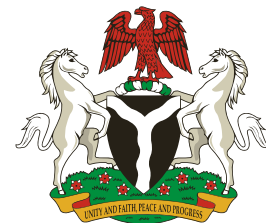




NIGERIA

Integrated National Financing Framework



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**PRESIDENT,
FEDERAL REPUBLIC OF NIGERIA**

FOREWORD

The Integrated National Financing Framework (INFF) has been developed to map out a much-needed sustainable financing plan for Nigeria to deliver on our commitments and aspirations to attain the United Nations' Sustainable Development Goals (SDGs) by the year 2030.

Nigeria's fast-growing economy suffered a significant setback when the prices of crude oil crashed in early 2016. As a country whose public financing was heavily dependent on the revenues from crude oil sales, the hit to oil prices and the rise in implicit fuel subsidies led to a significant loss of revenue. As a result, revenues appropriated to finance sustainable development initiatives, like the SDGs, depreciated. Our country's financial loss was worsened because of the negative effects of the COVID-19 pandemic on our socio-economic situation. With many business operations out of commission, significant pressure on our health care system and income losses facing our citizens, our national economy declined.

Despite these challenges, Nigeria has remained resolute in her desire to achieve economic growth and development. In our approach to economic recovery, the Federal Government of Nigeria has made strenuous efforts to contain the pandemic and reinforced our commitment to policy reforms. The key economic development plans like the 2017-2020 Economic Recovery and Growth Plan (ERGP), the 2020 Economic Sustainability Plan (ESP), the 2021 National Poverty Reduction with Growth Strategy (NPRGS) and the 2021-2025 National Development Plan (NDP), in addition to the latest COVID-19 response and recovery plan, are aligned with the SDGs. It is in line with this commitment and with a focus on the 2021-2025 NDP that, with the support of the United Nations Development Programme, the Federal Government of Nigeria has decided to adopt the INFF as a tool to improve SDG financing without increasing public debt and contingent liabilities to levels that will be detrimental to economic sustainability.



The financing strategy, a building block of the INFF, builds on earlier exploration of sources of financing from the public and private sectors of the international and domestic spheres and provides recommendations on how best to expand development financing through key strategic reforms covering public and private finance. With its vibrant public and private sectors, an extensive pool of international stakeholders and solid action plan, our commitment remains strong to helping Nigeria meet the financing needs of the National Development Plan to enable the attainment of the SDGs by the year 2030.

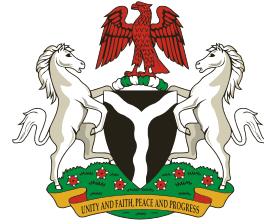
The financing strategy is backed by a Medium-Term Revenue Strategy and a Medium-Term Expenditure Framework. It is further supported by a clear roadmap and monitoring framework and includes guidance on governance and coordination to provide a holistic approach with the necessary transparency and accountability measures to make this a successful initiative. As Nigeria champions the INFF process, we hope to provide peer countries with a robust framework that promotes coherence by aligning financial policies with sustainable development and provides the enabling conditions for domestic, international, public, and private financial actors to best respond to national needs.

I urge all Nigerians, the international community, and our development partners to recognise the importance of this integrated approach to financing development, as you continue to count on my leadership in its implementation.


Muhammadu Buhari

15th
..... September, 2022

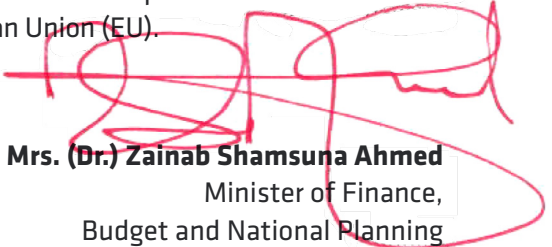
Preface



The launch of Nigeria's Integrated National Financing Framework (INFF) comes at a critical moment—as we begin the implementation of our medium-term National Development Plan (2021–2025) against a global backdrop of ongoing macroeconomic and fiscal uncertainty. We remain committed to ensuring sustainable and inclusive growth, and achieving the SDGs, having recognized that this set of interdependent goals hold the key to sustainable and inclusive growth in Nigeria. To this end, the INFF is an important tool for not only mobilizing the domestic and international resources required to finance the SDGs, but also for ensuring the appropriate governance framework, partnerships, and monitoring framework to ensure its success. As we think about how we intend to shape Nigeria's future, my hope is that we remain resolute on designing and implementing policies and plans that are citizen-centered and results-oriented.

On behalf of the INFF Steering Committee, I would like to thank H.E. President Muhammadu Buhari, for his leadership and for providing the needed political will and gracious approval for the process of developing this critical strategy document.

Let me also express my gratitude to my fellow Steering Committee members; and especially the Senior Special Assistant to the President on the Sustainable Development Goals, Princess Adejoke Orelope-Adefulire for being a steadfast and committed SDG champion. Our accelerated progress in developing the INFF is in part due to the established SDG coordination and infrastructure mainstreaming established through the Office of the SSAP-SDGs. I also acknowledge and thank all other stakeholders, including the private sector, and our esteemed partners from the United Nations Development Programme (UNDP) and the European Union (EU).



Mrs. (Dr.) Zainab Shamsuna Ahmed
Minister of Finance,
Budget and National Planning

Acknowledgements

The production and final completion of the Integrated National Financing Framework (INFF) was made possible by the commitment and contributions of many individuals and organizations that are true friends of Nigeria. It went through a process of consultative engagements with feedback from stakeholders.

The oversight and overall guidance for the production of the components of the INFF was provided by the Steering Committee chaired by Hon. Dr. (Mrs.) Zainab Shamasuna Ahmed, the Minister of Finance, Budget and Planning, and other members including the Hon. Minister of State, Budget and National Planning, the Governor of the Central Bank of Nigeria, the Executive Chairman of the Federal Inland Revenue Service, the Chairman of the Nigeria Governors Forum, the Director General of the Budget Office of the Federation, the Director General of the Debt Management Office, the Statistician-General of the National Bureau of Statistics, the Senior Special Assistant to the President on SDGs (SSAP-SDGs), the United Nations Resident Coordinator, the Resident Representative of the United Nations Development Programme (UNDP), the Delegation of the European Union to Nigeria and ECOWAS, the Head of Cooperation of the EU Delegation to Nigeria and ECOWAS, the Resident Representative of the International Monetary Fund, the Country Director for the World Bank, and the Co-Chair of the Private Sector Advisory Group.

Technical guidance, coordination and leadership for the report was provided by the Core Working Group co-chaired by Amarakoon Bandara, the Senior Economic Advisor for UNDP, and David Adeosun, the Director of Macroeconomic Analysis at the Ministry of Finance, Budget, and National Planning. Other members of the core working group included: Ms. Aisha Omar, Director of International Economic Relations; Mrs. Grace M. Ogbonna, Director of Economic Research and Policy Management; Dr. Zakari Lawal, Director of National Monitoring and Evaluation; Mrs. Nabila Aguele, Special Advisor to the Hon. Minister of Finance, Budget and National Planning; Dr. Bala Yusuf Yunusa, Senior Technical Advisor to SSAP-SDGs, Ms. Rose Keffas, Special Assistant to SSAP-SDGs, as well as the Budget Office of the Federation, Central Bank of Nigeria, Debt management Office, National Bureau of Statistics, Nigeria Governors Forum, the European Union, the International Monetary Fund, the World Bank, the Private Sector Advisor Group, African Development Bank Group and Islamic Development Bank. Thomas Beloe from UNDP's Bureau of External Relations and Advocacy and Orria Goni from UNDP's Africa Finance Sector Hub provided insights and technical guidance on the INFF process.

Valuable insights, input and feedback were provided by officials of government institutions and other stakeholders through bilateral consultations. Key insights were provided by the Commissioner of Revenue Mobilization Allocation and Fiscal Commission (RMAFC) and his team, as well as State Commissioners of Finance, Budget and Planning and state SDG focal persons on the fiscal federalism process. Comments and input were also provided by participants at the consultative meetings, including at the state level. The INFS was prepared by a team of experts from International Financial Consulting Limited (IFCL) comprising Diana Smallridge, Glen Hodgson, Gaurav Trivedi, Sara Harb and Sarah Maiguwa and supported by Mustapha Ndajiwo, a national consultant and lead for stakeholder engagement. Rose Keffas,

the Special Assistant at OSSAP-SDG and Nabila Aguele, Special Adviser to the Minister of Finance, provided support in coordinating the stakeholder consultations.

Internal review of the report was done by Dr. Amarakoon Bandara, Precious Akanonu, and Fatima Umar (UNDP), Dr. Bala Yusuf Yunusa (OSSAP), and David Adeosun (MoFBNP). Valuable comments and technical guidance from the International Monetary Fund Mission, EU Delegation, World Bank, and UNDP Africa Sustainable Finance Hub are much appreciated. The report was also reviewed by the Core Working Group. The INFF benefitted from independent review provided by Roshan Perera, copy editing by external consultant Kareem Shaheen, and layout design by Veranika Ardytskaya. The Office of the Senior Special Assistant to the President on SDGs (OSSAP) provided secretarial support throughout the process while administrative support was provided by Grace Arinze Ononwu, Economic Research Associate, UNDP. Partnership with the European Union (EU) on the Integrated National Financing Strategy (INFS) process in Nigeria contributed strongly to conceptualizing and successfully producing this report. We highly appreciate their cooperation.

Table of Contents

Foreword.....	ii
Preface.....	v
Acknowledgements.....	vi
List of Figures and Tables.....	vii
List of Acronyms	viii
Executive Summary.....	xi
1. INTRODUCTION	2
1.1 Background	3
1.2 Financing the SDGs	6
1.3 Objectives of the INFF.....	7
1.4 Structure of the Report	8
2. THE INTEGRATED NATIONAL FINANCING STRATEGY (INFS)	10
2.1. Framework for Integrated National Financing Strategy.....	11
2.2 Methodology.....	12
2.3 Macroeconomic Context	13
2.4 Fiscal Performance	14
2.5 Public Debt Management	15
2.6 Key Challenges and Systemic Issues	17
2.7 Key Strengths.....	21
2.8 Summary	22
3. INFS-STRENGTHENING DOMESTIC PUBLIC DEVELOPMENT FINANCING ENVELOPE	24
3.1 Overview	25
3.2 Enhancing Federal Revenue Base.....	25
3.3 Enhancing States’ Revenue Base	29
3.4 Coordinating Budget Processes and Modifying Public Spending and Management Practices	33
3.5 Innovations in Public Debt Management/Debt Sustainability.....	37
3.6 Catalysing GOEs and the Sovereign Wealth Fund	40
3.7 Capturing Illicit Financial Flows	43
3.8 Summary of Domestic Public Finance.....	48

4. INFS–STRENGTHENING DOMESTIC PRIVATE DEVELOPMENT FINANCING ENVELOPE	50
4.1. Overview	51
4.2 Enabling Business Environment	52
4.3 Mobilising Banks and Local Financial Institutions	54
4.4 Incentivising Local Investors and Mobilising Other Institutional Investors	58
4.5 Scaling Up Sustainable Finance	60
4.6 Summary of Domestic Private Financing	63
5. INFS–STRENGTHENING INTERNATIONAL PUBLIC DEVELOPMENT FINANCING ENVELOPE	64
5.1. Overview	65
5.2 Multilateral Development Banks and Development Finance Institutions	65
5.3 Official Development Assistance (ODA)	71
5.4 Export Credit Agencies (ECA)	73
5.5 Summary of International Public Financing	76
6 INFS–STRENGTHENING INTERNATIONAL PRIVATE DEVELOPMENT FINANCING ENVELOPE	78
6.1 Overview	79
6.2 Remittances	79
6.3 Foreign Direct Investment and Investment Policy	83
6.4 Promoting Private Equity Funds, Venture Capital Investment and Angel Investment	85
6.5 External Bond Purchases and Debt Financing (diaspora, social impact, priority projects, green, etc.)	87
6.6 Other Sources of Private Finance (foundations, faith-based, thematic investing, etc.)	89
7. NON-FINANCIAL MEANS OF IMPLEMENTATION AND CROSS-CUTTING ISSUES	92
7.1 Non-Financial Means of Implementation: Trade Policy And Other Areas	93
7.2 Cross-Cutting Themes in the INFF	95
8. STRATEGIC ACTION PLAN OVERVIEW	100
8.1 Overview	101
9. MEDIUM-TERM REVENUE STRATEGY (MTRS)	108
9.1 Introduction to the MTRS	109
9.2 Nigeria’s Medium-Term Revenue Goals	114
9.3 Tax Reform Strategy	117
9.4 Sustained Political Commitment	124
9.5 Donor Support to Implement the MTRS	125
10. MEDIUM-TERM EXPENDITURE FRAMEWORK	126
10.1 Background of the MTEF	127
10.2 Linking of the MTEF to the MTRS	127
10.3 MTEF Foundations	128

10.4 MTEF For the SDGs	132
10.5 Financial Discipline	137
10.6 Institutional Responsibilities.....	139
11. NIGERIA'S INFF ROAD MAP AND M&E FRAMEWORK	142
11.1 Background	143
11.2 Structure of the M&E plan	143
11.3 Conclusion.....	144
12. NIGERIA'S INFF GOVERNANCE AND COORDINATION MECHANISMS.....	146
12.1 Introduction & Background	147
12.2 INFF Governance Parameters	147
12.3 Institutional Roles and Responsibilities	150
12.4 Coordination Channels	151
12.5 Operational Tools for INFF Coordination	154
13. NIGERIA'S INFF FISCAL FEDERALISM AND COORDINATION FRAMEWORK	156
13.1 Introduction & Background	157
13.2 The Nigerian Fiscal System and Financing Arrangements	159
13.3 Challenges Facing Fiscal Federalism In Nigeria	163
13.4 Strengthening Fiscal Federalism Framework.....	164
13.5 Conclusion	165
ANNEXES	166

List of Figures and Tables

Figure 1: INFF SDGs Priorities.....	5
Figure 2: INFF Building Blocks.....	7
Figure 3: SDG Financing Sources	12
Figure 4: Nigerian MDAs' Functions and Revenue Flows.....	34
Figure 5: Nigeria ranks top 3 in Africa in terms of VC investments.....	86
Table 1: Select Macroeconomics Indicators (Nigeria).....	4
Table 2: Nigeria: Selected Economic and Financial Indicators, 2017–2021.....	13
Table 3: Nigeria: Consolidated government operations.....	14
Table 4: Nigeria's Total Public Debt Portfolio as of 31 December 2021	15
Table 5: Nigerian States' Finances, 2021.....	15
Table 6: Medium-Term Debt Strategy Targets and Actual.....	38
Table 7: Key Indicators for National DFIs in Nigeria	41
Table 8: DAC Countries' Gross Bilateral ODA (2018–2019 average).....	71
Table 9: Bilateral ODA EU-Nigeria	72
Table 10: Annual Personal Remittance Inflows to Nigeria	79
Table 11: Nigeria's FDI Flows 2016–2020	83
Table 12: Overview of initiatives from the four quadrants	101
Table 13: Status of Progress on SDGs in Nigeria as 2021	110
Table 14: Tax Revenue 2016–2020.....	111
Table 15: 2023–2025 MTEF & FSP Revenue Projections (2023–2025)	114
Table 16: 2023–2025 MTEF & FSP Expenditure Projections	129
Table 17: Nigeria's GDP Projections	132
Table 18: Nigeria INFF Institutional Roles and Responsibilities	150
Table 19: Overview of Channels and Actors.....	151
Table 20: Taxes collected by the different tax tiers in Nigeria.....	160
Table 21: Vertical Sharing Formula	161
Table 22: Horizontal Sharing Formula Based on Five Principles	161
Table 23: VAT Sharing Formula	162
Table 24: VAT Sharing Principle.....	162

List of Acronyms

AEOI	Automatic Exchange of Information
AfCFTA	African Continental Free Trade Agreement
AfDB	African Development Bank
AML	Anti-Money Laundering
ATAF	African Tax Administration Forum
AU	African Union
BEPS	Base Erosion and Profit Shifting
BOA	Bank of Agriculture
BOFID	Banks and Other Financial Institutions Decree
BOI	Bank of Industry
BVN	Biometric Verification Number
CbCR	Country-by-Country Report
CBN	Central Bank of Nigeria
CIT	Corporate Income Tax
CPF	Country Partnership Framework
CRS	Common Reporting Standard
CSR	Corporate Social Responsibility
DBN	Development Bank of Nigeria
DBS	Director of Banking Supervision
DFA	Development Finance Assessment (report)
DFI	Development Finance Institution
DMO	Debt Management Office
DRM	Domestic Revenue Mobilisation
DSA	Debt Sustainability Analysis
ECA	Export Credit Agency
ECOWAS	Economic Community of West African States
EITI	Extractive Industries Transparency Initiative
ERGP	Economic Recovery and Growth Plan
ESP	Economic Sustainability Plan
EU	European Union
FAAC	Federation Account Allocation Committee
FATF	Financial Action Task Force
FBMB	Federal Mortgage Bank of Nigeria
FEC	Federal Executive Council
FGN	Federal Government of Nigeria

FIRS	Federal Inland Revenue Service
FRA	Federal Fiscal Responsibility Act
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
GHG	Green House Gases
GIABA	Inter-Governmental Action Group against Money Laundering in West Africa
GOE	Government-Owned Enterprises
GuarantCo	Guarantees for Development
HEDA	Human and Environmental Development Agenda Resource Centre
ICRC	Infrastructure Concession Regulatory Commission
IFC	International Finance Corporation
IFFs	Illicit Financial Flows
IGR	Internally Generated Revenue
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
InfraCredit	Nigerian Infrastructure Credit Enhancement Facility
INFS	Integrated National Financing Strategy
IOA	Investment Opportunity Areas
IsDB	Islamic Development Bank Group
ITAS	Integrated Tax and Accounting Services
KYC	Know Your Customer
LFZC	Lagos Free Zone Company
M&E	Monitoring and Evaluation
MCAA	Multilateral Competent Authority Agreement
MDAs	Ministries, Departments and Agencies
MDBs	Multilateral Development Banks
MIGA	Multilateral Investment Guarantee Agency
MLT	Medium to-Long Term
MNE	Multinational Enterprise
MoFBNP	Ministry for Finance, Budget, and National Planning
MoU	Memorandum of Understanding
MSMEs	Micro, Small and Medium-Sized Enterprises
MTEF	Medium-Term Expenditure Framework
MTNDP	Medium-Term National Development Plan
NDBs	National Development Banks
NDFIs	National Development Finance Institutions
NDIC	Nigeria Deposit Insurance Corporation
NDP	National Development Plan
NEITI	Nigerian Extractive Industries Transparency Initiative
NEXIM	Nigeria Export and Import Bank
NFIU	Nigerian Financial Intelligence Unit
NIDCOM	Nigerians in Diaspora Commission

NIPC	Nigeria Investment Promotion Commission
NPRGS	National Poverty Reduction with Growth Strategy
NSIA	Nigeria Sovereign Investment Authority
NTB	Nigerian Treasury Bills
NTP	National Tax Policy
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
OSSAP-SDGs	Office of the Senior Special Assistant to the President on SDGs
PEAC	Presidential Economic Advisory Council
PPP	Public-Private Partnership
PSAG	Private Sector Advisory Group
R&D	Research & Development
RITC	Road Infrastructure Tax Credit
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission
SFTAS	State Fiscal Transparency, Accountability and Sustainability Program for Results
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SPV	Special Purpose Vehicle
ST	Short Term
TAF	Technical Assistance Facility of the Private Infrastructure Development Group
TCC	Tax Clearance Certificate
TES	Tax Expenditure Statement
TIB	The Infrastructure Bank PLC
TSA	Treasury Single Account
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNDP	United Nations Development Programme
USSD	Unstructured Supplementary Service Data
VAT	Value-Added Tax
VC	Venture Capital
WBG	World Bank Group

Executive Summary

The Integrated National Financing Framework (INFF) is an approach to help countries strengthen their planning and financing processes and overcome existing impediments to financing sustainable development at the national level. In integrating the INFF approach into Nigeria's planning and financing processes, the government recognised the value in articulating a clear overarching Integrated Financing Strategy (INFS) that includes a Medium-Term Revenue Strategy (MTRS) and Medium-Term Expenditure Framework (MTEF), a robust INFF road map and Monitoring & Evaluation (M&E) Framework, an effective Governance and Coordination mechanism, and a refined Fiscal Federalism Framework. Therefore, this report is the Integrated National Financing Framework (INFF) developed for Nigeria to adopt in financing its Sustainable Development Goals (SDGs).

THE INTEGRATED FINANCING STRATEGY (INFS)

The INFS identifies ways to expand the financing envelope of SDGs and enhance the sustainable development impact of financing by seeking to integrate and align public and private financial policies, regulatory frameworks, instruments, and business processes with sustainable development. It delves into the various financing sources from the domestic and international public and private sectors, while providing steps to building a bridge between the sources of finance, the financing policies and practices, and the objectives of the country's 2021–2025 National Development Plan.

The INFS particularly aligns itself with the policy objectives of the current 2021–2025 National Development Plan (NDP) and the 2021 National Poverty Reduction with Growth Strategy (NPRGS), whose priorities are centred around SDG 1 (no poverty), SDG 3 (good health and well-being), SDG 4 (quality education), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation, and infrastructure), SDG 10 (reduced inequalities, particularly among states), and SDG 16 (peace, justice, and strong institutions), with elements of gender mainstreaming (SDG 5) and climate change (SDG 13) embedded into many of the policy priorities.

The INFS also builds on key development finance documents like the Development Finance Assessment (DFA) and draws insights from high-level workshops and consultations with key stakeholders in government, development partner agencies and the private sector.

Against this backdrop, the INFS provides a detailed action plan for mobilizing revenues to finance the National Development Plan and the associated SDGs. These action plans are then used to develop the M&E and the Governance and Coordination frameworks. Four key financing opportunities have been identified as sources of increased SDGs financing. These are domestic and international public finance, and domestic and international private finance.

Domestic public revenue

In improving **federal revenue**, priority actions include digitalisation of the Nigerian tax system, introduction of new taxes, optimisation of value-added tax (VAT), as well as the review and elimination of ineffective tax incentives.

In improving **state revenues**, key steps to take include a constitutional amendment on the concurrent right of states' autonomy in managing resources, reviewing and increasing states' tax authority and their enforcement capacity, designing policies to support MSME growth along states' comparative advantages, and harmonising tax and revenue collection through digitalisation.

Other key reforms aimed at improving public revenue at both the federal and state levels, with particular focus on coordinating budget processes, include the continued **aligning of the budget with the development plan and the eight SDG priorities**. It is important to ensure that the budget aligns with the priority sectors embedded in the existing development plan of the country. This way, the core development needs of the country are captured in the budget process and holistically planned for. Reforms are needed to foster an organic budget law.

Modifying public spending and management is also critical to improving public revenue. Nigeria's recurrent expenditures on unproductive ventures remain high. It has been noted that apart from debt servicing, government expenditure in Nigeria is largely made up of recurrent expenditure (particularly related to personnel costs). Such expenditures take away a significant portion of funds that could go towards financing the SDGs. It is therefore necessary to set in place measures that would reduce mismanagement and frivolous funding of already frail finances. It is also important to consolidate expenditures by merging MDAs, thus reducing non-essential expenditure in personnel and overhead.

Additionally, by **strengthening the framework for fiscal federalism**, creating **innovations in public debt management/debt sustainability** (including introducing more green financing), introducing measures for **catalysing GOEs and the sovereign wealth fund (SWF)** and taking steps aimed at capturing **illicit financial flows**, Nigeria hopes to improve its domestic public sector revenue and finance the SDGs more sustainably.

Domestic private sector

An important step in improving domestic private sector revenue is continued strengthening of the **enabling business environment**. This is advanced by the presence of a regulatory environment that promotes private sector-led initiatives. In Nigeria, aligning the private sector with the SDGs can be achieved by improving regulations, infrastructure, physical security, reforming policies and providing incentives. The private sector in Nigeria is already undertaking some initiatives aligned with the SDGs in terms of promoting corporate social responsibility (CSR) and other forms of development outcomes. Creating shared value (CSV), which means going beyond CSR to increasing the size of the pie, will be promoted as a vital element in private sector engagement in sustainable development. The private sector will need to be encouraged and incentivised to identify, measure and report on progress towards the attainment of SDGs, through a set of policies, regulations and incentives that promote private-sector investments. With the right business environment, this is an attainable aim.

Mobilising banks and local financial institutions is also key to accessing domestic private revenue. Nigeria will, among other measures, encourage tailored financial services and solutions such as fintech and mobile money services to cater to the needs of the "unbanked" Nigerians, which has a direct effect on the SDGs.

Incentivising local investors and mobilising other institutional investors will be key to improving domestic private revenue. While there is a reasonable number of domestic institutional investors in Nigeria, there is a need for collaboration between them to collectively fund the needs of sectors of the economy without duplicating efforts. Having a formal arrangement to guarantee a common interest rate will provide better incentives for clients investing.

Pension funds are major institutional investors that can be leveraged for domestic financing.

Leveraging institutional investors like pension funds can help plug the private sector financing gap for projects that are long term in nature, particularly infrastructure projects. This strategy intends to encourage members of labour unions to be part of the project approval process and supervision to avoid labour disputes.

Similarly, **scaling up sustainable finance** provides a unique source of domestic private revenue while deepening the capital market. There are several sources of sustainable finance that Nigeria intends to leverage including equity investment, debt finance from banks and capital markets, risk management tools like various forms of insurance, and grant support.

International public financial sources

In pursuing international sources of financing the SDGs, various donor organisations, international financial institutions (IFIs) such as development finance institutions, multilateral development banks, as well as regional development banks and export credit agencies have been identified as major players.

Multilateral development banks (MDBs) are a key source of public international financing. Nigeria intends to leverage MDBs' three key windows, namely: i) a commercial banking window ii) a concessional window, with subsidised interest rates and iii) a window that provides equity and debt financing to the private sector in developing member countries. Scaling funds channelled by MDBs through local banks and directed at MSMEs is also important to improving domestic finance for development.

An Important step Nigeria plans to take in ensuring it successfully accesses finances from **development finance institutions (DFIs)** is to build experience for bilateral DFIs in the market, and to develop solid relationships with local commercial investment and financing partners.

To increase **official development assistance (ODA)**, Nigeria intends to have a well-defined and structured development cooperation mechanism which could help propel development assistance. Nigeria will also ensure more value for money on all ODA spending.

To raise funds through **export credit agencies (ECAs)**, Nigeria's key steps are to improve the risk perception of ECAs toward Nigeria by strengthening its policies and public administration, regulatory frameworks, and creditworthiness.

International private capital

Nigeria's large diaspora community, commercial banks, institutional investors, impact investors, and foundations could be leveraged in scaling the financing required to achieve the SDGs.

Remittances remain a major source of inflow from Nigerians in the diaspora. Designing policies and instruments that could guide remittances toward meeting SDGs and intensifying efforts to address the trust deficits and restore remittance inflows to previous high levels are key aspects in leveraging remittances for development. The Nigerians in Diaspora Commission (NiDCOM) has intensified discussions with Nigerians in diaspora to invest in the country.

Foreign direct investment (FDI) and investment policy issues are key areas that will receive priority attention to improve the environment for international private capital, as high levels of corruption and poor business environment make it difficult for foreign investors to invest in the country.

Promoting venture capital (VC) and angel investment is also a good potential source of financing. Small and medium companies in Nigeria can access funding through VC and angel investors, increasing their potential to significantly improve the economy of Nigeria, and helping with attaining the SDGs.

There is also the potential to rely on **external bond purchases and debt** financing (diaspora, social impact, priority projects, green, etc.). However, to be effective, the strategy will ensure it is consistent and aligned with the public debt management strategy. Additionally, innovative options such as SDG bonds, gender bonds, and sustainability-linked bonds and loans are being explored to improve sustainable financing.

Other sources of private finance from the international private sector include **foundations**, faith-based and thematic investments, impact investments, etc.

Non-financial means of implementation: trade policy and other areas

Trade policies, trade promotion, technology, and other tools also enhance the financing envelope for development. Gender promotion remains a focus, with the aim of achieving equal access to quality education, health care, and economic opportunities as well as equal participation in governance, among other goals.

THE SUPPORTING FRAMEWORKS FOR THE INFS

The initiatives proposed in the financing strategy for Nigeria are supported by the Medium-Term Revenue Strategy (MTRS), Medium-Term Expenditure Framework (MTEF), INFF Road Map, the M&E Framework, the Governance and Coordination mechanism, and the Fiscal Federalism Framework.

The **MTRS** for Nigeria covers the next five years, from 2022 to 2026, and considers increasing domestic revenue sources, primarily taxation, as the means to fund national development as identified in the 2021–2025 Medium-Term National Development Plan (MTNDP). Nigeria, like many developing countries has a low tax-to-GDP ratio which indicates gaps in domestic resource mobilisation efforts and capacities. Limitations in raising adequate domestic resources, principally through taxation, have led to an increasing debt burden, fragile and inadequate infrastructure, and underdeveloped tools to achieve specific goals under the SDGs. The government has already commenced measures to increase the tax base—however this is being done in phases. The Medium-Term Revenue Strategy (MTRS) will serve Nigeria by generating enough revenue that will drive the realisation of the SDGs by reforming its tax system. The MTRS for Nigeria is made up of four major components: i) Medium-term revenue goals, ii) Tax reforms, iii) Sustainable political commitment to implement the MTRS, and iv) Coordinated donor support to implement the MTRS.

The **MTEF** explicitly covers medium-term spending on the SDGs, highlighting the costs that need to be met for the medium-term selected SDGs to be achieved by the year 2026. For Nigeria to achieve fiscal prudence and meet its SDG priorities, it must shift away from one-year fiscal planning and develop a medium-term perspective that frames the evolution of public spending over time. By doing so, the level and composition of SDG-related public spending for both current and emerging needs will be considered. Through the MTEF process, government programmes, sectors, and projects can be restructured to align with established policy objectives, possibly using a matrix approach to integrate spending by ministry, sector, programme, and initiative. The MTEF forms an integral part of the budget process as it prompts going beyond annual budgeting to multi-year budgeting.

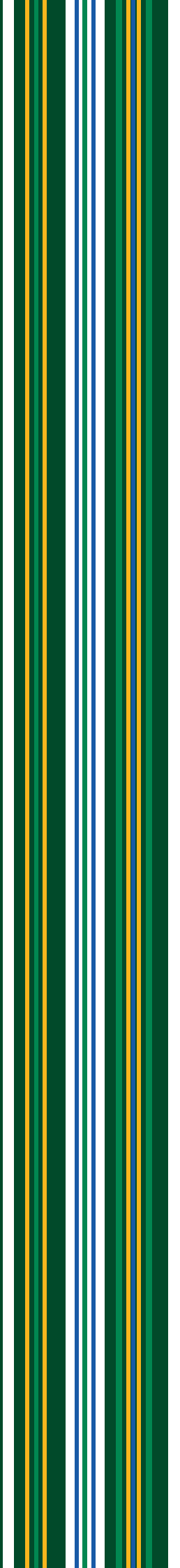
The **INFF Road Map and M&E framework** provide the road map for tracking progress of the initiatives proposed in the financing strategy. The structure for monitoring and evaluation includes key initiatives, priority levels, outcomes and indicators, and impact to be achieved. It also categorises the initiatives into short- and long-term action items. The success of the initiatives proposed in the Nigeria INFF relies heavily on the ability to track results, which will inform the effectiveness of the initiatives being implemented.

The **governance and coordination mechanisms** are expected to guide and oversee the entire INFF process and are situated at the highest level of government. The success of the INFF is reliant on strong political backing and broad-based country ownership. The Ministry of Finance leads the oversight of the INFF, setting SDG priorities, implementing the MTRS and MTEF, and the monitoring and evaluation of progress of initiatives of the INFF. Other key government actors with assigned responsibilities in implementing the INFF include the Cabinet, OSSAP-SDGs, Federal Inland Revenue Service, Nigerian Customs Service, Ministry of Justice, other federal ministries, federal government-owned enterprises, states, the domestic private sector, the Federal Executive Council, the State Executive Council, and external actors.

The **Fiscal Federalism Framework** provides clear steps for improving the allocation of fiscal resources in the country, while ensuring the SDG priorities are considered. To strengthen the financial relationship between the three tiers of government (federal, state, and local governments), there are short to medium-term and long-term priorities to consider. The options include increasing opportunities for states to leverage natural resources within their jurisdictions to serve as a source of revenue, strengthening state and local government revenue collection mechanisms, ensuring fiscal autonomy at the state level, implementation of the executive order on the autonomy of local government, the judiciary, and the state house of assemblies, developing a framework for solid minerals development, proper fiscal planning, reviewing and improving the FAAC revenue sharing formula (horizontally and vertically), and promoting the rights of states to explore and generate income from natural resources within their jurisdictions.

1.

INTRODUCTION



1.1 Background

The Government of Nigeria has adopted the United Nations 2030 Agenda for Sustainable Development and has since demonstrated its commitment to the attainment of the Sustainable Development Goals (SDGs) through its leadership and ownership of the implementation process. While good strides have been made in developing the relevant institutional frameworks such as the Nigeria Integrated Sustainable Development Goals (iSDGs) and the re-alignment of the National Statistical System (NSS) to effectively guide the implementation of the SDGs in Nigeria, progress on the SDGs is varied. As Nigeria found itself amid its first recession in decades in 2016, when the SDGs implementation commenced, this necessitated the development of the Economic and Recovery Growth Plan (ERGP) 2017–2020, and the current National Development Plan (NDP) 2021–2025. The ERGP focused on economic, social, and environmental dimensions of development, making it consistent with the aspirations of the SDGs, while the vision of the current 2021–2025 NDP catalysed the potential of the public, private and social sectors to boost industrialization, and sustainably improve inclusive holistic development and competitiveness. The current Development Plan envisions a Nigeria “that has unlocked its potential in all sectors of the economy for a sustainable, holistic, and inclusive national development.”¹

A key development challenge, however, is Nigeria’s lack of diversified sources for economic growth, due to its heavy dependence on oil and gas exports as a source of government revenue. Development progress has been hampered by inflationary pressure, low oil prices, a weak currency and insecurity. The COVID-19 pandemic has aggravated the economic downturn, plunging more Nigerians into unemployment and poverty. The combination of these challenges has made the SDGs more challenging to achieve.

Prior to 2016, the Nigerian economy grew rapidly at an annual rate of 6.3%. Nigeria’s economy faces increasing pressure from a sharp drop in global oil prices since 2015 and a decline in domestic oil production. The economics of oil have contributed to real gross domestic product (GDP) shrinking by 1.6% in 2016, the first recession in more than two decades. Economic growth remains subdued with its rate falling below the rate of population growth. Inflation, which was at single digit levels in 2014, rose to about 12% in 2019. As seen in Table 1, this has resulted in a steady decline in per-capita incomes and a rise in unemployment from 14.2% in Q4 2016 to 33.3% in Q4 2020.² The Federal Government of Nigeria’s (FGN) fiscal deficit increased to 3.4% of GDP in 2019, from 1.8% in 2014. Nigeria’s international competitiveness and external current account have been hit hard by high import dependence for both consumer goods and inputs for manufacturing.³

1 National Development Plan (NDP) 2021–2025, Volume I, Federal Ministry of Finance, Budget, and National Planning

2 National Bureau of Statistics. Labour Force Statistics, Unemployment and Under-Employment by State–Q4 2020 Report.

3 World Bank Group, Country Overview, Nigeria. 2020.

Table 1 : Select Macroeconomics Indicators (Nigeria)

Parameters	2016	2017	2018	2019	2020	2021 (proj)
GDP (current \$ billions)	404.65	375.75	397.19	448.12	432.29	–
GDP per capita (\$)	2,176.00	1,968.57	2,027.78	2,229.86	2,097.09	–
GDP growth rate (%)	1.58%	0.83%	1.91%	2.27%	-1.92%	3.40%
Unemployment rate (%)	14.2	20.4	23.1	–	33.3	32.5
Inflation, GDP deflator (annual %)	9.5	11.1	10.2	10.4	7.8	14.6*
Fiscal deficit (as a % of GDP)	-2.63	-3.17	-2.84	-3.41	-3.57	-3.93
Gross debt to GDP	23.4	25.3	27.7	29.2	34.5	37.0
Current account balance (as a % of GDP)	1.26	2.8	1.0	-3.8	-3.7*	-2.2*
Current account balance (\$ Billions)	5.1	10.4	3.9	-17.0	-16.1*	-10.8*
FX reserves (\$ billions)	24.6	39.5	42.8	38.1	29.5*	21.8*

*IMF projections

Source: World Bank Data; National Bureau of Statistics; IMF Staff Report

In addition to the economics of oil, various other factors have contributed to this slow growth, including restrictive trade policies, regulatory bottlenecks, delays in passage of legislative reforms, an inefficient property registration system, a slow and ineffective judicial system, unreliable dispute resolution mechanisms, multiple foreign exchange rates, and the use of Central Bank financing.⁴ The economic challenges were further compounded by the COVID-19 pandemic, which impacted almost all sectors of the economy, with the most significant impact on the health care system.

The global economic disruption caused by the COVID-19 pandemic has made securing additional SDG financing from domestic and international sources even more challenging. Nigeria continues to be affected by the pronounced decline in oil prices and reduced oil demand, reduced risk appetite in domestic and global capital markets, and by a decline in remittances. Federal and state fiscal accounts were adversely affected in 2020, even as added fiscal resources were required to address the health and economic impacts of the outbreak.

Despite these economic and development challenges, the government has put in place plans and frameworks designed to redirect the economy positively towards a more consistent and diversified growth trajectory. Among these efforts are the development of the 2017–2020 Economic Recovery and Growth Plan (ERGP), the 2020 Economic Sustainability Plan (ESP), the 2021 National Poverty Reduction with Growth Strategy (NPRGS) and the 2021–2025 National Development Plan (NDP). The government has also developed an immediate COVID-19 response and recovery plan.

The NPRGS, which was approved by the Federal Executive Council for implementation, is expected to lift 100 million people out of poverty in Nigeria in 10 years. The programme designed by the Presidential Economic Advisory Council (PEAC) is built on four core pillars, including: i) Macroeconomic stabilisation; ii) Industrialisation for economic growth and transformation;

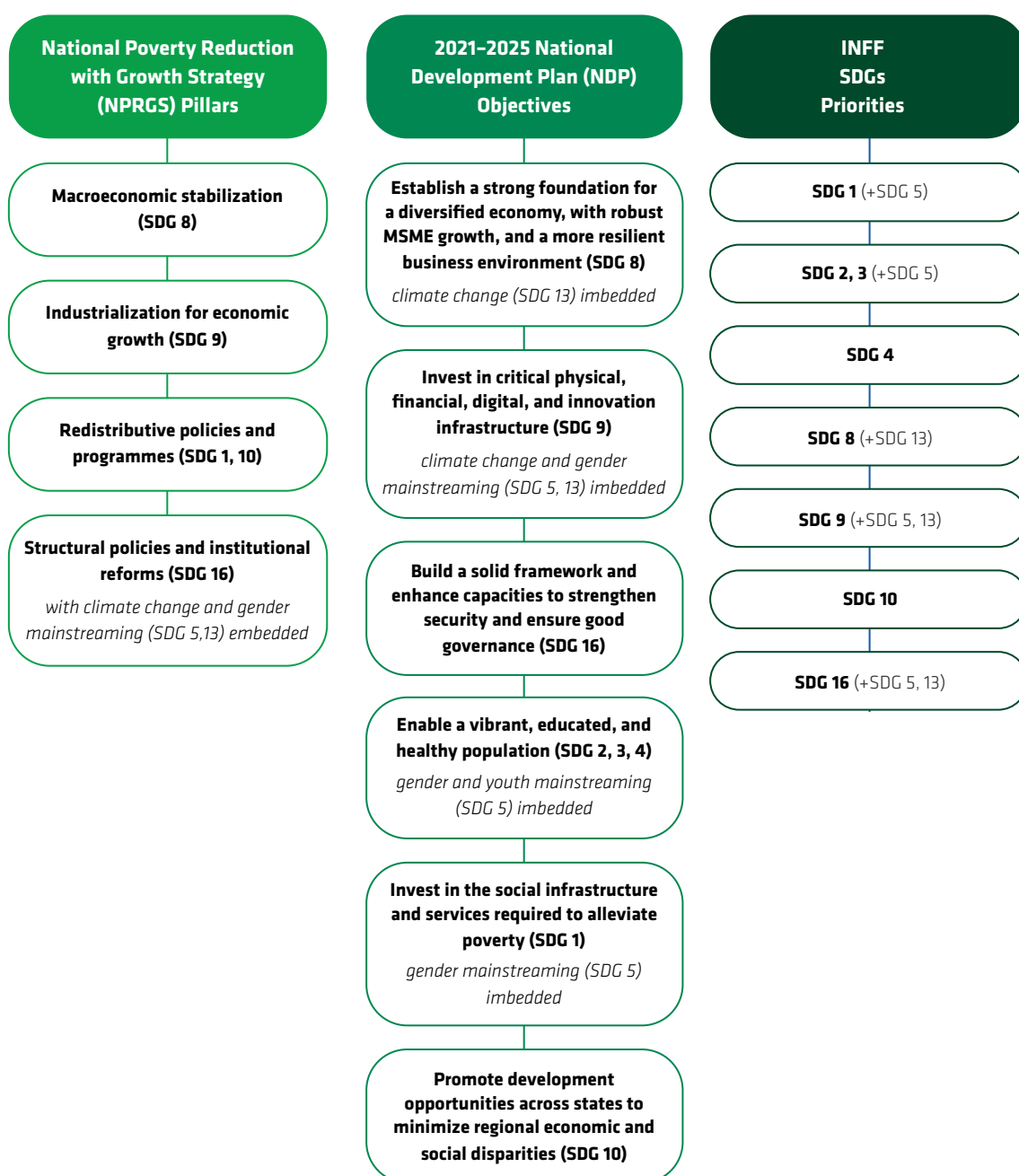
4 World Bank Group Country Partnership Framework for Nigeria for the FY21–FY25 (pp. 7–8). 2020.

iii) Structural policies and institutional reforms; and iv) Redistributive policies and programmes. The federal government intends to achieve these policy pillars through exchange rate unification, restoring single-digit inflation, gradual phase-out of subsidies, sustainable fiscal and public debt management, and other policy reforms.

Nigeria's current development plan (2021–2025 NDP) seeks to invest massively in infrastructure, ensure macroeconomic stability, and enhance the investment environment, among others. Specifically, the plan aims to generate 21 million full-time jobs and lift 35 million people out of poverty by 2025, thereby setting the stage for lifting 100 million Nigerians out of poverty in 10 years.

The SDGs represented in the policy priorities/objectives identified in the 2021–2025 National Development Plan and the 2021 National Poverty Reduction with Growth Strategy (NPRGS) form the basis for the SDG priorities in the INFF (see Figure 1). These objectives/priorities are used as key reference points in exploring options for mobilising SDG financing.

Figure 1: INFF SDGs Priorities



1.2 Financing the SDGs

The pre-pandemic development financing needs of Nigeria stood at \$10 billion per year, according to the iSDG model by the FGN and UNDP.⁵ This has been exacerbated by the challenges caused by the COVID-19 pandemic. These challenges include but are not limited to a fall in demand for oil which represents 80% of Nigeria's exports; a decline in remittances; reduced inflow of capital to Nigeria; reduction in household income due to mobility restrictions; loss of jobs, and; rising food prices due to disruptions in value chains and production processes.⁶ Consequently, the reversal of some of the development gains made over time may widen the SDG funding gap for Nigeria, estimated at US\$100 billion over the next 10 years.⁷ The IMF estimates additional spending equivalent to 18% of GDP by 2030⁸ will be required to achieve the SDG targets in education, health, electricity, roads, and water and sanitation sectors in Nigeria. Spending would need to increase significantly, with conservative estimates of 7.7% of GDP for education, 4% for health, 1% for electricity, 2% for roads, and 0.6% for water and sanitation by 2030.

The Addis Ababa Action Agenda provides a global framework for financing the Sustainable Development Goals by aligning all financing flows and policies with economic, social, and environmental priorities. Leveraging the framework of the Addis Ababa Action Agenda, the government, now as a matter of urgency, is making efforts to provide critical infrastructure that would catalyse economic growth responsibly, and is developing strategies to mobilise and attract the requisite SDG financing without increasing public debt and contingent liabilities to unsustainable levels.

Increasing **domestic public revenue** is key to sustainably financing the SDGs. While the government has made some effort to strengthen the management of public finances by introducing the Treasury Single Account (TSA) and undertaking some tax reforms, the current state of public finance remains challenging. Due to Nigeria's high debt level as reported in the Quarterly Budget Implementation Report, combined with its small revenue base, a significant share of federal revenue is spent on debt service payments. According to the IMF, interest payments on debts are expected to absorb around 90% of federal government revenue in 2020 and is expected to rise to approximately 88% in 2021 and exceed 111% by 2024.⁹ Additionally, even with increased non-oil revenues, the country remains highly dependent on oil revenue at a time of fluctuating oil prices and plateauing global oil demand, which is also impacting the sustainability and predictability of tax revenues. Thus, there is a need for more positive and innovative approaches to sustainable financial planning with a focus on fiscal sustainability.

Moreover, the **domestic private sector** has yet to fully exploit savings and investment opportunities relating to the SDGs due to a combination of factors including a comparatively underdeveloped business environment, insufficient institutional support such as an enabling legal framework that ensures the enforcement of contracts, an inconsistent regulatory environment, coordination issues, and insecurity.

Tapping into **international financial resources** is essential to mobilise and scale financing to achieve the SDGs. This requires navigating an increasingly complex financing landscape to

5 Development Finance Assessment (2020), Nigeria

6 World Bank (2020), Rising to the Challenge: Nigeria's COVID Response

7 Development Finance Assessment (2020), Nigeria

8 International Monetary Fund. Technical Assistance Report-Additional Spending Towards Sustainable Development Goals. IMF Country Report No. 20/177. May 2020.

9 2022 April World Economic Outlook (WEO)

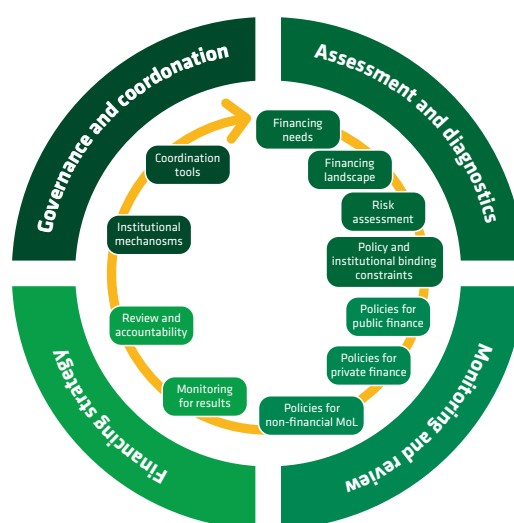
design and implement policies and ensure effective coordination of diverse stakeholders for a common goal. Initiatives to attract additional financing from **international public financial sources**, i.e., donors, international financial institutions (IFIs) such as development finance institutions, multilateral development banks, as well as regional development banks and export credit agencies can be pursued. Financial sources available to Nigeria to achieve the SDGs include multilateral development banks, regional development banks and the International Monetary Fund (IMF). These institutions have come together to support African countries in achieving the SDGs, by providing financing, technical assistance, policy support, and knowledge.¹⁰ Mobilising **international private capital** from Nigeria’s large diaspora community, commercial banks, institutional investors, impact investors, foundations, etc., is also key to scaling the financing required to achieve the SDGs.

1.3 Objectives of the INFF

Nigeria has decided to adopt the Integrated National Financing Framework (INFF) to help strengthen the planning process and overcome existing challenges to financing sustainable development. The INFF is a planning and delivery tool to help countries strengthen planning processes and to overcome existing impediments to financing the SDGs at the national level. It lays out the full range of financing sources to help develop a strategy to increase investment, manage risks, and achieve sustainable development priorities laid out in the country’s national sustainable development strategy. The INFF has four key building blocks (see Figure 2):

1. Assessments and diagnostics.
2. Financing strategy.
3. Monitoring and review.
4. Governance and coordination.

Figure 2: INFF Building Blocks



Source: “Integrated National Financing Frameworks: Inception Phase” Report

¹⁰ Financing the Sustainable Development Goals: The Contributions of the Multilateral Development Banks, December 2020.

The INFF also helps governments to:¹¹

- Mobilise additional financing to support sustainable development priorities.
- Improve alignment of different types of finance (domestic, international, public, private) with national priorities and needs, including development cooperation.
- Enhance coherence across different financing policies, aligning them to medium and long-term sustainable development priorities.
- Better manage risk in an increasingly complex financing landscape.
- Better articulate their needs to the international development community, thus enhancing their voice in global policy processes.
- Streamline the wide variety of tools offered by the international community to support national action.

The INFF process is led by the Ministry for Finance, Budget, and National Planning, and supported by other ministries, the United Nations Development Programme (UNDP) and the Office of the Senior Special Assistant to the President on Sustainable Development Goals (OSSAP-SDGs) which also functions as the secretariat. The involvement of these key ministries and offices represents a strong foundation for government ownership. An INFF secretariat and steering committee have also been created. Additionally, a core working group has been created with membership consisting of directors and representatives from the ministries, regional and multilateral development banks, donor country partners and the UN agencies, as well as solid representation from the private sector through the Private Sector Advisory Group (PSAG).

As part of the foundational research during the inception phase for the INFF, Nigeria undertook a Development Finance Assessment (DFA) with support from UNDP to identify financing needs, gaps, and opportunities, and to help set priorities for action. To develop the financing strategy (building block 2), further assessment and diagnostics (building block 1) have been conducted through in-depth desk review, key stakeholder consultations including with ministries, departments and agencies (MDAs) and state-level workshops. Subsequently, a monitoring and review (building block 3) framework will be developed along with governance and coordination (building block 4) and fiscal federalism frameworks.

1.4 Structure of the Report

The report is structured as follows:

Chapter 1 briefly introduces the context of the initiative that Nigeria is undertaking to operationalise the INFF. It specifies the approach to financing the SDGs, provides an overview of the INFF and objectives of the financing strategy, and presents the methodology for the report.

Chapter 2 introduces the concept of the INFS and the methodology adopted in developing it. It also reflects on the systemic challenges in Nigeria. This includes an overview of the macroeconomic context, the debt sustainability issue, public debt management and key

11 Integrated National Financing Frameworks Overview Brochure.

elements to a business-enabling environment in Nigeria. It also provides insights into the foundational challenges and key strengths of Nigeria in financing the SDGs.

Chapter 3 presents the public financing sources available to strengthen the financing of the sustainable development plans. It assesses the context, challenges, and actions for increasing domestic public finance to support the SDGs in terms of enhancing the federal and state revenue base, improving tax policy and administration, coordinating budgets, modifying public spending and innovation in public debt management, including catalysing government-owned enterprises and capturing illicit financial flows.

Chapter 4 identifies the private domestic financing sources that can scale financing for sustainable development plans. It also assesses the context, challenges, and actions for increasing domestic private finance from banks, local financial institutions, local and institutional investors, pension funds and the sovereign wealth fund to support the SDGs.

Chapter 5 establishes the international public financing available to complement the development financing envelope. Similarly, it assesses the context, challenges, and action plan for scaling international public finance to support the SDGs from multilateral development banks, development finance institutions, and export credit agencies.

Chapter 6 discusses the international private sources of financing that can be leveraged to scale and mobilise domestic resources for financing the SDGs. This includes exploring remittances, FDI, VC, external bond purchases and debt financing and other sources such as foundations and faith-based and impact investing.

Chapter 7 discusses cross-cutting themes such as mainstreaming gender equality and climate policy and implementing non-financial means to support SDG financing, such as trade policies, trade promotion and technology.

Chapter 8 provides a summary of all the action plan initiatives from each financing source quadrant and categorizes initiatives by reform type, as well as immediate policy priorities.

Chapter 9 introduces the MTRS for Nigeria, which is a medium-term strategy for expanding the revenue envelope, primarily through taxation. It also brings to light medium-term revenue goals that need to be met for the SDGs to be achieved.

Chapter 10 is the MTEF, which shows the costs that need to be met in the short term to meet the SDGs. The MTEF draws heavily from the MTNDP and the annual budgetary allocation of the country.

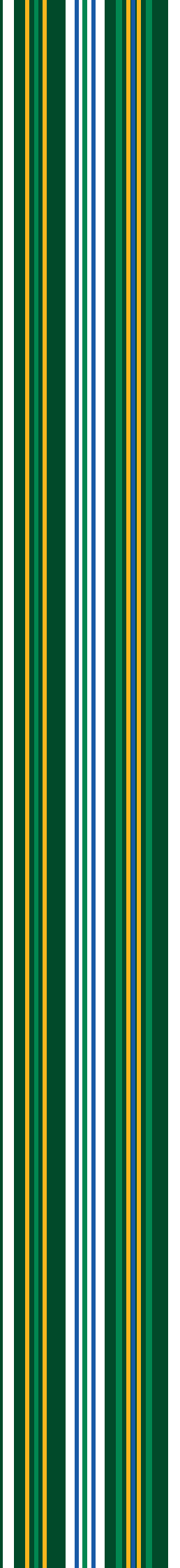
Chapter 11 provides the framework for monitoring and evaluating the progress of initiatives proposed in the INFS. This is an important step in the INFF process as it checks for gaps, slippages, and setbacks in the implementation of the INFF. It also provides the framework for measuring success.

Chapter 12 comprises the governance and coordination mechanism, which shows how responsibilities for implementing the INFF will be divided amongst relevant government actors. It is noted that the success of the INFF is heavily reliant on strong political backing by the highest levels of government.

Chapter 13 is the Fiscal Federalism Framework, which provides recommendations for improving the fiscal federalism structure of Nigeria. It delves into the current revenue sharing formula and how it can be improved to effectively meet development goals.

2.

THE INTEGRATED NATIONAL FINANCING STRATEGY (INFS)



2.1. Framework for Integrated National Financing Strategy

The Integrated National Financing Strategy (INFS) sets out sequenced actions to finance national development plans, sector-level strategies, and policies, and to mobilise and align financing with national priorities. The financing strategy's recommendations and action plan are linked to the financing needs and solutions identified in the DFA and the planning system at the national and subnational levels. It addresses constraints to aligning a broader range of public and private financing resources with sustainable development. It includes a better integration of national planning and public budgeting processes, alignment of policy and regulatory frameworks for private finance, and strengthened macro-prudential management.

The INFS is central to the Integrated National Financing Framework. Following key consultations with the Ministry of Finance, UNDP, the steering committee, and the OSSAP-SDGs on the national economic development of Nigeria and the associated resource needs, the objective of the INFS was set to expand the public and private financing envelope while promoting coherence by aligning financial policies, regulatory frameworks, instruments, and business processes with sustainable development. It explores ways to catalyse domestic financing opportunities in the public and private sector to build a bridge between the sources of finance, the financing policies and practices, and the longer-term objectives of the national development plan. The INFS thus defines different strategic reforms to be undertaken for mobilising funds for public and private investments through a mix of conventional and innovative financing options. It also seeks to ensure such options are consistent with long-term financial sustainability and that tax and investment policies are supportive. It is also expected that macroeconomic, trade and technology (digital) policies will jointly reinforce the overarching development priorities. Successful policymaking and implementation are dependent on strong institutions and political will. An effective and efficient integration of financing strategies thus relies on effective high-level coordination from the Ministry of Finance, Budget and National Planning, key stakeholders, the whole of government and the society to drive the INFF process.

Figure 3 depicts the key sources from which solutions can be developed to bridge the financing gap. The result is four quadrants of potential sources of additional financing—domestic public, domestic private, international public, and international private. Several potential financing initiatives can be positioned in each quadrant. Using this matrix framework as a foundation for the assessment and diagnostics, the four sources of financing are explored in the development of the Integrated National Financing Strategy. For each specific area of possible SDG financing that is identified, the context will be provided, the challenges and specific opportunities discussed, and an action plan proposed.

Figure 3: SDG Financing Sources



2.2 Methodology

The methodology was guided by the desire to establish a financing strategy and a framework towards better integration of national planning and public budgeting processes, and alignment of policy and regulatory frameworks including through in-depth analysis and review of the financial sources in Nigeria and relevant policies and strategies. It also seeks to increase engagement across all relevant stakeholders, including the federal government, private sector, CSOs, state and local governments, and development partners.

In drafting the INFS, both primary and secondary research methods were employed for analysing the current financing atmosphere and reviewing existing country plans in order to draft a strategy that aligns with broad country mandates. Desk research included compiling key documents such as the Development Finance Assessment (DFA) report, 2021–2025 MTNDP, national financing strategies, government reports and publications and other data sources such as country reports from the IMF and World Bank, multilateral development banks' country strategy reports and Berne Union¹² publications, among other relevant information on financial flows in Nigeria.

For the primary research, key stakeholders were engaged to ensure alignment with the INFF process, analysis, and actions for SDG financing solutions for Nigeria. The consultations aimed to provide further analysis and were critical to closing the information gaps identified. The consultation process was conducted with the intention of fully engaging the stakeholders of the INFF and encouraging domestic ownership to drive the initiative and ensure coherence and coordination among the key players. Through this process the consulting team gained a deeper understanding of the role each stakeholder could play in expanding the financing envelope, as well as the key challenges and opportunities faced in financing the SDGs and national development plan.

A state-level workshop was held to ensure alignment and seamless collaboration between the commissioners of the state ministries of finance and budget and economic planning, as well as the special advisers in the Office of the Governor on Sustainable Development Goals in the INFF process, analysis, and actions for SDG financing solutions in Nigeria. The objective of the workshop was to seek input on how Nigeria can best increase its fiscal space, mobilise more government and private funds, as well as utilise external funding and borrowing to operationalise the development plan. Through guidance from the high-level steering committee and engagement of the core working group, the strategy was developed to integrate state financing strategies, business processes/policy cycles, and entry points, which has enabled the development of an INFS that speaks functionally to Nigeria's unique context, the complex federal system, and developmental aspirations, while also recommending how the governance mechanism can be enhanced to ensure sustainable financing of the SDGs.

12 International Association of Credit and Investment Insurers, www.berneunion.org

2.3 Macroeconomic Context

The macroeconomic situation in Nigeria has become more challenging since the sharp fall in oil prices in 2015-2016, due to the combination of heavy dependence on the oil sector, limited progress in economic diversification, and an array of policy shortcomings that inevitably inhibit economic growth potential. Real GDP shrank by 1.6% in 2016 after the collapse in oil prices and a decline in output. Subsequent growth was subdued and below the rate of population growth. Nigeria was then hit hard by the COVID-19 pandemic in 2020, with real GDP estimated to have contracted by 1.92%.¹³ This sharp contraction has further complicated the environment for economic development. Economic growth is projected to recover only modestly in 2021. Inflation has become a chronic concern and remains stuck in the double digits, which erodes the purchasing power of many Nigerians and is especially experienced by those living below the poverty line.

Table 2 : Nigeria: Selected Economic and Financial Indicators, 2017–2021

(%, unless otherwise indicated)	2017	2018	2019	2020	2021 (proj)
Change in real GDP (2010 market prices)	0.8	1.9	2.2	-1.8	3.6
Change in oil and gas GDP	4.7	1.0	4.6	-8.9	-8.3
Change in non-oil GDP	0.5	2.0	2.0	-1.1	4.7
Production of crude oil (mbd)	1.89	1.93	2.0	1.83	1.63
Consumer price index (ann. average)	16.5	12.1	11.4	13.2	17.0
Gross national savings share on GDP	18.1	20.5	21.4	24.7	23.5
Investment share on GDP	14.7	19.0	24.6	28.6	24.4

Source: IMF 2022 April World Economic Outlook (WEO).

Today, Nigeria has few buffers and policy instruments to cushion the adverse effects from global and external shocks, such as the high volatility of and fluctuation in oil prices. The Excess Crude Account, a fiscal account created for the purpose of saving revenue generated from the sale of crude oil when the budget benchmark oil price is higher than market oil price, has been depleted. External reserves are highly reliant on short-term flows, and policy uncertainty influences the confidence of domestic and foreign investors. Policy reforms and addressing structural issues will be required to strengthen economic performance and create a more welcoming environment for mobilising SDG financing.

To address these deep-rooted developmental challenges, Nigeria will need to reduce its reliance on oil, diversify its economy and revenue sources, address inadequate infrastructure, build stronger and more effective institutions, and enhance governance and public financial management. Without more growth-oriented policies and greater emphasis on diversification (with reduced reliance on the oil sector for export and government revenues), the recovery could be weak and drawn out, plateauing at around 2–2.5% annually.¹⁴ Similarly, without a commitment to broaden the public sector revenue base and improve fiscal management, fiscal deficits and debt-servicing risks are projected to stay elevated.

13 National Bureau of Statistics (NBS), Nigerian Gross Domestic Product Report. Q4 and Full Year 2020. Report Date: February 2021.

14 IMF, 2020 Article IV Staff Report (pp. 10). 2021.

Macro-prudential policies, their use, implementation, and effectiveness, have been at the centre of a debate since the onset of the global financial crisis. These policies aim to contain the build-up of systemic risks and achieve greater financial stability to reduce the adverse consequences of financial volatility for the real economy. The Nigeria economy is highly vulnerable to externally induced shocks. Moreover, policy inconsistency poses a great challenge to planning. Consequently, financing options within the INFS are constructed to minimise the risk environment.

2.4 Fiscal Performance

In recent years, Nigeria has experienced relatively weak fiscal performance. Total revenue available to the federal and state governments as a share of GDP remains very low relative to other nations. Although total expenditure has been relatively stable, the weak revenue base has resulted in chronic annual fiscal deficits ranging in recent years from -4.3% to -5.9% of GDP, which are financed with debt and Central Bank financing.

Table 3: Nigeria: Consolidated government operations

	2017	2018	2019	2020	2021 (proj)
Total revenues and grants (% of GDP)	6.6	8.5	7.8	6.3	7.3
<i>of which: oil and gas revenue (% of GDP)</i>	1.3	2.8	4.4	2.2	2.8
Total expenditure and net lending (% of GDP)	12.0	12.8	12.5	12.0	13.3
Overall fiscal balance (% of GDP)	-5.4	-4.3	-4.7	-5.7	-6.0
Non-oil primary balance (% of GDP)	-6.7	-7.2	-6.7	-5.8	-6.4
Non-oil revenue (% of GDP)	4.0	4.0	4.1	4.1	4.5
Public gross debt (% of GDP)	25.3	27.7	29.2	34.5	37.0
<i>of which: FGN debt (% of GDP)</i>	22.4	25.0	26.5	31.0	33.0
Federal government interest payments (% of federal government revenue)	58.8	60.8	54.9	88.8	88.1
Interest payments (% consolidated revenue)	20.6	19.9	21.4	33.5	32.8

Source: 2022 April World Economic Outlook (WEO).

A breakdown of Nigeria's budget reveals that its planned fiscal deficit for the 2021 fiscal year was approximately 4.7% of GDP, which is above the 3% threshold set by the Federal Fiscal Responsibility Act (FRA). The increase above the regulated requirement is due to the economic difficulties attributed to the COVID-19 pandemic.

2.5 Public Debt Management

Due to ongoing fiscal deficits, Nigeria's public debt has continued to grow as a share of GDP. According to the 2023–2025 MTEF & FSP, Nigeria's total public debt (comprising external and domestic debt service of federal and state governments) was US\$ 95.8 billion as at December 31, 2021 (Table 4) compared to US\$ 86.4 billion as at December 31, 2020, representing a 20.17% increase in one year. These overall public debt levels are modest compared to other countries, but debt service is comparatively high relative to Nigeria's small public sector revenue base.

Total public debt service (comprising external and domestic debt service of federal and state governments) amounted to US\$7.7 billion in 2021. Debt service represented 35% of aggregate expenditure and 69% of total revenue in the actual expenditure for 2021. Deficit financing came from new borrowings from the domestic creditors, foreign creditors and the Central Bank of Nigeria's Ways and Means.

At the backdrop of relatively low internally generated revenues, states' debt-to-revenue ratios are high for most states (Table 5). At the same time, Nigeria's debt sustainability is being jeopardised by increases in government expenditure and borrowings. To maintain the sustainability of public debt, there is a need to further expand economic growth and the revenue base as well as improve efficiency of spending.

Table 4: Nigeria's Total Public Debt Portfolio as of 31 December 2021

Debt Category	Amount Outstanding (\$'M)	Amount Outstanding (N 'M)
Total External Debt (Federal Government + States & FCT)	38,391.32	15,855,231.25
Total Domestic Debt	57,388.32	23,700,801.25
Federal government only	46,593.28	19,242,557.11
States & FCT	10,795.04	4,458,244.14
Total Public Debt	95,779.64	39,556,032.50

Source: Debt Management Office 2021¹⁵

Table 5: Nigerian States' Finances, 2021

State	Debt Stock (N)	Internally Generated Revenue (N)
ABIA	89,298,203,364.84	14,376,871,322.30
ADAMAWA	96,034,858,510.68	8,329,870,706.65
AKWA IBOM	234,852,289,193.82	30,696,770,278.06
ANAMBRA	54,640,781,664.00	28,009,906,580.48
BAUCHI	96,948,746,900.79	12,502,599,363.55
BAYELSA	145,802,016,377.95	12,180,775,243.00

15 Debt Management Office. 2021.

State	Debt Stock (N)	Internally Generated Revenue (N)
BENUE	128,349,137,648.15	10,463,674,280.73
BORNO	103,933,550,236.49	11,578,518,120.67
CROSS-RIVER	160,689,799,856.70	16,183,341,456.32
DELTA	207,156,532,759.40	59,732,882,662.97
EBONYI	42,877,787,667.52	13,591,038,584.15
EDO	80,224,464,751.39	27,184,350,734.90
EKITI	98,580,366,779.04	8,716,460,193.84
ENUGU	69,169,594,013.02	23,650,723,357.00
GOMBE	82,287,808,212.53	8,537,983,927.43
IMO	151,310,120,316.51	17,081,878,984.93
JIGAWA	32,948,631,126.78	8,667,720,607.78
KADUNA	62,460,596,340.79	50,768,523,407.34
KANO	102,351,644,358.62	31,819,816,711.74
KATSINA	59,844,201,598.36	11,399,650,509.67
KEBBI	52,973,699,047.78	13,778,260,800.14
KOGI	68,163,904,418.81	17,357,833,531.99
KWARA	67,059,199,120.45	19,604,303,787.67
LAGOS	532,121,992,824.96	418,988,587,897.11
NASSARAWA	55,922,603,083.83	12,476,738,650.15
NIGER	77,407,449,114.58	10,524,281,921.17
OGUN	192,418,550,904.73	50,749,595,850.07
ONDO	65,416,177,692.93	24,848,466,192.88
OSUN	132,644,096,304.71	19,668,371,916.01
OYO	93,261,798,566.15	38,042,733,036.47
PLATEAU	145,864,569,764.92	19,122,375,801.59
RIVERS*	226,352,390,027.00	117,189,729,245.29
SOKOTO	75,241,244,025.70	11,796,827,128.19
TARABA	95,150,803,169.46	8,114,973,143.14
YOBE	61,449,328,273.70	7,779,631,175.54
ZAMFARA	100,717,318,154.41	18,499,252,091.61
FCT	56,853,824,285.42	92,059,700,897.42
TOTAL	4,198,780,080,456.92	1,306,075,020,099.95

2.6 Key Challenges and Systemic Issues

Nigeria faces several issues that challenge the ability to mobilise financing for its development priorities which could hamper its ability to achieve the SDGs. These impediments will need to be addressed if the country is to move forward with sustainably financed development.

2.6.1 Immediate policy challenges

Unreliability of revenue forecasting

A key policy challenge in the budgeting process of the federal government is to forecast revenues accurately. Revenue targets have often been miscalculated, resulting in the need for the CBN to provide emergency financing, hence further complicating the debt and macro challenges. Accurate revenue forecasting and careful revenue planning must be adopted in the budget process, using reliable data, and realistic forecast models. This will improve the chances of making reliable forecasts.

Inflation

Inflation is at double digits and is eroding the purchasing power of all Nigerians, notably the poor. Bringing down inflation will be difficult as long as a significant share of the government's budget is financed by the Central Bank of Nigeria (CBN).¹⁶ While the government is taking steps to minimize interventions by the CBN, mobilising additional fiscal revenues for financing SDGs could reduce the need for ongoing Central Bank financing of budget deficits and help CBN to establish a credible nominal anchor to bring inflation to a low and stable path.

Infrastructure gap

Improving infrastructure is a second urgent priority. Unreliable power supply for industries and companies to function efficiently and profitably, the inability to get goods to market without delay, and an underdeveloped ICT infrastructure to enable a modern digitalised economy are some infrastructure challenges the country faces. Government has commenced closing the infrastructure gap, as detailed in the 2021–25 Medium Term National Development Plan; and investing in critical physical, financial, digital, and innovation infrastructure is one of four strategic objectives in the plan.

Weak policy reform momentum

Another immediate challenge is the difficulty in maintaining the policy reform momentum. While there is an increasing need to undertake policy reform, reform momentum will need to be sustained to have a lasting impact. The pandemic has created a greater sense of urgency on the need for policy reform, and some initial action has been taken through the Finance Act 2020 which made provisions to address certain loopholes in the tax laws and provisions to cushion the effects of the pandemic. Notable among these provisions are the exemption of minimum wage earners from personal income tax, the exemption of small companies from the tertiary education tax, and the reduction in the minimum tax rate of insurance businesses from 0.5% to 0.25% to align with

16 See IMF Art IV staff paper, *Op. Cit.*, p. 19.

other sectors.¹⁷ Furthermore, steps have been taken by Nigeria towards the reform of the foreign exchange rate and the complete removal of subsidies due to the pressure it adds on the budget. However, some of these efforts have not come to fruition. For example, the removal of subsidies has been met with significant resistance and this has delayed the government's decision. The removal of fuel subsidies that the authorities had originally planned by mid-2022 was postponed until June 2023, which might generate considerable fiscal costs. Similarly, foreign exchange pressure persists and there is no framework to preserve the momentum to build on these early actions that will ensure ongoing policy reform, including action to support the mobilisation of SDG financing, which the INFS will help to address.

Multiple foreign exchange rates

The multiple exchange rate system and limited access to foreign exchange is a significant obstacle for businesses to operate. This exchange rate system and its inherent volatility deter investments in Nigeria.

Implicit fuel subsidies

The recent oil revenue loss for the federal government is partly due to the reemergence of implicit fuel subsidies since January 2021. This is because subsidy costs are deducted from oil revenues accruing to the federation account by the national oil company (NNPC). Thus, implicit fuel subsidies are one of the key drivers of revenue loss.

2.6.2 Poverty alleviation supported by stronger economic growth

An ambition to lift 100 million Nigerians out of poverty by 2030 would be challenging enough under normal circumstances. The pandemic-induced economic downturn in 2020–21 and the shock to fiscal resources has now made that ambition more difficult to attain. The impact of the pandemic and resulting recession mean that per capita income in real terms has hardly grown over four decades. Without decisive action on structural economic and fiscal reforms aimed at boosting Nigeria's long-term growth potential, it will be hard to achieve meaningful progress on poverty alleviation and other SDGs.¹⁸

2.6.3 Insufficient economic diversification

Nigeria's exposure to crude oil through its impact on exports and government revenue has had a negative impact on the economy. In the last decade, increased performance from sectors such as agriculture, telecoms, finance, and some services have driven growth. Nonetheless, heavy reliance on the oil and gas sector has also led to under-investment and under-development in these key sectors of the economy with significant potential. Heavy reliance on the oil and gas sector has also exposed the Nigerian economy to serious external shocks, such as the drop in oil prices in 2015–16 and most recently the collapse in oil prices in early 2020 together with the sharp decline in global demand as economies shut down due to the pandemic. To address its limited resilience to shocks, an increased diversification in the key sectors mentioned will ensure a more resilient economy which is an important strategic objective in the 2021–25 MTNDP.

17 Finance Act, 2020

18 WBG Country Partnership Framework for Nigeria for the FY21-FY25 (pp. 9–10). 2020.

2.6.4 Unequal economic and social development

There remains a clear need to deepen development outcomes equally across all regions in Nigeria, addressing peculiar challenges identified in each region. Income inequality remains high in Nigeria with a Gini coefficient¹⁹ of 35.1 which may have been worsened by the pandemic.²⁰ Similarly, unemployment remains high for men and even higher for women. With over 62% of the population under the age of 25²¹ and continued strong population growth, supporting robust economic growth and providing viable employment opportunities for Nigerians will be critical to achieving development progress.²²

2.6.5 High levels of insecurity

The current security concerns across the country which is largely attributable to the activities of Boko Haram terrorists and banditry is a serious disincentive for businesses across all sectors of the economy. Apart from the constraint on business activities, NGN 1.97 trillion is allocated for security despite the high budget deficits. Addressing security across the country can be better managed through efficient and effective coordination between the different levels of government. Synergy and intelligence sharing amongst the security agencies is needed to address insecurity.

2.6.6 Weak monitoring, transparency and accountability mechanism

Despite government efforts at strengthening monitoring and evaluation and an increased focus on transparency through Nigeria's participation in the Open Government Partnership, poor monitoring, transparency, and accountability mechanisms remain a problem in Nigeria, which has negative implications for public finance, the business environment, and citizens. Due to public funds lost to corruption, monies that are meant to go towards public expenditure are either misappropriated or not spent transparently. If monitoring, transparency and accountability issues are not addressed promptly, Nigeria will face significant challenges in funding the SDGs and key sectors of the economy, such as in health care and infrastructure.²³ According to the AU Abuja Declaration on health, Nigeria is supposed to dedicate at least 15% of its annual budget to the health sector; however, this has not been achieved because of limited resources which is partly due to corruption.²⁴ This has a significant impact on the health of citizens, particularly women and children.

19 This is the measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of 0 indicates absolute equality, a value of 100 absolute inequality

20 World Bank (2021). Gini index (World Bank estimate)–Nigeria, https://data.worldbank.org/indicator/SI.POV.GINI?end=2018&locations=NG&most_recent_value_desc=false&start=2018&view=bar Accessed 09/11/2021

21 *Ibid*, World Bank, 2021

22 UNDP, DFA (pp. 8). 2020

23 UNODC, Corruption in Nigeria: Patterns and Trends. 2019

24 WHO, The Abuja Declaration: Ten Years on 2011

2.6.7 Limited institutional and human capacity

Public institutions in Nigeria have limited capacity and this affects public service delivery in the country. Revenue generating agencies, particularly the Federal Inland Revenue Service and the State Revenue Authorities and the Nigerian Customs Service continue to struggle with capacity challenges, both at the institutional level and human capacity level.²⁵ They are faced with a changing business environment that requires continuous investment in their capacity to maintain the required expertise to efficiently carry out their duties. The institutions face similar challenges with weak structures and weak compliance frameworks in place. These challenges hinder the opportunities in tax collection with serious implications for financing debt and the SDGs, buttressing the need to expand digitalization systems.

2.6.8 Jurisdictional and structural challenges

There are jurisdictional and structural challenges because of the pattern of power distribution and revenue allocation between the federal government and state governments. The legislative powers in Nigeria, in accordance with the constitution, have been grouped under three headings:

Exclusive List: The federal government has the sole authority to legislate on all subjects or matters contained in this list, which includes subjects such as the army, police, railways, airports, seaports, mining, customs, banks and banking, foreign borrowing, foreign affairs, etc.

Concurrent List: The federal and state governments both have the authority to legislate on all subjects contained in this list. However, where there is a conflict, the federal government prevails. The list includes subjects such as universities, technology, post-primary education, allocation of revenue, collection of taxes, etc.

Residual List: State governments have the sole authority to legislate on all subject or matters contained in this list which includes subjects such as registration of births and marriages, development of agriculture other than mining, provision and maintenance of health care, traditional and chieftaincy titles, etc.

The implication of this division of responsibilities is that some levels of government cannot adequately address the challenges or implement certain initiatives of the SDGs that fall outside their jurisdiction, irrespective of their financial capacity. One example is in the area of toll taxes.

A key related issue is revenue allocation. One of the areas of inter-governmental tension centres on the issue of securing adequate financial resources for lower levels of government. The revenue sharing formula is a constant source of contention. In addition, the mode of generating revenue in Nigeria, especially at the state government level, has created several issues. For example, due to the existing revenue allocation agreement, there continue to be complaints about marginalisation and neglect from one group or the other. A prominent example of such marginalisation is the Niger-Delta regional unrest.

25 IMF Country Report, Nigeria 2018

2.6.9 Unsustainable public finances

A continuous surge in Nigeria's debt without a robust debt repayment architecture which would include accountability and the proper use of borrowed funds could create a debt web that handicaps the economy. This will inevitably lead to a reduction in the inflow of FDI and access to new borrowing for productive uses, with a negative impact on credit ratings, unemployment, the national misery index, and domestic productivity, as well as constrained capacity to fund the SDGs.

2.7 Key Strengths

While there are numerous challenges, Nigeria also has key strengths that can be leveraged to boost its efforts in mobilising SDG financing, including a commitment from the government to advance the SDGs. Among them are the policy reforms that are already under way, and the presence of a strong and vibrant private sector that can drive development if harnessed appropriately with the right business environment, incentives, and tools to mobilise private resources. The potential of these key strengths can be maximised through policy and institutional changes which are explored and recommended in this financing strategy.

2.7.1 Government commitment to SDGs

There is a strong government commitment to attaining the SDGs, which benefits from high-level leadership from Nigeria's president and ministries. An important architecture has been put in place to advance the SDGs, notably the Office of the Senior Special Assistant to the President on SDGs (OSSAP-SDGs), and policy thinking is being transformed to focus on how they might be attained. The policy priorities of the 2021–2025 NDP and the National Poverty Reduction with Growth Strategy (NPRGS) also reflect the government's commitment to addressing impediments to achieving priority SDGs. Political will and government ownership will help drive the initiative to successfully attain the SDGs.

2.7.2 Government policy reforms being implemented

Nigeria has recently undertaken some important policy reforms to:

- Unify its multiple exchange rates and address the related inefficiencies;
- adjust electricity tariffs towards more cost-reflective levels;
- reduce non-priority expenditures;
- increase transparency in the oil and gas sector and in debt management; and²⁶
- drive domestic revenue mobilization through the implementation of fiscal and other reforms under the annual Finance Acts and the Strategic Revenue Growth Initiatives

26 WBG CPF (pp. 9–10). 2020.

These policy reforms were catalysed, in part, by the pandemic recession, but also reflect a growing recognition that fundamental change is required if Nigeria is to continue moving forward with boosting its growth potential to achieve the SDGs. This is a good start for reforms even though several structural issues remain unaddressed, and which are contributing to the current socio-economic challenges (e.g., exchange rate management, petrol subsidy, trade restrictions).

2.7.3 A robust private sector

It is widely recognised that the role of Nigeria's private sector is critical for economic growth and is thus regarded as a robust part of the solution for attaining the SDGs. The private sector has the potential to mobilise capital from a variety of sources that could be used to address many of the SDGs and advance Nigeria's development. These potential sources of domestic private sector financing include financial institutions, institutional investors (pension funds), venture capitalists, angel investors, wealthy individuals and families, and individual firms. Government will continue to intensify its existing engagement with the private sector in a view to up scaling capital mobilization especially in PPP and ease of doing business.

It is important to find ways to engage the private sector in planning, mobilisation, and delivery of SDG financing. The private sector in partnership with the public sector can drive initiatives in key strategic growth sectors if they are provided with the right incentives, an enabling business environment, consistent policies, vibrant and functioning financial and capital market, strong human capital base, a flexible labour market, and effective and strong government institutions.

Such initiatives start with a government and public mindset in favor of long-term sustainability that governments are prepared to support with enabling policies. Based on this mindset, a principles-based approach toward engagement with business, supported by strong public sector institutions, will be adopted.

2.8 Summary

With the contextual analysis presented thus far on the interplay between external and internal, political, economic, and social environments, the following sections will assess the four quadrants of financing sources (domestic public, domestic private, international public, and international private) against the key challenges and opportunities presented. This approach will draw attention and focus to important strategic themes for key stakeholders in Nigeria, which will be addressed and prioritised through the Integrated National Financing Strategy. The strategy will address how Nigeria can best tackle the opportunities identified, while navigating the challenges to success.

The financing strategy will highlight the primary focus areas at the intersection of its strengths and opportunities. This is where Nigeria should allocate its resources for optimal impact in financing its development plan and SDGs. Another primary focus area for improvement is the intersection of key challenges and volatility to external threats. This is where the greatest risks are, hindering Nigeria's ability to mobilise financing for the SDGs, and therefore needs to be paid special attention.

3.

**INFS-STRENGTHENING
DOMESTIC PUBLIC
DEVELOPMENT
FINANCING ENVELOPE**

3.1 Overview

Chapter 3 identifies the domestic sources of finance available to strengthen the development financing envelope, covering the domestic public sector—a key driving force for widening the pool of available finance and reducing potential leakages and inefficiencies. The financing strategy to strengthen the development financing envelope includes a combination of measures to enhance the public revenue base domestically (both at federal and state levels), and to better manage government spending.

This chapter focuses on SDG 8, 9, 10 and 16 as part of the SDG priorities that feature in the objectives of the NPRGS and NDP, with elements of SDG 5 and 13 in the action plan.

3.2 Enhancing Federal Revenue Base

3.2.1 Context

Nigeria has consistently recorded a fiscal deficit as public expenditure continuously exceeds revenue. Since 2014, Nigeria has recorded an increasing fiscal deficit.

For the government to finance the nation's development plans and reduce (and even eliminate) the fiscal deficit, the revenue base (sources of income available) needs to increase to match planned expenditures more closely. While identifying new sources of income, the current available sources need to be better optimised.

Revenue from oil contributes a large proportion to the federal revenue base—accounting for over 41% of total revenue in 2020, despite the COVID-19-induced disruptions in the oil sector. Non-oil revenue, consisting of taxes, customs, and levies, contributed about 37% to total revenue in 2020.

Other sources of independent revenue which accrues to the federal government include the following:

- Rent on federal government properties;
- Dividends from federal government investments;
- Mining licenses;
- Proceeds from the privatisation of government businesses/enterprises;
- Revenue from the sale of federal government properties;

- Fees paid in federal government courts, federal hospitals, and passport offices;
- A percentage of the operating surplus of federal government-owned enterprises (GOEs).

The government has already launched several initiatives to raise federal government revenues, by issuing sovereign green and sukuk²⁷ bonds to channel domestic private investment; encouraging private sector investment through public-private partnerships; creating a more business-friendly economic environment; and through the implementation of policy intervention programmes including the Strategic Revenue Growth Initiatives and the Road Infrastructure Tax Credit Scheme. Efforts have also been made to improve monitoring and transparency by increasing citizens' consultation on the budget and the establishment of an online Open Treasury Portal. The federal government has also implemented certain tax administration measures contained in the Finance Act 2020, in a bid to ensure that economic and financial challenges faced by the country as addressed. The reforms align with best practices in different jurisdictions across the world where existing tax legislations and frameworks are annually reviewed in order to support each year's budget and constitute a major portion of the initiatives suggested by the President Enabling Business Environment Council (PEBEC) and the National Tax Policy Implementation Committee.

3.2.2 Challenges

A continuous fiscal deficit has been contributing to pressure on public debt. According to the IMF, public debt is expected to rise to about 37% of GDP in 2021, while interest payments are expected to absorb around 88% of federal government revenue in 2021. Interest payment is expected to rise to approximately from 88% in 2021 and exceed 111% by 2024.²⁸ This, perversely, will lead to more borrowing—both from international and domestic sources. A fundamental way of increasing domestic revenue is by broadening the tax base. This, however, remains a significant challenge in Nigeria. Nigeria has one of the lowest revenue bases available for taxation as a share of GDP, and therefore robust economic growth plays a key role in the growth of the tax base. Some of these key issues include:

- **Largely non-digitalised tax system, leaving room for inefficiencies and leakages:** The “trust deficit” that exists, whereby citizens lack the confidence that tax resources will be judiciously used. In the context of weak government monitoring and enforcement, taxpayers feel disincentivised to comply with the necessary tax regulations. According to the Federal Inland Revenue Service, Nigeria loses around \$15 billion annually due to tax evasion.
- **Ineffective tax incentives:** The federal government has many tax incentive programmes in place²⁹ to attract FDI. However, studies³⁰ have shown that some of these incentives, particularly tax holidays, are not important factors for investment decisions, and they have a high opportunity cost for development making it more difficult to attain the SDGs.

27 A sukuk is an Islamic financial certificate, similar to a bond in Western finance, that complies with Islamic Sharia law. Since the traditional interest-paying bond structure is not permissible, the issuer of a sukuk essentially sells an investor group a certificate, and then uses the proceeds to purchase an asset in which the investor has direct partial ownership interest. The issuer must also make a contractual promise to buy back the certificate at a future date at par value.

28 2022 April World Economic Outlook (WEO)

29 Compendium of Investment Incentives in Nigeria

30 IMF (2009). (2009). Causes, Benefits, and Risks of Business Tax Incentives. <https://www.imf.org/external/pubs/ft/wp/2009/wp0921.pdf>

A study carried out in 2015 found that Nigeria loses \$2.9 billion annually to the Pioneer Status tax incentive (a five-year tax holiday) alone.³¹

Due to the COVID-19 pandemic, in 2020 the Federal Inland Revenue Service (FIRS) rolled out some tax policy measures to help cushion the finances of individuals and companies—measures such as extending timelines for filing, and waiving interest and penalties for late payments. These measures combined with the economic slowdown reduced the tax revenue generated in 2020.

3.2.3 Action plan for enhancing federal revenue base

The federal government must ensure a balance between incentivising businesses and increasing tax revenue to avoid distortions to the economy and revenue loss. The federal government and legislature will take decisions on these tax policy reforms and will undertake action to ensure the implementation of specific measures to help enhance the revenue base. Gender and climate issues will also be taken into consideration in designing the reforms, building upon the recent progress made, including the Government’s commitments on climate and gender sensitive projects in the 2022 Budget. Priority actions needed include:

Digitalizing tax administration system: Though the FIRS has taken some steps towards digitisation, such as e-registration of taxpayers, automating payment systems, and implementing a tax administration system called *TaxProMax*, further measures are necessary to ensure end-to-end digitisation of the tax administration process. Digitalizing the tax system will focus on capturing unregistered taxable persons and businesses, reducing the opportunities for fraud and bribery, as well as ensuring the efficiency of tax processes. The digitisation of the tax system can be complemented with additional measures such as sporadic forensic audits of large companies, regular monitoring to help close loopholes, improved tax collection, and accelerating implementation of automatic exchange of (financial account) information (AEOI) while ensuring that the FGN has the capacity to act on the increased availability of information.

Broadening the tax base: The FGN will implement a combination of measures to broaden and deepen the tax base through increased taxation of luxury goods, increased corporate taxes on companies with environment-impacting activities like mining, increased personal income taxes on high-net-worth individuals, and higher sin taxes on alcohol and tobacco. There is also an opportunity for conducting a feasibility study to identify possible options for adopting a carbon tax that balance revenue growth, environmental targets, and administrative feasibility. Proceeds can be used for financing climate change mitigation and adaptation projects, leveraging private investment in renewable energy, etc.

Optimising the VAT: One priority revenue opportunity is to optimise VAT, as VAT is easier to administer and difficult to avoid because it is based on consumption compared to other taxes. In 2019, Nigeria increased its VAT rate from 5% to 7.5% but despite a 50% increase, the VAT rate is still one of the lowest in the continent. According to the IMF, “Nigeria will need to increase the value-added tax rate to at least 10% by 2022 and 15% by 2025—the average in countries belonging to the Economic Community of West African States (ECOWAS)—to create effective fiscal space.”³² However, due to the impact of the pandemic and an existing compliance gap,

31 Action Aid

32 IMF, 2021. Country Report Series 2021/033. Article IV Consultation-Press Release Staff Report and Statement by the Alternate Executive Director for Nigeria.

increasing the VAT rate may not be an immediate option, as it is a regressive tax by design.³³ Considerations will be given for gradually increasing the VAT rate by setting pre-conditions (addressing non-compliance and inefficiencies) with plans for increasing the VAT in the future, at an appropriate time, when Nigeria is ready and has recovered from the negative economic implications of the COVID-19 pandemic. The VAT rate will be revised to meet global standards; however, to achieve effectiveness in the rate increase, it is important to address compliance gaps and the underlying causes for non-compliance. Two key factors to address are the poor social contract and the weak capacity for administration. Giving due consideration to timing, the VAT rate will be increased through a phased approach.

Simplifying payment process to encourage tax compliance and reduce costs: Appropriate policies combined with simplified payment processes can capture unregistered taxable persons and businesses and encourage the transition of informal sector players into the formal sector in a seamless manner. This can be achieved through the consolidation of various government empowerment programs such as TraderMoni and FarmerMoni as a gateway to documenting these undocumented businesses. The banning of tax payment by cash and operating a single treasury account for all taxes in the state and across all local governments will plug leakages and ensure transparency. Investing in big data and leveraging existing data for compliance is key.

Reviewing and eliminating ineffective existing tax incentives: The federal government will review all tax incentives within a cost-benefit framework. Incentives that are ineffective will be abolished and those that are effective will be monitored closely to avoid unnecessary loss of revenue. Fossil fuel subsidies in particular will be eventually eliminated. An important recent step forward has been the inclusion of the removal of the electricity subsidy in Nigeria's 2020 Finance Act. The country will proceed with its implementation and plan towards fuel subsidy removal, while at the same time enacting properly targeted financial compensations to ensure the poorest households are not left worse off due to such measures. Accelerating progress with Nigeria's Digital Identity for Development Ecosystem Project will be critical to enabling effective compensation measures. The freed up fiscal space can be used for better targeted social and health spending.

Reforming the Nigerian National Petroleum Corporation (NNPC) by setting up strict frameworks to capture any violations of regulations, illegal deduction of funds belonging to the government, and other oil revenue leakages, including bribery, misuse, and misappropriation of funds. It is necessary to set up stringent policies that will curb losses in the oil sector, especially through the NNPC. In 2021, the president signed into law the Petroleum Industry Act (PIA).³⁴ The act, among other things, provides for a Petroleum Industry Fiscal Framework (PIFF) to establish a fiscal regime that encourages investment in the oil sector by balancing risks and rewards and significantly increasing revenue from the industry. Furthermore, the act provides for the Petroleum Host Community Development which is aimed at fostering sustainable prosperity within host communities, the provision of direct social and economic benefits to host communities and a general framework to support their development. The PIA offers many potential advantages which include more revenue for the government, an improved investment climate and implementing policies that directly impact the host communities thereby potentially reducing agitation and conflict in the region. In July 2022, the President announced the new NNPC Limited, transitioning the formerly government-controlled national oil company into a commercial entity.

33 The VAT law in Nigeria made provisions for exemptions on food items, medical goods and services, education, and many others to reduce the impact of regressivity.

34 Petroleum Industry Act (2021)

Ensuring the highest value for money for projects and reducing the cost of governance: this will require freeing up wasteful government expenditure by, for instance, streamlining duplicate functions of MDAs. This action plan will also require beefing up the justice system and rule of law, especially as they pertain to public servants, as captured in the 2021–2025 NDP. As prescribed by the NDP, the government will need to promote a strong legal framework in accordance with the National Policy on Justice, promote strong partnership with law enforcement agencies, and ensure extensive training of public law personnel to build the skills necessary for effective policy reform and implementation for long-term results.

The aforementioned action plan / initiatives target SDG 9 (industry, innovation, and infrastructure) and SDG 16 (with a focus on strong institutions), with elements of SDG 5 (gender) and 13 (climate) incorporated.

3.3 Enhancing States' Revenue Base

3.3.1 Context

For most states, the main source of revenue is the distributions from the federal government. Authority over revenue collection from most revenue sources is overseen by the federal government while some areas are open for revenue collection by the states. For example, oil and mining explorations are regulated and approved at the federal level and thus revenue sources are collected by the federal government. Some aspects of other sectors such as agriculture are regulated by the states which allows them to collect revenue from these sources.

Given that oil production is the main revenue source for Nigeria, many states heavily rely on federal revenue distributions from this source. However, given the volatility of oil prices, this revenue stream is inconsistent and, therefore, the amounts states receive significantly vary year to year.

The 2020 World Bank's Doing Business report³⁵ notes that state governments have improved their 'doing business' environment, although there is variability in performance. It finds that the gap between the lagging states and the better performing states is narrowing on regulatory efficiency and most states, if not all, have something to showcase and learn from.

Fiscal federalism is also at the centre of challenges to state finances. The term "fiscal federalism" is used to describe the financial relationship between multiple tiers or levels of government in a federation (federal, state, and local governments), focusing on taxing powers and expenditure responsibilities for each level of government. There have been conflicts among the three tiers of government on how fiscal federalism is operationalised. The advent of democratic rule has increased agitation for resource control, states' taxing rights, review of the revenue sharing formula, and the abolition of the joint accounts committee between states and local governments.

35 World Bank 2020: Doing Business 2020—comparing business regulation in 190 economies.

3.3.2 Challenges

There are two main challenges facing states regarding mobilising state revenue to support SDG implementation, and they are:

- **Inability of states to efficiently collect revenue:** The existing revenue collection system limits the extent to which states can collect revenue from all available sources in their jurisdiction. For example, oil and gas exploration and mining are major revenue contributors; however, the laws regulating revenue collection are developed at the federal level. This limits the taxable base of states and further makes the states dependent on the federal government to distribute revenues generated from these sources. Furthermore, state revenue authorities have capacity challenges and must resort to the use of consultants to assist in collecting revenues, which usually comes at significant cost to them. There are also limited capacities of staff at the state level for revenue collection.
- **Inefficient fiscal federalism:** States are faced with the challenges of a workable framework for effective fiscal federalism, reflecting the country's constitutional realities, including centralised taxing powers, as well as issues of inadequate capacity among policy makers and implementers. The way fiscal federalism is practiced in Nigeria has not produced the desired impact since its inception in 1946. Taxing powers are highly centralised, which is a source of ongoing tension. For instance, the oil producing states with limited taxing authority must cede their revenues to the federal government and receive a disproportionately smaller transfer, leading to some pressure and discontent. Many hold the view that fiscal federalism in Nigeria has been politicized, lacks diversification, is too expensive and is highly corrupt³⁶. The discontent over the formula for allocating oil revenue to oil-generating states has led to the current 13% derivation formula. The government has approved an additional consideration through the Petroleum Industry Act, which provides for a 3% allocation to host communities. But continuous agitations for increased allocation for oil producing states remains.
- **Limited options for revenue generation** due to the low tax base and inefficiencies in state taxation systems, including weak tax enforcement/compliance and capacity gaps of officials.

3.3.3 Action plan for enhancing state revenue base

Given the existing challenges, there are several action points that both federal and state governments will take that can contribute to increasing states' revenue to support the financing of the SDGs. The priorities include:

Reforming regulations on concurrent rights of states' autonomy to manage resources: Constitutional amendments on concurrent rights of states' autonomy to manage resources, e.g., in solid minerals licensing, and ownership and responsibilities of resource management, as a mutually agreed solution to increase state revenue will be important. States will be encouraged to consider setting up government-owned enterprises (GOE) for mining and modular refining and the federal government can support the states to better harness their resources by granting required licenses. For instance, refining oil at the state level through modular refineries, and using GOEs to mine solid minerals and conduct natural resource management will provide additional revenue to the state, help create jobs and allow for improved value creation to

36 INFF Fiscal Federalism report

export products of high value. Increased autonomy for state revenue authorities will ensure they are capable, transparent, independent, and efficient in discharging their duties to promote accountability.

Reviewing and increasing states' tax authority (including improving tax framework and introducing new taxes): A key action required to enhance states' IGR base is to review the authority of states to collect taxes. This will allow states to diversify their revenue sources and decrease reliance on federal transfers. Reviewing and improving the framework of property taxes and optimising or introducing taxes on hotels and tourism at the state level can help generate more income but this must be done with caution so as not to encourage a tax war. States can also access more revenues from taxes if they collaborate with the federal government to have access to more information that will ensure effective capture of state-related taxes such as the general personal income tax, directors' income tax, capital gains tax on individuals and others.

Designing policies to support MSME/sectoral growth to improve value chain based on comparative advantages of states to increase tax base: Several policy reforms will be undertaken to foster a more growth and development-oriented business environment for increased state tax revenue prospects. Dedicating economic policies to foster economic development through supportive measures for MSMEs will help develop key industries with competitive advantage and improve the development of value chains. Existing sectors under state control can also be developed to increase economic activity and can also be revenue sources. For example, the agriculture sector is under state control and states can play an active role in supporting the development of value chains around specific agricultural products. By developing these value chains, the state will be supporting the creation of businesses, job creation and infrastructure development. With the growth of businesses, states can then tax these businesses for revenue.

Proactively seeking PPPs to resuscitate idle mineral resources and invest in key sectors: States would benefit from proactively seeking PPP agreements to resuscitate idle mineral resources. This will be critical to enhancing state revenue to invest in key SDG areas such as infrastructure, health, and education. The enforcement of existing policy reforms such as the national policy on PPP by the Infrastructure Concession Regulatory Commission (ICRC) and regulating and promoting enabling laws that enhance the opportunities for PPPs will help increase private sector engagement. There is also scope for enhancing the SDG alignment of PPP-financed infrastructure projects by, for example, including SDGs in PPP communications and wider PPP capacity building programmes, adding SDGs to project eligibility, selection and prioritisation criteria, considering gender and inclusiveness in the composition of PPP institutions, and incorporating sustainability considerations into procurement processes. Furthermore, incentivising the private sector to give back to the communities where they operate as part of CSR initiatives will further help increase private sector engagement in SDG financing. Creating a platform for volunteerism especially from the private sector can help direct private sector capital towards financing the SDGs. Focusing on policy and regulatory reforms to attract additional investments (e.g., FDI) and allow for innovative financing means (e.g., by the diaspora) will further strengthen private sector mobilisation. Also, for the attainment of the SDGs, infrastructure development (e.g., roads, water, sanitation, and hygiene systems) and support systems will be developed with climate adaptation strategies in mind and, where opportunities exist, to transition towards a low carbon economy to mitigate climate change.

Harmonising revenue collection through increasing digitalisation and the integration of information systems: Optimising tax administration systems through digitalisation and proper enumeration of taxpayers will be implemented at both the federal and state levels. Improving data collection can help validate the number of poor and vulnerable states with reliable data

(e.g., single social register) to help with planning and appropriately allocating revenue and prioritising sectors. Implementing a robust transparency and accountability framework at all levels of government to build trust and encourage citizens to pay taxes will help increase tax compliance. Implementing milestone-based budgeting whereby states are eligible to receive certain funds once the state achieves certain milestones can ensure efficiency in financing and implementing the SDGs. This would link the disbursement of grants to states to key performance indicators, with the appropriate monitoring and reporting framework. The sustainability of projects implemented can be enhanced by following through with adequate monitoring and evaluation, maintenance, cost, and budget tracking. Furthermore, performing periodic reviews and publishing reports at the state level to understand progress and inform the type of intervention needed, e.g., through quarterly reports, can be very useful.

Build the enforcement capacity of revenue officials: Building the capacity of revenue officials particularly in key areas of compliance and enforcement and taxpayer education will help in optimising their work which will lead to increased revenue collection and likely build more confidence in the tax system.

Improve interagency collaboration and integration of information systems among relevant state MDAs: Collecting taxes by both state and local governments in a consolidated administration at the state level while distributing revenue to each local government afterwards based on taxes generated at the local government level would help strengthen the tax system. Integrating all revenue generating ministries, departments and agencies with the central tax administration system of the state will be key to enhancing tax administration. By reforming ambiguous tax rules and improving alignment of tax laws, double taxation and multiplicity of taxes will be eliminated:

Review and improve revenue sharing formula: The revenue sharing formula currently in place, particularly in terms of VAT revenue sharing, needs to be reviewed to ensure fairness. All VAT generated in each state could be fully disbursed to those states, while the VAT from all items on the exclusive list should be shared based on population, equal distribution, and location where the VAT is generated. Similarly, states with natural resources such as oil, solid minerals and states that provide hydro energy for the country should be compensated through the revenue sharing formula.

Making fiscal federalism efficient: Key aspects for efficient fiscal federalism that the financing strategy would focus on include reviewing and improving the revenue sharing formula (both vertical and horizontal allocation formula), increasing opportunities for states to leverage natural resources within their jurisdictions to serve as a source of revenue, improving efficiency by strengthening state and local government revenue collection mechanisms, and ensuring fiscal autonomy at the state level.

These action plan initiatives target SDG 9 (industry, innovation, and infrastructure), SDG 10 (reduced inequalities among states), and SDG 16 (with a focus on strong institutions), with elements of SDG 5 and 13 priorities contained in the action plan.

3.4 Coordinating Budget Processes and Modifying Public Spending and Management Practices

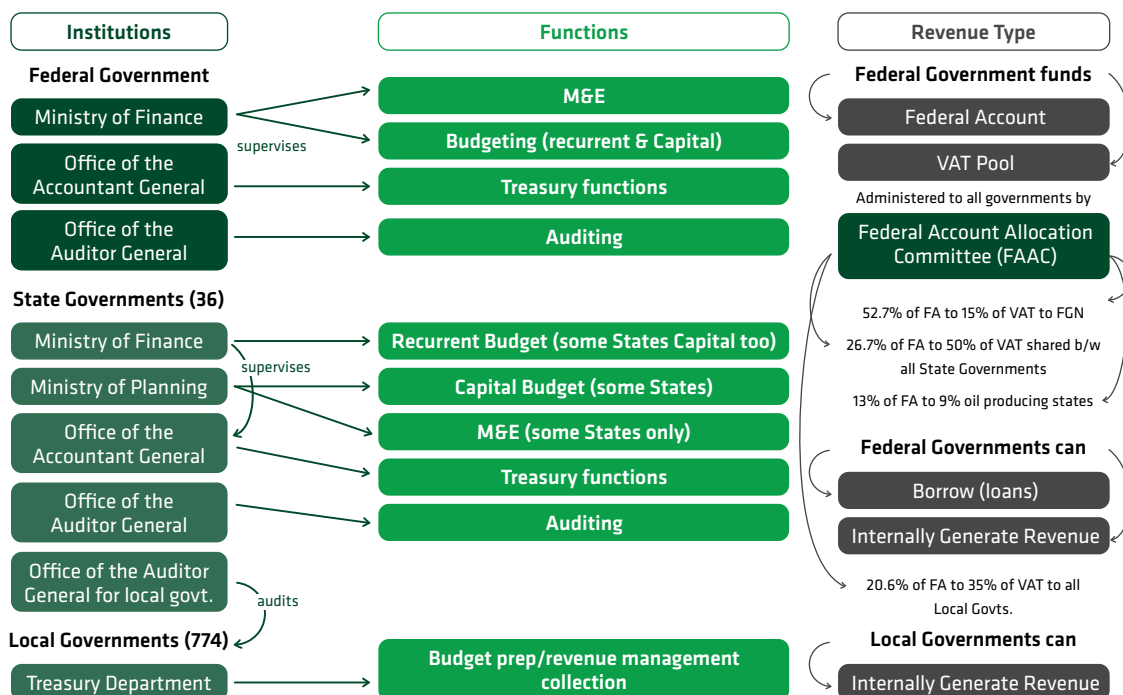
3.4.1 Context

Given the impact of public expenditures on scarce government revenues, a special section is dedicated to highlighting the necessary action plan for coordinating budgetary processes at all levels and improving the management of public spending towards improving domestic public revenues.

Nigeria is a complex federation that requires well-designed policy and operational coordination to function effectively. With that federal system in mind, the following figure provides insights into a key foundational element of the Integrated National Financial Strategy. Figure 4 shows the key institutions, functions and revenue sources at the federal, state, and local levels involved in the budgetary process. Institutions involved in the national budgetary process include MDAs at the federal, state, and local levels. There are 10 types of institutions engaged—four at the federal level (including the Federal Account Allocation Committee), up to five in each of the 36 states, and at least one institution in 774 local governments. Key functions of the institutions include the budgetary process itself, treasury operations to ensure financing of revenue shortfalls, monitoring and evaluation, and auditing. The various potential sources of revenue and deficit financing are necessary to make the national budget viable. Potential revenue sources are identified for the federal, state, and local level, as well as revenue sources such as VAT that are shared among the three levels of government.

In terms of government expenditure, it is largely made up of recurrent expenditure (apart from debt servicing), in the form of payment of salaries to civil servants. The high rate of unproductive public expenditure, coupled with corruption and economic and social instability, makes it difficult to attain the SDGs without changes to spending priorities and better expenditure management. Given Nigeria's youthful population with half the population being comprised of females, the demographic data is an important factor guiding renewed spending priorities particularly as they affect women and youth.

Figure 4: Nigerian MDAs' Functions and Revenue Flows



Source: Re-created from the Development Finance Assessment

The Nigerian government has committed to the implementation of various public finance management reform initiatives which commenced in 2015. These include the Government Integrated Financial and Management Information System (GIFMIS), the Treasury Single Account (TSA), the Integrated Personnel Payroll Information System (IPPIIS), and International Public Sector Accounting Standards (IPSAS). IPSAS adoption in particular is a strong tool for achieving vibrant PFM through transparent and accountable reporting of government performance via standardised recording and accounting system.

3.4.2 Challenges

As is the case for governments in most large countries, the principal budgetary management challenge in Nigeria is to ensure efficient and effective coordination of the budget institutions, functions, and revenues, and to create alignment on the key objectives and areas for action. Nigeria has the added challenge of being a federation, which requires coordination with state governments on revenue allocation and spending priorities, notably those related to attaining SDGs.

The challenge of the rising poverty level in Nigeria also requires a prudent rebalancing of public spending that reflects the compensation of a large public service, the need to free funds hitherto being used for social interventions such as the conditional cash grants, and the need for more spending on investment in public infrastructure and other value-adding public goods.

3.4.3 Action plan for enhancing budget process coordination

Key actions for improving the budget process and public expenditure management include:

Defining the governing principles and operating rules for the Federation Account Operating Committee: Defining the governing principles and operating rules will ensure that all parties are fairly treated with respect to revenue sharing between the federal government and the states.

Clarifying rules on which level of government is responsible and accountable for budget coordination, setting priorities and acting on revenue and expenditures: The responsibility and accountability of the overall budget coordination, setting of budgetary priorities, and decision making on specific revenue and expenditure actions by each level of government is an entry point for the integration of SDGs in the process.

Ensuring the alignment of the budgets with SDG priorities and accelerating the application of a gender budgeting approach: Nigeria is exploring how the budget allocation can be better aligned with strategic development priorities and SDGs and how the process can be monitored and reviewed. Options such as SDG-informed MTEF/MTRS, data collection on SDG financing, participatory budgeting, parliament oversight on SDG alignment, SDG-aligned budget performance reports, SDG tagging, SDG audits, etc., will be considered. Budget items linked to SDGs would ensure development impact is measured and accounted for. Ensuring that the budget is gender responsive will help address gender inequalities. For example, following the FGN 2022 Budget commitment to national budgeting that is gender sensitive, the annual budget statement should have a section dedicated to gender—linked to specific budget items. It could highlight how the budget plans to reduce gender inequality because in sub-Saharan African countries like Nigeria, economic losses due to gender gaps in effective labor are estimated to be very high at about \$60 billion a year for the region.³⁷ Introduction of yearly budget circulars would help to ensure development needs are planned for.

Improving the budget approval and monitoring process: The improvement in budget coordination would require advocating for a more transparent, responsive, and rules-based revenue sharing formula. In terms of improving processes, the budget proposal from the executive should be submitted to the National Assembly early to give ample time for consideration before the start of the budget year. The budget approval by the National Assembly will also be granted before the start of the budget year. Having a committee at the National Assembly responsible for monitoring and evaluation of budgets is important. The National Assembly Budget Research Office (NABRO) and the National Institute for Legislative and Democratic Studies will be strengthened and fully engaged to provide related support services such as research output, data management, expert advice, among others, to the assembly on a routine basis. Automation of the budget processes is imperative to make transmission and access to documents easy for relevant stakeholders in the budget process. Once a budget proposal is developed by the executive, it can be uploaded to a portal accessible by the National Assembly, civil society, and other relevant stakeholders. The improvement would also include periodic monitoring and auditing to ensure spending is being done appropriately.

37 Amarakoon Bandara (2015), *The Economic Cost of Gender Gaps in Effective Labor: Africa's Missing Growth Reserve*, *Feminist Economics*, Taylor & Francis Journals, vol. 21(2), pages 162–186, April.

Building the capacity of state-level employees and enhancing accountability and transparency:

Increasing the capacity and flexibility of states and local governments to plan and manage budgets, as well as their ability to access additional sources of financing is another focus area for improvement. Enhancing transparency through open procurement processes and improving governance by implementing a solid stakeholder consultation process to agree on spending priorities will help enhance the efficiency and effectiveness of SDG financing. State-level governments will improve coordination and streamlining among financiers (i.e., government, donor communities and private sector). Specifically, they can seek out development partners for particular SDG-related projects and investments in areas of high economic and social gains to mobilise state-level resources. States are encouraged to explore green financing options such as green bonds and other sustainable financing instruments to support in managing the cost of financing and attract international financing.

Renewing spending priorities and implementing a strategic approach to public investments based on efficiency and outcomes:

Policy reform starts with renewing spending priorities, placing less emphasis on public service salaries and operating costs, and more emphasis on investment and other spending that directly addresses the SDGs. There is a need for a strategic approach to public investments based on efficiency and outcomes in terms of public goods. A freeze on public service hires can also contain the government's recurrent expenditures. Programmes that support youth employment and women's empowerment and the use of PPPs to engage the private sector in service delivery are other priorities for reallocating public spending.

Deepening the application of a zero-based budgeting approach to review and eliminate wasteful expenditure:

Applying a zero-based budgeting approach and evaluating and justifying the need for each public servant each year by reviewing salaries and operating costs are necessary to avoid inefficient public spending. The focus of budget resources will be on sectors that are socially and economically highly productive and other spending that directly addresses the SDGs.

Increasing transparency in procurement practices:

The federal and state governments will increase transparency in procurement practices and SDG-friendly procurement will be considered. For example, large contract awards will be publicised at both the federal and state level, with an appeal process for unsuccessful bidders.

Increasing oversight and ownership of public assets:

Increased oversight and ownership of public assets is critical. Policy reforms could include a mix of privatisation and commercialisation of publicly-owned assets at the national and subnational levels. In addition, policies that support the devolution of power to the state and local governments would enable people at the local level to take ownership and maintain due oversight of public infrastructure currently being seen as federal properties, for which no one seems to be responsible.

Focusing budget resources on highly productive sectors:

The social and economic impact of financed projects and other spending that directly address the SDGs are important considerations in allocating budget resources. The prioritisation of highly productive sectors is imperative. To check abuse and avoid market failure, regulatory reforms will be imperative to oversee the activities of private sector partners or owners of assets where the government divests. This is to ensure that the private sector acts responsibly and does not take undue advantage of citizens by creating monopolies.

Improving the budget process by integrating project-based external financing into the MTEF and budget process: Currently, these are treated separately and not incorporated in the financing framework of the annual budgets, with only budget support loans being incorporated. Adding this as part of the actions to enhance budget process coordination would be beneficial.

Collaborating with the private sector on PPP projects and enforcing existing policies to protect and encourage investors entering a PPP arrangement: Collaborating with the private sector on PPP projects, and enforcing existing policies to protect and encourage investors entering PPP arrangements is key to mobilise private sector investments. There is also scope for enhancing the SDG alignment of PPP-financed infrastructure projects in Nigeria by mainstreaming the SDGs more explicitly across all phases of PPP development: identification, preparation, transaction, and management. This will be achieved by, for example, including SDGs in PPP communications and wider PPP capacity building programmes, adding SDGs to project eligibility, selection, and prioritisation criteria, considering gender and inclusiveness in the composition of PPP institutions, and incorporating sustainability considerations into procurement processes (through project specifications and award criteria).

These actions target SDG 1 (no poverty), SDG 8 (decent work and economic growth), SDG 9 (industry, innovation, and infrastructure), SDG 10 (reduced inequalities among states), and SDG 16 (with focus on strong institutions). Other SDGs captured include SDG 5 (gender equality).

3.5 Innovations in Public Debt Management/Debt Sustainability

3.5.1 Context

A distinct set of actions are provided in this section on Nigeria's debt management, particularly debt service payment. As a share of the economy, Nigeria's national public debt is not large compared to many other developing and industrial countries; the key policy issue is debt service payments compared to public revenues.

The country's debt management is anchored in the Debt Management Strategy 2020–2023. The Debt Management Strategy indicates borrowing will be from both external and domestic sources. It aims for a funding ratio from domestic and external sources of 53:47 in 2020, moving toward a greater focus on domestic borrowing, ideally with a ratio of 65:35 in 2021–2023. Funding will depend on renewed access to international capital markets, and funding will also be sought from concessional multilateral and bilateral windows based on availability.

Table 6: Medium-Term Debt Strategy Targets and Actual

		2016–2019 Target	2019 Actual	2020–2023 Target
Portfolio Composition	Domestic: External	60:40	67:33	Max.70:Min.30
	Domestic Debt Mix: Long: Short	75:25	81:19	Min.75:Max.25
Refinancing	Debt Maturing in 1 Year as % of Total Debt	Max. 20%	13.77%	Max. 20%
	Average Time to Maturity (Years)	Min. 10 years	10.5 years	Min. 10 years
Interest rate	Variable Rate Debt as % of Total Debt	N/A	2.98%	Less than 5%
Fiscal Sustainability Ratios	Debt as % of GDP	25%	19%	40%
	Deficit to GDP (%)	N/A	N/A	3%
	Sovereign Guarantees as % of GDP	N/A	1.98%	Max. 5%

Source: DMO via Debt Management Strategy, 2020–2023

The Debt Management Office is pursuing a debt management strategy designed to lower the debt service cost by rebalancing the debt stock in favour of cheaper foreign currency borrowings. This would significantly create more fiscal space for the private sector in the domestic credit market with overall positive impact on interest rates. New domestic borrowing is aimed at longer-term instruments, although existing Nigerian treasury bills (NTBs) are to be refinanced throughout the projection period. Further, additional infrastructure bonds (e.g., sukuk and green bonds, where practicable), and the federal government savings bonds are expected to be issued within the projected period. There will also be continued issuance of promissory notes to settle the federal government's arrears; these are non-interest-bearing debt instruments, and therefore do not impact interest expenses.

The new Debt Management Strategy 2020–2023 is aligned with the spending needs identified by a medium-term expenditure framework (MTEF). It assumes that the FGN will meet all its financing needs from the domestic market and international capital markets. However, the COVID-19 pandemic may require the FGN to consider updating its debt management strategy according to the new economic reality and financing requirements. In view of the limited availability of funding from concessional and semi-concessional sources due to Nigeria's classification as a lower middle-income country, new sources of external capital such as commercial loans from export credit agencies, tied to specific projects, will need to be explored further.

3.5.2 Challenges

As emphasised in the debt management strategy, the aim for Nigeria is to reduce the cost of debt servicing, which depends on significant increases in the government's revenue, and to moderate the level of debt-related risks.

Nigeria has a heavy debt service payment liability to manage. Although the public debt to GDP ratio is not exceptionally high, public debt service as a share of the public revenue base is already very high compared to many other developing nations, at 83% of federal government revenues in 2020.³⁸

38 The Nation, 2020. Nigeria receives \$311m Abacha assets from U.S., Jersey. Available at: <https://thenationonline.net/nigeria-receives-311m-abacha-assets-from-u-s-jersey/> (accessed September 2020)

One of the key issues relating to debt management is the social and economic returns of investments funded through debt creation. A further challenge is the declining government revenue in the last six years due to the fall in the price of crude oil in the global market, coupled with the negative effects of the COVID-19 pandemic as well as existing revenue leakages. All these factors have negatively impacted Nigeria's debt sustainability.

3.5.3 Action plan for innovations in public debt management / debt sustainability

Focusing on implementing the debt management strategy and developing a policy framework to guide the structuring of debt: Policy reform will need to focus on implementing the strategy by ensuring an appropriate balance of domestic and external debt, fixed and variable interest rates, and borrowings to finance existing debt. The rate of growth in debt must be sustainable, given the growth in income and GDP levels. Well-designed policies would guide the structuring of debt, in terms of maturity, currency, and interest, to ensure reduced financial and instability risks.

Approving debt based on positive net returns (in terms of net present value) to ensure social and economic returns of investments are funded through debt creation and implementing a system to assess such potential returns: Nigeria has the necessary instruments for debt management, including the use of short-term instruments (treasury bills, treasury certificates, promissory notes) and long-term instruments such as federal government bond, green bond, sovereign sukuk, etc. These instruments will be appropriately matched such that long-term instruments are used to finance longer term projects. Refinancing debt at lower interest rates is an ideal approach, as this reduces the burden of debt servicing. Approvals for debt could be based on positive net returns (in terms of net present value). A system could be developed and implemented to assess the potential social and economic returns funded through debt creation.

Regularly updating debt sustainability analysis to assess portfolio risks: The business process will entail an update of the debt sustainability analysis (DSA) to assess portfolio risks. As such, stress tests will have to be conducted periodically using analytical tools based on economic and financial shocks (and ideally climate-related financial risks) that the country may be exposed to. The Nigerian DSA exercise is conducted annually and subjected to appropriate qualitative and quantitative analysis, by evaluating the country's repayment capacity for its current and future debt obligations, to ascertain the level of risk of debt distress.

Exploring the rescheduling, restructuring and sale of sovereign debt: The government will consider if the sovereign debt can be rescheduled, restructured, and sold to impact investors and diaspora to lengthen terms and will consider whether it can be led by regional DFI.

Reduction in CBN lending to the federal government, which otherwise could lead to grave effects on the monetary policies of the bank, which are detrimental to domestic exchange rates and prices.

Reducing risk on loans by borrowing for projects with high social and economic returns: The FGN will aim to mainly borrow for projects with high economic and social returns and ensure that it, inter alia, addresses other risks by fighting corruption, increasing institutional efficiency, reducing policy inconsistency and introducing effective macroeconomic policy reforms. This will

reduce the high interest payments to revenue ratio and will leave more revenue for the FGN to provide critical public goods and services.

Utilizing theme bonds (e.g., green bonds, diaspora bonds, SDG bonds): Green bonds and other thematic bonds present a great opportunity to tap into distinct pools of capital including diaspora investors. The Nigerian government has already issued the first sovereign green bond in Africa in 2017 and a second green bond series in 2019; in which the country raised NGN 10.69 billion and NGN 15 billion in 2017 and 2019 respectively to finance energy and land-use projects, among others. Sustainability-linked bonds are gaining momentum within emerging markets. The FGN will also develop a debt management strategy that accounts for the impact of additional spending pressures resulting from the pandemic. This could include debt swaps for forest conservation, climate mitigation activities, nature, or health. Debt swaps and debt rescheduling could be important given that that debt servicing is more crucial than the overall debt overhang. The FGN will consider negotiating a debt-for-nature or debt-for-health scheme for increasing public investments towards addressing environmental degradation, or for financing priority health care spending to recover from the COVID-19 crisis.

These actions target SDG 9 (industry, innovation, and infrastructure). Others include SDG 13 (climate change) and SDG 17 (on partnerships for goals.)

3.6 Catalysing GOEs and the Sovereign Wealth Fund

3.6.1 Context

Government-owned enterprises (GOEs) as key players in the Nigerian economy can contribute to supporting the SDGs. However, there is no mention of a possible role for GOEs in financing SDGs in the national development plan or in the country strategies from multilateral funders.

Within the group of Nigerian GOEs, national development finance institutions (NDFIs) can play a particularly important role in helping to mobilise and allocate financing for supporting the SDGs, making use of domestic and external sources of financing to backstop and fund their initiatives. The Bank of Industry, Development Bank of Nigeria, Nigeria Export and Import Bank, Bank of Agriculture and other smaller DFIs can play a prominent role in mobilising and allocating financing that would make an important contribution to meeting the SDGs.

Table 8 below shows a list of DFIs in Nigeria and key indicators to define their financial capacity.

Table 7: Key Indicators for National DFIs in Nigeria

Name of Bank	Mandate	Assets (\$ M)	Equity (\$ M)	Net Interest Income (\$ M)	Net Profit (\$ M)	Funding Sources
Bank of Agriculture	Agriculture	500	50	-	-	MoFBNP, CBN
Bank of Industry	General	1,962	665	95	64	CBN, AfDB, AFRIEXIM bank
Development Bank of Nigeria	MSME	767	347	72	62	World Bank, AFD, KfW, AfDB
Federal Mortgage Bank of Nigeria	Housing	200	20	-	-	Federal Government
Nigeria Export-Import Bank	Trade	500	200	25	2	MoFBNP, CBN
The Infrastructure Bank PLC	General	21	11	0.9	2.8	Federal, state, and local government; Nigerian Labor Congress; private sector

Source: AFD, Finance in Common Database. Key Indicators by Bank in 2018

3.6.2 Challenges

A key constraint for GOEs in general and NDFIs in particular is access to capital for growth, beyond the baseline investment they have received from their shareholder(s). Without wider access to capital, NDFIs are limited to relying on their net operating income and retained earnings as the basis for mobilising financing for SDGs.

If used effectively, GOEs such as NDFIs are a strong public policy tool to achieve assigned mandates for social and economic development. In contrast, some GOEs are no longer operational or have been bought by private investors (and are now fully private sector entities) largely due to the inefficiency and ineffectiveness associated with how such enterprises were administered in the past.

Capital funding for the NSIA has been unsteady, which presents a key challenge for its growth. To overcome the lack of consistent investment contributions, the NSIA has a three-pronged approach: i) undertake profit-seeking activities; ii) launch co-investment funds for certain sectors; and iii) approach the state to transfer certain assets to it for more efficient management. The NSIA is drawing lessons and best practices from other sovereign wealth funds such as Singapore's Temasek. Furthermore, the NSIA has been presenting itself to the international market as an investor of choice, by generating a strong track record of investing and reinvesting regular debt and the profits generated each year. Due to the lack of capital and willingness of entities to support tier 2 capital, another constraint for NSIA is its ability to provide guarantees to private sector financiers.

3.6.3 Action plan for catalysing GOEs and SWF

GOEs can play an important role in enhancing the domestic public finance envelope. Policy reform likely requires a change in shareholder mindset and perception about GOEs and NDFIs, and an appreciation that they can play an important role in addressing SDGs.

As a start, each GOE could identify in its business strategy and operating plan one or more SDGs it intends to address, as a contribution to advancing overall financing of specific SDGs. A discussion with its shareholder(s) and other key stakeholders would help in identifying the possible priority SDG(s) and the options for mobilising financing where the GOE could play a useful role. As a second step, consideration could be given by the federal government to establishing an explicit net income target for each GOE, which could ideally generate increased operating income and retained earnings that could then be used at least in part to address SDGs. Thirdly, and as an area that requires considerable attention, GOEs could be examined in detail by their shareholder(s) to determine if they are candidates for privatisation. This would be the case where a GOE is no longer playing a public policy role by filling or addressing a market gap, or where weak management or governance is limiting its effectiveness.

It is however important that GOEs abide by the requirement in the Federal Fiscal Responsibility Law and several federal circulars over the years that seek to ensure their expenditures are limited based on a threshold and operational surpluses are remitted to the treasury. Also, their budgeting should be incorporated in the federal budgeting process and their budgets passed alongside the federal budget.

Key action items include:

Reviewing and modernising ownership structures and enhancing framework and governance practices of GOEs: Strengthening frameworks, enhancing governance practices, and reviewing or modernising ownership structures will be considered. With that starting point established, shareholder representatives can engage with each GOE, discussing options for their engagement on financing specific SDGs. GOEs could better finance and mobilise financing for SDGs if they are mandated to achieve specific development goals. This will allow them to shift the focus of their business strategy and operating plan to one or more SDGs they intend to address and allocate resources effectively to advancing overall financing of the specific SDGs. Among NDFIs, the Bank of Industry, the Development Bank of Nigeria, and NEXIM can play an important role in mobilising domestic and international SDG financing due to their capacity and track record. TIB could be more effective in delivering its mandate with proper capitalisation and capacity building. NSIA can also play a leading role in mobilising SDG financing, as it has worked with development partners to apply transparency practices that are aligned with the Santiago Principles of transparency, good governance, accountability, and prudent investment practices. However, there is a need to address the absence of necessary inter-governmental monitoring and sanctions and the shortcomings in the NSIA Act that produce gaps in the transparent and accountable management of the NSIA. Particularly, the SWF in the excess crude account requires greater transparency on the rules governing deposits, withdrawals, and investment, since the basic rules and principles governing deposits, withdrawals and use of the savings have not always been followed over the years.

Reflecting commercial business practices in government-owned enterprises: For example, explicit net income targets, management autonomy, management by private experts (with autonomy), and management partnerships are some key factors to consider. Exploring different

options of management can be beneficial, all with the objective of improving efficiency and financial viability.

Strengthening capitalisation of government owned enterprises: Strengthening capitalisation will allow the GOE to fulfil its mandate effectively, as undercapitalisation may hinder its ability to finance large ticket development needs such as infrastructure.

Increasing borrowing capacity of national DFIs, with credit guarantees from MDBs and DFIs: Additionally, increasing the borrowing capacity of NDFIs can be realised through using credit guarantees from MDBs and other bilateral DFIs such as KfW, etc. To increase external financing, ensure all NDFIs are SDG-aligned and reporting on their contributions to SDGs. They will be required to develop an annual sustainability report. NDFIs in Nigeria borrow both domestically and internationally. As explored later, external financing for SDGs could be mobilised from international lending and bond syndication markets, and by seeking external guarantees from ATI and AfDB. GOEs and NDFIs can partner with IFC to support MSMEs by scaling up credit facilitation schemes to foster increased private sector investment towards SDG-aligned priority sectors.

Creating incentive programmes for privatisation and commercialisation: The federal government will focus its efforts on privatisation/commercialisation as key sources of revenue generation to finance the SDGs. Privatisations can be an effective way to raise local currency and enhance financial performance auditing and reporting of companies.

These actions target SDG 9 (industry, innovation, and infrastructure) and SDG 16 (with a focus on strong institutions). Other SDGs captured include SDG 17 (on partnerships for goals).

3.7 Capturing Illicit Financial Flows

3.7.1 Context

Illicit financial flows undoubtedly undermine Africa's potential to achieve the SDGs. The largest capital flight source is from extractive industries, amounting to \$40 billion in 2015. UNCTAD's Economic Development in Africa Report 2020 states that curbing illicit capital flight lead to a gain of \$89 billion annually or almost cut in half the annual financing gap of \$200 billion that Africa needs to achieve the SDGs. For Nigeria specifically, the UNCTAD reports oil export mis-invoicing at \$44 billion and import mis-invoicing at \$45 billion during 1996–2014.³⁹ In Nigeria, illicit financial flows in the form of tax evasion, tax avoidance, transfer pricing, and bank secrecy are also closely associated with money laundering, the process of transforming profits from illegal activities and corruption into ostensibly legitimate assets.

The Nigerian government is taking steps to tackle IFFs in Nigeria in several ways. One of which is by targeting tax evasion through the 2017 Voluntary Assets and Income Declaration Scheme. It is also focusing on reducing IFFs by introducing international tax transparency measures such as

39 UNCTAD, Tackling Illicit Financial Flows for Sustainable Development in Africa Report 2020

the commitment to the automatic exchange of financial account information in 2020. There has been some success in this regard with the recovery of \$311 million of assets from the US.⁴⁰ These funds have been channelled directly to the Presidential Infrastructure Development Fund, which is managed by the Nigerian Sovereign Investment Authority.⁴¹

Further, Nigeria signed the Multilateral Competent Authority Agreement (MCAA) for the automatic exchange of country-by-country reports (CbCRs).⁴² Afterwards, Nigeria introduced the regulations on country-by-country reporting⁴³ domestically to operationalise the measures. The CbCR requires multinational companies with consolidated group revenue of EUR750 million with headquarters in Nigeria to prepare and submit annual CbCR returns of all the financial and tax information of all members of the multinational enterprise (MNE) group worldwide. These reports provide critical information to the FIRS to ensure that the MNEs are reporting their true income position and are not engaged in harmful tax practices.

Nigeria has also enacted the Income Tax Common Reporting Standard (CRS) Regulations, 2019⁴⁴ for the implementation of CRS in Nigeria. The CRS is the standard developed by the OECD to ensure the automatic exchange of information (AEOI) between participating countries—through this framework, countries can exchange financial information of individuals and corporations within their jurisdictions to ensure that incomes earned in other jurisdictions are either not understated or hidden to avoid paying taxes. The aim of the CRS is to address tax evasion and increase tax transparency. Through the AEOI, Nigeria can generate revenues from taxes evaded through incomes in other jurisdictions.

Nigeria also introduced the Biometric Verification Number (BVN)—a unique number that links all bank accounts related to an individual for easy monitoring and tracing. The BVN has been proven to address many corruption-related issues and presents significant opportunities to address IFFs.

Nigeria is a member of the OECD and Inclusive Framework on Base Erosion and Profit Shifting (BEPS)⁴⁵. Through its membership, Nigeria can contribute to the development of the global rules on addressing tax evasion. However, concerns remain regarding the unequal participation between developed and developing countries that are part of the framework, one of the reasons why Nigeria refused to sign and endorse the two-pillar solution of the OECD/G20 on the taxation of the digitalised economy.

Nigeria is also represented at the United Nations Committee of Experts on International Cooperation in Tax Matters.⁴⁶ Nigeria has signed bilateral agreements for recovery of stolen assets with Switzerland, the United Arab Emirates, the United Kingdom, and the United States for the return of stolen assets to discourage IFFs in these locations.⁴⁷

40 The Nation, 2020. Nigeria receives \$311m Abacha assets from U.S., Jersey. Available at: <https://thenationonline.ng/nigeria-receives-311m-abacha-assets-from-u-s-jersey/> (accessed September 2020)

41 Nigeria Sovereign Investment Authority, 2018. Enabling Sustainable Growth: making an impact on Nigeria's future. Available at: <https://nsia.com.ng/~nsia/sites/default/files/downloads/NSIA%20Annual%20Report%202018.pdf>

42 Available here <https://www.oecd.org/tax/beps/country-by-country-exchange-relationships.htm> accessed 20/10/2021

43 Regulations (Income Tax (Country-by-Country Reporting) Regulations 2018)

44 Income Tax (Common Reporting Standard) Regulations, 2019 (CRS Regulations).

45 OECD, Members of the OECD/G20 Inclusive Framework on BEPS, <https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf> accessed 25/10/2021

46 UN Tax Committee Membership, available here <https://www.un.org/sg/en/content/sg/personnel-appointments/2021-07-21/un-tax-committee-25-members-appointed> accessed 20/10/2021

47 UNCTAD Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa

Nigeria is a member of the Extractives Industries Transparency Initiative (EITI). Based on the standards of EITI, Nigeria set up the Nigerian Extractive Industries Transparency Initiative (NEITI). Through its efforts, NEITI helped the country recover \$3 billion in IFFs and set up a beneficial ownership register for the extractive industries.⁴⁸ The beneficial ownership register from EITI is aimed at improving transparency in the extractive sector to address money laundering and other harmful practices.

Nigeria has made significant efforts towards setting up laws, frameworks, and agencies to tackle IFFs. However, IFFs continue to thrive in the country. Nigeria is a member of the Financial Action Task Force (FATF) and the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA). Nigeria has also signed and ratified the United Nations Convention against Corruption (UNCAC). Nigeria has set up an independent agency to combat financial crimes and has strengthened its laws against IFFs. Nigeria introduced laws on asset forfeiture, whistleblowing, and a number of working groups to tackle IFFs in the country. There are opportunities for Nigeria to significantly reduce IFFs through active participation in the aforementioned international frameworks and from the legal and administrative framework in the country.

3.7.2 Challenges

The major challenge in tackling Illicit financial flows relates to the ability to identify the actors and incentives behind illicit financial flows. Addressing the problem of illicit financial flows will of course require assessing the source, transit, and destination countries of the flows.

Inadequate regulation of the financial system, poor governance, and weak institutions also pose challenges to the reduction of illicit financial flows as they lead to limited oversight and lack of transparency and accountability.

The frameworks designed and proposed to address IFFs are complex. The proposals and frameworks designed by the OECD and the G7 to address issues related to IFFs, base erosion and profit shifting are complex and, in some cases, unclear if they are beneficial to developing countries like Nigeria. This is one of the reasons why Nigeria recently rejected the G20 and G7 proposal on a global minimum tax rate even though 130 countries agreed to it.

The active role of enablers is a key challenge. The Panama Papers, Paradise Papers, and most recently the Pandora leaks have raised concerns about the role some law, auditing and advisory firms play in hiding illicit wealth in tax havens and secrecy jurisdictions. These actors usually have more capacity than revenue administrators and take advantage of the loopholes in the law to help launder illicit money abroad.

Information exchange asymmetries between Nigeria and other jurisdictions further exacerbate the challenge. The exchange of information for tax purposes between countries provides an avenue to address tax evasion and avoidance. However, due to the strict requirements, Nigeria can send information to developed countries while it is unable to receive the same. Some of the reasons for this include issues relating to information security and privacy. Nonetheless, data collection efforts will be key for governments to tackle IFFs domestically and be able to gain regional and international support and cooperation. Also, digitalisation of the economy will simplify the process of data collection and exchange.

48 NEITI 2018, Solid Minerals Audit Report

Illicit financial flows thrive on weak institutions. Revenue authorities, weak laws and weak law enforcement agencies create opportunities for IFFs. Nigeria has made efforts towards improving its capacity to fight IFFs. However, there still exist capacity gaps both at the human and institutional levels. The weak enforcement of existing laws and lack of compliance with international standards particularly in the banking and financial industry also hinder the ability to tackle IFFs.

3.7.3 Action plan for illicit financial flows

Significant investment will be made towards enhancing both the human and institutional capacity of law enforcement agencies responsible for addressing IFFs.

Identifying key offenders of illicit financial flows to adopt targeted measures: Identifying the range of stakeholders and offenders will be necessary to enhance coordinated action. This includes commercial offenders carrying out tax evasion and avoidance, criminal offenders involved in terrorism financing and money laundering, as well as bribery and corruption offenders. Identifying offenders will involve tax information exchange by strengthening the automatic exchange of financial account information. Nigeria will also strengthen institutions and systems to prevent tax evasion and investigate and prosecute offenders. Targeted existing measures will be applied based on category of offence.

Developing an effective framework for interagency cooperation and collaboration at the domestic and international levels to tackle illicit financial flows: This would improve interagency cooperation within and across borders, particularly among law enforcement agencies such as the FIRS and NFIU. This can be achieved through mutually beneficial memoranda of understanding and setting up joint taskforces. CBN and the FIRS will be encouraged to collaborate to put in place regulatory steps that will strengthen the reporting of tax revenue. Revenue from oil and non-oil sources must be monitored efficiently to track expected and actual revenue. Efforts can be divided at the institutional, regional, and domestic levels. At the institutional level, policy guidance can be developed to strengthen multilateral coordination and cooperation to combat the IFFs. At the domestic level, regulatory frameworks must be strengthened, and strict laws must be enforced. At the regional level, the promotion of regional and sub-regional cooperation to address IFFs through the ECOWAS, the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) and the African Union (AU) is necessary. Increased collaboration between regulatory authorities and the financial sector would allow for efficient monitoring of the financial system according to international best practices to help tackle the issue of illicit financial flows. Effective interagency collaboration among law enforcement agencies, financial intelligence agencies and the tax authorities is important in tackling illicit financial flows such as tax evasion, corruption, and money laundering as they constitute a huge drain on public finance for the government. This can be achieved through sharing of relevant information through integrated systems, joint taskforces and staff exchange for knowledge and experience sharing. One example of an important collaboration that will bring about significant improvement is the collaboration between the Nigerian Financial Intelligence Unit (NFIU), the FIRS and other state revenue services.

Promoting digitalisation and investing in system integration and data analytics to help address illicit financial flows: Data collection and reporting on trade including at the transactional level can support the tracking and monitoring efforts to ensure transparency and combat fraudulent financial activities. Project Lighthouse, a data-driven artificial intelligence engine that provides the federal Ministry of Finance with intelligence and profiling to aid in policy formulation, implementation and assessing the impacts of these policies, is an example of an initiative spearheaded by the FGN which uses efficient and intelligent data-driven tax assessments to ensure major tax loopholes are plugged and revenues dramatically increased.

Introducing stronger financial crime legislation and enforcing existing laws: Steps will be taken to improve legislative and judicial administrative procedures mainly targeted at illicit financial flows and ensure that these policies and procedures are applied judiciously and enforced.

Strengthening capacity of government entities and responsible bodies to track and monitor financial flows to identify illicit activity: Improving the financial system's capacity to track and monitor is vital to reducing illicit financial flows. Pursuing administratively feasible options for international taxation and taxation of the digitalised economy through different platforms such as the inclusive framework on BEPS, and the UN Tax Committee in collaboration with African Tax Administration Forum (ATAF) and the African Union (AU) is an actionable solution.

Enforcing international standards of AML/KYC compliance on banks: World class AML/KYC compliance systems will be mandated for all financial players. Enforcing stricter compliance measures and imposing fines on financial institutions that do not comply would help curtail illicit financial flows.

Creating positive and negative incentives for reducing illegal flows: Strengthening the framework for whistleblowing to encourage the reporting of illicit wealth and other corrupt practices would support the fight against IFFs. Customs and trade policies will also be reviewed to ensure a lack of ambiguity that brings about inefficiencies and leakages. Extending the use of beneficial ownership registers to all sectors of the economy to ensure transparency in all sectors beyond the extractive industry is another option to help curb IFFs. Strengthening the regulations for CRS and CbCR and ensuring there is a robust framework for implementation is key.

Implementing global standards of fighting illicit financial flows and engaging in global discussions: This includes the utilisation of automatic exchange of information, beneficial ownership registers, and country by country reporting. Participating in global discussions on tax and IFFs issues to champion policies that are particular to Nigeria will facilitate discussions on IFFs between Nigeria and important stakeholder countries.

These actions target SDG 9 (industry, innovation, and infrastructure), SDG 10 (reduced inequalities, across countries), and SDG 16 (with focus on strong institutions). Other SDGs captured include SDG 17 (on partnerships for goals).

3.8 Summary of Domestic Public Finance

Restoring sustainable public finances is at the core of the Integrated National Financing Strategy, but this has been made more difficult by the pandemic, 2020 recession and other related developments. To achieve more sustainable domestic public finances, decisive action will be required in several areas. Efforts will be required to expand the revenues available to the federal and state governments. Measures to broaden the tax base, such as a phased VAT increase and introduction of new taxes are inevitable. Reforming the rights of states to manage resources, collect taxes and enhance their capacity will increase their IGR and ability to sustainably finance their unique development needs. Efforts to improve tax administration including incentivising tax payment, digitalisation, strengthening the tax system and reforming ambiguous tax rules will improve tax compliance and revenue collection considerably. Strengthening public spending and management practices around agreed priorities, zero-based budgeting and transparency in procurement will eliminate wasteful expenditure and redirect the available revenue and resources towards investments in highly productive sectors socially and economically. Effective debt management will be required to manage existing and future debt obligations to domestic and international funders. Strengthening governance practices and increasing the capitalisation and borrowing capacity of GOEs are key considerations to enhance their role in mobilising domestic resources. Focusing efforts on privatisation and commercialisation would also help build domestic capital markets and raise local currency debt. These initiatives would help Nigeria to increase its domestic finance envelope to support the SDGs.

4.

**INFS-STRENGTHENING
DOMESTIC PRIVATE
DEVELOPMENT
FINANCING ENVELOPE**

4.1. Overview

Attaining Nigeria's SDGs will require a greater role for the private sector and a significant transformation in how economic growth and investment opportunities are generated. Private sector stakeholders need to explore creative and innovative approaches that can be used to mobilise private financing. Fortunately, there is huge untapped domestic private financing potential within the country, provided that enabling government policies and a supportive business environment are in place. The existence of many private banking institutions and other non-bank players in the financial system such as pension fund administrators, capital market and money market participants, and investment fund managers who carry out financial intermediation services presents an opportunity to identify private financing from numerous sources. Ideally these players can be encouraged to scale SDG financing by addressing existing bottlenecks and reinforcing enabling conditions.

Despite the huge potential for the domestic private sector to make funds available for SDGs, there are challenges that may frustrate attempts to harness this potential. The global outbreak of COVID-19 caused a slow-down in many sectors of the economy and by extension negatively impacted the financial sector. Businesses shut down and travel restrictions across countries hit the financial sector hard. In addition, policy inconsistencies led to leakages traced to the foreign exchange management framework and capital flight, affecting the availability of private capital and financing.

Improving financial inclusion is a related issue. Although 30 major banking institutions exist in Nigeria with branches across the country, 36% of adults in Nigeria are reportedly unbanked and financially excluded or domiciled outside the formal banking system. Furthermore, only 45% of women use formal financial services compared with 56% of men. This is both a challenge and an opportunity to explore how the financial system can be modified to tap into idle funds and allocate them effectively and efficiently to address SDG-related projects and programmes.

This section explores the domestic sources of private finance such as banks and local financial institutions, local investors, and institutional investors including pension funds, and addresses how they can be encouraged to provide more capital to support the financing of the SDGs. An enabling business environment with a policy framework that favours investment (SDG 9–industry, innovation, and infrastructure) is key to unlocking the supply of domestic private finance and directing it towards the SDGs, as contained in the 2021–2025 NDP. The actions in this chapter also addressed SDG 17 (on partnerships for goals).

4.2 Enabling Business Environment

4.2.1 Context

Nigeria has the potential to be a leading business location in Africa considering its large population and potential workforce, as well as its natural resource endowment and arable land area. However, the existing business environment has been impeding the potential strength of the private sector in scaling financing for the SDGs. An enabling business environment is necessary for the achievement of high levels of economic activity and, by extension, economic growth. Nigeria faces challenges in creating a more positive environment and also increasing opportunities to attract FDI and mobilise domestic resources.

Accelerating the provision of a business-friendly economic environment through regulatory reforms is a key pillar of the FGN's approach to harnessing private investments. The Presidential Enabling Business Environment Council (PEBEC)⁴⁹ and the Enabling Business Environment Secretariat, established in 2016, are critical institutions for prioritising this business reform agenda. The political buy-in from the highest levels of government underpinned an extensive reform agenda culminating in significant improvements in the 2020 World Bank 'Doing Business' ranking. Nigeria moved up 15 places to 131 out of 190 countries and was for the second time one of the top 10 reformers. Translating these improvements into favourable political and regulatory risk perceptions by foreign and local investors may require a whole-of-government focus on rebuilding trust in Nigeria's legal and regulatory framework and its implementation.

4.2.2 Challenges

The private sector in general, but particularly MSMEs, are typical case studies of growth experience challenges linked to weak institutions, physical insecurity, inadequate infrastructure, corruption, multiplicity of taxes, weak legal and justice systems, policy inconsistency as well as difficulties in repatriating business profit abroad.^{50,51} Moreover, the World Bank revealed that 85 million Nigerians lack access to grid electricity which makes it the country with the largest energy access deficit in the world. Due to this deficit, the country loses \$26.2 billion (₦10.1 trillion) annually which is about 2% of GDP.⁵² The spike in insecurity across the country will likely also make it difficult to improve conditions for the private sector as Nigeria remains a challenging place to do business. Particularly, banditry and terrorist activities across the country continue to deter potential investors and businesses. Additionally, the large infrastructure deficit in Nigeria has cross-cutting implications on the private sector across sectors, including health care, education, and agriculture to name a few. Corruption is another critical item that needs to

49 PEBEC is an intergovernmental and inter-ministerial council chaired by Vice President Yemi Osinbajo and comprises 10 ministers, the head of the Civil Service of the Federation, the governor of the CBN and representatives from the Lagos and Kano state governments, the National Assembly, the judiciary and the private sector.

50 PWC MSME Survey 2020, Building to last, Nigeria Report

51 World Bank Doing Business 2020

52 World Bank, available at <https://www.worldbank.org/en/news/press-release/2021/02/05/nigeria-to-improve-electricity-access-and-services-to-citizens> accessed 13/11/2021

be addressed head-on as it is inhibiting foreign private investments. These constraints inhibit optimal economic and business operations.

4.2.3 Action plan for an enabling business environment

Action plans necessary to improve the business environment will by necessity include a combination of both policy and regulatory steps to overcome existing challenges posed by weak institutions, inadequate infrastructure, multiplicity of taxes, corruption, and policy inconsistency among others.

Engaging in PPPs to deliver on critical infrastructure needs: Expanding the scope of public-private partnership engagements in delivering infrastructure will help tackle several business-enabling environment issues across sectors.

Enforcing business regulations and strengthening governance of key institutions to tackle corruption: Strengthening the fight against corruption in key agencies such as customs, FIRS, and other agencies that interface with businesses will help make the environment more conducive to business.

Mandating detailed SDG reporting by regulated companies and financial institutions: The Financial Reporting Council, the Securities and Exchange Commission (SEC), the NSE, FMDQ and NASD could adopt a policy to get all companies to identify, measure and report their SDG contributions in their annual audited accounts. This can necessitate the inclusion or focus on indicators such as gender metrics, job creation, sustainable finance such as green and environmental metrics, social metrics, real asset metrics, corporate social investment metrics, etc. To incentivise a larger base of committed partners on SDG-aligned reporting, companies with SDG agendas can be favoured in the procurement of large projects.

Several policy areas can be addressed to deepen the engagement of the private sector by improving the business environment. These include:

- **Reform the Land Use Act**, which requires reform to establish clear title, in addition to streamlining land/property acquisitions and permits, simplify processes, and shorten timelines.
- **Standardise regulation of capital markets** based on international standards. This is an essential prerequisite if private capital is to be mobilised to address the SDGs.
- **Examining pension regulations from an investment perspective**, with the modernisation of risk allocations and expected returns. At present, pension funds are heavily invested in government bonds, instead of supporting growth and innovation.
- **Modernising and updating insurance industry regulations and investment guidelines:** the insurance sector operates in a weak regulatory environment that needs to be reformed to reflect the current context by providing investment guidelines.
- **Adopting market-based pricing for utilities:** utilities ought to be allowed to pursue market-based pricing, as the current operating model will not attract new capital.
- **Unifying foreign exchange and easing restrictions on dollar domiciliary accounts:** Unification of foreign exchange rates and relaxing restrictions on transactions on dollar domiciliary accounts to unlock trapped funds and allow for ease of transactions.

- **Clarifying development concessions to enhance private sector confidence in rule of law:** for development concessions, greater clarity is required on the operating rules.
- **Introducing regulatory sandboxes of innovative financial products** not currently existing but that will allow entrepreneurs try out new SDG financing ideas.
- **Strengthening agencies focused on developing small and medium enterprises in the country while developing strategies to enhance the capacity of informal sector actors in a way that promotes simplified formalization.**

These actions target SDG 9 (industry, innovation, and infrastructure), SDG 16 (with focus on strong institutions) as some of the SDG priorities contained in the 2021–2025 NDP and 2021 NGPRS.

4.3 Mobilising Banks and Local Financial Institutions

4.3.1 Context

Banks are important players in the financial sector since they play an intermediation role by helping to attract savings (or deposits) and then allocating those funds as loans to where they are needed either by individuals, businesses, or government projects and programmes. In addition, banks and local financial institutions extend both advisory services and risk diversification advice that are essential for the smooth running of any economy. Local credit, thrift societies and other informal arrangements like the “Alajos” perform intermediation roles as well. Formal banking institutions are complemented by local informal financial service providers, especially in rural areas and suburbs of existing cities.

In Nigeria, the primary legislation for the regulation of banks is the Banks and Other Financial Institutions Act (BOFIA). Along with the CBN (Establishment) Act 2007 (CBN Act), BOFIA gives the CBN powers to supervise and regulate banks and other financial institutions in Nigeria. Banks in Nigeria fall under different categorisations with respect to the licenses they are given to operate, as either state banks, national banks, or international banks. Also, in terms of their scope of operations, banking institutions in Nigeria can be purely commercial banks, merchant and investment banks, microfinance banks, or special purpose banks such as the different development-focused banks, examples of which are the Development Bank of Nigeria, Bank of Agriculture, Nigeria Export and Import Bank, the Infrastructure Bank, among others.

The CBN in collaboration with the National Deposit Insurance Corporation (NDIC) regulates and ensures stability and efficiency in the banking sector. The supervision and examination of banks are based on the legal authority given by the provision of sections 30–32 of the Banks and Other Financial Institutions Decree (BOFID) 1991 [as amended], whereby the CBN governor is given power to appoint a director of banking supervision (DBS) with the responsibilities to carry out supervisory duties with respect to banks and other financial institutions in the country.

CBN has also played a leading and catalytic role by using direct controls not only to control overall credit expansion, but also to determine the proportion of bank loans and advances going to “high priority sectors.” This sectoral distribution of bank credit is meant to stimulate specific productive sectors (agriculture, industry, and manufacturing) and consequently lead to increased and more diversified economic growth in the country.

Over the past decade, the CBN has implemented other significant reforms in the financial sector that have deepened its capacity to intermediate and finance development. Among other reforms are: enhanced capitalisation, digitalisation of processes, a growing global presence of Nigerian banks, expanded financial inclusion, improved risk management, and strengthened corporate governance. The FGN has also implemented a wide range of instruments and policy initiatives focused on promoting non-oil exports, improving the country’s ‘doing business’ environment, and facilitating access to credit for the domestic private sector and MSMEs. These reforms have enhanced the domestic capacity to mobilise finance for SDGs.

In October 2021, CBN also introduced the eNaira to serve as the digital form of the fiat currency (Naira). According to the circular released by the CBN, the eNaira is legal tender, a store of value and will form a part of the currency in circulation. The digital currency is reported to be the first African digital currency and is built on a highly secure internet-based app, which operates as a wallet system.⁵³ According to the CBN there are many advantages the eNaira brings, some of which include the reduction of the cost associated with cash transactions, improving monetary policy effectiveness, helping the government in targeting social interventions, providing a safe and trusted payment system and providing a cheaper alternative means of collecting government revenue and remittances.⁵⁴ The eNaira if implemented well has the potential to significantly improve the financial system particularly in terms of ease of use and reduced cost of transactions.

One of the main aims of the eNaira is to improve financial inclusion in the country by ensuring that the financially excluded can use the platform to conduct financial transactions, access finance and receive targeted interventions from the government. The app is built to also provide access to the unbanked population of the country.⁵⁵

4.3.2 Challenges

The challenges associated with the mobilisation of financing from banks and other local informal financial service providers include the large number of unbanked Nigerians. According to the World Bank Findex Report (2017), an estimated 34% of Nigerians are unbanked and financially excluded.⁵⁶ Furthermore, bank lending rates are high despite efforts by the Central Bank to reduce the cost of funds to commercial banks and this makes it difficult for businesses to access finance and make investments.⁵⁷ Specifically, credit facilities to businesses in the development sectors favour the oil and gas sectors, reducing investments in SDG-related activities.

53 CBN Circular: Regulatory Guidance on the eNaira available at <https://www.cbn.gov.ng/Out/2021/FPRD/eNairaCircularAndGuidelines%20FINAL.pdf> accessed 25/11/2021

54 *Ibid*

55 See more details at <https://enaira.gov.ng/> accessed 25/11/2021

56 World Bank Group. The Global Findex Database 2017.

57 Central Bank of Nigeria (2021), Bullion, Volume 45 No. 1

Another challenge is that the tenure of financing in the Nigeria financial sector leans more towards the short term, while most SDG projects require longer term financing. Therefore, expanding the availability of long-term financing will be useful.

In addition, the lack of trust in formal banking establishments due to the experiences of bank distress and failure have made resource mobilisation cumbersome. Enhancing financial inclusion is therefore a significant challenge.

4.3.3 Action plan for mobilising banks and local financial institutions

Enforcing adequate financial sector regulations and providing regulatory incentives to banks offering increased credit to previously unbanked persons and businesses: Strong financial sector regulations will help mobilise banks. The government will be deliberate in promoting rural banking by incentivising banks to expand their branch networks to areas hitherto unserved, providing framework and regulation to support rural banking, and promoting economic growth and financial sustainability in these areas. These measures may include regulatory incentives to banks offering increased credit to previously unbanked persons and businesses, provision of grants and technical assistance programmes, increasing the availability of risk-sharing instruments to reduce the risk of lending to previously unbanked persons and businesses and encouraging banks and FIs to lend to corporate clients and consumers. In particular, credit guarantee schemes to enhance access to finance for firms lacking collateral, especially women and youth-led MSMEs and for green businesses/products/projects, will be considered.

Improving mobile banking regulations and procedures to scale financial inclusion: Improving mobile banking regulations and procedures with reforms aimed at scaling the adoption and adaptability of mobile money require prioritisation due to their ability to improve financial inclusion even in rural areas. The MPESA mobile banking model and approach in Kenya, which has been revolutionary in terms of financial inclusion, is a case study worth exploring for its challenges, benefits, and lessons learned.

Encouraging innovation within the financial sector and the penetration of financial services, especially fintech, through CBN policies: In addition to Central Bank's supervisory role focusing on financial stability, its policies will also be supporting innovation within the financial sector and encouraging the penetration of financial services, especially in fintech, in terms of licensing, SEC accreditation, etc. Supervisory and regulatory reforms through the work of the Nigerian Deposit Insurance Corporation (NDIC) and CBN will be strengthened and sustained. The CBN could seek supportive and innovative ways of regulating local financial institutions. This will require collaborative engagement between the CBN and all actors within the financial system.

Deploying strategic revenue growth Initiatives at the federal level in conjunction with the private sector: This can help engage, mobilise, and scale private capital towards SDG financing. For example, the Infrastructure Company (INFRACO) established by the government offers a veritable platform for mobilising private resources on a long-term basis. Contracts awarded would have third party monitoring to help in blocking leakages and increasing efficiency gains.

Implementing effective monetary policies to encourage savings and lending: The Central Bank will come up with policies to reduce lending to commercial banks which may lead to the commercial banks' lending at lower rates to customers. This must be done by taking into

consideration non-monetary factors. Similarly, banks can be encouraged to adopt a certain floor on the interest rate on deposits to encourage savings.

Addressing transparency, access to credit, depositor protection, credit quality, and capital adequacy: To overcome the trust deficit in banking institutions and the financial system, the government will address transparency issues; enhance access to credit; ensure effectiveness of depositor protection (deposit insurance scheme) through assessing its efficiency and coverage among other factors; and improve credit quality, capital adequacy, and financial stability. There is mounting evidence suggesting that solid credit information systems, movable collateral frameworks and registries, and efficient insolvency regimes can increase lending, especially to MSMEs. The 2017 Secured Transactions in Movable Assets Act (collateral registry) enables MSMEs to obtain credit using movable assets as collateral instead of traditional fixed assets. However, more effort will be made to ensure banks make full use of the National Collateral Registry and to increase credit registry coverage (the percentage of adults in the credit registry stood at 0.1% compared with OECD's average of 63.7%).

Improving the accessibility of the eNaira by ensuring that other avenues that do not rely on the use of smartphones or the internet are created. A good example of this is the USSD framework. Currently, the eNaira app is only accessible to smartphone users. This means that a significant population of the country will not have access to it since not all mobile phone users in Nigeria own smartphones. The success of eNaira will rely largely on how much context is considered in its design and implementation. For example, the number of users that may not have access to the internet or smartphones may make it difficult for it to achieve the much-needed financial inclusion it set out to achieve.

Providing financial education to target population to support the efforts of promoting financial inclusion and to ensure that target populations make the right decisions in obtaining financing and do not end up in debt distress. Special attention will be given to women-owned and youth-owned enterprises.

These actions target SDG 9 (industry, innovation, and infrastructure), SDG 10 (reduced inequalities, across people), and SDG 16 (with focus on strong institutions). Other SDGs captured include SDG 5 (gender), SDG 13 (climate change) and SDG 17 (on partnerships for goals).

4.4 Incentivising Local Investors and Mobilising Other Institutional Investors

4.4.1 Context

In the quest to mobilise domestic finance for development, incentivising local investors is critical in that they are also major stakeholders in the economy and are invested in its growth. This is also critical because in most economies as the case is in Nigeria, local investors have more capacity in terms of aggregate financial resources than foreign investors and can easily provide more sustainable financing options in the long run. Carefully designed incentives, provision of critical infrastructure, improved legal system, improved security, etc., could be helpful. This will in turn build investor confidence in the economy.

Similarly, domestic institutional investors are often important players in any financial system and are particularly critical when there is a need to raise large amounts of financial resources for development-linked projects on a long-term basis. The advantages associated with raising funds through institutional investors also have to do with the possibility of agreeing on a concessionary interest rate and the possibility of blended finance.

4.4.2 Challenges

As in most typical developing economies in Africa, local investors can lack organisation and work in silos, making it difficult to achieve and enjoy the benefits of synergy. In addition, the unstable business environment occasioned by macroeconomic distortion linked to policy failures and business cycle fluctuations pose major challenges.

Despite the existence of a reasonable number of domestic institutional investors in Nigeria, a major challenge has been that the much-needed collaboration is absent and as such there exists an overlap of roles and duplication of efforts. In addition, there is a lack of consensus on an agreed framework on how to collaborate and ensure that interest rates are not prohibitive. Though the likes of the Bank of Industry, Bank of Agriculture, and the Development Bank of Nigeria have targeted funds to address specific sectors in the economy, there is no formal arrangement to guarantee a common interest rate even though their efforts are meant to dovetail with one another with respect to the clients they are meant to serve.

One major challenge with the possible use of pension fund assets is the opposition of the different labour unions and other interested parties to the proposed use of the funds to finance SDGs. The history of Nigeria is replete with concerns about the inability of the citizens to trust the government to act in their best interests due to lack of transparency and accountability on the part of government officials in what is regarded as official corruption.

4.4.3 Action plan for incentivising local investors and mobilising other institutional investors

Strengthening enabling business environment, the design and implementation of the legal and regulatory (and security) environment: The enabling environment for businesses to thrive and operate can be provided by ensuring that policy bottlenecks and infrastructure inadequacies are addressed. A conducive business environment, including the design and implementation of strong legal and regulatory (and security) environments will incentivise local investors and mobilise institutional investors. In particular, improving electricity and transport infrastructure alongside security are paramount. Furthermore, the Nigerian government will streamline the processes for registering or incorporating business entities to formalize the informal sector and drive healthy economic competitiveness. Also, the One-Stop-Investment-Center (OSIC) located at NIPC is an initiative of the government to enhance the ease of doing business and facilitate investments in Nigeria, by bringing relevant government agencies/regulators to one location; where all statutory approvals and documents required to set up enterprises or invest in the Nigerian economy can be processed and obtained seamlessly without having to visit the agencies/regulators separately. The Nigerian government will strengthen the OSIC by addressing poor service delivery and lack of proper coordination among the agencies that render the OSIC inefficient.

Establishing a regulatory framework to ensure funds are invested in areas of high social, financial, and economic returns: This will include establishing a regulatory framework and sandbox for innovative ideas to ensure funds are invested in areas of high social, financial, and economic returns and not diverted to unintended and unproductive projects. Nigeria will also work to support the channeling of private sector funds towards SDG-aligned investment opportunity areas (identified in Nigeria's SDG Investment Map) that are attractive to investors and enhance capacity in preparing bankable projects.

Designing effective incentives for those who support MSMEs: Designing effective incentives to encourage and support businesses will be considered, especially for micro, small and medium companies. This includes improving the ease of doing business to ensure registration and compliance are easy.

Introducing policy reforms that encourage loan syndication on high value projects: Introducing policy reforms that encourage domestic financial loan syndication on high value projects can reduce risks and increase availability of funding.

Strengthening consultation and collaboration with institutional investors: There is a need to strengthen institutional consultations and collaboration to ensure a seamless delivery of services across the value chain. In addition, capacity enhancement as it concerns the provider of services in these institutions is a factor to be taken seriously.

Developing an accountability framework for pension fund stakeholders to protect against default: An accountability framework developed by the federal government that can be made open to all stakeholders in the contributory pension arrangement to guard against default is critical to improving transparency and efficiency.

Strengthening governance and clarifying regulatory framework pension fund investments and instruments are required: Strengthening governance and clarifying the regulatory framework on what sectors and instruments the pension fund is allowed to invest in are key priorities.

Ensuring openness by publishing monthly figures of the size of contributions and what they are being used for to enhance transparency is an important policy to consider developing. The government will direct and encourage the use of pension funds for equity investment through its policy design and implementation.

Leveraging pension funds: The strategy aims at making pension funds a key institutional investor with over NGN 12.49 trillion assets.⁵⁸ According to the pension fund regulation, pension funds can be invested in bonds, sukuk, debentures, ordinary shares of public limited liability companies, non-interest compliant funds, etc. These pension fund investments have the potential to finance infrastructure projects. Further, linking investments of pension funds in priority sectors to the SDGs is a good practice. Consideration will be given to the use of secure investment vehicles to invest in projects with socio-economic benefits, with careful consideration on how it affects women and children. Government bonds and sukuk are key instruments that the pension fund can leverage to raise more capital to finance the SDGs. The government considers it desirable to have a regulatory arrangement that will include members of labour unions to protect the interests of their members.

Modernising risk allocation and returns of pension fund regulations: Instituting minimum allocations of pension funds in assets in key areas such as infrastructure, health care and real estate will increase financing for SDGs substantially. Furthermore, the government will address inflation to maintain a positive real return on pension savings.

These actions target SDG 9 (industry, innovation, and infrastructure) and SDG 16 (with focus on strong institutions) as some of the SDG priorities. Other SDGs captured include SDG 17 (on partnerships for goals).

4.5 Scaling Up Sustainable Finance

4.5.1 Context

Climate change is a reality that is now manifesting around the globe through flooding, forest fires, extreme heat, and other events. Pollution and natural resource depletion are also creating stresses that have historically not been addressed in development plans.

Nigeria is not immune to the impacts of climate change. Nigeria ranked in the top 10 most vulnerable countries to climate change in the World Climate Change Vulnerability Index 2018.⁵⁹ Its economy and growth path will need to change dramatically in the coming years. The physical and transitional impacts of climate change will need to be addressed, and a steady transformation will be required away from reliance on GHG-intensive energy production and use. This transformation means diversifying the Nigerian economy by making more sustainable investment decisions, reducing the heavy fiscal and economic reliance on oil and gas, providing

58 Pension Commission, Monthly Report, May 2021

59 Climate Scoreboard. Accessed on November 2021 from <https://www.climatecard.org/2018/11/nigeria-listed-as-one-of-the-10-most-climate-vulnerable-countries/>

sustainable jobs for a rapidly growing population, and addressing the already substantial infrastructure gap in order to make transformation possible.

A recent UNEP report estimates the demand for additional sustainable investment in Nigeria at \$92 billion annually to 2030.⁶⁰ Potential priority areas for green investment towards adaptation and mitigation include clean energy systems, sustainable cities, agriculture and sustainable land use, health care and education, transport, and the circular economy.

The Nigerian government has, through the nationally determined contribution (NDC), committed to reducing greenhouse gas emissions by 20% unconditionally and 45% with international support and has finally developed and finalized the sectoral action plan (SAP) for the implementation of the NDC in the key priority sectors: energy, oil and gas, agriculture and land use, power and transport.

The Nigerian Securities and Exchange Commission (SEC) recently adopted the Nigerian Sustainable Finance Principles (NSFP).⁶¹ These sustainable finance principles are intended to serve as guidelines for helping to address the impact of environmental externalities or impacts on individual businesses and on society. The NSFP should be used to improve corporate governance practices and transparency, thereby adding to overall business sustainability.

The next step is to move from principles to action, by ensuring that the SEC principles are adopted by firms in the Nigerian financial sector and indeed across the economy. Here it is noteworthy that there is a rapid evolution globally toward adoption of the guidelines proposed in 2017 by the Task Force on Climate-related Financial Disclosures (TCFD) with momentum for mandatory adoption building. The June 2021 G7 communique supported mandatory climate reporting based on the TCFD recommendations, a decision subsequently supported by the G20. Therefore, there is a growing expectation that countries will strengthen reporting on climate-related risks, opportunities, and investments by firms, and that such reporting of climate impacts will become mandatory.

4.5.2 Challenges

An unprecedented reallocation of capital toward a new economic pathway will be required. This reallocation is fundamentally about a different kind of investment, not simply more capital being raised. It will be guided by global and domestic capital searching for yield in a low interest rate environment, rapidly falling costs for sustainable technologies, and the development of a global policy framework led by carbon pricing and regulatory limits on GHG emissions from industrial and consumer energy use.

Nigeria has begun to shift capital toward more sustainable investment, but the task ahead is enormous. The current annual sustainable finance flow is estimated at just over \$8 billion, largely from the public sector.⁶² This implies that annual sustainable finance will need to increase by 10 times or more if Nigeria is to capitalise on the opportunities. In 2017 and 2019, Nigeria issued two green bonds worth N10.69 billion and N15 billion respectively, entirely for the purpose of financing sustainable environmental projects, making Nigeria the first sovereign green bond issuer in Africa. Five years later, Nigeria's green bond projects fall below expectations: despite the government's commitment to sustainable projects, some of the identified projects

60 UNEP, Nigerian Sustainable Finance Roadmap (pp. 36). 2018.

61 SEC, Guidelines on Sustainable Financial Principles for the Nigerian Capital Market, April 2021.

62 *Ibid.*

implemented under the country's historic green bond projects within the past five years were poorly executed and are not serving their purposes. This is largely due to a lack of transparency and accountability, low community inclusion and the flagrant absence of sustainability checks and scalability mechanisms.

4.5.3 Action plan for scaling up sustainable finance

Developing a climate policy framework anchored in carbon pricing, a policy framework on emissions reduction targets and establishing regulatory limits on GHG emissions: A climate policy framework anchored in carbon pricing would provide price signal incentives for the transformation of the Nigerian economy. Emissions reduction targets are another key policy framework. Establishing regulatory limits on GHG emissions would help guide the transformation in the Nigerian economy.

Implementing and developing further SEC guidelines beyond committee and principles: Implementing and developing further SEC guidelines beyond committee and principles are key milestones to be achieved by Nigerian businesses.

Adopting TCFD recommendations: Adopting the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations will soon become required or at least desired by most investors.

Developing common sustainable finance definitions and taxonomies and improving financial and non-financial disclosure of sustainable financing by government bodies, firms, and projects: Using common sustainable finance definitions and taxonomies that are being developed internationally, and improving non-financial disclosure by government bodies, firms, and projects, are other priority areas of regulatory reform needed to be on par with global standards.

Exploring domestic green bond market for sovereign, non-sovereign, and corporate issuance: Exploring the domestic green bond market for sovereign, non-sovereign and corporate issuance holds good potential for Nigeria. In addition, Nigeria will consider coming up with explicit criteria in financing green bonds. Harnessing the potential of digital innovation will be another means of unlocking sustainable finance. Ensuring that mechanisms for transparency, accountability, sustainability, and value for money are put in place throughout the processes of green bond issuances in Nigeria will contribute to the plan. The government, through the Ministry of Environment, will deploy an electronic registry where details of all green bond-financed and NDC-aligned projects implemented in both the public and private sectors could be recorded for continuous tracking and reporting. This platform could also serve as a point of exchange and input at the various stages of the project cycle, from identification and selection to implementation and monitoring.

Looking at opportunities to issue local government green bonds to mobilize green financing at the subnational level: These local government green bonds can generate positive environmental and/or climate benefits if they can be issued by subnational governments (SNGs) with adequate fiscal capacity to borrow. First, feasibility studies will be carried out to identify viable local government green bond projects across states, followed by strengthening states' borrowing policy at the local level.

Building a new infrastructure projects platform with a sustainable investment pipeline:

Building a new infrastructure projects platform with a sustainable investment pipeline would help to identify specific areas of demand for sustainable finance and mobilise private investors.

These actions target SDG 9 (industry, innovation, and infrastructure), SDG 13 (climate action) and SDG 16 (with focus on strong institutions) as the SDG priorities. Other SDGs captured include SDG 17 (on partnerships for goals).

4.6 Summary of Domestic Private Financing

The federal government must be intentional in putting forward economic and financial policies that will encourage more actors in financial intermediation down to the grassroots, particularly those who were previously financially excluded. Strengthening policy and regulatory frameworks to improve the overall business environment is imperative in order to mobilise financing from the domestic private sector towards SDGs at scale. This can be achieved through a combination of measures, including building stronger institutions, improving infrastructure, simplifying taxes, fighting corruption, and ensuring policy coherence. Other measures include simplifying business registration, improving the adoption of PPPs in infrastructure delivery, and improving the alignment of tax laws through the joint tax board in collaboration with states and the Federal Inland Revenue Service, and streamlining processes of revenue collection to avoid overlap of roles and imposing multiplicity of taxes. The federal government also needs to incentivise banks and local financial institutions to expand into rural areas and tailor financial solutions or leverage mobile banking to capture the large parts of the population without a bank account. Improving the business environment and the core infrastructure will further enable local investors to participate in financing the SDGs. Strengthening institutional consultations and collaboration will ensure a seamless delivery of services across the value chain. Building the capacity of institutional investors and enhancing transparency will provide a great opportunity to increase the trust in such institutions to mobilise funding for the SDGs.

In addition, loan syndication as a means of funding large programmes will be encouraged to diversify risk and allow access to a large volume of funds on a long-term basis. Pension funds will be deployed and backed up by government guarantees to ensure that more private finance is available for use on SDGs projects. This must, however, be complemented by a strong regulatory regime by the Central Bank, the Pension Commission and the Securities and Exchange Commission. Beyond this, institutional investors will be co-opted through positive incentives that may be tied to tax reduction if a certain percentage of their profits is deployed to social spending. Close collaboration with the Private Sector Advisory Group will be sustained.

5.

**INFS-STRENGTHENING
INTERNATIONAL
PUBLIC DEVELOPMENT
FINANCING ENVELOPE**

5.1. Overview

Development finance from international sources, whether private or public, should aim to complement the mobilisation of domestic financing for the SDGs. Nigeria alone cannot finance all the SDGs by 2030. It will need to be a concerted effort and requires the support of the international community to mobilise and scale up financing for its sustainable development plans.

This chapter looks at the role of the international public sector in financing development by providing additional capital inflows into Nigeria. Increasing the development financing envelope entails leveraging public investments from international sources into Nigeria. Multilateral development banks, development finance institutions, donor countries, and export credit agencies are key stakeholders explored in depth that can help expand the financing available for development plans in Nigeria. The FGN's careful coordination with these external entities (SDG 17—partnerships for goals) would help ensure coherence in country plans and strategies to help prioritise the financing for critical sectors.

5.2 Multilateral Development Banks and Development Finance Institutions

5.2.1 Context

Multilateral development banks (MDBs) are a key source of public international financing. MDBs provide financing via three windows: i) a commercial banking window, where debt financing is provided to developing country members of the MDB on broadly commercial terms; ii) a concessional window, with subsidised interest rates (funded by international donors) and extended repayment terms, and; iii) a window that provides equity and debt financing to the private sector in member developing countries. Some MDBs also have a window that provides political risk insurance and guarantees for FDI in member developing countries.

There remains unrealised potential to further scale up development banks' contributions to the 2030 agenda, through close alignment with the SDGs, integrated reporting, and expanded local currency lending. To achieve the SDGs, MDBs will need to achieve greater scale and ensure that

social and environmental sustainability considerations are embedded in their lending, especially for infrastructure investments that will lock in development paths to 2030 and beyond.⁶³

A. World Bank Group

In its November 2020 Country Partnership Framework (CPF), a number of principles were identified by the World Bank, including its private sector window International Finance Corporation (IFC), for its activities in Nigeria.⁶⁴

WBG financing in Nigeria: Nigeria is classified as a lower-middle income country eligible for concessional financing from the International Development Association (IDA), meaning it has access to more attractive concessional financial terms from the World Bank Group. Available IDA financing terms for Nigeria are a 30-year maturity with a five-year grace period, and a fixed financing charge (subject to periodic revision) currently at 2.82% per annum in US dollars. The WBG has indicated that Nigeria's financing envelope was \$4.8 billion in the IDA18 cycle, which ended June 2020. In the IDA19 cycle (July 2020 to June 2023) the bank anticipates an indicative envelope of around \$5.5 billion.⁶⁵

In terms of recent trends, annual commitments reached a high of \$2.6 billion in 2018, and annual disbursements reached \$1.2 billion in 2019. The bank has so far made a net commitment of \$12.6 billion.⁶⁶

For IFC, annual long-term financing commitments peaked at \$1.01 billion in FY18, and total short-term finance peaked at \$1.07 billion in FY20 (July 19 to June 20). The outstanding portfolio is approximately \$1.5 billion. For foreign investment insurance from the Multilateral Investment Guarantee Agency (MIGA), the outstanding portfolio as of Sept 30, 2020 totalled \$514.2 million.⁶⁷

WBG-approved projects typically support the implementation of the government's growth plan. For example, in 2018, the World Bank approved seven projects to support Nigeria's investments in nutrition, access to electricity, states' fiscal transparency, polio eradication, women's economic empowerment, public finance, national statistics and reducing vulnerability to soil erosion, in alignment with the government's economic recovery and growth plan which identifies human capital investment, restoring growth, and building a competitive economy as its key pillars.

B. African Development Bank

Nigeria is a major client and shareholder of the African Development Bank (AfDB). Staff are guided by the country strategy paper (CSP). Historically, the focus has been on the private sector, with funds channelled through local banks. In addition to the priority areas identified in the country strategy paper there is a focus on youth and gender-sensitive activities.

The main objective and theme of the new CSP 2020–2024 is to promote structural transformation and inclusive and green growth. The strategy is anchored on two mutually reinforcing priority areas.

63 United Nations Inter-Agency Task Force on Financing for Development. Financing for Sustainable Development Report (pp. 85). 2019.

64 *Ibid* (pp.25–26)

65 World Bank Group. Power Point Presentation FY21-FY25 Country Partnership Framework for Nigeria. 2021.

66 World Bank Group. Country Partnership Framework (pp. 91). 2020.

67 *Ibid* (pp. 94)

Priority 1: Supporting infrastructure development.

Priority 2: Promoting social inclusion through agribusiness and skills development.

Scale of AfDB financing: Recent AfDB commitments have been in the range of \$3.2-3.9 billion annually. The indicative operations programme for the 2020–2024 lending programme envisages a resource envelope of \$4.09 billion, with 75% for sovereign operations and 25% for non-sovereign operations; 60% is for priority area 1 and 40% for priority area 2. Envisaged co-financing to be mobilised is in the order of \$5.92 billion.

C. Islamic Development Bank Group (IsDB)

IsDB activity in Nigeria is based on a country strategy that is focused on two main pillars: green, sustainable and resilient infrastructure and comprehensive development of human capital. The IsDB and the Federal Ministry of Finance, Budget and National Planning are currently discussing the next steps for undertaking the IsDB member country partnership strategy exercise for Nigeria, which would focus on diversifying sources of growth for inclusive development and cover various SDGs. The two priority sectors identified in the discussions are solid minerals and agriculture (e.g., cocoa). The focused strategy is aimed at enhancing the value chain in these sectors to add value locally. These two sectors also cover the SDGs in a cross-cutting manner, e.g., SDG 1, eradicating poverty, and SDG 17, global partnerships. Once this agreement is finalised, IsDB does not intend to finance projects or sectors outside the framework.

IsDB has also set up a special purpose vehicle for Nigeria, a sovereign fund to help finance upstream activities such as identifying projects, undertaking analysis, identifying constraints, and undertaking feasibility studies. The fund is available for donors to contribute to these sectors.

IsDB financing: As of June 2022, the IsDB Group has approved total financing of about \$1.8 billion for Nigeria. This includes \$965 million project financing by IsDB; \$288 million approved by ICD; \$477 million trade operations by ITFC, and \$90.2 million by other IsDB Group funds and operations. In addition, ICIEC has provided \$1.1 billion as business insured and \$1.1 billion as new insurance commitments. Project financing represents 55% (infrastructure and human development sectors), while trade financing represents 45% of the IsDB Group approvals for Nigeria.

The groupwide active portfolio stands at 52 operations with a total amount of \$1.2 billion which represents 65.5% of the total portfolio. A total of 72 operations are completed, amounting to \$627.6 million, representing 34.5% of the total portfolio.

In addition, the bank has a strong pipeline of projects for Nigeria amounting to over \$500 million for the next two to three years.

D. Bilateral development finance institutions (DFIs)

DFIs are specialised development organisations that represent an important source of expanded SDG financing for Nigeria. In general, DFIs make equity investments in and provide debt financing for private sector projects and enterprises in low and middle-income countries. The financial support they bring to relatively high-risk projects helps to mobilise private capital, bringing in such diverse actors as commercial banks, investment funds and private businesses.

DFIs can be bilateral institutions owned in full or in part by national governments in donor countries, which are designed to implement their government's foreign development and cooperation policies. All G7 members and many other developed countries have a DFI, such

as the U.K. Commonwealth Development Corporation (CDC), US International Development Finance Corporation (DFC) (formerly OPIC), and an array of European and Asian DFIs.

DFIs can also be multilateral institutions, providing a private sector window for international financial institutions (IFIs) that have been formed by multiple countries working together. The AfDB, IsDB and IFC are multilateral DFIs that are active in Africa.

DFIs make use of a number of stringent investment criteria for the projects they finance. These criteria start with the expectation of attaining a strong development, economic and financial return. Increasingly, there is an expectation of rigorous environmental and social commitments and accountability, supported by appropriate project transparency.

DFIs access their capital in a variety of ways, depending on the DFI's business model. They build on core investments by national governments, recycle capital and profits from previous investments, access international development funds, and benefit from government guarantees which reinforce their creditworthiness and balance sheets.

5.2.2 Challenges

The MDBs engaged in Nigeria (WBG, AfDB, IsDB) have each developed country strategies that reflect their priorities and strengths, and they appear to have good relationships with Nigerian policy makers. The key ongoing challenges are to ensure that Nigeria is implementing the policy and administrative reforms expected by each MDB and managing effectively and fully its relationship with each MDB in order to maximise the financing that could be available from its MDB partners.

World Bank Group: WBG has developed a rigorous two-step process for its future financing. Step one is to support Nigeria's COVID-19 response, and the second step is to continue financing selected national programmes and initiatives, and support policy and institutional reform. It plans to prepare a detailed plan for the second phase early in FY23. The central challenge will be for WBG to work with Nigeria to ensure it makes sufficient tangible progress at the national level on its policy and institutional reform agenda to continue to merit significant WBG large-scale financing. There may also be institutional constraints within the WBG that limit its ability to provide additional financing going forward.

AfDB: The AfDB's priorities are to finance and support Nigerian infrastructure development, and to promote social inclusion through agribusiness and skills development. In both cases, the core challenge will be to make sufficient progress on implementing supporting programmes that can boost labour productivity and job creation. This will require concerted efforts to strengthening policy alignment, skills development, and support MSMEs.

IsDB: Some specific challenges identified by the IsDB that may hinder the effectiveness and efficiency of projects financed include delays in Federal Executive Council approvals, weak contract and portfolio management at the level of the project management units, and the absence of a centralised M&E system and counterpart funding deficits affecting the project implementation period. Other operational issues include weak project design affecting quality-at-entry of projects, weak financial management arrangements, low disbursement rates, and delays in deliveries and execution of projects heightened by the COVID-19 crisis.

Bilateral DFIs: Limits on DFI detailed knowledge of the Nigerian market and a lack of experience in managing investment risk in Nigeria may be a constraint on the level of DFI activity. The availability of local investment and financing partners with a track record in working with DFIs and foreign investors may be seen as another constraint.

It is important to also note that climate risk considerations will influence the type of financing and grants Nigeria would be eligible to receive from donor countries, MDBs and climate funds to support its adaptation efforts.

5.2.3 Action plan for expanding MDB financing

Deepening strategic engagement with each MDB and developing ambitious financing objectives: Recognising that each MDB has different areas of expertise and focus, the federal Ministry of Finance could build on its ongoing strategic engagement with each MDB. This means setting out detailed Nigerian policy and programming priorities, learning the MDB's priorities and the supporting elements, working toward close alignment, and discussing how to maximise the finance available to support those priorities. In some specific cases, the extent and timing of MDB financing may be affected by the nature and pace of reform in specific Nigerian regulatory approaches.

World Bank Group: Consider earlier implementation of phase 2 of country plan, guided by Nigerian progress on priority policy reform. Detail policy and operational conditions for WBG to enhance its financing commitment for future planning periods. The WBG could also help Nigerian authorities identify and mobilize additional SDG financing from the many sources identified.

AfDB: Use AfDB's guarantee powers to mobilise domestic and international private capital, in partnership with leading institutions like ATI. Through the Affirmative Finance Action for Women in Africa (AFAWA) initiative, AfDB can also provide finance to support gender responsive initiatives in Nigeria. Nigeria will also continue to leverage the Green Climate Fund for increased green financing in Nigeria.

IsDB: Finalising the IsDB Group Member Country Partnership Strategy for Nigeria would contribute to additional financing support from various entities of the group including green infrastructure projects. Furthermore, this may act as good platform to mobilize additional financing from the Arab Coordination Group consisting of the various Arab Donors such as Saudi Fund, Kuwait Fund, Abu Dhabi Fund, BADEA, etc.

Bilateral DFIs: Build investment relationships with priority bilateral DFIs, local commercial investment and financing partners. Developing solid relationships with DFIs and local commercial investment and financing partners is critical. It is also vital to identify worthy investment opportunities for bilateral DFI consideration and to develop a project development fund. A key policy reform will be to treat bilateral DFIs as a priority for building investment relationships, working with them to identify worthy investment opportunities and develop instruments to help mobilise domestic capital for use in partnering with DFIs such as a project development fund. This would require building sufficient capacity within the federal Ministry of Finance and other key ministries to focus on advancing these DFI relationships by developing and implementing an engagement plan. A central registry should also be developed for projects that could attract DFI financing.

Providing a “credit wrap” or partial risk guarantee for specific equity investments: DFIs could support local Nigerian investors by providing a “credit wrap” or partial risk guarantee facility for specific equity investments, sharing in the investment risk and building confidence for the local private investors. Such an instrument could be managed by a leading private sector investment entity, or by a commercially oriented financial SOE such as the Bank of Industry or the Development Bank of Nigeria.

Exploring co-guarantees between CBN and MDBs to attract and mobilise private capital: In addition to the financing, investment and risk management instruments that are already being used by the three MDBs engaged in Nigeria, consideration could be given to how other financing instruments might be deployed. For example, MDB co-guarantees could be considered to attract and mobilise domestic and international private investment capital, perhaps in partnership with leading domestic institutions like the Central Bank of Nigeria.

Scaling funds channelled by MDBs through local banks directed at MSMEs: MDBs have the potential to play a more active role in mobilising financing for the private sector, particularly by providing a source of funding for on-lending schemes to MSMEs. For example, the African Development Bank was historically focused on the private sector in Nigeria, with AfDB funds channelled through local banks. There may be scope to re-energise this channel with targeted MDB financing directed toward MSMEs via local banking intermediaries.

Building capacity for project preparation and implementation through standardisation of financial management procedures, governance, and M&E: Other factors that will enhance the financial flows for SDG-aligned projects from MDBs include capacity building for improved project design and strengthened project implementation. Developing standardised project financial management procedures would enhance project governance. Technical assistance in building a centralised M&E for the MoFBNP would contribute to improved portfolio performance of MDB-financed projects in Nigeria.

Engaging states regularly with MDBs to streamline and harmonise the process to ensure timely disbursements of funds: Holding regular dialogues with states on measures would help ensure timely availability of counterpart funds. Streamlining and harmonising processes would help make disbursements efficient, particularly at the state level. For example, every ministry could submit a procurement plan and an annual cash plan (cascaded quarterly) to the procurement office and federal Ministry of Finance. The cash demand would be provisioned in the projected disbursement plan. Revenue flows are then matched with expenditure flows to avoid budgetary deficits.

MDBs, and DFIs more generally, are a valuable resource for states to directly tap into for strategic development partnership opportunities for SDG-related financing and capacity building. As such, an enabling regulatory framework for states to access finance can remove the barriers faced so that states benefit from directly seeking DFIs to finance or support their SDG and development needs.

5.3 Official Development Assistance (ODA)

5.3.1 Context

The COVID-19 pandemic, resulting economic slowdown, and the global health, economic and social crises triggered by the pandemic have made achieving the SDGs by 2030 much more challenging. Progress on global development was already constrained before the pandemic, and progress has likely been reversed in many countries due to the pandemic. In the near term, international development agencies face a pressing need to work together to emerge from the pandemic better prepared and equipped to tackle and mitigate global threats. Looking forward, renewed emphasis is being placed on using international development assistance to strengthen resilience and capacity building in recipient countries.

Nigeria is classified as a lower-middle income country, making it eligible for development assistance. International public resource inflows to Nigeria are not the largest form of finance for development, but they have increased in real terms. Official development assistance (ODA) and other official flows (OOFs) to Nigeria reported to the OECD rose from \$570 million annually in 2000 to \$4.1 billion in 2018, accounting for 10% of reported net international resources.⁶⁸ Nigeria ranked among the top 10 recipients of ODA, amounting on average to \$1.55 billion between 2018 and 2019 as shown in the table below.

Table 8: DAC Countries' Gross Bilateral ODA (2018–2019 average)

Top 10 Recipients of Gross ODA (\$ million)	
India	4,021
Afghanistan	2,876
Bangladesh	2,582
Syrian Arab Republic	2,429
Indonesia	2,231
Jordan	2,210
Ethiopia	2,144
Iraq	1,931
Kenya	1,670
Nigeria	1,550

Source: OECD DAC, Aid at a Glance 2021⁶⁹

International public resources like ODA are able to target specific priority needs, as well as financing projects that are not necessarily economically viable. In 2017 (the last year with detailed data), \$2.1 billion in ODA and OOF flows were allocated to Nigeria for social

68 Development Finance Assessment (pp. 41). 2020

69 OECD. Aid at a Glance charts. Official Development Assistance (ODA) flows for DAC and non-DAC members, recipients, and regions.

programmes, which is roughly half of total international assistance flows. Humanitarian assistance was the second largest programme area in 2017 at \$970 million.⁷⁰

The European Union (EU)–EU institutions and its member states together – continues to account for the largest share of total ODA and has a development cooperation presence in all regions and across all sectors. The EU institutions and the 27 EU member states, now without the United Kingdom, collectively provided \$76.1 billion in 2020.⁷¹ While Nigeria ranked in the top 10 recipients of ODA from the EU in 2018 (as shown in the figure above), its share fell from \$301 million in 2018 to \$194 million in 2019⁷² (as shown in the table below).

Table 9: Bilateral ODA EU-Nigeria

Indicator	2018	2019
Bilateral ODA, Gross disbursements 2018 constant prices (\$ million)	301	194
Bilateral ODA through multilaterals, Gross disbursements 2018 constant prices (\$ million)	148	58
Bilateral ODA not through multilaterals, Gross disbursements 2018 constant prices (\$ million)	153	136

Source: OECD DAC 2020

There has also reportedly been a rise in south–south cooperation and financing, notably from China, although data on south international aid sources, levels and their allocation are not readily available.

5.3.2 Challenges

The central challenge is to maintain and ideally grow the level of ODA and OOFs to Nigeria and ensure value for money on all spending. This would require strong relationships, effective coordination, and a focus on aligning use of international assistance financing with the SDGs. However, Nigeria does not have a well-defined and structured development cooperation mechanism which could help propel development assistance.

Fiscal and monetary pressures (because of the COVID-19 fallout) on donor countries will also be a challenge.

5.3.3 Action plan for expanding ODA financing

Building strong relationships with individual ODA agencies: Key ministries in the Nigerian federal government will play an active and strategic role in engaging with donor agencies individually and collectively. This would be done by building strong relationships with individual donor agencies, including existing OECD donors, new donors, China, India, etc.

Coordinating donor community effectively and partnering on policy dialogue, among other upstream work: Nigeria needs to improve its cooperation mechanism to not only coordinate

70 OECD. Development Cooperation Report. 2019.

71 OECD iLibrary

72 OECD. Development Cooperation Profiles. European Institutions.

the donor community that is active in Nigeria and recipients of international assistance financing in Nigeria, but also partners in policy dialogue and upstream work. This requires a focus on aligning use of ODA financing with the specific SDGs. The engagement with recipients of international assistance financing in Nigeria will be key to effective use of international assistance financing.

Aligning and closely tracking the use of ODA financing with specific SDGs: Focusing on aligning the use of ODA financing with specific SDGs and measuring, tracking, and reporting on progress in detail is a good practice to adopt. Improved alignment, tracking and reporting of ODA can help ensure the effective use of donor assistance, both by using it for more productive activities and by using transparent mechanisms for aid delivery.

Identifying opportunities to use ODA to build resilience to climate risk, support public goods and enhance crisis management: Identifying opportunities to use ODA effectively to build resilience, notably by integrating climate action into multi-sector development strategies, supporting public goods like public health, and enhancing crisis planning and co-ordination will complement efforts being implemented to mobilise domestic resources to achieve the SDGs.

Ensuring value for money on all ODA spending: This requires stopping poor performing programmes and related spending that do not add substantial value to the country, as well as strengthening coordination of aid spending. Blending remittances with ODA and public budget funds from federal, state, or local governments to multiply their development impact or attract remittances into microfinance or revolving funds for local development can help improve their transparency and built-in accountability, which can ensure the highest return on investment.

5.4 Export Credit Agencies (ECA)

5.4.1 Context

Export credit agencies (ECAs) exist in many countries around the world, with a general mandate to support national exports of goods and services, plus investment abroad in some cases. They promote national exports and foreign investment by providing insurance, guarantees and financing that help facilitate international business and manage risks related to exports and investment. Core products include short-term (ST) credit insurance, medium- and long-term (MLT) insurance, guarantees and financing, and political risk insurance.

In view of the limited availability of funding from concessional and semi-concessional sources due to Nigeria's classification as a lower middle-income country, new sources of external capital such as commercial loans from export credit agencies, often tied to specific projects, will need to be explored further.⁷³

ECAs may not have an explicit mandate to support the SDGs, but increasingly they are taking social and environmental sustainability and impact into consideration when assessing the business and trade opportunities they support, particularly for MLT insurance, guarantees and financing. Most ECAs around the globe are members of the International Union of Credit

73 UNDP. Development Finance Assessment (pp. 54). 2020

and Investment Insurers, usually known as the Berne Union (BU). Nigeria Export Import Bank (NEXIM) is an export credit agency but is not a member of the Berne Union.

The Berne Union provides some country coverage data that are pertinent to the Nigerian market, as provided in the graph below. Total BU credit exposure in Nigeria grew from \$3.1 billion to \$5 billion from 2018 to 2020, which suggests new credit is potentially available from ECAs as a source of financing for exports to and investment in Nigeria that could help in meeting the SDGs. No details are available on specific BU ECA sources, but it is to be expected that ECA flows from China represent much of this growth. There is anecdotal evidence on specific transactions financed by China but little available overall research on Chinese aid and trade finance to Nigeria.

5.4.2 Challenges

Overall BU credit to and exposure in Nigeria has grown in recent years, which is a positive sign. However, Nigeria was also the largest African market for MLT commercial claims paid by BU members in 2019, at \$40 million or 41% of BU claims paid in the region that year. High BU claims usually reflect projects and other business activities that are not well designed or have been poorly managed. They may also reflect the presence of fraud or other questionable business practices. This undesirable leading market position in the region for claims paid will be noted by ECAs and can significantly dampen the willingness of BU members to extend new MLT cover for exports and investments in the Nigerian market. Nigeria was subsequently the third largest African market for MLT commercial claims paid by BU members in 2020, at \$50 million or 19% of BU claims paid in the region in 2020.

The risk perception of ECAs toward doing business in Nigeria will guide the future availability and growth in ECA credit and risk coverage for exports to and investment in Nigeria. ECAs in OECD countries are guided by the OECD export credit arrangement, which sets standards for export credit terms and conditions. It has established sustainable lending practices that guide ECAs to consider the results of the most recent IMF/World Bank country-specific debt sustainability analyses. This guidance means respecting the prevailing limits on public sector non-concessional borrowing for transactions involving public obligors or publicly guaranteed obligors in lower-income countries.

The OECD's export credit group have used a common country risk classification system for over 20 years. The classifications are meant to reflect "country risk," which encompasses transfer and convertibility risk, which is the risk that a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country. It also covers the risk of force majeure—war, expropriation, revolution, civil disturbance, floods, and earthquakes. The OECD notes these country risk classifications are not sovereign risk classifications and therefore should not be compared with the sovereign risk classifications of private credit rating agencies.

Nigeria is rated in the second highest country risk category, or category six of seven OECD country risk categories. Being ranked in a relatively high-risk category reflects a negative assessment by OECD creditors of Nigeria's macroeconomic policies and performance, as well as concerns about political risk such as transfer risk and the related timely repayment of credit extended. It is therefore seen as marginally less risky than countries in category seven, the highest risk category, but country risk is viewed as material by OECD ECAs and can pose a barrier to increased levels of ECA activity in Nigeria.

5.4.3 Action plan for expanding ECA financing

Strengthening the policy environment: Strengthening the enabling business environment is a foundational policy for Nigeria to attract additional international financing from ECAs. A more attractive business environment depends critically on the quality of growth-oriented economic policies and public administration, including policies that improve the availability of domestic public sector financing for addressing SDGs. A stronger policy environment would help support more robust and sustained economic growth, which in turn could help mitigate commercial and political risks and avoid claims for ECAs. A commitment to reduce fiscal deficits, streamline public administration, address high inflation through more restrictive monetary policy, and modernize the country's regulatory framework are all examples of a strengthened policy environment.

Actively building relationships with foreign ECAs: Nigerian government authorities and private sector representatives would take active steps to build a relationship with various export credit agencies. An assessment of current Nigerian imports and import opportunities by type and sources, and of ECA-supported projects and related imported inputs, would be a useful guide for setting priorities on where to focus on building ECA relationships.

Improving the regulatory environment: Building on the strengthened policy reform efforts just noted, an enabling business environment depends critically on the design and implementation of the legal and regulatory (and security) environment, which in turn can strengthen Nigeria's creditworthiness, debt payments and claims track record. Some areas of interest include (as noted in section 4.2.4): standardisation of regulation of capital markets, based on high international standards; examining pension regulations from an investment perspective, with the modernisation of risk allocations and expected returns, and; modernisation of insurance industry regulations and investment guidelines.

Using multilateral insurers: Greater efforts will be made to leverage the trade credit and investment risk capacities of multilateral insurers such as ATI and ICIEC. Nigeria became a member of ATI last year and is a member of ICIEC. For example, there is often a need for government guarantees to mitigate risk. Given the high-risk perceptions in Nigeria, government guarantees are a powerful instrument for drawing capital into the country. However, the Nigerian government has a heavy debt overhang which limits its ability to offer direct guarantees. Multilateral insurers such as ATI and ICIEC can be relied upon as an alternative and therefore exploring how these insurer agencies can cover the trade and investment risks facing foreign capital coming into Nigeria is a potentially important strategy.

Building awareness among business on the role of ECAs: A more active approach will be taken to educate the Nigerian business community (and policy makers as required) on the role and capacities of ECAs, and the potential for mobilising additional ECA-backed financing. This education approach could emphasise the benefits of building and maintaining good commercial relations where contracts and repayment schedules are fully respected, as well as minimising situations where political risk could arise for projects and foreign investments.

5.5 Summary of International Public Financing

Increased financing in support of Nigeria's SDGs can potentially be leveraged from a number of international public sources. The section has undertaken an assessment of the financing opportunities with MDBs, DFIs, donor countries, and export credit agencies. Nigeria has had a long relationship with many specific international public financial institutions and has established numerous financing channels, but there is potential to expand and deepen these relationships and to scale the financing from these sources.

A holistic approach could be taken to mobilising international public financing, one that considers the linkages among and between different sources of financing and institutions, and the internal systems that should be developed to engage with these many sources in addition to pursuing specific actions to enhance individual financing sources. Targeted relationship management will be undertaken by Nigerian federal authorities with the international public financing universe as a whole and with specific institutions. The development of specific instruments, such as greater use of domestic and international guarantees, ideally in partnership arrangements, has also been identified as a priority area for action.

6.

**INFS-STRENGTHENING
INTERNATIONAL
PRIVATE
DEVELOPMENT
FINANCING ENVELOPE**

6.1. Overview

There is significant scope for expanding the financing available to Nigeria from private sector international sources. Public resources alone are insufficient to meet the financing gap of the SDGs. Private finance should be mobilised and scaled to help achieve Nigeria’s development plans. Remittances from the Nigerian diaspora, FDI, external bond purchases, and financing from foundations, faith-based organisations, private donors, and other sources all hold potential for mobilising increased levels of SDG financing.

This chapter explores the financing opportunities offered by the international private sector through foreign remittances, institutional investors, private equity funds, VC and angel investors, and other sources such as faith-based or thematic investing. The prescribed actions target SDG 9 (industry, innovation, and infrastructure), and SDG 16 (with focus on strong institutions) as some of the SDG priorities contained in the 2021–2025 NDP. Other SDGs captured include SDG 17 (on partnerships for goals).

6.2 Remittances

6.2.1 Context

The Nigerian diaspora is highly complex with multi-tiered groups that are in the inter-African region and globally. Remittances have been a critical and at times a counter-cyclical source of international development financing for Nigeria throughout the past decade. Remittances make up a significant proportion of international private financing and are estimated to have grown in real terms from \$1.8 billion in 2003 to \$21.7 billion in 2019. Annual remittance inflows amounted to \$24.3 billion in 2018. Almost half the remittances then came from the US and UK, with Cameroon also a key source.⁷⁴

Table 10: Annual Personal Remittance Inflows to Nigeria

\$ billion (current \$)	2018	2019	2020
Remittances’ inflow	24.31	23.81	17.21

Source: World Bank database

74 UNDP. Development Finance Assessment (pp. 51). 2020

However, it should be noted that due to the COVID-19 pandemic, remittance inflows are projected to have experienced a steep decline in 2020 into 2021, to under \$17 billion annually.⁷⁵ According to the World Bank, remittances by Nigerians in the diaspora fell by 27.7% to \$16.8 billion in 2020, likely due to COVID-19. Several other factors have impacted the reduced flow of remittances to Nigeria, including a high premium on the NGN/USD exchange rate in informal markets, new licensing requirements for international money transfer operators that disrupted services for months, and a new policy that required the agent banks of money transfer operators to pay out in US dollars instead of naira.⁷⁶

The diverse group of Nigerian diaspora members also have varied interests in investing. Some of the top sectors of investment include housing, markets, agriculture, tech unicorns, education, and health care. Survey-based research by the Commonwealth Secretariat indicates that one third of the diaspora has supported Nigeria in ways other than sending money to friends or relatives, or as a donation in kind. For example, 12% of those surveyed reported investing in government bonds. Moreover, research indicates 70% of survey respondents were interested in investing more in Nigeria, with the highest areas of interest being youth development (60%) and poverty reduction (59%).⁷⁷ Key cited obstacles to investing are corruption (70%), political instability (45%) and weak legal frameworks (41%). The Nigerians in Diaspora Commission (NiDCOM) has intensified diaspora engagement on investments.

In 2017, the federal government developed the Diaspora Bond to directly target remittance investment, and in 2018 it made up 1.2% of the external debt stock. Nigeria's large remittance inflows thus constitute an important opportunity to expand its access to external private financing that could help meet the SDGs.

6.2.2 Challenges

The policy challenge for remittances is two-fold: first, to help restore remittance inflows to their previous levels, and then grow the annual level of remittance financing, and second, to design policies and instruments that could guide remittances toward meeting SDGs. Efforts at restoring remittance inflows to previous high levels and possibly higher should also focus on addressing the challenge of the trust deficit that has made many Nigerians in the diaspora not keen about identifying opportunities. Perceived high levels of systemic corruption and insecurity are a barrier. In addition, double-digit inflation erodes the value of investments over time.

The lack of an operational framework for managing remittances for a long time was an impediment. In addition, the fact that there are no proper records of the Nigerians in the diaspora that are matched with information about the occupation in which they are engaged has made it difficult for the government to adequately integrate potential contributions into the national planning process.

Typical transaction costs for remittances to Nigeria are reportedly very high, especially for small, personal transfers. The formal sector typically charges a fee of 10–15% of the principal amount, which places a high financial burden on remitters and recipients.⁷⁸ As such, remittances are sent

75 UNDP. Development Finance Assessment (pp. 27–29). 2020

76 Migration Data Portal. Migration & Development Remittances. 2021.

77 (DFA, p. 53)

78 World Bank. Global Economic Prospects, 2006. Accessed on October 2021 from: https://documents1.worldbank.org/curated/en/507301468142196936/841401968_200510319014045/additional/343200GEP02006.pdf

via smaller banks, or money transfer operators or through informal channels such as family and friends or export import firms and transport companies. This reality presents an opportunity to consider ways to reduce the transaction costs of transferring money into Nigeria. There are considerable potential gains from improving financial connections, such as reducing transaction costs by using digital and mobile technology. Lower transaction costs could also help stimulate increased flow of remittances, particularly from poorer migrant workers.

The Nigeria Living Standards Survey estimates that 5.7% of Nigerian households receive remittances. However, states with a higher poverty headcount tend to have a lower proportion of households receiving remittances.⁷⁹

6.2.3 Action plan for scaling remittances

The Remittance Policy and Diaspora Commission can now be advanced through a combination of activities:

- using digital technology and Nigerian missions abroad to identify, expand and regularly engage the diaspora network.
- implementing an active remittance marketing strategy, including regular marketing events.
- identifying financing priorities that are aligned with diaspora priorities for the use of remittances, and direct diaspora investments in sectors such as youth, education, health care, or the agricultural sector.
- developing and expanding financial instruments, products, and platforms for allocating diaspora funds to meet the SDGs.
- attracting other service providers to the Nigerian market.
- developing options for using appropriate incentives to maximise the remittance financing available (mindful of limited fiscal capacity to fund incentives); and
- analysing and reporting on remittance financing use and SDGs appropriately.

These will be augmented by:

Developing the diaspora investment trust fund by setting priorities, marketing it with the diaspora community, setting priorities, allocating financing, and reporting on its use and

SDG impacts: The Diaspora Commission has created a diaspora investment trust fund, which it hopes to use to invest in health, education, and other priorities. Several steps can be envisaged for developing the trust fund to its full potential. These steps might include:

- setting and refining priorities for its use, with related transparency and impact reporting;
- marketing the trust fund with the diaspora community actively;
- allocating its financing guided by the priorities set and in a timely manner; and
- disclosing its use and SDG impacts in detail.

Working with money transmitters to cut remittance transaction costs and encourage increased competition among service providers: The Diaspora Commission could work with money transmitters with the goal of cutting remittance transaction costs (from approximately 7%)

79 (DFA, p. 52)

to the target of 3% set out in the SDGs. If this goal had been met in 2019, it would have meant an additional \$1 billion of net inflows to Nigeria, which is equivalent to the total consolidated government spending on agriculture.⁸⁰ Wider use of digital technology for remittances will be one key to cutting transaction costs. Encouraging increased competition among service providers could also help to reduce remittance transaction costs.

Strengthening understanding of linkages to remittances, creating a pipeline of investable opportunities, promoting remittances investment in MSMEs, increasing transparency, quality and structuring of transactions and focusing on marketing the socio-economic and emotive narrative: Understanding the linkages to remittances depends on the underlying projects, which dictate what kind of transactions should be structured and who can participate. For example, if the government is structuring a housing programme, the entity sponsoring the transaction should be credible. Creating a private equity fund for privatising schools can be an effective instrument. Therefore, key considerations are creating a pipeline of investable opportunities, transparency, quality of transactions, good structuring, marketing of the narrative on socio-economic impact and the financing method (equity, debt, etc).

Other vital actions include:

- Channelling remittances into microfinance or revolving funds for local development.
- Blending remittances with ODA or public budget funds as ‘co-financing’ to magnify their development impact. IFAD’s multi-donor Financing Facility for Remittances (FFR) could be a model to consider.
- Strengthening the supply of bank and non-bank products for migrants.
- Fundraising or crowdfunding platforms (e.g., the Diامر-Bhasha and Mohmand dams that raised \$96 million).
- Designing a targeted diaspora investment and innovation strategy to attract sustainable investment flows.
- Developing detailed profiles of the Nigerian diaspora by location, economic activity, skills, earnings, savings and investments.
- Organising investment forums in destination countries for both Nigerian emigrants and foreign investors could inform a tailored approach towards channelling diaspora financing to local sustainable development projects.
- Enabling diaspora to become a useful source and facilitator of research and innovation, technology transfer and skills development.
- Involving diaspora in the national development planning and budgeting process.

80 DFA, p. 51

6.3 Foreign Direct Investment and Investment Policy

6.3.1 Context

Nigeria's FDI inflows have been uneven over the past five years, dropping from \$3.4 billion in 2016 to \$2.4 billion in 2020. The level of FDI attracted is relatively insignificant when compared to many African countries. The ability to attract FDI to Nigeria has been closely tied traditionally to movements in global commodity demand, specifically the evolution of the oil price.⁸¹

Table 11: Nigeria's FDI Flows 2016–2020

	2016	2017	2018	2019	2020
Inward	3,453	2,413	775	2,305	2,385
% Capital formation	3.5	5.6	4.2	0.9	2.0
Outward	335	311	566	285	-338
% Capital formation	-0.5	0.5	0.7	0.3	-0.3

Source: UNCTAD World Investment Report 2021, Country Fact Sheet

The Nigeria Investment Promotion Commission (NIPC) plays a key role in coordinating federal government efforts to attract FDI. It acts as a one-stop investment centre that can make use of 27 governmental and parastatal agencies to consolidate and streamline administrative procedures for new businesses and investments.

While there is political will to increase FDI into the country, it will be important to identify potential shifts in the global economy following COVID-19. The pandemic has been a shock to investor confidence and a quick and robust rebound in global FDI should not be expected. Increased use of information and communications technology services would help facilitate FDI inflows into Nigeria and position the country accordingly.⁸²

Investment policy is closely related to success in attracting FDI and mobilising domestic investment. Bilateral investment treaties offer an important instrument to increase the sustainable development impact of FDI inflows. Nigeria has 30 bilateral investment treaties at different stages of implementation.

6.3.2 Challenges

Nigeria faces some key challenges in attracting FDI into the country. The unfavourable business environment, lack of regulatory enforcement due to weak institutions, uncoordinated trade policies and heightened social and political insecurity are among the top concerns for influencing investment decisions. The high level of corruption is another issue holding back FDI flows.

81 UNDP. Development Finance Assessment. 2020

82 UNDP. Development Finance Assessment (pp. 54). 2020

Moreover, according to the WEF's ranking, Nigeria is below the sub-Saharan African average and income group peers in the areas of 'enabling environment' and 'human capital.'

Obvious challenges include high crime rates, insecurity, inadequate infrastructure, weak governmental and legal institutions, policy instability, evolving foreign exchange regime, and difficulties in repatriating profits.

The agricultural sector, in particular, is not a major recipient of FDI inflows. Increasing FDI into the agribusiness sector could significantly contribute to the livelihoods of the farming population, which represents over 60% of the Nigerian population.⁸³

The federal government also maintains different and overlapping incentive programmes to facilitate commercial investment. Incentives are provided to pioneer industries deemed beneficial to Nigeria's economic development, to labour-intensive industries such as apparel, for investments in domestic research and development, for local value-added processing, and for investments in solid minerals and oil and gas. However, the incentive programmes are a cost to the budget and appear to have had limited impact on diversification of the economic base.

6.3.3 Action plan for FDI and investment policy

Complementing the NIPC by examining effectiveness of fiscal incentives in mobilising investments/FDI that contribute to national sustainable development objectives: The formation of the NIPC is an important step in attracting more FDI. It can be complemented by examining how effective fiscal incentives are in mobilising investments that contribute to national sustainable development objectives. Ideally, tax incentives would be linked to the size of investment and better targeted to reduce investment costs, such as accelerated depreciation or investment tax credit schemes.

Reviewing SDG alignment of the country's current investment policies, bilateral investment treaties and free trade agreements: The federal government will also consider reviewing the SDG alignment of the country's current investment policies, including its bilateral investment treaties and free trade agreements.

Reforming and clarifying host states' regulatory powers by adding provisions on social and environmental standards and public health to allow treating socially and environmentally desirable investments more favourably than investments in brown sectors: Nigeria's uncompetitive business environment hampers attracting more and better FDI. As discussed, regulatory reform in a number of areas would help to provide a more attractive and competitive environment for FDI. If existing investment agreements hinder sustainable development or the transition to a more inclusive green economy, they would benefit from being reformed to clarify host states' regulatory powers. This can be achieved by adding provisions on social and environmental standards and public health to allow treating socially and environmentally desirable investments more favourably than investments in brown sectors.

Supporting progress in establishing investment promotion agency led by the NIPC: The NIPC's activities include establishing state investment promotion agencies and modernising Nigeria's existing bilateral investment treaties. Meaningful progress in these areas would help provide a

83 UNDP. Development Finance Assessment (pp. 54). 2020

more supportive environment for FDI. (However, NIPC does not have the constitutional power to establish investment promotion agencies in the federating states.)

Actively engaging with ECAs to help attract international bank financing: As ECAs often cover a portion of bank financing risk in trade and investment transactions, actively engaging with ECAs will help attract international bank financing.

Developing SDG-aligned, investable pipeline projects from the identified investment opportunity areas of the SDG investor map: These will serve as focus areas for international private investors seeking to invest in SDG-aligned areas.

6.4 Promoting Private Equity Funds, Venture Capital Investment and Angel Investment

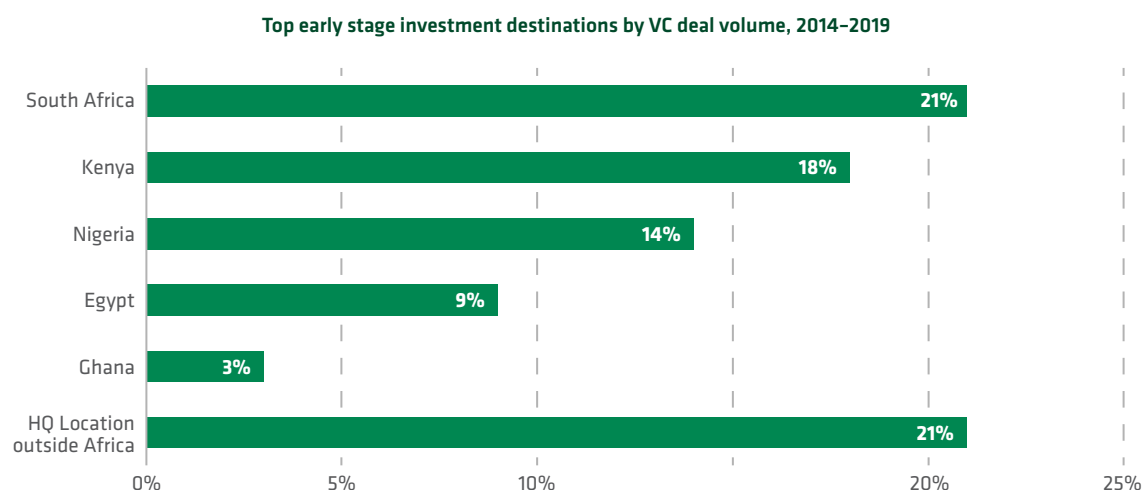
6.4.1 Context

VC is a type of equity finance usually targeted at young, high-risk, and often high-technology firms.⁸⁴ VC is important for emerging businesses with no funding and no assets to use as collateral for loans from commercial banks.

Based on recent statistics, Nigeria is one of the top three most prominent VC hubs in Africa (as shown in Figure 11 below), attracting the bulk of the VC investments in the continent, especially in fintech. In Nigeria, access to finance is a challenge for new and emerging businesses. VC and angel investment will go a long way towards reducing the financing gap. VC and angel investment opportunities also have great potential to attract foreign (and diaspora) capital.

84 <https://www.oecd.org/industry/ind/28881195.pdf>

Figure 5: Nigeria ranks top 3 in Africa in terms of VC investments



Source: African Private Equity and Venture Capital Association

The Nigerian government has made attempts to encourage VC investments. In 2001, Nigeria set up the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) with the aim of promoting equity investment and promotion of small and medium industries. According to the scheme, all banks are required to set aside 10% of their profit after tax annually to provide funding for small and medium industries. Similarly, the federal government introduced the VC (Incentives) Act Cap V2, LFN 2004 to encourage investment through VC. The incentive, among other things, grants tax holidays to VC companies or projects to encourage VC investment. The incentive is, however, silent on angel investment. Despite the efforts to introduce these types of schemes and incentives by the government, there is little uptake and minimal or no awareness about them.

6.4.2 Challenges

Nigeria continues to experience a challenging business environment despite efforts made to improve the ease of doing business. Investors are faced with regulatory restrictions such as multiplicity of taxes, multiple foreign exchange rates, limitations on access to FOREX and difficulty in repatriating funds abroad, among others. Furthermore, insecurity is widespread across the country which makes it less attractive for investment. Currently, most VC investment goes to Lagos despite the significant potential in other parts of the country.

6.4.3 Action plan for promoting VC and angel investment

Designing policies to encourage VC investments in areas that improve the socio-economic condition of women and children and linking them to government's priority agenda based on socio-economic impact of such sectors: The government will develop new and innovative schemes targeted at diaspora investment to encourage VC and angel investment. The government could also come up with policies to encourage VC investments in areas that improve the socio-economic condition of women and children. These incentives could perhaps be linked to the government's priority agenda based on the socio-economic impact of such sectors.

Reviewing the current incentives granted to encourage VC and angel investment: There is a need for the Nigerian government to review the current incentives granted to encourage VC and angel investment to ensure they are well designed and effective in achieving the desired goals. Tax incentives for companies that locate in IT parks could be considered to attract VC and angel investment.

Improve and address regulatory bottlenecks to encourage VC and angel investors: Complex regulatory environments deter VC and angel investors. Designing and clarifying specific regulations concerning sectors such as technology and fintech can help attract VC and angel investments in Nigerian start-ups.

Developing new and innovative schemes targeted at diaspora investment to encourage VC and angel investment: Providing additional incentives can help draw the interest and attention of VC and angel investors to Nigeria, particularly local investors, and the diaspora community.

Increasing awareness on government schemes and incentives through stakeholder engagements for VC and angel investors: There is a need to increase awareness on existing government schemes and incentives through stakeholder engagements.

6.5 External Bond Purchases and Debt Financing (diaspora, social impact, priority projects, green, etc.)

6.5.1 Context

External purchases of bonds issued in Nigeria are an important source of incremental financing that can be used to address the SDGs. In recent years, Nigeria has seen increased external borrowing from commercial sources. The stock of external debt held in Eurobonds grew from \$1.5 billion in 2014 to \$10.7 billion in 2018. No Eurobonds were issued in 2019.⁸⁵ Additional external financing was sought during 2020 and 2021 to support exceptional budgetary spending related to the pandemic.

In 2017, the federal government developed the Diaspora Bond to directly target diaspora investment, and in 2018 diaspora bonds made up 1.2% of the external debt stock.⁸⁶ Commonwealth Secretariat research suggests 12% of the Nigerian diaspora reported investing in government bonds.⁸⁷

85 UNDP. Development Finance Assessment (pp. 53). 2020

86 *Ibid*, (pp. 53).

87 *Ibid*, (pp. 53).

Faith-based sukuk bonds were successfully issued in 2017 as another alternative source of financing for key infrastructure projects across the country.⁸⁸

6.5.2 Challenges

There has been clear demand from external investors for Nigerian Eurobonds, with consistent oversubscription, but continued use of this alternative in the medium to longer term potentially risks adding to debt unsustainability.⁸⁹ Bond issuance by Nigeria denominated in foreign currencies can be useful to attract international investors, but it places an added responsibility on the DMO and Central Bank to manage these foreign currency debt obligations. The need for effective management of both debt service obligations to local and external lenders, and any related exchange rate risks from issuing bonds in foreign Nigeria currencies, will be an ongoing issue. The attractiveness of Nigerian bonds will also depend on ongoing progress on creating a supportive overall policy environment. As understood, Nigeria mostly has a supply side (international) debt issuance challenge.

There will thus be practical limits on further reliance on external bond purchases, even if demand is strong.

6.5.3 Action plan for external bond purchases and debt financing

Increasing use of innovative bond instruments with caution: Nigeria will continue to make use of innovative bond instruments such as diaspora bonds, gender bonds, sustainability-linked bonds, and green bonds to tap into specific sources of external capital. However, it will remain mindful of carefully managing ongoing debt repayments and the foreign exchange risk for bonds issued in foreign currencies.

Examining options for accessing existing external credit at preferential interest rate and terms: There is a clear opportunity to examine options for accessing existing external credit at more preferential interest rates and terms, such as through structured international lending syndication.

88 *Ibid.*

89 *Ibid.*, (pp. 53–54).

6.6 Other Sources of Private Finance (foundations, faith-based, thematic investing, etc.)

6.6.1 Context

In addition to the formal or institution-based financing options discussed here, additional sources can be considered. Approaches can be developed to help foster faith-based financing for meeting Nigerian SDGs. Both domestic and international sources of faith-based financing can be considered.

Another option is to take a more systematic approach to philanthropic giving, which played an important role during the pandemic. Philanthropic financing was mobilised during the pandemic for immediate crisis response and by addressing the economic effects caused by strict lockdowns. This crisis response indicates there is considerable potential to tap into domestic and international philanthropic giving as a financing source for SDGs.

6.6.2 Challenges

The central challenge to increasing faith-based and philanthropic financing is to take a more systematic and strategic approach to mobilising these potential sources of financing and be prepared to make necessary regulatory and policy changes. But if that approach can be developed fully, there are a number of ideas and opportunities to consider.

6.6.3 Action plan for foundations/philanthropic, faith-based and thematic investing

Increasing support for CSOs and the private sector to drive faith-based and philanthropic financing: The central policy challenge and required reform is to take a more systematic and strategic approach to mobilising increased faith-based, philanthropic financing and thematic investing. Government will play a useful role in helping to organise these efforts, but it is the private sector and civil society leaders who would have to organise the game plan for increasing faith-based, philanthropic financing and thematic investing.

Clarifying and expanding regulations on Islamic finance: As noted earlier, creating Islamic finance regulations in Nigeria could help bring in investors from the Islamic world. These regulations would likely need to be created at the national level but could be applied selectively in interested states with a significant Muslim population.

Setting up trust funds to channel philanthropic donations directed at specific SDGs:

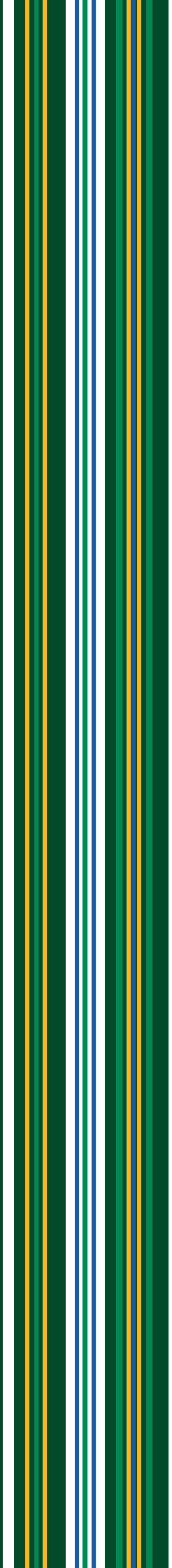
Cultivating the habit of zakat (alms giving) among wealthier Muslims could help mobilise additional financing for SDGs. State governments will be encouraged to set up or repurpose trust funds to channel philanthropic donations towards local SDG financing needs, such as promoting financial inclusion by supporting local microfinance institutions.

Proactively attempting to understand the goals of impact investors, explore specific financial instruments used by impact investors, and identify projects and social investment opportunities aligned with the priorities and goals of impact investors:

To effectively use bonds as a way of attracting external capital, Nigeria will be more proactive in understanding the goals of impact investors, take active steps to build relations with institutional investors and explore specific financial instruments used by impact investors to address the SDGs. Identifying a pipeline of investable projects and other social investment opportunities that would align with the priorities and goals of impact investors would help facilitate the process.

7.

NON-FINANCIAL MEANS OF IMPLEMENTATION AND CROSS-CUTTING ISSUES



7.1 Non-Financial Means of Implementation: Trade Policy And Other Areas

Non-financial means of implementation such as trade policies and trade promotion, including areas such as technology, will be explored to further enhance the financing envelope for development. The prescribed actions in this chapter address SDG 9 (industry, innovation and infrastructure), and SDG 16 (with focus on strong institutions) as some of the SDG priorities contained in the 2021–2025 NDP. Other SDGs captured include SDG 5 (gender equality), SDG 13 (climate action) and SDG 17 (on partnerships for goals).

7.1.1 Context

To be fully effective, increased domestic and international financing for SDGs should be supported by an operating environment where economic growth, development and SDGs are promoted and where SDG financing is being allocated and used effectively. Various non-financial policies and regulatory reforms can play an important role in defining such a positive operating environment for SDG financing.

A. Trade policy

Trade policy is a priority non-financial area that supports implementation of the SDGs, since it helps define the economy's overall operating conditions. In recent decades, economic growth has been guided by even faster growth in global trade. Open international trade enables more efficient resource allocation (e.g. SDG financing), provides businesses with access to many more potential buyers and suppliers, strengthens domestic competition and consumer choice, and supports innovation. Trade has proven to be an engine for growth in many developing countries; more open trade and trade policy generally provides a supporting foundation for SDGs through poverty reduction, positive labour market impacts, and improved gender equity.⁹⁰

For Nigeria, decades of import substitution policies have yielded limited results. Quantitative import restrictions were intensified in the aftermath of the 2014–15 commodity price shock with import restrictions now covering more than a third of agricultural and industrial products. Despite such protection, the economy remains heavily dependent on oil, and labour productivity has been stagnant since 2014.⁹¹

90 United Nations Inter-Agency Task Force on Financing for Development. Financing for Sustainable Development Report (pp. 112). 2019.

91 International Monetary Fund, Article IV staff report, p. 23; World Bank Group, Country Partnership Framework (pp. 8). 2020.

If it is to boost the economy's growth potential and performance, Nigeria will want to embrace more open trade and enhance market competition to rejuvenate output and employment growth. The African Continental Free Trade Agreement (AfCFTA) can be a game changer if it is fully implemented. However, there are many other factors to consider if international trade is to be an enabler, including the quality and cost (i.e., productivity) of tradable products and services, administrative efficiency at Nigeria's borders including Customs procedures, and other related institutional inefficiencies. The agreement would provide a boost to Nigeria's long-term growth potential and present an important form of non-financial support to the SDGs.

At least five million new jobs will need to be created annually (compared to an average of nearly two million job losses annually in recent years) if the country is to absorb over 50 million new entrants in the labour force over the next decade. This will require much higher growth that relies more on sectors such as labour-intensive manufacturing (e.g., light manufacturing and agri-processing) and advanced services (e.g., IT and digital economy), combined with improved regional and global trade market access.⁹²

A trade policy that is open, inclusive, coherent, and ambitious should lead to higher Nigerian growth and productivity levels, improved choice and prices for Nigerian consumers, and provide a boost to national economic welfare. In the near term, the border could be reopened to imports, staple foods and medicine could be removed from the list of foreign exchange (FX) restrictions, FX restrictions and import bans could be reviewed for other goods and import bans and FX restrictions not applied to new products. As a next step, import bans could be replaced with tariffs, plans finalised to implement the African Continental Free-Trade Area Phase 1 protocols, and high-priority measures undertaken to reduce trade and transportation costs.⁹³

More fundamentally, trade policy could pursue barrier reductions and further integration with other countries as a first principle, while recognising the importance of a rules-based global trade system. A well-managed open trade policy would provide a boost to poverty reduction in Nigeria and reduce the number of people in food insecurity. This could also help address associated national security issues.⁹⁴

B. Other areas

As a complement to an open approach to international trade, trade promotion efforts could be enhanced to support a steadily more diversified pattern of Nigerian trade for both exports and imports. In addition, a number of other policy and regulatory reforms that have already been raised would provide a more complete supporting framework of non-financial means of implementation.

7.1.2 Challenges

The recently ratified AfCFTA's initial implementation date of 1 July 2020 was postponed due to COVID-19. The delay can be used to further strengthen and develop local manufacturing and service delivery capacity, and to advance plans to invest in critical infrastructure, which has been identified as a non-tariff barrier to the success of the AfCFTA. A reluctance to fully implement the agreement in Nigeria and other African nations would mean retaining obvious and subtle barriers to pan-African trade and could serve to delay further negotiations on trade opening.

92 *Ibid*, (pp. 25)

93 World Bank Group. Power Point Presentation FY21-FY25 Country Partnership Framework for Nigeria (pp. 31). 2021

94 Nigerian Office for Trade Negotiations. Nigeria Trade Policy Roadmap—Perspectives and Insights (pp. 29–30).

That would likely mean the continuation of trade patterns as usual. Trade growth would continue to be frustrated with African and non-African trading partners alike, and protectionism and impediments to intra-Africa trade would continue. Nigerian export businesses would have less access to prospective buyers in other markets, and Nigerian consumers and businesses would not benefit from better price competition and improved choice.

Administrative efficiency at Nigeria's borders, including custom procedures and other related institutional efficiencies are other trade-related challenges to address.

7.1.3 Action plan for non-financial means of implementation

Completing the implementation of the AfCFTA: The principal area of non-financial policy action is complete implementation of the AfCFTA. To help build momentum for ratification and implementation by other signatory countries, the Nigerian trade ministry will consider organising a virtual meeting of the signatory nations to discuss the prospective timing of ratification and plans for implementation by each nation.

Improving trade-related administration: To improve the flow of trade, administrative efficiency at Nigeria's borders, including Customs procedures, and other related institutional inefficiencies, will be addressed and improved.

Implementing broader regulatory reforms to support a conducive SDG financing environment: In order to strengthen the overall foundation for SDG financing, work will be undertaken to advance other priority areas of regulatory reform. Reforming regulations governing land use, capital markets, pensions, and the insurance industry are priority areas for regulatory reform in support of strengthened SDG financing.

7.2 Cross-Cutting Themes in the INFF

7.2.1 Gender mainstreaming

Context

The SDG 5 focuses on gender, and it aims to achieve gender equality and the empowerment of all women and girls. This involves equally accessing quality education, quality health care, economic opportunities as well as equal participation in governance, among other things. Achieving the SDG 5 will facilitate the achievement of other SDGs.

The estimated 100 million women in Nigeria constitute about 50% of the entire population. In 2019, women's share of the labour force in Nigeria was 49.3%, while women's employment

rate was at 45.6%.⁹⁵ Women also make up 28.7%, 12% and 58.3% of the agriculture, industry, and services sectors respectively. According to a survey conducted by PWC in 2020⁹⁶, it is estimated that 40% of Nigerian entrepreneurs are women. However, only 23% of women-owned enterprises are in the formal sector.

The Federal Ministry of Women and Social Development is dedicated to promoting the development of women and their rights. Furthermore, the federal government of Nigeria through the Economic Recovery Growth Plan (ERGP), planned a number of interventions targeted at women's empowerment. This includes the provision of micro loans to women through the Government Enterprise and Empowerment Programme (GEEP) and Women Empowerment Fund; the conditional cash transfers programme to reach one million of the poorest and most vulnerable households with emphasis on mothers captured in the social register, and grant loans to 1.6 million farmers, youth, women market traders and women-owned MSMEs. Despite these efforts, there remain structural challenges for women in the country. Based on the World Bank's gender gap index, in 2019, Nigeria ranked 128th in the world and 27th in Africa out of the 153 countries surveyed. Based on results of previous surveys, there has not been a significant improvement in closing the gender gap in the country despite efforts from the government.⁹⁷

Challenges

The informal economy is dominated by women and there are significant challenges impeding women's economic empowerment and equal opportunities, such as the multiplicity of taxes, burden of unpaid care, and insufficient gender-responsive macroeconomic policies. This is in addition to all the challenges faced by all business owners regardless of their gender.⁹⁸

Female-owned business experience challenges such as limited access to finance, undue intimidation, social stigma, hidden fees, and a narrower pool for mentorship.⁹⁹

Globally, women are the majority of remittance recipients.¹⁰⁰ However, the avenues to receive remittances in Nigeria are limited and this reduces the opportunities available to women to receive remittances from abroad.

Action Plan

Developing policies that encourage mobile money to close the gender gap and increase financial inclusion: This includes designing policies that increase financial inclusion of women through the use of mobile money. Additionally, mobile money will be considered a reliable channel for remittances to increase avenues for women receiving remittances. Also, mobile money can be used to enable its use in investments, transactions and to carry out any financial activities.

Imposing gender-focused corporate social responsibility (CSR): Private companies will be encouraged to dedicate a portion of their CSR towards women's financing, empowerment, financing literacy, health and education and all areas in which women are affected, in alignment with SDG 5.

95 International Labour Organisation. Country Profiles. Accessed on November 2021 from <https://ilostat.ilo.org/data/country-profiles/>

96 PWC MSME Survey (2020) Building to Last: Nigeria Report

97 The World Bank CPIA Gender Equality Rating–Nigeria

98 PWC MSME Survey (2020) Building to Last: Nigeria Report

99 *Ibid*

100 The World Bank (2021) Women and Remittances: Three takeaways from Project Greenback in the Western Balkans

Ensuring a gender-responsive budget: The federal and states government will ensure that all budgets promote gender mainstreaming and incorporate a gender-sensitive approach with a careful plan to continually reduce the gender gap. Moreover, it will institutionalize gender-responsive budgeting in Nigeria's public financial system, especially for federal and subnational units.

Improving on women-focused social investment: The federal government will increase efforts towards social investment programmes that will help uplift and empower women in Nigeria. At the same time, it will enhance public spending on universal gender-responsive social protection systems, including floors. Spending on social protection must be deliberate.

Addressing challenges in women-dominated informal sector: Encouraging the informal businesses to formalise through simple and attractive means such as incentives, grants, and SME training. Additionally, address multiplicity of taxes to ease the compliance burden and to ensure an enabling environment for business growth.

Improving access to funding for women-led businesses: The Bank of Industry, the Central Bank of Nigeria and other relevant institutions will be encouraged to improve on granting more flexible and attractive women-focused financing to improve opportunities for women entrepreneurs. Also, promote affirmative procurement policies, including gender-responsive financial services that recognize the peculiarities of religion and culture, and offer protection from violence against women and girls.

Increasing gender-sensitive interventions by DFIs: DFIs will be encouraged to ensure that all interventions have a specific portion to provide financing for women's development and apply a gender lens to all development financing initiatives and projects.

Promoting gender responsive macroeconomic policies that recognize the impacts of fiscal and monetary policies, as well as the effects of revenue generation mechanisms on women's economic empowerment, labour participation, and ability to earn sustainable incomes.

7.2.2 Climate change

Context

Climate change is a long-term existential threat to countries and people around the globe. Due to the potentially severe disruption to economic activities, climate change is no longer just an environmental issue; it is also a development issue. Climate modelling suggests Africa's climate will become more variable, with potentially large impacts including in Nigeria. Climate change impacts such as droughts are already being felt in many sub-regions and sectors, and significant harm from it is occurring. Climate change is thus a major threat to the sustainable development of Nigeria, as it is in other developing countries.

Nigeria is committed to reducing GHG emissions as part of the global effort to address the sources of climate change. Consistent with the Paris Agreement on climate change, in May 2021, Nigeria submitted an interim updated nationally determined contribution (NDC)¹⁰¹ and indicated that a final report will be forthcoming. Nigeria has confirmed a number of key climate policy commitments under the interim NDC:

¹⁰¹ Nigeria's Nationally Determined Contribution—Update May 2021. <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Nigeria%20First/NDC%20INTERIM%20REPORT%20SUBMISSION%20-%20NIGERIA.pdf>

- **Growth ambitions:** To support economic and social development, Nigeria is aiming to grow the economy by 5% (in real terms) per year, improve the standard of living, and ensure electricity access for all.
- **Unconditional target:** Nigeria is unconditionally committed to a 20% reduction in GHG emissions from a business-as-usual (BAU) scenario by 2030.
- **Conditional target:** As a conditional commitment, Nigeria is aiming for a 45% reduction in GHG emissions from BAU by 2030.
- **Mitigation sectors:** Sectors that have been identified for mitigation of climate impacts are energy, transport, agriculture and land use, and industry.
- **Adaptation sectors:** Sectors that have been identified for climate adaptation are agriculture, coastal zones, disaster risk reduction, environment, and health.

Nigeria has developed and finalised the Sectoral Action Plan (SAP) for the implementation of the NDC in the key priority sectors of energy, oil and gas, agriculture and land use, power, and transport. The Nigerian government also intends to make the final NDC more gender-sensitive, and account for the employment and social impacts of prioritised mitigation and adaptation measures. Nigeria has already started integrating current NDC targets in its 2021–2025 Economic and Recovery Growth Plan (ERGP).

For its part, the UNDP intends to provide support on enhancement of NDC and key project work areas. It will focus on:

- finance and investment mobilisation (led by development of the INFF);
- private sector engagement;
- monitoring and transparency; and
- awareness and advocacy.

Challenges

Adapting to climate change is a challenge facing every nation, particularly in developing countries. The ideal path ahead is to keep climate change from reversing the development gains accumulated in the last few decades.

Nigeria has the double challenge of being an economy that is both subject to the physical and more extreme weather impacts of a changing climate, and one that is heavily dependent on the oil and gas sector that is a major source of GHG emissions. If Nigeria is to address the physical impacts and risks of climate change while making progress in transitioning to a lower carbon and climate-resilient economy, it will need to include the impacts of climate change as a risk factor in all of its policy thinking and decision making. Climate change and climate risk considerations will also influence the type of financing and grants Nigeria would be eligible to receive from donor countries, MDBs and climate funds to support its adaptation efforts.

A specific challenge is assessing and managing climate-related financial risks. Existing and new assets and operations face growing risks related to the physical impacts of climate change. These risks ought to be appropriately assessed and factored into analysis and decisions related to current and new investment, debt financing and insurance.

Nigeria faces significant challenges in its NDC aspirations including through its heavy reliance on the oil and gas sector, the major source of GHG emissions in the country. The risks related to transitioning to an economy with lower GHG emissions will have a specific heightened

importance for sectors with high GHG emission intensity such as oil and gas, cement, petrochemicals, and elements of manufacturing. Existing assets and business operations in these sectors, and the provision of new investment as well as debt financing and insurance, will need to consider current and projected future GHG emissions as well as expected efforts and investments required to manage and reduce those emissions.

Action Plan

Climate change is a long-term existential threat that will need to be a foundational consideration throughout the INFF. Therefore, all aspects of SDG financing ought to be approached and assessed through a climate change lens. Full consideration of climate risk will help contribute to better investment and financing decisions and better management of climate-related financial risks. Conversely, inadequate consideration of climate risks will contribute to weak management of climate-related financial risks, and lead to a long-term misallocation of financing and investment, with resulting assets that are at significant risk.

Addressing climate change explicitly in federal, state, and local government budgets:

Specific budgetary allocations will be made for funding climate risk mitigation and adaptation, particularly for infrastructure, public buildings, and other state assets. All government policymaking and decision-making such as cabinet decisions and policy papers will explicitly address climate change and its impacts.

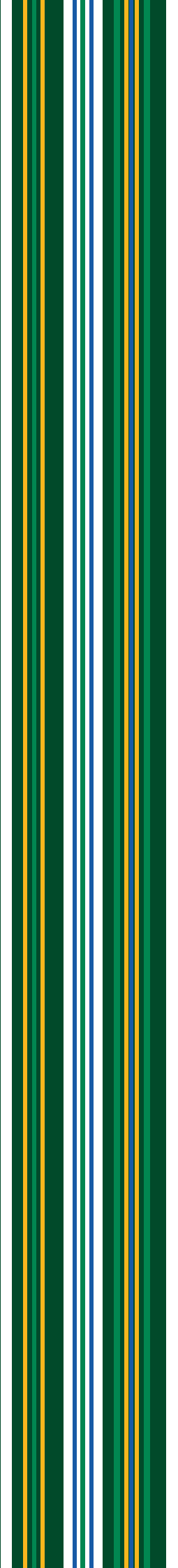
Reviewing and mandating regulations to explicitly address climate change: All government regulations will be reviewed and mandated to explicitly address climate change and its impacts, with the aim of using the regulatory framework to reduce GHG emissions and increase resilience. Regulations will be introduced to provide explicit GHG reduction targets for emissions-intensive sectors such as oil and gas, petrochemicals, cement, and transportation.

Implementing an explicit plan to mobilise multiple sources of climate-related finance and upstream support: The federal government will implement an explicit plan to mobilise multiple sources of increased climate-related financing and upstream support (e.g., policy and regulatory input, technical assistance, capacity building, and project preparation funding), including financing from MDBs, RDBs, DFIs, ECAs, donor countries, as well as domestic public and private sources.

Mandating climate-related financial and non-financial disclosures of GOEs, commercial banks and NDFIs: Climate change impacts and plans to reduce GHG emissions and enhance resilience could be highlighted in the business plans and public reporting for GOEs and NDFIs, and in the operating plans of federal, state, and local government departments. This analysis and reporting would need to include their own plans to reduce emissions (from production and consumption) and manage climate risks, and the likely impacts on their clients, customers, suppliers, and partners.

8.

STRATEGIC ACTION PLAN OVERVIEW



8.1 Overview

A holistic approach to financing the SDGs and development needs of Nigeria is imperative. Many of the initiatives / action items have direct or indirect consequences on other initiatives. These initiatives represent the linkage between the demand for development finance and the supply of financing from the four sources of finance. Certain financing needs such as infrastructure will require financing from more than one source, while others such as national security will be financed primarily from domestic public finance.

The mix of conventional and innovative financing initiatives from each of the four quadrants in the action plan is consistent with long-term financial sustainability and ensures alignment with Nigeria’s development priorities guided by the Medium-Term National Development Plan 2021–2025. The initiatives have been written as action items which, in subsequent reports, will be aligned with responsibilities of various MDAs to ensure coordination.

The initiatives cover a range of topics, including policy reforms, regulatory reforms, new or enhanced business processes, and new or enhanced financial instruments.

Table 12: Overview of initiatives from the four quadrants

	Financing Source	Initiatives / Focus	Category
Domestic Public	Enhancing federal revenue base	Broaden the tax base, consider increasing VAT rate in the future with preconditions	Policy Reform
		Implement sin taxes (alcohol, tobacco, etc.)	Policy Reform
		Implement new taxation on high-performing sectors (telecommunications, luxury goods, etc.)	Policy Reform
	Enhancing state revenue base	Reform regulations on concurrent rights of states’ autonomy to manage resources	Regulatory Reform
		Review tax authority and enhance internally generated revenue	Regulatory Reform
		Enhance capacity of states to collect taxes	Instruments
	Enhancing tax administration	Incentivize tax payment	Instruments
		Digitalize tax system	Instruments
		Strengthen tax system and administration	Business Process
		Reform and improve alignment of tax laws	Regulatory Reform
Criminalize tax evasion		Policy Reform	
Improvise tax education	Business Process		

Financing Source	Initiatives / Focus	Category	
Domestic Public	Coordinating budget processes	Define the governing principles and operating rules for the Federal Account Operating Committee	Business Process
		Clarify rules on which level of government is responsible and accountable for budget coordination, setting priorities and acting on revenue and expenditures	Business Process
		Review and advocate for a more transparent, responsive and rules-based revenue sharing formula	Business Process
	Modifying public spending and management	Renew spending priorities	Business Process
		Apply zero-based budgeting approach to public servant salaries and operating costs	Business Process
		Focus budget resources on highly productive sectors and other spending that directly addresses the SDGs	Business Process
		Increase transparency in procurement practices, e.g., publicize large contract awards at federal and state level, with an appeal process for non-winning bidders	Business Process
		Increase oversight/ownership of public assets	Business Process
		Collaborate with private sector in PPP projects, enforce existing policies to protect and encourage investors entering PPP arrangements	Business Process
		Eliminate subsidies on energy use (fuel, electricity)	Policy Reform
	Innovations in public debt management/sustainability	Focus on implementing the Debt Management Strategy, by ensuring an appropriate balance of domestic and external debt, fixed and variable interest rates, and borrowings to finance existing debt	Business Process
		Conduct a Debt Sustainability Analysis (DSA) to assess portfolio risks. Conduct stress tests periodically using analytical tools on the basis of economic and financial shocks (including climate-related financial risks)	Business Process
		Develop policies framework to guide the structuring of debt, in terms of maturity, currency, and interest, to ensure reduced financial and instability risks	Policy Reform
		Rescheduling and restructuring: Explore sale of sovereign debt to impact investors and diaspora to lengthen terms, led by regional DFI	Instruments
		Explore use of theme bonds (e.g., green bonds) to tap into distinct pools of capital	Instruments

Financing Source	Initiatives / Focus	Category	
Domestic Public	Enhance governance practices	Consider privatizations and commercialization	Business Process
		Enhance governance practices	Business Process
		Review and modernize ownership structures	Regulatory Reform
		Strengthen capitalization	Instruments
		Reflect commercial business practices, e.g., explicit net income targets	Business Process
		Strengthen framework and specific governance practices	Business Process
		Increase borrowing capacity of DFIs, using the MDB guarantee	Regulatory Reform
	Capturing illicit financial flows	Identify key offenders (commercial, criminal and bribery)	Business Process
		Develop an effective framework for inter-agency cooperation and collaboration	Business Process
		Improve the use of data collection for tax compliance	Instruments
		Enforce international standards of KYC compliance on banks	Business Process
		Introduce stronger financial crime legislation	Policy Reform
		Strengthen capacity to track and monitor financial flows to identify illicit activity	Business Process
		Create positive and negative incentives for reducing illegal flows	Instruments
Domestic Private	Framework policies for enabling business environment	Modernize risk allocation and returns of pension fund regulations	Regulatory Reform
		Clarify land title procedures in the Land Use Act	Regulatory Reform
		Adopt international standards for capital markets	Regulatory Reform
		Engage in PPPs to deliver on critical infrastructure needs	Business Process
		Strengthen regulatory structure for the insurance industry	Regulatory Reform
		Adopt market-based pricing for utilities and power regulations	Regulatory Reform
		Improve private sector confidence in rule of law for concessions	Regulatory Reform
	Mobilizing banks and financial institutions	Enforce adequate financial sector regulations	Regulatory Reform
		Address transparency, access to credit, depositor protection, credit quality, capital adequacy, financial stability	Regulatory Reform

Financing Source	Initiatives / Focus	Category	
Domestic Private	Mobilizing banks and financial institutions	Support innovation within the financial sector through Central Bank policies and encourage the penetration of financial services, especially fintech, in terms of licensing, SEC accreditation, etc.	Policy Reform
		Provide regulatory incentives to banks with increased credit to previously unbanked persons and businesses	Regulatory Reform
		Improve mobile banking regulations and procedures	Regulatory Reform
		Incentivize risk sharing financial instruments to reduce the risk and catalyse banks and FIs to lend to corporate clients and consumers	Instruments
		Deploy strategic revenue growth Initiatives at the federal level, in conjunction with the private sector	Regulatory Reform
	Promoting venture capital investments	Improve investor and business-enabling environment to attract foreign (and diaspora) capital	Regulatory Reform
		Improve the effectiveness of incentives for VC to attract real investment	Regulatory Reform
	Incentivizing local investors, mobilizing institutional investors and leveraging pension fund	Strengthen enabling business environment, notably design and implementation of the legal and regulatory (and security) environment	Regulatory Reform
		Establish a regulatory framework to ensure funds are invested in areas of high social, financial and economic returns and not diverted to unintended and unproductive projects	Regulatory Reform
		Strengthen governance and clarify regulatory framework on what the pension fund should be allowed to invest in and instruments required to get pension funds involved	Regulatory Reform
		Introduce policy reform that encourages loan syndication on large value projects	Policy Reform
		Utilize insurance-based funding arrangements	Instruments
		Increase domestic financial loan syndication	Policy Reform
		Mobilize institutional investors at scale with long tenors following the example of the Lagos Free Zone Company	Policy Reform
	Scaling up sustainable finance	Implement and develop further SEC guidelines beyond committee and principles	Regulatory Reform
		Developing common sustainable finance definitions and taxonomies, and improving non-financial disclosure by government bodies, firms and projects, are other priority areas of regulatory reform	Regulatory Reform

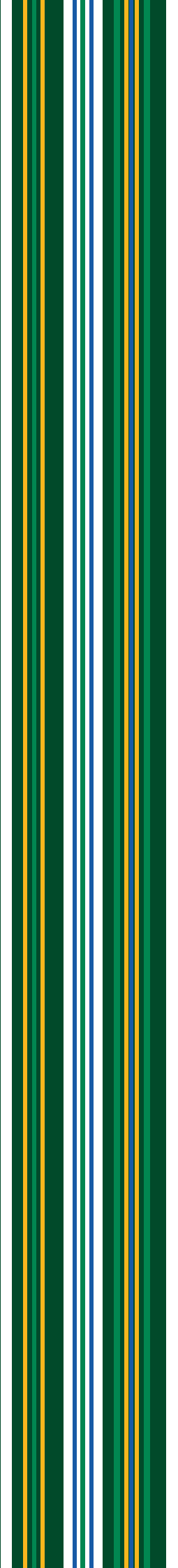
Financing Source	Initiatives / Focus	Category	
Domestic Private	Adopt Task Force on Climate-related Financial Disclosures (TCFD) recommendations	Regulatory Reform	
	Develop a climate policy framework anchored in carbon pricing to provide price signal incentives for the transformation of the Nigerian economy	Regulatory Reform	
	Develop a policy framework on emissions reduction targets	Policy Reform	
	Establishing regulatory limits on GHG emissions would help guide the transformation in the Nigerian economy	Regulatory Reform	
	Explore domestic green bond market for sovereign, non-sovereign and corporate issuance	Instruments	
	Build a new infrastructure projects platform with a sustainable investment pipeline to help identify specific areas of demand for sustainable finance and mobilize private investors	Business Process	
	Incentivising local and institutional investors	Strengthen consultation and collaboration with institutional investors	Business Process
International Public	Deepen strategic engagement with each MDB and develop stretch financing objectives	Business Process	
	World Bank Group: Consider earlier implementation of phase 2 of country plan, guided by Nigerian progress on priority policy reform	Instruments	
	World Bank Group: Detail policy and operational conditions for WBG to enhance its financing commitment for future planning periods	Instruments	
	AfDB: Use bank's guarantee powers to mobilize domestic and external private capital, in partnership with leading institutions like ATI	Instruments	
	IsDB: Finalize Member Country Partnership Strategy to improve coordination and alignment of IsDB activities. Opportunity for IsDB to increase scale of its activities	Instruments	
	IsDB: Develop and strengthen Islamic finance regulations in Nigeria, which could help bring in investors	Regulatory Reform	
	Scale up credit facilitation schemes to foster increased private sector investment towards SDG-aligned priority sectors to support financing for MSMEs	Instruments	
	DFIs	Build investment relationships with priority bilateral DFIs	Business Process
		Identify worthy investment opportunities for DFI consideration and develop a project development fund	Business Process

Financing Source	Initiatives / Focus	Category	
International Public	DFIs	Develop solid relationships with DFIs and local commercial investment and financing partners	Business Process
		Promote “credit wrap” or partial risk guarantee for specific equity investments, sharing in the investment risk and building confidence for the local private investors	Instruments
	ODAs	Build strong relationships with individual ODA agencies, including existing OECD donors, new donors, China, India, etc.	Business Process
		Effectively coordinate donor community active in Nigeria	Business Process
		Focus on aligning use of ODA financing with specific SDGs	Business Process
		Identify opportunities to use ODA to build resilience (notably by integrating climate action into multi-sector development strategies; supporting public goods like public health; enhancing crisis planning and coordination)	Business Process
	ECA	Actively build relations with foreign ECAs	Business Process
		Strengthen the policy environment	Policy Reform
		Improve the regulatory environment	Regulatory Reform
		Use multilateral insurers to leverage trade credit and investment risk capacities of multilateral ECAs in which Nigeria has invested, such as ATI and ICIEC, which can provide cover for Nigerian trade and investment without impacting Nigerian debt levels	Instruments
		Build business awareness on the role of ECAs	Business Process
		Engage stakeholders on the benefits of respecting contracts and repayment schedules, as well as minimizing political risk for projects and foreign investments	Business Process
International Private	Diaspora and remittances	Develop and expand financial instruments, products and platforms for diaspora remittances	Instruments
		Attract other service providers to the Nigerian market to reduce transaction cost of remittances	Instruments
		Develop options for using appropriate incentives for diaspora investments	Instruments
		Advance Remittance Policy and Diaspora Commission by using digital technology and Nigerian missions abroad to identify, expand and regularly engage the diaspora network	Instruments
		Implement an active remittance marketing strategy, including regular marketing events	Instruments

	Financing Source	Initiatives / Focus	Category
International Private	Diaspora and remittances	Identify financing priorities that are aligned with diaspora priorities and direct diaspora investments	Instruments
		Analyse and report on remittance financing use and SDGs appropriately	Instruments
		Work with money transmitters to cut remittance transaction costs and encourage increased competition among service providers	Instruments
		Strengthen understanding of linkages to remittances, create a pipeline of investable opportunities, and increase transparency, quality and structuring of transactions while focusing on marketing the socio-economic and emotive narrative	Instruments
		Develop the diaspora investment trust fund by setting priorities, marketing it with the diaspora community, allocating financing, and reporting on its use and SDG impacts	Instruments
	International banks / FDI and investment policy	Complement the NIPC by examining effectiveness of fiscal incentives in mobilising investments/FDI that contribute to national sustainable development objectives	Instruments
		Support progress in establishing investment promotion agency led by the NIPC	Instruments
		Actively engage with ECAs to help attract international bank financing	Instruments
		Reform and clarify host states' regulatory powers by adding provisions on social and environmental standards and public health to allow treating socially and environmentally desirable investments more favourably than investments in brown sectors	Regulatory Reform
	VC and angel investment	Review the current incentives granted to encourage VC and angel investment	Regulatory Reform
		Improve and address regulatory bottlenecks to encourage VC and angel investors	Regulatory Reform
	External bond purchases / impact investors / institutional investors / foundations and private donors	Clarify and expand regulations on Islamic finance	Regulatory Reform
		Increase use of innovative bond instruments with caution	Instruments
		Examine options for accessing existing external credit at preferential interest rates and terms	Instruments
		Set up trust funds to channel philanthropic donations directed at specific SDGs	Instruments
		Explore specific financial instruments used by impact investors	Instruments

9.

**MEDIUM-TERM
REVENUE STRATEGY
(MTRS)**



9.1 Introduction to the MTRS

Nigeria's long-term financing options for funding the SDGs include various private, public, domestic, and international sources. However, over the next five years, 2022–2026, it will consider increasing domestic revenue sources, primarily taxation, as the means to fund national development as identified in its 2021–2025 MTNDP. The low tax-to-GDP ratio recorded in most developing countries like Nigeria indicates gaps in domestic resource mobilisation efforts and capacities. Limitations in raising adequate domestic resources, principally through taxation, have led to increasing debt burden, fragile and inadequate infrastructure, and underdeveloped tools to achieve specific goals under the SDGs. The Medium-Term Revenue Strategy (MTRS) will serve Nigeria in generating enough revenue that will drive the realisation of the SDGs by reforming its tax system.

9.1.1 Nigeria's commitment to the SDGs

The Nigerian government is committed to achieving the 17 sustainable development goals (SDGs) set under the agenda 2030 for sustainable development.¹⁰² SDG's blueprint also has 169 objectives targeted at eradicating all forms of poverty, thereby transiting the world into a pathway of resilience and sustainability. The effort is geared towards ensuring that the unresolved issues and newly identified concerns are tackled to make sure that no one is left behind.

Nigeria's Roadmap to SDGs states clearly:

“New goals have been added, entirely new sectors have been introduced and the number of indicators has more than doubled. The breadth and depth of the endeavour will now involve a substantial multiplication of activities and an expansion of partnerships and institutions. Moreover, a number of the SDGs do not simply specify outcome goals, but also the means by which these goals should be achieved. An emphasis on rights, justice, social inclusion, sustainability, access to technology and reducing inequality will place new constraints and demands on policy at all stages—in planning, implementation and monitoring”.

SDGs are phased into three periods: building on existing foundations laid under the MDGs (2016–2020); scale-up (2021–2025); and leave no one behind (2026–2030).¹⁰³

Looking at the progress made so far in meeting the SDGs, Nigeria ranked 160th out of a total number of 165 countries, coming ahead of only five African countries: Liberia, Somalia, Chad, South Sudan, and the Central Africa Republic. The SDG score of Nigeria was put at 48.93%,

102 UN SDGs

103 Nigeria's Road to SDGs, Country Transition Strategy October 2015.

which is an indication of slow progress since 2016, when it recorded a score of 47.85%. This result is unfavourable. Table 1 shows that Nigeria is only been able to make positive progress on Goal 13 (climate action) with the ‘on track’ or ‘stagnating’ SDG achievement remark. The country also made relative improvement (rated as ‘moderately improving’) in Goal 6–clean water and sanitation.

Table 13: Status of Progress on SDGs in Nigeria as 2021¹⁰⁴

SDGs		STATUS OF PROGRESS
1	No Poverty	Decreasing
2	Zero Hunger	Stagnating
3	Good Health and Well-being	Stagnating
4	Quality Education	No available trend
5	Gender Equality	Stagnating
6	Clean Water and Sanitation	Moderately improving
7	Affordable and Clean Energy	Stagnating
8	Decent Work and Economic Growth	Stagnating
9	Industry, Innovation, and Infrastructure	Stagnating
10	Reduced Inequality	No available trend
11	Sustainable Cities and Communities	Stagnating
12	Responsible Consumption and Production	Decreasing
13	Climate Action	On track or maintaining SDG achievement
14	Life Below Water	Stagnating
15	Life On Land	Stagnating
16	Peace, Justice, and Strong Institutions	Stagnating
17	Partnerships for the Goals	Stagnating

While the country is committed to meeting all 17 SDGs by the year 2030, its medium-term goal is to fund SDGs 1, 2, 3, 4, 8, 9, 10 and 16 by 2025, as stated in its 2021–2025 NDP. As such, this MTRS maintains the same targets for 2021–2026.

9.1.1.1 Nigeria’s SDG financing gap

Nigeria’s overall SDG financing gap has been estimated to be ₦125 trillion (over \$300 billion).¹⁰⁵ However, reliance on the government alone cannot lead to achieving the SDGs without a strong and sustained collaboration with the private sector through investment in these critical areas.

The National Development Plan (NDP) 2021–2025 of Nigeria is ambitious in its estimates for both revenue and expenditure. It is estimated that a total of ₦348.1 trillion investment commitment is expected by both the government and private sector.¹⁰⁶ The private sector is required to provide ₦298.3 trillion of the investment, which is over six times what the government is to provide, estimated at ₦49.7 trillion. Although the economy is private sector-driven, its success

104 Sustainable Development Report on Nigeria 2021 <https://dashboards.sdindex.org/profiles/nigeria>

105 United Nations Development Programme Nigeria launches SDG Investor Maps Initiative to empower investors with data and insights to accelerate achievement of the Sustainable Development Goals in Abuja, Nigeria, 8 December 2020. <https://www.ng.undp.org/content/nigeria/en/home/presscenter/pressreleases/2020/united-nations-development-programme-nigeria-launches-sdg-invest.html>

106 The draft copy of National Development Plan (NDP) 2021–2025 by the Federal Republic of Nigeria, 2021

is largely dependent on the ability of the government to provide the needed stable and secured ecosystem to operate, which the financing strategy provides a plan for. To fund the government's portion of ₦49.7 trillion by 2025, this MTRS is the ultimate guide.

9.1.2 Nigeria's revenue performance

Revenue performance, especially tax revenue, has been adversely affected by various challenges over time. This has led to a poor tax-to-GDP ratio in Nigeria, averaging around 5.7% since 2015,¹⁰⁷ compared to an African average of 16.6%.¹⁰⁸

Uncertainty in the oil market has been reflected in the declining trend of oil tax revenues. However, non-oil tax has continued to grow at a relatively low rate moving from ₦2,150 billion in 2016 to ₦3,435 billion in 2020, as can be seen in Table 14.¹⁰⁹

Table 14: Tax Revenue 2016–2020

YEAR	OIL TAX ₦ BILLION	NON-OIL TAX ₦ BILLION	TOTAL TAX ₦ BILLION	TOTAL TAX REVENUE TO GDP RATIO
2020	1,517	3,435	4,952	6%
2019	2,114	3,148	5,262	6%
2018	2,468	2,853	5,321	6.3%
2017	1,520	2,507	4,027	5.7%
2016	1,158	2,150	3,308	5.3%

For 2021, as of November 2021, FGN's aggregate revenues were N5.51 trillion, or 74% of target. FGN's share of oil revenue was N970.3 billion, which represents 53% of the prorated target in the 2021 budget. FGN's share of non-oil tax revenue totalled N1.62 trillion (118.8% above target). Companies' income tax (CIT) collections were N718.58 billion, representing 115% of the pro rata targets for the period. Value-added tax (VAT) collections were N360.56 billion, representing 165% of the pro rata targets for the period. Customs collections were N542.11 billion, or 104% of the target¹¹⁰.

As mentioned earlier, reforms are critical for improving the revenue generation of Nigeria. This is a key reason why the MTRS is developed to address the weaknesses in the revenue generation and management system in Nigeria.

9.1.3 An overview of the MTRS

A combined arrangement of four major international organisations—the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations (UN), and the World Bank Group (WBG)—birthed the Medium-Term Revenue Strategy

107 OECD Report: Tax Revenue in African Countries, May 28, 2020 <https://taxfoundation.org/oeecd-report-africa-tax-revenue-in-african-countries/>

108 OECD, African Union Commission and African Tax Administration Forum, 2021, Revenue Statistics in Africa, <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf>

109 Tax Statistics/Report—FIRS <https://www.firs.gov.ng/tax-statistics-report/>

110 Other revenues amounted to N2.80 trillion, of which FGN independent revenues were N1.10 trillion while GOEs' retained revenues were N1.20 trillion.

(MTRS) under the Platform for Collaboration of Tax (PCT) in 2016. This initiative is geared towards assisting developing countries to address the challenges in domestic resource mobilisation.

The goal of the MTRS is to lay a solid foundation for an efficient tax system through a collaborative effort to achieve successful and robust tax reform.

The Centre for Global Development noted that “the number of countries showing interest in an MTRS is encouraging, but progress has been disappointing, indicating that developing and implementing an MTRS is challenging.”¹¹¹ So far, four countries (Egypt, Uganda, Liberia, and Papua New Guinea) have implemented an MTRS and Senegal is in the early part of the implementation. Also, 20 countries are in the formulation and pre-formulation stages.¹¹² In 2021, alongside the Medium-Term Expenditure Framework, Nigeria presented a Medium-Term Fiscal Framework (2020–2022), but it was mainly focused on estimates and revenue projections without the inclusion of strategy to improve the revenue in the medium term. Hence this MTRS provides Nigeria a medium-term sustainable revenue framework with strategies to achieve its revenue goals and objectives.

9.1.4 What is the MTRS?

The MTRS is a holistic approach for achieving effectiveness in tax systems reform efforts for boosting tax revenues and entrenching improvement in the tax system over a medium-term framework through a country and government-led approach.¹¹³ MTRS is unique compared to other previous efforts by the international community with flaws, including implementing reforms using top-down one-size-fits-all and copy and paste approaches to domestic revenue mobilization (DRM). MTRS fills this gap by recognising the local context, needs, and reality of countries.¹¹⁴ As noted by the Asian Development Bank, the difference between the MTRS and other approaches to revenue reform is that it requires governments to lead the tax system reform and commit to a steady and sustained implementation and to have support from external development partners.¹¹⁵

The MTRS is a comprehensive roadmap for tax reform over five years, outlining the revenue needs of a country with the necessary practical and political support obtained from active and relevant stakeholders. Nigeria’s MTRS is planned for the year 2022–2026.

111 CGD Policy Paper 180 July 2020 Medium-Term Revenue Strategies: Are They Realistic for Developing Countries? Medium-Term Revenue Strategies: Are They Realistic for Developing Countries? | Center For Global Development (cgdev.org)

112 See MTRS Country Listing <https://www.tax-platform.org/medium-term-revenue-strategy/countries>

113 See Medium-Term Revenue Strategy (MTRS) <https://www.tax-platform.org/medium-term-revenue-strategy>

114 Lips W., Lesage D. (2021) Medium-Term Revenue Strategies as a Coordination Tool for DRM and Tax Capacity Building. In: Mosquera Valderrama I.J., Lesage D., Lips W. (eds) Taxation, International Cooperation and the 2030 Sustainable Development Agenda. United Nations University Series on Regionalism, vol 19. Springer, Cham. https://doi.org/10.1007/978-3-030-64857-2_5

115 Closing remarks by John Versantvoort at the Platform for Collaboration on Tax (PCT)-ADB Joint Virtual Workshop: Medium-Term Revenue Strategies to Support Recovery and Development in Asia, 26 May 2021

9.1.5 Why is the MTRS important for Nigeria?

MTRS is crucial to the development of Nigeria especially given the worsening situation of debt and debt servicing with the increasing need for additional funds to achieve the SDGs. The debt profile of Nigeria is on the rise, and the repayment of this debt is becoming onerous for the government. The debt service to revenue ratio of Nigeria is very poor, and the need to evolve a government-led initiative with support from key development partners has become important.

Furthermore, as noted earlier, whereas the average tax-to-GDP ratio of Africa remains at 16.6%, Nigeria has averaged around 5.7% within the same period.¹¹⁶ This situation calls for reform in both the tax policy and tax administration components of the tax system with MTRS being considered as a tool of reform.

“Building a country-specific vision requires a government-led effort and whole-of-government buy-in and support, and a broad social and political commitment to tax system reform. Thus, an MTRS process is a country endeavor leading to a broadly supported, public, transparent tax system reform. The process is fundamentally political and social.”¹¹⁷

9.1.6 The objectives of the Nigeria MTRS

The main objective of the MTRS is to significantly improve Nigeria’s revenue to fund the SDGs. Specifically, the MTRS aims to achieve the following objectives:

- To provide a clearer picture of projected tax revenues and provide certainty to taxpayers on tax policy and tax administration changes over the medium term.
- To ensure there is capacity and institutional strengthening that forms the bedrock of the reform efforts.
- To provide the medium-term revenue goals of Nigeria.
- To provide support to achieve the National Development Plan (2021–2025).
- To provide effective coordination for donor support.
- To improve the efficiency of revenue administration in Nigeria.
- To promote an inclusive method of tax policy and tax administration design to foster transparency, accountability, collective ownership, and fiscal legitimacy.
- To help reform the tax system to improve the well-being of all citizens.

116 OECD, AUC and ATAF 2021, Revenue Statistics in Africa, <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf> accessed 10/02/2022

117 A speech on Medium-Term Revenue Strategy (MTRS)–Taxation and Development delivered by Vitor Gaspar and prepared in cooperation with Juan Toro. Delivered at the conference of “Medium Term Revenue Strategy (MTRS)–Building More Effective Tax Systems”, Vienna, Austria on October 29–30, 2019. <https://www.imf.org/en/News/Articles/2019/10/28/sp102919-mediumterm-revenue-strategy>

9.1.7 The framework for Nigeria's MTRS

MTRS has four major components:

1. Medium-term revenue goals
2. Tax reform
3. Sustained political commitment to implement the MTRS
4. Coordinated donor support to implement the MTRS.¹¹⁸

9.2 Nigeria's Medium-Term Revenue Goals

The MTRS, being a strategy developed to ensure revenue growth, is a critical tool in achieving Nigeria's development ambitions as contained in the National Development Plan.

9.2.1 Medium-term revenue target

To achieve the medium-term revenue target set by the MTRS, it is important that the targets are feasible, realistic, and linked to the medium-term expenditure framework to raise the required revenue to fund public expenditure. Projections in the Nigeria 2023–2025 Medium Term Expenditure Framework and Fiscal Strategy Paper (2023–2025 MTEF & FSP) show a revenue-to-GDP ratio of 4.3% by 2025 based on current trends (business as usual scenario). Achieving beyond this target will significantly depend on the tax reforms to be carried out, improved institutional efficiency, the coordination of donor support, and a strong political commitment on the part of the government.

Table 15: 2023–2025 MTEF & FSP Revenue Projections (2023–2025)

Fiscal Items	Amended 2022 Framework	2023 Scenario I—Business as Usual	2023 Scenario II—Subsidy Reform	2024	2025
Total Revenue: Amount Available for FGN Budget (excluding GOEs retained revenues), as a % of GDP	4.5%	2.3%	3.2%	3.8%	3.4%
a. Share of Oil Revenue (% of GDP)	1.2%	0.1%	0.8%	1.5%	1.3%
b. Dividends (% of GDP)	0.1%	0.0%	0.0%	0.0%	0.0%
c. Share of Minerals & Mining (% of GDP)	0.0%	0.0%	0.0%	0.0%	0.0%

118 *Ibid.*

Fiscal Items	Amended 2022 Framework	2023 Scenario I–Business as Usual	2023 Scenario II–Subsidy Reform	2024	2025
d. Share of Non-Oil Taxes (% of GDP)	1.2%	1.1%	1.1%	1.1%	1.1%
e. Share of Electronic Money Transfer Levy / Stamp Duty (% of GDP)	0.0%	0.0%	0.0%	0.0%	0.0%
f. Share of Oil Price Royalty (% of GDP)	0.1%	0.0%	0.0%	0.0%	0.0%
g. Revenue from GOEs (% of GDP)	2.1%	1.0%	1.0%	0.9%	1.2%
h. GOE Operating Surplus (80% of Which is Captured in Independent Revenue) (% of GDP)	-1.1%	-0.5%	-0.5%	-0.4%	-0.3%
i. Independent Revenue (% of GDP)	1.4%	0.7%	1.0%	0.9%	0.7%
j. Draw-down from Special Levies Accounts (% of GDP)	0.2%	0.1%	0.1%	0.1%	0.1%
k. Signature Bonus/ Renewals / Early Renewals (% of GDP)	0.2%	0.0%	0.0%	0.0%	-
l. Domestic Recoveries + Assets + Fines (% of GDP)	0.0%	0.0%	0.0%	0.0%	0.0%
m. Grants and Donor Funding (% of GDP)	0.0%	0.0%	0.0%	0.0%	0.0%
n. Education Tax (TETFUND) (% of GDP)	0.2%	0.1%	0.1%	0.1%	0.1%
Total Revenue: Amount Available for FGN Budget (including GOEs) (% of GDP)	5.4%	2.8%	3.8%	4.3%	4.3%

Data source: 2023–2025 MTEF & FSP

9.2.2 Achieving fiscal legitimacy and a favourable social contract

According to the OECD (2007), fiscal legitimacy reflects the confidence citizens grant in their government’s performance in collecting and spending its tax revenue. For Nigeria to achieve an effective MTRS, fiscal legitimacy and the social contract will be made favourable to ensure that citizens are rightly motivated to pay their taxes and that the government fulfills its responsibilities of providing the necessary public goods and services.

Perception surveys in Nigeria reflect poor fiscal legitimacy, poor social contract, and low tax morale in the country. For example, in a countrywide survey by the Nigerian Economic Summit

Group, only 17% of the respondents think that it is wrong and punishable not to pay taxes in Nigeria.¹¹⁹ Furthermore, the survey revealed that almost 60% of the respondents think that Nigerians should not pay taxes until they get better services from the government. This is a significant challenge for Nigeria and a recipe for widening the SDG financing gap. Similarly, an Afrobarometer study on taxpayer perceptions also indicates poor social contract and poor fiscal legitimacy and this is reflected in the poor level of tax compliance in the country as well as the tax to GDP ratio.¹²⁰ The survey reveals that only 34% of Nigerians believe that the government makes judicious use of the taxes the citizens pay. This indicates a very low trust in government which negatively impacts tax compliance. Tax compliance in Nigeria is poor, and the tax-to-GDP ratio has remained at about 6% for many years, despite a growth in the economy over the years.

9.2.3 Increased compliance

One major problem facing Nigeria's revenue drive is poor compliance, which may be caused by many factors. To achieve its medium-term goals, Nigeria will take steps to significantly improve the rate of tax compliance in the country across all tiers of revenue administration. Against this backdrop is a quest to address problems associated with the poor level of compliance. These problems include high compliance costs, the multiplicity of taxes, a poor social contract, a large informal sector, and the weak capacity of tax administration.

The three-tier tax system of Nigeria means taxpayers may interface with the three different levels of tax authorities and on multiple taxes. Similarly, for state and local government taxes, taxpayers may have to spend a significant amount of time going to the tax office and to the banks to remit taxes, and this increases time spent filing taxes and may discourage compliance. This makes it challenging to adhere to the different requirements, with most taxpayers relying on the expertise of professionals that may be too expensive to employ. Furthermore, in the Finance Act 2021, the Nigerian government introduced an increment in the tertiary education tax rate and legislated that companies pay a portion of their turnover to the police trust fund.¹²¹ This further complicates the already challenging multiple tax system in the country as it increases the compliance cost of taxpayers due to additional tax filing and payment requirements. To address these challenges, these tax processes will be simplified to reduce the burden on the taxpayer and hence promote compliance.

9.2.4 Reducing the challenges associated with the informal sector

The informal sector of Nigeria constitutes more than half of its economy and provides significant challenges for compliance as most informal sector operators do not keep proper records. Some are very mobile, which makes it difficult for tax authorities to track and properly tax them. To achieve the MTRS effectively, Nigeria will explore ways to reduce the challenges the informal sector poses to Nigeria's revenue drive.

119 Nigerian Economic Summit Group, 2019, A survey of Nigerian households and small businesses—what do Nigerians think about taxes?

120 Afrobarometer 2020, Round 8 survey in Nigeria, https://afrobarometer.org/sites/default/files/publications/Summary%20of%20results/afrobarometer_sor_nig_r8_en_2021-01-27.pdf accessed 10/02/2022

121 Finance Act 2021

9.2.5 Reducing tax expenditure

Nigeria has developed several tax incentives in a bid to attract or deepen investment in certain sectors of the economy. Although the policy to attract investment seems a good approach to improving the country's well-being, studies have shown some of these incentives can be counter-productive and ineffective—leading to a loss in revenue that is critical for development. For example, Nigeria grants tax holidays to certain businesses that qualify, even though these incentives have been proven to be wasteful.¹²² These incentives, which are also referred to as tax expenditures, have a high opportunity cost, and they undermine efforts to improve revenue collection in the country. In order to surpass the medium-term revenue-to-GDP target by 2026, Nigeria will review these incentives as appropriate to ensure that if incentives are to be granted, they are effective and not wasteful. Furthermore, Nigeria will invest in factors that attract real investment and will make it a more competitive market—ease of doing business, institutional efficiency, adequate infrastructure, security, efficient regulatory mechanisms among others.

9.2.6 Reducing illicit financial flows

Based on the report of the High-Level Panel on Illicit Financial Flows, Nigeria is one of the African countries with the highest illicit financial flows (IFFs), and this undermines the developmental efforts of the country and its efforts to meet the SDGs. The major contributors to IFFs in Nigeria are aggressive corporate tax avoidance, abusive transfer pricing, and trade mis-invoicing.

9.3 Tax Reform Strategy

Tax reform is key to achieving the objectives of the MTRS and, indeed, the national development plan in Nigeria. Nigeria's tax system requires comprehensive review to meet the changes in the global and local economy. The Nigerian government has made several efforts to reform the tax system. First, it developed the National Tax Policy (NTP) of Nigeria in 2012 and later reviewed it in 2017 to fill the gaps that were observed in the earlier document. The NTP principally advocates the need for taxation to be a basis for efficient economic management and development, wealth creation and employment, diversification, focus on indirect taxes, and inequality-reducing attributes through tax rate convergence.

Furthermore, the Nigerian government has, over the years, invested in automating the Federal Inland Revenue Service and the Nigerian Customs Service, the two key government revenue-generating organisations in the country. The Nigerian government has also developed the Finance Act from the year 2019 to 2021, among other things, to address loopholes and weaknesses in the tax law annually. One of the outcomes of the Finance Act is the increased

122 International Monetary Fund, OECD, United Nations, and World Bank (2015), Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment: A Report to the G-20 Development Working Group by the IMF, OECD, UN and World Bank <http://elibrary.worldbank.org/doi/book/10.1596/22923> accessed 02/02/2022; Meinzer, Ndajiwo, Etter-Phoya and Diakite, 2019, Comparing tax incentives across jurisdictions: a pilot study https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions_Tax-Justice-Network_2019.pdf accessed 03/02/2022

VAT rate due to the country having one of the lowest VAT rates in the world. However, despite these attempts, Nigeria's tax-to-GDP ratio remains at about 6%, which is far below the average of 30 African countries in 2019.¹²³

9.3.1 Tax policy reform strategy

There are two key areas of tax reform: tax policy reform and tax administration reforms.

9.3.1.1 The tax policy reform process in Nigeria

The tax policy reform process in Nigeria begins with the identification of gap areas in the tax system for improvement. Policy makers and/or the Ministry of Finance, Budget and National Planning (MoFBNP) conceive reform ideas and then proceed to formulate reform proposals.¹²⁴ These ideas are discussed with the relevant stakeholders in government, civil society, and the private sector. This culminates in a document for approval by the Federal Executive Council (FEC), presided over by the president.

Similarly, through the annual Finance Bill/Act, changes are made to the tax law in a consultative manner. The MoFBNP receives input from relevant stakeholders, including the Federal Inland Revenue Service, the Customs Service, civil society, the top accounting and law firms, and the private sector. The outcome of the consultation results in a draft bill submitted to the National Assembly for deliberation—the assembly calls for a public hearing and takes more input from stakeholders. Afterwards, the bill is sent to the president for assent, and it becomes an act of law.

While the Finance Act process is inclusive, it will be made more efficient through the following:

- The interventions suggested will be evidence-based.
- There will be a monitoring and evaluation framework to evaluate the impact of the different changes to tax law over time.
- There will be effective participation of the relevant stakeholders such that inputs are taken on board by the MoFBNP.
- The National Assembly finance committees shall scrutinize the submissions to ensure they speak to the needs of Nigerians.

9.3.1.2 Optimizing Nigeria's Value-Added Tax (VAT)

VAT is one of the most sustainable taxes to collect as it is easy to administer compared to corporate taxes, and it is difficult to avoid given a reliable compliance framework. Hence the need to invest in reforming the VAT system to make it an efficient one. With a population of over 200 million people, VAT as a consumption-based tax has significant potential to revolutionise the revenue collection of Nigeria.

To optimise Nigeria's VAT system, which will lead to increased revenues, the MTRS considers the need to address the compliance risks associated with VAT. These risks include centralised filing

123 <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf>

124 Sandford, Cedric Thomas. *Why tax systems differ: A comparative study of the political economy of taxation*. Fiscal Publications, 2000.

and payment of VAT at the headquarters of companies, which causes gaps in the compliance framework. Based on this, the MTRS will ensure that VAT is remitted by each company either at the branch or headquarters in its location, and this will further ensure more vigilance by the relevant FIRS office in the location. The VAT rate of 7.5% should be gradually increased to 10% in the next five years with a 0.5 percentage point increase annually. This will ensure the impact is smaller and that a real increase is achieved with improved compliance. This will lead to an improvement of at least 25% of VAT collection. The Nigerian government will increase the VAT rate on luxury items over the medium term to increase the revenue base. Items of luxury to be considered include business and first-class tickets, charter flights, exotic vehicles, VIP services, and many more. A VAT rate of 15% should be considered for luxury items.

9.3.1.3 Customs reforms

Reform of the Nigerian Customs Service is fundamental as it constitutes a significant revenue source. It is an important body that facilitates trade between Nigeria and the outside world. To improve the Nigerian Customs Service:

- i. Nigerian customs will focus on trade facilitation that is highly needed in Nigeria, especially with the advent of the Africa Continental Free Trade Agreement. Presently, revenue from imports is reduced due to the inconsistencies of customs regulations, complicated and lengthy clearance processes, port congestions, and corruption. These will be addressed to promote trade, which in turn increases revenue.
- ii. Customs exemptions will be reviewed to ensure that redundant and harmful exemptions are removed to avoid unnecessary loss of revenue.
- iii. High tariffs on items that aren't produced in the country, such as cars, will be discouraged as high tariffs are usually correlated with high smuggling and loss of trade revenues.

9.3.1.4 Sin taxes

Most sin taxes are collected as excise duties by the Nigerian Customs Service on items ranging from tobacco, beer and stout, wine, spirits, and recently sugar drinks. The tax policy document needs to accentuate this tax as an essential tool to generate more revenue. The Nigerian government will:

- i. Benchmark excise duties collected against the cost of health and other health-related matters.
- ii. Raise sin tax rates to enable the government to raise more revenue and discourage the consumption of these products.
- iii. Adopt proposals by ECOWAS to expand list of items that are subjected to sin tax (excise duties) to ensure uniformity across the region in sin taxation.

9.3.1.5 Informal sector taxation

Informal sector taxation has remained challenging for Nigeria's government. Despite attempts to stop increasing informality, the situation remains relatively the same. Below are some tax policy reform proposals the MTRS will undertake over the medium term:

- i. The Nigerian government will **strengthen anti-money laundering laws** that discourage huge cash-based transactions to encourage taxpayers to engage in the formal electronic banking system that can be easily traced.

- ii. **Financial inclusion efforts** shall be rigorously pursued by the three tiers of government by incentivising both the operators and the users of suitable models. These models include conventional banking, mobile money, and mobile banking.
- iii. The government shall adopt special **compliance tools**, including sophisticated data analytic tools that will help to enforce compliance.
- iv. The government, mainly through the FIRS, will employ **behavioural change campaigns** and outreach to build trust with the informal sector participants through their informal groups. These groups are organised in forms where monthly dues are collected from their members, and bargaining is encouraged against multiple taxations and for improved public services received. Building trust with them can help to bring them into the system.
- v. The government shall explore the use of a **presumptive tax system**. Informal sector operators usually do not keep adequate records for tax purposes which makes it difficult to assess them properly to tax. Therefore, it becomes necessary to adopt a presumptive tax system based on well-designed criteria to avoid abuse.
- vi. A simplified collection mechanism such as the use of unstructured supplementary service data (USSD) will be strongly considered for informal sector payment compliance as it may encourage taxpayers in the sector.
- vii. For stakeholder buy-in and support to implement strategies for the taxation of the informal sector, the FIRS and other relevant revenue authorities shall liaise with unions responsible for informal sector groups to come up with an inclusive compliance framework. Often, unions are given some level of responsibility with some incentives to ensure their members are compliant.
- viii. Engage women-based associations like the market women associations to ensure all earning women are encouraged to remit taxes in exchange for direct social benefits.

9.3.1.6 Non-tax revenue

Non-tax revenue is a crucial source of revenue for financing development projects and social services. To improve non-tax revenue collection, the following strategies will be considered:

- i. Improve the monitoring and tracking of **revenue from government-owned enterprises (GOEs)** and develop a model for continuous improvement in activities. Also, steps will be taken to make these enterprises more financially and commercially efficient, and through privatisation where appropriate.
- ii. Develop a special regime for mining in Nigeria to enable the government to earn incremental **amounts of royalties, charges, and other fees**. This makes transparency efforts fundamental to achieving this goal.
- iii. Implement the Petroleum Industry Act to ensure the government's increased income in the oil & gas sector.

9.3.1.7 Tax incentives and exemptions

Tax incentives and exemptions are becoming burdensome on Nigeria without any clear understanding of the benefits that have accrued to the government over the years. The Nigerian government shall employ the following strategies to reduce this onerous situation:

- i. **Deepen the publication of tax expenditure statement (TES) by improving tax benchmarking and coverage:** For over three decades, Nigeria has prepared TESs for only 2019 and 2020.

The tax expenditure statement as it is does not give an accurate picture of the opportunity cost of granting tax incentives. Hence, there is a need to improve the TES by capturing data that shows and measures the opportunity cost of granting these incentives. If data shows these costs to be too great, then incentives will be ceased accordingly.

- ii. **Phase out profit-based tax incentives:** Studies have shown that profit-based tax incentives such as tax holidays are harmful and do not necessarily attract new investment.¹²⁵ Therefore, the Nigerian government will need to phase out these incentives especially considering the global reforms to adopt a global minimum tax rate which may see countries lose their revenues to others due to tax incentives.
- iii. Ensure there is a **cost-benefit framework** in place for all incentives.
- iv. There shall be **monitoring and evaluation of tax incentives** to understand the impact and avoid wastage.

9.3.1.8 Taxation of the digitalised economy

To reduce the negative impact of globalisation, which has adversely affected some developing countries, Nigeria's government needs to step up technologically. In the Finance Act 2021, Nigeria introduced a 6% tax on the turnover of non-resident companies that have a significant digital economic presence in Nigeria. If appropriately implemented, the turnover tax may increase revenue for Nigeria. However, it would be easy for the digital companies to pass on the cost and burden to Nigerians.

Nigeria will adopt the following strategies over the medium term to achieve revenue goals:

- i. Continue to advocate for policies that are favourable to Nigeria at the international tax level.
- ii. Invest in information systems and data analytics to track and tax transactions online. These systems will collect VAT directly when transactions are carried out and gather information regarding all transactions for other taxes. This will be achieved through the integration of systems between FIRS and taxpayers.

9.3.2 Tax administration reform strategy

Tax administration is dynamic and calls for continuous reform that will keep it at pace with changes in the ecosystem in which they operate. Reforms are carried out to achieve improved compliance through voluntary and enforced compliance.

9.3.2.1 Voluntary compliance

Voluntary compliance is the core of taxation globally. This is the main aim of the self-assessment system that is geared towards reducing the cost of tax administration and shifting the responsibility

125 International Monetary Fund, OECD, United Nations, and World Bank (2015), Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment: A Report to the G-20 Development Working Group by the IMF, OECD, UN and World Bank <http://elibrary.worldbank.org/doi/book/10.1596/22923> accessed 02/02/2022; Meinzer, Ndajiwo, Etter-Phoya and Diakite, 2019, Comparing tax incentives across jurisdictions: a pilot study https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions_Tax-Justice-Network_2019.pdf accessed 03/02/2022

of filing and paying taxes to the taxpayers. This has become a defining approach in most countries, but Nigeria is struggling to ensure that taxpayers comply voluntarily.

To improve voluntary compliance in Nigeria, the following strategies will be considered:

- **Improve social contract between government and taxpayers through accountability and transparency.** This will be achieved through public engagement about intended policies, taxpayer education, and informing taxpayers on the government's efforts and how taxes are being utilised. Additionally, the government will make concerted efforts to address corruption in public service and in the revenue administrations.
- **Reduce compliance costs for taxpayers.** Another important strategy the Nigerian government will employ to improve voluntary compliance is to make it easier for taxpayers to comply. Currently, taxpayers must submit multiple taxes to multiple jurisdictions and levels of government on a monthly and annual basis. Therefore, the government will work together with the Joint Tax Board to harmonise taxes and reduce the multiplicity of taxes. Furthermore, tax compliance processes will be simplified to encourage taxpayers.

9.3.2.2 Compliance risk management approach

Compliance risk management is a crucial part of tax administration as no tax authority is without one form of non-compliance or the other. The approach is built around the four cardinal levels of compliance—registration, reporting, filing, and payment.¹²⁶ The main aim of compliance risk management is to provide a robust framework to analyse, prioritise, monitor, evaluate, and treat taxpayer compliance risks for purposes of increasing tax revenue and voluntary compliance.

To achieve an efficient compliance risk, the tax administration in Nigeria will develop a framework that will implement the following approach to:

- Understand context to identify peculiarities about compliance in Nigeria.
- Identify and analyse compliance risks in tax administration.
- Evaluate the level of compliance risks in the country.
- Prioritise those compliance risks identified and analysed according to impact on the fiscal position.
- Identify and introduce remedies for compliance risks identified and analysed.
- Monitor the adequacy and effectiveness of the treatment strategies employed.
- Effectively communicate and consult with internal and external stakeholders to foster inclusive implementation of the strategies.

9.3.2.3 Compliance enforcement

Compliance enforcement is a pivotal aspect of tax compliance especially in a self-assessment regime. Since taxpayers are expected to file voluntarily, there are several instances where taxpayers fail to comply in either registration, reporting, filing, or payment. To bridge this gap, tax authorities set up enforcement tools like tax audits and other deterrence tools to enforce compliance.

¹²⁶ OECD's Guidance Note on Compliance Risk Management: Managing and Improving Tax Compliance 2004 <https://www.oecd.org/tax/administration/33818656.pdf>

For this to be achieved, the Nigerian government will build the capacity of tax auditors through continuous training, ethical reorientation, and the availability of working tools.

Furthermore, effective compliance enforcement is achieved through interagency collaboration. For instance, the FIRS partners with the Nigerian police when they seal the premises of defaulting taxpayers. The FIRS collaborates with other law enforcement agencies such as the Economic and Financial Crimes Commission and others in a joint task force to carry out special compliance enforcement activities.

These strategies will be pursued and strengthened to reduce the loopholes in the revenue framework in the country.

9.3.2.4 Digitalisation of tax administration

To further improve voluntary compliance, adopting technology to ease the taxpayers' efforts has proven effective in different tax jurisdictions. Online registration, filing, and payment are central to modern compliance necessities and tend to reduce the compliance cost of taxpayers when adopted with contextual considerations. Moreover, digitalisation also involves other operations of the tax authority to create efficiency in the system and, in so doing, ultimately contributing to increased compliance.

The FIRS had launched a tax solution (ITAS) some years ago, which was not fully implemented owing to reform and design challenges. In 2020, it also adopted another tax solution, TaxPro-Max, which is currently being used. The Nigerian government will ensure that the progress made so far is sustained and the solution's capacity is improved upon to achieve resilience.

Tax administrations and other revenue-generating agencies will continue to invest in automating their revenue collections to ensure efficiency, control, and to plug leakages.

9.3.2.5 Inter-agency collaboration

Inter-agency collaboration is an integral part of achieving the objectives of MTRS. Synergies are expected between relevant ministries and agencies of government to enable tax authorities to get as much information on tax as possible.

In Nigeria, any strong collaboration between FIRS and other ministries of government will help to ensure that more taxes are collected, and development is achieved. The Nigerian government will achieve this through:

- The setting up of an effective joint task force of relevant agencies to monitor income, transactions, and paid taxes.
- Integration of systems for information sharing and monitoring and the signing of working agreements to avoid bureaucracies discharging their duties will be given utmost priority. One example of such existing collaboration is the integration of the FIRS and Corporate Affairs Commission. Once a company is registered, a taxpayer identification number can be automatically generated through the system. This reduces the administrative cost on the part of FIRS and increases efficiency.

9.3.2.6 Improving tax administration capacity

The need to step up attempts in building capacity through staff training and entrenching ethical values is vital. The Nigerian government will invest in improving both staff capacity and institutional capacity. Capacity-building programmes will be designed and targeted based on functionality and impact.

To achieve a sustainable and impactful capacity-building strategy, monitoring and evaluation are important. This will be carried out periodically to measure impact and to identify key information to improve the programmes.

Capacity-building will be planned annually and over a medium term of five years. Capacity building plans, along with any reform plans, will be designed to ensure that the institutions have the right calibre of trained staff to take on the institutional changes required by the reforms being adopted.

Capacity building in high-value areas of taxation and revenue administration will be emphasized, such as audit functions, investigation, and taxpayer education.

9.3.2.7 Federal, state, and local government revenue collaboration

The collaboration and harmonisation between the three tiers of governments on revenue matters is one of the requirements in achieving DRM goals. Most local governments in Nigeria lack the capacity to deploy the necessary tools to generate revenues as stipulated in the list of taxes and levies collectible by the last/third tier of government. For instance, most local governments lose large sums of tenement rate assessments to taxpayers because of poor technology adoption and weak enforcement powers. Similarly, to achieve the medium-term revenue goals, the MTRS will:

- Ensure **local governments collaborate with state governments** because they have stronger political, economic, and technological powers that can be useful in assisting in the collection of revenues.
- The FIRS and state revenue authorities will **collaborate on the exchange of information** that will provide data on taxpayers—this will improve the assessment capacity of tax administration on both sides.
- Through the Joint Tax Board, **harmonisation of taxes across the three tiers of government** will be carried out to reduce the multiplicity of taxes and address any disputes among the three revenue administrations.

9.4 Sustained Political Commitment

The MTRS process is country-owned and tailored towards Nigeria's needs. The ownership comes from the president and the minister of finance, budget and national planning. They will galvanize support and buy-in to ensure the effective implementation of the MTRS. For this to be successful, the following strategies will be considered:

- The Minister of Finance, Budget and National Planning will set up a steering committee made up of key stakeholders. These key stakeholders include representation from the FIRS, Nigerian Customs Service, the Central Bank, the National Assembly committees of finance, and officials of the MoFBNP, and representatives of states through Nigeria's governors forum and the Joint Tax Board. Additionally, experts and members of civil society will be considered.
- The committee will be given clear terms of reference on how to ensure the MTRS continues to get the highest support it requires to succeed.
- The committee shall review progress and periodically submit reports to the minister of finance.

9.5 Donor Support to Implement the MTRS

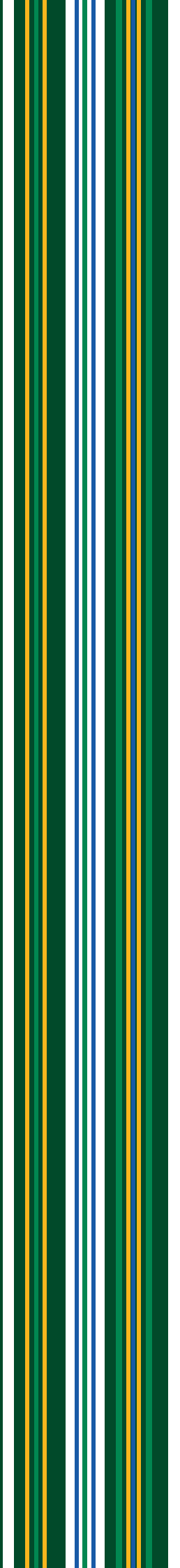
The support of donor organisations is strongly needed to achieve the MTRS goals. However, there is a need for donor coordination to ensure the efficiency and effectiveness of interventions. Key among these institutions are the UNDP, the EU, the IMF, the World Bank, and the African Development Bank.

This coordination shall be carried out by a specific office within the MoFBNP or a steering committee of key affected agencies such as the FIRS, Nigerian Customs Service, and the Joint Tax Board representing state revenue authorities. The body tasked with coordinating the technical assistance and support from the donor organisations will do the following to ensure effectiveness:

- Identify critical areas for support based on donor expertise and interests.
- Ensure donor agencies complement each other rather than duplicate efforts.
- Encourage donor agencies to provide support in strengthening institutional capacity in terms of training, designing effective strategies, and formulating frameworks.
- Put in place an effective monitoring and evaluation framework to measure the impact and effectiveness of the new and existing strategies and frameworks.
- Implement points-based or criteria-based donor/grant assistance frameworks such as the World Bank Grant States Fiscal Transparency, Accountability and Sustainability (SFTAS) programme.
- Set the Nigerian agenda for reform in collaboration with key stakeholders to ensure that context is considered. It will ensure that the assistance rendered will make the desired impact, which will be achieved through consultation.
- Use a government-led and a bottom-up approach for the donor assistance framework that carries all key stakeholders in the country.

10.

MEDIUM-TERM EXPENDITURE FRAMEWORK



10.1 Background of the MTEF

Integrated National Financing Frameworks (INFFs) have several important components, which together help to form an entire framework. This specific component is the Medium-Term Expenditure Framework (MTEF), which is to be applied to spending in Nigeria with the intention of addressing the Sustainable Development Goals (SDGs).

As a key component of an INFF, the MTEF explicitly covers spending on SDGs. The MTEF:

- Takes a strategic and forward-looking approach to establishing government (and perhaps other) SDG spending priorities and allocating resources. This means shifting away from a focus on only one fiscal year and developing a medium-term perspective that frames the evolution of public spending over time.
- Determines the level and composition of SDG-related public expenditures considering both current and emerging needs. This means combining a top-down and bottom-up approach to planned spending.
- Looks across sectors, government programmes, and projects to see how SDG spending can be restructured to best serve established policy objectives. Ideally, a matrix approach would be developed that integrates spending by ministry, sector, programme, and initiative.
- Is integral to the annual federal budget, and a centerpiece of the budget process (ideally including or referencing states), and incorporates budgeting over the medium term, i.e., going beyond the annual budget for the federal and state governments.¹²⁷

10.2 Linking of the MTEF to the MTRS

The MTEF is both guided and constrained by the Medium-Term Revenue Strategy (MTRS), which is parallel with MTEF as another key component of the Nigeria INFF.

The MTRS is a key document for identifying potential SDG financing, primarily focused on domestic revenue mobilization (DRM) through effective taxation. It enables and supports the implementation of the MTEF by providing a realistic assessment of available financing. The Nigerian MTRS addresses specifically the central issue of the SDG financing gap and the capacity to generate financing for the SDGs via enhanced use of taxation and the generation of other revenues. The MTRS also de facto defines and constrains the overall level of SDG spending that is sustainable.

127 See World Bank, *Beyond the Annual Budget Global Experience with Medium-Term Expenditure Frameworks*, 2013, pp. 7–8.

The capacity of the Nigerian government to increase investment and spending in support of SDGs is significantly constrained. As the MTRS notes, Nigeria has averaged a tax-to-GDP ratio of around 5.7% since 2015, compared to a ratio of 16.6% for Africa as a whole. This situation calls for reform in both the tax policy and tax administration components of the tax system, as articulated in the MTRS. In addition, further debt accumulation is risky as the government is already heavily burdened with debt service obligations. Enhanced resource mobilization will therefore be required from the domestic private sector and from external sources, both public and private.

The Nigeria MTRS therefore sets a target of surpassing the 4.3% revenue-to-GDP of the 2023–2025 Medium Term Expenditure Framework and Fiscal Strategy Paper (2023–2025 MTEF and FSP) by the year 2026. Achieving this will significantly depend on the tax reforms to be carried out, strengthened tax administration, the coordination of donor support, and a strong political commitment on the part of the government. The MTEF will be guided by MTRS revenue targets by 2026 as it sets out its spending priorities.

10.3 MTEF Foundations

10.3.1 Approach to developing the MTEF framework

An MTEF is a framework that offers the desired clarity to the budgetary process for financing SDGs. In developing the MTEF, the following were considered:

10.3.1.1 Medium-Term Macro-Fiscal Framework

The first step in defining SDG objectives and identifying related financing is determining a medium-term macro-fiscal framework, which is fundamental for budget preparation. This framework helps to enhance the quality of basic annual and medium-term budgeting by providing a solid foundation for detailed budgeting. With this foundation in place, specification of the SDG spending envelope is defined in detail as a core part of the medium-term macro-fiscal framework. Based on reasonable projections for economic growth, the MTEF provides a top-down view of total SDG spending as a core part of a detailed SDG expenditure plan. Both the DFA and current MTEF and FSP go some way toward meeting this goal, but more detail is required on total planned SDG spending over the planning period as an anchor for a detailed SDG expenditure plan.

10.3.1.2 Technical Foundation

A medium-term macro-fiscal framework requires a solid technical foundation to be effective and credible. Macro-fiscal modeling that is based on a realistic and credible economic forecast is an important cornerstone. This forecast provides expected annual changes in both real GDP (i.e., with the impact of inflation removed) and nominal GDP (including the impact of inflation), which is a particularly important variable that helps to drive the growth over time in available government revenues.

The current Nigerian MTEF and FSP provide a solid Nigerian economic outlook, which is an indispensable foundation for the federal budgeting process. The economic outlook in the current MTEF and FSP addresses key global and domestic developments and projections, including projected changes to GDP in aggregate and by sector, employment trends, and trade developments. It also includes a discussion of monetary conditions (inflation and interest rates) and exchange rate developments. The current MTEF and FSP provide a high-level outlook for real and nominal growth for 2021–24, which is a key part of the Nigerian economic outlook. The projection of real and nominal growth is important for the projections of available government revenues, which are typically closely related to changes in annual nominal GDP.

The current MTEF and FSP also identify risks facing the Nigerian economy. Highlighted risks include geopolitical risks, developments in global oil markets, exchange rate risk, risks arising from crypto and digital currencies, and risks to non-oil revenues. Analysis includes the likelihood of an event occurring, the potential impact, and possible mitigation strategies.

Thus, the current MTEF and FSP provide the technical foundation on which the MTEF for the SDGs is built.

10.3.1.3 Fiscal Forecast

Building on the forecast for nominal and real GDP growth, the MTEF then includes a medium-term fiscal forecast as a fundamental part of the framework, which underpins the medium-term plan for SDG spending. The fiscal forecast includes:

- Projected revenues for each fiscal year.
- Key planned annual expenditures, particularly on SDGs.
- The projected fiscal balance for each fiscal year; and
- Plans for mobilizing and managing public debt used to finance any budget deficits.

A medium-term fiscal forecast typically covers a period of up to five years and is updated regularly, at least annually.

The current MTEF and FSP provide high-level projections of available revenues and expected spending to 2025, plus a detailed debt management plan. Table 16 provides a broad overview of the expenditure projections in the MTEF and FSP, as a percentage of the GDP.

Table 16: 2023–2025 MTEF & FSP Expenditure Projections

Budget Items (as a percentage of GDP)	Amended 2022 Framework	2023 Scenario I—Business as Usual	2023 Scenario II—Subsidy Reform	2024	2025
1. Statutory Transfer (% of GDP)	0.4%	0.3%	0.3%	0.3%	0.3%
2. Debt Service (% of GDP)	2.0%	2.9%	2.8%	3.2%	3.7%
3. Sinking Fund (% of GDP)	0.2%	0.1%	0.1%	0.1%	0.1%
4a. Recurrent (Non-debt) (% of GDP)	3.9%	3.8%	3.8%	3.5%	3.0%

Budget Items (as a percentage of GDP)	Amended 2022 Framework	2023 Scenario I–Business as Usual	2023 Scenario II–Subsidy Reform	2024	2025
4b. Special Intervention (Recurrent) (% of GDP)	0.2%	0.2%	0.2%	0.1%	0.1%
5a. Aggregate Capital Expenditure (% of GDP)	3.2%	0.7%	1.2%	1.2%	1.2%
5b. Capital Expenditure (Exclusive of Transfers) (% of GDP)	2.9%	0.5%	1.0%	1.0%	1.0%
Total Expenditure: Total FGN Budget (including GOEs & Project-tied Loans) (% of GDP)	9.4%	7.6%	8.0%	8.0%	8.1%

Source: 2023–2025 MTEF & FSP

More detail will be provided in future MTEFs, based on the components outlined here. Budget 2022 provides both a preliminary fiscal update for 2021, and fiscal projections for 2022 that can be used as a cornerstone for a MTEF fiscal forecast.

On the expenditure side for 2021, N12.56 trillion, or 94.1% of the N13.57 trillion pro rata budget target, had been spent by November 2021. This performance is inclusive of expenditure estimates of the GOEs, but exclusive of project-tied loans. Of that amount:

- N4.20 trillion was spent on debt service,
- N3.02 trillion was spent on personnel costs, including pensions, and
- N3.40 trillion had been expended for capital. Of this amount, N2.98 trillion or 83% was spent on the provision for MDAs' capital, N369.9 billion for multilateral / bilateral project-tied loans, and N49.52 billion as GOEs capital expenditure¹²⁸.

10.3.1.4 Aggregate Fiscal Targets

The MTEF (in coordination with the MTRS) shows estimates on fiscal aggregates for both revenue and key expenditures over the planning period, and the resulting overall fiscal position—balanced, deficit or surplus. The fiscal aggregates will reflect both past revenue and spending trends and an ongoing repositioning of priorities and pressures. The aggregates will be based on a top-down approach, where estimates are developed by the Ministry of Finance for top-line revenues and potential expenditures. These estimates are then reconciled with aggregated bottom-up estimates for expenditure items by ministry / programme, and by potential sources of revenue.

As outlined in Budget 2022, key aggregate revenue components in the MTEF include projected tax revenues by broad tax source, and non-tax revenues by broad source. Projected aggregate SDG spending and overall spending will be identified in the MTEF by fiscal year.

128 *Ibid*, p. 13.

The current Nigerian MTEF and FSP provide reporting on 2020–21 planned expenditures and actual results, and a top-line expenditure outlook to 2025. It does not outline total planned SDG spending for the current fiscal year or future years. Total current and planned SDG spending and overall spending are key parts of a well-developed MTEF and will be provided in future.

The 2022 budget provides an update on Nigeria's fiscal framework and creates a foundation for the MTEF fiscal outlook. Budget 2022 was developed in line with the government's development priorities, as articulated in the National Development Plan (NDP) 2021–2025. Further, it takes into consideration the policies/strategies contained in the 2022–2025 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF and FSP). The budget was also prepared using the zero-based budgeting (ZBB) approach. Allocations to ministries, departments and agencies (MDAs) were guided by the core objectives of the NDP 2021–25.¹²⁹

Projected aggregate revenues available to fund the 2022 budget are N10.74 trillion (inclusive of GOEs), which is 32% higher than the 2021 projection of N8.12 trillion. In aggregate, 35% of projected revenues are expected to come from oil-related sources, while 65% are to be earned from non-oil sources.¹³⁰

Aggregate FGN expenditure expected in 2022 (inclusive of GOEs and project-tied loans) is projected at N17.13 trillion, which is 18% higher than the 2021 budget.

- Recurrent (non-debt) spending is projected at N6.91 trillion, or 20% higher than the 2021 budget and 40% of total planned expenditure.
- Planned aggregate capital expenditure is N5.96 trillion, or 35% of total expenditure. This provision is inclusive of the capital component of statutory transfers, GOEs capital and project-tied loans expenditures.
- Planned debt service amounts to N3.61 trillion or 21% of total expenditure.¹³¹

10.3.1.5 Setting policy priorities

With estimates developed on fiscal aggregates for the next fiscal year for both revenue and expenditures, the MTEF breaks down the medium-term fiscal forecast into key components, for both revenues (relying on the MTRS) and key expenditures. Expected aggregate SDG spending is identified in the MTEF for the next fiscal year of the planning period, and the key components of SDG spending and other public spending will be defined in more detail. The MTEF focuses on direct SDG spending but recognizes that other spending will be required and provides implicit support for SDGs.

Projections for both annual revenues and SDG and other expenditures will need to be revised regularly (at least annually), as well as for the resulting overall fiscal balance. The plan to finance any deficit and to manage the total stock of public debt should also be provided in the MTEF, at least in summary.

129 *Ibid*, p. 20.

130 *Ibid*, p. 30.

131 *Ibid*, p. 32

10.4 MTEF For the SDGs

The MTEF for the SDGs shows the costs that need to be met for the medium-term selected SDGs to be achieved by the year 2026.

10.4.1 Current projections

Nigeria's Medium-Term National Development Plan (MTNDP) for 2021–2025, released in March 2021, sets a goal of achieving broad-based economic growth of about 3.8% annually on average, with non-oil GDP growth of 4% and oil GDP growth of 2.1%. The MTNDP provides the following key indicators for the planning period:

Table 17: Nigeria's GDP Projections

Indicator	2020	2021	2022	2023	2024	2025
Real GDP Growth (%)		1.9	3.2	3.7	4.6	5.6
Oil GDP (constant basic prices) (N'B)		(1.37)	2.20	3.08	3.41	3.07
Non-Oil GDP (constant basic prices) (N'B)	2.22	3.27	3.75	4.73	5.85	
Agric GDP (constant basic prices) (N'B)		2.12	2.46	3.07	4.10	3.87
Industrial GDP (constant basic prices) (N'B)	13.90	5.94	6.83	6.74	7.41	
Services GDP (constant basic prices) (N'B)	(3.05)	2.25	2.47	3.81	5.62	
Private Consumption Expenditure (N'B)		1.94	2.12	4.09	4.26	5.06
Gross Fixed Capital Formation (N'B) (constant prices)	(0.23)	6.26	6.60	7.04	8.26	
Private Investment (N'B) (constant prices)	(0.44)	3.86	6.28	7.01	7.24	
Public Investment (N'B) (constant prices)	31.43	9.17	10.24	10.65	11.79	

Source: MTNDP, 2021, p. 9.

It should be emphasized that these numbers from the MTNDP are objectives or desired outcomes, not projections of actual outcomes that are regularly updated that increase their accuracy. Nevertheless, they are an important indicator of the scale of economic activity that Nigeria is aiming to achieve and believes to be attainable.

The National Poverty Reduction with Growth Strategy (NPRGS), also released in March 2021, assumes a gradually increasing annual growth of real GDP from 2.3% to 4.4% during 2019–2024, and real GDP growth of 6% per annum during 2025 to 2030.

Budget 2022 is based on these plans and provides the following macroeconomic projections:

- Nominal GDP is projected to increase by 9.4%, rising from N168.60 trillion in 2021 to N184.38 trillion in 2022, and then to N221.78 trillion in 2024. Growth in nominal GDP is an important driver of government revenues.
- Real GDP is forecast to grow by 4.2% in 2022, 2.3% for 2023 (an election year) and 3.3% in 2024.

- Consumption is projected to increase by 9.36%, from a revised N136.57 trillion in 2021 to N149.35 trillion in 2022.
- Inflation is projected to slow to 13% in 2022 and 10% by 2024. However, inflation is projected to remain in double digits in the medium term given structural issues impacting the cost of doing business, including high food distribution costs.¹³²

10.4.2 Medium-term SDG priorities

The following eight broad macroeconomic goals as identified in the MTNDP, are key indicators of Nigeria's immediate development priorities:

1. Continue to contain the economic and health impact of the pandemic through fiscal and monetary policies in a transparent and efficient manner.
2. Sustain the economic recovery and put the economy on a path of increasing per capita income to avert the past trend of higher population compared to real GDP growth.
3. Macroeconomic stability, anchored on coordinated fiscal and monetary policies, to achieve a reduction in inflation, a foreign exchange regime that allows for managed flexibility and consistency with macro-structural fundamentals.
4. Broad-based economic growth of about 3.8% on average; with non-oil GDP growth of 4% and oil GDP growth of 2.1%.
5. A more competitive non-oil sector and a more robust and resilient economy that is less dependent on the oil sector.
6. Increased employment generation projected increase of about 25 million, with 10 million from direct growth impact, and 15 million from skill acquisition and other interventions.
7. The projected real GDP growth during 2021-25 would be sufficient to ensure that about 10 million people do not fall into poverty.
8. An additional 25 million people will be taken out of poverty, ensuring that the poverty rate reaches 31% by 2025 compared to 40% in 2020.¹³³

While these goals are not explicitly based on the SDG framework, they are consistent with the overall purpose and aims of the SDGs. The MTNDP goals above are particularly well-aligned with the SDGs with respect to poverty reduction and prevention, employment generation, skills development, and economic growth.

Therefore, for the MTEF for financing the SDGs, Nigeria's immediate SDG priorities, for the period 2022–2026 can be identified as: SDG 1: No poverty; SDG 2: Zero hunger; SDG 3: Good health and well-being; SDG 4: Quality education; SDG 8: Decent work and economic growth, and; SDG 9: Industry, innovation, and infrastructure.

This early stage of alignment between the MTNDP and the SDGs creates an important intersection between the two approaches for setting national development goals. Going forward, Nigeria will make full use of the SDGs within the MTEF framework in bringing the MTNDP and the SDGs into further and more comprehensive alignment. Therefore, in future, the MTNDP and MTEF will both be designed to make explicit use of the SDGs in defining Nigeria's evolving development goals.

132 "Public Presentation of 2022 Approved Budget", p. 5.

133 MTNDP, p. 8.

As noted earlier, Budget 2022 indicates that it was prepared taking into consideration the MTNDP and the policies and strategies contained in the 2022–2024 MTEF/FSP. By building on this practice, the MTEF and future budgets will also become fully aligned.

10.4.3 Baseline priority SDG budget estimates and assumptions

The SDG expenditure baseline is founded on recent and current national budget allocations and commitments for the SDGs, and on evolving goals and priorities. It is informed by an assessment of each SDG's priority and guided by projections of available revenues. The allocation of financing reflects:

- Each SDG's relative importance.
- Past commitments made.
- The urgency for action (i.e., need).
- The ability to make meaningful progress (i.e., do-ability and low-hanging fruit).
- Keys elements of the Development Finance Assessment (DFA).

Nigeria has faced several recent challenges in defining its SDG baseline. The combination of COVID-19 and a sharp downward shock in oil prices early in 2020 hit the economy hard, and 2020 GDP contracted by 2.5%. This GDP contraction had a knock-on effect on available government revenues, which were 27% lower than expected in FY 2020. On the expenditure side, 2020 spending was slightly higher than initially projected, but that spending had to be reallocated to debt service costs that were 10.6% higher than planned, in addition to unexpected COVID-19-related spending. Non-recurring or capital expenditures in 2020 were thus 11% lower than initially planned. In these circumstances, overall development and SDG expenditures in 2020 were constrained and were therefore not representative of a reasonable SDG expenditures baseline.

Budget 2021 anticipated a recovery in the economic environment, with growth initially projected at 3% and later revised to 3.5%. A strong projected recovery in total revenues (expected growth of 37%) created space for much higher expenditures on capital and non-recurring items, which were projected to grow by over 60% in FY 2021 and to represent 43% of non-debt spending, up from 34% in the revised 2020 budget.¹³⁴ The expected improvement in Nigeria's fiscal position would begin creating budgetary space to address specific development priorities and SDGs. However, as indicated earlier, actual revenues in 2021 lagged behind the budget projections, although 2021 public spending was generally in line with budget projections. While budget 2021 did not explicitly address the development priorities set out in the MTNDP, it did provide information on planned capital (or non-recurring) spending by ministries with a clear developmental role, in addition to planned recurring spending. The ministries of works and housing, education, health, and agriculture and rural development, among others, were all planned major recipients of capital funding that could be used to address SDG priorities.¹³⁵

Budget 2022 provided more detail on FGN expenditures at the national level that can be linked to specific priority SDGs, which are called "Critical Sectoral Allocations" in Budget 2022.

134 2021 Budget, p. 29.

135 *Ibid*, p. 32.

SDG 1, No Poverty: Budget 2022 allocates N462 billion, or 3% of the budget, to “social development and poverty reduction programmes.” This amount is being provided for social investments and poverty reduction programmes.

SDG 3, Good health and well-being: The health sector is to receive N876.38 billion, or 5.1% of the FGN budget. This spending includes:

- N770.87 billion: Allocated to the federal ministry of health and its agencies (recurrent and capital expenditure, including hazard allowance).
- N49.37 billion: GAVI/Immunization funds, including counterpart funding for donor-supported programmes, including Global Fund.
- N56.14 billion: Transfer to Basic Healthcare Provision Fund (BHCPF).

SDG 4, Education: Planned expenditure in the education Sector is N1.234 trillion in 2022. This amount includes:

- N815.69 billion: Allocated to the federal ministry of education and its agencies (recurrent and capital expenditure).
- N112.29 billion: Amount provisioned for Universal Basic Education Commission.
- N306.00 billion: Transfers to the Tertiary Education Trust Fund (TETFUND) for infrastructure projects in tertiary institutions.

SDG 9: Industry, innovation, and infrastructure: Infrastructure expenditure is planned at N1.42 trillion, or 8.3% of the budget. This includes provisions for works and housing, power (inclusive of PSRP provisions), transport, water resources, aviation.¹³⁶

Other priority expenditure areas are also highlighted in detail in Budget 2022, including: Defence and security sector (N2.29 trillion, or 13.4% of budget). This amount is provided for the military, police, intelligence service and paramilitary forces (recurrent and capital expenditure).

10.4.4 Medium-term envelope of aggregate resources

The available financing is of course constrained and there will be a finite amount of revenue that is available to finance SDGs in any given fiscal year. Government borrowing capacity is also constrained by the ability to mobilize deficit financing and by the level of debt service that can be sustained in the budget. Evolving SDG priorities are therefore reflective of a social consensus on their relative importance and the financing available, and they can be expected to change and evolve over time.

The NPRGS indicates that during its planning period to 2031, the desired annual average reduction in poverty is 11.2 million people per annum, 80% of which will be in self-employment, and 20% in wage-paying jobs. It notes that the education and skills embedded in redistributive and transfer programmes targeting the ultra-poor can provide exit routes into the mainstream economy. The poverty gap between the north and the south can also be narrowed by improving access to education and health care nationally and in the north in particular.¹³⁷

136 2022 Budget Presentation, p. 53–55.

137 See NPRGS, p. 5

Over the 10-year planning period to 2031, the cost of policies and programmes underpinning this strategy has been estimated in the NPRGS at \$1.6 trillion, or an annual average of \$161 billion. This spending is intended to lift 100 million Nigerians out of poverty and achieve “all the country’s development objectives in line with the Sustainable Development Goals 2030.”¹³⁸ Around 50–60% (\$80–97 billion) of required financing is expected to be covered by government. However, the total consolidated national budgetary resources (federal and state governments) were only around \$54 billion in 2020.

In short, there is a large development and SDG financing gap that the NPRGS expects to be filled by resources from the private sector and external sources, as well as by improved government revenue generation.

The MTEF, as an iterative process, will rely on the indications in the NPRGS as a launch point when developing future SDG expenditure targets for each fiscal year of the planning period. It should be emphasized that the medium-term SDG expenditure plan is a rolling process, with implementation of immediate SDG spending and with a medium-term plan to be regularly updated. The medium-term plan will therefore be revised at least annually to reflect the evolution of these priorities and to reflect changes to projected available revenues.

10.4.5 Link to revenues and financing

Available budgetary resources are finite and constrained. The MTEF therefore considers the allocation of SDG spending against available and projected sources of financing. As noted earlier, there will be a close relationship between the MTEF and the MTRS, which identifies and outlines potential sources of revenue to fund the SDGs. These sources include:

- Tax-based revenues.
- Non-tax revenues.

It is generally not good fiscal management practice to tie specific expenditures to specific sources of revenue, since it can artificially lock in or limit certain levels and types of SDG spending. It also weakens overall operating control and oversight in budgeting. For the federal budget, linking specific SDG expenditures to specific sources of revenue is therefore discouraged.

However, in some cases, there may be scope to tie specific SDG expenditures to specific sources of revenue that are outside the federal budget. For example, SDG financing from the private sector or a charitable organization [or a SOE] could be directed to spending on one or more specific SDGs.

10.4.5.1 Other SDGs’ Spending in MTEF

Up to this point, the MTEF has focused on determining priority SDG expenditures by the Nigerian federal government, linked to available government revenues to finance them. However, as analyzed in the INFS, SDG financing can be mobilized from many other sources. These include states, SOEs, the domestic and international private sector, charities and not-for-profit organizations, and multiple external organizations and sources.

138 *Ibid*, p. 5

10.4.6 Future MTEF stages

The MTEF is not intended to be rigid; it should be able to evolve and deepen over time as practice and experience grow. Once an initial MTEF is developed and effectively implemented, additional elements could be added, including:

- More detailed bottom-up determination of spending agency resource needs, and reconciliation of these needs with the top-down resource envelope.
- Shifting the focus from financing inputs to development outputs, with emphasis on measurement and evaluation of SDG spending, performance, and impact. This will be further explored in the M&E framework.
- Reconciliation of SDG financing needs at both the state and national levels.
- Planning for costs of promoting gender equality and women's economic advancement across the education and informal sectors.

10.5 Financial Discipline

The MTEF aims to promote fiscal discipline by constraining overall spending within Nigeria's fiscal capacity. Using the MTEF, SDG spending will be carefully managed since over-spending contributes to chronic fiscal deficits and debt. Based on the spending constraints identified, the MTEF will help to limit the tendency to over-commit public resources by requiring policy makers to recognize the limits to total resources that are available, to address the issue collectively, and to commit to making use of detailed multi-year fiscal constraints. Using a medium-term perspective to budgeting means that more affordable initiatives can be implemented and sustained in Nigeria.

Several fiscal discipline measures will be put in place to ensure the MTEF is rigorously applied. These include:

10.5.1 Expenditure ceilings

There will be established ceilings for annual spending and planned expenditure limits. These ceilings shall be established in aggregate, by SDG, by ministry and agency, by initiative, and/or by programme. To be effective, there will be internal alignment and consistency among the expenditure ceilings that are set.

Expenditure ceilings set a hard cap or limit on spending and are particularly important in cases where spending has not been well contained previously. There is an a priori expectation that ministries and agencies will not be allowed to exceed the expenditure ceilings in any given fiscal year.

That said, there may be occasions when added or exceptional spending pressures emerge for specific SDG priorities. In that case, the ceilings can act as a "speed bump" or a signal for reviewing priority SDG expenditures, initiating a discussion among ministries on how to manage specific spending pressures. For example, hitting a ceiling in a specific area might allow it to be

considered in a priority-setting process for gaining access to an SDG operating reserve. Such a priority-setting process will be expected to take place later in a fiscal year and designed to determine specific priorities for allocating (or not allocating) any available reserves.

10.5.2 Margins and operating reserves

Good fiscal management makes use of margins to help deal with unexpected developments. The best way to create margins is to create one or more fiscal reserves, with clear qualifying criteria and decision making processes. This is an effective approach that is used successfully in many countries. As just noted, hitting a spending cap (or “speed bump”) for an SDG priority item could be used to initiate discussions among ministries on how to manage specific SDG spending pressures. Access to a strategic or operating reserve is one viable option for addressing spending pressures beyond the ceilings.

10.5.3 Fiscal management framework

A third discipline is to make use of a rigorous fiscal management framework. Elements of such a framework would include the following.

10.5.3.1 Legal And Administrative Framework

The fiscal management framework is built for coordination between the Ministry of Budget and Planning, Office of the President, and other relevant actors following well-defined responsibilities, anchored in appropriate law, regulations and /or administrative guidelines.

10.5.3.2 Budget Cycle

A rigorous fiscal management framework is based on an annual MTEF planning cycle that is used systematically. Budget 2021 provided a detailed description of the 14-stage process that is used to develop the annual federal budget. The process begins with the definition of a MTEF and MTRF. These frameworks are then combined with medium-term sector strategies and then refined, reviewed, and approved at various stages in the budget process.¹³⁹

10.5.3.3 Accounting And Treasury Management

Strong accounting and treasury management procedures are used to ensure the MTEF and budget are rigorously implemented. These include:

- Cash and modified cash accounting.
- Centralized cash flow management.
- Timely payments.
- Accurate coding of expenditure accounts.
- A standardized flow of financial information.

139 2021 Budget, p. 7

- Established regular public reporting on specific expenditure items. Depending on the item, this reporting may be daily, weekly, monthly, quarterly, or annually.

10.5.3.4 Monitoring And Evaluation

Monitoring and evaluation are another important part of rigorous fiscal management. It means regular review and updating of SDG spending in aggregate and expenditures on specific SDGs, and deep evaluation of the effectiveness of SDG spending. Monitoring of current spending will be carried out frequently (e.g., monthly, or quarterly) within each ministry, and at one or more central agencies of government.

Evaluation of SDG spending and its development impacts can take place less frequently but be conducted at greater depth. Again, evaluation capacity exists or will be created within each ministry, and at one or more central agencies of government.

10.5.3.5 Control and Audit

Finally, strong internal control procedures will be used to keep the MTEF on track in each fiscal year.

This primarily means ongoing monitoring and control of annual SDG spending and other budget implementation by ministries responsible for specific SDG expenditures (such as via internal audits) and by a combination of a central agency of government and the government's auditor. A central agency will be responsible for setting priorities and managing access to reserves for any proposed spending beyond established annual ceilings.

External audits help to ensure that adequate controls and compliance mechanisms are in place and identify where modification or improvement is required.

10.6 Institutional Responsibilities

Development and implementation of the MTEF will require the full engagement of many institutions within government, and a clear and consistent process for managing the MTEF.

10.6.1 Key institutions

There will be many institutions involved in managing the MTEF and implementing its future stages. These include:

- **Ministry of Finance, Budget and National Planning; OSSAP-SDGs, and central agencies:** The MoFBNP has overall responsibility for development and delivery of the budget. The OSSAP-SDGs is central to the development and oversight of Nigeria's SDG priorities, which are delivered through the MTEF. Other central agencies will also play an important supporting role.

- **Cabinet and legislature:** Final decision making on evolving SDG priorities and related expenditures is situated in cabinet within the government, and the legislature for the nation.
- **Relevant ministries:** Many ministries will be engaged in the MTEF process. They will be an important part of defining future SDG priorities and delivering SDG-related expenditures, programmes, and initiatives.
- **States:** SDG spending will not be limited to the federal government. States will also play an important role in delivering on SDG priorities and will therefore need to be engaged in the process.
- **Other stakeholders:** As outlined in the INFS, many other domestic and external stakeholders can play an important role in advising on SDGs, mobilizing SDG financing and helping to deliver related spending.

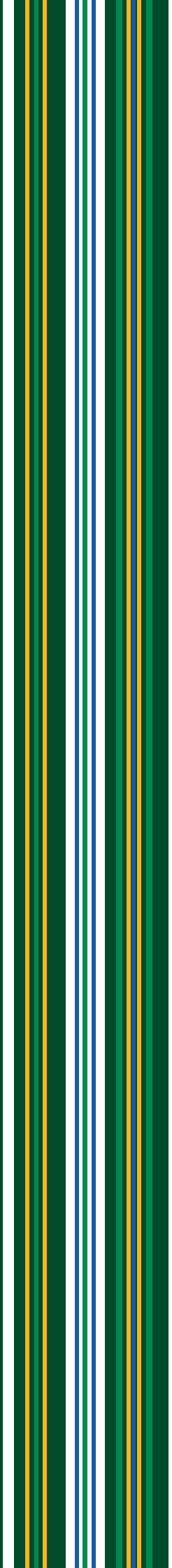
10.6.2 MTEF management process

The federal government set a rigorous management process to ensure effective implementation of the MTEF. This process includes the following:

- Cabinet sets SDG priorities, supported by key central agencies.
- MoFBNP consults with other central and economic agencies to define the initial MTEF resource envelope.
- MoFBNP prepares MTEF guidelines that include provisional expenditure ceilings.
- Cabinet endorses the provisional ceilings, which are shared with parliament.
- Spending agencies prepare detailed MTEF submissions.
- Consultations between MoFBNP and spending agencies to resolve technical differences.
- Ministers / cabinet consulted as required on resolving differences and reallocation of resources.
- MoFBNP finalizes the MTEF with revised expenditure ceilings.
- Cabinet reviews the MTEF, endorses the expenditure ceilings, and submits the budget to parliament for approval.
- Spending ministries and agencies revise and implement their SDG business plans consistent with their expenditure ceilings.

11.

NIGERIA'S INFF ROAD MAP AND M&E FRAMEWORK



11.1 Background

The Monitoring & Evaluation (M&E) Framework of the Integrated National Financing Framework (INFF) for Nigeria has been developed to monitor and evaluate the action plan for financing the country's development needs. The INFS identifies key sources of finance for meeting the SDGs, namely: domestic private sources, domestic public sources, international private sources, and international public sources. Within each of the identified sources is a breakdown of potential financial resources and initiatives for harnessing such resources.

The initiatives were derived from an in-depth review of existing national documents like the National Development Plan, the DFA, etc., as well as high-level consultations with key stakeholders within the Nigerian government. Based on the identified initiatives, the INFF developed action plans to help Nigeria achieve sustainable financing of the SDGs. These action plans (see Appendix–Annex A) form the foundation of the M&E framework.

11.1.1 Objectives of the monitoring & evaluation framework

The primary objectives of the M&E framework include the following:

- To monitor the progress of the action plan of the INFF;
- To provide a framework for identifying gaps in the proposed initiatives for achieving the objectives of the INFF;
- To measure the performance of efforts put into achieving the objectives of the INFF; and
- To provide timely reports on the outcomes of the initiatives undertaken to achieve the objectives of the INFF.

11.2 Structure of the M&E plan

The M&E framework of the INFF is drawn from the action plans, key initiatives, outcomes, and indicators/KPIs, including the time frame required and priority levels to efficiently monitor Nigeria's progress in implementing the INFF. It is important to note that the indicators/KPIs are both process and outcome-oriented. For specific initiatives (where applicable), measuring the potential increase in financial flows (percentage or volume) is indicated as part of the KPIs. Moreover, 37 cross-cutting thematic indicators (focusing on gender and climate action), tracking and measuring key initiatives and the corresponding outcomes are also embedded within this framework. The M&E framework is supported by a governance and coordination framework, which identifies the key stakeholders responsible for specific indicators, the timelines for delivery, and the expectations.

11.3 Conclusion

The success of the initiatives proposed in the Nigeria INFF is anchored to their implementation, and it relies heavily on the ability to track results, which will inform the effectiveness of the initiatives being implemented. Availability and reliability of data will impact the process of monitoring progress, and the lack of these may even derail the process. Therefore, it is important to adopt a realistic approach and obtain 'good enough' data while continuing to improve the quality of data over time.

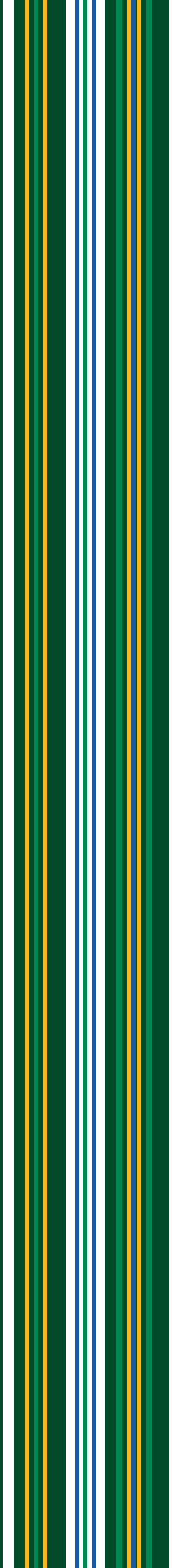
This M&E framework identifies key relevant information for tracking results relating to proposed initiatives. The government will then agree on the baseline, targets, and means of verification of the proposed initiatives to be tracked within the framework.

An effective M&E framework is also dependent on a well-coordinated governance framework. Parties assigned responsibility for each of the initiatives, as well as the various moving parts of the INFS, will be accountable for their responsibilities.

The M&E framework for the initiatives identified in Nigeria INFF is in the table set out in Appendix Annex A.

12.

NIGERIA'S INFF GOVERNANCE AND COORDINATION MECHANISMS



12.1 Introduction & Background

As previously noted, integrated national financing frameworks (INFFs) have several important components, which together help to form a comprehensive framework. For it to be successful, INFFs are expected to be demand-driven in the country in question and to have strong political backing and broad-based country ownership. Governance and coordination mechanisms situated at a high level of government are essential to ensuring that an INFF is fully effective, along with unwavering political support and engagement of all stakeholders.

Governance and coordination mechanisms are expected to oversee and guide the entire process of the INFF. This process includes evidence-based assessment and diagnostics, thorough policy formulation, deep implementation, and frequent monitoring and review.

12.2 INFF Governance Parameters

The responsibility for the INFF can be divided and allocated by key elements.

12.2.1 Oversight of the INFF

The Ministry of Finance, Budget and National Planning (MoFBNP) is the lead centre of responsibility within the federal government for governance and coordination of the INFF. It oversees all aspects of the INFF, ensuring there is an appropriate assignment of roles and accountabilities for the design and implementation of all its elements. In particular, it will ensure that appropriate strategies and implementation plans are in place for mobilizing financing in support of the Sustainable Development Goals (SDGs). The MoFBNP will also ensure there is regular monitoring, evaluation, and reporting on the INFF's implementation. The Cabinet annually reviews and approves the INFF based on advice from the MoFBNP.

12.2.2 Setting SDGs' priorities

The MoFBNP is responsible for setting objectives and identifying priorities for Nigeria's SDGs, working closely with the OSSAP-SDGs and other central agencies. It will play a central role in developing the objectives and overseeing the plans, revenue sources, public expenditures, and specific activities supporting each SDG and proposing the level of financing and expenditures possible. It will define SDG priorities for the upcoming fiscal year and will develop and revise the rolling medium-term expenditure plan. Identifying and mobilizing domestic public financing

and expenditure will be priority areas of responsibility, as defined in the Medium-Term Revenue Strategy (MTRS) and Medium-Term Expenditure Framework (MTEF).

The key immediate issue is to develop the overall objectives and plans for each SDG, aligning such plans to achieve SDGs and confirm initial SDG financing priorities for the coming fiscal year. Once this annual SDG expenditure baseline has been established, evolving SDG priorities will need to be managed and kept evergreen through an annual updating process (a key part of the MTEF).

The OSSAP-SDGs will also oversee and help promote and develop plans and activities for SDG financing from the domestic private sector and external sources.

12.2.3 MTRS

The purpose of the MTRS is to lay a solid foundation for an effective tax system through a collaborative effort to achieve successful and robust tax reform, supported by rigorous tax administration and revenue collection.

The Ministry of Finance, Budget and National Planning (MoFBNP) is the lead agency responsible for the design, implementation, and overall management of the MTRS. The MoFBNP will review the design of the existing tax system and make adjustments and improvements as appropriate to strengthen the government's capacity to mobilize revenues that will provide financing for the SDGs. The key immediate MTRS issue for the MoFBNP is to develop an action plan to be undertaken in the next fiscal year on specific areas of tax reform, which are designed to mobilize increased revenues to finance priority SDGs.

MoFBNP will be supported on the MTRS by the Federal Inland Revenue Service and the Nigerian Customs Service, which are responsible for administering the domestic tax revenue collection and customs system, respectively. They will ensure that the revenue collection systems are professionally administered and that the expected revenues are collected.

A key immediate issue related to tax administration is to consider in detail the adequacy of tools and processes used for tax collection compliance and enforcement. The MTRS sets out several administrative practices that will be strengthened by the Federal Inland Revenue Service and the Nigerian Customs Service to improve tax system compliance. In addition, the MoFBNP and Ministry of Justice will determine whether criminal law ought to be applied in order to strengthen tax collection, enforcement, and the reliability of revenue collection.

12.2.4 MTEF

The MTEF is intended to take a strategic and forward-looking approach to establishing SDG spending priorities and allocating finite government resources. This approach means shifting away from focusing only on one fiscal year by developing a medium-term perspective that frames the evolution of public spending on SDGs over time.

Responsibility for the design and overall management of the MTEF is shared between the OSSAP-SDGs and the MoFBNP. The OSSAP-SDGs will take the lead in setting objectives and priorities for each SDG. It will work closely with the MoFBNP to develop an annual SDG expenditure plan for the federal government and a rolling five-year SDG expenditure plan, which will be updated annually.

The key immediate issue will be for the OSSAP-SDGs and the MoFBNP to agree on initial SDG financing priorities for the coming fiscal year and allocate public expenditure accordingly. Once this annual SDG public expenditure baseline is established, evolving SDG priorities and planned expenditure will need to be managed by the OSSAP-SDGs and the MoFBNP and kept evergreen through an annual updating process.

12.2.5 Monitoring and evaluation

The Ministry of Finance, Budget and National Planning (MoFBNP) working closely with the OSSAP-SDGs, is responsible for tracking the implementation of the INFF as well as overall monitoring and evaluation (M&E) of performance on SDGs. However, the various federal ministries and government agencies that address specific SDGs will lead the tracking of results of their specific initiatives implemented regarding the SDGs. The M&E component of the INFF specifies outcomes and indicators for each of the policy reform, regulatory reform, instruments, and business process initiatives that Nigeria will explore to finance the SDGs. Each initiative captures an area of improvement, which if implemented, will be a step closer to addressing the SDG financing challenges that the country faces. For real change to be captured, the assigned indicators will guide the relevant ministries and the OSSAP-SDGs in determining the effectiveness of the proposed initiatives.

An effective M&E process is often limited by the unavailability and unreliability of quality data, and the M&E framework developed recognises this. To address this, it provides responsible parties with the leeway to use 'good enough data' while focusing on improving the process of obtaining more quality data. As the implementation of the INFF is an iterative process, it is expected that measuring, monitoring, and evaluating progress will also be continually improved for the best results.

12.3 Institutional Roles and Responsibilities

The above INFF responsibilities can be grouped and allocated by specific institution, as shown in Table 18 below. Note that many institutions have more than one area of responsibility and accountability for the design and delivery of the INFF and SDG financing.

Table 18: Nigeria INFF Institutional Roles and Responsibilities

Actors	Roles and Responsibilities	Necessary Capacities
Ministry of Finance, Budget and National Planning	Oversight of full INFF Annual review and update of INFF Oversight, coordination and updating of INFS Overall design, implementation, and management of MTRS Manage MTEF supported by OSSAP-SDGs	Possess sufficient expertise in all aspects of INFF Full coordination and alignment on the INFF among federal ministries and other stakeholders Delivery and accountability for each part of the INFF National and public service capacity is built to develop and deliver INFF Define responsibilities for MTEF with OSSAP-SDGs
Cabinet	Annual approval of INFF	Approval indicates strong political support for INFF substance and administration
OSSAP-SDGs	Coordinates setting overall and specific SDG objectives and priorities with ministry or agency responsible for each SDG Support the MoFBNP on the MTEF Overall monitoring and evaluation of performance on SDGs	Possess sufficient expertise to: <ul style="list-style-type: none"> • define detailed specific objectives for each SDG • coordinate the setting of annual priorities for financing • propose annual financing required by SDG • undertake M&E Coordination and alignment among federal ministries and other stakeholders Define shared responsibilities for MTEF with the MoFBNP
Federal Inland Revenue Service	Support MoFBNP on implementation and management of MTRS tax revenue collection	Alignment with MoFBNP Determine adequate tools and processes to provide effective management and ensure compliance
Nigerian Customs Service	Support MoFBNP on implementation and management of MTRS customs revenue collection	Ensure alignment with the MoFBNP Demonstrate adequate tools and processes to provide effective management and ensure compliance

Actors	Roles and Responsibilities	Necessary Capacities
Ministry of Justice	Enforcement of revenue collection	Develop the use of criminal law to strengthen enforcement of revenue collection
Other Federal Ministries	Delivery of specific SDGs Monitoring and evaluation of relevant SDGs	Possess sufficient expertise to manage specific SDG delivery and M&E Ensure coordination and alignment with the OSSAP-SDGs and other federal ministries
Federal GOEs	Financing and delivery of specific SDGs	Possess sufficient expertise to manage specific SDG delivery, M&E
Domestic Private Sector	Financing and delivery of specific SDGs	Possess sufficient expertise to manage specific SDG delivery and M&E Ensure coordination and alignment with OSSAP-SDGs and other stakeholders
External Sources of Financing	Financing and delivery of specific SDGs	Possess sufficient expertise to manage financing and delivery of specific SDGs Ensure coordination and alignment with the OSSAP-SDGs and other stakeholders

12.4 Coordination Channels

Coordinating all the elements contained in the INFF and all the participant institutions and stakeholders is a core challenge for the federal government of Nigeria. To ensure there is appropriate coordination, the INFF will be anchored in the annual budget process, with the MTRS and MTEF as cornerstone deliverables.

Coordination will be accomplished using a series of channels, some used sequentially, and others used in parallel. These channels will be used formally each year to update, approve, and implement the INFF and will be supported by frequent informal contact among the various institutions and stakeholders.

Table 19: Overview of Channels and Actors

Channels	Actors
Alignment on INFF and SDGs among central agencies and Cabinet	Ministry of Finance, Budget and National Planning and OSSAP-SDGs
Coordination of federal government of Nigeria ministries, departments and agencies	Ministry of Finance, Budget and National Planning and federal GOEs
Engagement of GOEs and other federal agencies	Ministry of Finance, Budget and National Planning

Channels	Actors
Fiscal reforms and federal and state coordination	Ministry of Finance, Budget and National Planning; Federal Executive Council; and State Executive Council
Policy and regulatory reform	Ministry of Finance, Budget and National Planning; Federal Executive Council, and Ministry of Justice
Engagement and coordination on SDGs between the federal government and the domestic private sector	Ministry of Finance, Budget and National Planning; and SDG Office
Coordinating the mobilization of external sources of financing	Ministry of Finance, Budget and National Planning

12.4.1 Alignment on INFF and SDGs among Federal Government Agencies

The first and anchor coordination channel will ensure full alignment on the INFF and SDGs among the FGN's ministries, departments and agencies (MDAs). This channel will be used at the earliest stages of the annual budget planning process. Specifically, this means the Ministry of Finance, Budget and National Planning and the OSSAP-SDGs will reach an agreement on:

- Overall SDG objectives.
- SDG priorities for the coming fiscal year.
- The revenues available to support SDGs.
- The allocation of public spending for the coming fiscal year; and
- Medium-term revenue and expenditure plans.

The Federal Executive Council will confirm the agreed plan, and the MTRS and MTEF will both reflect the coordinated agreement.

12.4.2 Federal Government of Nigeria Ministries

The second channel will involve coordination by the MoFBNP and OSSAP-SDGs with all other Federal Ministries, Departments and Agencies (MDAs) that are responsible for delivering public expenditures, programmes, and services in support of one or more SDG(s). This FGN ministerial coordination will be anchored in the MTEF. It will include bilateral discussions by the OSSAP-SDGs and MoFBNP with each responsible ministry and collective discussion among all the ministries on the overall objectives of the INFF and MTEF. Topics will include SDG objectives, desired and planned annual budgetary expenditures, priority initiatives, medium-term SDG expenditure plans, enabling policies, and M&E.

12.4.3 GOEs and other federal agencies

In parallel, channel three will see the OSSAP-SDGs and MoFBNP engage with GOEs and other federal agencies to discuss their role in supporting SDGs. It will include bilateral discussions by the OSSAP-SDGs and MoFBNP with each GOE that can play a role. National development finance institutions and agencies—notably the DBN, Bank of Industry (BOI), the Infrastructure Bank (TIB), and the Nigeria Sovereign Investment Authority (NSIA)—will all be engaged in providing advice and mobilizing financing in support of the INFF and SDGs.

12.4.4 Fiscal reforms and federal and state coordination

The fourth channel will involve fiscal reform and SDG coordination between the federal government and state governments. Federal and state fiscal reform and coordination will focus on reviewing and improving the revenue sharing formula, strengthening the state revenue collection mechanism, increasing opportunities for states to leverage natural resource revenues, and building fiscal autonomy at the state level. Tax system administration will be a further area of federal and state coordination.

The MTEF focuses on determining priority SDG expenditures by the Nigerian federal government, linked to available government revenues, but SDG financing can also be deployed by states. Federal and state coordination will therefore consider both areas of cooperation on SDG spending and areas where states individually and collectively can play a leading role in addressing SDGs as well as enabling policies in support of SDG implementation.

12.4.5 Policy and regulatory reform

The fifth channel will involve policy and regulatory reform supporting fiscal reform. It will proceed in parallel with channel four and will cover a wide array of supporting policies and regulations that can help mobilize SDG financing. The structure and regulation of the financial sector will be a central (albeit broad) topic for debate and reform, but many other topics—from land use and property rights to external relationship building to trade policy—will be part of this channel. It will involve institutions across the FGN, led by the Ministry of Justice.

12.4.6 Domestic private sector

The sixth channel will involve engagement and coordination on SDGs between the federal government and the domestic private sector. Key coordination contact points have been developed between leading business organizations' representatives, notably the banking, investment, and insurance sectors, and the OSSAP-SDGs and MoFBNP. A regular consultative process will be implemented, focusing on opportunities to enhance the policy and business operating framework for mobilizing private capital and spending in support of SDGs.

12.4.7 External sources of financing

The seventh and final channel will address engaging with and coordinating the mobilization of external sources of financing. This will involve both public and private external sources of SDG financing. Official Development Assistance (ODA) is an important public source of external financing, where an effective cooperation mechanism will be used to coordinate with the donor community active in Nigeria and with recipients of international assistance financing within the country. Policy dialogue and upstream work will also be addressed. Nigeria will focus on better aligning the use of ODA financing with specific SDGs.

Remittances make up a significant proportion of external private financing. A platform such as the Nigerians in Diaspora Commission (NIDCOM) can be an effective forum to engage with the diaspora on priorities, removing obstacles to remittances and other innovative ideas to mobilize more significant remittances.

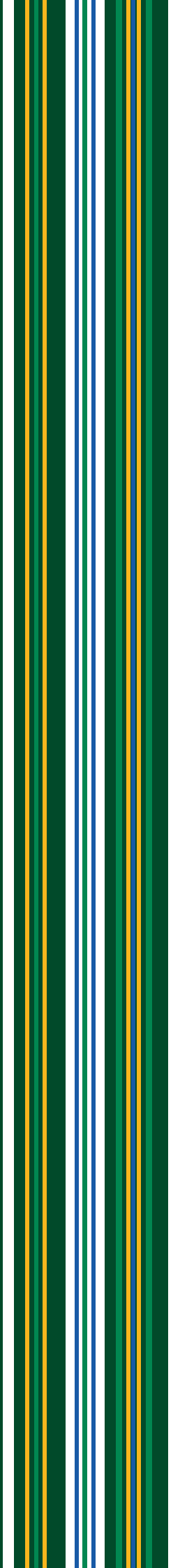
12.5 Operational Tools for INFF Coordination

A range of tools have been provided to support coordination and track implementation of the INFF. These tools can be applied to SDG expenditures within and across ministries. More specifically, a comprehensive tracking tool is proposed as part of this framework, and it includes the following components:

- Identifies each **proposed initiative** and broader **financing sources** in the INFS.
- Assigns its **priority levels** (high, medium, and low).
- Describes the **outcomes** and **indicators** for tracking results.
- Identifies **ease** or **difficulty** of delivery.
- Identifies **ownership** and **accountability** within the FGN

13.

NIGERIA'S INFF FISCAL FEDERALISM AND COORDINATION FRAMEWORK



13.1 Introduction & Background

The effective distribution of fiscal resources across the different tiers of government in Nigeria, and their capacity to mobilise additional resources for development, is critical in ensuring that Nigeria achieves the SDG targets. Therefore, it is important that the federal, state, and local governments in Nigeria are structured and interact in a way that enables them to bring about economic development at the three levels of government in a sustainable manner. This will be achieved through effective fiscal federalism.

13.1.1 Background

The term “fiscal federalism” is used to describe the financial relationship between multiple tiers or levels of government in a federation, focusing on taxing powers and expenditure responsibilities for each level of government. In Nigeria, the constitution stipulates which items only the federal government can legislate (exclusive list) and which items both the federal and state governments can legislate (concurrent list). There is another list called the residual list, which contains the items and matters not expressly covered by the two lists but within the purview of the states and local government. This entire arrangement is referred to in Nigeria as inter-governmental fiscal relations.

There have been conflicts among the three tiers of government on how fiscal federalism is operationalised. The advent of democratic rule has increased agitation for resource control, state taxing rights, review of the revenue sharing formula, and the abolition of the joint accounts committee between states and local governments.

Nigeria is a federation of states, and fiscal arrangements should follow the norms of a federated structure. However, the way fiscal federalism is practiced in Nigeria has not produced the desired impact since its inception in 1946. Taxing powers are highly centralised, which is a source of ongoing tension. Moreover, despite continuous increases in revenue generation and allocations, the impact on economic growth and national development has not been as strong as desired. The oil-producing states with limited taxing authority must cede their revenues to the federal government and receive a disproportionately smaller transfer, leading to some pressure and discontent. Similarly, mineral-producing states have also not benefited significantly due to the weaknesses in the mining framework in Nigeria.

13.1.2 Objectives of fiscal federalism

There are multiple objectives for fiscal federalism, and these include:

- To ensure there is an appropriate separation of roles and responsibilities between the different levels of government with respect to taxation and expenditure.
- To provide a framework for equitable distribution of fiscal revenues and for delivering public goods and services across the different levels of government.
- To provide a system where each tier of government can sustainably finance development.
- To ensure economic and fiscal stability.

13.1.3 Why fiscal federalism is important for the INFF

Fiscal federalism is an important aspect of the INFF, which aims at reviewing the current federal structure in Nigeria and exploring feasible options for the country to strengthen structures for managing resources for sustainable development. Specifically, it aims to do the following:

- To foster development at all levels of government. Fiscal federalism plays a significant role in ensuring that Nigeria achieves the SDGs due to its potential impact across the lower levels of government.
- To improve the capacity of the different tiers of government to manage resources. State capacity to manage limited resources is very important. And improving the capacity of all tiers of government, including states and local government, will have a huge impact on the mobilisation of revenue, management of resources, and the effectiveness of spending in the country.
- To ensure fairness and equity in the distribution and allocation of resources. Fiscal federalism will ensure that all tiers of government receive their fair share of the resources in the country. This will engender collective ownership and harmony and address potential agitations from subnational governments regarding the perceived unfairness in the current allocation system.
- To increase the operating capacity of the different levels of government, especially the subnational level, through autonomy. Effective fiscal federalism, where state and local governments have more autonomy and independence to mobilise resources, is critical for development as it will offer them more opportunities to explore in terms of revenue mobilisation and increased capacity to fund critical public goods and services.

13.2 The Nigerian Fiscal System and Financing Arrangements

13.2.1 Legislative powers

The legislative powers in Nigeria, in accordance with the constitution, have been grouped under three headings:

Exclusive List: The federal government has the sole authority to legislate on all subjects or matters contained in this list, which includes subjects such as the army, police, railways, airports, seaports, mining, customs, banks and banking, foreign borrowing, external affairs, etc.

Concurrent List: The federal and state governments both have the authority to legislate on all subjects contained in this list. However, where there is a conflict, the federal government prevails. The list includes subjects such as universities, technology and post-primary education, allocation and revenue, collection of taxes, etc.

Residual List: State governments have the sole authority to legislate on all subjects or matters contained in this list which includes registration of births and marriages, development of agriculture other than mining, provision and maintenance of health care, traditional and chieftaincy titles, etc.

13.2.2 The three-tier tax system

Nigeria's tax system is split into three levels—federal, state, and local government, and each of the three levels of government has certain taxing rights allocated to them, including the types of taxes to be collected. At the federal level are the Federal Inland Revenue Service and the Nigerian Customs Service, while at the state and local government levels are the state internal revenue services and the local government revenue committees, respectively.

Table 20: Taxes collected by the different tax tiers in Nigeria

Federal Government	State Governments	Local Governments
FIRS	Personal income tax of state residents	Shop and kiosk rates
Company Income Tax	Withholding tax on individuals	Tenement rates
Withholding on Companies	Capital gains tax on individuals	On and off liquor licence fees
Petroleum Profit Tax	Stamp duties on instruments executed by individuals	Slaughter slab fees
Value-Added Tax (VAT)	Pools betting and lotteries, gaming, and casino taxes	Marriage, birth, and death certificate fees
Tertiary Education Tax	Road taxes	Naming of streets registration fees
PIT for Armed Forces, Police, etc	Business premise registration fees	Right of occupancy fees on land
PIT for Non-Residents	Development levy (individuals only)	Market taxes and levies
National IT Development Levy	Naming of streets fees in the state capital	Motor park levy
Capital Gains Tax for Companies	Rights of occupancy fees on land owned by state in urban areas	Domestic animal licence fees
Police Trust Fund Levy	Market taxes and levies	Bicycle, truck, canoe, etc., fees
	Land use charge	Cattle tax
Nigerian Customs Service	Entertainment fees	Merriment and road closure fees
Duty on imported items	Environmental levy fees	Radio and television licence fees
Excise duties	Mining and quarrying fees	Vehicle radio licence fee
	Hospitality taxes	Wrong parking charges
	Animal trade tax	Signage and advert levy
	Produce sale tax	Public convenience, sewage, and refuse disposal fees
	Slaughter or abattoir fees	Customary burial ground permit fees
	Infrastructure maintenance fees	Religious places establishment permit fees
	Property tax	Wharf landing charge
	Economic development levy	
	Social development contribution	
	Signage and mobile advertisement	

Sources: Taxes and Levies Approved List of Collection

13.2.3 Resource and revenue allocation

The Nigerian constitution provides for the sharing of revenue among the three tiers of government. This revenue sharing is categorised into two forms: vertical sharing, which is between the federal, state, and local governments, and horizontal sharing, which is between the different components within the different levels of government.¹⁴⁰ Currently, revenue accruing to the federation account is shared among the three levels of government.

The vertical sharing formula provides for the federal government to receive 52.68% of revenue accruing to the federation account, the state governments to receive 26.72%, and local governments to receive 20.60%. The horizontal formula applies to the 26.72% that is shared by the states and it is shared based on five principles: 40% is shared based on equality of states, 30% on population, 10% on landmass/terrain, 10% on internally generated revenue efforts, and 10% on social development efforts. There have been numerous calls for a review of the sharing proportion, which has led to a review by the Revenue Mobilisation and Fiscal Allocation Commission. However, the review has yet to be passed into law. The new review proposes a slight reduction in revenue allocation to the federal government.¹⁴¹ Furthermore, due to the presence of natural resources, particularly oil, the oil-producing states in Nigeria would receive an additional allocation from a 13% derivation of revenue generated from oil. This special deduction is to be made before the application of the sharing formula. Nonetheless, the revenue sharing formula has been a constant source of contention. For example, due to the existing revenue allocation agreement, there are continuous complaints about marginalisation and neglect from one group or the other. A prominent example of such concerns about marginalisation is the Niger-Delta regional unrest.

While the vertical allocation formula was reviewed in the first quarter of 2022 and is awaiting approval by the president, the revision of the horizontal allocation formula is yet to be undertaken.

Table 21: Vertical Sharing Formula

Federal Government	States	Local Government
52.68%	26.72%	20.60%

Source: The 1999 Constitution of Nigeria

Table 22: Horizontal Sharing Formula Based on Five Principles

Equality of States	Population	Landmass/ Terrain	Internally Generated Revenue	Social Development Effort
40%	30%	10%	10%	10%

Source: The 1999 Constitution of Nigeria

Another important sharing formula is the VAT sharing formula, which gives 15% to the federal government, 50% to the states, and 35% to the local governments. The principles considered

140 S4 1999 Constitution of Nigeria

141 RMFAC Website; <https://rmafsc.gov.ng/2021/08/new-revenue-allocation-formula-to-be-submitted-to-president-muhammadu-buhari-by-december-2021/> accessed 20 May 2022

for allocating VAT and the ratio are 50% for equality of states, 30% for population, and 20% for derivation. Recently there have been agitations to allow states to collect VAT. The VAT is neither in the exclusive or concurrent list, and for this reason, some state argue that it should be collected by the states. This agitation comes mainly from states with high VAT attribution—which indicates a dissatisfaction regarding revenue sharing from VAT.

Table 23: VAT Sharing Formula

Federal Government	States	Local Governments
15%	50%	35%

Source: The 1999 Constitution of Nigeria

Table 24: VAT Sharing Principle

Equality of States	Population	Derivation
50%	30%	20%

Source: The 1999 Constitution of Nigeria

13.2.4 Borrowing

The Nigerian 1999 constitution, 2003 Debt Management Office (Establishment) Act, 2007 Investment and Security Act, 2007 Fiscal Responsibility Act, and the Fiscal Sustainability Plan (fiscal framework for subnational government in Nigeria) all provide legal guidelines for federal and state governments to borrow money from both domestic and external sources, subject to the DMO External and Domestic Borrowing Guidelines for the federal and state governments and the Federal Capital Territory and their agencies.¹⁴²

According to the Debt Management Office (Establishment, Etc.) Act, 2003, “No external loan shall be approved or obtained by the Minister unless its terms and conditions shall have been laid before the National Assembly and approved by its resolution; the Federal, State Government or any of their agencies shall not obtain any external loan except with a guarantee issued by the Minister; all Banks and Financial Institutions intending to lend to the States, FCT and any of their agencies shall obtain the prior approval of the Minister; and the National Assembly may by a Resolution approve, from time to time, standard terms and conditions for the negotiation and acceptance of external loans and issuance of guarantees.”

Furthermore, the Fiscal Responsibility Act, 2007, Section 47(3) provides that, “in the case of foreign currency borrowing, Federal Government guarantee shall be a requirement and no State, Local Government or Federal Agency shall, on its own borrow externally. Government at all tiers shall only borrow for capital expenditure and human development, provided that, such borrowing shall be on concessional terms with low interest rate and with a reasonable long amortization period subject to the approval of the appropriate legislative body where necessary.”¹⁴³ This provision makes the states more accountable and transparent and reduces disruptive public financial risks.

142 DMO <https://www.dmo.gov.ng/publications/other-publications/borrowing-guidelines/3174-revised-external-and-domestic-borrowing-guidelines-for-the-federal-government-state-governments-fct-and-their-agencies-2020/file> accessed 20 May 2022

143 The Fiscal Responsibility Act, 2007

13.2.5 Transfers

In addition to the revenue sharing framework in Nigeria, there is a system of transfers that includes both discretionary and non-statutory transfers. There are two types of discretionary transfers: discretionary recurrent transfers from the federal government to states and local government to address certain recurrent needs, and discretionary capital transfers in the form of federal grants to finance investment expenditures or such transfers representing on-lending of borrowing by the federal government.¹⁴⁴

13.3 Challenges Facing Fiscal Federalism In Nigeria

There are several challenges regarding fiscal federalism that Nigeria faces. These are:

- a. **Allocation of income from natural resources:** There has been a lot of discontent regarding the formula for allocating oil revenue to oil-generating states, which has led to the current 13% derivation formula. However, despite the allocation of resources from oil to these states, there are ongoing demands for increased allocation for oil-producing states. This has led to additional consideration through the Petroleum Industry Act, which provides for a 3% allocation to host communities. Despite the allocations, these states remain inundated with significant public infrastructure deficits due to widespread misappropriation and weak accountability.
- b. **Weak framework for solid minerals:** Beyond oil, Nigeria has significant mineral deposits. Unfortunately, the sector has not been developed as much as the oil and gas sector to harness the resources for the country's benefit. This is largely due to weak supervisory oversight, illegal mining, and under-declaration of minerals exported, to name a few factors.¹⁴⁵
- c. **Weak capacity of subnational governments to raise adequate taxes:** There is weak capacity at the state and local government levels to generate sufficient revenue to fund public goods and services, thereby making them largely dependent on transfers from the federal government.
- d. **Concentration of taxing rights at the federal level:** Although Nigeria is a federation with federal, state, and local governments, the taxing rights have been concentrated at the federal level. Company income tax, value-added tax, and petroleum profit tax are all collected by the federal government, leaving the states to mainly collect personal income taxes, fees, and levies. This also breeds transfer dependency by the subnational governments.
- e. **Weak autonomy for local government:** Fiscal transfers to local governments are largely controlled by the states, and often, the transfers meant for local governments are diverted to other state endeavours in many states. There have been improvements due to the executive order signed by President Muhammadu Buhari, but most states continue to control the finances of the local governments, and this makes it difficult for the local governments to plan and fund their needs.

144 IMF

145 NEITI 2018, Solid Minerals Audit Report

- f. **Weak autonomy for subnational revenue authorities:** Subnational tax authorities need financial and administrative autonomy to function more efficiently. However, most state revenue authorities do not have autonomy and are significantly influenced by the national government. Furthermore, some of them are still under the direct control of the Ministry of Finance.

13.4 Strengthening Fiscal Federalism Framework

There are several opportunities that have been identified to strengthen Nigeria's fiscal federalism framework. These include:

Short to Medium-Term Options

- a. **Increasing opportunities for states to leverage natural resources within their jurisdictions to serve as a source of revenue:** States will be allowed to access more revenues from natural resources if they collaborate with the federal government to have access to more information that will ensure effective capture of state-related taxes such as the general personal income tax, directors' income tax, capital gains tax on individuals, and others. In addition, states can set up state-owned enterprises (SOEs) to acquire licences and carry on exploration activities to earn mining income for the states.
- b. **Strengthening state and local government revenue collection mechanism:** In order to reduce the gap between state government revenue and expenditure needs, the government plans to invest significantly in the various revenue administrations to ensure efficient and effective tax capture. Improved administrative capacity including leveraging technology will ensure more independence and competence at the state level and will deepen fiscal federalism.
- c. **Ensuring fiscal autonomy at the state level:** Boost own revenue sources, expand the fiscal space for investment, and reduce expenditure rigidity at the state and local levels. Increased autonomy for state revenue authorities will ensure they can build the capacity to be capable, transparent, independent, and efficient in discharging their duties to promote accountability. This will lead to improvement in tax collection and more funding capability for development at the state level.
- d. **Implementation of the executive order on the autonomy of local government, the judiciary, and the state house of assemblies:** Ensuring greater autonomy through the implementation of the executive order will give local governments the independence to administer their finances and plan more efficiently. This will also reduce their dependence on federal allocations and promote state and local level development.
- e. **Developing a framework for solid minerals development:** The Nigerian government will make solid minerals attractive for investment, and this will be achieved through improved security, access to information, and a level playing field for investors. This will increase the participation of actors and will lead to increased revenue for the federal, state, and local governments.

- f. **Proper fiscal planning:** The state and local governments will benefit significantly from better planned and effective revenue and expenditure frameworks. State and local governments are closer to the grassroots where the most impact is felt, but they have limited resources. It is important that subnational (state and local government level) priorities are linked with the national expenditure framework and budget to enable states to effectively access the resources needed for the SDGs. Careful fiscal planning based on the SDGs and effective monitoring and evaluation frameworks will ensure that efforts towards generating revenue are sustained and spending prioritised.

Long-Term Options

- a. **Reviewing and improving FAAC revenue sharing formula:** The current revenue sharing formula has been in place for many decades. Although efforts have been made recently to review it, they have yet to become law. Other factors that may be considered in the horizontal sharing formula include levels of education, health, and security.
- b. **The current VAT revenue sharing formula will be reviewed to ensure fairness:** Most of the VAT generated in each state will be fully disbursed to those states, while the VAT from all items on the exclusive list should be shared based on population, equal sharing, and the jurisdiction where the VAT is generated. Similarly, states with natural resources such as oil and solid minerals and states that provide hydro energy for the country will be compensated through the revenue sharing formula.
- c. **Rights of states to explore and generate income from natural resources within their jurisdictions:** For Nigeria to achieve true federalism, states, in the long term, must be allowed to explore and own the proceeds from natural resource exploration within their jurisdictions. A portion of proceeds generated by the states will be shared with the federal government as per the current arrangement. As most Nigerian states have deposits of natural resources, this will engender true federalism and will encourage states to mobilise resources for financing development. However, to achieve this, significant investments need to be made into institutional, regulatory and administrative frameworks to mitigate against inefficiencies, abuses, and other excesses.

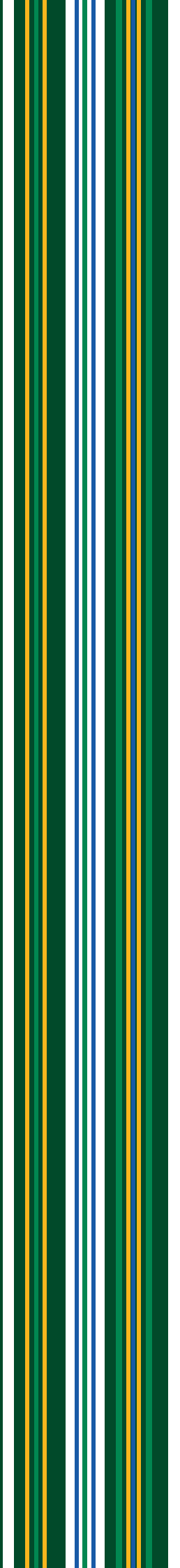
13.5 Conclusion

Overall, it is becoming ever more important for state and local governments to improve revenue and expenditure, enhance their access to domestic and international capital markets, and streamline government transparency and the predictability of financial policies. To get there, Nigeria will review its current fiscal resource mobilisation and allocation structure and update it to reflect the resource needs of the different levels of government in the country.

Financing the SDGs is optimally attainable if the local, state, and federal governments can leverage their capacities and individual frameworks to increase revenue within their jurisdictions. With increased revenue, the SDGs can be financed from the grassroots all the way to the national level. This is only possible if the constitution grants them the necessary rights to do so.

13.

ANNEXES



Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
Domestic Public	Broaden the tax base, consider increasing VAT rate in the future with pre-conditions	Policy Reform	Moderate	High	Short-term	High	Increase revenue via a broadened tax base	1. % increase in VAT compliance rate	Ministry of Finance, Budget and National Planning	
								2. % increase in VAT collection rate		
								3. Increased VAT rate over five years from 7.5% to 10%		
	Enhancing federal revenue base	Implement sin taxes (alcohol, tobacco, etc.)	Policy Reform	Relatively Easy	High	Short-term	High	Increase revenue via a broadened tax base	1. 100% increase on VAT rate on sin goods	Ministry of Finance, Budget and National Planning
									2. % increase on VAT collection on sin goods annually	
									1. Percentage increase on VAT rate on luxury items	
		Implement new taxation on high performing sectors (telecommunications, luxury goods, etc.)	Policy Reform	Relatively Easy	High	Short-term	High	Increase revenue via a broadened tax base	2. Increased revenues from tax collections each year	Ministry of Finance, Budget and National Planning
									1. Number of regulations reviewed	
									2. Number of reforms made to regulations	
	Enhancing state revenue base	Reform regulations on concurrent rights of states' autonomy to manage resources	Regulatory Reform	Difficult	High	Medium-term	Medium	Reformed regulations on concurrent rights of states' autonomy to manage resources	3. Increased rights of states to manage resources	Ministry of Finance, Budget and National Planning and Ministry of Justice
1. Grant autonomy to state revenue authorities										
2. Report showing evidence of revision done										
	Review tax authority and enhance internally generated revenue	Regulatory Reform	Relatively Easy	High	Medium-term	High	Improved service delivery for revenue authorities	1. Number of institutional capacity enhancement initiatives	Ministry of Finance, Budget and National Planning and FIRS	
								2. Number of staff of state revenue offices trained		
								3. Evidence of increased state tax collection		
	Enhance capacity of states to collect taxes	Instruments	Difficult	High	Long-term	Medium	Improved capacity to collect taxes		State Revenue Services	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Incentivize tax payment	Instruments	Difficult	Medium	Medium-term	Medium	Increased tax morale	1. Evidence of implementation of instalment payment of tax	FIRS and State Revenue Services
								2. Number of new and easy channels available for tax payment	
	Digitalize tax system	Instruments	Relatively Easy	High	Medium-term	High	Digitalized and more efficient tax system	1. Evidence of efficient and integrated tax administration systems deployed at the revenue authorities	FIRS and State Revenue Services
								2. Percentage increase in revenue collection	
	Strengthen tax system and administration	Business Process	Difficult	High	Medium-term	Medium	Improved tax system and administration	1. Number of capacity building initiatives	FIRS and State Revenue Services
								2. Number of strategic planning and implementation initiatives done	
								3. Number of tax systems digitized	
	Reform and improve alignment of tax laws	Regulatory Reform	Difficult	High	Medium-term	Medium	Reformed and improved alignment of tax laws	1. Number of reform initiatives undertaken	FIRS and State Revenue Services
								2. Number of tax laws reviewed	
								3. Improved alignment of tax laws	
Criminalize tax evasion	Policy Reform	Relatively Easy	High	Short-term	High	Tax fraudsters prosecuted	1. Number of tax offenders apprehended	Ministry of Justice	
							2. Number of tax offenders prosecuted		
							3. Number of tax offenders fined and imprisoned		
							4. Tax collected and fines paid		
Improve tax education	Business Process	Moderate	Medium	Medium-term	Medium	Informed tax-payers	Evidence of tax education programmes implemented	Ministry of Finance, Budget and National Planning and FIRS	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Define the governing principles and operating rules for the Federal Account Operating Committee	Business Process	Moderate	Medium	Medium-term	Medium	Clearly defined governing principles and rules for the Federal Account Operating Committee	Copy of newly defined governing principles and rules for the Federal Account Operating Committee	Ministry of Finance, Budget and National Planning and States
	Clarify rules on which level of government is responsible and accountable for budget coordination, setting priorities and acting on revenue and expenditures	Business Process	Moderate	Medium	Medium-term	Medium	Rules on level of government responsibility and accountability clarified	1. Copy of new clarified rules 2. Breakdown of responsibility for each level of government	Ministry of Finance, Budget and National Planning and States
	Review and advocate for a more transparent, responsive and rules-based revenue sharing formula	Business Process	Moderate	Medium	Medium-term	Medium	Increased transparency and responsiveness of rules-based revenue sharing formula and advocacy	1. Percent increase in transparency and responsiveness of rules 2. Reports of advocacy activities	Ministry of Finance, Budget and National Planning and States
	Renew spending priorities	Business Process	Difficult	Low	Short-term	Low	More efficient spending	1. Number of spending priorities renewed 2. Number of critical spending priorities identified	Ministry of Finance, Budget and National Planning and SDGs Office
	Apply zero-based budgeting approach on public servant salaries and operating costs	Business Process	Moderate	Low	Short-term	Medium	Increased budget (payroll) efficiency, gender equality	1. Evidence of zero-based budgeting implemented 2. Percent cost arising from zero-based budgeting systems	Ministry of Finance, Budget and National Planning

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Focus budget resources on highly productive sectors and other spending that directly addresses the SDGs	Business Process	Moderate	Low	Short-term	Medium	1. Increased budget impact and performance 2. Spending aligned with SDGs	1. Budget performance reports 2. Percent of budget allocated to high performing sectors 3. Evidence of aligning budget with SDGs (particularly towards gender equity and climate action)	Ministry of Finance, Budget and National Planning and SDGs Office
	Increase transparency in procurement practices, e.g., publicize large contract awards at federal and state level, with an appeal process for non-winning bidders	Business Process	Moderate	Low	Medium-term	Low	Increased transparency and accountability of government	1. Number of large contract awards publicized 2. Documented evidence that all procurement processes were followed for all awarded contracts 3. Evidence of a framework for appeal for non-winning bidders	Ministry of Finance, Budget and National Planning
	Increase oversight/ownership of public assets	Business Process	Moderate	Medium	Medium-term	Medium	Increased oversight on public asset performance	1. Public asset oversight increased 2. Financial objectives set for each asset 3. Number of public asset ownerships taken	Ministry of Finance, Budget and National Planning
	Collaborate with private sector in PPP projects, enforce existing policies to protect and encourage investors entering PPP arrangements	Business Process	Moderate	Medium	Medium-term	Medium	1. Collaboration with private sector via Public-Private Partnership (PPP) projects implemented 2. Existing policies to protect and encourage investors enforced	1. Number of collaborations with private sector on PPP (unlocking of private financing for climate action) 2. Level of increase in private sector protection through enforcement of existing laws 3. Percent increase in private sector participation (unlocking private sector financing towards climate action)	Ministry of Finance, Budget and National Planning

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Modifying public spending and management	Policy Reform	Moderate	Medium	Short-term	Medium	1. Subsidies for energy use eliminated	1. Evidence of removal of subsidies on energy use (reduction in greenhouse gas emissions)	Ministry of Finance, Budget and National Planning
							2. Efficient revenue and expense management	2. Percent budgetary savings on removal of subsidies on energy use	
	Business Process	Moderate	High	Short-term	High	High	1. Appropriate balance of domestic and external debt created	1. Evidence of debt management strategy implementation	Ministry of Finance, Budget and National Planning
							2. Appropriate balance of fixed and variable debts created	2. Appropriate ratios of domestic and external debt as evidenced by a report	
							3. Reduced the debt service to revenue ratio	3. Appropriate ratios of fixed and variable debt as evidenced by debt management reports	
								4. Debt service to revenue ratio at 75% of revenue (as opposed to 92% projected in 2022)	
	Innovations in public debt management/sustainability	Business Process	Moderate	Medium	Short-term	Medium	Improved debt sustainability and efficient balance sheet management	1. Copy of debt sustainability analysis report	Ministry of Finance, Budget and National Planning
								2. Copy of periodic stress tests reports	
								3. New and innovative debt instruments geared towards sustainability	
	Policy Reform	Moderate	Medium	Short-term	Medium	Improved debt sustainability and reduced risk	1. Copy of policy framework to guide debt restructuring	Ministry of Finance, Budget and National Planning	
							2. Percent reduction in financial risks		
							3. Percent reduction in instability risks		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
Domestic Public	Rescheduling and restructuring: Explore sale of sovereign debt to impact investors and diaspora to lengthen terms, led by regional DFI	Instruments	Moderate	High	Medium-term	High	Improved debt sustainability and a diversified debt portfolio	1. Number of foreign debt instruments sold	Ministry of Finance, Budget and National Planning	
								2. Value of foreign debt sold		
Innovations in public debt management/ sustainability	Explore use of theme bonds (e.g., green bonds) to tap into distinct pools of capital	Instruments	Moderate	Medium	Medium-term	Medium	1. Improved and diversified debt structure	1. Debt performance reports		Ministry of Finance, Budget and National Planning
							2. Improved debt sustainability	2. Number of theme bonds issued (increase in the number of social and green bonds issued)		
							3. Targeted SDG funding	3. Value of theme bonds issued (increase in the value of social and green bonds issued)		
Catalysing GOEs and SWF	Consider privatizations and commercialization	Business Process	Difficult	High	Medium-term	Medium	Increased private sector participation and improved service delivery	1. Number of GOEs privatized	Ministry of Finance, Budget and National Planning	
								2. Value of privatisations		
							3. Number of GOEs commercialized			
							4. Value of commercialisations			
							5. Measures of improved efficiency and effectiveness in GOE service delivery			
							6. RED investments and transfer of technology benefits			
	Enhance governance practices	Business Process	Moderate	Medium	Short-term	Medium	Improved performance of GOEs	1. Improved stakeholders' participations in decision making	Ministry of Finance, Budget and National Planning	
2. Improved transparency and accountability of GOEs										
3. Improved governing boards (increase in women participation) for oversight of executive management of GOEs										

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Review and modernize ownership structures	Regulatory Reform	Moderate	Medium	Medium-term	Medium	Efficient (loss reducing / profit making) GOEs	1. Increase in commercialisation of GOEs	Ministry of Finance, Budget and National Planning
								2. Number of GOE divestitures (IPOs of GOEs)	
								3. Number of PPPs	
	Strengthen capitalization	Instruments	Moderate	Medium	Short-term	Medium	Improved GOEs' access to capital	1. Percentage increase in each GOE's capital base	Ministry of Finance, Budget and National Planning
								2. Number of GOEs fully capitalized	
	Reflect commercial business practices, e.g., explicit net income targets	Business Process	Relatively Easy	High	Short-term	High	Improved efficiency of GOEs	1. Number of commercial business practices adopted and fully implemented by GOE	Ministry of Finance, Budget and National Planning
								2. Use and increase of key business performance indicators, including profits, assets to liabilities, profits to capital, etc.	
								3. Value generated through assets recycling	
	Strengthen framework and specific governance practices	Business Process	Moderate	Medium	Medium-term	Medium	Improved governance framework and clearly specified governance practices	1. Improved transparency and accountability of funds	Ministry of Finance, Budget and National Planning
								2. Improved stakeholders' participations in decision making	
3. Periodic audited financial and activity reports on the management of GOEs									
4. Improved governing boards (increase in women participation) for oversight of executive management of GOEs									
5. Number of GOEs with clearly defined governance structures (supporting all gender representation) in place									

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Catalysing GOEs and SWF	Regulatory Reform	Moderate	High	Short-term	High	Increased capacity of DFIs to borrow	1. Percentage increase in the borrowing capacity of DFIs	Ministry of Finance, Budget and National Planning and DFIs
		Business Process	Difficult	High	Short-term	Medium	1. Illicit financial flows reduced 2. Investors' confidence in financial and commercial sectors improved 3. Increased private sector participation	1. Number of offenders identified and prosecuted 2. Percent increase in investors' confidence 3. Percent decrease in financial risks 4. Increased revenues from taxes paid and fines	Ministry of Justice and FIRS
	Capturing Illicit Financial Flows	Business Process	Moderate	Medium	Medium-term	Medium	1. Improved tax compliance 2. Framework and MOUs for inter-agency cooperation developed and implemented	1. Signed agreements/MoU between revenue authorities and other government agencies 2. Joint audits or enforcements 3. Copy of framework	President's Office and SDGs Office
		Instruments	Moderate	High	Short-term	High	Developed data collection frameworks and improved tax compliance	1. Evidence of data collection frameworks for tax compliance 2. Evidence of increased use of data for tax compliance 3. Percent increase in tax collection	FIRS
		Business Process	Moderate	Medium	Medium-term	Medium	1. Improved scrutiny on bank accounts 2. Improved scrutiny of financial transactions 3. KYC compliance methods adopted and implemented	1. Number of suspicious financial activities detected and reported 2. Copy of country-wide KYC reports 3. Stability and confidence in financial sector	Ministry of Finance, Budget and National Planning

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Public	Introduce stronger financial crime legislation	Policy Reform	Moderate	High	Medium-term	High	1. Increased deterrence for financial crime	1. Copy of new legislations	Ministry of Justice
							2. New and robust financial crime legislations instituted	2. Evidence of strong monitoring and enforcement regime	
	Strengthen capacity to track and monitor financial flows to identify illicit activity	Business Process	Moderate	High	Short-term	Medium	1. Robust mechanism put into place to track and monitor illicit financial flows 2. Illicit financial activities identified and reported in timely manner	1. Reports on illicit financial flows 2. Evidence of mechanism put into place to track and monitor illicit financial flows	FIRS
Domestic Private	Create positive and negative incentives for reducing illegal flows	Instruments	Moderate	Medium	Medium-term	Medium	Reduce illicit financial flows via a robust reward system	1. Number of positive incentives (such as public recognition) implemented 2. Number of negative incentives (such as fines, imprisonment, etc.) implemented	Ministry of Finance, Budget and National Planning and FIRS
							1. Improved risk allocation mechanism in place, and returns to pension funds and pension fund regulations	1. Evidence of risk allocation mechanism with best practice risk allocation methods 2. Percent increase in returns to pension fund holders	Ministry of Justice
	Modernize risk allocation and returns of pension fund regulations	Regulatory Reform	Moderate	High	Medium-term	High	2. Improved safeguards to protect beneficiaries	3. Copy of newly improved and clarified regulations	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Private	Clarify land title procedures in the Land Use Act	Regulatory Reform	Difficult	Medium	Medium-term	Medium	1. Better land administration system 2. Land Use Act reviewed and reformed	1. Number of improvements made on the Land Use Act	Ministry of Justice
								2. Copy of review report	
	Adopt international standards for capital markets	Regulatory Reform	Moderate	Medium	Medium-term	Medium	Higher capitalization and a deepened capital market	1. Improved transparency in capital market transactions	Ministry of Finance, Budget and National Planning
								2. Improved regulatory oversight of capital markets	
								3. Evidence of international standards for capital markets adopted	
	Engage in PPPs to deliver on critical infrastructure needs	Business Process	Moderate	Medium	Short-term	Medium	1. Improved funding opportunities for public infrastructure, including green infrastructure 2. PPPs engaged and critical infrastructure needs addressed	1. Percent increase in funding	Ministry of Finance, Budget and National Planning
								2. Number of PPPs engaged	
								3. Number of critical infrastructure needs addressed	
								4. Number of green infrastructure projects in the pipeline	
	Strengthen regulatory structure for the insurance industry	Regulatory Reform	Difficult	High	Medium-term	Medium	1. Increased confidence in policy holder 2. Framework in place to ensure insurance companies remain viable	1. A new regulatory structure that conforms with international practice in place	Ministry of Finance, Budget and National Planning
2. Evidence of oversight power of regulatory authority increased									
Adopt market-based pricing for utilities and power regulations	Regulatory Reform	Moderate	Medium	Short-term	Medium	Competitive pricing in place for utilities	1. Implementation of a market-based pricing system with guaranteed cost recovery method in place	Ministry of Finance, Budget and National Planning and Ministry of Energy	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Private	Framework policies for enabling business environment	Regulatory Reform	Difficult	Medium	Medium-term	Medium	Improved private sector participation	<ol style="list-style-type: none"> Number and extent of publicly available information on concession agreements Number and extent of concessions open to public review and participation 	Ministry of Justice
		Regulatory Reform	Difficult	Medium	Medium-term	Medium	Improved regulatory framework for the financial sector	<ol style="list-style-type: none"> Improved and robust financial sector regulations in place A robust financial sector regulatory authority in place Copy of financial sector regulations that conform to international standards 	Ministry of Finance, Budget and National Planning and Central Bank
	Address transparency, access to credit, depositor protection, credit quality, capital adequacy, financial stability	Regulatory Reform	Difficult	High	Short-term	Medium	Public access to credit improved, depositors' funds secured and protected, and capital and capital adequacy requirements increased	<ol style="list-style-type: none"> Percentage increase in public access to credit Increased level of supervision of deposit-taking financial institutions 	Ministry of Finance, Budget and National Planning and Central Bank
	Support innovation within the financial sector through Central Bank policies and encourage the penetration of financial services, especially fintech, in terms of licensing, SEC accreditation, etc.	Policy Reform	Moderate	High	Short-term	High	Enhanced penetration of financial services, especially fintech, in terms of licensing, SEC accreditation, etc.	<ol style="list-style-type: none"> Number of fintech's innovative solutions licensed Level of transparency and convenience in implementing government's policies for new fintech solutions 	Ministry of Finance, Budget and National Planning and Central Bank
	Provide regulatory incentives to banks to offer increased credit to previously unbanked persons and businesses	Regulatory Reform	Difficult	High	Short-term	Medium	Improved financial inclusion	<ol style="list-style-type: none"> Percentage increase in banking participation rate (higher women's participation) Number of regulatory incentives granted (higher women's participation) Percent increase in financial inclusion (higher women's participation) 	Ministry of Finance, Budget and National Planning and Central Bank

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
Domestic Private	Improve mobile banking regulations and procedures	Regulatory Reform	Moderate	High	Short-term	High	1. Improved financial inclusion 2. Increased number of mobile banking agents 3. Policies to reduce restriction on use of mobile banking introduced	1. Number of mobile banking agents created	Ministry of Finance, Budget and National Planning and Central Bank	
								2. Copy of policy		
								3. Percentage increase in financial inclusion (higher women participation)		
	Mobilizing Banks and Financial Institutions	Incentivize risk sharing financial instruments to reduce the risk and catalyze banks and FIs to lend to corporate clients and consumers	Instruments	Moderate	High	Short-term	High	Increased lending to clients and customers	1. Percent increase in lending to corporate clients and consumers due to incentive for risk sharing	Ministry of Finance, Budget and National Planning and Central Bank
									2. Number and nature of incentives granted to financial institutions for risk sharing financial instruments	
	Promoting Venture Capital Investments	Deploy strategic revenue growth initiatives at the federal level, in conjunction with the private sector	Regulatory Reform	Difficult	High	Short-term	Medium	Increased revenue	1. Implementation of SRG at the federal level	Ministry of Finance, Budget and National Planning
									2. Percentage increase in federal revenue	
									1. Percentage increase in foreign investment	
	Promoting Venture Capital Investments	Improve investor and business-enabling environment to attract foreign (and diaspora) capital	Regulatory Reform	Difficult	Medium	Medium-term	Medium	Improved investments via enabling environment to attract foreign and diaspora capital	2. Percentage increase in diaspora investment	Ministry of Finance, Budget and National Planning and Other Relevant Ministries
									1. Percentage increase in real VC and angel investment	
Promoting Venture Capital Investments	Improve the effectiveness of incentives for VC to attract real investment	Regulatory Reform	Moderate	High	Medium-term	High	Improved VC ecosystem and positive spillover	2. New policies targeted at encouraging VCs and angel investors	Ministry of Finance, Budget and National Planning	
								1. Percentage increase in real VC and angel investment		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
Domestic Private	Strengthen enabling business environment, notably design and implementation of the legal and regulatory (and security) environment	Regulatory Reform	Difficult	Medium	Long-term	Low	Improved business environment (higher private sector participation and more efficient GOEs)	<ol style="list-style-type: none"> Number of policies introduced to improve business environment (with increased emphasis on environmental, societal, and governance (ESG) impact) Evidence of improved business environment (higher women participation and the number of firms increasing, particularly SMEs) 	President's Office and Ministry of Finance, Budget and National Planning
	Establish a regulatory framework to ensure funds are invested in areas of high social, financial and economic returns and not diverted to unintended and unproductive projects	Regulatory Reform	Moderate	Medium	Medium-term	Medium	Increased investment in areas of high social, financial, and economic returns	<ol style="list-style-type: none"> Percentage increase in areas of high social, financial, and economic returns Evidence of improved regulatory environment 	President's Office and Ministry of Finance, Budget and National Planning
	Strengthen governance and clarify regulatory framework on what the pension fund should be allowed to invest in and instruments required to get pension funds involved	Regulatory Reform	Moderate	Medium	Medium-term	Medium	Deepening the investment framework to channel institutional investment opportunities toward sustainable and infrastructure projects	Documentary guidance and policy on the use of pension funds for investment, particularly new and green projects	Ministry of Finance, Budget and National Planning and Central Bank
	Introduce policy reform that encourages loan syndication on large value-projects	Policy Reform	Moderate	High	Medium-term	High	<ol style="list-style-type: none"> Increased amount of loan syndication on large value projects Strengthened financing for infrastructure, including green infrastructure projects 	<ol style="list-style-type: none"> Copy of reformed policy Amount of loan syndication achieved Number of financial institutions willing to participate in loan syndication Number of new and green infrastructure projects 	Ministry of Finance, Budget and National Planning and Central Bank

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
Domestic Private	Utilize insurance-based funding arrangements	Instruments	Moderate	Medium	Short-term	Medium	Increased insurance market and safeguard mechanisms	1. Number of funding arrangements insured	Ministry of Finance, Budget and National Planning and Central Bank	
								2. Percent of total funding arrangements insured.		
	3. Number of institutional investors mobilized									
	Incentivizing Local Investors, Mobilizing Institutional Investors and Leveraging Pension Fund	Increase domestic financial loan syndication	Policy Reform	Moderate	High	Short-term	High	Increased local funding opportunities (for SDGs as well)	1. Number of domestic loan syndicates	Ministry of Finance, Budget and National Planning and Central Bank
									2. Percent of public access to funding syndicates	
									3. Number of lending institutions partaking in funding syndication	
Scaling Up Sustainable Finance	Mobilize institutional investors at scale with the example of the Lagos Free Zone Company	Policy Reform	Moderate	High	Medium-term	High	Increased development activity towards longer term projects, including infrastructure ones	1. Number of institutional investors mobilized at scale with long tenors	Ministry of Finance, Budget and National Planning, Central Bank, and States	
								2. Value of institutional investors mobilized		
								1. Number of additional guidelines developed and implemented		Ministry of Finance, Budget and National Planning and Central Bank
2. Number of existing guidelines implemented										
Scaling Up Sustainable Finance	Develop common sustainable finance definitions and taxonomies, and improve non-financial disclosure by government bodies, firms and projects, as other priority areas of regulatory reform	Regulatory Reform	Moderate	Medium	Medium-term	Medium	Increased clarity and reduced risk for sustainable and green investments	1. Copy of common sustainable finance definitions and taxonomies	Ministry of Finance, Budget and National Planning	
								2. Improved level of non-financial disclosure by government bodies, firms, etc.		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
Domestic Private	Adopt Task Force on Climate-related Financial Disclosures (TCFD) recommendations	Regulatory Reform	Moderate	Medium	Medium-term	Medium	Increased transparency on climate-related financial disclosures	1. Evidence of adoption of task force recommendations	Ministry of Finance, Budget and National Planning	
								2. Number of climate-related financial disclosure recommendations adopted and implemented		
	Develop a climate policy framework anchored in carbon pricing to provide price signal incentives for the transformation of the Nigerian economy	Regulatory Reform	Difficult	Medium	Medium-term	Medium	Reduced carbon emissions	1. Development of a carbon pricing policy framework	Ministry of Finance, Budget and National Planning and Ministry of Environment	
								2. Copy of policy framework on emissions reduction targets		
	Scaling Up Sustainable Finance	Establish regulatory limits on GHG emissions, which would help guide the transformation in the Nigerian economy	Regulatory Reform	Moderate	Medium	Short-term	Medium	Regulatory limits on GHG emissions established	1. Copy of regulations on GHG emissions	Ministry of Finance, Budget and National Planning and Ministry of Environment
									2. Number (or percentage) of limits placed on GHG emissions	
									3. Volume of limits placed on GHG emissions	
	Explore domestic green bond market for sovereign, non-sovereign and corporate issuance	Instruments	Moderate	Medium	Short-term	Medium	Enhanced domestic, sustainable green bond market explored for issuance of sovereign and non-sovereign corporate bonds	1. Number of sovereign and non-sovereign corporate bonds issued in the domestic green bond market	Ministry of Finance, Budget and National Planning	
								2. Value of sovereign and non-sovereign corporate bonds issued in the domestic green bond market		
								3. Percentage increase in sovereign and non-sovereign corporate bonds issuance in the domestic green bond market to total bond market		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
Domestic Private	Scaling Up Sustainable Finance	Business Process	Moderate	High	Medium-term	High	Increased number of new and green infrastructure projects platform built with sustainable investment pipeline, including private investors	1. Project completion reports 2. Number of sustainable finance and private investors mobilized	Ministry of Finance, Budget and National Planning and SDGs Office	
							Improved institutional investor participation	1. Number of successful engagements with institutional investors 2. Number of institutional investors engaged for consultation and collaboration	Ministry of Finance, Budget and National Planning	
	International Public	Deepen strategic engagement with each MDB and develop stretch financing objectives	Business Process	Moderate	High	Short-term	High	Increased funding opportunities from MDBs	1. Level of increase in strategic engagement with each MDB (particularly towards gender equity and climate action) 2. Copy of financing objectives developed	Ministry of Finance, Budget and National Planning
Early implementation of phase 2 of the country plan								1. Evidence of WBG agreement (acknowledgement) for earlier implementation of phase 2 of country plan	Ministry of Finance, Budget and National Planning	
World Bank Group: Consider earlier implementation of phase 2 of country plan, guided by Nigerian progress on priority policy reform World Bank Group: Detail policy and operational conditions for WBG to enhance its financing commitment for future planning periods		Instruments	Difficult	High	Short-term	Medium	High	Increased financing commitment for future planning periods	1. Evidence of policy developed 2. Copy of WBG's financing commitment for future planning periods	Ministry of Finance, Budget and National Planning
								Increased financing commitment for future planning periods	1. Evidence of policy developed 2. Copy of WBG's financing commitment for future planning periods	Ministry of Finance, Budget and National Planning

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
International Public	AfDB: Use bank's guarantee powers to mobilize domestic and external private capital, in partnership with leading institutions like ATI	Instruments	Moderate	High	Short-term	High	Increased mobilization of domestic and external private capital via AfDB's guarantee power	1. Evidence of AfDB's agreement to use its guarantee powers	Ministry of Finance, Budget and National Planning	
								2. Number of domestic and external private capital mobilized through AfDB's guarantee powers		
	IsDB: Finalising the IsDB Group Member Country Partnership Strategy for Nigeria. Opportunity for IsDB to increase scale of its activities	Instruments	Moderate	High	Short-term	High	Increased government access to IsDB financing	1. Copy of final MOU	Ministry of Finance, Budget and National Planning	
								2. Evidence of improved collaboration and engagements with IsDB		
								3. Evidence of alignment with, and increase in, IsDB activities		
	MDBs	IsDB: Develop and strengthen Islamic finance regulations in Nigeria, which could help bring in investors	Regulatory Reform	Moderate	High	Short-term	High	1. Improved partnership with IsDB 2. Strengthened Islamic finance regulations in Nigeria	2. Number of projects identified and analysed	Ministry of Finance, Budget and National Planning
									3. Copy of feasibility studies	
		Scale up credit facilitation schemes to foster increased private sector investment towards SDG-aligned priority sectors to support financing for MSMEs	Instruments	Moderate	High	Medium-term	High	Increased financing for MSMEs	1. Evidence of review of Islamic finance regulations	Ministry of Finance, Budget and National Planning
									2. Percent increase in investments through Islamic finance channels	
									1. Number of facilitation schemes scaled up (particular focus on gender equity and climate action)	
								2. Number of private sector investments towards SDGs (increase in investment towards gender equity and climate action)	Ministry of Finance, Budget and National Planning and Central Bank	
								3. Percentage increase in private sector investment towards SDGs (particularly towards gender equity and climate action)		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Public	Build investment relationships with priority bilateral DFIs	Business Process	Relatively Easy	Medium	Medium-term	Medium	Increased investment-related relationships with priority bilateral DFIs	1. Evidence and number of investment relationships with priority bilateral DFIs	Ministry of Finance, Budget and National Planning
								2. Value of investment made because of relationships with priority bilateral DFIs	
	Identify worthy investment opportunities for DFI consideration and develop a project development fund	Business Process	Moderate	High	Medium-term	High	Increased investment opportunities for DFIs alongside the creation of a development fund	1. Number of investment opportunities for DFI consideration identified	Ministry of Finance, Budget and National Planning
								2. Copy of project development fund	
DFIs	Develop solid relationships with DFIs and local commercial investment and financing partners	Business Process	Moderate	Medium	Medium-term	Medium	Increased financing-related relationships with DFIs and local commercial investment, and financing partners	1. Number of engagements with DFIs and local commercial investment and financing partners	Ministry of Finance, Budget and National Planning
								2. Value of investments resulting from relationships with DFIs and local commercial investment and financing partners	
	Promote "credit wrap" or partial risk guarantees for specific equity investments, sharing in the investment risk and building confidence for the local private investors	Instruments	Moderate	High	Medium-term	High	Reduction in investment risks and increased confidence in local private investors	1. Number and percentage increase in local private investors' guarantees 2. Number of promotional engagements for equity investment risk sharing held	Ministry of Finance, Budget and National Planning

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Public ODAs	Build strong relationships with individual ODA agencies; including existing OECD donors, new donors, China, India, etc.	Business Process	Relatively Easy	Medium	Medium-term	Medium	Improved relationships with individual official development assistance (ODA) agencies, including existing Organisation for Economic Co-operation and Development (OECD) donors, etc.	<ol style="list-style-type: none"> Evidence of engagements with individual ODA agencies, including existing OECD donors, etc., built and/or improved Value of investment galvanized from relationships with individual ODA agencies, including existing OECD donors, etc. built and or improved 	Ministry of Finance, Budget and National Planning and SDGs Office
	Effectively coordinate donor community active in Nigeria	Business Process	Relatively Easy	Medium	Short-term	High	Streamlined funding opportunities via effective coordination of the domestic donor community	<ol style="list-style-type: none"> A single point donor engagement committee set up Improved effectiveness in donor management 	Ministry of Finance, Budget and National Planning and SDGs Office
	Focus on aligning use of ODA financing with specific SDGs	Business Process	Moderate	High	Short-term	High	<ol style="list-style-type: none"> ODA financing aligned with specific SDGs. Increased ODA financing towards SDGs 	<ol style="list-style-type: none"> Evidence of alignment of ODA financing with specific SDGs (particularly towards gender equity and climate action) Improved and effective implementation of financing agreements 	Ministry of Finance, Budget and National Planning and SDGs Office
	Identify opportunities to use ODA to build resilience (notably by integrating climate action into multi-sector development strategies; supporting public goods like public health; enhancing crisis planning and coordination)	Business Process	Moderate	High	Medium-term	High	<ol style="list-style-type: none"> Increased opportunities to build ODA's resilience Public goods effectively supported Improved crisis planning and coordination 	<ol style="list-style-type: none"> Report of opportunities identified Percent increase in public service delivery Improved crisis management 	SDGs Office

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Public	Actively build relations with foreign ECAs	Business Process	Relatively Easy	Medium	Short-term	High	Unlock investment opportunities via foreign ECAs	1. Evidence of engagements with foreign ECAs	Ministry of Finance, Budget and National Planning
								2. Number of relationships built with foreign ECAs	
	Strengthen the policy environment	Policy Reform	Difficult	Medium	Long-term	Low	Improved and more effective policy environment	1. Adequate and effective policy in place as evidenced by industry and sector actors	President's Office
								2. Percentage improvements in key indicators, e.g., doing business, transparency reports, access to capital, etc.	
								3. Friendly policy environment	
	ECA	Improve the regulatory environment	Regulatory Reform	Difficult	Medium	Long-term	Low	1. Increased oversight of regulatory agencies 2. Improved coordination of the regulatory environment among different regulatory agencies	1. Evidence on improvements in fully regulated industries, businesses, and commercial sectors
2. No or fewer regulatory overlaps									
	Use multilateral insurers to leverage trade credit and investment risk capacities of multilateral ECAs in which Nigeria has invested, such as ATI and ICIEC, which can provide cover for Nigerian trade and investment without impacting Nigerian debt levels	Instruments	Moderate	High	Short-term	High	Increased opportunities for Nigeria to invest in multilateral ECAs	1. Evidence of use of multilateral insurers of trade credit and investment risk capacities	Ministry of Finance, Budget and National Planning
2. Number of Nigerian trade and investment opportunities covered									
								3. Value of total trade credit and investment risk capacities covered	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Public	Build business awareness on the role of ECAs	Business Process	Relatively Easy	Medium	Long-term	Medium	Enhanced engagement with ECAs to unlock additional financing channel	1. Number of awareness initiatives	Ministry of Finance, Budget and National Planning
								2. Number of businesses effectively taking advantage of ECAs	
							3. Percentage increase in business trade due to the awareness of the role of ECAs		
International Public	Engage stakeholders on the benefits of respecting contracts and repayment schedules, as well as minimizing political risk for projects and foreign investments	Business Process	Moderate	High	Short-term	High	1. Stakeholders engaged and made aware of the benefits of being committed to contracts and repayment terms 2. Political risks relating to projects and foreign investment reduced	1. Number of stakeholders engaged	Ministry of Finance, Budget and National Planning and Central Bank
								2. Number of engagement initiatives	
							3. Level of reduction in political risks as evidenced by reduction in financing charges		
International Private	Develop and expand financial instruments, products and platforms for diaspora remittances	Instruments	Moderate	High	Short-term	High	Financial instruments, projects, and platforms for diaspora remittances developed and expanded	1. Evidence of initiatives undertaken	Ministry of Finance, Budget and National Planning and Diaspora Commission
								2. Percentage increase in diaspora remittances (mobilization of funds towards gender equity)	
								3. Percentage increase in number of diaspora residents remitting funds back home due to initiatives (mobilization of funds towards gender equity)	
							1. Number of other service providers attracted	Ministry of Finance, Budget and National Planning and Diaspora Commission	
							2. Percentage reduction in remittance transaction cost		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership	
International Private	Develop options for using appropriate incentives for diaspora investments	Instruments	Moderate	High	Short-term	High	Increased diaspora investments	1. Copy of report and options clearly defined, and incentives spelled out	Ministry of Finance, Budget and National Planning and Diaspora Commission	
								2. Percentage increase in diaspora investments due to incentives (mobilization of funds towards gender equity)		
	Diaspora and remittances	Advance Remittance Policy and Diaspora Commission by using digital technology and Nigerian missions abroad to identify, expand and regularly engage the diaspora network	Instruments	Moderate	High	Short-term	High	1. Money transmitters engaged 2. Remittance transaction cost reduced 3. Increased remittances	1. Number of policy advanced through digital technology	Ministry of Finance, Budget and National Planning and Diaspora Commission
									2. Number of diaspora networks identified, expanded, and engaged	
									3. Percentage increase in diaspora remittances due to Nigerians' engagements	
	Diaspora and remittances	Implement an active remittance marketing strategy, including regular marketing events	Instruments	Relatively Easy	High	Short-term	High	Increased awareness on importance of remittances and their impact	1. Number of marketing events held	Diaspora Commission
2. Percentage increase in remittances due to marketing										
Diaspora and remittances	Identify financing priorities that are aligned with diaspora priorities and direct diaspora investments	Instruments	Moderate	High	Short-term	High	Increased diaspora investments	1. Number of financing priorities identified (including gender equity and climate action)	Diaspora Commission	
								2. Percentage increase in diaspora direct investments (mobilization of funds towards gender equity)		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Private	Analyse and report on remittance financing use and SDGs appropriately	Instruments	Moderate	High	Short-term	High	Increase the linkages and impact of remittance financing on SDGs	1. Report on analysis of remittance financing and SDGs (including for gender equity and climate action)	Diaspora Commission
								2. Number of policy recommendations arising from analysis and reports on remittance financing and SDGs (including for gender equity and climate action)	
								3. Implementation of remittance recommendations (including for gender equity and climate action)	
4. Percentage increase in remittance financing aligned with SDGs (including gender equity and climate action)									
Diaspora and remittances	Work with money transmitters to cut remittance transaction costs and encourage increased competition among service providers	Instruments	Moderate	High	Short-term	High	1. Money transmitters engaged 2. Remittance transaction cost reduced 3. Increased remittances	1. Evidence of engagement initiatives	Diaspora Commission
								2. Percentage reduction in remittance transaction cost	
Diaspora and remittances	Strengthen understanding of linkages to remittances, create a pipeline of investable opportunities; and increase transparency, quality and structuring of transactions and focusing on marketing the socio-economic and emotive narrative	Instruments	Moderate	High	Short-term	High	1. Increased remittances 2. Increased transparency and improved quality and structuring of transactions improved	1. Number of investment opportunities identified	Diaspora Commission
								2. Copy of transparency and quality report	
								3. Evidence of pipeline investment opportunities created	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Private	Develop the diaspora investment trust fund by setting priorities, marketing it with the diaspora community, allocating financing, and reporting on its use and SDG impacts	Instruments	Moderate	High	Short-term	High	1. Establishment of the diaspora investment trust fund, including setting its priorities and the marketing outreach created	1. Evidence of diaspora trust fund use	Diaspora Commission
							2. Priorities for diaspora investments set and marketing to diaspora conducted	2. Number of investment priorities established (particularly towards gender equity and climate action)	
							3. Robust assessment of the SDGs	3. Percentage increase in diaspora investments (mobilization of funds towards gender equity)	
International Private	Complement the NIPC by examining effectiveness of fiscal incentives in mobilising investments/FDI that contribute to national sustainable development objectives	Instruments	Moderate	High	Medium-term	High	1. Effectiveness of fiscal incentives	1. Percentage increase in effectiveness of fiscal incentives	Ministry of Finance, Budget and National Planning and NIPC
							2. Increased investments, including FDI, towards national sustainable development objectives	2. Number of investment opportunities mobilized	
								3. Percentage contribution to national development objectives	
International Private	Support progress in establishing investment promotion agency led by the NIPC	Instruments	Moderate	High	Short-term	High	1. Establishment of an investment promotion agency	1. Evidence of agency establishment	Ministry of Finance, Budget and National Planning and NIPC
							2. Improved investments	2. Progress report on investment promotion	
								3. Percentage increase in investments	

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Private	Actively engage with ECAs to help attract international bank financing	Instruments	Moderate	High	Medium-term	High	Increased international bank financing via effective engagement with ECAs	<ol style="list-style-type: none"> Number of engagement activities Percentage increase in international bank financing due to engagement with ECAs 	Ministry of Finance, Budget and National Planning and Central Bank
	Reform and clarify host states' regulatory powers by adding provisions on social and environmental standards and public health to allow treating socially and environmentally desirable investments more favourably than investments in brown sectors	Regulatory Reform	Difficult	High	Medium-term	Medium	<ol style="list-style-type: none"> Host states' regulatory powers reformed and clarified Provisions created on social and environmental standards and public health Socially and environmentally desirable investments treated more favourably than investments in brown sectors 	<ol style="list-style-type: none"> Copy of reformed regulatory powers of host states Copy of provisions for environmental and public health standards Number of desirable investments treated favourably Percentage increase in desirable investments 	President's Office and States
	Review the current incentives granted to encourage VC and angel investment	Regulatory Reform	Moderate	High	Short-term	High	Increased investments through VCs and angel investors	<ol style="list-style-type: none"> Percentage increase in VC and angel investment New policies targeted at encouraging VCs and angel investors 	Ministry of Finance, Budget and National Planning
	Improve and address regulatory bottlenecks to encourage VC and angel investors	Regulatory Reform	Moderate	High	Short-term	High	Increased investments through VCs and angel investors and positively impacting the start-up ecosystem	<ol style="list-style-type: none"> Percentage increase in VC and angel investment Review of policy and removal of any identified restrictions 	Ministry of Finance, Budget and National Planning

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Private	Clarify and expand regulations on Islamic finance	Regulatory Reform	Moderate	High	Short-term	High	1. Expanded funding framework	1. Copy of regulatory framework	Ministry of Finance, Budget and National Planning
							2. Better understanding of the Islamic finance funding framework, including the challenges and opportunities	2. Percentage increase in Islamic finance	
								3. Percentage increase in Islamic to total investment capital	
	Increase use of innovative bond instruments with caution	Instruments	Moderate	Medium	Medium-term	Medium	Reduced risk exposure, while keeping a check on innovative bond instruments	1. Percentage increase in the use of innovative bond instruments (including social and green bonds)	Ministry of Finance, Budget and National Planning
								2. Copy of policy to encourage use of innovative bond investments (particularly social and green bonds)	
								3. Percentage increase in bond investments (including social and green bonds)	
	Examine options for accessing existing external credit at preferential interest rate and terms	Instruments	Moderate	High	Short-term	High	Increased access to preferential interest rate and terms for external credit	1. Evidence of exercise to identify options for accessing external credit at preferential rates and terms	Ministry of Finance, Budget and National Planning
								2. List of identified options	
	Set up trust funds to channel philanthropic donations directed at specific SDGs	Instruments	Moderate	High	Short-term	High	Increased SDGs funding through philanthropy	1. Percentage increase in SDGs funding through philanthropies (including gender equity and climate action)	Ministry of Finance, Budget and National Planning and SDGs Office
								2. Evidence of trust fund created	
							3. Value of total investment achieved		

Financing Source	Initiatives / Focus	Category	Ease of Implementation	Potential Resource Capture	Timeframe	Priority Level	Outcome	KPI/Indicator	Leadership
International Private	External Bond Purchases / Impact Investors / Institutional Investors / Foundations and Private Donors	Instruments	Moderate	High	Short-term	High	Improved sustainable and green funding opportunities	1. Number of financial instruments introduced (increase in number of social and green financial instruments)	Ministry of Finance, Budget and National Planning and SDGs Office
								2. Percentage increase in investment capital (including social and green capital)	
3. Number of investors impacted									
4. Number of funding opportunities created (increase in funding for social and green initiatives)									



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