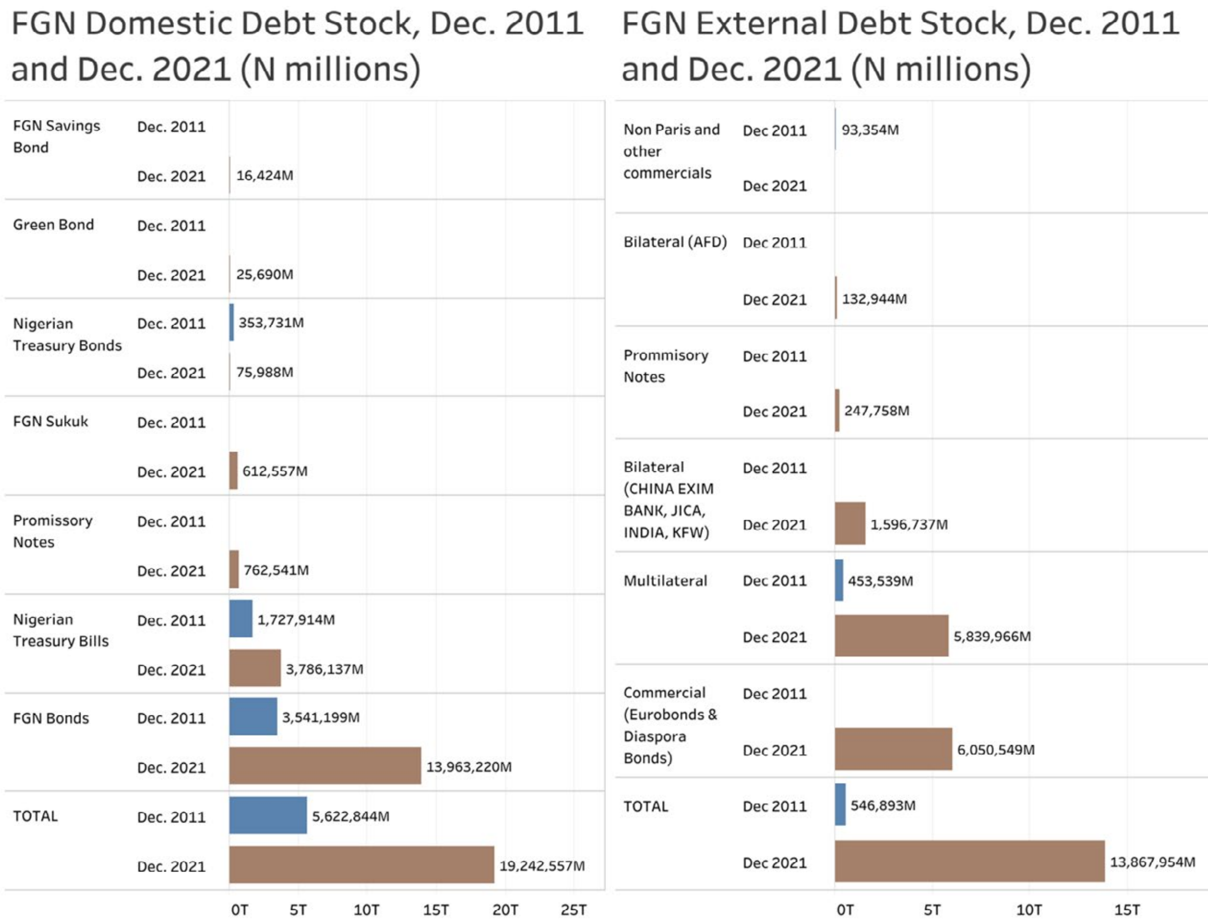
Sources: World Development Indicators
Note: Three EMDEs are missing because there was no data for 2021: China, Iran, UAE, Qatar
The data is for all tiers of government

2.3 Debt Stock and Servicing

The total debt stock of FG increased from N6.17 trillion in December 2011 to N33.11 trillion in December 2021. This is an increase of 436.6%. The breakdown of FG's debt shows that between December 2011 and December 2021, domestic debt increased from N5.6 trillion to N19.2 trillion, an increase of 242.8% (Figure 2.3). This increase has largely been fuelled by FG's Bonds and Treasury Bills, which accounted for over 90% of the domestic debt in December 2021. The rate of increase of foreign debt has been even higher, as it rose from the equivalent of N546 billion (December 2011) to N13.86 trillion[12] (December 2021), representing an increase of 2,438%. The drastic increase in external debt has been driven by Eurobonds, International Development Association and Exim Bank of China, which accounted for 78.1% of total external debt in December 2021.

[12] The official exchange rates used to convert external debt from dollars to naira were US$1 to N156.2 for 2011 and US$1 to N412.49 for 2021 (https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp)

Figure 2.3: FGN Domestic and External Debt, 2011 and 2021 (N millions)



Sources: Nigeria Domestic Debt Stock; Nigeria External Debt Stock; Nigeria Public Debt Stock; various years, Debt Management Office

The data presented in Figure 2.3 are official debt statistics. A component of FGN's debt not included in the official figures is FGN's borrowing from the Central Bank of Nigeria (CBN). The provision for such borrowing, called 'Ways and Means', is contained in Section 38 of the CBN Act 2007.

[13] Budget Office of the Federation (2022) 2023-2025 Medium-Term Expenditure Framework and Fiscal Strategy Paper, July 2022, Federal Ministry of Finance, Budget and National Planning

[14] Section 38 reads as follows:

38 – (1) Notwithstanding the provisions of section 34 (d) of this Act, the Bank may grant temporary advances to the Federal Government in respect of temporary deficiency of budget revenue at such rate of interest as the Bank may determine.

(2) The total amount of such advances outstanding shall not at any time exceed five per cent of the previous year's actual revenue of the Federal Government.

(3) All Advances made pursuant to this section shall be repaid –

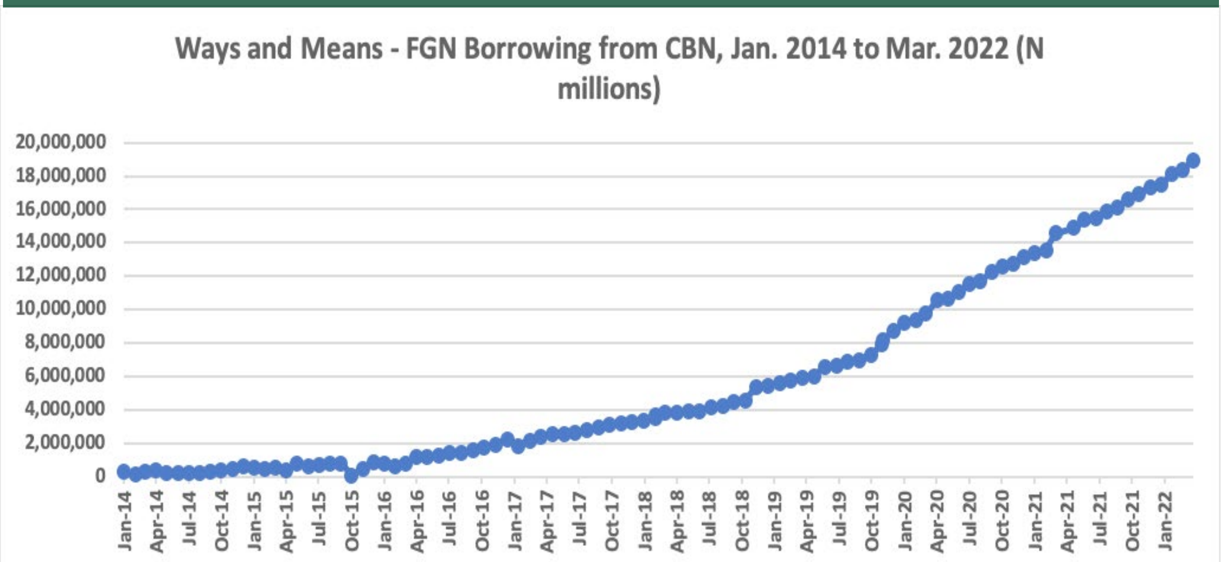
as soon as possible and shall in any event be repayable by the end of the Federal Government financial year in which they are granted and if such advances remain unpaid at the end of the year, the power of the Bank to grant such further advances in any subsequent year shall not be exercisable, unless the outstanding advan ces have been repaid; and

in such form as the Bank may determine provided that no repayment shall take the form of a promissory note or such other promise to pay at a future date or securitization by way of issuance of treasury bills, bonds, certificates or other forms of security which is required to be underwritten by the Bank.

From the CBN Act, there are strict stipulations of the maximum amount that can be borrowed by the FGN, including the repayment period. These stipulations have not been adhered to. FGN borrowing through Ways and Means increased from N265.7 billion in January 2014 to N18.8 trillion in March 2022 (Figure 2.4). This is an increase of over 7,000%. This poses many problems. First, the CBN Act is clearly being contravened. Second, FGN's revenue is obviously not enough to fund expenditure. Third, since this figure is not included in official statistics for debt stock, the size of FG's debt is distinctly understated. If the debt from Ways and Means as at December 2021 (N17.4 trillion) is added to official debt, the domestic debt stock as of December 2021 rises to N36.6 trillion. This leads to an increase in the aggregate debt stock from N35.1 trillion to N52.5 trillion.

The latest publication from the Budget Office[15] indicates that these advances will soon be securitised and restructured into longer tenor amortizing facility with lower interest rate.[16]

Figure 2.4: Ways and Means - FGN Borrowing from CBN, Jan. 2014 – Mar. 2022



Source: Central Bank of Nigeria Quarterly Statistical Bulletin, Vol. 11, No.1, March 2022

There is the argument that FGN's debt stock has not reached alarming levels yet. Such an argument is based on using the World Bank-IMF Debt Sustainability Framework (DSF) for low-income countries. This framework established five thresholds and benchmarks for assessing the risk of debt distress. The DSF classifies countries into one of three categories of debt-carrying capacity : strong, medium, and weak. Countries are then classified into four categories of debt distress: low risk (when there are no breaches of thresholds); moderate risk (when thresholds are breached in risk scenarios); high risk (when thresholds are breached in the baseline scenario); and in debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

[15] Budget Office of the Federation (2022) 2023-2025 Medium-Term Expenditure Framework and Fiscal Strategy Paper, July 2022, Federal Ministry of Finance, Budget and National Planning

[16] The data shows that interest payments have been paid on Ways and Means since 2017. The amounts paid as interest on Ways and Means are: N9.5 billion (2017), N63.16 billion (2018), N339.45 billion (2019), N912.57 billion (2020), N1.115 trillion (Jan. to Nov. 2021). Thus, this statement of repayments likely refers to repayments of the principal

Table 2.1 presents Nigeria's DSF for 2021. It is clear that Nigeria was below even the lowest threshold in four out five categories. This would send the message that Nigeria is at just slightly out of the low risk scenario. However, the critical measure of debt sustainability is ability to pay back, that is, debt service payments. For a country like Nigeria where domestic debt is higher than external debt, negating domestic debt service in any analysis will not give a true picture. Already, using only external debt service as a ratio of revenue has the country just under the strongest threshold. If the analysis is conducted for total debt service (including interest on Ways and Means) as a ratio of revenue, the figure of 90.92% is obtained, indicating very high risk of debt distress. In fact, the situation has reached critical levels in 2022. New data shows that debt service in the first four months of 2022 exceeded revenue. Aggregate FGN retained revenue for January to April 2022 was N1.63 trillion, while aggregate expenditure was N4.72 trillion. Alarmingly, debt service was the largest component of expenditure with N1.94 trillion, followed by non-debt recurrent expenditure (N1.7 trillion), capital expenditure (N773.63 billion) and statutory transfers (N289.89 billion). Thus, the country is in the precarious situation of borrowing to pay back debt. Since revenue was N1.63 trillion and debt service was N1.94 trillion, the government borrowed N308 billion to pay back debt. This is clearly a perilous situation.

Table 2.1: World Bank-IMF Debt Sustainability Framework Debt Burden Thresholds and Benchmarks for Nigeria in 2021

	PV of external debt in percent of		External debt service in percent of		PV of total public debt in percent of
	GDP	Exports	Exports	Revenue	GDP
Weak	30	140	10	14	35
Medium	40	180	15	18	55
Strong	55	240	21	23	70
Nigeria	9.13	83.75	5.01	20.38	23.97

Sources: Nigerian Gross Domestic Product Report Q4 2021, National Bureau of Statistics; Foreign Trade in Goods Statistics Q4 2021, National Bureau of Statistics; Z.S. Usman (2022) Public Presentation of Approved 2022 FGN Budget – Breakdown & Highlights; Budget Implementation Report Q4 2021, Budget Office of the Federation

2.4 Revenue

It is clear that both FG's expenditure and debt have increased over time. This, coupled with the fact that debt service exceeded revenue in the first four months of 2022 would indicate that debt is unsustainable. This scenario would ordinarily not present such a big problem if revenue had increased over the same period. However, FG's revenue, rather than increase, has actually fallen. This presents the most critical fiscal problem facing the FG.

Actual aggregate FGN revenue was N2.566 trillion in 2011 and this increased to N4.643 trillion in 2021 (Figure 2.5). This is an 81% increase. However, over the same period, budgeted aggregate revenue increased by 102% from N3.348 trillion to N6.772 trillion. While budgeted revenue has been rising over time, actual revenue has been largely stagnant, staying between N2.6 trillion and N4.3 trillion. The situation got critical in 2017 and 2018 when actual revenue was 52% and 54% of budgeted revenue respectively. This situation calls for urgent innovative measures in boosting revenue. The lower part of Figure 2.5 gives the breakdown into oil and non-oil revenue. Non-oil revenue has been touted in recent years as surpassing oil revenue, thus offering some hope of

[17] As at July 31 2022, the budget implementation report for Q4 2021 was unavailable. Revenue figures for January to November 2021 were obtained from Z.S. Usman (2022) Public Presentation of Approved 2022 FGN Budget – Breakdown & Highlights

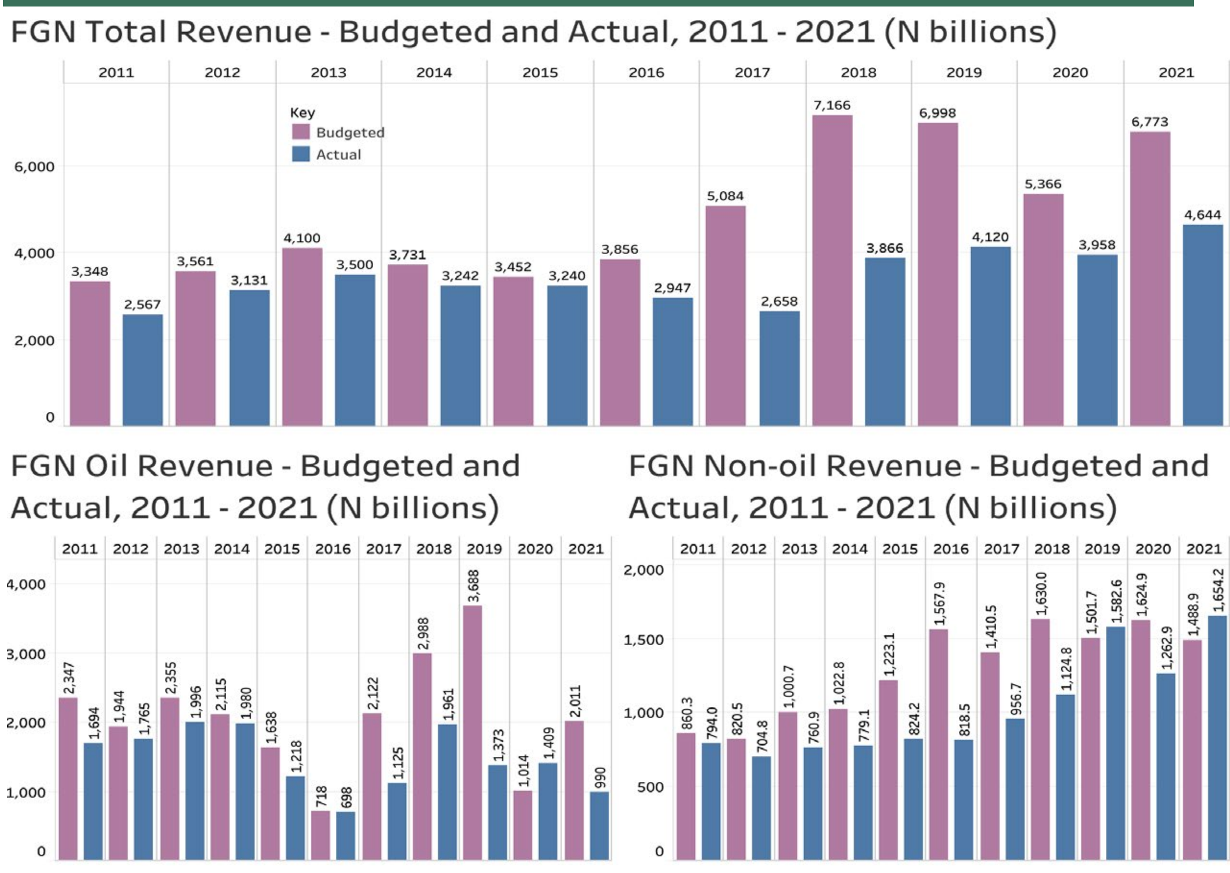
[18] Federal Ministry of Finance, Budget and National Planning (2022) Public Consultation on the Draft 2023-2025 MTFF/FSP

boosting aggregate revenue. Between 2011 and 2021, non-oil revenue only surpassed oil revenue in three years: 2016, 2019 and 2021.

Oil revenue, which has for many years been the primary source of government revenue, has been falling in recent years. This has been largely attributed to oil theft which has assumed industrial proportions particularly since 2020. Nigeria had to reduce oil production following the COVID-19 pandemic as the drastic fall in oil demand forced OPEC+ to stipulate production cuts for all members. Nigeria's production allocation was reduced to 1.41 million barrels per day in May 2020 and production in that month was above the production limit at 1.75 million barrels per day (Figure 2.6). While the country's production allocation has been gradually rising since September 2020, actual production has been falling. There was a big fall in production from 1.65 million barrels per day in March 2021 to 1.37 million barrels per day in April 2021. This marked the falling of production below production allocations. Production has stayed below allocations since then, and reached a mere 1.02 million barrels per day in May 2022.

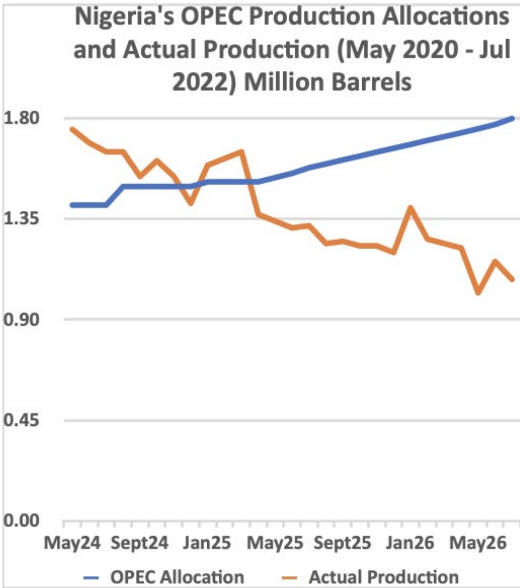
Historically, FG's revenue used to surge during periods of rising oil prices. Oil prices have been on the rise recently. It rose from $54.87 per barrel in January 2021 as high as $130.1 per barrel in June 2022 (Figure 2.7). However, the country has not been able to take advantage of this oil price increase, owing to falling production. With falling production, oil exports have also been in decline and have been consistently below one million barrels per day since April 2021. These declines have led to very low oil revenue for the government.

Figure 2.5: FGN Total, Oil and Non-Oil Revenue, 2011 – 2021 (Nbillions)



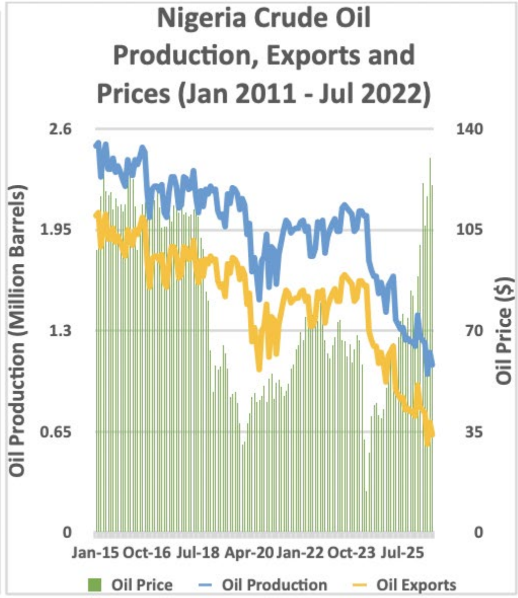
Sources: Budget Implementation Reports, various years, Budget Office of the Federation
Note: Total is not a strict addition of oil and non-oil but comprises other revenue sources

Figure 2.6: Oil Production



Source: Central Bank of Nigeria

Figure 2.7: Oil Production, Exports & Prices



Source: Central Bank of Nigeria; OPEC Annual Statistical Bulletin 2022

2.5.Recommendations for Addressing the Fiscal Quagmire

The above discussion has shown that FG's finances are in a precarious state. Solving these numerous issues would need firm, fast and innovative policy actions and reforms. Such actions will have to be two-pronged. First, strong actions are needed for plugging the many leakages from FG's coffers. Second, fresh ideas are needed for generating revenue.

2.5.1. Blocking Leakages

Downstream Oil Reform: End Subsidy on Premium Motor Spirit (PMS)[20]

The issue of subsidy on petrol/premium motor spirit (PMS) has been a contentious issue in Nigeria for a long time[21]. The removal of petrol subsidies in January 2012 instigated nation- wide protests and eventually led to government reinstating the subsidies. The decision to remove subsidies was informed by the record increase of subsidy payments of 174% from N695 billion in 2010 to N1.9 trillion in 2011[22] (US$12 billion in 2011[23]). Since 2021, as oil prices have increased and the exchange rate has depreciated, petrol subsidies have increased and the country has been edging towards subsidy payments last seen in 2011. Subsidy payments, termed under-recovery or value shortfall by the NNPC, were N1.16 trillion from January to November 2021[24]. For January to June 2022, subsidy payments have totalled N1.59 trillion[25]. The sheer size of subsidy payments, coupled with

[20] The Petroleum Industry Act (PIA) stipulated unrestricted pricing of PMS within six months of its passage. This would have meant removal of subsidies by February 2022. Ini1ally, the FGN had indicated in the 2022 budget that the subsidy would end in June 2022. However, the government later back-tracked and shiOed the end date of subsidy removal to May/June 2023, following consulta1ons with the Na1onal Assembly, and threats of strikes by labour unions.

[21] Subsidies are not exclusive to Nigeria. In 2018, countries spent $471.7 billion on fossil fuel subsidies. Of this number, $195.3 billion was spent on oil subsidies, and Nigeria spent $1.9 billion on oil subsidies in 2018 (Interna1onal Energy Agency Fossil Fuel Subsidies Database 2021)

[22] NEITI (2013) Physical and Process Audit for the period 2009 to 2011, Appendix D: Fuel Subsidy

[23] World Bank (2021) Nigeria Development Update: Time for Business Unusual, November

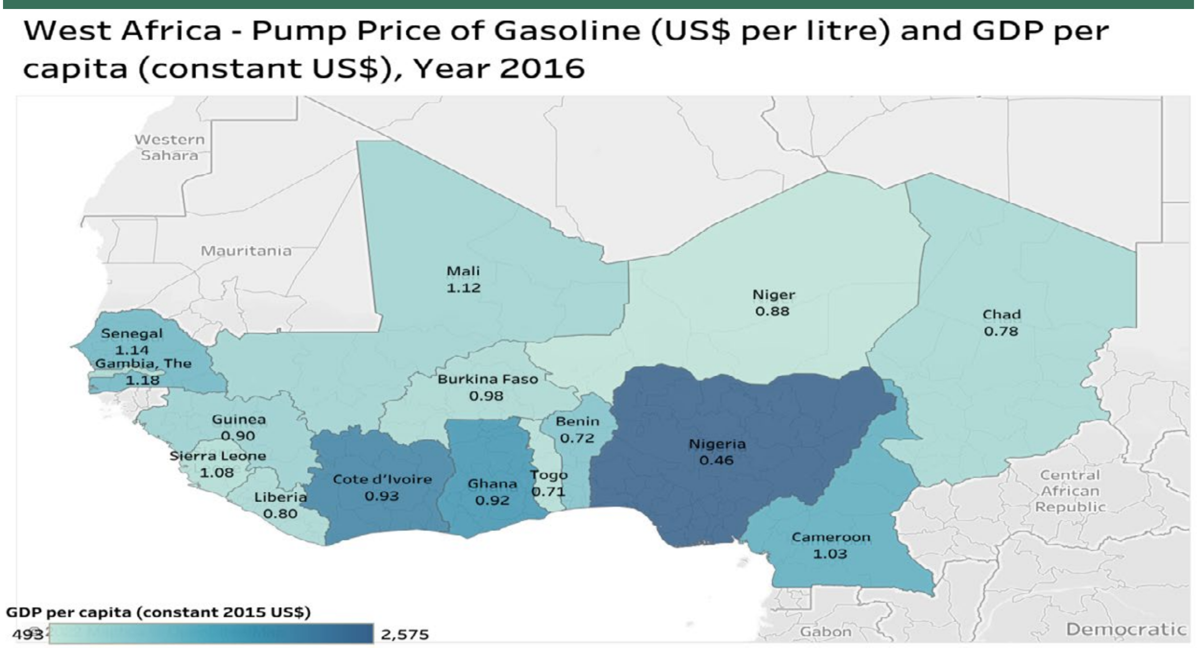
[24] NNPC (2021) NNPC Presenta1on to the Federa1on Account Alloca1on CommiJee (FAAC) Mee1ng of 17th December 2021

[25] NNPC (2022) NNPC Presenta1on to the Federa1on Account Alloca1on CommiJee (FAAC) Mee1ng of 26th July 2022

other expenditure/deductions by NNPC, has meant that the NNPC has not remitted any money to the Federation Account in 2022 out of the total oil and gas sales' revenue for this period of N2.38 trillion[26]. Thus, the nation is in a situation where the major source of government revenue for many decades has been cut-off.

It is clear that petrol subsidies are no longer sustainable. Their justification has been that removing them would worsen the plight of the poor. However, this is not the case. First, the latest household data (2018-19 Nigerian Living Standards Survey) showed that households in the bottom quintile purchased less than 3% of petrol; while households in the bottom 40% of the income distribution purchased 10% of all petrol[27]. Thus, the petrol subsidies are more beneficial to rich households than poor households. Second, the majority of petrol is purchased for cross-border smuggling and use by businesses and government agencies[28]. Although Nigeria has the highest GDP per capita in West Africa, petrol prices are lowest (Figure 2.8), thereby fuelling massive cross-border smuggling. Third, expenditure on petrol subsidies are diverting resources from critical socioeconomic sectors. The expenditure on petrol subsidies of N1.59 trillion for the first half of 2022 has already exceeded total annual budgeted expenditure for each of the critical sectors such as Education, Health, Infrastructure, Social Development and Poverty Reduction Programmes (Figure 2.9). These subsidy payments are already 9.28% of the total budget, implying they will rise to at least 15% of the budget by the end of the year. Thus, if the subsidies are diverting resources away from critical sectors that positively impact the poor, it is hard to see any further justification for the subsidies.

Figure 2.8: West Africa – Pump Price of Gasoline and GDP per capita



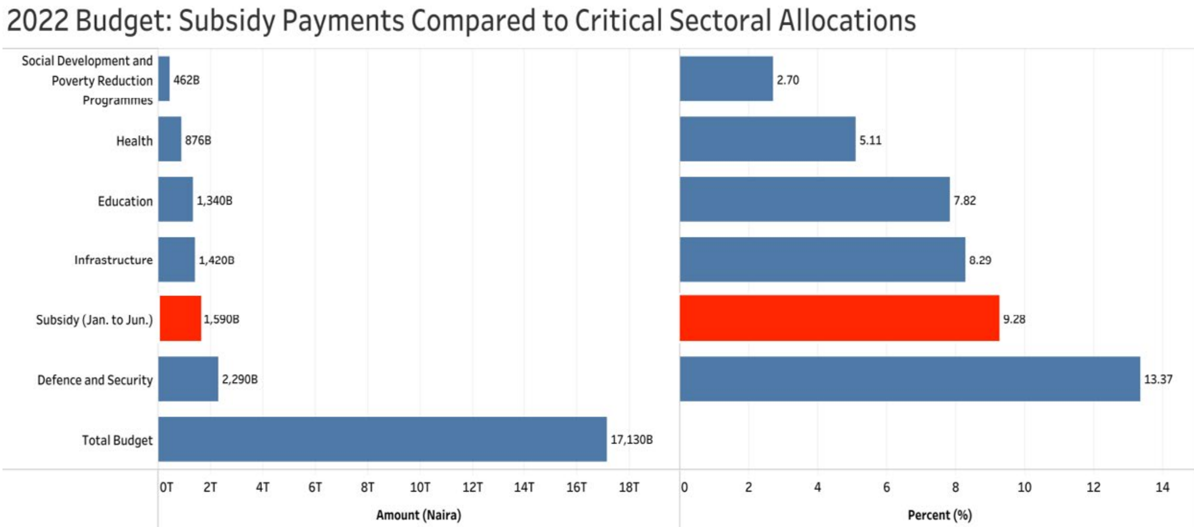
Source: World Development Indicators

[26] The total deduc1ons/expenditure by NNPC for January to June 2022 are: under-recovery of PMS/ value shorrall (N1.593 trillion), T1/T2 (N698.97 billion), refinery rehabilita1on (N54.66 billion), pre-export financing (N35 billion), fron1er explora1on service (N14.32 billion), pipeline security and maintenance cost (N12.43 billion), na1onal domes1c gas development (N8.05 billion), gas infrastructure development (N7.44 billion), Nigeria Morocco pipeline (N3.01 billion), Crude Oil Pre-Export Inspec1on Agency Expenses(NESS FEES) (N448 million)

[27] World Bank (2021) Nigeria Development Update: Time for Business Unusual, November

[28] Ibid.

Figure 2.9: 2022 Budget – Subsidy Payments Compared to Critical Sectoral Allocations



Source: Z.S. Usman (2022) Public Presentation of Approved 2022 FGN Budget – Breakdown & Highlights; NNPC (2022) NNPC Presentation to the Federation Account Allocation CommiJee (FAAC) Mee1ng of 26th July 2022 Notes: Infrastructure includes provisions for Works & Housing, Power (inclusive of PSRP Provisions), Transport, Water Resources, Aviation;
Social Development and Poverty Reduction Programmes includes provisions for Social Investments / Poverty Reductionon Programmes

Ending the petrol subsidy will not be easy, as seen from previous attempts. There would be a need for effective communication of the deleterious effects of the subsidies to the citizens by the government. In addition, the government will need to design and efficiently execute social transfers to the poorest sections of the population. A major hindrance to this is the lack of trust in government. Data from a survey by the Nigerian Economic Summit Group showed that less than 30% of Nigerians supported the removal of subsidy[29]. There is a critical lack of trust in government, and almost 60% of Nigerians were not satisfied with the manner of government expenditure30.

As a first step in the removal of the subsidy, a proper social cost-benefit analysis (SCBA) needs to be conducted and communicated to the public[31]. Such SCBA should properly articulate and communicate the three major impacts of phasing-out fossil-fuel subsidies[32]. This process will require proper sequencing, and a decision tree showing the different detrimental effects of the subsidies can be adopted (Figure 2.10). This displays explicit consequences of subsidies and criteria for removing them.

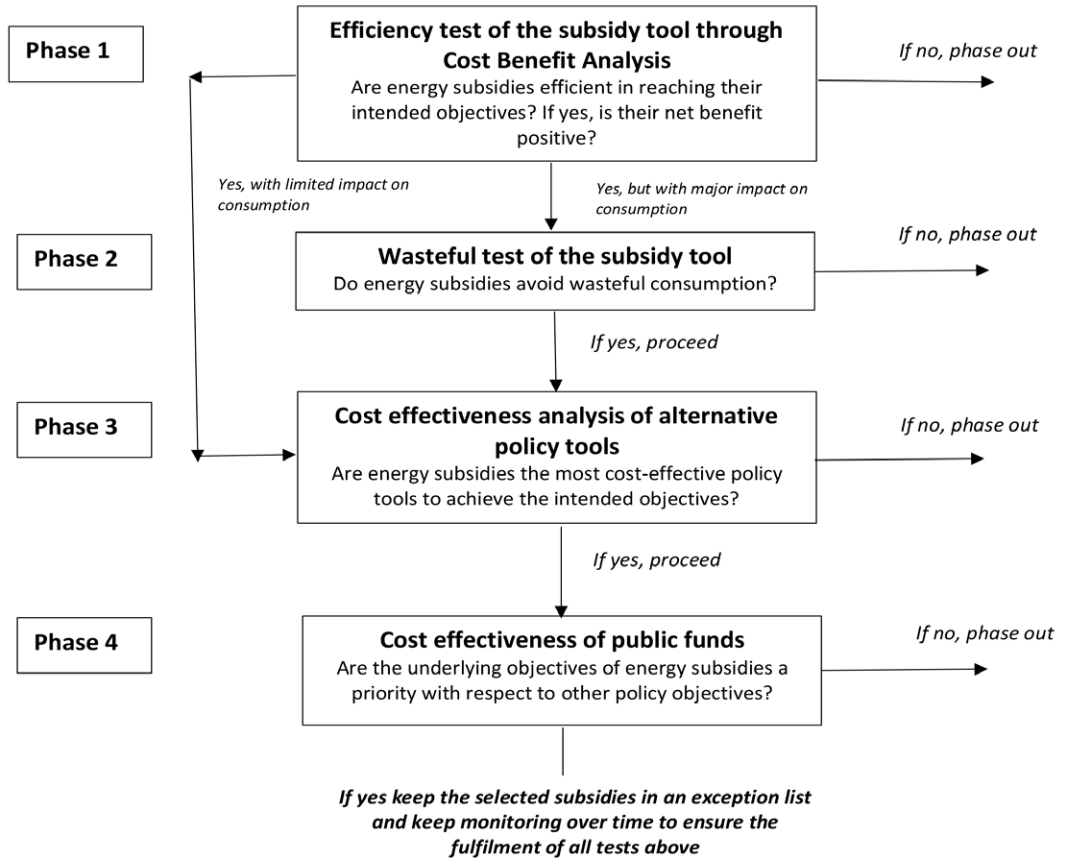
[29] World Bank (2022) Nigeria Development Update: The Continuing Urgency of Business Unusual, June

[30] Ibid.

[31] IEA, OPEC, OECD, World Bank (2010) Analysis of the Scope of Energy Subsidies and Suggestions for the G-20 Initiative, Joint Report Prepared for Submission to the G-20 Summit Meeting Toronto, 26-27 June, 2010

[32] First are economic and sectoral impacts relating to issues such as: economic distortions, fiscal balance, industrial output, consumption, world energy prices. Second are social and equity impacts: redistribution, switching back to biomass, energy poverty. Third are environmental impacts: more efficient fuel use, less CO2 emissions, deforestation, and switching to cleaner fuels.

Figure 2.10: Decision Tree of Effects of Subsidies



Source: IEA, OPEC, OECD, World Bank (2010)

Upstream Oil Sector Reform: End Oil Theft

Just like the petrol subsidy, crude oil theft has been a recurring problem in the oil sector and has been difficult to curb. Nigeria's oil production fell from 2.49 million barrels per day in January 2011 to 1.08 million barrels per day in July 2022 (Figure 2.6). Between 2009 and 2018, a total of 488.6 million barrels of crude oil was lost to oil theft and sabotage[33]. More recently, 42.24 million barrels valued at $2.772 billion and 39.16 million barrels valued at $1.63 billion were lost to oil theft and sabotage in 2019 and 2020, respectively[34, 35]. In March 2022, the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) at a meeting with Independent Petroleum Producers Group (IPPG) and the Oil Producers Trade Section (OPTS), described oil theft as a national disaster, saying that the nation lost as much as $3.27 billion to vandalism between January 2021 and February 2022. During this period, an average of $233.99 million was lost monthly, while an average of $7.72 million was lost daily[36].

Ending oil theft will require strong determination from the government and crucially, cooperation from host communities and the military. Recent efforts by the NUPRC and NNPC should be intensified. The NUPRC recently

[33] NEITI (2019) Stemming the Increasing Cost of Oil Theft to Nigeria, Policy Brief, November 6
[34] NEITI (2021) Oil and Gas Industry Audit Report 2019
[35] NEITI (2022) Oil and Gas Industry Report 2020
[36] https://www.nuprc.gov.ng/oil-theft-nuprc-meets-with-oil-producers-pushes-for-accurate-data-on-stolen-crude/

upgraded and deployed the National Production Monitoring System (NPMS). The NPMS, which is an electronic monitoring system for oil and gas production, should facilitate accurate and reliable reporting of crude oil production. If the NPMS works well, this should be a first step in monitoring oil flows from well heads to flow stations and to export terminals, thereby pin-pointing locations of crude theft. Also, the NNPC recently launched the Crude Theft Monitoring Applications for reporting of incidents of oil theft by host communities and other Nigerians.

Strategic communications and engagement with communities will be critical. Again, the issue of lack of trust in government needs to be addressed. A first step could be working with state governors and other agencies like the Niger Delta Development Commission to execute critical projects to provide visible evidence of 'their money working' for the Niger Delta people.

A very important step is reviewing the security architecture for combating oil theft. There have been suspicions of official complicity in oil theft during military rule and this has been reported to have continued under civilian rule[37]. In a bid to curb oil theft, a joint task force (JTF) comprising personnel from Army, Navy, and paramilitary agencies has been operating in the Niger Delta for many years. Despite their operations however, oil theft has continued unabated and there have been claims of complicity of the JTF in oil theft[38]. There have also been reports of human rights abuses by the JTF and this erodes public trust and inhibits cooperation of host communities in tackling oil theft[39]. There is the need for a thorough review of the security architecture and ensure that personnel of the JTF are properly trained and oriented for the purpose of stopping oil theft.

Apart from the actual oil theft, there have also been many instances where oil pipelines have been shut for extended times owing to sabotage and destruction of pipelines. As recently as March 2022, *force majeure* was declared by Shell and Eni parent company Nigerian Agip Oil Company (NAOC) on oil exports. This came after a pipeline explosion caused by pipeline vandalism affected crude oil exports from Bonny Brass crude cargoes. This is nothing new. In the middle of 2016, over one million barrels of crude oil production was shut-in due to *force majeure* on the Forcados Oil Terminal, Nembe Creek Trunk Line, Brass Terminal, Escravos Terminal, and Qua Iboe Terminal[40]. Losses on trunk lines can be minimized through the deployment of proactive leak detection and localisation methods[41]. This will ensure fast and prompt responses to leakages and limit oil losses.

Enforcement of Fiscal Responsibility Act on Remittance of Operating Surplus by Agencies

There are many revenue-generating agencies that either fail to remit any revenue, or remit a very small fraction to the government. This is a serious problem that needs to be addressed. Apart from depriving the FG of much needed revenue, the action of such agencies is in violation of the Fiscal Responsibility Act. The Act mandates revenue-generating agencies to remit 80% of their operating surpluses to the Consolidated Revenue Fund and retain 20% in their reserve fund. Operating surplus is simply defined as the excess of income over expenditure. While the Act was amended in the Finance Act 2020, some amendments are still needed. First, the practice of funding some revenue-generating agencies from the Federal budget needs to stop. Second, the expenditure cap of 50% of income grants agencies undue leeway in embarking on unnecessary expenditure. Third, there should be penalties for agencies that fail to remit their stipulated operating surpluses.

Various numbers exist on the size of this problem of agencies not remitting operating surplus. In December 2018, the

[37] C. Katsouris and A. Sayne (2013) Nigeria's Criminal Crude: International Options to Combat the Export of Stolen Oil, Chatham House

[38] Katsouris and Sayne (2013); A. Sayne, A. Gillies and C. Katsouris (2015) Inside NNPC Oil Sales: A Case for Reform in Nigeria, Natural Resource Governance Institute

[39] A. Gboyega, T. Søreide, T.M. Le and G.P. Shukla (2011) Political Economy of the Petroleum Sector in Nigeria, Policy Research Working Paper 5779, World Bank; Human Rights Watch (2007) Criminal Politics: Violence, "Godfathers" and Corruption in Nigeriamore efficient fuel use, less CO2 emissions, deforestation, and switching to cleaner fuels.

[40] NEITI (2019) Stemming the Increasing Cost of Oil Theft to Nigeria, Policy Brief, November 6

[41] Ibid.

[42] https://www.vanguardngr.com/2018/12/fg-facing-serious-financial-challenges-akabueze-budget-boss/

[43] https://nairametrics.com/2018/12/19/fg-records-shortfall-on-budgets-says-akabueze/

Director-General of the Budget Office of the Federation noted that FG agencies had failed to remit N2.81 trillion[42,43]. In May 2021, The Chairman of the Fiscal Responsibility Commission noted that agencies had failed to remit N1.2 trillion[44]. In May 2021, the Senate Committee on Finance investigating unremitted revenue between 2014 and 2020 found that agencies failed to remit over N3 trillion[45, 46]. These numbers are cumulative over a number of years. The Office of the Auditor General noted that in 2019 agencies failed to remit N127 billion[47]. Despite the differing figures, there is no doubt that the government needs to put in place appropriate measures to ensure its agencies respect the law and remit much needed revenue.

Embrace Innovative Revenue Boosters

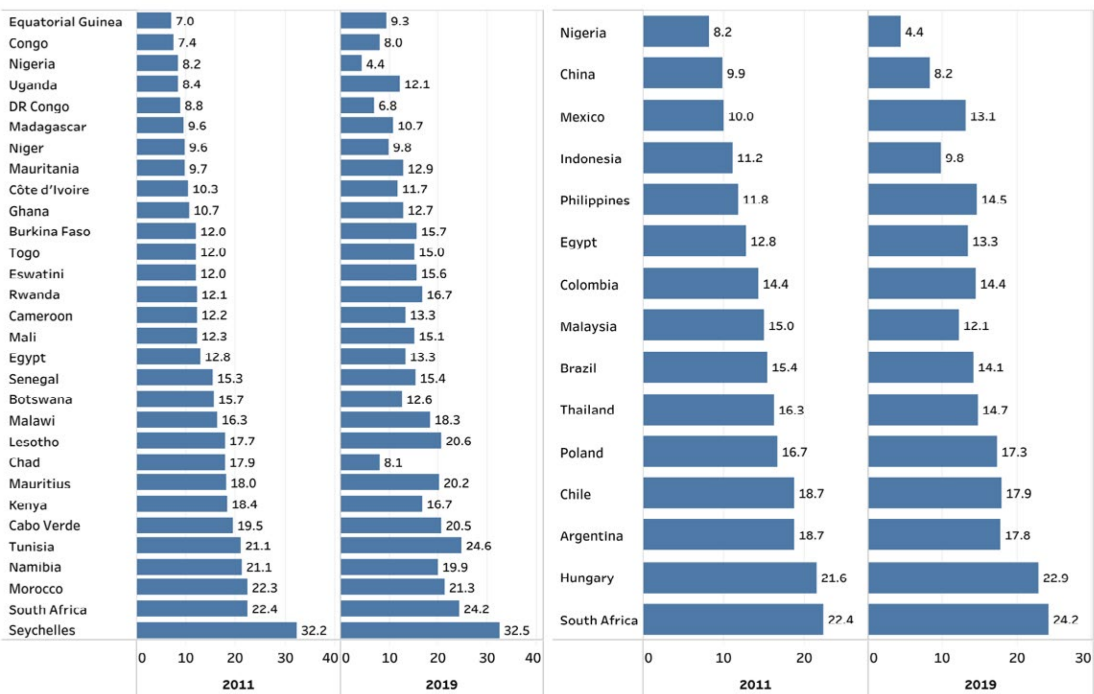
FG's ratio of tax to GDP is the lowest when compared with its peers (Figure 2.11). In 2019, Nigeria's tax-to-GDP ratio of 4.4% was the lowest on the African continent, while Seychelles had the highest ratio of 32.5%. Considering that the Nigerian economy is the largest in Africa, this is really a poor performance. Also, amongst EMDEs, Nigeria had the lowest tax-to-GDP ratio, while South Africa had the highest with 24.2%.

With oil revenue dropping to very low levels, the FGN has to look at non-oil sources to boost revenue. This will be a critical agenda for the government. It is imperative that the government weans itself from over-reliance on oil revenue, which has been constantly hoped by previous administrations.

Figure 2.11

Central/Federal Government Tax Revenue as % of GDP in African Countries, 2011 and 2019

Central/Federal Government Tax Revenue as % of GDP in EMDEs, 2011 and 2019



Source: OECD Global Revenue Statistics Database

[44] https://www.premiumtimesng.com/news/top-news/462559-mdas-yet-to-remit-n1-2-trillion-to-fg-fiscal-commission.html

[45] https://dailypost.ng/2021/05/09/senate-investigation-over-n3-trillion-feared-spent-frivolously-by-mdas-senator-adeola/

[46] https://www.thisdaylive.com/index.php/2021/05/10/senate-60-agencies-failed-to-remit-n3tn-into-federation-account/

[47] Office of The Auditor-General for The Federation (2019) Auditor-General for the Federation's Annual Report on Non-Compliance/Internal Control Weaknesses Issues in Ministries, Departments and Agencies (MDAs) of the Federal Government of Nigeria for the Year Ended 31st December, 2019

Tax Revenue: Ensure Compliance and Widen the Tax Net to Increase Company Income Tax

The FGN is responsible for collecting Company Income Tax (CIT). In 2020, after oil revenue, CIT was the largest contributor to FGN revenue with N639 billion. This accounted for 16.15% of FGN revenue. However, the FIRS has admitted that less than 20 million out of over 68 million businesses actively pay taxes[48]. Thus, less than 30% of businesses pay tax. This is not good enough.
The FIRS needs to embark on a drive to enforce payment of CIT. It cannot achieve this alone. Inter-agency collaboration will be crucial. This can be achieved on two fronts. First, the FIRS should ensure compliance by registered businesses. The data on the number of businesses was provided to the FIRS by NBS, while the Corporate Affairs Commission (CAC) has data on company registration. The FIRS should actively collaborate with the NBS and CAC to ensure compliance in payment of CIT by these companies.

Second, the tax net needs to be widened. The Small and Medium Enterprises Development Agency (SMEDAN) has data on small and medium enterprises. There is a need for the FIRS to ollaborate with both the NBS and SMEDAN to widen the tax net and register micro and small enterprises for tax purposes.

Tax Revenue: Ramping up Automation of VAT and Extending to Other Sectors

The FIRS has started VAT automation, where it carries onsite visits and install software to automatically collect VAT. However, this has been restricted to some large cities and some sectors, largely retail. This VAT automation drive needs to be ramped up to all states and cities. In addition, it needs to be extended to all sectors of the economy. Thus, VAT will be collected at source, and this will go a long way in improving revenues from VAT.

Tax Revenue: Re-invigorating the Joint Tax Board to Streamline Operations of Tax Bodies and Generation of Single Tax Identification Number for Individuals and Businesses

The Joint Tax Board (JTB) was established by section 86 (1) of the Personal Income Tax Act cap. P8 LFN 2004. The JTB was established due to the inefficiencies observed in tax administration across the different tiers of government. Such inefficiencies have led to a myriad of issues which have ultimately resulted in entities either over-paying taxes due to multiple taxation, or under-paying taxes due to the laxity of tax authorities. However, the JTB has not been able to effectively address these issues. A case in point is in the issuance of Tax Identification Numbers (TIN). At present, three different bodies issue TINs: FIRS, JTB, State Revenue Bodies. The multiplicity of TINs has led to inefficient monitoring and collection of taxes. Although the JTB tried issuing Unified TIN, this was not concluded. It would be beneficial if the project of Unified TIN can be revisited and driven to completion. At present, only the FIRS TIN is linked to banks, making monitoring difficult. Having a unique tax identifier for individuals and businesses will massively boost monitoring and ultimately improve revenue collection.

Increase Value Added Tax (VAT) and Excise Taxes on Luxury Goods, Tobacco and Alcohol

Excise taxes and VAT in Nigeria are amongst the lowest in Sub-Saharan Africa. Increasing excise taxes on alcohol and tobacco can be increased to the ECOWAS average of 50%. Also, VAT can be increased to 10%, and subsequently increased to the ECOWAS average of 15%.

[48] https://thewhistler.ng/firs-to-go-after-taxpayers-for-defaulting-on-vaid-scheme/

Sale/ Consession of Government Assets and State-Contingent Debt Instruments:

There are many government assets that are either not generating revenue at all, or are generating revenue that is grossly below their potential. Some of the assets can be sold out rightly to provide immediate/short term funds for the government. In addition, some other assets can be offered to private operators who pay a lump-sum fee upfront, and then make payments at agreed regular intervals.

Another avenue for generating non-tax revenue is through state-contingent debt instruments (SCDIs). SCDIs link contractual debt service obligations to a pre-defined state variable[49]. With SCDIs, payment obligations of a country that contracts debt are tied to its repayment capacity. This ensures that the burden of debt service payments will fall as the performance of the underlying asset falls, and vice-versa, freeing up government revenue from debt service payments and so reducing the likelihood of sovereign debt crises[50]. Examples of SCDIs include oil-linked bonds which linked payments to the price of oil (Mexico and Venezuela); GDP-linked treasury certificates with payments linked to GDP growth (Portugal); revenue-linked bonds with payments linked to income from state owned enterprises (Turkey).

Of particular interest to Nigeria are the revenue-linked bonds. Nigeria has an abundance of SoEs where leakages and wastages have occurred on a massive scale over time. As discussed previously, many SoEs have contravened the Fiscal Responsibility Act by failing to remit surplus revenue over time. SCDIs can be used to contract debt where the instruments are linked to revenues of SoEs.

[49] https://cepr.org/voxeu/columns/what-history-tells-us-about-state-contingent-debt-instruments

[50] https://www.brettonwoods.org/article/from-theory-to-market-state-contingent-debt-instruments-scdis

3 Human Welfare – Unemployment and Poverty

3. Human Welfare – Unemployment and Poverty

3.1 Background and Context

Apart from the broad economic picture, human welfare is an important metric that governments observe. In fact, some would argue that the ultimate objective of economic policies is to improve the welfare of the citizens. The United Nations, through the Sustainable Development Goals (SDGs), has provided important metrics for assessing quality of life. The first SDG (No Poverty) is critical to improving the quality of lives of citizens. Ultimately, welfare improves when people have jobs and use the income that accrues to purchase goods and services. Human welfare has been deteriorating in Nigeria over time.

Similar to other African countries, unemployment has been a key developmental challenge faced in Nigeria over time. In recent years, Nigeria's economic growth has not resulted in the creation of enough jobs to meet the country's rapidly growing labour force. Unemployment rates[51] consistently increased from 2011 to 2020. The COVID-19 pandemic heightened the rate of unemployment, and such high rates are expected to persist into 2023.

While two-thirds of the global poor are from sub-Saharan Africa (SSA), Nigeria has the highest number of poor people in SSA. This suggests that achieving poverty reduction in Nigeria would go a long way in regional reduction of poverty levels. 40% of the Nigerian population live below the poverty line, meaning that four out of ten Nigerians are considered as poor. This translates to about 82.9 million people living in poverty in the country. The number of poor Nigerians is projected to increase to 95.1 million by the end of 2022 as the negative shocks from the COVID-19 pandemic continue in the country.[52]

3.2 Unemployment and Other Trends in Employment

The rate of unemployment in Nigeria has been rising over time. Between 2011 and 2020, the unemployment rate rose by over 450% and this has been attributed to the slow pace of sustainable job creation, which is said to be considerably weak compared to the labour force growth in the country[53]. The unemployment rate increased from

95.1 million

projected number of poor Nigerians by end of 2022

[51] A person within the considered age group is unemployed if they were available for work and were actively seeking work but were not working or were working less than 20 hours a week.

[52] World Bank Poverty Assessment, 2022

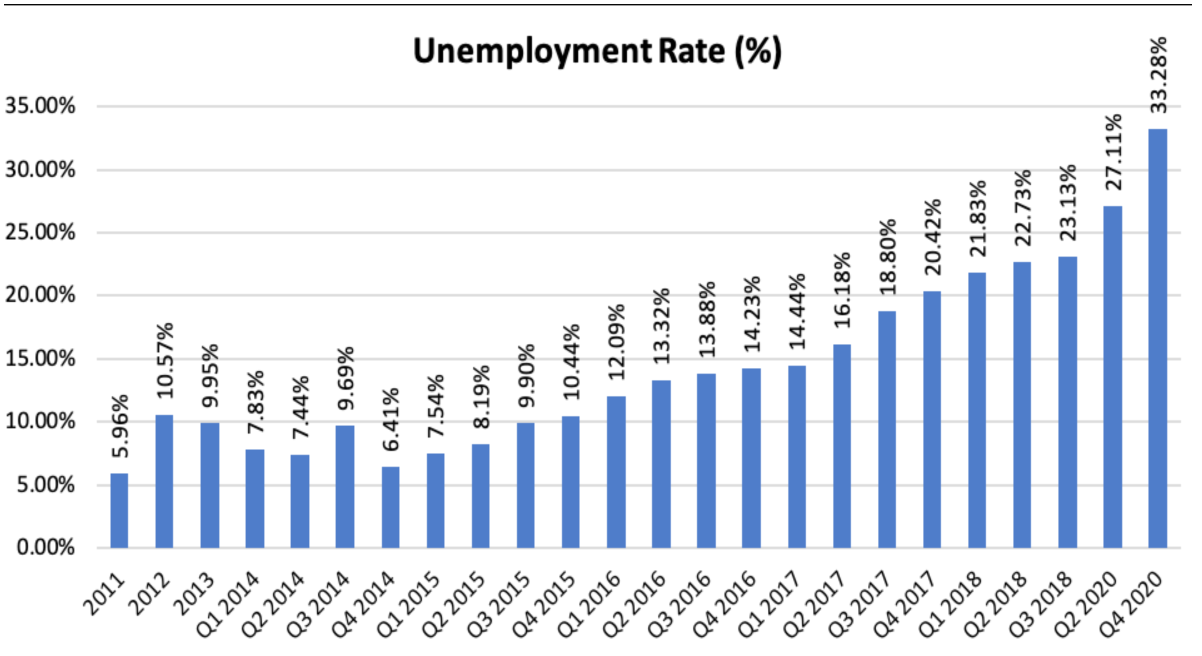
[53] PriceWaterhouseCoopers (2018) Structural transformation and Jobless Growth in Nigeria, May

5.9% in 2011 to 10.5% in 2012, a 77.9% increase (Figure 3.1). Unemployment slightly dropped in 2013 to 9.9%, and with the exception of further drops in late 2014 and early 2015, has been rising since. The latest figures show that the unemployment rate increased from 27.1% in Q2 2020 to 33.3% in Q4 2020 (Figure 3.1)[54]. The number of unemployed persons rose from 21.8 million in Q2 2020 to 23.2 million in Q4 2020.[55]

While the rate of unemployment has been rising, the rate of underemployment dropped from 28.6% in Q2 2020 to 22.8% in Q4 2020[56]. This is partly due to a decline in the number of underemployed or part-time workers from 22.9 million to 15.9 million over the two quarters[57]. Furthermore, the size of the labour force fell by 13.2% from 80.3 million in Q2 2020 to 69.7 million in Q4 2020[58]. The lockdown restrictions and constrained business activities for most of 2020 resulted in a significant decline in the number of full-time and part-time workers[59].

Some possible causes that have been blamed for unemployment include: over-dependence on crude oil which restricts diversification and in turn shuts-out employment opportunities in other sectors; high population growth particularly in the labour force with age bracket 15 - 64 years; the recent COVID-19 pandemic which led to a lot of lay-offs; inadequate industries; and a mis-match between the supply side of labour (what employers require) and the demand side of labour (what the employees possess)[60].

Figure 3.1: Nigeria's Unemployment Rate Trends (2011 – Q4 2020)



Source: NBS: Labour Force Statistics: Volume I: Unemployment and Underemployment Report (Q3 2017–Q3 2018); Labour Force Statistics: Unemployment/Underemployment Report (Q4 2020)
Note: No data was available in 2019

[54] NBS Labour Force Statistics: Unemployment and Underemployment Report (Q4 2020)

[55] The Nigerian Economic Summit Group (2021) Unemployment Alert, March

[56] Ibid

[57] The Nigerian Economic Summit Group (2021) Unemployment Alert, March

[58] NBS Labour Force Statistics: Unemployment and Underemployment Report (Q4 2020)

[59] The Nigerian Economic Summit Group (2021) Unemployment Alert, March

[60] Abdulkhalid Anda Salihu (2021) UNEMPLOYMENT IN NIGERIA: POLICY REVIEW AND RECOMMENDATION, March https://www.retheuploaders.org/programs/SMEPN

Nigeria's population is currently over 217 million[61] and is projected to grow by over 200 million more people by 2050[62]. As the population grows so does the number of young people. In Q4 2020, with 20,091,695 or 28.34% of the labour force, people within the age bracket of 25-34 were the highest section of the labour force. The number of people in the labour force in age bracket of 15-24 was 9,853,103. The addition of these two shows that youths in the labour force numbered 29,944,798, making up 42.9% of the labour force. The rate of youth unemployment (15–34 years old) has been increasing over the last decade. In 2011, youth unemployment was 8.04% and this increased to 12.48% in 2012 (Figure 3.2). 2013 also experienced an increase in youth unemployment with a rate of 13.81%. As at Q4 2020, the youth unemployment rate was 42.49% (Figure 3.2). This unemployment rate translates to 12,723,133 youths being out of work. If this number is added to the number of under-employed youths of 10,610,939, then we have a total number of unemployed and under-employed youths of 23,334,072.

Some of the problems that have been identified as the main causes of youth unemployment in Nigeria are: rapid population growth; rural-urban migration; low standard of education; the rapid expansion of the educational system which directly leads to the increase in the supply of educated manpower above the demand[63]. The youth bulge poses a good opportunity to reap demographic dividends. However, failure to address the high youth unemployment rates could lead to a demographic disaster.

The high youth unemployment, if left unaddressed could potentially create serious societal and security problems in the future. Four primary factors have been identified as responsible for the high youth unemployment rates[64]. First, there is the jobs gap, where there are not enough jobs provided for the teeming youth to be actively engaged. Only 450,000 out of the 4.5 million people that enter the job market every year can find employment[65]. Second, there is the skills gap, where over 80% of unemployed people have secondary school education or less. In addition, outdated curriculum, poorly trained instructors and inadequate facilities have meant that products of the educational system are severely unskilled and unprepared for the job market. Third, there is the supply-demand gap, where skills needed by employers are not possessed by students. This has created a mismatch between the skills needed by industry and what students leaving school possess. Fourth, there is the mindset gap, where many youths are solely focused on seeking employment, and fail to see the entrepreneurial route.

over 80%
of unemployed people have secondary school education or less

450,000
out of the 4.5 million people that enter the job market every year can find employment

[61] National Population Commission http://nationalpopulation.gov.ng/statistics/#:~:text=The%20current%20population%20of%20Nigeria,of%20the%20total%20world%20population.

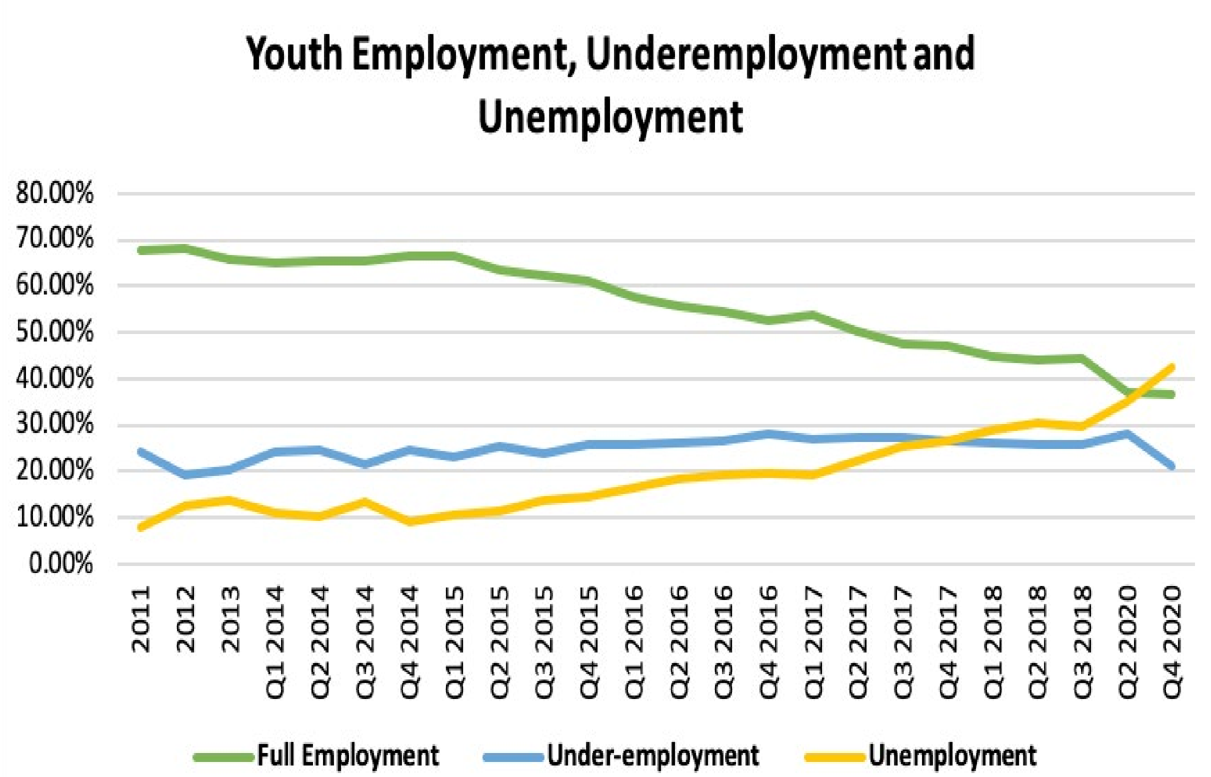
[62] National Bureau of Statistics (NBS), 2018 Statistical Report on Women and Men in Nigeria (February 2018); United Nations Department of Economic and Social Affairs, World Population Prospects 2019 (2019)

[63] P.S.O Uddin and Osemengbe O. (2013) Causes, Effects and Solutions to Youth Unemployment Problems in Nigeria. Journal of Emerging Trends in Economics and Management Science

[64] Federal Ministry of Youth Development, Policy Framework for the Youth Employment Programme

[65] Ibid.

Figure 3.2: Youth Employment, Underemployment and Unemployment (2011 – 2020)



Source: NBS, Labour Force Statistics: Volume I: Unemployment and Underemployment Report (Q3 2017–Q3 2018); Labour Force Statistics: Unemployment/Underemployment Report (Q2 and Q4 2020)

A breakdown of unemployment by gender shows that while there are more men in the labour force, women have higher rates of unemployment. In Q4 2020, the size of the labour force was estimated to be 69,675,468. Men constituted 39,519,925 (56.72%) of the labour force and women were 30,155,543 (43.28%) of the labour force. For the male labour force, 46.39% were fully employed, 21.79% were underemployed, and 31.82% were unemployed (Figure 3.3). For the female labour force, 40.59% were fully employed, 24.22% were underemployed while, 35.19% were unemployed[66]. This implies that the unemployment rate was higher for the female gender than for the male gender. Figure 3.3 shows that female unemployment has been higher and constantly increasing compared to male unemployment. This suggests a wide gender gap in socio-economic opportunities in Nigeria[67].

[66] NBS Labour Force Statistics: Unemployment and Underemployment Report (Q4 2020)

[67] The Nigerian Economic Summit Group (2021) Unemployment Alert, March

Figure 3.3: Total Unemployment by Gender (2011 – Q4 2020)

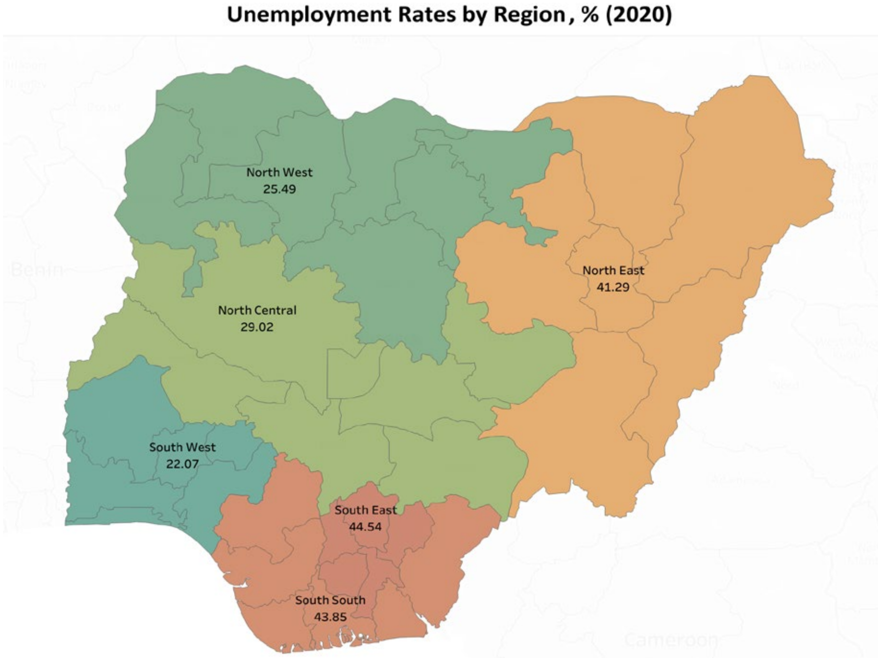
Source: NBS, Labour Force Statistics: Volume I: Unemployment and Underemployment Report (Q3 2017–Q3 2018); Labour Force Statistics: Unemployment/Underemployment Report (Q2 and Q4 2020)

Unemployment in Q4 2020 was higher for rural dwellers (34.48%) than urban dwellers (31.32%). Also, there are wide regional disparities in unemployment. In Q4 2020, the South East zone had the highest average unemployment rate of 44.54% (Figure 3.4). Imo State recorded the highest rate of unemployment with 56.64%, while Enugu State had the lowest rate with 31.62%. Next was the South South zone with an average unemployment rate of 43.85%. Cross River State had the highest unemployment rate of 53.65% and Delta state had the lowest rate with 31.14%. In the North East zone, the average unemployment rate was 41.29%. Adamawa State had the highest unemployment rate with 54.89%, while Gombe State had the lowest rate with 31.26%. The average unemployment rate in the North Central was 29.02%, with the FCT having the highest rate of 40.4%, while Benue State had the lowest rate of 11.98%. In the North West, the average unemployment rate was 25.49%. Kaduna State recorded the highest rate of 44.35% while Zamfara had the lowest unemployment rate of 12.99%. The South West zone had the lowest average unemployment rate of 22.07%. Lagos State had the highest rate of unemployment with 37.14% while Osun state recorded the lowest with 11.65%. In summary, the South East zone had the highest average unemployment rate, with unemployment above 30% in all states. The South West had the lowest unemployment rates, with the highest rate of 37.14%.

36.8%

children under 5 suffer from malnutrition

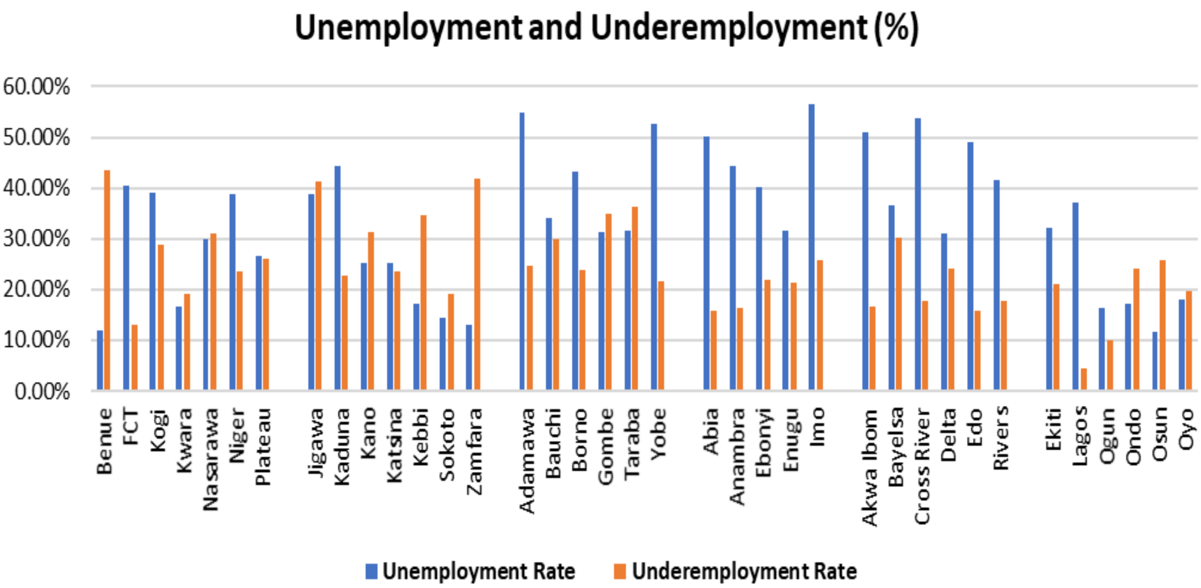
Figure 3.4: Unemployment by Geo-Political Zones in Nigeria



Source: NBS, Labour Force Statistics: Unemployment/Underemployment Report (Q4 2020)

Underemployment was highest in the northern part of the country (Figure 3.5). In Q4 2020, 9 of the 10 highest underemployment rates were found in northern states. Benue State recorded the highest underemployment rate at 43.5%, followed by Zamfara and Jigawa States at 41.7% and 41.3%, respectively. Furthermore, Lagos State recorded the lowest rate of underemployment at 4.5%, followed by Ogun State at 9.9%.

Figure 3.5: Unemployment and Underemployment rates by States in Nigeria



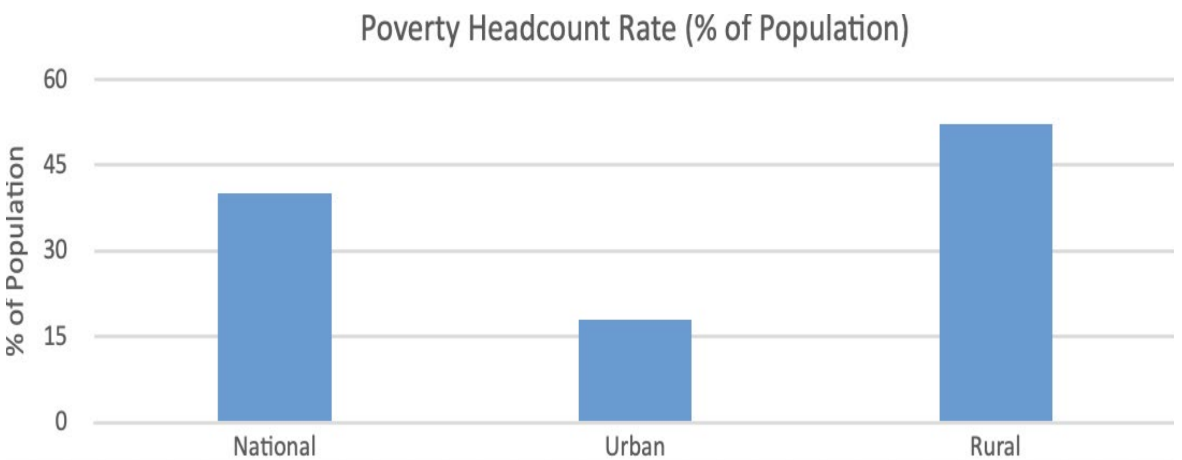
Source: NBS, Labour Force Statistics: Unemployment/Underemployment Report (Q4 2020)

3.3 Poverty

While two-thirds of the global poor are from sub-Saharan Africa (SSA), Nigeria has the highest number of poor people in SSA. Poverty has become a serious challenge for policymakers in Nigeria due to its wide and pervasive spread across the country. Thus, poverty alleviation is regarded as one of the ways through which the government could rebuild the Nigerian economy, and boost the self-esteem of its people. Despite the deployment of several poverty alleviation/eradication programmes by the government over the years, the scourge has remained unabated and even worsened in recent times. The poverty rate in Nigeria is high with 40.1% of the population living in poverty (Figure 3.6). This means that about 82.9 million people are poor, indicating that more than four in 10 Nigerians are living below the poverty line, with real per capita expenditure below N137,430 per year[68]. The World Bank projects that the number of poor Nigerians could reach 95.1 million by the end of 2022 as a result of the shock and aftershocks of COVID-19[69].

The prevalence of poverty in Nigeria is more severe in rural areas than urban centres. The poverty headcount rate was 52.1% in rural areas and 18% in urban areas in 2019 (Figure 3.6). Notably, rural poverty is the major driver of national poverty. Also, the median deflated per capita consumption is significantly higher in urban areas, with a smaller share coming from own-produced food than in rural areas[70]. This means a larger share of urban households' consumption basket is devoted to education, housing, and other non-food items[71]. This could provide crucial high-level policy insights for addressing the spatial disparity of poverty in Nigeria.

Figure 3.6: National, Rural and Urban Poverty (2019)

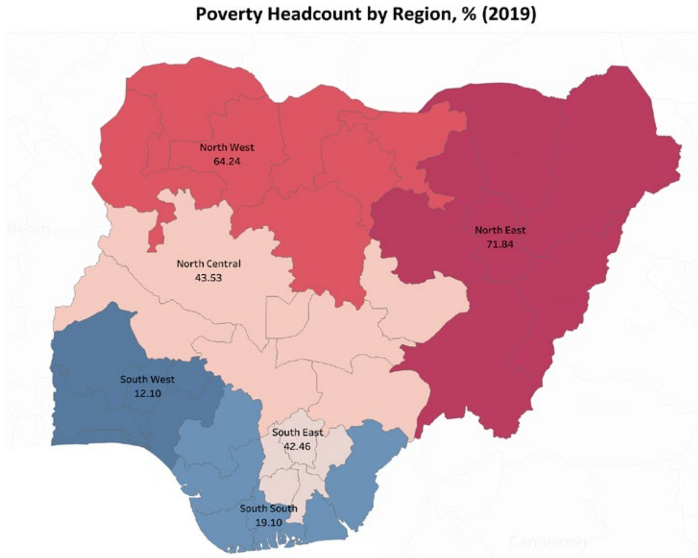


Source: NBS (2020) 2018/2019 Nigeria Living Standard Survey Poverty Tables
Note: The estimates exclude Borno. The poverty status is assigned using Nigeria's national poverty line.

The incidence of poverty varies significantly by region and this is driven by sub-national poverty (Figure 3.7). The northeast (71.8%) recorded the highest rate of poverty followed by the northwest (64.2%) and north central (43.5%). At 12.1%, the southwest recorded the lowest poverty incidence in the country followed by the south-south (19.1%) and southeast (42.5%). Poverty seems to be more prevalent in northern states compared with their southern counterparts. Northern states such as Sokoto (87.7), Taraba (87.7), Adamawa (75.4) and Zamfara (74.0) have the highest poverty incidence in Nigeria while southern states such as Lagos (4.5), Delta (6.0), Osun (8.5), Ogun (9.3) and Edo (12.0) have the lowest rates of poverty in the country (Figure 3.8).

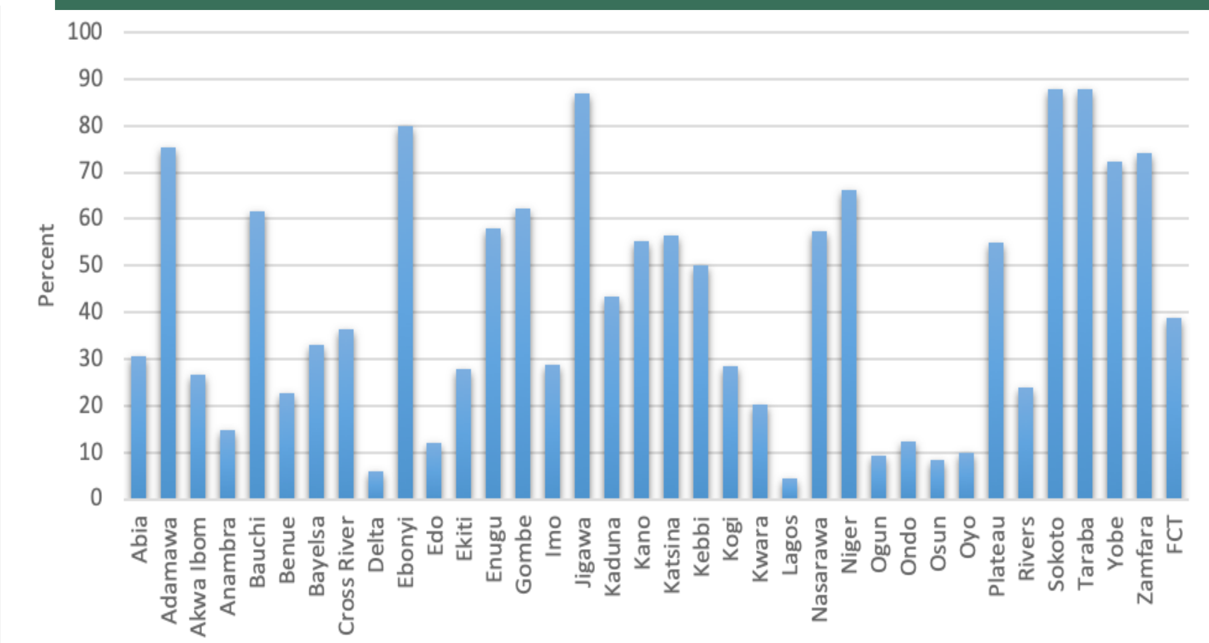
[68] NBS (2020) 2019 Poverty and Inequality Statistics in Nigeria: Executive Summary
[69] World Bank (2022): A Better Future for All Nigerians, Nigeria Poverty Assessment
[70] World Bank (2022): A Better Future for All Nigerians, Nigeria Poverty Assessment
[71] Ibid

Figure 3.7: Poverty Headcount by region, % (2019)



Source: NBS (2020) 2018/2019 Nigeria Living Standard Survey Poverty Tables
Note: computed based on the state average.

Figure 3.8: State-Level Poverty Headcount Rate (%) (2019)



Source: NBS (2020) 2018/2019 General Household Survey

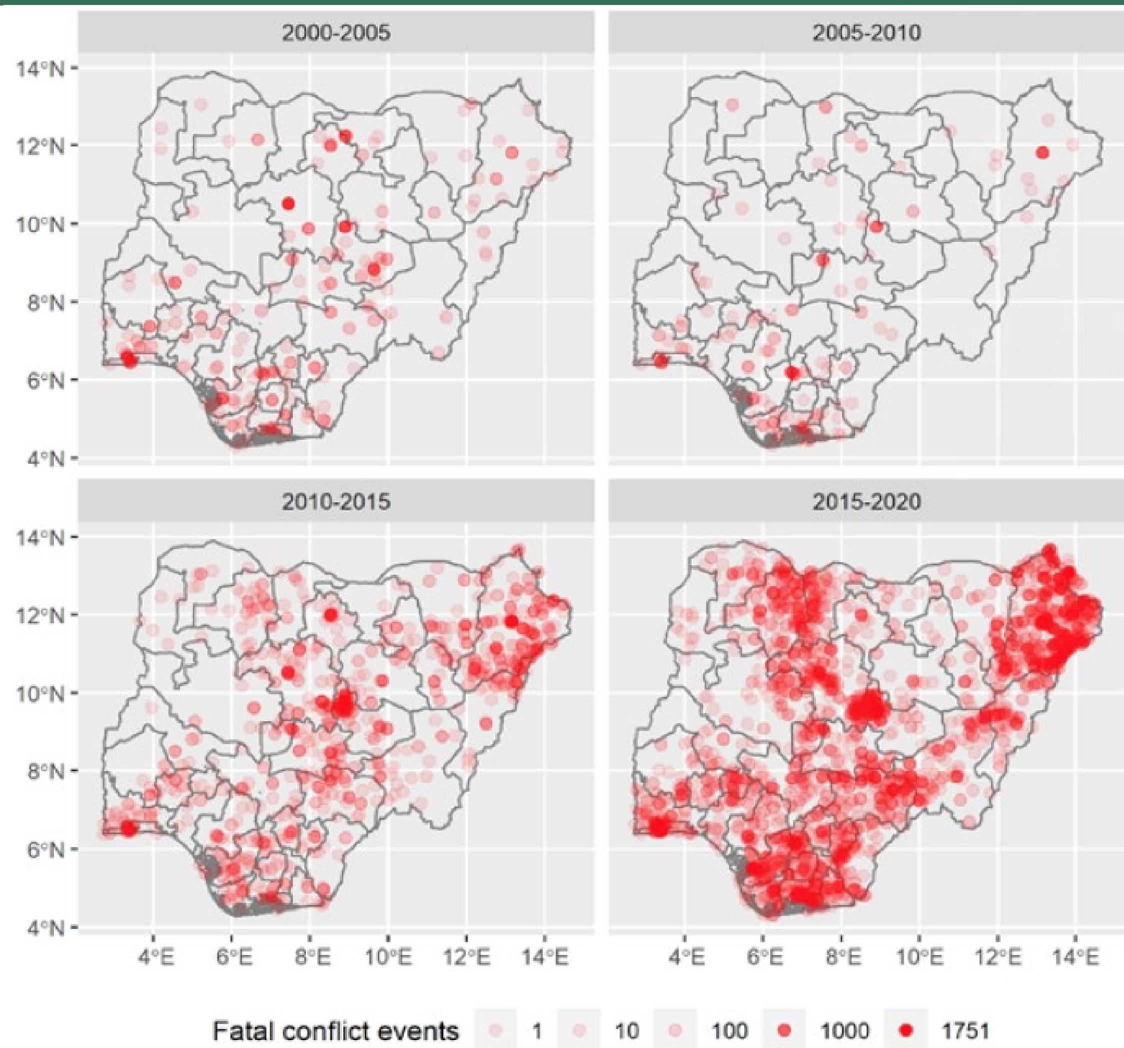
The observed spatial disparity in poverty across the country could be explained by climate and conflict shocks. Many non-poor Nigerians are only a small shock away from falling into poverty, while those who are already poor could be pushed into even deeper deprivation[72].

[72] World Bank, 2022: A Better Future for All Nigerians, Nigeria Poverty Assessment

Climate-related shocks—such as floods and droughts—are particularly harmful because they threaten the rain-fed agricultural and pastoral activities that are common among households living below or just above the poverty line. Poverty in Nigeria is more prominent in rural communities that are mainly engaged in subsistence agriculture. Therefore, climate and weather-related shocks would dampen rural productivity and thus aggravate poverty.

In addition, conflict events such as banditry, kidnapping and terrorist activities have proliferated, displacing populations, disrupting markets, and interrupting livelihoods of Nigerians especially in rural communities in the north. Fatal conflicts have become more widespread across Nigeria in the past two decades, especially in the north (Figure 3.9). This corresponds to the onset of the Boko Haram insurgency in 2009 around the North East region, the rise of criminal gangs and banditry in the North West, and growing political violence and vigilante groups in the south.[74,75]

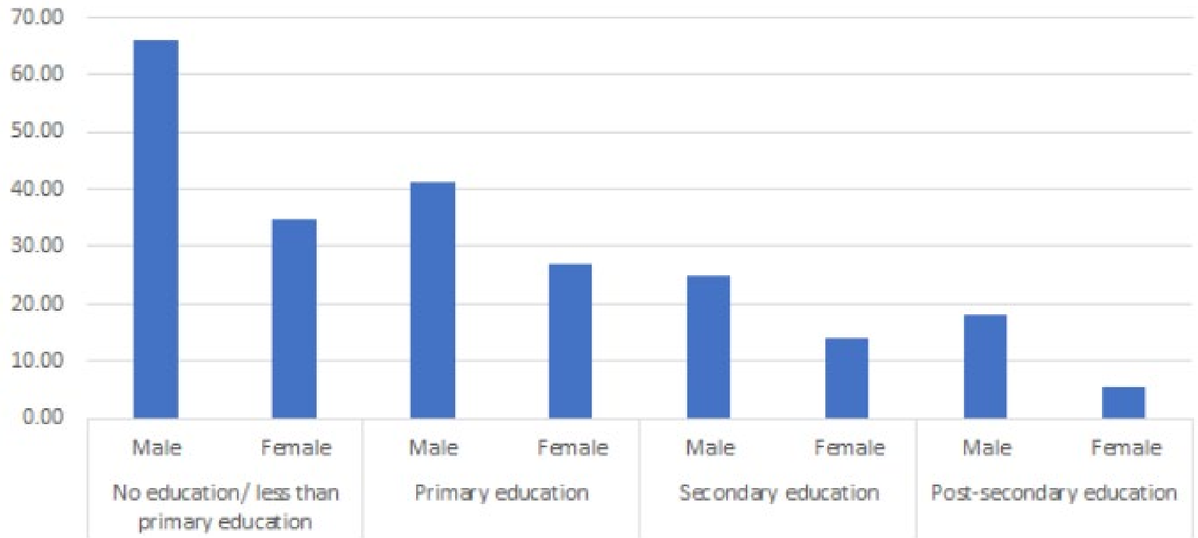
Figure 3.9: Fatal Conflict Events in Nigeria



Source: World Bank (2022) Nigeria Poverty assessment (p.5)

Poverty has a gender dimension, as more men are poor compared to women, irrespective of the level of educational attainment (Figure 3.10). Also, poverty is associated with lower levels of education as the poorest group had no education or less than primary education. The numbers improve across gender as individuals become more educated. In addition, there are spatial dimensions to poverty, as men and women located in rural areas tend to be poorer than their urban counterparts.

Figure 3.10: Poverty rate by Education and Gender, % (2019)



Source: NBS (2020) 2018/2019 Nigeria Living Standard Survey Poverty Tables

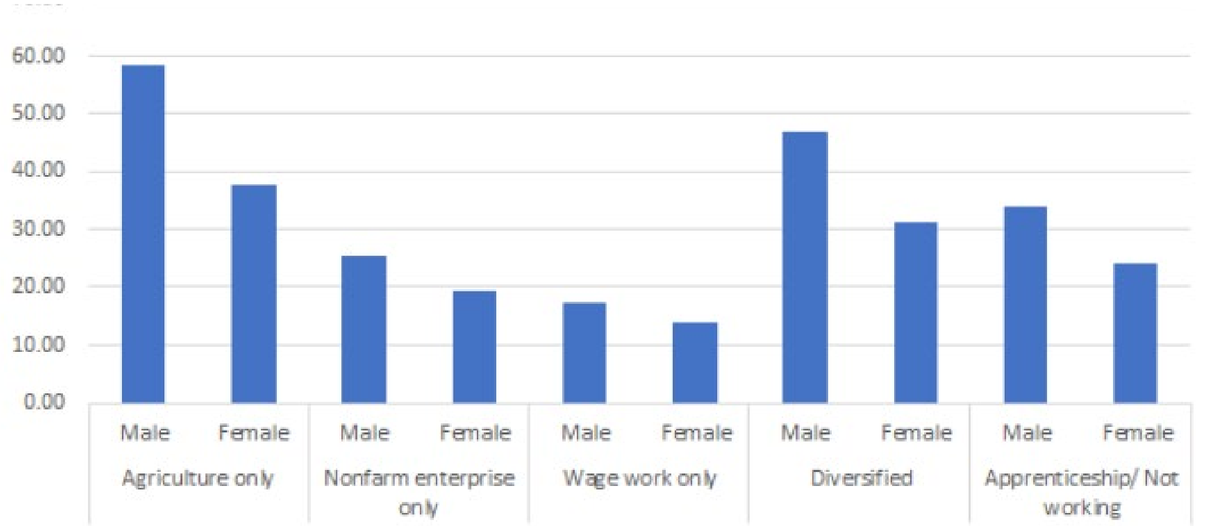
Workers in the agriculture sector seem to be the most vulnerable to poverty followed by households with diversified income-generating activities and those engaged as apprentices or not working at all (Figure 3.11). This could be linked to fragile, conflict and violent events that have especially affected farm households in recent times. The wage income group and the non-farm enterprise households seem to be the least poor among the various income-generating activities' groups. This trend provides additional insights into how poverty programmes and strategies can be better targeted at the sectoral level. Table 3.1 shows that larger households tend to be poorer than households with fewer individuals. Looking at the extremes, a one-person household recorded a poverty level of 2.66% at the national level while the numbers for rural and urban levels were 3.61% and 1.66%, respectively. These numbers are quite low compared with 20 or more person households given as follows: national (77.66%), urban (71.57%), and rural (79.60%). Again, the numbers are higher in rural areas than in urban centres, suggesting that addressing rural poverty will be critical to poverty reduction in Nigeria.

[73] Ibid.

[74] Felbab-Brown, V. (2021). Vigilante groups and militias in southern Nigeria. Washington DC: Brookings. https://www.brookings.edu/research/vigilante-groups-and-militias-in-southern-nigeria/

[75] International Crisis Group. (2021). Watch List 2021. Brussels: International Crisis Group. https://d2071andvip0wj.cloudfront.net/watch-list-spring-update-2021%20(3).pdf

Note: The estimates exclude Borno. The poverty status is assigned using Nigeria's national poverty line.



Source: NBS (2020) 2018/2019 Nigeria Living Standard Survey Poverty Tables

National/State	1 person	2-4 people	5-9 people	10-19 people	20 or more people
NIGERIA	2.66	17.88	40.90	67.27	77.66
Urban	1.66	5.23	19.07	44.47	71.57
Rural	3.61	27.52	53.18	73.79	79.60

Source: NBS (2020) 2018/2019 Nigeria Living Standard Survey Poverty Tables

Note: Top category (20 or more people) is too small - just 17 observations for urban areas

3.4 Policy Recommendations for Improving Human Welfare

3.4.1 Strategies for Job Creation

In order to tackle the issue of unemployment, government has set up many committees. In 2010, the National Committee on Job Creation (NCJC) was created, headed by Alhaji Aliko Dangote. In 2012, the Standing Committee on Job Creation was created, headed by the Minister of Labour and Productivity, Chief Emeka Wogu. In 2014, the Presidential Jobs Board was created, headed by the Vice President[76]. In 2018, the National Employment Council was created. In 2020, the National Executive Council created a Joint Committee on unemployment and insecurity, headed by the Vice President.

[76] https://shipsandports.com.ng/job-creation-committees-died-job/

In addition, there have been many initiatives on job creation established by the federal government, state governments, private sector, international organisations, and non-profit organisations[77]. Some of the initiatives of the federal government include: the National Poverty Eradication Programme (NAPEP), National Directorate of Employment (NDE)'s National Open Apprenticeship Scheme (NOAS), School-On-Wheels (SOW), NDE Facility, Industrial Training Fund (ITF), National Urban Youth Employment and Empowerment Programme (NUYEEP), SMEDAN, NBTE's Innovation Enterprise Institution and Vocational Enterprise Institution[78]. Other federal government initiatives include: the Youth Enterprise with Innovation in Nigeria (YOU-WIN), the Graduate Internship Scheme (GIS), the University Entrepreneurship Development Programs (UNEDEP)[79].

However, despite these committees and initiatives, youth unemployment in the country is still high. This has been attributed to five factors[80]. First, the programmes have limited scope and scale, and collectively reach less than 100,000 youth every year[81]. Second, many of the initiatives are too broad-based and have not focused on the unique needs of the youth. Third, there has been poor collaboration amongst public and private initiatives. This has led to competition, rather than cooperation, thereby limiting effectiveness of these schemes. Fourth, most of the training offered by these initiatives is out-of-date and too theoretical. They are thus impractical and further perpetuate the low skills of youth. Fifth, the officials designing the initiatives are not aware of current realities on ground. They are not in touch with the grassroots and this limits the impact and reach of the initiatives that are designed and implemented.

Taking into consideration these bottlenecks and the high unemployment rate, the discussion below highlights some strategies that can be adopted to boost employment in the country.

Development of Critical Infrastructure

Infrastructure is critical for establishment of industries, movement of goods, and the smooth running of businesses. With a population of about 200 million, Nigeria only has the capacity to generate 12,000 MW of electricity, and realistically, is only able to distribute about 5,000 MW. This is grossly insufficient. Many businesses have to generate power individually and the high costs of doing this have led to many SMEs shutting down and multinational companies exiting the country for other domains. Roads and railways are important for the movement of goods. However, many roads are in a dilapidated state and are not motorable. The majority of agricultural produce is wasted due to inability to reach markets on time due to bad roads. Also, large-scale movement of goods over long distances which is more amenable to movement by rail is not possible. The rail system is old and outdated and has limited coverage. This has put pressure on the roads, and the frequency of heavy-duty trucks on the roads has hastened their decline. Active efforts need to put in place to develop critical infrastructure to facilitate economic activities.

Active Policy on Diversification and Promotion of Small and Medium Scale Enterprises

Diversification from oil has been a central piece of economic reform plans for many years. However, these reforms have not been able to achieve this objective, largely because oil revenue has provided easy funds for government. However, with oil revenue dropping drastically in recent times, the government

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77 Federal Ministry of Youth Development, Policy Framework for the Youth Employment Programme

78 Ibid.

79 Abdulkhalid Anda Salihu (2021) UNEMPLOYMENT IN NIGERIA: POLICY REVIEW AND RECOMMENDATION, March https://www.retheuploaders.org/programs/SMEPN

80 Federal Ministry of Youth Development, Policy Framework for the Youth Employment Programme

81 Ibid.

82 https://www.worldbank.org/en/topic/smefinance

83 Ibid.

should actively pursue diversification. Such diversification can be promoted though active promotion and encouragement of SMEs. SMEs account for more than 50% of jobs worldwide[82]. SMEs are even more important for job creation in an emerging economy like Nigeria as they create 70% of jobs[83].

The government in recent times has tried to encourage SMEs with tax concessions provided in the Finance Acts of 2019 and 2020. However, more needs to be done to actively promote and encourage entrepreneurial drive especially among the youths. First, high insecurity in rural areas has driven people away from farming. This has led to an enormous loss of jobs. The security situation should be tackled. There should be concerted effort to improve yields, increase access to mechanisation, and facilitate value-addition through storage, processing and packaging of agro-produce. Second, finance is critical for the establishment and running of SMEs. However, finance has been identified as the biggest obstacle to running an enterprise by 30% of SMEs[84]. There should be concerted efforts to provide access to finance to SMEs. There have been many initiatives of this nature but these have largely failed to achieve their objectives. Proper appraisals of why previous initiatives failed should be conducted; and new surveys should be conducted to identify areas of need so that new initiatives to provide access to finance will not end like previous attempts. Third, corruption, bureaucracy and red tape in administrative processes by government officials need to be addressed. Taken together, corruption, tax rates and administration, customs and trade regulations, practices in the informal sector were identified by over 25% of SMEs as obstacles to business. Many entrepreneurs are discouraged by cumbersome processes and difficulties in obtaining business operating permits. Also, multiple regulators and a plethora of repetitive taxes have triggered exits of many SMEs.

Vocational Training and Skills Acquisition Programmes

The critical skills shortage of youths needs to be addressed. There needs to be an upgrade of employable skills. This can be done through investments in high quality technical and vocational learning centres. Improvements in employable skills, particularly technical and vocational skills can provide huge impetus to job matching and performance, thereby making more people employable. The Malaysian government employed this initiative to tackle youth unemployment and this attracted foreign investment, thereby further creating more jobs and the establishment of industries producing high-end goods.

Revamping the Educational System

Making the education system more responsive to labour market needs can help support recent graduates' employability, reduce skill imbalances, and improve workforce resilience to future changes in labour market demand. The issue with educated unemployed people is not so much the quantity of education they receive as it is the type of knowledge and attitudes acquired. Restructuring the educational curriculum at all levels, particularly higher education, to impart the knowledge and attitudes required to promoting self-employment and entrepreneurship rather than salaried employment will go a long way in helping to reduce unemployment.

[84] https://www.enterprisesurveys.org/en/data/exploreeconomies/2014/nigeria

3.4.2 Strategies for Sustainable Poverty Reduction

Scaling Up Social Investment Programmes and Improving the Targeting Mechanism

The existing social investment programmes need to be scaled up to help address extreme poverty. The conditional cash transfer programme needs to be improved by increasing the amount from N5,000 to N10,000. Improving livelihoods, especially in rural communities, could be attained by developing a robust targeting mechanism that minimises the risk of moral hazard and adverse selection. This would require the active participation of the subnational (state, local government and ward levels) which have adequate information on the socioeconomic status of members of their communities.

Increase Investment and Expenditure into Human Capital Development

Weak human capital could also explain the high incidence of poverty in Nigeria. Therefore, more investment in education in both urban and rural areas should be given priority with emphasis on vocational training, skills acquisition and entrepreneurship programmes. Providing financial literacy training, especially for small start-ups could also help address poverty because it mitigates the risks of failure after the first few months due to financial illiteracy or lack of management know-how.

Coordinated and Improved Involvement of Sub-National Governments in Anti-Poverty Schemes

The role of the subnational governments in poverty reduction is critical. The state and local governments need to proactively engage youth over the next two to three years while the expansion of non-formal education to adult women especially in the north is crucial for sustained poverty reduction. In India, the government introduced a 'New Literacy Programme' and this has recorded some improvement in the level of adult literacy in the country. The Ministry of Education could establish something similar but with emphasis on skills acquisition, vocational training, and financial literacy that can help empower vulnerable groups such as women and youth.

There needs to be an upgrade of employ-able skills.

Providing financial literacy training, especially for small start-ups could also help address poverty

Providing and Improving Access to Critical Infrastructure

Availability and access to infrastructure and social services such as digital technology improve livelihoods and productivity. There is a need to urgently increase investment in digital technology in rural areas to create more jobs and economic opportunities. Countries like India, Indonesia and Mexico have invested heavily in infrastructure over the last two decades. There is an urgent need to restructure the fiscal profile of MDAs that provide infrastructure (such as ministries of works, power, housing, water resources, etc.) and allied services by ensuring that recurrent expenditures are drastically reduced to boost capital expenditure.

Restructuring the educational curriculum at all levels

4 Trade and Investment

4. Trade and Investment

4.1 Background and Context

Globally, international trade and investment are recognized to be strong enablers of sustained inclusive growth and development. Indeed, countries with more liberal trade and investment regimes tend to have faster growth rates, higher innovation, improved productivity, higher income, and more opportunities., Although globalisation through the trade and investment channels has ushered in an era of economic prosperity around the world, some developing economies like Nigeria have not been able to take advantage of the opportunities created. This is due to multidimensional challenges that have made competition on a global scale daunting.

The non-oil sectors are critical for Nigeria's diversification efforts and have huge potential for job creation. Particularly, sectors that largely employ people with lower educational attainment (who are poorer) can play a big role in this regard. Agriculture is already the largest employer of labour and there is still scope for even higher employment. The manufacturing sector employs a large number of people at the lower end of the educational ladder, and can play a big role in stimulating employment. Oil export dominance in Nigeria has dampened the prospects of non-oil exports such as agriculture and manufacturing. The low productivity of these sectors combined with low value addition have contributed to the country's vulnerability to oil price shocks and foreign exchange constraints. A robust trade policy framework that promotes trade diversity and sophistication could help address these gaps, create jobs, and transform the economy.

Nigeria's trade policy regime has over the years been subject to numerous policy directions with frequent reversals. There have been periods of trade openness and periods of protection. The motive for the pursuit of restrictive trade policies by the government has mainly been to protect certain sectors/industries, increase domestic production, ensure security (smuggling of arms and ammunition), and attain self-sufficiency in food production. This stance was pursued through the use of tariff and non-tariff barriers like import bans and other economic policies such as multiple exchange rate windows, foreign exchange restrictions, and border closure that have significantly disrupted trade flows. These policy distortions combined with recent global developments continue to magnify external sector risks.

The investment climate in Nigeria is largely liberal, with 100% foreign ownership allowed in all sectors except the

[85] https://www.weforum.org/agenda/2016/01/what-s-the-deal-with-global-trade-and-investment/

[86] https://www.worldbank.org/en/results/2018/04/03/stronger-open-trade-policies-enables-economic-growth-for-all

[87] https://odi.org/en/insights/trade-and-investment-for-growth-supporting-trade-induced-growth-for-development-how/

[88] Shuaibu, M.I (2016). The Effect of Trade Liberalisation on Poverty in Nigeria: A Micro–Macro Framework, International Economic Journal, DOI:10.1080/10168737.2016.1221984

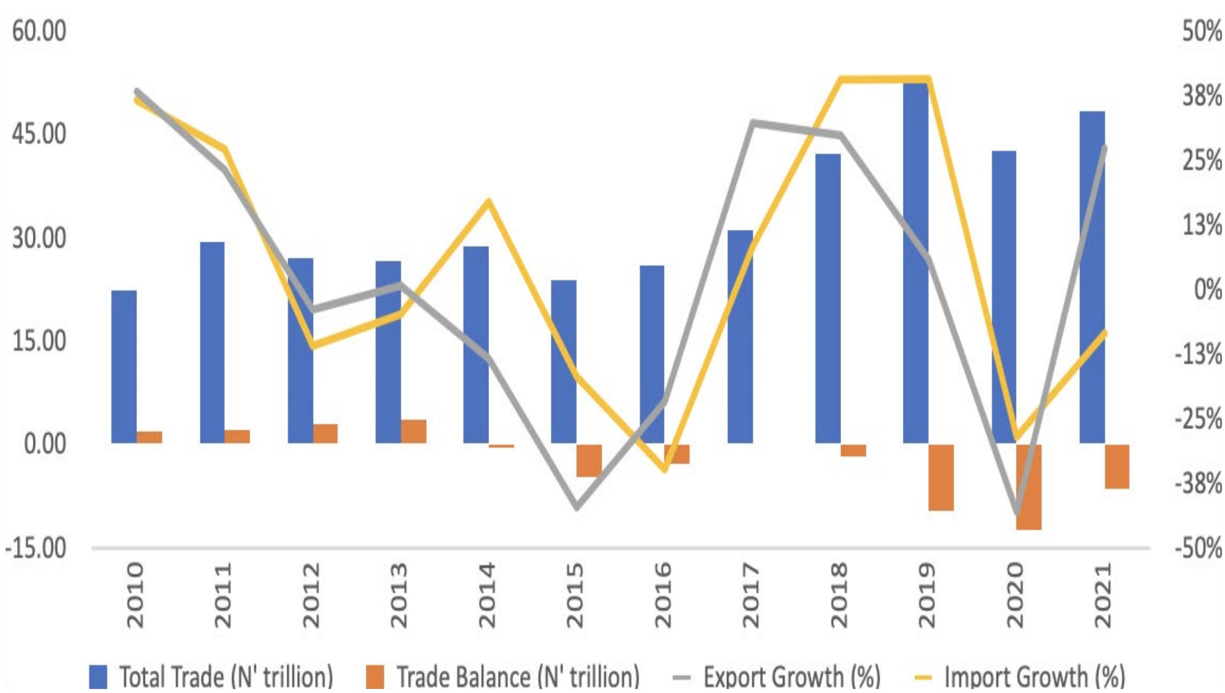
[84] https://www.enterprisesurveys.org/en/data/exploreeconomies/2014/nigeria

oil and gas sector. Investments in this sector are limited to joint ventures or production sharing arrangements, with a minimum ownership structure of 55% for the government. It is also mandatory for foreign investors to be registered as limited liability companies. There have been two recent important legislations that have led to modest improvements in the business and investment environment. The first is the Finance Act 2019 which provides tax incentives for businesses, and the second is the Companies and Allied Matters Act (CAMA) 2020.

4.2 General Trade Trends

Nigeria's trade performance over the last decade has been characterized by persistent deficits since 2015. The trade balance moved from a surplus of N2.14 trillion in 2011 to deficits of N4.51 trillion in 2015 and N2.61 trillion in 2016, due to the oil shocks and weak foreign exchange management that led to a recession (Figure 4.1). Although the trade deficit reduced in 2017 and 2018, it increased to N12.25 trillion in 2020, then dropped to N6.31 trillion in 2021. The performance of total trade was largely stagnant between 2011 (N29.38 trillion) and 2017 (N31.15 trillion). However, total trade increased substantially to N52.4 trillion in 2019, then dropped to N42.6 trillion in 2020 before increasing to N48.36 trillion in 2021 (Figure 4.1). The growth of exports and imports has been quite cyclical/volatile in the last decade. While the former has been driven by oil price fluctuations, the latter has been driven by domestic developments such as the exchange rate management strategy and restrictive trade policy environment that have largely hindered imports. This has had serious consequences for the manufacturing sector.

Figure 4.1: Key Trade Performance (2010-2021)



Source: Central Bank of Nigeria, Balance of Payment Statistics

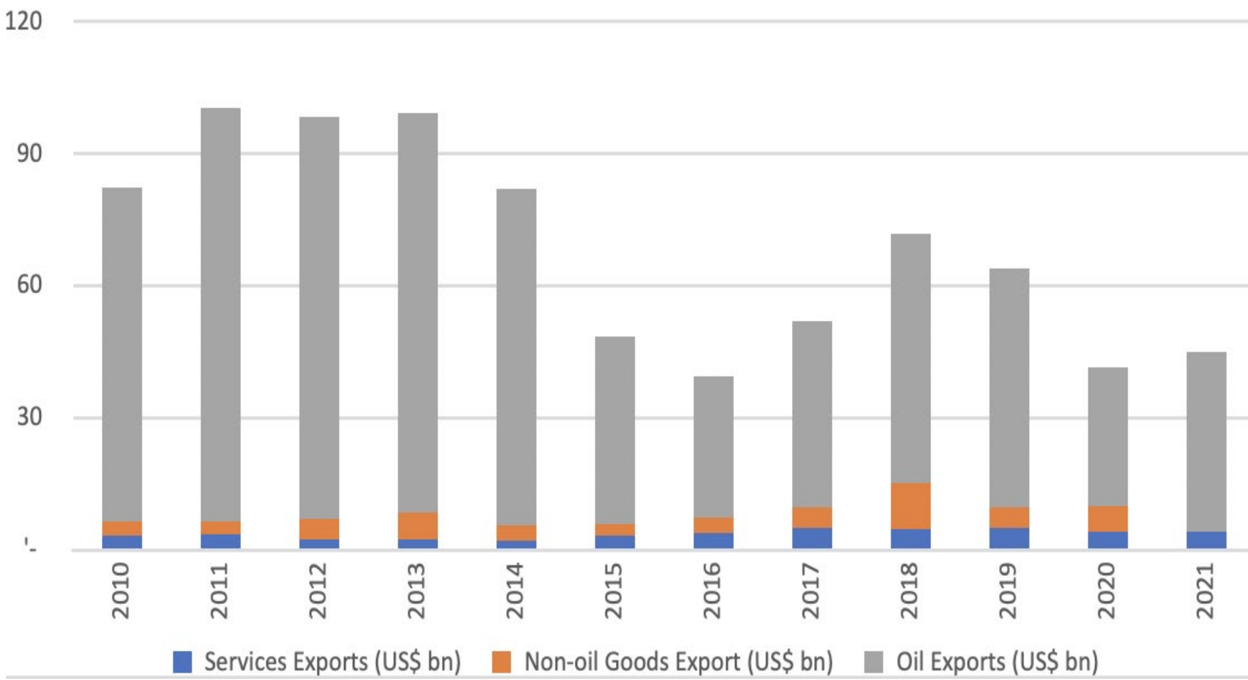
[89] https://www.thisdaylive.com/index.php/2022/06/20/opportunity-cost-of-nigerias-trade-and-industrial-protectionist-policies/

[90] World Trade Organization (2017) Nigeria Trade Policy Review. https://www.wto.org/english/tratop_e/tpr_e/tp456_e.htm

[91] Ibid.

Non-oil goods exports constitute a very small share of total exports as they increased from $3 billion in 2011 to $10 billion in 2018 before dropping to $6 billion in 2020 (Figure 4.2). Services exports also performed poorly and recorded marginal improvements, albeit with little fluctuations over the last decade. It increased from $3 billion in 2011 to $5 billion in 2019 and thereafter recorded a slight drop to about $4 billion in 2020 and 2021.

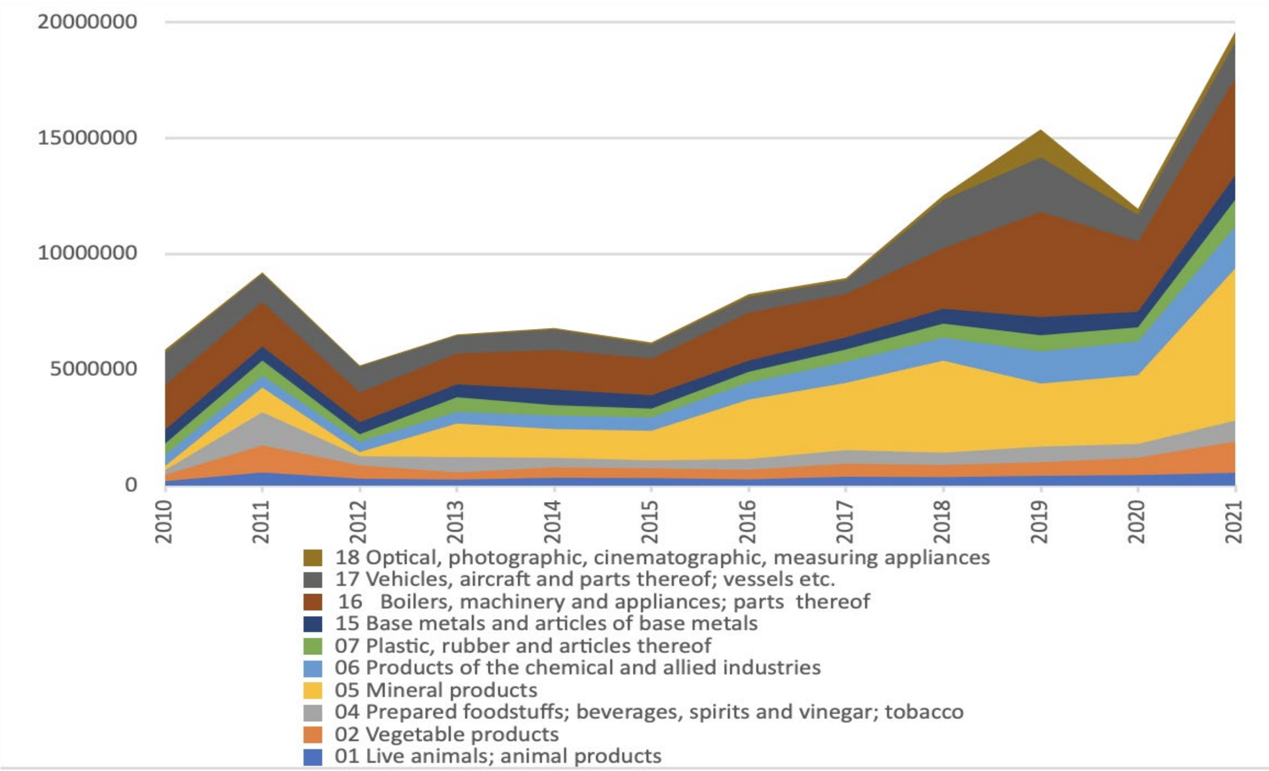
Figure 4.2: Composition of Exports



Source: Central Bank of Nigeria, Balance of Payment Statistics

The main products that dominate Nigeria's imports are mineral products; boilers, machinery and appliances; products of chemical and allied industries; vehicles, aircraft and parts thereof vessels (Figure 4.3). The share of products machinery, vehicles, and mineral products has been increasing over the last decade suggesting that they are driving the trade deficit more while other products have remained relatively unchanged. Nigeria's high import bill is mainly driven by refined petroleum products which stood at N1.4 trillion in the fourth quarter of 2021 (about 24.3% share of total import) followed by durum wheat (6.69%) and rolled iron/steel, width>=600mm, other painted, varnished or coated with plastics (1.49%). This has also contributed to the high under-recovery (premium motor spirit subsidy) borne by the FGN. The external balance will likely worsen if urgent steps are not taken to address this worrisome trend.

Figure 4.3: Top Ten Imported Products, 2010-2021 (N'million)



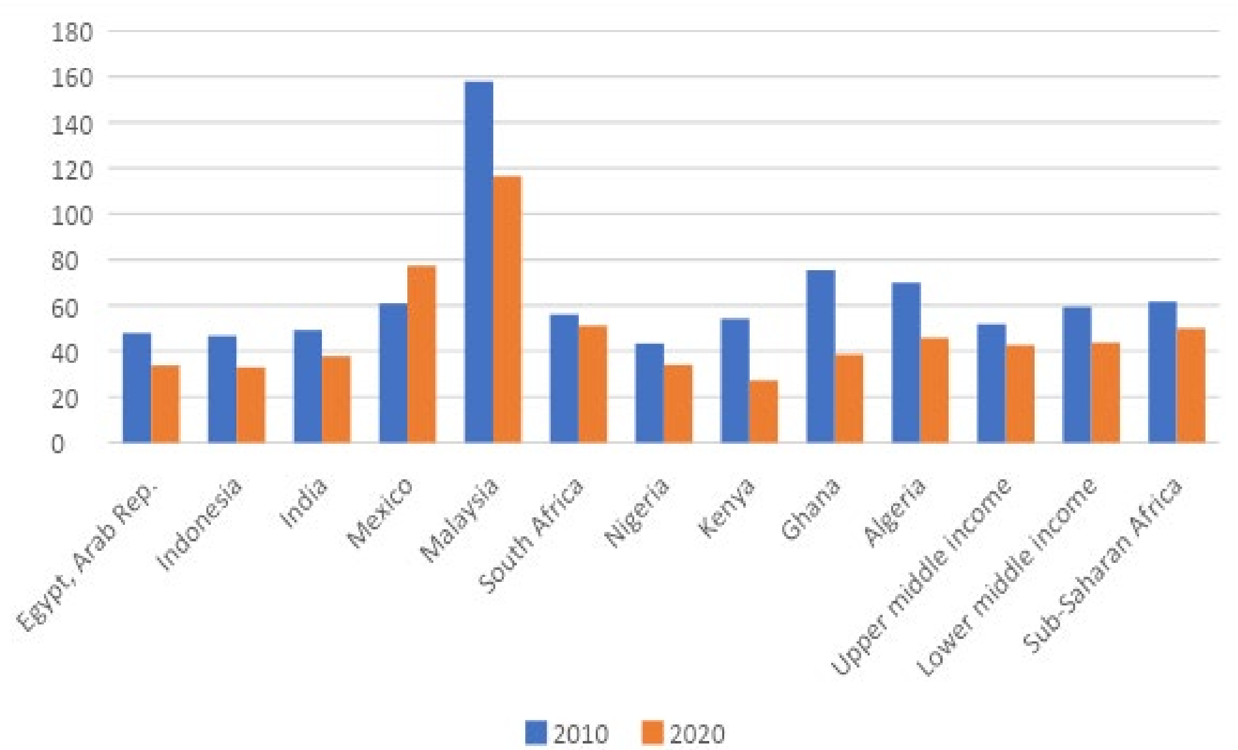
Source: National Bureau of Statistics, Foreign Trade Statistics (various issues)

4.3 Trade Policy Developments and Restrictions

Higher trade openness could help stimulate industrialization and economic diversification. However, Nigeria's history suggests a predominantly protectionist trade policy stance at the expense of more trade openness. These policies are the result of wariness of trade liberalisation, and such scepticism derives from the concern of stakeholders about the unfair competition that could stifle domestic production. Trade as a share of GDP in Nigeria declined from 43% in 2010 to 34% in 2019 making it one of the lowest amongst peer countries (Figure 4.4). The last few years have witnessed a significant resurgence of protection with an escalation of trade barriers. These include higher tariffs, levies, and import bans on some commodities that can be produced domestically such as rice, sugar, and cassava.

[92] NBS (2022) Foreign Trade in Goods Statistics Q4 2021.

Figure 4.4: Trade as a Share of GDP – Nigeria and Other Countries, 2010 and 2020



Source: World Bank, World Development Indicators online
Note: Endpoint (2020) for Nigeria based on 2019 value

The border closure[93] and foreign exchange restriction on the importation of 42 items by the Central Bank of Nigeria[94] were significant trade protectionist policies. In October 2019, the complete closure of land borders was announced, banning both legitimate and illegitimate movement of goods in and out of the country. The policy was meant to (i) address the illegal export of subsidized fuel from Nigeria; (ii) stop the import of banned items or illegally transhipped goods; (iii) prevent the import of goods competing with domestic priority industries; (iv) address security concerns related to drugs, smuggling of illegal arms, and criminals entering the country.[95,96,97] Limited progress has been made in achieving the objectives of the border closure, and this has resulted in some unintended consequences.[98] These include an increase in food inflation and consequent lower household consumption, a short-term reduction in smuggling that is unsustainable, decline in trade for small-scale private businesses[99]. Nigeria announced a partial reopening of its land borders in December 2020, about 16 months after the closure was announced.

[93] FGN announced the closure of the country's land borders over illegal importation of drugs, arms and agricultural products into Nigeria from neighboring West African countries.

[94] https://www.cbn.gov.ng/out/2015/ted/ted.fem.fpc.gen.01.011.pdf

[91] Ibid.

[95] https://guardian.ng/news/nigeria/border-closure-effects-and-curbing-recurrence/ Nigeria from neighboring West African countries.

[96] https://republic.com.ng/february-march-2020/closed-for-business-border-closure/

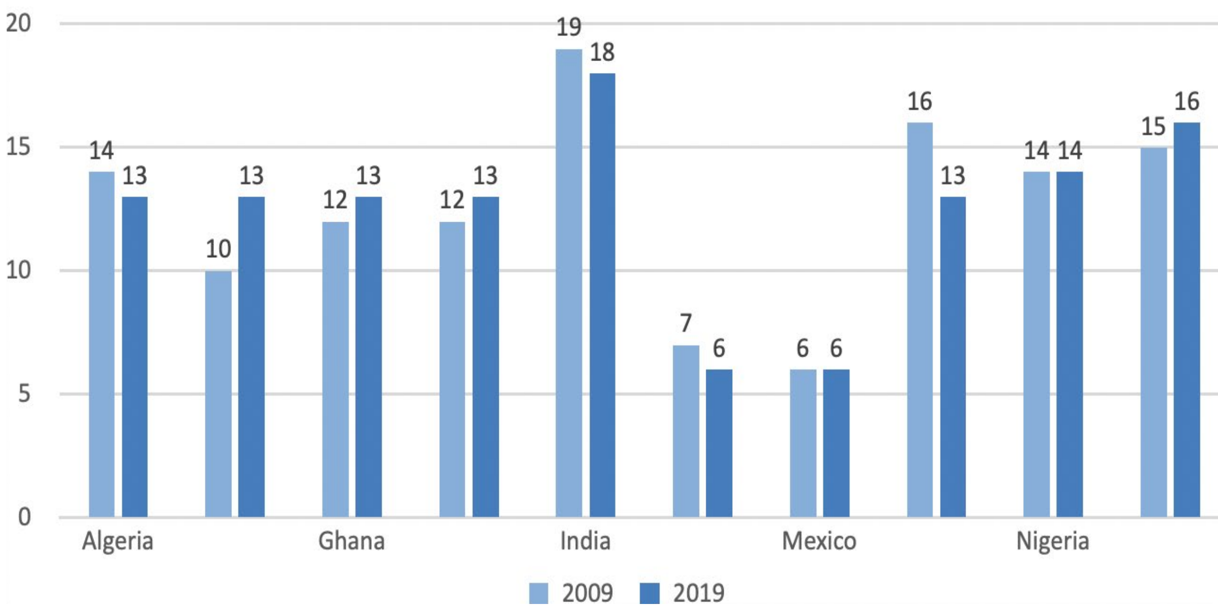
[97] https://www.thisdaylive.com/index.php/2020/12/21/revealed-negative-impact-of-closures-forced-buhari-to-reopen-borders/

[98] World bank (2020) Nigeria in Times of COVID-19: Laying Foundations for Strong Recovery. Nigeria Development Update, June 2020.

[99] Ibid.

The restriction of 42 items from accessing foreign exchange by the CBN also contributed to the country's restrictive trade policies. The main objective of this policy is to "sustain the stability of the foreign exchange market and ensure efficient utilization of foreign exchange and the derivation of optimum benefit from goods and services imported into the country."[100] The exclusion of imports of certain goods and services is expected to encourage domestic production of these items. These restrictive policies have resulted in Nigeria ranking amongst the top most closed economies with a high Measure of Aggregate Trade Restrictions (MATR) (Figure 4.5). The MATR is an empirical measure of how restrictive official government policy is towards the international flow of goods and services. For Nigeria, the trade restrictiveness has remained unchanged between 2009 and 2019 with a MATR value of 14. By comparison, trade restrictiveness dropped in countries such as Malaysia (from 16 to 13); while it increased in countries such as Egypt (from 10 to 13).

Figure 4.5: Trade Restrictiveness in Nigeria and Peer Countries



Source: Estefania-Flores et al. (2022)
Note: Measure of Aggregate Trade Restriction (MATR) varies between 0 and 21, with higher values indicating more restrictions

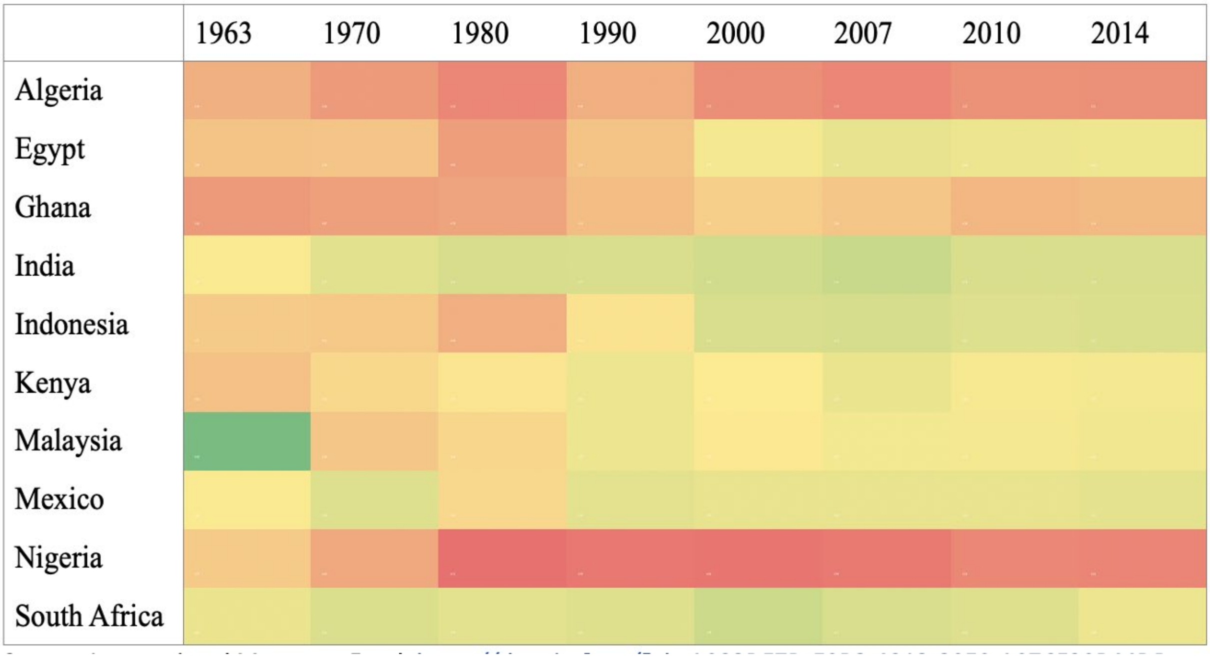
4.4 Export Diversity and Sophistication

Nigeria lags in terms of both export diversification and export quality compared with peer countries. It is one of the least diversified economies in the world given a narrow export base primarily dominated by crude oil and limited value-added export products (Tables 4.1 and 4.2). While peer countries have improved the quality and diversity of exports, Nigeria has at best remained stagnant or even worsened over time. The soft and hard infrastructure required to propel the much-needed quality export is inadequate and therefore, exports remain largely concentrated in crude oil. Consequently, the vulnerability of the economy to oil price shocks is amplified. This has only worsened in recent years, because while oil exports accounted for about 74.5% of the nation's total merchandise exports in the 1970s, this number had increased to over 90% between 2017 and 2019[101].

[100] https://www.cbn.gov.ng/out/2015/ted/ted.fem.fpc.gen.01.011.pdf

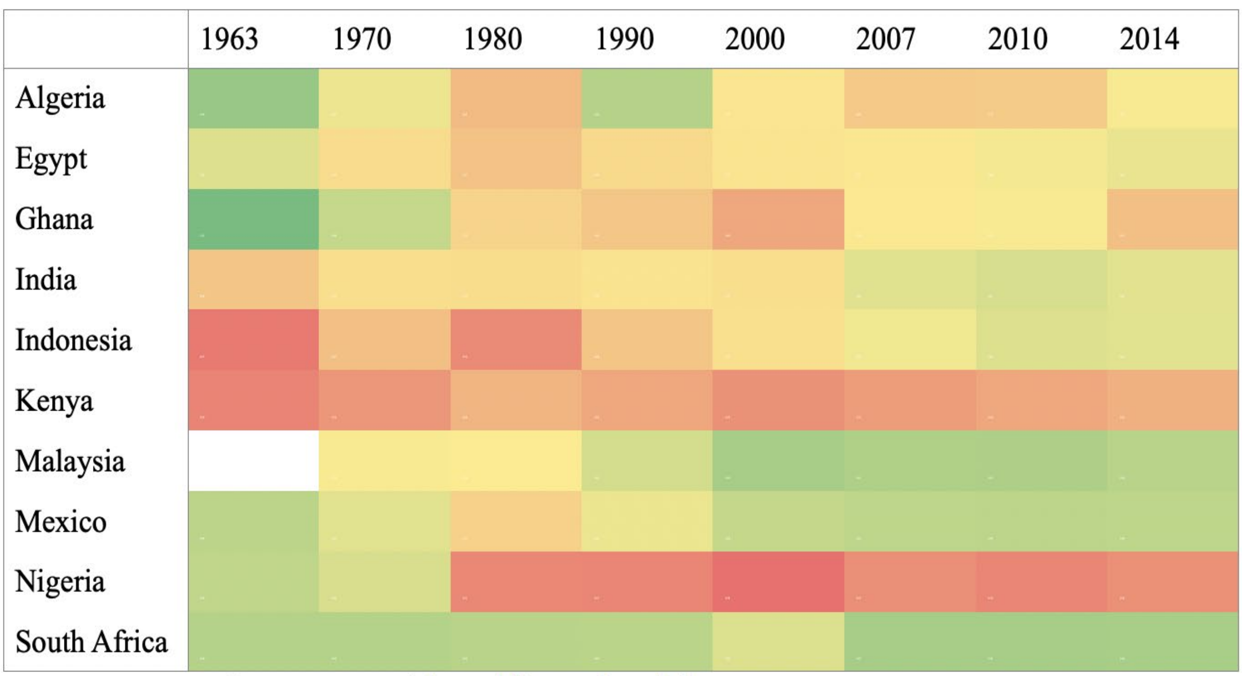
[101] World Bank (2022) Nigeria Development Update: The Continuing Urgency of Business Unusual. June 2022. https://www.worldbank.org/en/country/nigeria/publication/nigeria-development-update-ndu

Table 4.1: Export Diversity – Nigeria and Other Countries, 1963 – 2014



Source: International Monetary Fund, https://data.imf.org/?sk=A093DF7D-E0B8-4913-80E0-A07CF90B44DB
Note: Darker red colour corresponds to lower diversity

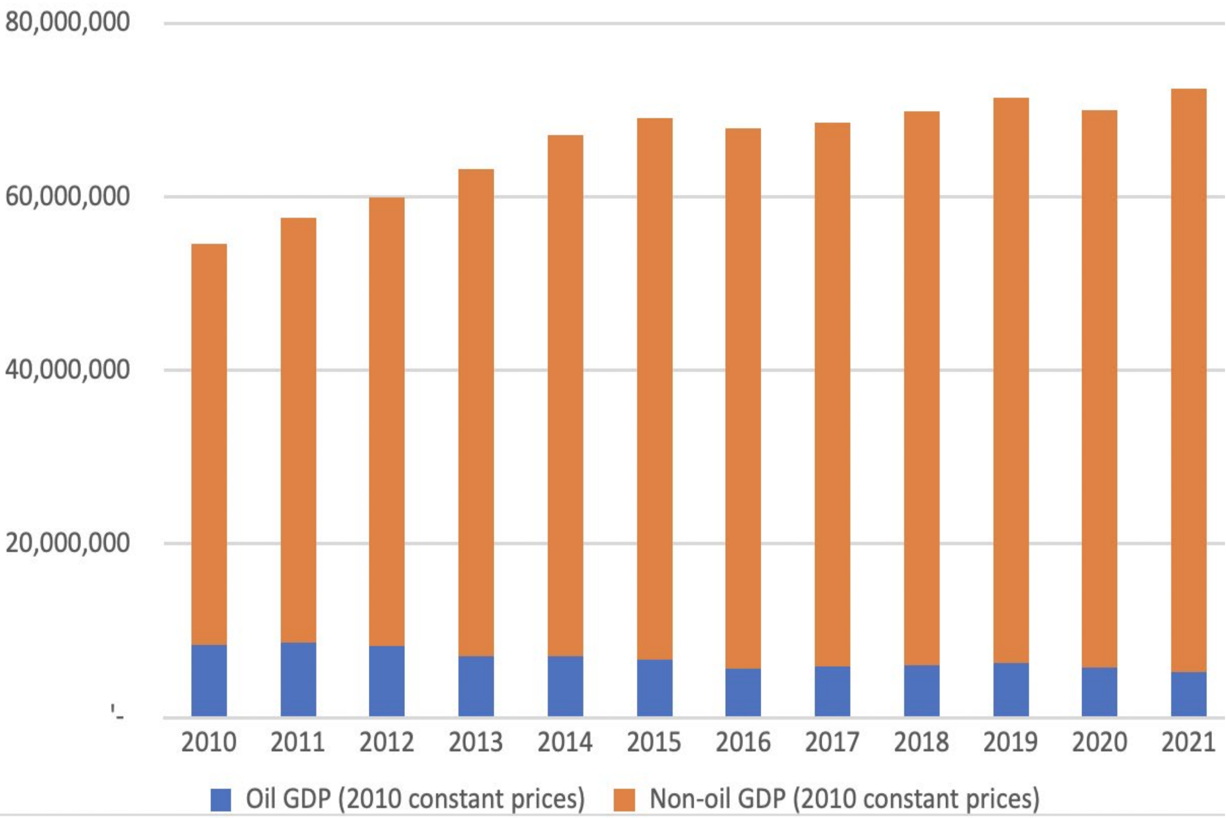
Table 4.2: Export Sophistication – Nigeria and Other Countries, 1963 – 2014



Source: International Monetary Fund, https://data.imf.org/?sk=A093DF7D-E0B8-4913-80E0-A07CF90B44DB
Note: Darker red colour corresponds to lower quality. 1963 data for Malaysia is not available.

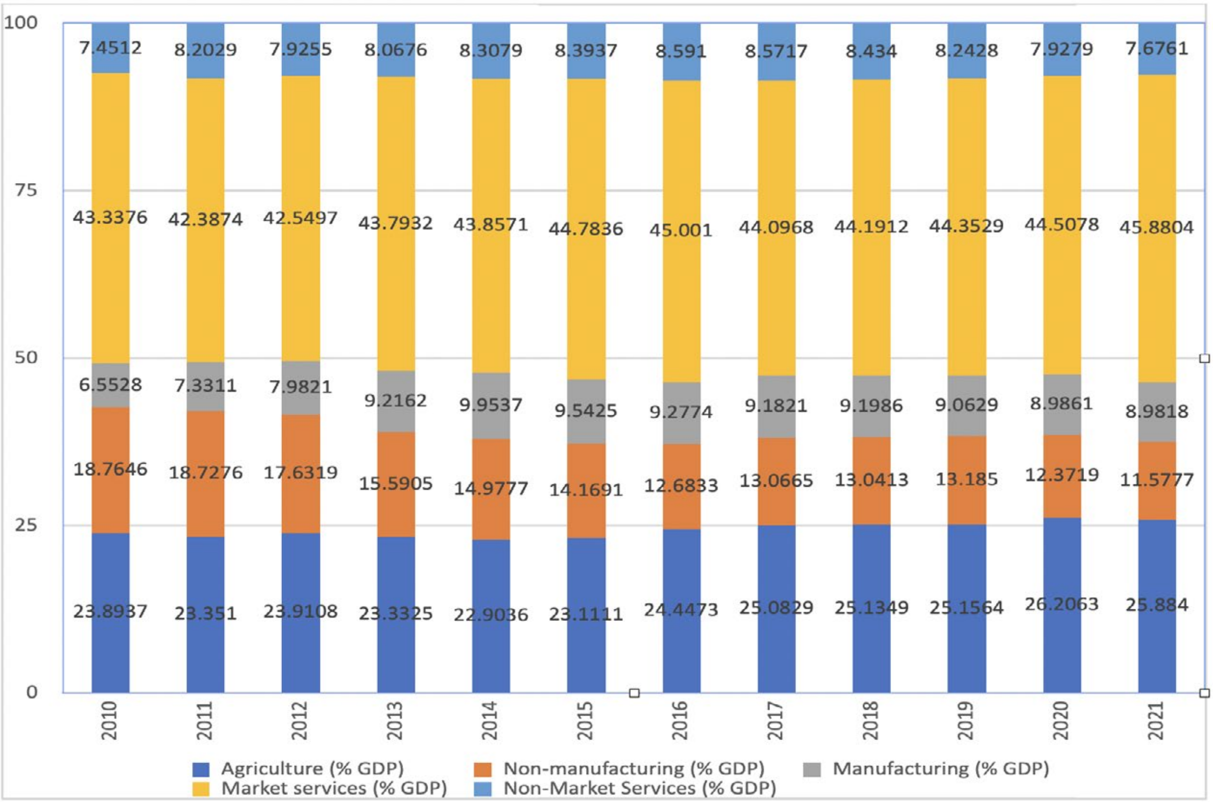
The limited diversity of Nigeria's export (oil dominance) is paradoxical given the significant economic diversity the country enjoys. Over the last decade, the contribution of the non-oil sector to GDP had been expanding while the contribution of the oil sector was shrinking. While non-oil GDP increased from N48.9 trillion in 2011 to N67.1 trillion in 2021, oil GDP dropped from N8.4 trillion to N5.2 trillion (Figure 4.6). The non-oil sector has been mainly driven by market services such as wholesale and retail trade, hospitality, transport storage and communication, finance and real estate. The share of market services in total GDP increased from 42% in 2011 to 46% in 2021 followed by agriculture which rose slightly from 23% in 2011 to 26% in 2021 (Figure 4.7). The contribution of non-manufacturing activity to GDP (mining, oil and gas, construction and utilities) decreased from 19% in 2011 to 12% in 2021 while manufacturing recorded a modest improvement from 7% in 2011 to 9% in 2021. Non-market service (public administration and others services) has remained relatively unchanged at 8%.

Figure 4.6: Oil and Non-Oil Share of GDP (N' Million)



Source: National Bureau of Statistics, Nigeria Gross Domestic Product Reports (various issues)

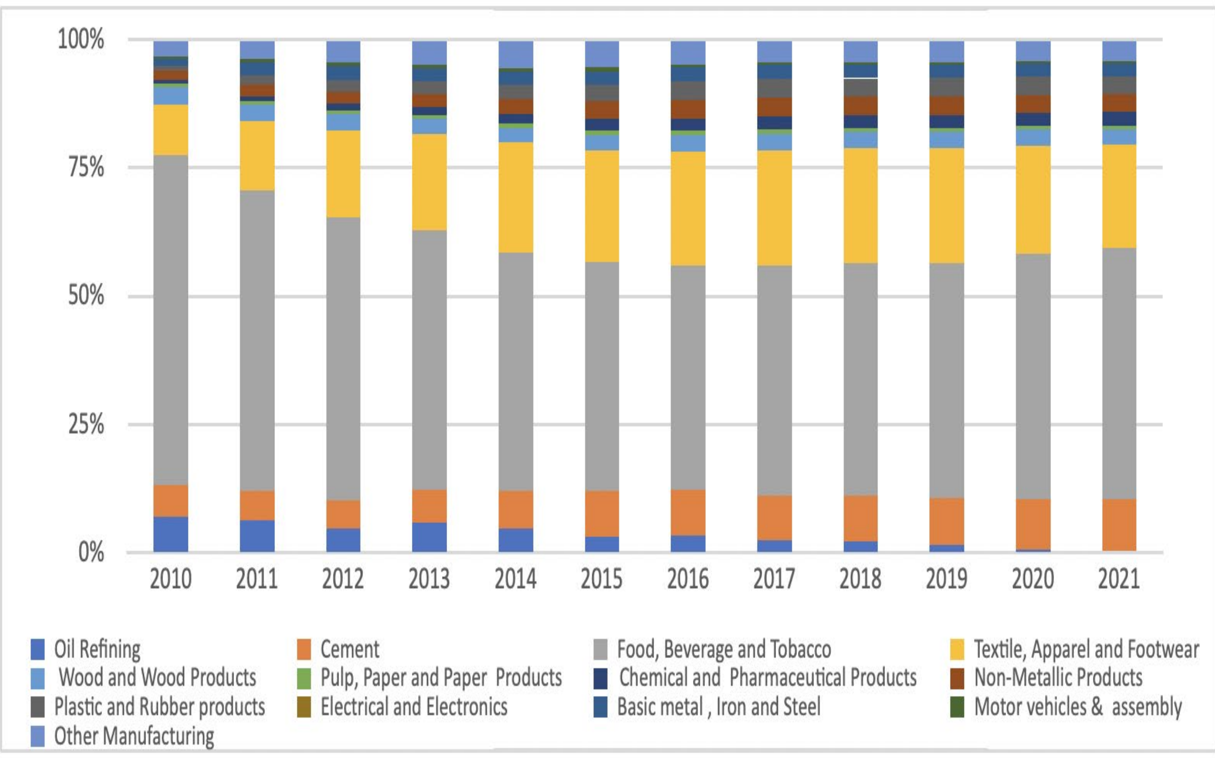
Figure 4.7: Sectoral Share of GDP (%)



Source: National Bureau of Statistics, Nigeria Gross Domestic Product Reports (various issues)

The manufacturing sector should play a pivotal role in Nigeria's export diversification efforts. This is because it has the potential of generating jobs and driving economic transformation over the short to long-term. A close look at the manufacturing sector shows that the food, beverage and tobacco sub-sector has been the main driver over the last decade, accounting for 49% of manufacturing GDP in 2021 (Figure 4.8). The other major sectors of manufacturing contributing to GDP in 2021 were the textile, apparel and footwear sector (20% of manufacturing GDP); the cement subsector (10% of manufacturing GDP); other manufacturing (4% of manufacturing GDP).

Figure 4.8: Manufacturing Sub-sectors (% share of manufacturing GDP)

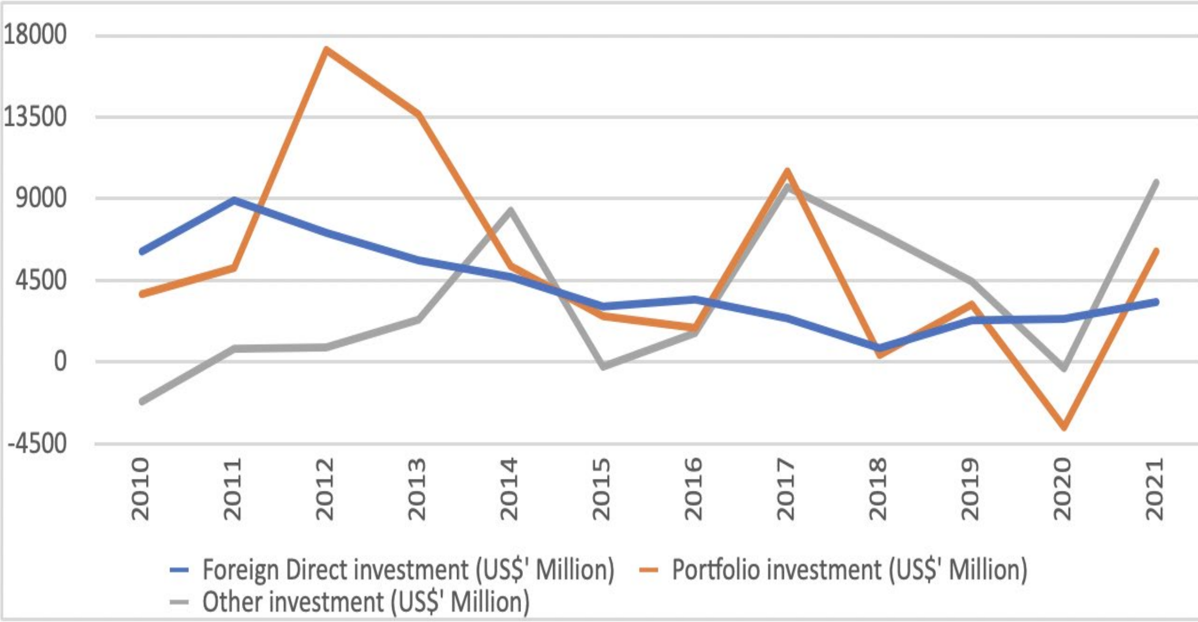


Source: National Bureau of Statistics, Nigeria Gross Domestic Product Reports (various issues)

4.5 Capital Flows

FDI flows could serve as a veritable tool for boosting productivity, technology transfer, diversification, and exports. Driven by multiple domestic and global challenges, Nigeria's FDI inflows performed poorly over the last decade but saw marginal improvement in the years after 2018. The net flow of direct investments to Nigeria from abroad fell from US$8.9 billion in 2011 to US$3.3 billion in 2021 (Figure 4.9). The net flow of portfolio investments increased from about US$5.2 billion in 2011 to about US$6.1 billion in 2021, albeit with fluctuations in the years between the review period. There was a significant dip in portfolio flows from about US5.2 billion in 2014 to about US$1.5 billion in 2016 due to recessionary pressure. The recovery in 2017 saw an improvement in portfolio inflows at over US$10 billion before dropping significantly to US$394 million in 2018.

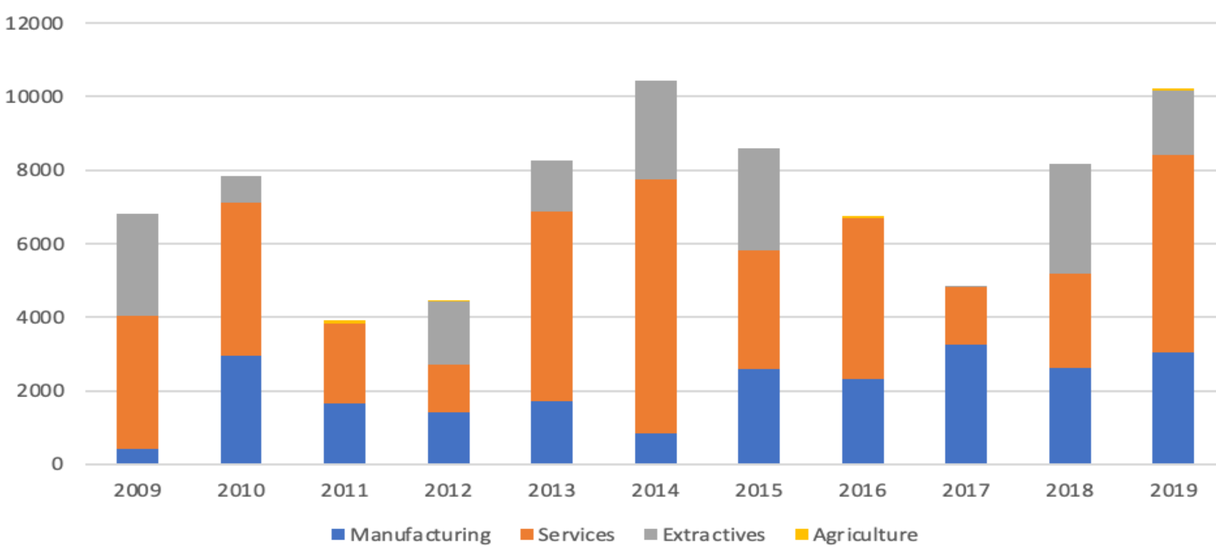
Figure 4.9: Net Foreign Investment Inflows to Nigeria, 2010 - 2021



Source: National Bureau of Statistics, Nigeria Gross Domestic Product Reports (various issues)

The composition of FDI (based on greenfield FDI announcements) over the last decade seems to be highly skewed towards the services and extractive sectors with USD3.6 billion and USD2.7 billion respectively, compared to USD424 million and zero inflows recorded by the manufacturing and agriculture sectors respectively, in 2009 (Figure 4.10). By 2014, FDI inflows to the extractive sector dropped to about USD2.7 billion while investment in the services sector increased to about USD6.9 billion. While FDI inflows to the manufacturing sector also increased to about USD831 million, the agriculture sector recorded zero inflows. The trend largely remained the same albeit with slight changes as services and extractive dropped to about USD5.4 billion and USD1.7 billion in 2019. There was an uptick in FDI inflows in 2019 as FDI flows to the agriculture sector increased to USD68.8 million and manufacturing rose to USD3 billion in 2019.

Figure 4.10: Greenfield FDI Announcement by Sector (estimated capex, USD'mill)



Source: Financial Times, FDI Markets

4.6 Trade Facilitation

Cumbersome custom procedures combined with poor port management, infrastructure and congestion remain a major impediment to Nigeria's trade performance. These are elements of a less than robust trade facilitation infrastructure., Nigeria was lowest (out of 167 countries) in a ranking for trade facilitation performance indicators (Figure 4.11). Despite significant investment in new and planned projects such as the National Single Window and the proposed E-Customs to improve the performance of the NCS, Nigeria ranked 138 in terms of efficiency of the customs clearance process compared with South Africa which ranked 34. In terms of the quality of trade- and transport-related infrastructure Nigeria ranked 78, following regional peer countries like Algeria and Ghana. This suggests the weak capacity of the Nigeria Ports Authority (NPA).

Figure 4.11: Trade Facilitation Indicators (2018)[105]

Source: World Bank, Logistics Performance Index (LPI)

With a weak trade-related infrastructure, Nigeria's domestic and external trade competitiveness is weak. Due to the burdensome custom procedures, the country is the worst amongst peer countries with a rank of 179 (Table 4.3). Furthermore, the country's logistics performance index has worsened as the ranking dropped from the 90th position in 2016 to 110th (out of 160) in 2018. Nigeria's overall competitiveness is also quite low, ranking 115th (out of 140) in 2018 and 116 in 2019 according to the WEF Global Competitiveness Index. The cost of exporting and importing in Nigeria is one of the highest in the world. Nigeria also lags behind comparator countries in terms of documentary and border compliance. All these negatively impact trade, and ultimately economic growth and development.

Table 4.3: Trading Across Border Indicators

		Time to export (hours)		Time to import (hours)		Cost to export (USD)		Cost to import (USD)	
	Rank	Document compliance	Border compliance	Document compliance	Border compliance	Document compliance	Border compliance	Document compliance	Border compliance
Algeria	172	149	80	96	210	374	593	400	409
Egypt	171	88	48	265	240	100	258	1000	554
Ghana	158	89	108	36	80	155	490	474	553
India	68	12	52	20	65	58	212	100	266
Indonesia	116	61	56	106	99	139	211	164	383
Kenya	117	19	16	60	194	191	143	115	833
Malaysia	49	10	28	7	36	35	213	60	213
Mexico	69	8	20	18	44	60	400	100	450
Nigeria	179	74	128	120	242	250	786	564	1077
S/ Africa	145	68	92	36	87	55	1257	73	676

Source: World Bank, Ease of Doing Business (2019)

4.7 Policy Options for Improving the Trade and Investment Climate

Reforming the Trade Policy Framework and Urgently Shifting from Non-tariff Measures to Import Tariffs

The starting point would be the development of a comprehensive long-term trade policy framework and plan that can sustainably guide trade reforms. This should be done by reviewing trade-related laws and regulations in line with multilateral (WTO), sub-regional (ECOWAS) and regional (AfCFTA) obligations. This would also include robust monitoring and evaluation systems to gauge the implementation of regional and multilateral trade initiatives as well as impacts. This could be domiciled under the Department of Trade under the Ministry of Industry, Trade and Investment. The success of trade reforms is largely dependent on the extent of engagements with critical stakeholders such as the private sector, development partner groups, academia, and think tanks amongst others. This would ensure that trade reforms get the buy-in of stakeholders. Addressing the tariff regime and services restrictions would be critical. This would entail simplification of import duties and a gradual liberalization of the service sector given its pivotal role in job creation and transfer of knowledge required for the non-oil sector.

Second, the issue of non-tariff barriers which has occupied the centre stage of Nigeria's economic policy also needs to be urgently addressed. There is a need to replace inefficient and distortionary non-tariff restrictions with import duties. The distortionary non-tariff measures need to be urgently reviewed and/or phased out. These include: (i) the foreign exchange restrictions on 42 products by the CBN; (ii) review of the import prohibition and absolute import prohibition lists and perhaps replacing these trade policy tools with tariff duties or import quotas; (iii) change in government policy on border closure from partial to the full reopening of closed land borders.

Third, the government would need to urgently rationalize and engender efficient service delivery in Nigeria's trade policy management space. The key trade-related agencies' coordination, surveillance, and implementation capacity need to be strengthened. This would ensure that duplication of functions and working in silos are eliminated to achieve efficient service delivery and optimal trade performance. Worthy of mention is the need to harmonize and clearly define the functions of the - National Action Committee on AfCFTA and Nigerian Office for Trade Negotiations and ensure they align with the role of the Department of Trade in the Ministry of Industry, Trade and Investment.

Collective Actions for Customs and Port Reforms

There is the need to tame corruption and address informal leakages in the ports. This would require standardisation of procedures, strengthening the e-governance portal towards paperless transactions, and establishing a functional grievance and redress mechanism.

Addressing trade facilitation constraints ranging from cumbersome customs procedures and congested ports would be required. This means that bold reforms are required by the Nigeria Customs Service (NCS) such as the implementation of the E-Customs modernization plan and the National Single Window (NSW) platform. Also, critical reforms would be required to help address port congestions and delays. Addressing corruption in the ports and borders head-on by improving the welfare of staff would help eliminate arbitrage opportunities created by informal leakages. This could also reduce spatial disparity in prices across the various states in the country.

Also, the country needs to complete its multilateral trade facilitation obligations. In 2017 Nigeria submitted its instrument of ratification of the WTO Trade Facilitation Agreement (TFA). However, there are outstanding implementation notifications such as the provision of technical assistance support and a range of transparency notifications. This however excludes notified art 10.3.4 (issues around international standards) and art 12.2 (customs cooperation) which are not due till 2025 and 2024, respectively. With a current implementation commitment of 46.6% and a timeframe from February 2017-December 2029, the Ministry of Industry, Trade and Investment would need to work closely with other relevant MDAs such as the NCS and NPA to speed up the implementation of these commitments.

Furthermore, capacity building for the staff of relevant agencies such as NCS and NPA should be expedited for ensuring that Nigeria fully aligns with the WTO TFA. The following specific measures are recommended for the

NCS: (i) development of a risk management framework; (ii) post-clearance regulatory audit; (iii) seeking deeper coordination with sister border agencies; (iv) streamlining formalities and documentation requirements; (vi) adoption of a technology-driven system through the national single window and the E-customs modernization. Simplify and streamline trading procedures at the border, and registration requirements for products to meet national and international standards.

Strengthen the NCS's core functions by (i) reviewing and updating the Risk Profiles on Pre-Arrival Assessment Report (PAAR) and the automated system for customs data (ASYCUDA); (ii) Application of existing legal penalty provisions; (iii) Completing a data matching exercise utilising data from Federal Inland Revenue Service (FIRS) and Nigeria Integrated Customs Information System (NICIS II) to identify high-risk or irregular import consignments; and (iv) Improving integrity and adopting appropriate management controls and a mechanism to monitor increases in transparency, reductions in arbitrary behaviour by authorities, and the degree of the simplification of procedures.

Strategies to diversify exports and improve manufacturing and agriculture value added

An overarching policy measure to support export diversification and improve agriculture and manufacturing value-added export is the reduction of oil sector dominance, counter-productive waivers and informal leakages that reduce public and private investment in export-oriented manufacturing and agriculture sectors. This would also entail addressing supply-side constraints that can unlock diversification from oil to high-value-added agriculture and manufactured products. This could be achieved by creating an enabling environment devoid of discretionary measures by the government such as border closure, foreign exchange restrictions, and import bans that affect domestic farmers and manufacturers.

The efforts to shift away from a highly concentrated export base could be improved through a simultaneous mix of three strategies: (i) enabling policy and regulatory environment at the national and sub-national levels; (ii) removing trade restrictions on imported intermediate goods used in the manufacturing and agriculture sectors; and (iii) addressing market failures that arise due to cumbersome and distortionary tax regimes and administrative bottlenecks. Speeding-up regulatory reforms especially in the services sector where market restrictions have been shown to negatively affect trade in manufactured and agricultural produce: distribution, telecommunication, transport, courier, commercial banking and insurance services. Also, enhancing investment in innovative inputs, strengthening intellectual property policies to focus more on "quality" and providing larger gains for granted patents and commercialization.

Although natural resource abundance has been generally ascribed to be one of the major causes of limited export diversity and sophistication in Nigeria, certain policy actions can be taken to help reverse this trend. The implementation of these cross-cutting reforms across governance, education, infrastructure and trade policy would require strong collaboration between the relevant implementing MDAs at the federal and state government levels. This would entail leveraging technology to optimize productivity in the agriculture and manufacturing sectors to unlock new business models.

[102] OECD (2018). OECD Trade Facilitation Indicators: An overview of available tools. OECD Trade Policy Notes.

[96] Trade facilitation refers to a specific set of measures that streamline and simplify the technical and legal procedures for products entering or leaving a country to be traded internationally. Trade facilitation enhances globalization and helps lower trade costs, increases welfare, improves access to intermediate products and supports greater participation in global value chains (GVCs). As such, trade facilitation covers the full spectrum of border procedures, from the electronic exchange of data about a shipment to the simplification and harmonization of trade documents to the possibility to appeal administrative decisions by border agencies.

[104] https://lpi.worldbank.org/international/aggregated-ranking

5 Monetary Policy – Exchange Rate and Interest Rate Management

5. Monetary Policy – Exchange Rate and Interest Rate Management

5.1 Background and Context

The key to understanding Nigeria's exchange rate challenges is to take a step back to understand what money is. Money is anything that holds value, and is generally accepted in exchange for other valuable things. The advent of fiat (paper) money as legal tender has made it possible for easy, fast and convenient exchange of goods and services. Since goods and services are quoted in the currencies of individual countries, trading across borders requires an appropriate mechanism for exchange and valuation.

Logistically, when people want to trade across countries, they have to start by exchanging goods and services for their local currency. Afterwards, they exchange that local currency for a foreign one and then use the foreign currency to buy the foreign goods they desire. This is essentially the exchange rate: the rate (in terms of the value of goods and services) at which one country's money is exchanged for another's.

Exchange rate policy is how countries manage the process of letting their exchange rates reflect, or not reflect, some value that facilitates international transactions. One of the fundamental drivers of change in exchange rates is the relative change in prices over time—inflation, which for a variety of reasons, varies across countries. In general, countries with lower inflation tend to have currencies that do not "weaken" as much as those in countries with higher inflation.

Inflation, broadly defined as the percent increase in average prices, is the most important statistic for central banks. Important because it measures the value of the one thing central banks have control over: money. If inflation is high then that means the value of money is falling, and vice versa. People care about inflation because in most instances their real wages and earnings are largely dependent on the direction of inflation. When inflation rises rapidly the real income—in terms of how much goods and services a person can access—falls faster.

Globally, central banks have responded to higher inflation by increasing interest rates. This response is based on a theory that has been accepted in economics that interest rates, or more generally, monetary tightening, and inflation are inversely related. If a central bank raises interest rates or tightens monetary policy through other means, then inflation tends to come down. On the other hand, if a central bank reduces interest rates or loosens monetary policy then inflation tends to go up, all other things remaining equal.

The CBN has been grappling with adverse movements in the two key variables it is concerned with. The exchange rate of the naira to the dollar has been volatile and increasing in recent times.

5.2 The Exchange Rate Issue

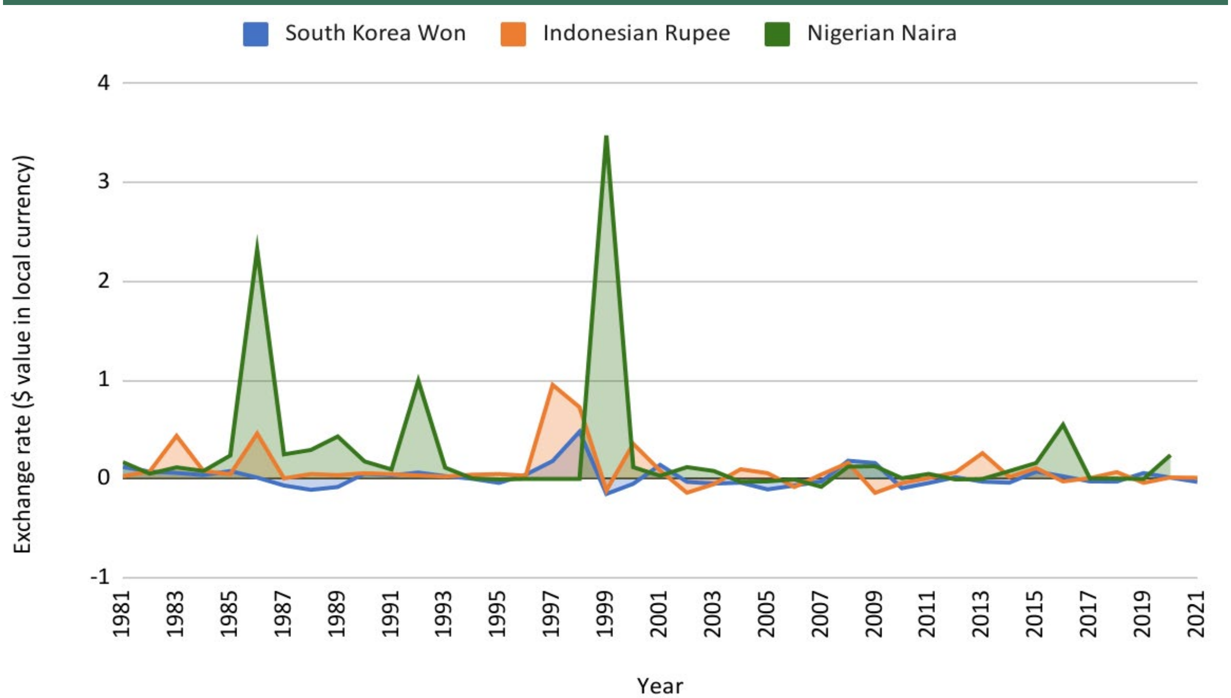
Given the basic understanding of exchange rates and exchange rate policy we can then break down the Nigeria exchange rate problem and continuous devaluation. A little bit of history first.

Nigeria was introduced to fiat (paper) money when it was still a colony administered by the British empire. The objective then was to make taxation easier but it also had a lot of other uses. That currency was essentially the British pound which then later changed to the British West African pound and then to the Nigerian pound shortly before independence. The Nigerian pound was still backed by the British with a N1 - £1 exchange rate until independence. In 1973, the Naira was introduced at a rate of £1 - N2, maybe the first official devaluation. Still the objective of exchange policy was set then although maybe not explicitly: keep the naira as fixed to the pound (and later the dollar) as possible, simply because that was what we inherited.

The second major factor was the discovery and production of crude oil. This meant we suddenly had an almost non-stop stream of foreign exchange flowing into the country and we were able to actually maintain our fixed exchange rate objective. However, with more foreign income into the country, imported goods became much cheaper than local goods, and with a lax monetary policy, inflation continued to rise. Although we could afford to continue importation and maintain the fixed interest rate, because of foreign exchange from crude oil, we were left with an overvalued currency—one which makes exports expensive and imports cheaper. This reinforced the policy objective of wanting to keep exchange rates fixed.

This dynamic meant that non-oil exports or any potential non-oil export products collapsed, or perhaps just stopped growing. As shown in Figure 5.1, between 1980 and 1984, the hey-day of Nigeria's import culture and prior to the structural adjustment programme, the naira was so overvalued that it would make today's challenges look like child's play. Things look even more intriguing if you compare the naira to the currency of a country like South Korea which at this point was gearing up to kick-start its now famous export drive that catapulted it to high income status.

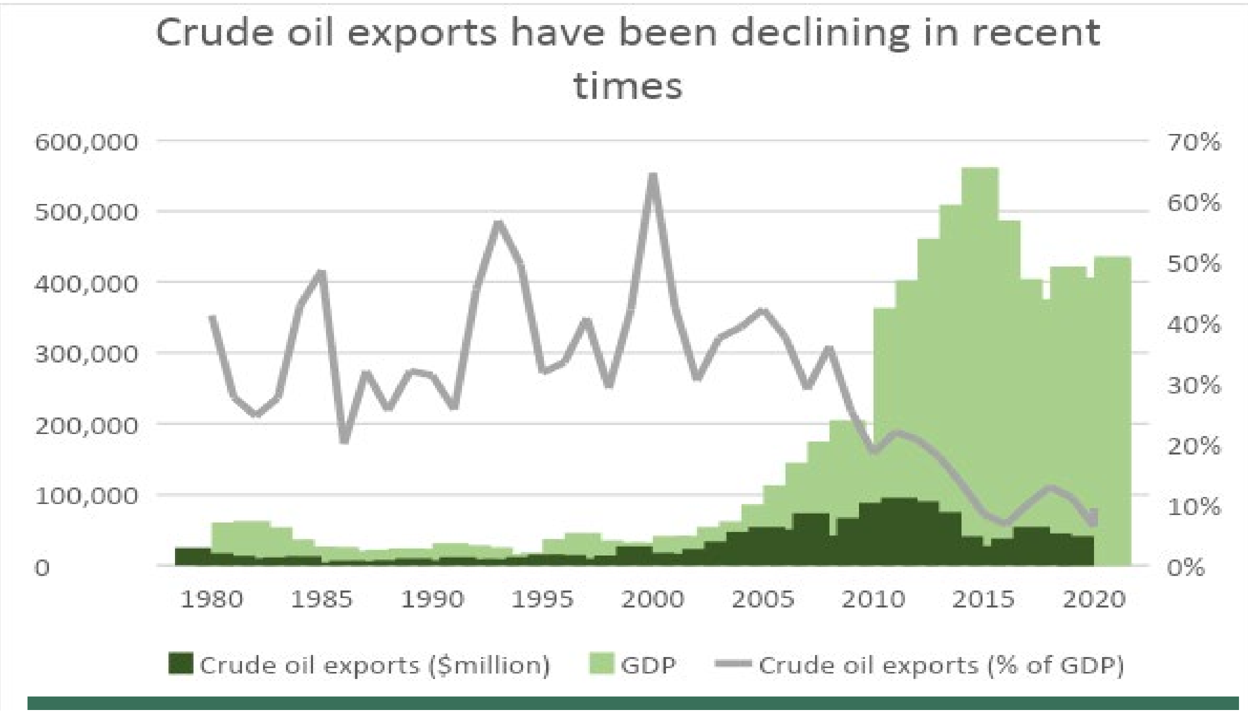
Figure 5.1: Nigerian NGN vs South Korean Won and Indonesian Rupee



Source: Institute of International Finance (IIF)

This fixed exchange dance was all sustainable as long as crude oil prices and production remained high (Figure 5.2), especially given that the crude oil sector was a very large part of the economy at that point. However, this dance was occasionally interrupted by crude oil price crashes. The foreign reserves funded by crude oil flows to sustain the overvalued currency, disappeared and big devaluations had to occur. The stress is typically signified by the divergence between official rates and black-market rates. However, once crude oil prices or production picked up again, the dance continued.

Figure 5.2: Crude oil exports, GDP and Crude oil exports (% of GDP) 1980-2020



Source: Institute of International Finance (IIF)

Fast-forward to today and the underlying objective of keeping the naira fixed to the dollar has continued but the dance has gotten a lot harder. Crude oil and natural gas, although still a large share of Nigeria's exports, are a much smaller share of the economy as shown in Figure 5.2. Which means its capacity to provide enough foreign exchange to keep the dance going is now small and getting smaller. Importantly, things like corruption and oil theft only bring forward or postpone the underlying trajectory of crude oil no longer being able to finance a fixed exchange rate regime.

Under the current central bank regime, we have attempted to "eat our cake and have it" by implementing all sorts of administrative measures both to keep the exchange rate fixed and forcing an overvalued currency and at the same time trying to stop people from taking advantage of the subsequent "cheaper" foreign goods. Policies like the 42 items banned list (to limit imports), the special securities sold to foreign investors and the currency SWAP arrangements to essentially borrow foreign exchange, all point to unorthodox measures to maintain the peg against the dollar.

The history of the central bank capturing crude oil foreign exchange and dispensing it has already turned the central bank into a de facto political institution with powers to decide who gets access to foreign exchange and who doesn't. In times of stress, when there is a large gap between official and parallel market exchange rates, this political power has proven to be destabilising and has reinforced the objective of keeping exchange rates fixed to the dollar at all costs.

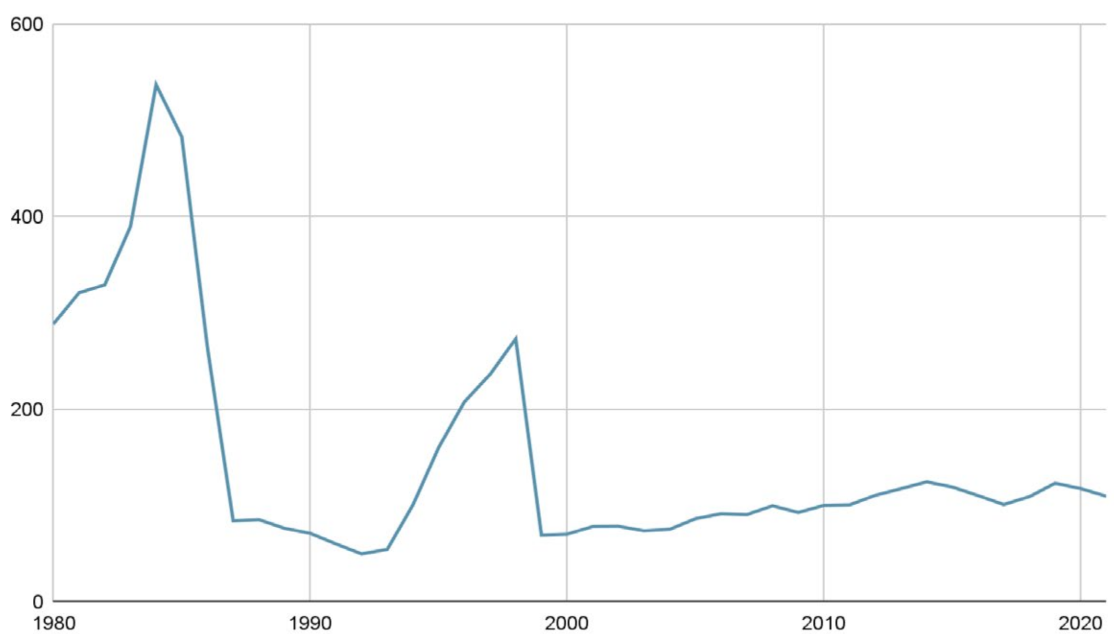
One of the key unorthodox policies that the CBN has implemented to retain the exchange rate at an artificially low rate is by introducing various exchange rate windows. In 2017, the CBN did this to prioritise government spending and "critical" sectors in its rationing of scarce resources. This led to the introduction of the Importers & Exporters windows, retail and wholesale market intervention window and finally the parallel market rate.

Table 5.1: Table showing various exchange rate windows

Window	**Users**	**Rate** (Sept. 2020)	**Rate** (Sept. 2022)	Status
Official rate	Government & CBN	431	-	Non-operational
Investors and Exporters window	Investors and exporters	410	431	Operational
Retail secondary market intervention window	Local corporates and manufacturers	380		Non-operational
Wholesale secondary market intervention window	Large corporates through banks	380		Non-operational
Parallel market	Open to all	489	707	Operational

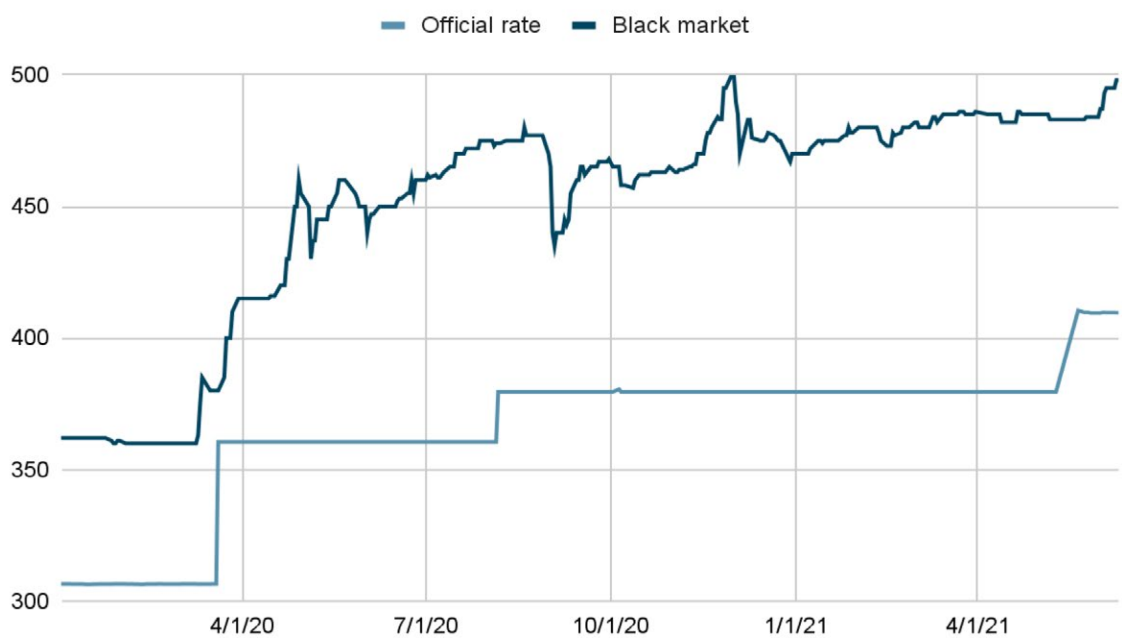
The implication of such price controls and multiple markets is that it allows arbitrage in the market. Today, although some of the exchange rate markets like the official rate and the two secondary market intervention windows have been closed, the gap between the official and parallel market have widened as access to foreign exchange through official sources have been restricted even more.

Figure 5.3: REER



Beyond the gap between both exchange rates, another glaring way to know that the official rate is overvalued is through the real effective exchange rate (REER). The REER is an index that measures the value of a country's currency against a group of other currencies. An index of 100 indicates that the currency is neither overvalued nor undervalued, i.e. your exchange rate allows the value of things to be about the same across countries you trade with. If it is higher than 100, then your currency is overvalued.

Figure 5.4: Spread between official and black market exchange rate



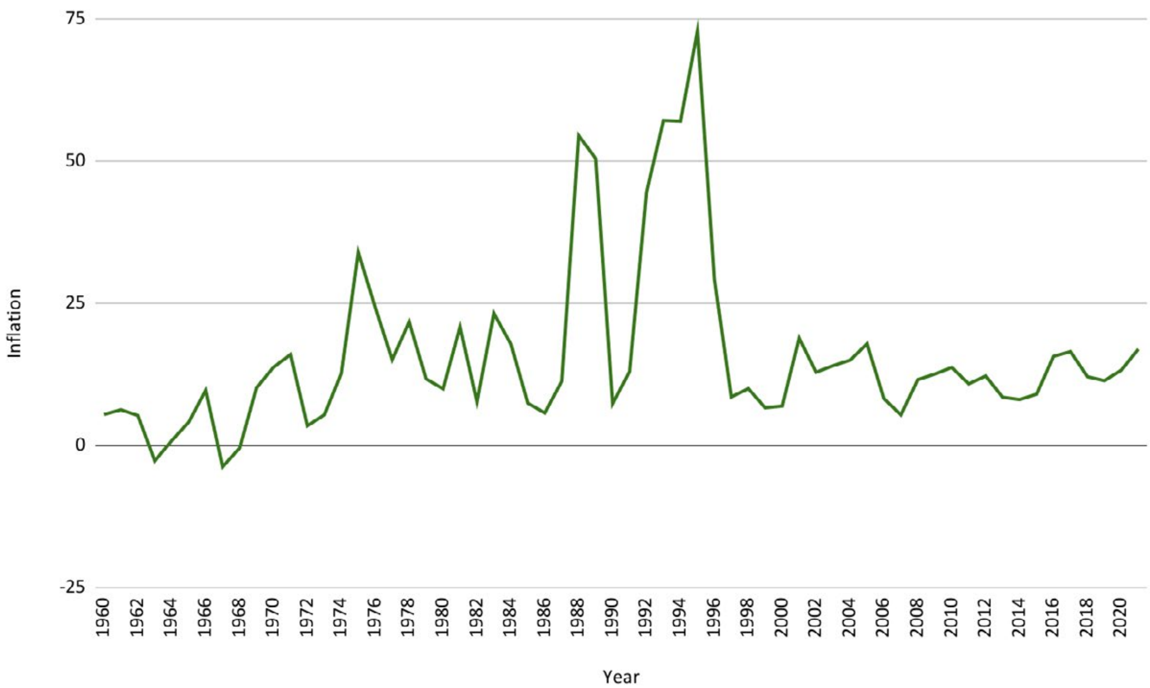
From figure 5:3 above, it is evident that the Naira has consistently been overvalued. One reason for that is that although the Naira is pegged to the dollar, albeit a managed float system, the value of the Naira does not reflect the difference in inflation between Nigeria and the US. Typically, when the US hikes its interest rates, the value of the dollar rises, to reflect this rise in value, the Naira must be devalued at the rate similar to that of the other country. This concept called the "Uncovered interest rate parity" relationship in economic theory states that in order for monetary policy—particularly in exchange rate—to yield desired changes in inflation, a country whose currency is pegged to another country must mirror the pegged currency’s monetary policy.

Hence, the story of Nigeria’s exchange rate management has been one of an overvalued currency which has been pegged to a stronger currency without reflecting the change in true value between the Naira and dollar which it is pegged against.

5.3 Rising Inflation

Historically Nigeria has had a difficult time managing inflation. In the 70s and 80s it was not unheard of to see inflation in Nigeria at 25 to 30%. In fact, in 1995 inflation reached a record high 72.85% (Figure 5.3). However, since the late 1990s inflation in Nigeria has been relatively moderate. This was, to a large extent, a result of reforms that started in the late 1990s and culminated in the CBN Act of 2007. In summary, the reforms consisted of the government giving the CBN operational independence at least with regards to monetary policy and removing many of the bureaucratic controls on interest rates. Interest rates were liberalised in 1996 and by 2007 the current structure of the Monetary Policy Committee was established.

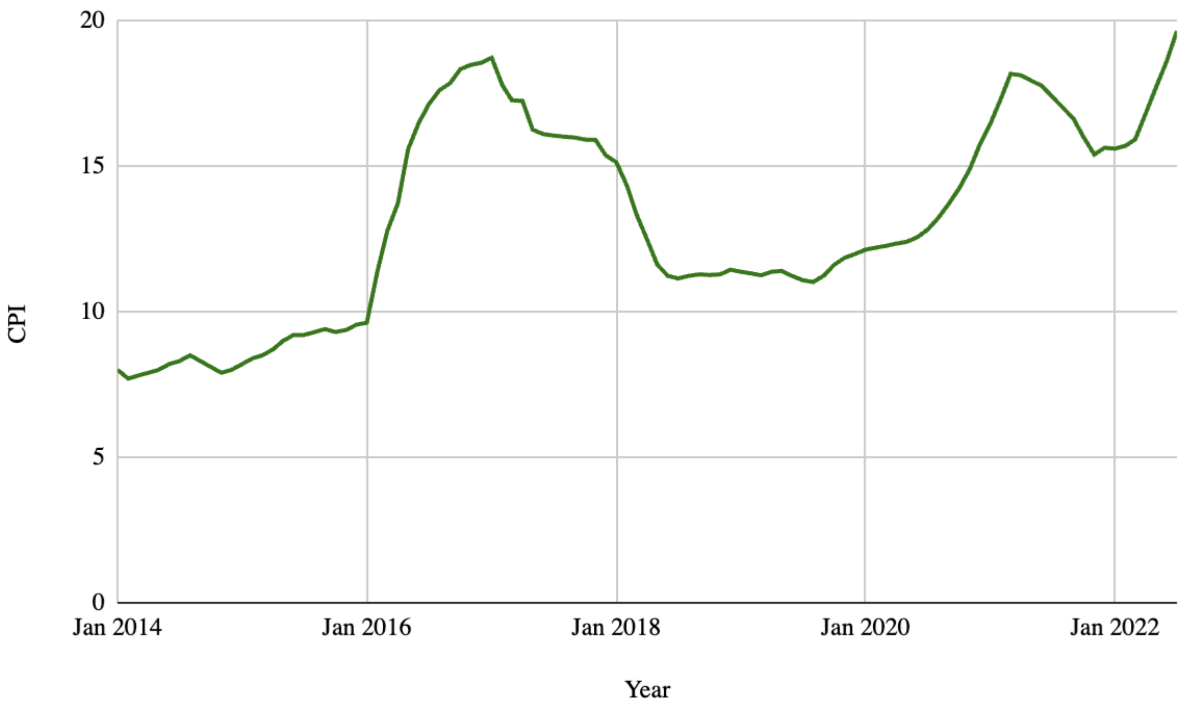
Figure 5.5: Inflation in Nigeria, 1960 - 2022 (%)



Source: World Bank

Following these reforms, inflation dropped below 20% and was in single digits between 2005 and 2007 (Figure 5.5). However, in the last decade, inflation has been on the rise. Since 2015 we have had at least three episodes when inflation has topped 18% (Figure 5.6). In August 2022, inflation was 20.5% and it seemed it would rise further. The surge in inflation has been driven mostly by food inflation which has exceeded 20% three times in the last decade and is still above 20%. There have been many underlying causes for the episodes of inflation we have seen.

Figure 5.6: Inflation in Nigeria, 2014 - 2022 (%)



Source: NBS

In 2016 the underlying driver of the "spike" was the foreign exchange crisis with the central bank allowing the parallel market rate to diverge significantly from official rates and with food prices tracking parallel market rates. In 2020 the spike started with the border closure in 2019 and was exacerbated by the disruptions from the COVID-19 pandemic. In 2022 it was the energy crisis brought on by the conflict in Ukraine.

However, underneath the shocks that have led to spikes in inflation is an underlying trend. Since 2014, inflation, without the spikes, has been trending upwards. The best way to see this is to look at the minimum inflation rate between each spike. Between 2014 and 2016 it was between 8% and 10%. After the shock of 2016 it dropped and stayed between 9% and 12%. After the COVID-19 shock it did not drop below 15%. The shocks have been an important factor behind the inflation but the monetary policy response has not been optimal. The central bank has, for the most parts, not followed conventional monetary policy that accepts that the costs of higher inflation are more than any benefits from looser monetary policy.

In the last decade the CBN has not followed the principle of tightening monetary policy and increasing interest rates when inflation is high and lowering it when inflation is low. In response to foreign exchange pressure and already rising inflation rates in 2016 it raised, then cut, then raised monetary policy rates (Figure 5.7). The policy inconsistencies likely exacerbated the effects of the foreign exchange crisis on inflation between 2016 and 2018. Perhaps more importantly, it sent out the message that inflation was no longer the key concern of the CBN. Between 2018 and 2020, despite inflation being higher than its 10% target, CBN did not raise interest rates but rather cut it in principle even before the COVID-19 pandemic. In principle because by then the monetary policy rates had been tactically sidelined as the tool for monetary policy intervention.

Figure 5.7: Monetary Policy Rate, 2014 - 2022 (%)

Source: CBN

The CBN had been taking other administrative actions to lower lending rates in practice even while inflation was much higher than its target. As at the end of 2019, prior to the pandemic and while food prices were rising due to the border closure, the rates on 90-day treasury bills were selling at rates of between 3 and 3.5% (Figure 5.8). this was much lower than the monetary policy rate and largely due to administrative measures by the CBN, in essence allowing monetary expansion in a period of high and rising inflation. The CBN did take other action to try to limit this by imposing arbitrary credit reserve ratio restrictions on banks but this likely did not counteract the impact on inflation.

Figure 5.8: Lending Interest Rate, 2014 - 2022 (%)

Source: CBN

Monetary Loosening via Intervention Funds

Besides its action on interest rates in the face of high inflation, the CBN also eased monetary policy through its various intervention programmes. Regardless of its intentions, the practical outcome of central bank financial interventions in the economy is equivalent to an expansion in money supply which is the definition of monetary easing. According to the IMF, the CBN was responsible for 12% of new lending between 2010 and 2019 increasing to 45% in 2020. Although the rationale for the CBN intervening directly in the economy is to tackle some of the underlying drivers of inflation, the outcome has likely been higher inflation than would have been without the interventions.

Federal Government Financing

Another channel through which the central bank has eased monetary policy in periods of high inflation is through its financing of the FGN. Regardless of the reason, the financing of FGN activities is essentially identical to an increase in money supply. An increase which, in periods of high inflation, exacerbates the challenge. Between January 2015 and March 2022, the outstanding amount owed to the central bank via "ways and means" financing has risen from N523bn to N18.89tn. For context, this is an increase of 2.8% to 41% of money supply (M2). This gives a sense of how much credit has been extended over the last decade by the central bank to the federal government. This is tantamount to a continuous increase in money supply and has exacerbated the inflation problem.

5.4 Policy Prescriptions and Recommendations for Management of the Exchange Rate and Inflation Rate

5.4.1 Exchange Rate Management

The first recommendation is that the CBN has to redefine its explicit exchange rate objective. That objective cannot be to keep the naira fixed to the dollar or to keep the dollar cheap enough to allow Nigerians travel to Europe and North America easily. The new objective should be one that positions Nigeria as a competitive economy with regards to our present and potential non-oil exports. This objective would value the Naira not just against the dollar but against several other peer and competitor currencies (with the dollar just being one of them). The CBN would have to communicate this objective for the value of the Naira in line with its goals.

Second, the CBN will need to be clear about its implementation modality. In an ideal economy with a diversified export basket, the ideal modality would be an organised market where all participants, according to the law, have access to. The reality of Nigeria however means that the impact of volatile crude oil prices would make that market inefficient. At the same time a regime that relies on the CBN to fix rates is likely to be even more inefficient especially given the difficulty in estimating "true" real-time exchange rates and the CBNs political economy challenge. A good middle ground would be to have a market with proper futures contracts to reduce volatility and with a clear and transparent framework for CBN interventions (both buying and selling) in the market around ensuring that the currency is not overvalued. A market by definition would have no fixed rate and would allow market participants to continuously discover "correct" exchange rates. If such a market was implemented today the "clearing rate" would likely be somewhere between the official rates and parallel market rates.

5.4.2 Inflation Management

In line with its peers around the world, the CBN will likely have to tighten monetary policy and raise interest rates to tame inflation. This is regardless of the cause of the current bout of inflation. The exact specifics of how much to raise interest rates by and how long to do so should be decided by the Monetary Policy Committee via its regular process. The tightening of monetary policy will however have to go hand in hand with its implementation in practice by ensuring the market rates move in tandem with the monetary policy rate. The CBN will have to restore the credibility of the MPR such that bond yields and lending rates are reflective of the MPR and that the MPR is not merely a suggestion.

The CBN would also need to begin to repair the monetary policy framework by stopping or at least reducing the growth of money supply by non-monetary policy means. Specifically, this will mean a cessation of its direct intervention programmes. The current tranche of intervention programmes may not need to be immediately recalled but at the very least no new interventions should be made. The cessation of direct interventions would also include special interest rates for selected firms as that is also indirectly equivalent to a money supply expansion as it has to finance the mark-down.

The second channel of growth in money supply via non-monetary policy means is the central bank's financing of the federal government via Ways and Means. The CBN should work with the FGN to end the "ways and means" financing. Part of this will involve helping the FGN properly forecast its revenue as well as helping the FGN, on a technical level, identify potential sources of revenue. A strategy will also need to be developed to manage the current stock of FGN debt at the CBN.

The CBN should work with relevant ministries and departments of government on fixing the structural issues that cause supply shocks in the economy. It is important to note here that fixing the structural issues in the economy is not the CBN's responsibility, as it falls under the general government's purview. However, the CBN must ensure that government policy aligns with its goal of price stability. Ideally, policy actions such as the border closure or food trade restriction have a direct impact on inflation. The central bank will have to ensure that there is synergy between its policy objectives and the actions of other government agencies. This will include deeper participation and closer collaboration with government, and more strategic advocacy on inflation implications of government policies.

6 Conclusion

6. Conclusion

This report has conducted an analysis of the state of the Nigerian economy in the build-up to the 2023 general elections. It has focused on imperatives and concerns for the current period, and for the future.

The report noted that despite recording largely positive growth rates in the past decade and having the largest economy in Africa, Nigeria has low levels of inclusive development. 40% of Nigerians are poor, the average years of education is 6.1 years, 36.8% of children under 5 suffer from malnutrition, and life expectancy at birth is 52.7 years. In addition, many of the macroeconomic fundamentals have worsened. Inflation increased to 20.52% in August 2022; unemployment increased to 33.28% in the fourth quarter of 2020. The fiscal deficit of the federal government (FGN) has worsened to N3.09 trillion in Q1 2022, with FGN's debt stock increasing to N35.67 trillion at the end of Q2 2022.

The report examined four critical economic issues: the fiscal position of the FGN; human welfare - poverty and unemployment; trade and investment; and monetary policy. For all issues examined, the report prescribed policy recommendations to improve the state of affairs.

The report found that that FGN's finances are currently characterised by very low revenue compared to expenditure, with this leading to high debt stock and servicing. The report recommended ways in which revenue can be increased, while at the same time, reducing further conventional borrowing. Also, the report analysed human welfare, specifically looking at poverty, unemployment and food security. In addition, it examined trade and investment trends and suggested strategies for better trade and investment performance. Following this, exchange rate and interest rate management by the CBN were analysed, with recommendations made for improved monetary policy.

As the country moves towards the end of an administration and prepares to usher in a new government, all hands must be on deck to stimulate economic activities to ensure prosperity. There is need for concerted efforts by elected officials, the public and private sector, civil society, and the general populace to work in ensuring macroeconomic fundamentals improve and inclusive development improves substantially. Achievement of these objectives will require discipline and will be difficult and painful in the short-term. However, all eyes must be focused on the long-term goal, and this will temper the painful experiences inevitable in the short-term.

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About Agora Policy

Agora Policy is a Nigerian think tank and non-profit committed to finding practical solutions to urgent national challenges. We conduct policy research, facilitate frank and purposeful dialogues, and build capacity for governance, policy and advocacy.

About the IIAPP Project

The Informed, Inclusive and Accountable Public Policies (IIAPP) project is designed to achieve three things: one, to maximise the opportunity provided by the electioneering and transition periods and beyond to sustain attention on and further mainstream transparency, accountability, gender equity and social inclusion into policy and governance discourse in Nigeria; two, to generate original and credible evidence before, during and after the 2023 elections to focus the attention of the country on key policy areas and, ultimately, the adoption of sensible, inclusive and effective policies on key national challenges; and three, to deepen the capacity of state and non-state actors to undertake evidence-driven policy analysis, design, implementation and advocacy. The IIAPP is supported by the MacArthur Foundation.

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