



The Rapporteurs Report on Windfall Tax: Moving Beyond Concerns to Governances.



Issue Date:
Monday, September 09, 2024

A Market Intelligence and Strategic Advisory Group Report

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Being the rapporteurs report on The Economists' Conference Webinar held to discuss and broaden conversations on the implications of fiscal policy measures on the Banking sector and Economy, which held on Friday, September 6th, 2024.

Executive Summary.

The Economist conference was structured around the windfall tax imposed on banks' revaluation gains. It dissected the complexities of its implementation and raised critical questions about fairness, application, allocations, and broader economic impact. The overall approach provided an in-depth analysis of the subject matter and suggested clear policy guardrails necessary to balance public and private interests and foster trust between government and citizens.

Experts had strong opinions on the unorthodox revenue sourcing, highlighting that the tax was common but needed to be clearer in its use and allocation. Clear guidelines on tax implementation and specific allocation were required to build citizens' confidence. They emphasised the direct impact on the banking industry, recapitalisation exercise, and transmission mechanism to the real sector, offering a range of recommendations.

This report is presented under the following heads:

1. The Panel and Discussants;
2. Summary of Panelists' Opinions;
3. Consensus Opinion and Recommendations;
4. Conclusions; and
5. Appendix – Poll results & Profile of Panelists.

The Discussants.

Analysts were selected based on their subject matter expertise, access to information on the subject matter, viewpoints, and professional experience articulating policy execution roadmaps.

- 📍 **Dr. Tilewa ADEBAJO**; CEO, The CFG Advisory.
- 📍 **Prof. Uche UWALEKE**; Member of the Presidential Committee on Fiscal Policy and Tax Reforms.
- 📍 **Mr. Johnson CHUKWU**; Group MD/CEO, Cowry Asset Management Limited.
- 📍 **Mr. Kalu AJA**; Financial Analyst.

- 📍 **Moderator:** Ottoabasi **ABASIEKONG**, Lead, Proshare News, Proshare LLC
- 📍 **Host:** Teslim **SHITTA-BEY**, M.IoD, Managing Editor/Chief Economist, Proshare LLC
- 📍 **Facilitators:** Olajumoke **ADEYEYE** (Proshare B&M) and Taiwo **AKINNAWO** (WebTV)
- 📍 **Rapporteur:** Ademidun **SHOGO**, Snr Economist & Corporate Analyst, Proshare LLC

Summary of Panelists **Opinions**.

1. **Dr. Tilewa ADEBAJO**

Nigeria's revenue shortage, wide budget deficit, rising debt servicing, and other unfavourable macroeconomic indicators provided the basis for the government's fiscal trilemma, necessitating the windfall tax. Previous inconsistencies in policy implementation, inefficient social intervention, and citizen trust deficit have created scepticism around the banks' FX revaluation gain or windfall tax.

He argued that to improve Nigeria's fiscal situation, the government should target a consistent five-year gross domestic product growth (GDP) between 8% and 11% per annum. He equally noted that the domestic inflation rate should be brought down to roughly 11%, observing that at those periods, Nigeria saw faster growth and lower inflation rates, the welfare of Nigerians was significantly better. Adebajo frowned at a situation where roughly 133m citizens were multidimensionally poor. He insisted that this situation must be addressed urgently.

Rampant inflation is eating up real disposable income, making it difficult for consumers to buy goods and services and for companies to improve sales. The economist noted that this was hampering growth as the problematic domestic economic situation has led companies to vote with their feet by closing local production,

resulting in job losses, real sector contraction, and slower potential GDP growth. He also noted that Nigeria's international currency reserves need to rise significantly if inflation is to fall, and the GDP growth rate is to be rekindled. He recalled a recent analysis by CFG Advisory, in which it was noted that the country was in a **reform fatigue economic quagmire**.

2. **Prof. Uche UWALEKE**

The windfall levy was seen as a global trend to redistribute supernormal gains triggered by the government's actions or inactions, such as the exchange rate harmonisation of the different layers of rates. It was observed that the FX revaluation gain, or windfall tax, should be allocated for social intervention, not as plugs to meet budgetary deficits. Uwaleke noted that globally, the windfall tax levy on financial institutions ranged from 4.5% to 40%, but Nigeria was noted to have levied the highest tax at 70%.

He observed that the tax was adjusted gradually upwards over a few years in other countries and was not levied in a single swoop. He noted that the National Assembly (NASS) had considered it more of a levy than a tax because it was being charged as a one-off obligation rather than as a permanent feature of the country's tax structure to be imposed on banks. He noted no clear guidelines on the windfall tax implementation, as the revised Act seemed ambiguous.

He advised that the utilization of the windfall tax funds should be specified, as in other countries, to track the impact of the tax since it was not part of the routine budgetary framework. Uwaleke admonished that future borrowings and revenue sourcing should be tied to specific projects to ensure transparency and rebuild trust between the citizens and the government.

3. **Mr. Johnson CHUKWU**

Chukwu observed the historical misalignment between the government's commitments/promises and actions, creating a trust gap between the government and the citizens. The regular breach of the Fiscal Responsibility Act without sanction and the introduction of an FX revaluation gain tax caused by the government's FX harmonisation at a time of a government-imposed banking sector recapitalisation programme was inappropriate.

He noted that the government needed to build broader citizens' consensus around the windfall

tax after comprehensive consultation; he argued that the absence of such consultation widened the trust deficit between the government and the citizens. The professor of capital markets also noted that the lack of sanctions for breach of fiscal laws, such as the Ways and Means provisions, allowed the government to stretch its borrowing capacity, resulting in a large fiscal deficit that placed it under pressure to fill by unconventional levies such as the recent 70% windfall tax on FX revaluation gains of banks.

He pointed out that the government seemed to have ignored the fact that the FX revaluation gains of banks were the mirror image of the FX revaluation losses incurred by companies in the real sector of the economy, such as manufacturing companies. He observed that manufacturing companies traditionally known for large profits and high dividend payouts suffered losses in their 2023 audited financial statements (AFS). He questioned why the government applied a windfall tax levy on banks without compensating their real sector counterparts for windfall tax losses through tax credits. Chukwu insisted that this suggested fiscal tunnel visioning and the absence of a **whole-of-society** approach to governance. This aligned with Proshare's consistent call for a **whole-of-government** approach to policy **formulation, design, execution, monitoring, and control**.

He called for a holistic fiscal and economic plan that rests on this 'whole of government approach' to discourage the use of tax policies in silos, which could tax revenue from one sector with severe implications on another. Chukwu argued that tax policy was a domestic policy that should be subject to economic conditions, not represent poor imitation of policies in other countries.

4. Mr. Kalu AJA

Tardiness in tax harmonisation with the slow adoption and implementation of the Taiwo Oyedele-led Fiscal Reform and Tax Policy Committee recommendations has raised concerns amongst economic agents and households. He pointed to the government's lack of frugal management of public funds as a cause of citizens' scepticism over the use of windfall taxes. He noted that public spending on non-critical assets and budget head items has created distrust and disaffection. This has led to Nigerians not believing that the government would use the windfall tax properly for social intervention and financial relief to critical economic sectors.

Aja suggested that alternative approaches to windfall tax allocation include banks converting the funds to separate long-term loans for SMEs or using the tax to subsidise commercial small-scale retail loans. This use of funds would strengthen the banks' capital buffers and spur growth and expansion in the real sector of the economy using the private-public partnership (PPP) strategy to foster transparency and accountability.

He observed that the combination of the windfall tax and recapitalisation exercise gave investors an unhelpful signal, significantly leading to a fall in the share prices of banks listed on the local stock exchange and discouraging portfolio investors from bringing their money into the country, slowing down the domestic economic growth rate and adversely affecting the aspiration of the country to attain a US\$1trn economy in the next three years. The lack of clarity and uncertainty about the windfall tax results in the loss of value of banks on the listed exchange despite relatively healthy corporate fundamentals.

The financial analyst pointed out that snuffing out or depressing investors' dividend yields by imposing episodic taxes on companies was not a smart way of encouraging investment. Indeed, he noted that tax uncertainty would discourage investors from the local stock market.

Consensus Opinion and **Recommendations**.

1. The windfall levy is now an act of law, thus compliance while engaging appears a practical and informed approach by entities concerned.
2. A **whole-of-society** and **whole-of-government** approach to governance should be used for policy **formulation, execution, monitoring, and control**.
3. Transparent allocation of windfall tax funds for social infrastructure to foster accountability and track practical transmission to vulnerable households.
4. The timely implementation of tax and fiscal policy reforms should bridge the trust deficit between citizens and the government.
5. Broader stakeholder engagement before policy implementation would help reinforce citizens' trust in public policy and the government

- The government should consistently target a gross domestic product (GDP) growth rate between 8% and 11% over the next five years. As foreign reserves increase, the inflation rate should be reduced; this can be achieved through the financialisation or securitisation of idle public assets.

Conclusion.

The discussion of the windfall tax has moved beyond legitimacy or fairness to concerns about implementation, application, and allocation.

The absence of a detailed allocation framework or improper communication might have affirmed citizens' pessimism about the policy. It will require a remedy through a transparent structure that allows monitoring of the utilisation of funds. Experts suggest that funds raised should be allocated for social intervention to cushion household burdens and/or used for loan disbursement to SMEs to drive real sector growth.

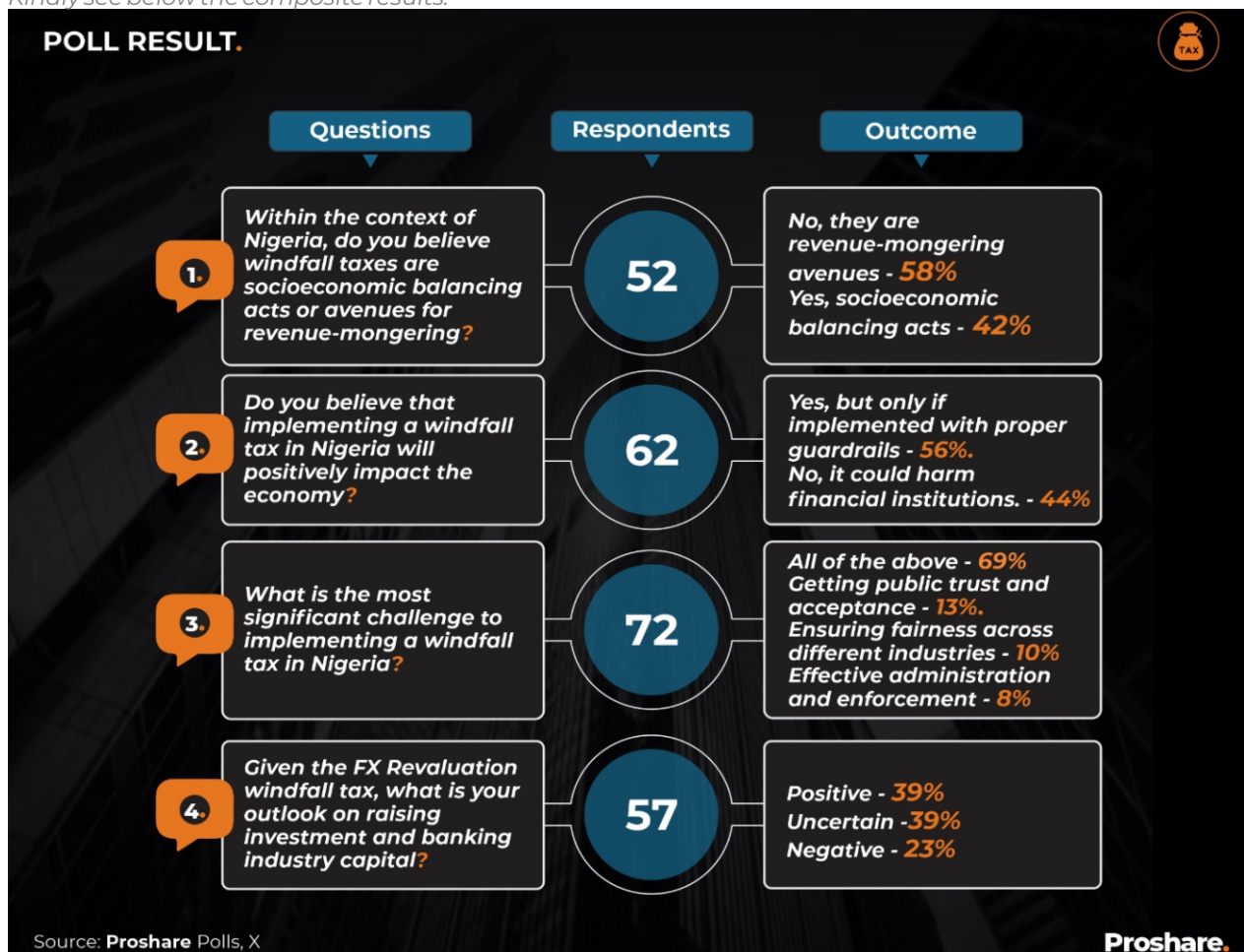
The windfall policy structure showcases the weakness of private-public partnership (PPP) model, policy evaluation, and communication, often leading to undesirable policy outcomes. Achieving the desired policy outcome requires comprehensive consultation to obtain a broad consensus from stakeholders concerning public policy if the public trust deficit is to be bridged. Beyond the windfall tax policy, the country needs an economic blueprint with a long-term fiscal strategy to position the economy for growth.

The webinar ended at 12.00 PM prompt.

Poll Results.

A snap poll was conducted during the two-hour webinar across different social media channels (Zoom and Twitter) with a total sample size of 243 respondents. Kindly see below the composite results.

Kindly see below the composite results.



The Polls conducted during the Webinar sought to identify the following four (4) objectives:

1. Public understanding of the windfall tax
2. Likely effect of the windfall tax on the economy
3. Impact of the windfall tax on the banking industry
4. Implementation of the windfall tax

Poll Result Interpretation

Based on the poll's outcome, the public perceived windfall taxes as revenue-pursuit agendas rather than socioeconomic balancing mechanisms. Of the 52 respondents at the two-hour webinar, 58% said windfall taxes were more of a revenue contrivance, while 48% saw it as a social balancing effort. In other words, respondents were split on the government's intentions. On whether the tax benefited the economy, 62 people responded. Of the respondents, 56% believed that the tax would improve the economy with proper guardrails, while 44% believed that the tax was detrimental.

Concerning the significant challenges to the economy based on the tax, 72 people responded, with 69% of the respondents believing that getting public trust, ensuring fairness across different industries, and effective management and enforcement properly implemented with proper guardrails and windfall taxes could positively impact banks and the economy.

On the question of the impact of the tax on the investment and banking industry, 57 people responded, with 39% considering the tax as positive, 39% uncertain, and 23% seeing the tax as having a negative impact on investments and banks.

The Panelist's **Profile**.

1. Dr Tilewa ADEBAJO, CEO of The CFG Advisory

Dr Tilewa has over 35 years of experience in Business Management, Corporate Finance, Investment Banking, Private Equity, and Economics. He is chairman at Stationery Stores Football Club, Senior Technical Adviser at FMITI, and Entrepreneurial Transaction Business Manager. He was Executive Director and CFO at Equatorial Trust Bank, Abuja, from 2009 to 2011.

2. Prof. Uche UWALEKE - Director, Institute of Capital Market Studies, Nasarawa State

University and member of the Presidential Committee on Fiscal Policy and Tax Reforms

Professor Uche Uwaleke is a renowned Finance & Capital Market academic, the Head of the Securities and Investment Management Department, and -*the Director of the Institute of Capital Market Studies at the Nasarawa State University Keffi. He is also a Visiting Professor at the University of Abuja Business School. He has worked as the Chief Economist/Director of Research at SEC Nigeria and was a former Honorable Commissioner for Finance in Imo State, Nigeria. He is a member of the Presidential Committee on Fiscal Policy and Tax Reforms and a Special Adviser to the Chairman of the Senate Committee on Capital Market & Institutions.

3. Mr. Johnson CHUKWU – Group MD/CEO, Cowry Asset Management Limited

Mr. Johnson Chukwu is the Founder, Managing Director and Chief Executive Officer of Cowry Asset Management Limited, with over three decades of experience in the financial market. He has boardroom experience and is Chairman of Fidelity Pension Managers Ltd and Virgin Forest Energy Limited. He is a Fellow of the Institute of Chartered Accountants of Nigeria and the Chartered Institute of Taxation of Nigeria. He has attended several courses, including the IESE Business School (University of Navarra) Barcelona, Spain and Wharton Business School, University of Pennsylvania, Philadelphia, USA. He is also a regular media commentator on the Economy, Capital Market and Banking industry.

4. Mr. Kalu AJA - Financial Analyst

Kalu Aja is a Financial Planner and Economic Strategy Consultant with over twenty years of expertise in the financial services industry. He has extensive knowledge of Brand Management, Investment and Private Banking, and Occupational Pension Management. Kalu is an alumnus of the University of Nigeria, Lagos Business School, and the New York Institute of Finance. He also manages a personal financial advocacy group, "Financial Planning with Kalu Aja," which focuses on Entrepreneurship and Personal Finance.

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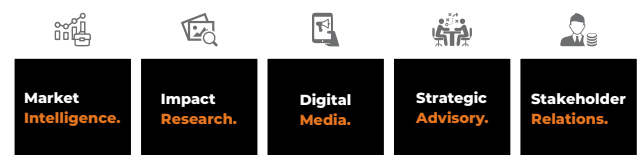
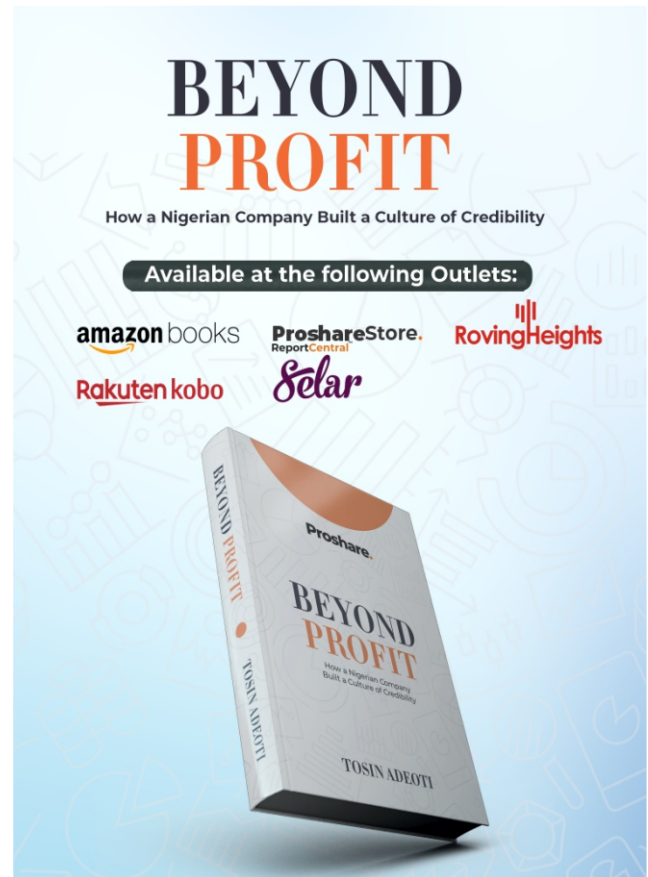
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Creation Date

This report was published on September 09, 2024, and is based on the best publicly available information at that time. The PDF version was created on September 09, 2024. For comments, feedback, and updates, kindly send us an e-mail via research@proshare.co. Thank you.


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