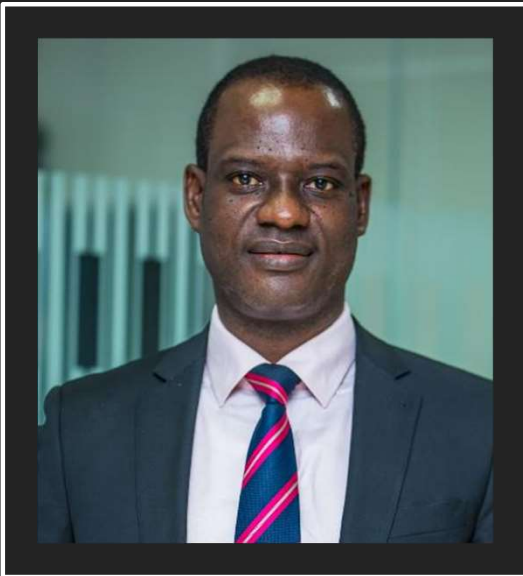




# Budget of Fiscal Consolidation and Transition: Realism or Mirage?





**Taiwo Oyedele**

Fiscal Policy Partner & Africa Tax Leader, PwC | Thematic Lead, Fiscal Policy & Planning, NESG

## Speaker

Mr. Taiwo Oyedele is the Fiscal Policy Partner and Africa Tax Leader at PwC. He is an author, keynote speaker, strategist, policy analyst and commentator on finance, business, and economic matters.

He is the Lead for the Fiscal Policy & Planning Thematic Group, and Chairman of the West Africa Debt Management Roundtable of the Nigerian Economic Summit Group; Chairman of the Taxation & Fiscal Policy Faculty Board of the Institute of Chartered Accountants of Nigeria; member of the Nigerian Taxation Standards Board; and a member of the Ministerial Committee on the implementation of Nigeria's National Tax Policy.

Mr. Oyedele is a regular guest on various media programmes on TV, Radio and online broadcasting platforms. He is frequently referenced in many national newspapers and international publications.

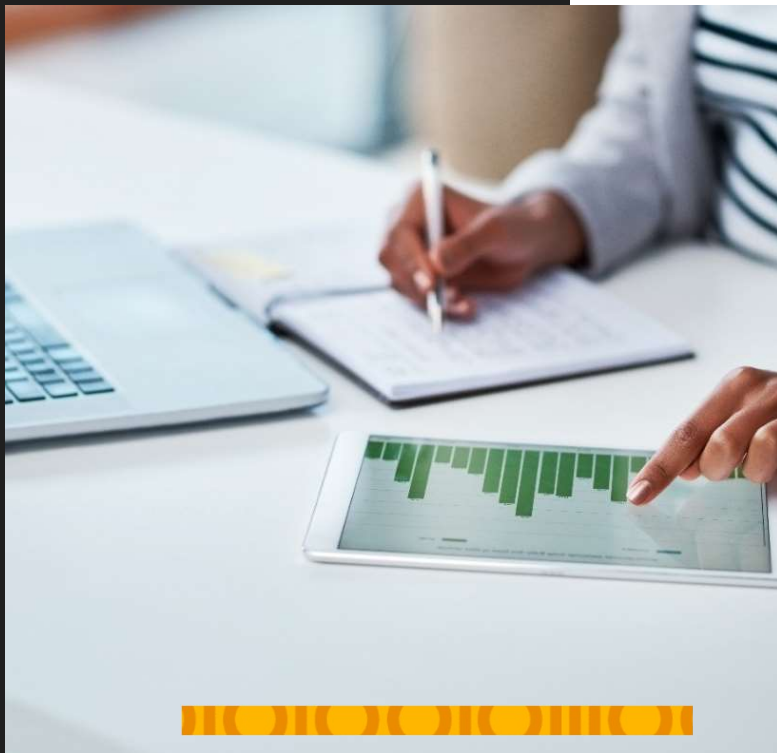
He is a member of the Global Tax Forum of the ACCA and a former member of the Global Governing Council.

Mr. Oyedele is an Associate Professor at the Babcock University Business School and a guest lecturer at the Lagos Business School. He is an alumnus of the London School of Economics, Yale University and Harvard Kennedy School Executive Education. He is the Founder and President of Impact Africa Foundation.

## ■ Synopsis

- A major headwind to the government's ability to finance public expenditure and drive prosperity for the people is its fiscal weakness, which has been aggravated by recent events, thereby worsening economic sustainability.
- At about 7%, Nigeria has one of the lowest revenue-to-GDP ratios globally, and one of the lowest public expenditure to GDP ratio at about 11%. Actual government revenue has consistently underperformed in recent years while expenditure often matches or surpasses projections.
- Over the past decade, Federal Government's expenditure increased by 158% (from N4.7 trillion in 2011) to N12.2 trillion in 2021, compared with a 42% increase in revenue over the same period (from N3.5 trillion to N5.1 trillion).
- Consequently, Nigeria's public debt has increased by more than 4 folds (424%) from N7.6 trillion in 2012 to N39.6 trillion in 2021. As at Q2-2022, Nigeria's debt stock has expanded to N42.9 trillion excluding an estimated N22 trillion in CBN overdraft, which has increased by over 16,270% from N134.8 billion in 2012.
- The sustained fiscal deficits leading to rising debt and increasing ratio of debt service cost to revenue is approaching a crisis level which will have severe macroeconomic implications. Hence, the need for urgent intervention.

# Agenda



- 01 Overview and economic context

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- 02 Highlights of Nigeria's 2023 Budgets

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- 03 Issues and matters arising

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- 04 Recommendations and final thoughts

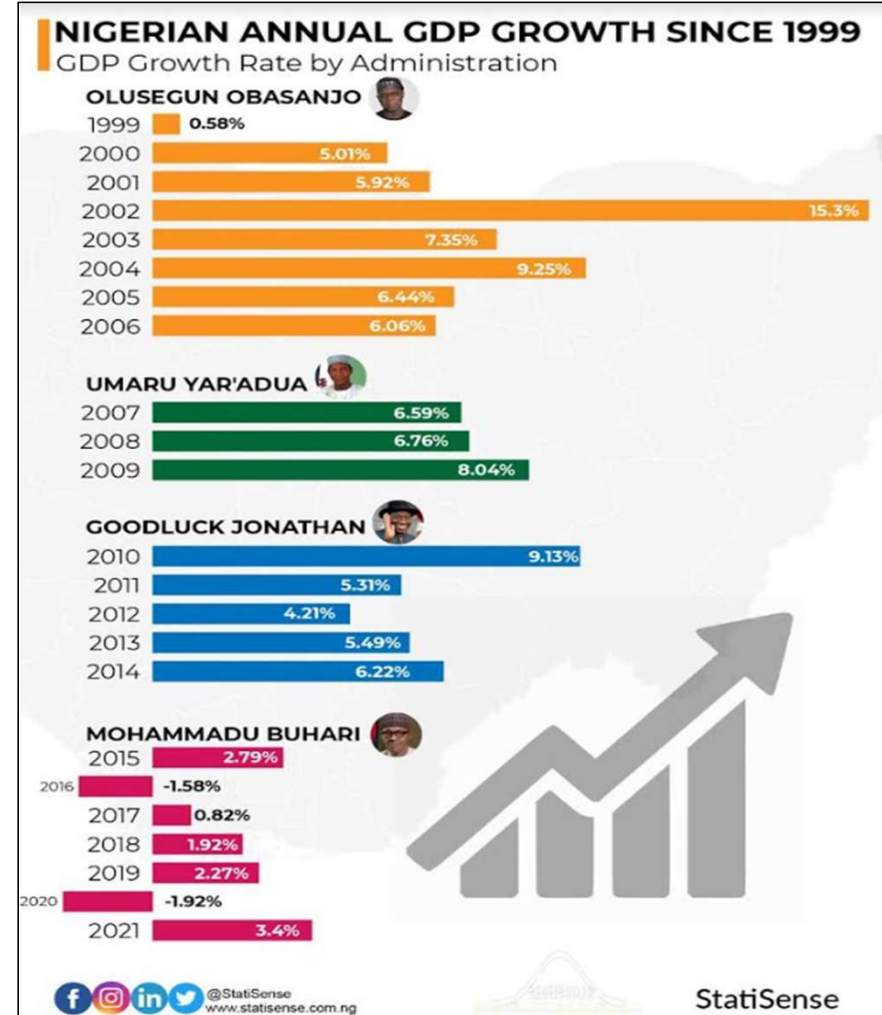
01

## Overview and economic context




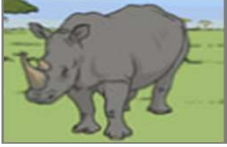


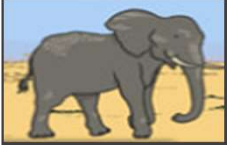
# Nigeria: facing significant economic headwinds, amplified by structural challenges!

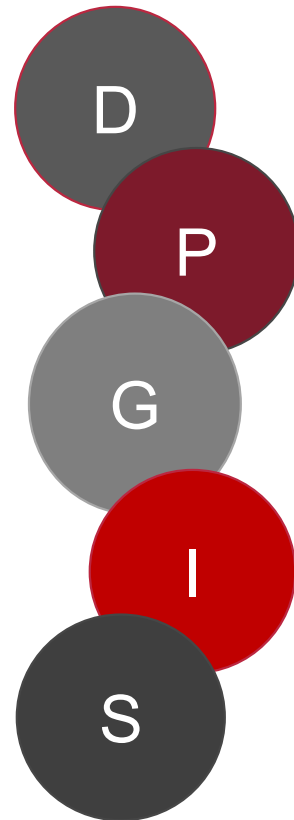
- **Slow economic growth:** oil price driven GDP growth, govt revenue & forex receipts
- **Insecurity & climate change:** impact on investments, food, transportation etc
- **Rising inflation & unemployment:** 21.09% (twice global average), unemployment, high misery index
- **Growing poverty:** people living in monetary poverty (95m), multidimensional poverty (133m)
- **Persistent budget deficits:** Low revenue, high expenditure, wasteful subsidies, questionable spending priority
- **Rising public debt:** Top 10 WB's IDA list, rising debt service cost, Ways & Means, domestic arrears
- **Declining investments:** low FPIs & FDIs, dwindling domestic investments
- **The great resignation/emigration:** brain drain (Japa), and corporate migration
- **Political economy:** Local and international dimension, impact on the quality of economic system
- **Still Africa's largest economy:** Nigeria remains the largest economy in Africa, and GDP is growing albeit slower than desired



# Key factors shaping the Nigerian economy in recent times

## The “BIG 5” Factors!

<b>Debt and Taxes</b>		Budget deficit, rising debt, CBN financing, domestic arrears, new and increase in tax rates, multiple and earmarked taxes, aggressive revenue drive (plus informal, implicit and disguised taxes).
<b>Politics &amp; policies</b>		Pre-election year, changing priorities, monetary and fiscal policies, political consideration, data & evidence for decisions, impact assessment and monitoring, forex policy.
<b>Geopolitics</b>		Russia/Ukraine, US, China, rising energy prices, supply chain disruption, international trade and reversed globalisation, food shortage, climate change action, spill over effect.
<b>Insecurity</b>		Remains a big challenge, may be further fueled by politicians in the lead up to general election, rising food and energy insecurity, illiteracy and youth unemployment, perception vs reality.
<b>Subsidies</b>		True cost of petrol subsidy under-reported, no longer affordable, creating market distortions, financing corruption, mixed signals on implementation of PIA.



02

## Highlights of Nigeria's 2023 Budgets



# FGN's 2023 Budget of Fiscal Consolidation and Transition



## 2023 Federal Government of Nigeria Proposed Budget



**9.73tn**  
Aggregate Revenue



**7.81tn**  
Non-Oil revenue



**1.92tn**  
Oil revenue

**Aggregate expenditure**  
**20.51tn**

**5.19tn**  
Capital expenditure

**247.73bn**  
Sinking fund

**6.06tn**  
Debt service

**8.27tn**  
Recurrent non-debt

**744.11bn**  
Statutory transfer (incl. capex)

**Budget deficit**  
**-10.78tn**

**\$70**  
Benchmark oil price (bbl)

**1.69**  
Oil Production (mbpd)

**N435.57**  
Exchange rate to US\$

**3.75%**  
Projected growth rate

**17.16%**  
Target Inflation

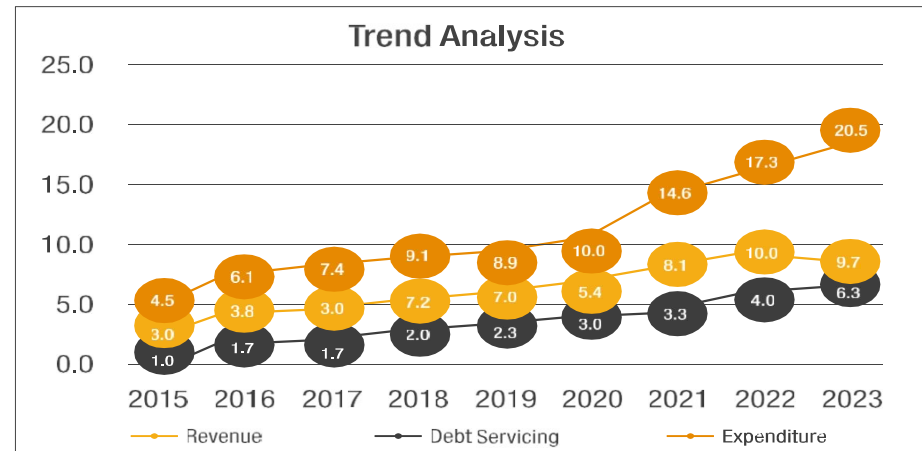
Key Assumptions

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## Highlights

- FG revenue of N9.73tr includes N2.42tr revenue of 63 GoEs higher than oil revenue N1.92tr, same as non-oil N2.43tr)
- Top expenditure items include recurrent expenditure for Defense N1.1tr, Police Affairs N777bn, Education N664bn and Health N581bn
- Budget deficit is N10.78tr is 4.78% of GDP, above the 3% threshold set by the FRA



## Subnational budgets of sharing and “hand to mouth”

- There seems to be a bigger challenge regarding budget discipline and accountability at the state level
- Local government level is virtually non-existent in terms of budget transparency
- Despite controlling land and key taxes (PIT, Stamp Duties, Property taxes, 85% VAT, share of FAAC), revenue performance at the states level remains abysmal
- Total debt of states by end of 2020 stood at **N4.2 trillion** (Lagos 532b, Akwa Ibom 235b, Rivers 226b, Delta 207b, Ogun 192b).
- It is necessary to focus on states and LGs budgets as much as that of the Federal Government
- Good governance and right tone from the top is required to improve fiscal position

Budget 2022	N' Billion	Percentage
<b>Aggregate</b>	<b>9,790</b>	<b>100%</b>
Capex	4,060	41%
Recurrent	5,730	59%
<b>Revenue (2021)</b>		
IGR	1,896	19%
FAAC	2,700	28%
<b>Total revenue</b>	<b>4,596</b>	<b>47%</b>
<b>Budget deficit</b>	<b>5,194</b>	<b>53%</b>



Budget (N'b)	2020	%
Expenditure	1,100	100
2019 IGR	22.6	2.1
2019 FAAC	36.3	3.3
<b>Fiscal Gap</b>	<b>1,041</b>	<b>94.6</b>

*Budget of Olimpotic Meristemasis*

# Nigeria needs to budget better and spend more efficiently for the greater good

- Government at all levels need to prioritise spending to tackle poverty by providing basic amenities (Maslow's Hierarchy of Needs)
- For instance, access roads to farms should be prioritised over flyovers in the cities, and healthcare centres and schools over airports.
- Nigeria's rising debt profile is a symptom of underlining problems (low revenue and high spending)
- Nigeria is borrowing for debt service, capital expenditure and partly to fund recurrent expenses
- Questions around zero-based budgeting, budget revision, accounting for variances, budget performance etc

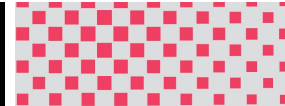
## How multidimensional poverty is calculated

Based on 4 dimensions and 15 indicators

[0% means no poverty, 100% means extreme multidimensional poverty]

Dimensions	Indicators	Weight
Education (25%)	• School attendance	9%
	• Years of schooling	13%
	• School lag	3%
Health (25%)	• Nutrition	8.3%
	• Food insecurity	8.3%
	• Time to healthcare	8.3%
Living Standard (25%)	• Safe drinking water	4.2%
	• Water reliability	4.2%
	• Sanitation	4.2%
	• Housing materials	4.2%
	• Cooking fuel	4.2%
	• Assets	4.2%
Work & Security Shocks (25%)	• Unemployment	10%
	• Underemployment	5%
	• Security shock	10%

# Budgeting unusual




## ICPC uncovers widespread budget fraud in MDAs

By The Nation — On Feb 18, 2021

## BudgIT identifies 460 duplicated projects in the 2022 Approved Budget, slams NASS for budget padding & other corruption loopholes, calls for urgent redress

January 17, 2022

Our preliminary analysis of the **21,108** capital projects in the 2022 approved budget revealed **460** duplicated projects amounting to **N378.9billion**. Recall that BudgIT observed **316 duplicated** projects inserted into the 2021 FG Budget approved by NASS. ICPC verified **257 duplications**, while the Budget Office confirmed the existence of only **185** duplicated projects worth **N20.13bn**, after which it informed the public that funds were not released for the projects in 2021. 

## SECURITY VOTES (N2412BILLION) SPENDS... MORE THAN THE... MORE THAN THE TOTAL...

## ICPC uncovers N400bn fraud in 2021, 2022 budgets

16th September 2022



- N100bn dubiously inserted
- N50bn manipulated as salaries for ghost workers

The Independent Corrupt Practices and Other Related Offences Commission, on Thursday, disclosed that the N13.59trillion 2021 budget was padded by the various Ministries, Departments and Agencies, with duplicated projects worth N300bn.

2023 budget:

## Finance ministry on the spot over N424bn 'padding'

- Lawmakers deny insertions
- Ministry denies allegations
- It's a ploy to divert taxpayers' funds - Rafsanjani
- It's being investigated - Malami

## ICPC uncovers N20 billion project duplication, personnel budget fraud in MDAs – Owasanoye

ICPC says its projects tracking reveals that skyrocketing personnel budgets in some MDAs are due to massive budgetary scam, including illegal recruitment, unilateral increase in wages, indiscriminate travels, among others.

By Kunle Sanni — November 30, 2021 Reading Time: 3 mins read

## NASS uncovers N206bn 'smuggled' into humanitarian ministry's budget

• Sadiya Farouq speechless during defence, blames finance counterpart • Senate summons Zainab Ahmed

03

Issues and matters  
arising



# Why is public expenditure and debt so high?

1

## Expenditure



- Actually not high by global standards (public expenditure to GDP is about 12%)
- Issue is the non-productive components that are rising
- Inefficiency of spending, lack of execution discipline and transparent reporting
- Plus questionable priority of spending
- Zero-based budgeting not properly implemented, monitored and enforced

2

## Public Debt



- Rising budget deficits
- Debt mix / composition
- Compliance with Fiscal Responsibility Act
- Completeness e.g. Ways & Means, domestic arrears
- High yield and debt service cost
- Focus on net financial position not just debt to GDP ratio

# Why is tax revenue so low in Nigeria?

Nigerians have low tax morale - most people don't pay tax

... and they do not think that evasion is wrong

One of the critical challenges facing the tax system in Nigeria is the shockingly high level of non-compliance as a result of low tax morale.

**Tax Morale** is the willingness to comply with taxes and the belief that tax evasion is wrong.

*Different factors influence tax morale, including:*

- Knowledge and Complexity
- Fiscal Exchange/Social Contract
- Social and Individual Norms
- Legitimacy, Trust and Fairness
- Participation and Voice

Perception of Tax Evasion	Individuals (%)	SMEs (%)
Not wrong at all	22	14
Wrong but understandable	54	50
Wrong and punishable	17	31
Don't know	6	4
No Response	1	1

## Individuals/Households

- Only 17% believe evasion is wrong & punishable
- Lack of trust in govt & tax officials
- Dissatisfaction with social services
- Complex tax process
- Education & Health

## Small & Large Firms

- Only 31% consider evasion as wrong & punishable
- Multiplicity of taxes and taxing agencies
- High frequency of tax audit
- Top priorities – electricity and security

\*NESG Tax Perception Survey - Nigeria

# Factors contributing to low tax morale in Nigeria!

## N109bn fraud: Court remands former AGF Ahmed Idris

IMA ELIJAH | July 22, 2022 12:24 PM



N109b is the size of Ekiti or Osun state 2021 budget.

The remand order followed the arraignment of the former Accountant General on Friday



Those who have land in Asokoro, Maitama etc have no TCC, those who have TCC have no land!



**Alhaji Saminu Turaki**  
Former governor, Jigawa State

TCC for sale to tax evaders to contest elections.



## Kano politicians besiege Jigawa, Katsina for tax clearance certificates after KIRS jacked up charges

By Mustapha Usman April 22, 2022



## Buhari explains pardon granted ex-Govs Dariye, Nyame convicted for corruption

Published on April 21, 2022  
By Wale Odunsi



You're forgiven of stealing taxpayers' money. Go and sin no more!

## Presidency, National Assembly, EFCC fail to pay taxes to FIRS

SAMSON TOROMADE | July 18, 2018 10:06 AM



All animals are equal ...

The audit report was submitted by the Auditor-General of the Federation to the National Assembly.

The Nigerian Presidency, both chambers of the National Assembly, and the Economic and Financial Crimes Commission (EFCC) are some of the defaulters who failed to remit taxes to the Federal Inland Revenue Service (FIRS) in 2016.

Nigerian National Petroleum Corporation  
(National Petroleum Investment Management Services)  
Annual report and financial statements  
For the year ended 31 December 2021  
Notes to the financial statements

9.2 Administrative expenses	31 December 2021	31 December 2020
	N100	N1000
Utilities	40,083,900	25,000,000
Public relations	6,828,489	20,955,270
	66,912,389	180,955,270

NAPIM's N90b PR exceeds CGT, NITDA levy & SD collected in 2021.

## What we make, what we spend, what we owe and how happy we are!

Countries	Tax to GDP Ratio (2020)	Public Expenditure (2020)	Public Debt (2020)	Happiness Index (2021)
<b>Nigeria</b>	<b>6%</b>	<b>11.2%</b>	<b>28.4%</b>	<b>114</b>
Yemen	7.4%	10.8%	63.2%	138
DRC	7.6%	12.4%	15.7%	81
Sudan	8.0%	13.6%	163%	*137
Haiti	13.3%	18.8%	33.0%	140
Venezuela	20.2%	33.5%	175.6%	105
US	27.1%	38.1%	105.8%	19
South Africa	28.6%	33.0%	56.7%	101
UK	33.3%	41.0%	86.9%	17
<b>Finland</b>	<b>43.3%</b>	<b>54.4%</b>	<b>60.5%</b>	<b>1</b>
<b>Denmark</b>	<b>46%</b>	<b>51.7%</b>	<b>34.3%</b>	<b>2</b>

\*2018

04

## Recommendations and final thoughts



## Way forward - Implement an integrated revenue, spending and debt management strategy

1

**Revenue** – Optimise assets and revenue sources, harmonise multiple taxes and collection agencies.

Use technology for tax intelligence to expand the tax net, create prosperity, convert informal and implicit taxes, rebalance the tax burden.

2

**Debt** – focus on net financial position (not just capital expenditure), and debt service to revenue ratio.

Improve transparency, ensure completeness and re-evaluate terms e.g. conditional withholding tax exemption on Eurobonds.

3

**Spending** – enforce zero-based budgeting, address subsidies, leverage equity finance, re-prioritise spending, re-assess tax expenditures.

Privatise government owned enterprises and focus on regulation. Sell or optimize other government assets.

So, it the Federal Government's 2023 Budget of Fiscal Consolidation and Transition a Realism or Mirage?



Thank you



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