NIGERIA DEVELOPMENT FINANCE ASSESSMENT (DFA)

REPORT

18TH OCTOBER 2020

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Preface

Achieving the 2030 Agenda for Sustainable Development Goals (SDGs) in Nigeria remains a challenge. The coronavirus pandemic has caused further setbacks to socio-economic development in the country. The economy is projected to contract in 2020 and growth in the medium term will likely remain subdued. The country faces risks due to climate change along with ongoing security challenges in the north. However, despite the challenges, there are also opportunities for the country to build back better and to transition to a stronger, more resilient, and inclusive sustainable development path. Even before the COVID-19 pandemic struck Nigeria, development financing challenges were monumental, requiring an additional $10 billion a year to achieve the SDGs. The pandemic, with its subsequent economic challenges and the underlying difficulties in achieving the SDGs, has raised these financial requirements to even higher levels.

Building back better and transitioning to a stronger, more resilient, and inclusive sustainable development path requires an integrated framework to finance Nigeria's sustainable development strategies as articulated in its Economic Recovery and Growth Plan (ERGP). This would entail strengthening policy and institutional reforms and widening the resource base both domestically and internationally. Such an integrated framework will enhance not only public financial resources but will also harness private resources for development.

The government has already launched several initiatives to bridge the financing gap, by issuing sovereign Green and Sukuk bonds to channel domestic private investment; encouraging private sector investment through public–private partnerships; and creating a more business-friendly economic environment. 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. Going forward, the government could consider developing a Medium-Term Revenue Strategy (MTRS), which would lay out a comprehensive approach to undertaking tax system reform to boost tax revenues over the medium term and developing a debt management strategy that accounts for the impact of additional spending pressures resulting from the COVID-19 pandemic.

However, Nigeria's widening SDG financing gap calls for greater efforts to harness the potential of private finance from remittances and the diaspora, impact investment, faith- based development finance and local philanthropy to contribute to achieving Nigeria's sustainable development priorities. This, together with a coordinated approach from Nigeria's development partners, is required to mobilize the additional resources needed for Nigeria to achieve its national sustainable development strategy.

Dr (Mrs) Zainab Shamsuna Ahmed

Minister of Finance, Budget and National Planning

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Resident Representative, United Nations Development Programme, Nigeria

Acknowledgement

The production and final completion of the Development Finance Assessment (DFA) report, which is the brainchild of the Addis Ababa Action Agenda on the need for an integrated financing framework for sustainable development, 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 DFA was provided by the Steering Committee chaired by the Hon. Dr (Mrs) Zainab Shamasuna Ahmed, Minister of Finance, Budget and Planning, co-chaired by Mr Mohamed Yahya, Resident Representative, United Nations Development Programme in Nigeria, and other members including the Hon. Minister of Trade and Investment, 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, the UN resident coordinator, the head of development cooperation of the European Union mission, 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 f or 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 Mr Fidel Odey, director of international economic relations, Dr Israel Igwe, director of economic research and policy management, Dr Zakari Lawal, director of national monitoring and evaluation, and Nabila Aguele, special advisor to the Hon. Minister of Finance, Budget and National Planning, as well as Dr Ify Ikeagbu, deputy director, Dr Bala Yusuf Yunusa, senior technical advisor, and Rose Keffas (Office of the Senior Special Assistant to the President on SDGs), 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. International review of the report was done by Amarakoon Bandara, Precious Akanonu, Grace Arinze Ononwu, Fatima Umar and Abubakar Metcho (UNDP).

We would like to express gratitude for the input and feedback provided by officials of government institutions and other stakeholders through bilateral consultations. Comments and input by participants at the consultative meetings were greatly appreciated.

The DFA report was prepared by a team of experts from Development Initiatives (DI) comprising Rob Tew, Richard Watts, Gregory De Paepe, Sam Ashby, Simon Murphy, Sheena Wynne and Nicolas Williams, and supported by Haruna Abdullahi, a national consultant and lead, stakeholder engagement. The DFA benefitted from independent review provided by Roshan Perera and was copy edited by external consultant Rebecca Hills.

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Partnership with the European Union (EU) on the Integrated National Financing Framework (INFF) process in Nigeria contributed strongly to the process of conceptualizing and successfully producing this report. We highly appreciate their cooperation.

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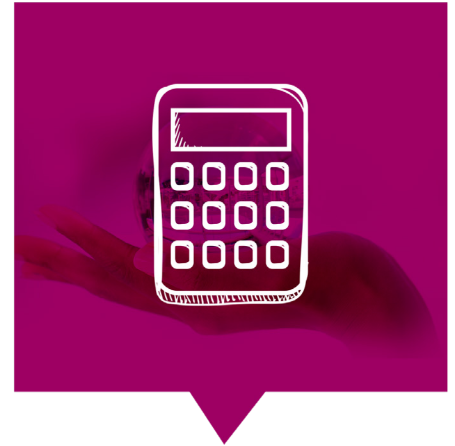

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Executive Summary

Together with the rest of the world, Nigeria faces challenges to its social and economic development as a result of the impact of the COVID-19 pandemic. Against this backdrop, Nigeria is looking ahead to how it can build back better in the future and transition to a stronger, more resilient and inclusive sustainable development path. This will require an integrated approach to financing the post-COVID-19 recovery. This report, therefore, explores the question of whether an Integrated National Financing Framework (INFF) would be a useful model to support financing the Federal Government of Nigeria's (FGN) COVID-19 recovery efforts and future development plans.

The FGN is currently preparing its National Development Plan (2021–2030) (following the Economic Recovery and Growth Plan, or ERGP), which is expected to frame Nigeria's priority actions and financing needs towards achieving the development goals set out in Agenda 2030. Effective implementation will require the mobilisation of great financial resources from diverse sources. This will require financing strategies that simultaneously address challenges and deliver reforms across various aspects of public, private, domestic and international financing. The INFF could provide the framework through which to prioritise and coordinate the necessary reform agenda.

Progress has been made on previous development plans and goals. For example, poverty declined from 66% in 1996 to 46% in 2010; health indicators including maternal and child health improved; and the infection rate of HIV/AIDS was reduced. Economic growth was strong for several years, averaging 7.7% per year from 2000–2014, and this led to an increase in public services. Despite this, by 2015 only one Millennium Development Goal (MDG) goal had been achieved.

A central barrier to achieving development goals in Nigeria is the inequity of progress. There is a distinct geographic variation in Nigeria between northern and southern states in terms of development outcomes. Key sectors of the economy, such as services and industry, are predominantly concentrated in a small number of mainly southern states. A large segment of the population is not economically active: 25% of men and 39% of women are unemployed. With over 50% of the population aged under 20 and continued population growth, it is crucial to provide viable employment opportunities for citizens across the country to support economic growth and achieve progress.

The COVID-19 pandemic is set to have significant negative impact on the economy, which estimates say could

shrink by 5.4% in 2020. Furthermore, recent International Monetary Fund (IMF) projections predict medium-term growth of just 2.5% between 2021 and 2025.

In addition, the country continues to face risks associated with the environment. The impact of climate change could lead to an increased risk of flooding in some areas, while other parts of Nigeria could see more frequent droughts and worsening desertification.

According to the Notre Dame Global Adaptation Initiative (ND-GAIN), Nigeria is ranked 128 in terms of climate change vulnerability and 183 in terms of adaptability in 2020.[i] Nigeria's high vulnerability score and low readiness score highlight the need for investment and innovation to improve readiness, as well as the urgency of taking action.

Developmental progress in the country also faces challenges due to insecurity, notably in the northeast because of the Boko Haram insurgency and conflicts between ethnic and criminal groups in other parts of northern and central Nigeria. This has led to an estimated 2.6 million internally displaced people in the country, with a further 4.3 million people estimated to be facing acute food insecurity.

Despite the challenging context to achieving the Sustainable Development Goals (SDGs), there are also opportunities. The growing economically active population could provide a significant boost to productive human capital if given the necessary investment and employment opportunities. The portion of the population able to access the internet in Nigeria increased significantly from 16% in 2012 to 42% in 2017, providing opportunities for Nigerians to engage in the global digital economy. Furthermore, Nigeria has the tenth largest oil reserves in the world, and this resource continues to offer opportunities to support development and economic diversification. Additionally, despite risks posed by climate change, agricultural crop production continues to grow and remains the major source of employment.

In the early years of the MDGs, financial flows to support progress towards these goals in Nigeria increased substantially, growing in real terms from US$57 billion in 2002 to US$113 billion in 2005. This growth was mainly due to an increase in remittances and oil revenue. Growth in financial flows then slowed, and between 2005 and 2018 the total available development funds remained at US$120 billion per annum in real terms. However, during this latter period total international and domestic public resources fell in real terms from US$95 billion in 2005 to US$79 billion in 2018. This fall was offset by increases in credit to the private sector, which prevented a decline in total finance. The overall decline, and year-to-year variability, in public financing between 2005 and 2018 was due to fluctuations in oil revenue.

i Number 1 ranked country is the least vulnerable while last ranked country is the most vulnerable.

However, some resource flows, such as international private remittances, grew from US$17 billion in 2005 to US$24 billion in 2018, making up 47% of all international resource inflows to the country.

The decline in public financing and slowdown of development financing growth has led to a shortfall in resources required to fund the SDGs. In 2019 the FGN and United Nations Development Programme (UNDP) estimated that, without additional spending, there would be less than 50% progress toward all SDGs and, even with increased investment from the public and private sectors, many SDGs would not be met. Thus, even before the COVID-19 pandemic, a business-as-usual approach to financing development appeared insufficient to attain national development priorities and SDG targets. This scenario is now compounded by the socio-economic impact of COVID-19, which adds further hurdles to Nigeria's progress towards Agenda 2030. As well as the loss of life, the COVID-19 pandemic is expected to push five million more Nigerians into poverty in 2020, with the poverty rate projected to rise from 40.1% in 2019 to 42.5% in 2020.

The COVID-19 pandemic also has the capacity to affect a range of international financial flows. The economic impacts on the diaspora are expected to lead to a fall in remittance inflows, with estimates suggesting a possible 25% reduction in 2020. Foreign direct investment (FDI) will also be affected, with global levels expected to be 40% lower in 2020 compared with 2019. FDI inflows to Nigeria are affected by international commodity demand and had already fallen from US$6.4 billion in 2018 to US$3.3 billion in 2019. The restrictions on travel imposed by most countries in the face of the COVID-19 pandemic have also reduced receipts from tourism and other foreign visitors.

In terms of official development assistance (ODA) and other official flows (OOF), Nigeria has already received support from development assistance funds aimed at ameliorating the effect of the COVID-19 pandemic. Notably, these are from the World Bank, IMF and African Development Bank. However, the economic impact on development partners' budgets will almost certainly result in lower overall levels of ODA in 2020, with a very uncertain outlook for 2021 and beyond. Any fall in ODA to Nigeria would counteract any short-term rise in international assistance. Although ODA is not the largest form of international finance for Nigeria, it is a resource that can target projects regardless of whether they deliver financial profits so long they deliver social benefits. Therefore, any medium-term reductions in this form of finance would present additional challenges in delivering Nigeria's development priorities.

The lack of significant scaling up of financing for development since 2005 and the current projected fall in 2020 suggest a widening resource gap and create a significant challenge for the country in financing the SDGs and national development priorities.

To raise additional funds the government has developed innovative bonds to channel domestic private investment, such as the first sovereign green bond in Africa and sukuk bonds[ii] that have

ii Sukuk is an investment certificate that represents the ownership interest of the holder in an asset or pool of assets. The certificate entitles the holder to receive income from the use of the assets. What it implies is that the issuer of the Sukuk bond sells an investor group a certificate, and then uses the proceeds of the bond to purchase an asset (in Nigeria's case, 'road construction and rehabilitation') which the investor group partially owns. The issuer must also make a contractual promise to buy back the bond at a future date. This is therefore a form of investment which is compatible with Islamic law.

supported road construction. Savings bonds have also been developed to support household savings and financial inclusion. The FGN and state governments are also looking at ways to stimulate private sector investment through public–private partnerships (PPPs). This has primarily been achieved by the government supporting private sector investment through tax incentives. However, most PPP projects are located within southern states and in the transport sector, where return on investment is perceived to be high. To stimulate further private investment, Nigeria has made progress in the provision of a more business-friendly economic environment, which has seen Nigeria's ranking improve in the latest World Bank Doing Business ranking.[1] However, Nigeria has, at the same time, fallen in the World Economic Forum (WEF) Global Competitiveness Ranking,[2] and this perceived lack of competitiveness may have had a negative effect on FDI.

Improvements have been made in monitoring and transparency. These include an increase in citizens' consultation on the budget and the establishment of an online Open Treasury Portal,[3] which facilitates the publication of a wide range of financial documents. However, it appears that not all ministries, departments and agencies (MDAs) publish the full range of information to the Open Treasury Portal. Furthermore, late publication of key budget documents has reduced the effectiveness of both citizens' budget consultations and the review of the budget by the legislature.

Within the federal and state governments, there are a range of documents and processes that guide the connection and coordination between planning and financing processes. At the federal level, both the Vision 2020 document and the associated medium-term plans highlight the need to scale up domestic and private financing. Within the ERGP, a macroeconomic framework provides a benchmark for performance, but there is no overarching integrated financing plan.

This report suggests a number of initiatives to further improve planning and execution of activities related to development finance.

The development of an SDG financing strategy would assist with directing financing towards meeting the Agenda 2030 goals and informing the FGN's approach to financing the post-COVID-19 recovery. It would provide a strategic framework for the various public and private finance flows to be mobilised for achieving the nationalised SDG targets and development priorities. Alongside this, the FGN could consider developing a medium- term revenue strategy (MTRS), which would lay out a comprehensive approach to undertaking tax system reform to boost revenues over the medium term through a country-led and whole-government approach. This approach would place the tax system reform in the context of the government's overall medium-term expenditure needs for financing its recovery after the pandemic in line with its long-term development goals.

A number of improvements to the taxation system could be implemented to streamline tax incentives and exemptions, address tax evasion and reform fossil fuel subsidies. The FGN could also consider sin taxes, such as those on products with high sugar content, and carbon taxes. Additionally,

the FGN could consider a tax credit scheme to channel private donations to the COVID-19 response trust fund.

The FGN could 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, and so on.

A number of potential SDG financing solutions for private finance are considered. Businesses should be encouraged to adopt sustainable practices, and sustainability criteria should be included in future investment treaties, trade agreements and private sector incentive schemes. A strategy could be developed to divert income from remittances to local development projects, and there is potential to incentivise Zakat[iii] as a means of relieving the impact of COVID-19 in some states. Overall, the SDG monitoring institutional architecture could be used to coordinate, monitor and report on implementation of the INFF roadmap.

Improvements to the monitoring, transparency and accountability systems within Nigeria could also be made. The use of outcome-based budgeting would enable the linking of public spending to the SDGs. Adhering to a fixed calendar to produce budget documents would ensure that review and consultation activities that have to do with the budget are better informed. The establishment of an independent body to set key forecasts and fiscal parameters would streamline and de-politicise the budgeting process. The potential of the Open Treasury Portal should be realised by ensuring that complete and consistent information is published in a timely manner.

iii Zakat is the mandatory Muslim practice of giving 2.5% of one's accumulated wealth for charitable purposes every year.

Introduction

The 2030 Agenda for Sustainable Development (2030 Agenda) sets forth an ambitious, complex and interconnected vision that countries around the world have committed to working towards. Realising this vision requires mobilising a diverse range of public and private resources to contribute to sustainable development outcomes. The Addis Ababa Action Agenda, which outlines a framework for financing the 2030 Agenda, calls for integrated approaches to finance at the national level.

At the heart of national efforts to finance the 2030 Agenda is the Integrated National Financing Framework (INFF). The Addis Ababa Action Agenda called for the adoption of these frameworks to support nationally owned sustainable development strategies, such as Nigeria's Economic Recovery and Growth Plan (ERGP). INFFs help governments and their partners build integrated approaches to financing that strengthen the alignment between public and private investments and longer term sustainable development objectives, and build greater coherence across public and private financial policies.

This development finance assessment (DFA) aims to support governments that want to use the concept of the INFF to help strengthen policies and actions for mobilising different types of finance to achieve economic, environmental and social results. It assesses the current policy framework that the government uses to manage resources, building on the call in the Addis Ababa Action

Agenda for INFFs to be at the heart of our efforts to realise cohesive, nationally owned sustainable development strategies. An INFF is the system of policies and institutional structures that the government uses to mobilise the investments necessary to achieve the national sustainable development strategy (Figure 1).

Figure 1: Building Blocks of an INFF

Source: Inter-Agency Task Force, 2019, Financing for Sustainable Development Report.[4]

As Nigeria faces setbacks in its social and economic outcomes because of the COVID-19 pandemic, it is looking ahead to how it can build back better in the future and transition to a stronger, more resilient and inclusive sustainable development path. Having to do more with less requires an integrated approach to financing the post-COVID-19 recovery.

Therefore, this DFA explores whether an INFF is suitable as a framework for financing the Federal Government of Nigeria's (FGN) COVID-19 recovery efforts and planning how to finance building back better.

Furthermore, the FGN is currently preparing its post-ERGP National

Development Plan (2021–2030), which is expected to frame Nigeria's priority actions and financing needs towards achieving the 2030 Agenda. Effectively implementing this successor development plan will require financing strategies that simultaneously address challenges and deliver reforms across various aspects of public, private, domestic and international financing to mobilise the necessary investments. The INFF could provide the high-level, holistic framework through which to prioritise, coordinate and supervise this multidimensional reform agenda, thus supporting both national and international efforts to build back better.

This DFA lays the foundation for the FGN so it can consider mainstreaming the Sustainable Development Goals (SDGs) across its planning, budgeting and financing functions. It also forms the basis for the systematic involvement of a wide range of stakeholders to inform policymaking in line with the SDG principle of leaving no one behind. Once operational at the federal level, similar assessments could be piloted at the state level to identify and implement state-specific SDG financing solutions.

Structure of the analysis

This DFA starts with a brief stock-taking of Nigeria's current socio-economic context and progress through the lens of sustainable development's three main pillars: economic, social and environmental. Subsequently, it reviews Nigeria's development financing architecture according to the five dimensions of the DFA methodology. Dimension 1 analyses Nigeria's recent development finance trends and, where possible, identifies factors that may influence each development finance flow over the short to medium term, with an emphasis on the likely fallout from the COVID-19 pandemic. Dimension 2 assesses how the current state planning system aligns with the budgetary processes. It compares the formal, 'de jure' institutional set-up, according to government legislation, with the 'de facto' planning and budgetary practices, based on available expert analysis and consultations with government stakeholders. Dimension 3 analyses government policies and measures to harness different types of private flows towards financing the country's SDGs. Dimension 4 focuses on the FGN's existing tracking system of both financial flows and the country's development outcomes. Dimension 5 assesses the availability of accurate financing data to the public and how the FGN is being held accountable for its policy intentions.

Figure 2: Analytical framework of a development finance assessment INFF

Source: UNDP, 2019

The concluding chapter proposes a pragmatic roadmap for strengthening Nigeria's SDG financing architecture and progress towards establishing an INFF. This INFF roadmap suggests a set of short-term recommendations to harness public and private finance and strengthen the enabling environment to maximise the development impact of these flows. The INFF roadmap seeks to identify, complement and build on existing recommendations from other development partner diagnostic exercises, such as the recently conducted Public Expenditure and Financial Accountability (PEFA) study of Nigeria by the World Bank in 2019.[5]

The DFA oversight committee, consisting of government stakeholders and Nigeria's primary development partners, reviewed the INFF roadmap. Subsequently, it was presented at a consultation workshop involving private sector actors and non-state stakeholders. As such, this roadmap aims to present a consensual way forward and immediate next steps to be considered by the FGN and its development partners towards financing the SDGs. The FGN has set up a dedicated INFF oversight committee tasked with following up on this DFA's recommendations and progress towards setting up an INFF.

Sustainable Development Context

Economic, Social and Environmental Context

Following the launch of the Millennium Development Goals (MDGs) in 2000, the FGN committed to their achievement and adopted them within the national development agenda. Progress was made in several areas between 2000 and 2015. For example, poverty declined from 66% in 1996 to 46% in 2010; health indicators including maternal and child health improved; and the infection rate of HIV/AIDS was reduced. Progress in these areas was supported by strong economic growth (averaging 7.7% per year from 2000 until 2014) and increased public resources (see financing section below). However, at the end of the MDG period in 2015, only one goal had been achieved.[6] Due to rapid population growth, the outcome for some MDGs worsened, such as access to basic sanitation - the number of citizens without access increased by 18 million between 2000 and 2015.

Since the adoption of the SDGs in Nigeria in 2015, progress has been constrained, with the country ranked 160th out of 166 countries in 2020.[7] This year, 12 of the 17 goals are thought to be facing major challenges hindering the prospect of their achievement by 2030 (Figure 3).

Figure 3: In 2020 12 of the 17 SDGs face major challenges in being met

Source: Sustainable Development Report 2019, Nigeria country profile

A central issue in the attainment of the SDGs is the equity of progress. As shown in Figure 4, there is a distinct geographic variation in Nigeria between northern and southern states. Figure 5 shows that even within states, such as in Kaduna, there is significant variation in water and sanitation access between local government authorities (LGAs).[iv] Alongside geographic administration areas, other factors such as employment status, gender, disability and geographic setting (urban/rural) are key variables in measuring development progress across the country.

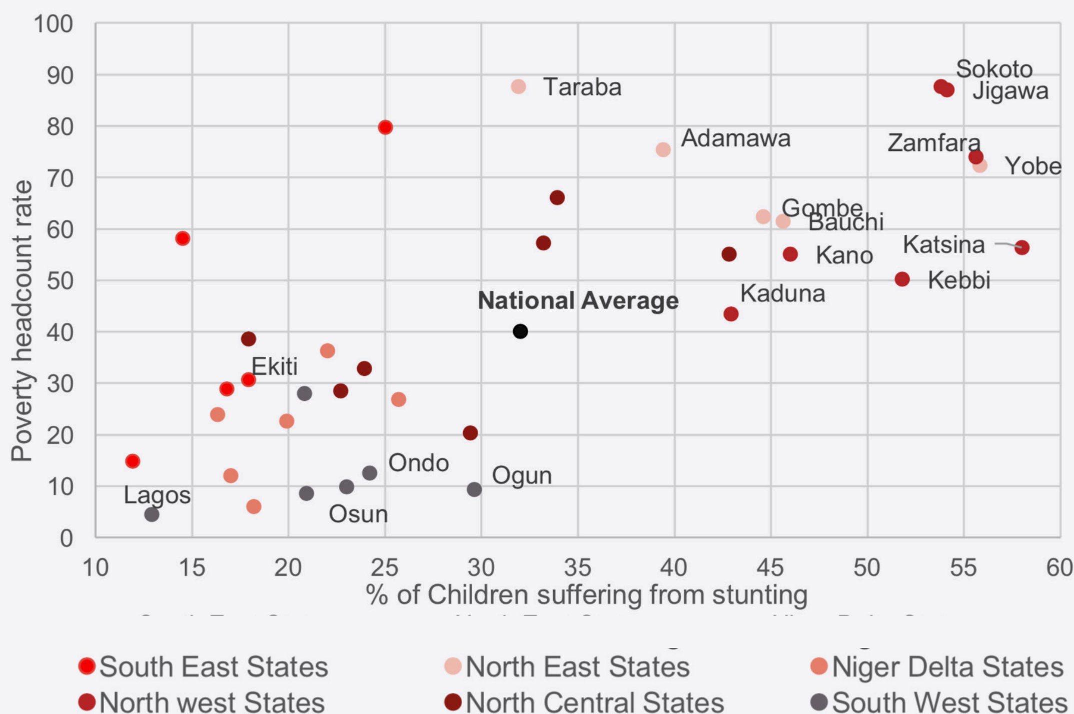


Figure 4: Variation of selected SDG progress by state

Source: *Nigeria Living Standards Survey, 2018–19; National Nutrition and Health Survey (NNHS) and Kaduna State General Household Report 2015*

iv Kaduna was selected based on data availability.

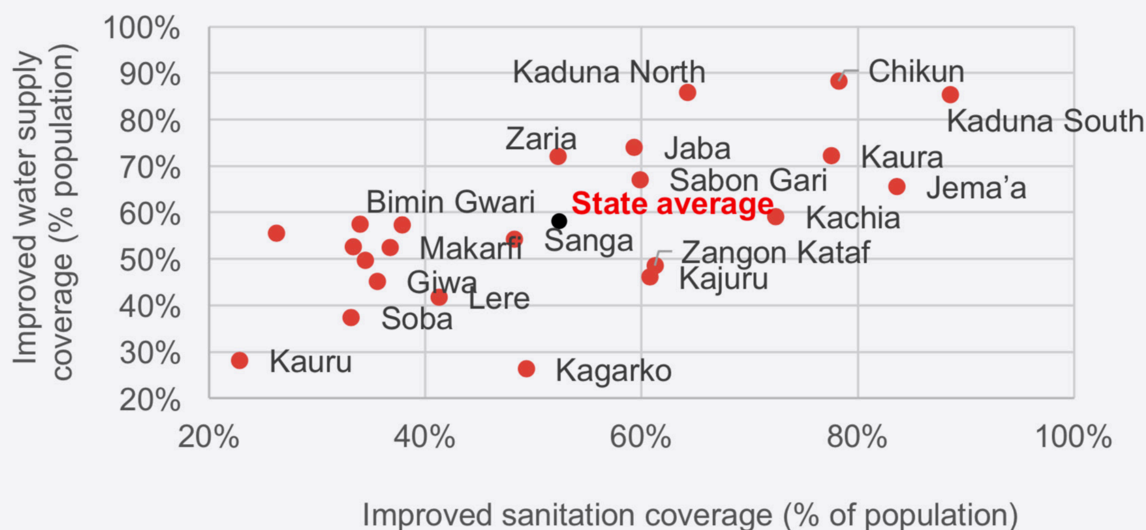


Figure 5: Variation of selected SDG within Kaduna State

Source: *Nigeria Living Standards Survey, 2018–19; National Nutrition and Health Survey (NNHS) and Kaduna State General Household Report 2015*

Head of household lowest poverty headcount profile		Head of household highest poverty headcount profile	
Male urban wage worker	**Female urban apprentice/non-worker**	**Male rural agriculture only worker**	**Female rural agriculture only worker**
12%	11%	63%	39%

Figure 6: Variation of selected SDG progress by head of household characteristics

Source: *Nigeria Living Standards Survey, 2018–19,[8] National Nutrition and Health Survey (NNHS)[9] and Kaduna State General Household Survey 2015.[10]*

Although the commitment to and understanding of the work needed to attain the SDGs is present within the government, the country faces a multitude of economic, social, security and environmental factors that hinder developmental progress.

Between 2015 and 2019, the economy grew at an average of just 1.2%, primarily due to declining global oil prices. The impact of the COVID-19 pandemic is set to further impact the economy, which is expected to contract by 5.4% in 2020.[11]

Furthermore, medium- term growth is projected to stand at 2.5% in 2025.[12]This is marginally below the annual population growth rate of 2.6% in 2019[13], indicating a stagnation of per capita income growth. However, depending on how the crisis unfolds and affects the global economy and related oil prices, Nigeria's economy risks contracting much further. The impact of this renewed economic downturn is already being felt, with 76.8% of households reporting moderate or severe food insecurity.[14]

In addition to economic shocks and the pandemic's broader global impact, the structure of the economy itself poses challenges to developmental progress. Geographically, key sectors of the economy, such as services and industry, are concentrated in a small number of southern states and the Federal Capital Territory (FCT).[15] In addition, a large segment of the population is not economically active: 25% of men and 39% of women are unemployed. With over 50% of the population currently aged under 20 and continued population growth, it is crucial that the COVID-19 recovery focuses on developing employment-rich economic activities to provide viable and decent work opportunities for citizens across the country.

In addition, the country continues to face risks associated with the environment. Over the last few years there have been several flood events. In 2019 alone, an estimated 143,000 people were internally displaced as a result.[16] In the future, climate change is set to increase climatic extremes. According to the Notre Dame Global Adaptation Initiative (ND-GAIN),[v] Nigeria is ranked 128 in terms of climate change vulnerability and 183 in terms of adaptability in 2020. It is likely that the north of the country will experience more frequent droughts and desertification, while the rest of the country will have increased flooding. These extreme events will adversely affect agricultural output, which is a critical component of the economy. This could consequently impact employment and service provision (e.g. access to clean water) and cause damage to property. Therefore, it is critical for the attainment of the SDGs that aspects such as infrastructure development (e.g. roads, water, sanitation and hygiene [WASH] systems) and support systems (e.g. agricultural services) are developed with climate adaptation strategies in mind and, where opportunities exist, to transition towards a low carbon economy to mitigate climate change.

Lastly, developmental progress in the country also faces challenges due to insecurity. At the end of 2019, an estimated 2.6 million people were internally displaced in the country, notably in the northeast due to the Boko Haram insurgency and conflicts between ethnic and criminal groups in other parts of northern and central Nigeria. Compounded by the COVID-19 pandemic, 4.3 million people are estimated to be facing acute food insecurity in the states of Adamawa, Borno and Yobe.[17] While the underlying causes of conflict are complex and not easily resolved, insecurity is a significant constraint on developmental progress and a drain on public resources. It leads to lower economic activity, reduces provision of services and increases government spending on providing a safer environment for its citizens. Between 2017 and 2018, an estimated US$1 billion were withdrawn from Nigeria's excess crude account[vi] and reportedly spent on military equipment.

Despite the challenging context to achieving the SDGs, there are reasons to be optimistic. The growing economically active population provides an opportunity for a significant boost

v Free and open source, the ND-GAIN Country Index uses two decades of data across 45 indicators to rank 181 countries annually based on their vulnerability and readiness to successfully adapt.

vi Excess Crude Account (ECA) is the name of a Nigerian government account that was created to save revenues – in excess of the budgetary benchmark price – that were generated from the sale of oil.

With over 50% of the population currently aged under 20 and continued population growth, it is crucial that the COVID-19 recovery focuses on developing employment-rich economic activities to provide viable and decent work opportunities for citizens across the country.

to productive human capital, along with the necessary investments and opportunities. Given the increasing digitisation of the global economy, the rise in the portion of the population able to access the internet in Nigeria (from 16% in 2012 to 42% in 2017) signals opportunities for Nigerians to engage in the global value chain. In addition, the foundations of the economy remain solid. Nigeria has the tenth largest oil reserves in the world and this resource continues to offer opportunities to support development and economic diversification. Natural gas constitutes a largely untapped potential for producing power for the domestic market and downstream diversification. The FGN recognised this potential by declaring 2020 the 'year of gas for the nation' and prioritising the completion of the delayed Nigerian Gas Flare Commercialisation Programme. Additionally, despite risks posed by climate change, agricultural crop production continues to grow and remains the major source of employment. Therefore, it will be critical for the government to mitigate against challenges and maximise the opportunities that exist within the social, economic and environmental contexts through integrated planning and financing approaches in order to support developmental progress and attainment of the SDGs.

National Development Priorities

Governments in Nigeria have long attempted to shape progress by setting developmental priorities. Following the return to democratic rule in 1999, the FGN had a clear long-term vision to become the largest economy in Africa. In 2003, following the inception of

the MDGs and the Poverty Reduction and Strategy Papers that framed their implementation, the FGN developed a National Economic Empowerment and Development Strategy (NEEDS) to guide national planning.[18] In addition, some states also produced their own strategies. The priorities identified in the NEEDS, including government reforms, private sector development and human development, have broadly remained the same to this day.

Although the NEEDS provided a vision for the future of Nigeria, the framework was developed as a medium-term plan up to 2007. To chart a better course over the long term, the FGN developed Vision 2020 in 2009, with three medium-term plans to support its implementation. The first ran from 2010 until 2013 and, similar to NEEDS, Vision 2020 was built on three main pillars: human development (productivity and wellbeing of people), optimising economic growth, and building an enabling environment for social and economic development. However, unlike NEEDS, and more in line with the MDGs, there was greater recognition of environmental sustainability, with a dimension that called for the sustainable use of resources to benefit future generations.

Following the fall in global oil prices in 2015 and the recession that followed in 2016, the Strategic Implementation Plan was developed to guide short-term interventions. In 2017 this was further developed into the ERGP 2017–2020. The ERGP remained consistent with Vision 2020, with objectives focusing on economic growth and stability, investment in people and building a competitive economy by strengthening the enabling environment. The ERGP's focus on economic, social and environmental dimensions of development makes it consistent with the aspirations of Agenda 2030 (see Dimension 2: Integrated planning and financing). The mid-term review of the ERGP found that, despite some progress on implementing the ERGP measures, economic growth remained fragile and below expectations. Nigeria's 2020 Voluntary National Review draws attention to mixed results regarding the impact of the ERGP measures on businesses and households.

While the FGN is responsible for national development priorities and encourages state governments to align with them and develop their own, constitutionally there is no specific mandate for state governments to align themselves with national priorities. This is a critical feature of Nigeria's federalist governance system, which significantly shapes the challenges and opportunities for implementing SDG financing solutions. Important SDG spending areas, such as health and education, are devolved to Nigeria's 36 states, each with their respective socio-economic characteristics, state bureaucracies and administrative capacities. However, as seen in examples such as the Lagos State Development Plan (2014 to 2025) and the Kaduna State Government Infrastructure Master Plan (2018 to 2050), there can be alignment in development priorities between states and the FGN.

In response to the COVID-19 pandemic, the FGN developed a short-term economic sustainability plan to

support specific interventions over a 12-month period.[19] This plan has three pillars, focused on overall fiscal and monetary measures to support government functioning and liquidity to the private sector; specific sector measures to support jobs, strengthen the health sector and protect vulnerable populations; and structures and a framework for implementation. At the end of this 12-month period, a long-term plan termed 'Agenda 2050' will be developed, supported by five-year medium-term plans aligned with the SDGs. The first five-year medium-term plan is set to run from 2021 to 2025.

Financing Trends

Overall financing landscape, past and current trends

Since the inception and localisation of the MDGs in Nigeria, financial flows to support their attainment increased substantially from US$57 billion in 2002 to US$113 billion in 2005 (Figure 7). This growth was mainly due to an increase in remittances and oil revenue. Between 2005 and 2018, total available development finance remained at around US$120 billion per annum in real terms.

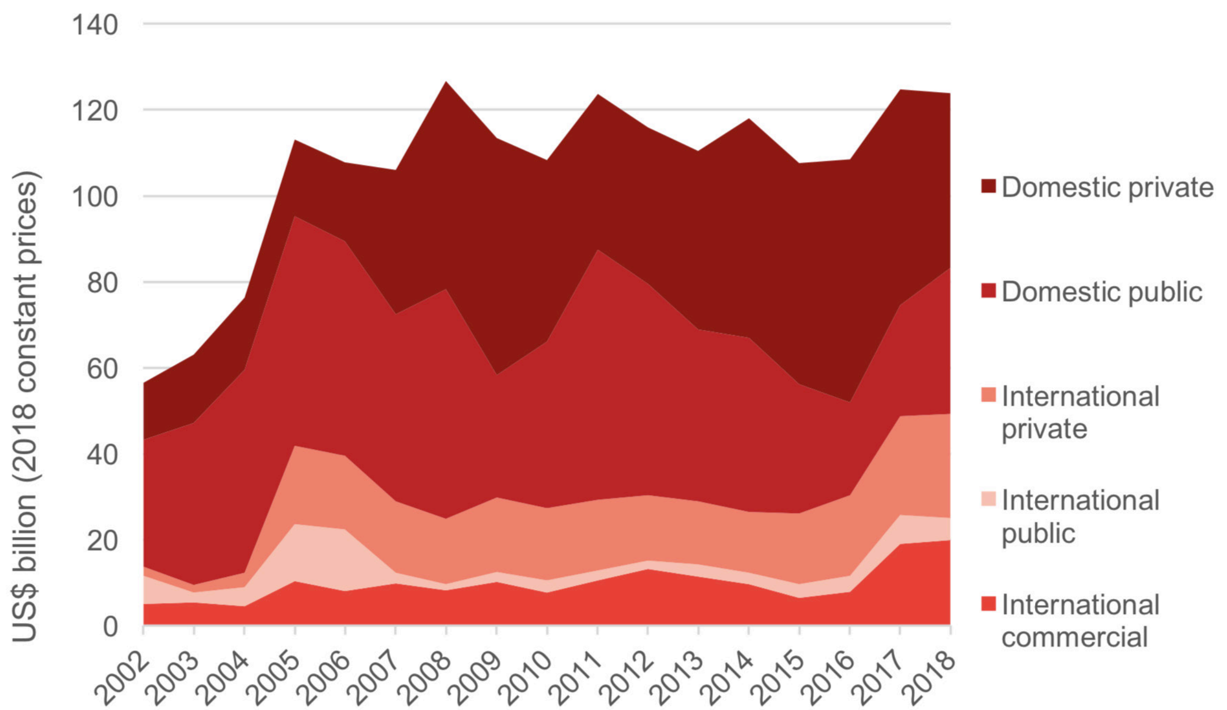


Figure 7: Aggregate financing landscape picture in Nigeria, 2002 to 2018

Sources: *Development Initiatives's calculations based on data from IMF Article IV Reports; OECD.Stat; United Nations Conference on Trade and Development (UNCTAD); World Bank International Debt Statistics, World Development Indicators, Migration and Remittance Data, and Remittance Prices Worldwide*

Notes: International private data: data on the transactional fees of remittances is only available from 2011, so any data for 2010 and before are gross remittances rather than net; private development assistance (PDA) data is unavailable pre-2009. Recent growth in volumes is likely to be due in part to an increased number of private donors reporting to the CRS.

The past decade has seen a shift in the composition of Nigeria's total development financing; the share of private finance has increased markedly since 2008. Increasing credit to the private sector compensated for the gradual decline in government revenue, which stood at US$57 billion in 2016, compared with US$8 billion in oil revenue and US$13 billion in non-oil revenue. This trend has since reversed slightly, with domestic resources standing at US$41 billion, US$18 billion and US$14 billion, respectively, in 2018. Total international and domestic public financial resources fell in real terms from US$95 billion in 2005 to US$79 billion in 2018, revealing that the FGN failed to structurally increase its domestic resource mobilisation capacity. This decline and variability of public finance since 2005 points to its dependence on oil revenue, which fluctuated according to the evolution of global oil prices.

However, some resource flows such as international private remittances grew from US$17 billion in 2005 to US$24 billion in 2018,[vii] making up 47% of all international resource inflows to the country (Figure 8). Remittances have been a critical, counter-cyclical source of development finance to Nigeria throughout the past decade. This makes the projected steep decline of remittance inflows for 2020 to 2021 due to the COVID-19 pandemic more alarming.

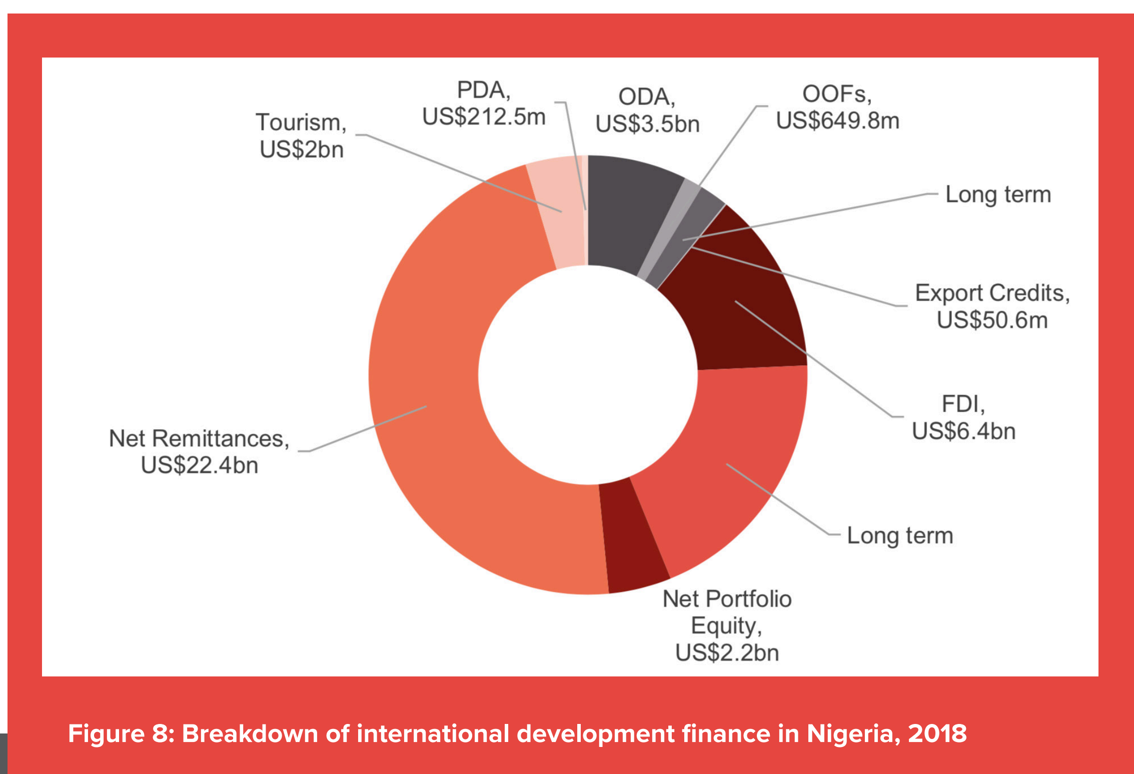


Figure 8: Breakdown of international development finance in Nigeria, 2018

Sources: *Development Initiatives's calculations based on data from IMF Article IV Reports; OECD.Stat; United Nations Conference on Trade and Development (UNCTAD); World Bank International Debt Statistics, World Development Indicators, Migration and Remittance Data, and Remittance Prices Worldwide*

Notes: International private data: data on the transactional fees of remittances is only available from 2011, so any data for 2010 and before are gross remittances rather than net; private development assistance (PDA) data is unavailable pre-2009. Recent growth in volumes is likely to be due in part to an increased number of private donors reporting to the OECD DAC Creditor Reporting System (CRS). FDI, foreign direct investment; ODA: official development assistance; OOFs, other official flows.

vii Data for transaction fees is not available before 2011, meaning data before 2011 is gross remittances rather than net remittances.

Compared with neighbouring countries, such as Cameroon, and a similar-sized economy, South Africa, the composition of financing flows is markedly different (Figure 9). Remittances make up a significant proportion of Nigeria's economy compared with Cameroon and South Africa, while domestic public resources proportionally are much lower.

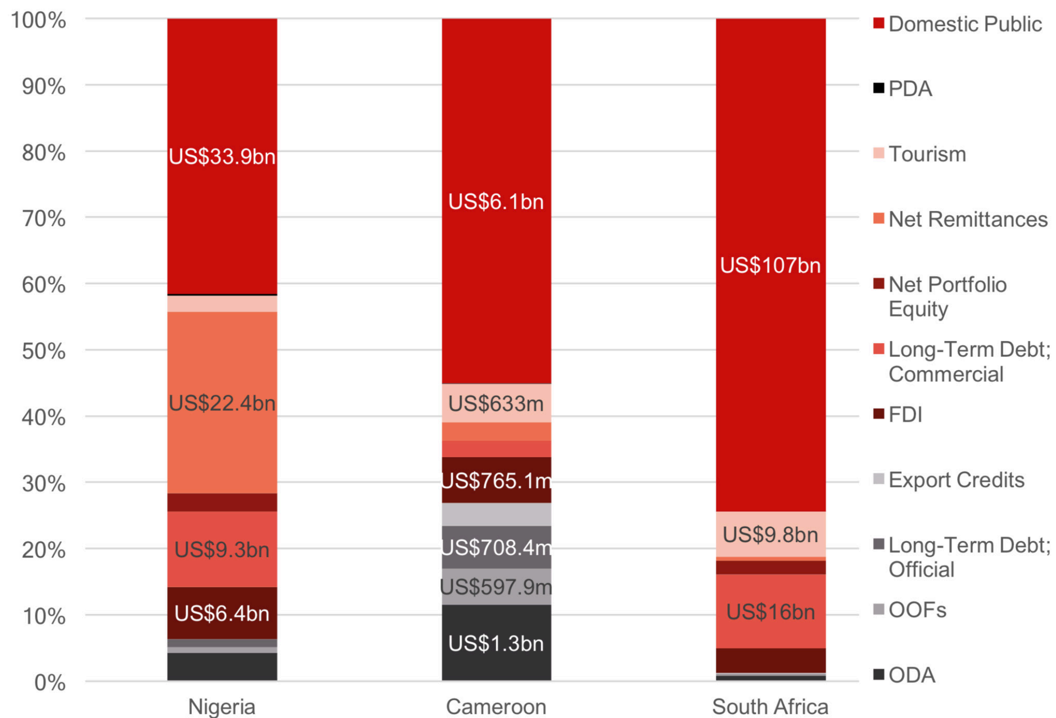


Figure 9: Comparison of the international and domestic public resources landscape in Cameroon, Nigeria, and South Africa, 2018

Sources: *Development Initiatives's calculations based on data from OECD.Stat; United Nations Conference on Trade and Development (UNCTAD); World Bank International Debt Statistics, World Development Indicators, Migration and Remittance Data, Remittance Prices Worldwide.*

Notes: International private data: data on the transactional fees of remittances is only available from 2011, so any data for 2010 and before are gross remittances rather than net; private development assistance (PDA) data is unavailable pre-2009. Recent growth in volumes is likely to be due in part to an increased number of private donors reporting to the OECD DAC Creditor Reporting System (CRS). FDI, foreign direct investment; ODA, official development assistance; OOFs, other official flows.

Although Figure 7 shows increasing resource flows since the recession in 2016, the COVID-19 pandemic is set to dramatically change the financing landscape in 2020. Commodity prices plummeted for more than 67% of African exports. The price of petroleum oils, which account for 40% of African exports and 7.4% of total GDP in Africa, crashed more than 50% to their lowest levels since 2003.[20] As a result, foreign direct investment (FDI) flows to the continent

are forecast to contract between 25% and 40%.[21] Manufacturing industries integrated in global value chains are also strongly affected, a concerning sign for efforts to promote economic diversification and industrialisation in Africa. The COVID-19 crisis has arrived at a time when FDI to Nigeria is already in steep decline due to new investment regulations for multinational enterprises in the oil and gas industry.[22] Net remittance inflows are estimated to fall by 25% in 2020 compared with 2018 (Figure 10).

Domestic public resources are projected to decline by 39% in 2020 compared with 2018 (Figure 10). In response to dwindling government revenue due to the increasing budgetary pressures to finance the COVID-19 response, the Nigerian government has borrowed US$4.34 billion from the domestic stock market.[23] Furthermore, the International Monetary Fund (IMF) approved US$3.4 billion of emergency support to Nigeria to address the economic impact of the pandemic. The FGN is looking to raise additional grants and concessional loans from other major international financial institutions as Nigeria's already high public debt levels limit its scope for additional debt financing.

US$ billion (2018 prices)	2018	2019	2020 (projected)
Remittances inflow	22.4	21.8	16.8
Domestic public resources	33.9	32.1	20.7

Figure 10: 2020 estimates of domestic public resources and gross remittances

Sources: *Covid-19 Crisis Through a Migration Lens, IMF Country Report No.20/142; World Bank data on Migration and Remittances.*

Notes: 2020 gross remittance data is estimated using the average remittances lost to sub-Saharan Africa due to COVID-19 and applied to 2019 gross remittance flows in Nigeria. The 2018 average transaction fee is used as a proxy for 2019 and 2020 and is applied to each year to give net remittances.

Nigeria's poor track record in significantly scaling up the mobilisation of its domestic resources does not bode well for significant immediate increases in public resources to underpin its COVID-19 recovery programme. These strong fiscal pressures, however, could provide the opportunity to undertake a comprehensive, long-term overhaul of Nigeria's tax system, including at the state level, thus overcoming long-standing political economy dynamics that undermined previous tax system reform efforts.[24] Addressing short-term SDG financing needs in Nigeria, while awaiting the sustainable increase in tax revenue collection, thus warrants a focus on improving SDG alignment and spending efficiency of available resources, both public and private.

Financing in the context of need, national and subnational perspectives

The previous sections in Dimension 1 highlighted both the slow developmental progress in Nigeria and financing for development flows that has not increased in real terms. Together, these findings hint at a lack of available resources to achieve stated developmental goals. Addressing these financing challenges will require adopting a term vision. Recent analysis by the IMF estimates additional spending of 18 percentage points of GDP by 2030 (Figure 11). For context, this amounted to over twice the total collected government revenue in 2019, revealing the magnitude of the financing challenge Nigeria faces.

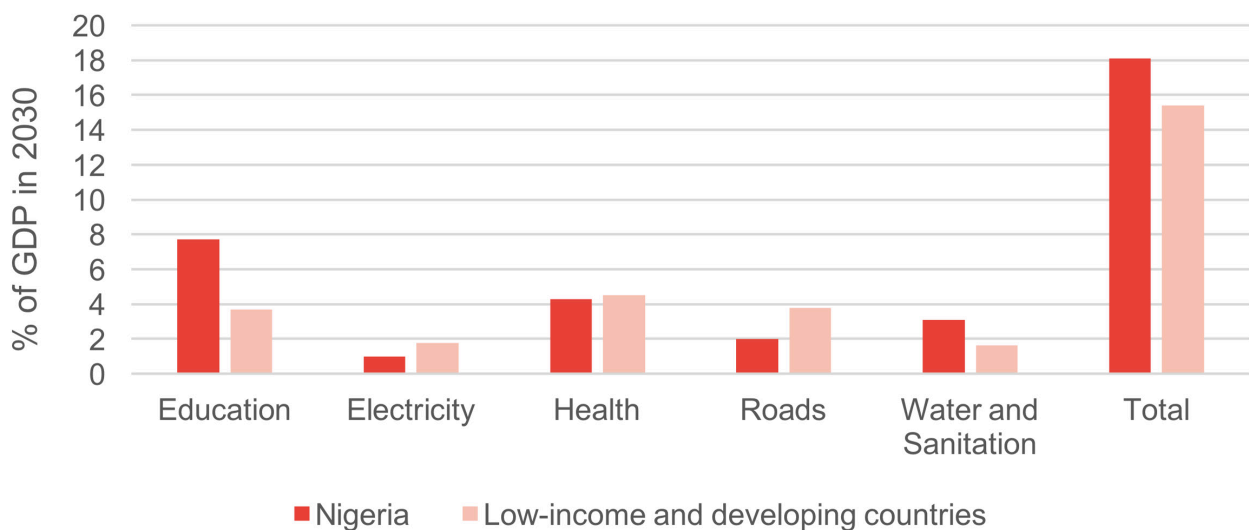


Figure 11: Additional annual spending required in key SDG-related sectors by 2030

Source: Nigeria: Technical Assistance Report-Additional Spending Toward Sustainable Development Goals. IMF. Fiscal Affairs Dept. Country Report No. 2020/177

In 2019, the FGN and UNDP came to similar conclusions about the financing gap to meet SDG targets. Using an integrated SDG simulation model, they estimated financing needs across three distinct scenarios: 1) business-as-usual scenario; 2) achieving the ERGP's priorities; and 3) improved targeting of resources towards the SDGs. Figure 12 shows that under a business-as-usual approach with no additional spending, less than 50% progress will be achieved across all SDGs. However, even in the most optimistic scenario with increased investment from the public and private sector, many SDGs would remain unmet. Both the IMF and UNDP SDG costing estimates pre-date the onset of the COVID- 19 crisis. Total financing needs have most likely widened further.

	Government SDG expenditure	Private SDG expenditure	Achievements by 2030
i) Business as usual	No additional spending	No additional spending	Progress of <50% in 16 SDGs
ii) Optimistic-ERGP-scenario	₦100 trillion	₦4 trillion	Progress of >50% in 9 SDGs
iii) Meeting ERGP and targeting SDGs	₦83 trillion	₦42 trillion	Only 1 SDG likely to be met; progress of >70% in 7 SDGs; progress of >50% in 6 SDGs

Figure 12: Overall findings from the SDG scenario model by the FGN and UNDP

Source: *Achieving the SDGs in Nigeria, Pathways and Policy Options, Report of Simulation-based Scenario Analysis of SDGs Attainment using the Integrated Sustainable Development Goals model for Nigeria. Presidency of Nigeria and the United Nations Development Programme.*

While these two studies focus on the national financing gap, achieving the SDGs will require meeting the financing needs of specific populations in different geographic zones. Therefore, alongside the national scope, it is critical to understand financing gaps at the subnational level. As illustrated by the WASH sector, there can be significant variations in the estimated yearly capital requirements (Figure 13).

State	Budget (US$ millions)	Estimated yearly capital investment required (US$ millions)	Total budget as % of annual requirement
Abia	8	113	6.8
Bauchi	30	249	12.0
Borno	17	193	9.0
Delta	8	157	5.4
Ekiti	2	99	2.5
Gombe	15	100	15.3
Kano	73	392	18.7
Kebbi	22	140	15.7
Lagos	25	441	5.8
Plateau	12	133	9.1
Rivers	10	224	4.7

Figure 13: Estimated sample of 11 state government WASH budget allocations versus yearly estimated capital investment required

Source: *Equal to the task: financing for a state of emergency in Nigeria's water, sanitation, and hygiene sector. WaterAid UK and Development Initiatives.*

These findings, which predate the COVID-19 pandemic, indicate that a business-as-usual approach to financing development will not be enough to attain national development priorities and SDG targets. In addition, the socio-economic impact of COVID-19 risks significantly derailing Nigeria's prospects for achieving Agenda 2030. As well as the loss of life, the COVID-19 pandemic is projected to push five million more Nigerians into poverty in 2020, with the poverty rate projected to rise from 40.1% in 2019 to 42.5% in 2020.[25]

Nigeria's COVID-19 recovery efforts and the five-year medium-term plans that will succeed the ERGP will need to integrate these differentiated socio-economic needs and COVID-19 impact to adequately inform corresponding financing approaches.

The following section looks at some of the key financial flows in more detail and assesses challenges and opportunities to scale up in the short, medium and long terms.

Individual financing flows (public/private, domestic/ international), challenges and opportunities

Domestic public resources

As highlighted in the financial flows overview above, domestic public resources principally from oil revenue have been the major source of financing for development over time. However, since 2012 there has been a significant fall in oil revenue in real terms, largely due to declining global prices from 2014 onwards (Figure 14). In addition, despite continued policy commitment to raise non-oil revenue collection, it has largely remained constant at 4% of GDP, one of the lowest levels globally.

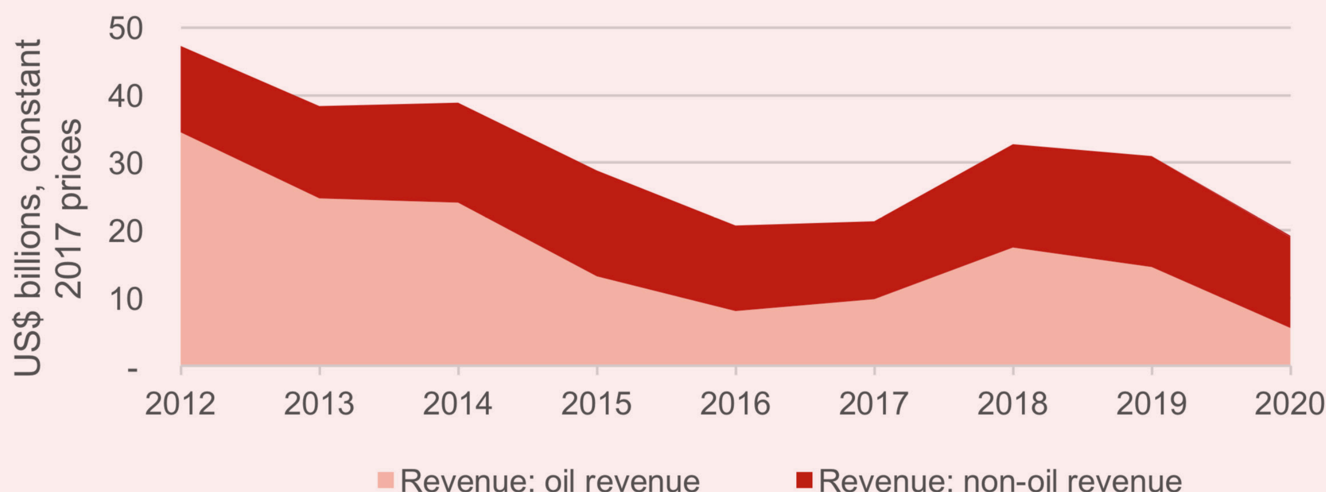


Figure 14: Oil and non-oil revenue consolidated government of Nigeria, 2012 to 2020

***Source:** Various IMF Article IV staff reports*

The reduction in oil revenue since 2014 has put increasing pressure on government spending. Although excess revenue in the crude account was used briefly following the fall of oil prices in 2015, fiscal envelopes have been reduced with nominal falls in expenditure on key SDG-related sectors such as agriculture, education and WASH in 2017 compared with 2013 (Figure 15).

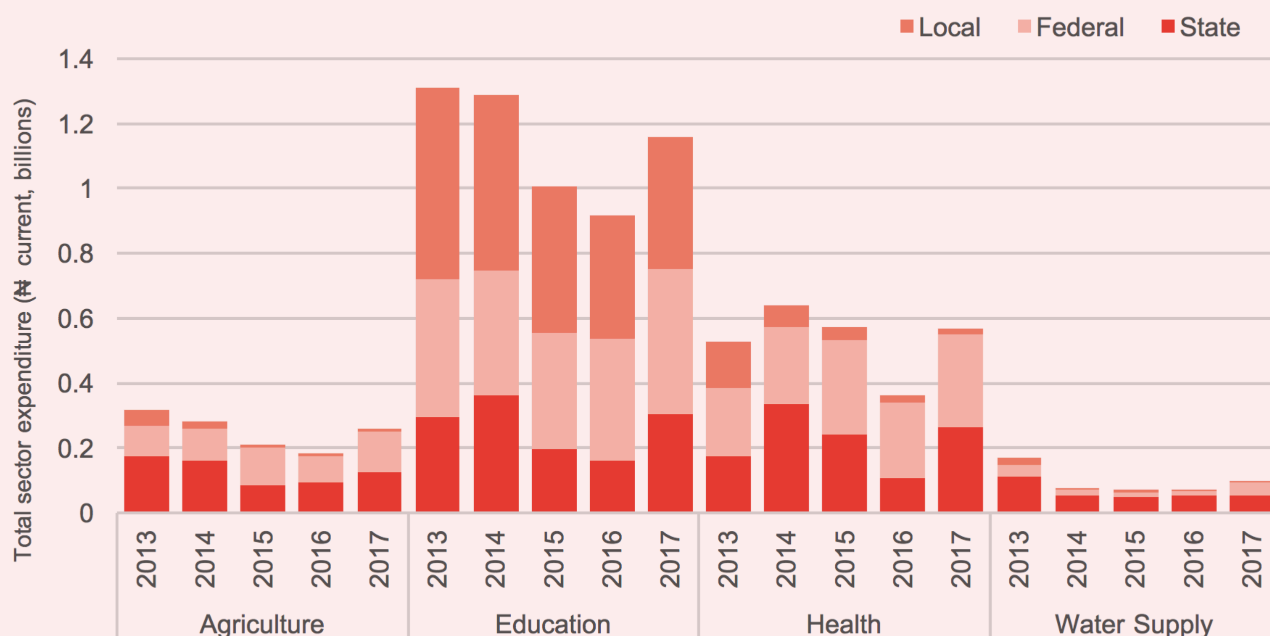


Figure 15: Trends in government spending in key SDG-related sectors

Source: *2013, 2014, 2015, 2016 and 2017 Annual Reports, Central Bank of Nigeria (state, local and non-WASH FGN expenditure)*

Notes: Figures are total government expenditure, meaning it will be an overestimate of actual funding from domestic public resources.

The COVID-19 pandemic is set to further reduce government revenue in 2020 because of falling oil prices and reduced economic activity. While oil prices have risen back to over US$40 per barrel, federal and state government expenditure is likely to remain constrained in the short and medium term. In the short term, both the FGN and state governments such as Kaduna have reduced spending in several key sectors (Figure 16), particularly capital expenditure, while increasing borrowing to support spending in critical areas such as health and supporting vulnerable groups and micro, small and medium enterprises (MSMEs).

(% change)	FGN	Kaduna state
Agriculture	-12%	-17%
Health	-6%	-7%
Education	-12%	-4%
Water and sanitation	-11%	5%
Works, housing, and transport	-14%	-32%

Figure 16: Spending allocations in key SDG sectors by FGN and the Kaduna state government, initial 2020 budget versus revised (% change)

Source: FGN planned and revised 2020 budget, Kaduna state revised 2020 budget

Notes: FGN, Federal Government of Nigeria.

However, because of increased borrowing before the COVID-19 pandemic, interest payments on debt are set to account for an increasing amount of budgetary allocations in the future. In 2025, over one third of total government spending is projected to cover interest payments (Figure 17).

	2019	2020	2021	2022	2023	2024	2025
Interest payment as a % of FGN expenditure	21%	27%	25%	27%	30%	31%	34%

Figure 17: FGN interest payments as a % of expenditure are set to rise in the medium term

Source: IMF Country Report No.20/142 (2020). Projections account for the impact of the COVID-19 pandemic

The IMF projections of FGN's interest payments are based on an optimistic scenario that assumes a significant increase in non-oil revenue over the medium term (Figure 18) and 400% growth in value-added tax (VAT) collection. As in previous years, the challenge for the FGN will be to achieve these optimistic revenue targets. The 2020 Finance Act signalled a clear intention by the FGN to increase non-oil revenue collection by raising the VAT rate from 5% to 7.5%. However, COVID-19 delayed its implementation. Low tax morale, due to a trust deficit between the people and government, undermines reform efforts geared at increasing the authorities' tax collection. Taxpayer education programmes can be designed to imbibe a culture of paying taxes, especially among the self-employed and high-net-worth individuals to underpin future tax system reforms. Two major outstanding challenges to enhancing tax administration are identity management and credible data.[26]

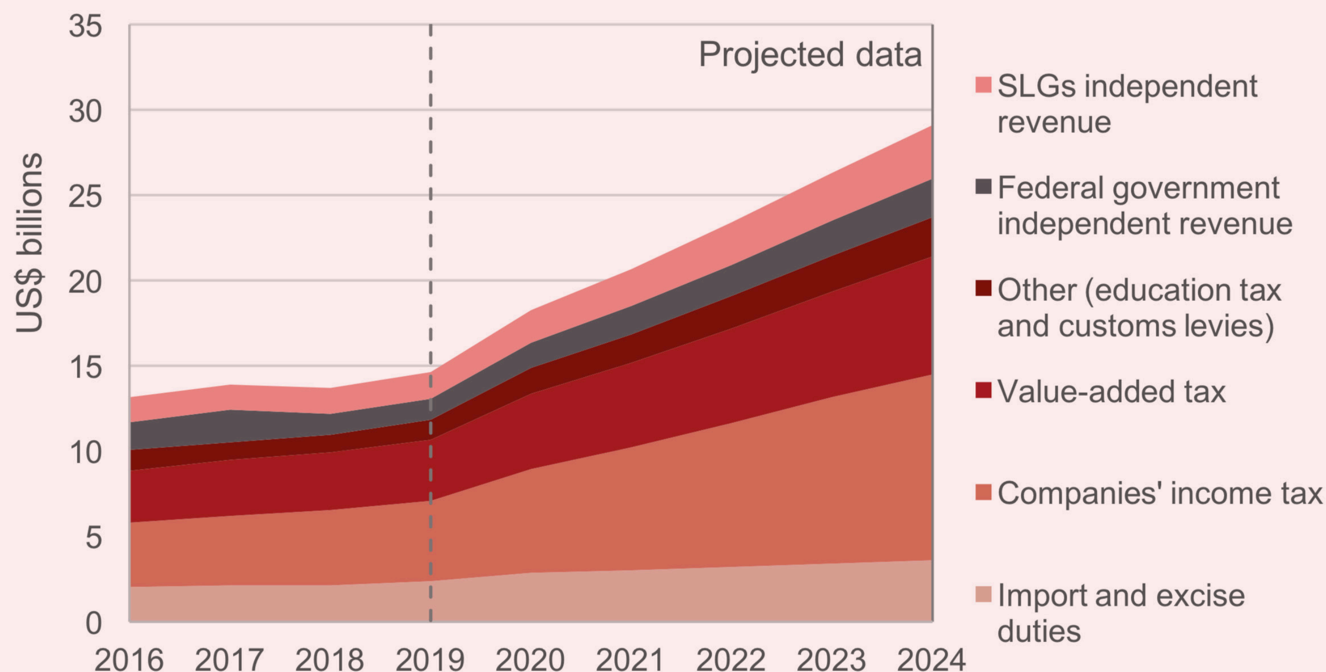


Figure 18: Consolidated government medium-term non-oil revenue projections

Source: IMF Country Report No.19/92.

Notes: Data for 2016 and 2017 is actual, data for 2018 is estimated, and data for 2019–2024 is projected. Data for 2016–2018 is in constant 2018 prices. Projected data is in current prices because the deflation is based on pre-COVID 19 data, meaning projected deflations are unreliable.

The government is also targeting tax evasion through the 2017 Voluntary Assets and Income Declaration Scheme. It is also focusing on reducing illicit financial flows by introducing international tax transparency measures such as the commitment to the Automatic Exchange of Financial Account Information in 2020. There has been some success in this regard with the recovery of US$311 million of assets from the US.[27] These funds have been channelled directly to the Presidential Infrastructure Development Fund, which is managed by the Nigerian Sovereign Investment Authority.[28]

The 2020 Finance Act also highlights the government's intention to use revenue policies to directly support development interventions. For example, it plans to support MSMEs through tax exemptions by reducing their administrative burden and enabling greater capital investment. In addition, the COVID-19 pandemic has prompted further interventions at state and federal level such as tax holidays. Lagos state, for example, has encouraged private donations to their COVID-19 fund by offering tax credits.[29] The Philippines, for example, has successfully implemented tobacco taxes to increase government revenues while meeting public health objectives.[30] Last year, Nigeria increased the excise tax on cigarettes, though it remains below the excise tax burden of 70% (of the average retail price) recommended by the World Health Organization. Targeting an excise tax burden of 75% would result in a 20% drop in cigarette consumption and more than a 100% increase in government revenue from tobacco excise taxes.[31] Viet Nam is using revenue policies to promote behavioural change with respect to environmental sustainability (Box 1).

BOX 1: VIET NAM'S FISCAL POLICY FOR BEHAVIOURAL CHANGE

Viet Nam's rapid economic growth over the last quarter of a century has been largely fuelled by a significant increase in carbon-based energy. To mitigate the serious environmental degradation and steer the country towards a greener growth path, Viet Nam adopted environmental protection taxes in 2012. The tax has provided a key revenue source for the government, at an estimated US$1.5 billion in 2016, and has helped to improve Viet Nam's tax-to-GDP ratio and offset the decline in oil and corporate income tax revenue in recent years. Indeed, the IMF has recommended increasing the tax further, while using targeted transfers to ensure the country's poorest are not disadvantaged.

While the environmental tax has been successful in raising revenues, there is limited evidence that it has led to environmental improvement. The country still faces serious environmental challenges – notably in air pollution – and the IMF has recommended that Viet Nam's green growth efforts go further. For instance, taxing fossil fuels is an important step in fully pricing this environmental externality. During the conception of the environmental tax, concerns were raised regarding economic growth and social welfare, particularly with respect to Viet Nam's poor and urban populations. Although no formal assessment has been made, industry experts have recently voiced their scepticism that the tax revenues are being channelled towards environmental protection.

Viet Nam also faces criticism in another major environmental endeavour: the environmental protection fee. This is placed directly on producers and applies to wastewater, solid waste and mining activities. The fee aims to cover the costs of amending the environmental degradation caused by these activities, but local authorities have recently criticised the initiative for not meeting this standard.

Sources:

Nguyen Anh Minh 2015. Implication of Vietnam's Environmental Protection Tax Law in the green economy transition process. Available at:

http://www.greengrowthknowledge.org/sites/default/files/Nguyen%20Anh_Presentation.pdf

IMF 2016. IMF Vietnam article IV consultation. Available at:

http://www.imf.org/external/pubs/ft/scr/2016/cr16240.pdf

Alongside revenue generation to create fiscal space, there are opportunities in the future to rationalise spending and reduce inefficiencies. As part of the World Bank's lending conditionality, from September 2020 onwards the FGN removed electricity subsidies, which were deemed to be insufficiently targeted at the poorest and most vulnerable.[32] When rationalising electricity subsidies the FGN needs to ensure its existing social safety net programmes target the poorest: the new tariff is said to be 'pro-poor' – those residential consumers who use less than 50kwH per will have no tariff increase (they have a 'lifeline tariff') and those residential consumers without meters will have a capped bill. Proper targeting of these pro-poor measures requires updated information on households and their income levels to correctly identify beneficiaries (see Dimension 4:

monitoring and review). In addition, spending inefficiencies have been improved through initiatives such as the introduction of the Treasury Single Account.

States' Public Resources

The expenditure responsibilities of states are established in the 1999 Federal Constitution, which assigns these responsibilities to the respective tiers of government. Many areas of public expenditure are shared between the FGN and the state government. These include education, health, infrastructure, agriculture and industry. Other areas are the responsibility of states, with the involvement of local government as prescribed by the state government. These include provision and maintenance of primary, adult and vocational education; development of agriculture and natural resources; provision and maintenance of health services, and; construction and maintenance of roads, streets, street lighting, drains, and so on.

Similarly, the constitution mandates that different tiers of government are given different revenue collection responsibilities. The FGN is responsible for the collection of major taxes such as corporate income tax, petroleum profit tax, mining rents and royalties, customs and excise duties, education tax on companies, and VAT. State governments are responsible for the collection of personal income taxes within the state, capital gains tax payable by individuals, stamp duties, gaming taxes, road taxes, and so on. Revenues raised at the state level are referred to as internally generated revenues (IGR).

The other source of funding to states comes from the funds allocated by the Federation Account Allocation Committee (FAAC). The Federation Account is a centrally- administered fund, established by the constitution, and allocations from this account to states are made according to predetermined formulae. The Federation Account is funded through oil revenues and related taxes, revenues generated from the Nigerian Customs Service trade facilitation activities, company income tax, the sale of national assets, together with dividends from state-owned enterprises. For most states, the FAAC allocations provide the majority of public funding.

There are very wide disparities between states' ability to generate IGR. While the national average of IGR per capita was ₦3,939 in 2017, only nine states generated this level of IGR.[33] In that year, individual states' IGR per capita varied from just ₦646 in Bauchi to over ₦25,000 in Lagos.

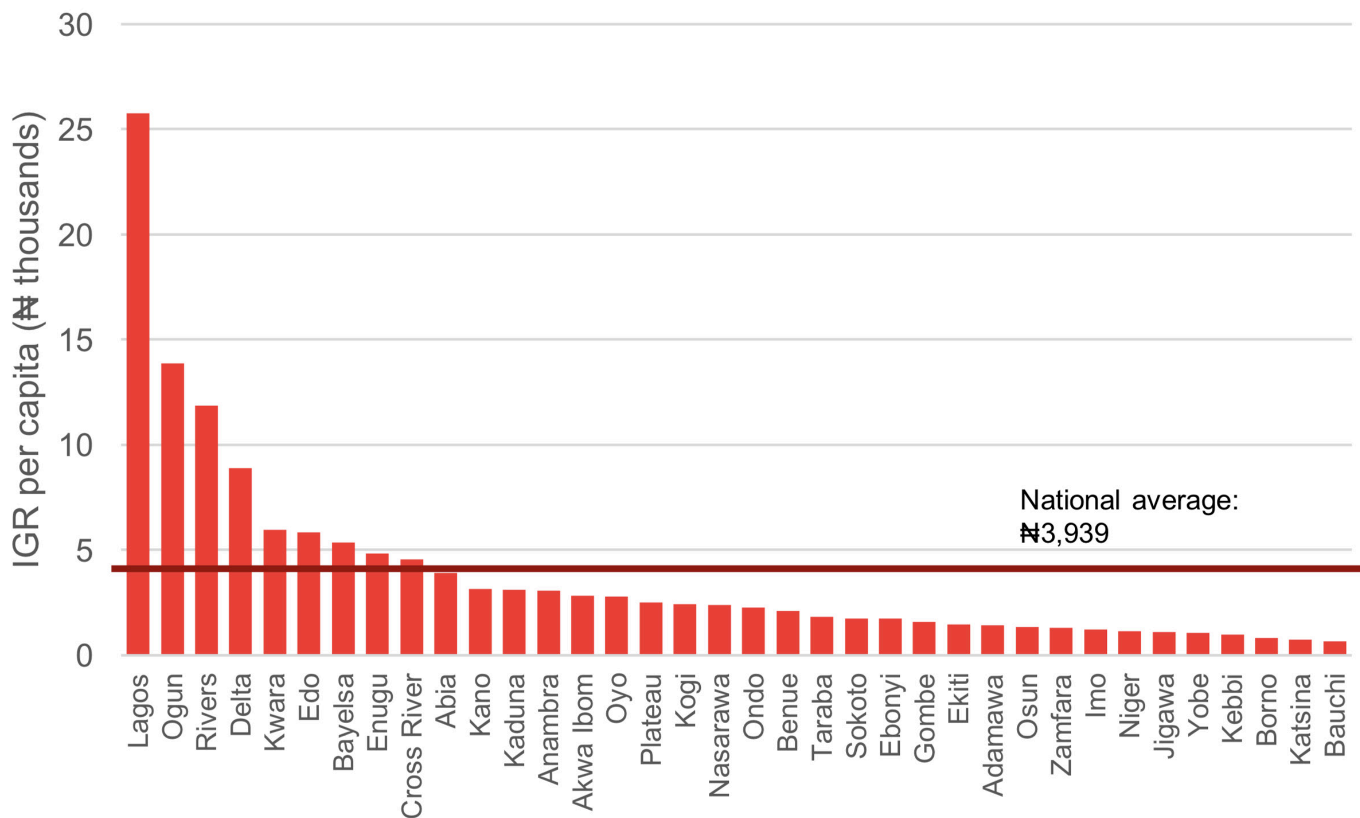


Figure 19: States' internally generated revenue per capita 2017

Source: *Budgit State of States Report 2018*

Consequently, there is still a heavy reliance on federal funding in most states. Although IGR as a percentage of total revenues has increased in recent years, there are still seven states that receive over 90% of their income from FAAC allocations and 22 states that receive 80% or more of their income from FAAC allocations.[34]

Many states also face budget shortfalls. Between January and June 2018, half of all states saw an average monthly revenue that was lower than their average monthly recurrent expenditure. These states were mostly the ones with low levels of IGR per capita. However, this group also included states that generated significant IGR but also have exceptionally high expenditure – Cross River being the most notable example of this.

It is apparent that some states have a much greater revenue-raising potential than others, due to the wide variations in economic activity between states. However, there appears to be significant scope for at least some states to improve the efficiency with which they collect these revenues.

Some state governments such as Lagos (Box 2) have improved their own revenue collection over time through increasing political commitment and investment. Good government performance can increase public trust of, and buy-in for, reforms. In the tax sector, for instance, the Lagos government successfully

promoted the idea of a social contract between taxpaying citizens and a state providing infrastructure and services.[35] However, Lagos state is unlike many other states; it has a large, more formalised economy and a highly dense urban population, making it more suited to generating internal revenue compared with other less densely populated states in the north. Given that development targets are mostly off track in northern states that have less internal revenue-raising potential, attention should be paid to other means of financing such as increasing domestic public resource transfers and targeted international public resource flows.

While it is critical that state governments across Nigeria look to mobilise additional domestic public resources, continual review of planned and implemented changes in tax regimes or revenue-raising schemes is needed to understand their impact on developmental outcomes. It is particularly important to understand the impact on the private sector and vulnerable groups to enable policy amendments where necessary. In 2018, the IMF analysed the impact of various changes in the VAT on the poorest households in Nigeria.[36] To support fiscal policy analysis, robust data should be available, such as detailed and updated taxpayer registers (see Box 1 on Lagos), administrative data, and up-to-date statistical surveys.

BOX 2: EXAMPLE – LAGOS STATE'S SUCCESSFUL NON-OIL REVENUE MOBILIZATION EFFORT

Between 2012 and 2020, internally generated revenue by Lagos state tripled in nominal terms. This has largely been achieved through growth in the number of taxpayers, aided by the creation of informal tax offices and increased use of digital platforms for communication and payment (qpay). The latter also supported tax collection and information sharing during the COVID-19 lockdown. Strong political relationships with informal sector associations greatly enabled extending taxation to informal workers.

However, tax evasion remains a significant challenge, with residents often having limited knowledge of their tax liabilities beyond income tax. (See: Nwocha M. E., 2017. Tax evasion and the law in Nigeria. Available at: https://moam.info/tax-evasion- and-the-law-in-nigeria_5b82a054097c4718128b46b5.html)

Other states in Nigeria have also enjoyed success in increasing non-oil internally generated revenue (IGR), including Ogun, Rivers and Kano states. This has been due to the following:

- Developed formal and informal sector with higher productivity and employment generation
- Improved transparency and accountability in governance, which has facilitated the efficient use of financial resources and citizens' confidence in governance
- Increased corporate social responsibility

Institutional Investments

Growing institutional investments could provide the necessary long-term development finance required for bridging critical infrastructure financing gaps in Nigeria. Institutional investors, like pension funds, life insurance companies, mutual funds and sovereign wealth funds, are beginning to serve as a steady source of capital as they provide medium to long-term capital for business. Assets under management by African institutional investors are expected to rise to US$1.8 trillion by 2020 from US$670 billion in 2012.[37] Pension fund assets under management in 12 African markets[viii] are set to rise to US$1.1 trillion by 2020.[38] According to the Sovereign Wealth Fund Institute's Global Investor database[39], sub-Saharan African sovereign wealth assets totalled US$13 billion in 2020.

Nigeria's two largest institutional investors are its pension funds and the Nigeria Sovereign Investment Authority (NSIA). Nigeria's pension fund assets represented close to 6.5% of GDP in 2017 (Figure 20). The enactment of the Pension Reform Act in July 2014 has enabled Nigeria's pension system to transition from a pay-as-you-go system to a contributory pension scheme. Regulation on investment would need to be reviewed for the pension system to be more supportive of the government's objective to scale up investment in infrastructure.

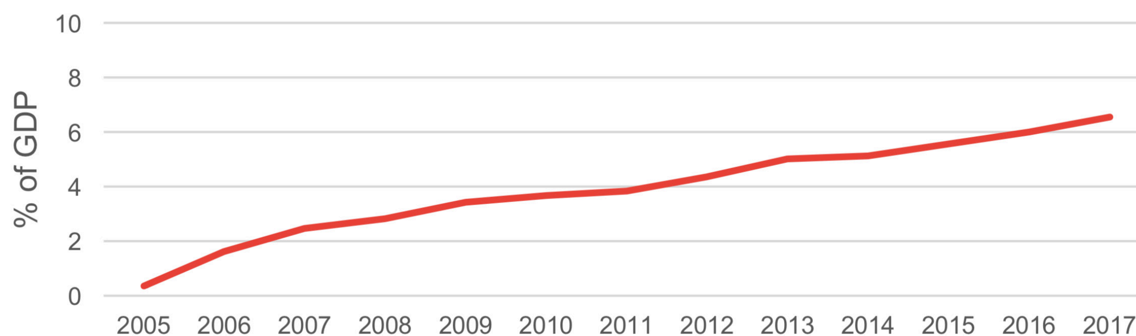


Figure 20: Pension fund assets, Nigeria

Source: *Nonbanking financial database, World Bank.*

With the right governance, regulation and instruments to assess and manage the risks associated with long-term investment in infrastructure, pension funds could take on a greater role in transforming the Nigeria's infrastructure landscape. Pension schemes have become major holders of government debt and, given the rise in the issuance of FGN bonds since 2015, greater participation in pension schemes could support increased investment in this

viii South Africa, Morocco, Mauritius, Namibia, Egypt, Ghana, Kenya, Botswana, Nigeria, Angola, Algeria, Tunisia.

area. By increasing their size, Nigeria's pension funds will also increase their power to secure sustainable longer-term returns by insisting on high standards of environmental care and social concern, and better governance in the assets in which they invest.

Although the number of enrolments in the major retirement savings scheme has grown over time, particularly from the private sector, as of 2018 only 8.4 million people were registered, i.e. 4.3% of the total population or 14.3% of the labour force.[40] Therefore, policies that lead to increased formal employment and increase the share of women in formal economic activities can help improve the performance of Nigeria's pension system.[41] The rise of digital technology in Nigeria supports pension reform by facilitating a unique identification process and enabling the development of a micro pension plan to cover self-employed people and those working in organisations of fewer than three employees. Greater enrolment in pension schemes would support people's incomes during retirement.

NSIA's core capital represents US$1.5 billion. It is composed of three investments funds, namely the Future Generation Fund, the Nigeria Infrastructure Fund and the Stabilization Fund. The NSIA is increasingly focusing on domestic infrastructure projects in agriculture, health care and infrastructure-enabling financial institutions. Considering these sectors also fall within the scope of budgetary allocations by the FGN and state and local governments for infrastructural development, close coordination between the three tiers of government is required to avoid duplication and address competing priorities for infrastructural development.

International Public Resources

Although not the largest form of finance for development, international public resource inflows have increased in real terms, with official development assistance (ODA) and other official flows (OOFs) reported to the OECD rising from US$570 million in 2000 to US$4.1 billion in 2018[ix], accounting for 10% of reported net international resources. In addition, there has been a rise in south–south cooperation, such as the Exim Bank of China's financial support to the Nigerian Zungeru Hydroelectric Project, the Nigerian Four Airport Terminal Expansion and Sanitation Project, the Nigerian National Public Communication System, the Nigerian Railway Modernization Project (Idu-Kaduna Section) and the Nigerian ICT Infrastructure Backbone Project in 2018.

While not the largest form of finance, international public resources are able to target needs, as well as projects that are not necessarily economically viable. For example, health and education aid reported to the FGN Development Assistance Database (DAD) in 2018 was largely directed to states that had the highest poverty headcount.

ix This equals US$21 per person in Nigeria compared with US$24 per person in South Africa and US$74 per person in Cameroon.

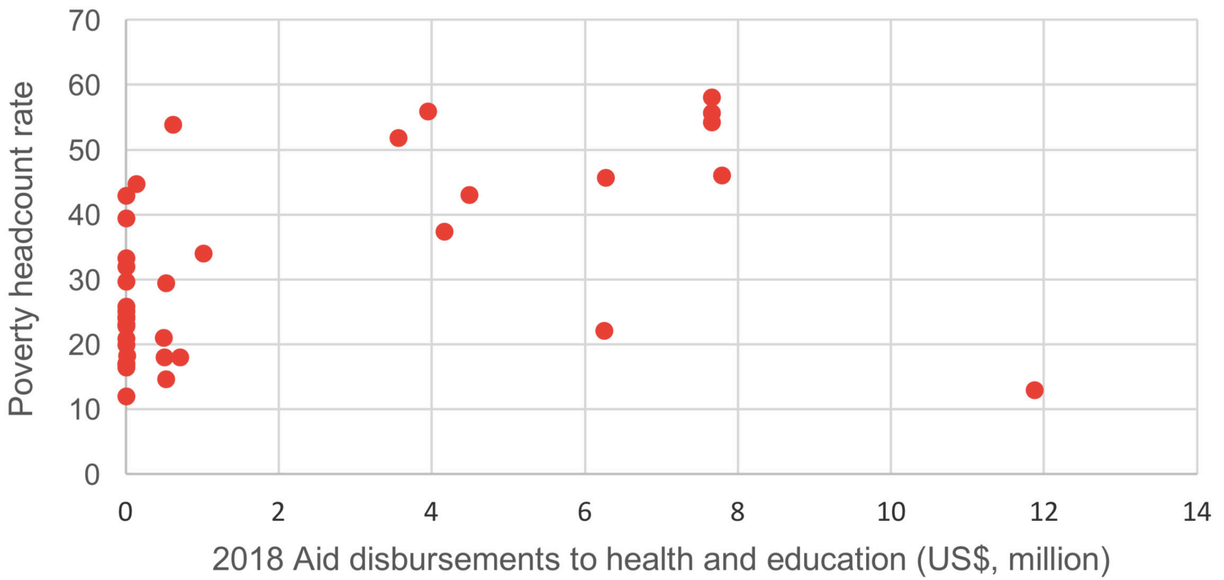


Figure 21: Health and education aid reported to the Nigeria FGN DAD by state and in relation to poverty headcount, 2018

Source: Nigeria Development Assistance Database.

In 2018, reported ODA from the OECD was predominantly in the form of grants from donors such as the US, UK and EU institutions to the health sector and for emergency responses. ODA loans were primarily from the World Bank, financing a broad range of sectors (Figure 22).

While not the largest form of finance, international public resources are able to target needs, as well as projects that are not necessarily economically viable

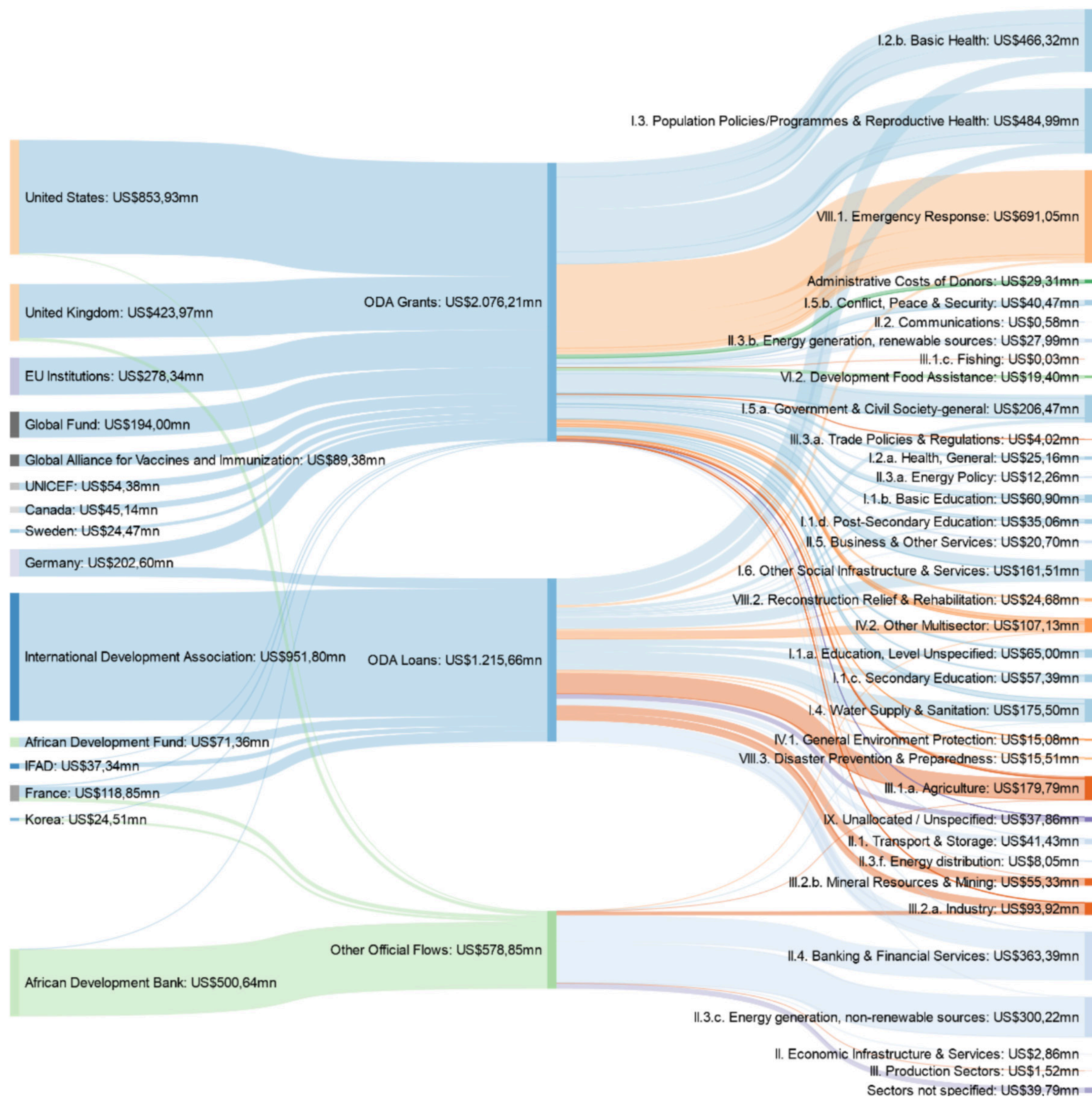


Figure 22: **Largest 15 providers of official public finance by modality and sector of support, 2018**

Source: OECD CRS

The ongoing COVID-19 pandemic has driven an increase in international assistance to support the government. In April the government obtained a US$3.4 billion loan from the IMF under its rapid financing instrument[42]. In June, the African Development Bank approved a US$288.5 million loan[43] to help Nigeria address the COVID-19 pandemic, and in August the World Bank approved US$114.28 million in financing to help Nigeria prevent, detect and respond to the threat posed by COVID-19 with a

specific focus on state-level responses. This comprised US$100 million in credit from the International Development Association and a US$14.28 million grant from the World Bank's Pandemic Emergency Financing Facility. In addition, the UN COVID-19 Response Basket Fund has raised US$63 million as of June 2020, principally through contributions from the EU, which provided €50 million.[44]Other bodies, such as the European Civil Protection and Humanitarian Aid Operations, Sightsavers and Oxfam also reported specific projects in relation to COVID-19.[45]

However, while international public resources may increase given the COVID-19 pandemic, the outlook beyond this crisis for significant increases in international public resources is uncertain. Donor countries impacted by the pandemic may reduce aid spending, with the UK government aid budget for Nigeria currently predicted to fall this year and the next (Figure 23). In addition, there may also be a reprioritisation of resources to the poorest countries. Planned debt relief by G20 countries to support developing country governments' fiscal positions is currently targeted to Poverty Reduction and Growth Trust countries[46], thus excluding Nigeria.

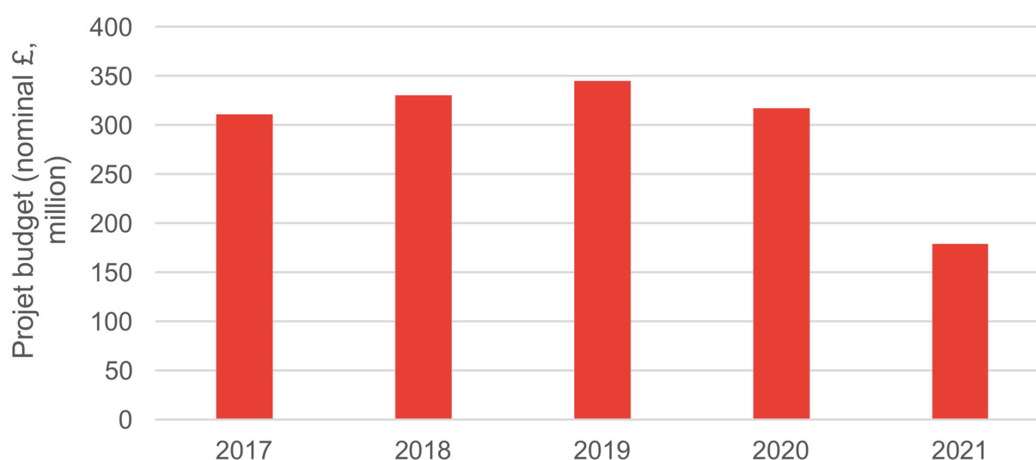


Figure 23: UK Government's Department for International Development budget for Nigeria, 2017–2021

Source: International Aid Transparency Initiative

However, there may be opportunities to increase international public resources in areas of specific interest to donors and where global commitments have been made. For example, in 2020, donor countries are expected to fulfil their commitments to double support for domestic revenue mobilisation under the Addis Tax Initiative[47]and commitments under the Copenhagen Accord[48] to invest US$100 billion annually on climate finance by 2020. While these present opportunities for engagement

with the international community, climate financing has been one area that many African governments, including Nigeria, are having difficulty accessing.

While there are challenges and potential opportunities to increase international public resources, internal insecurity is posing a significant challenge for organisations that want to provide effective assistance in the poorest states in northern Nigeria, as highlighted by the killing of five aid workers in Borno State in June 2020.[49] Continued insecurity will hamper immediate humanitarian responses and make it extremely difficult to provide long-term developmental assistance.

Domestic private resources

Domestic private resources can include a range of development finance actors, such as households, philanthropists, civil society and businesses, including their corporate social responsibility activities. Although it is difficult to quantify the amount of resources these private actors represent, they are a critically important source of financing for development in Nigeria.

Households in Nigeria contribute significantly towards health care and education. Out-of- pocket spending on health care increased from 60% in 2000 to 77% in 2017 (Figure 24), the third-highest globally behind Armenia and Azerbaijan. Household contributions to education are difficult to estimate, but in 2018 over half the schools in Nigeria were privately funded, which suggests households make a significant contribution to this sector.

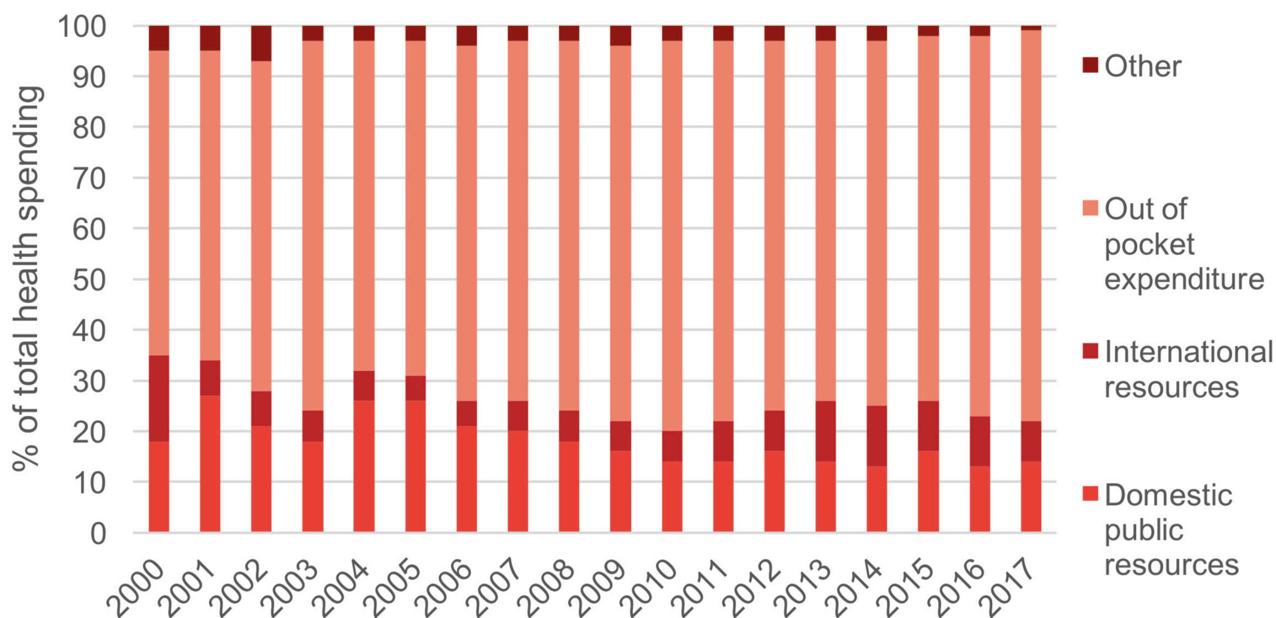


Figure 24: Composition of healthcare funding in Nigeria, 2000 to 2017

Source: World Health Organization Global Health Expenditure Data

In addition, households contribute significantly to the water supply. However, contributions vary significantly across Nigeria from over 80% in Kaduna and Jigawa to under 20% in Benue and Plateau, depending on the coverage of state water authorities (SWAs) (Figure 25). Where SWA coverage is low, it has led to a rise in informal provision of potable and safe drinking water, for which unit costs are significantly higher, particularly for the poorest who buy smaller quantities. Many households in urban areas also pay private vendors for faecal sludge removal.

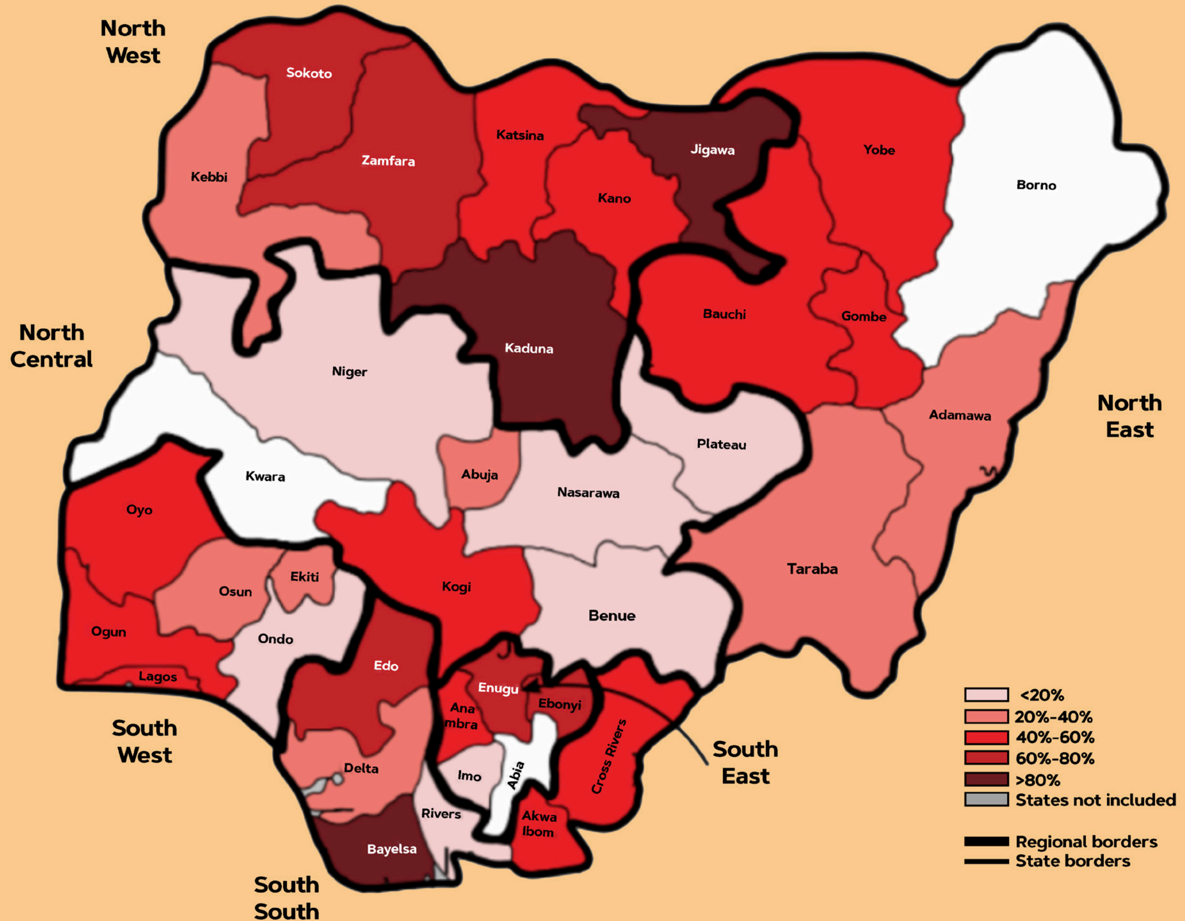


Figure 25: State water authority coverage varies significantly across Nigeria

Source: National Water Sector Reform Project, World Bank Group, Independent Evaluation Group, 2017

While households in Nigeria already contribute significantly to key SDG-related sectors, the government is looking at opportunities for increasing investment. In the WASH sector, SWA supply of non-revenue water is 55%, which is one of the highest in the world. Consequently, SWAs require budgetary subsidies to maintain service provision. In addition, the government's Partnership for Expanded Water Supply, Sanitation and Hygiene strategy has outlined the need for households to bear the cost of installing toilets, which is estimated at ₦855.5 billion (US$3.4 billion) in rural areas.[50] The FGN also proposed in the 2020 Finance Act the removal of electricity subsidies, which would increase households' contributions. Although the IMF has estimated that this would impact the poorest households, a higher burden would be placed on the richest households given their consumption.

Although opportunities may exist for further household financing of development, the COVID-19 pandemic has highlighted the precarious position many households are in when it comes to availability of services and basic needs. According to the second round of the COVID-19 National Longitudinal Phone Survey conducted by the National Bureau of Statistics[51], a quarter of households lack soap, with 79% of them stating that it was because they could not afford it. In addition, 77% of households reported moderate or severe food insecurity due to lack of money or other resources. The Nigeria Living Standards Survey 2018–2019[52] showed that 38% of households in Nigeria suffered financial shocks due to food price increases, of which 20% were due to environmental circumstances (e.g. flood, fire, pests). Poor households are particularly exposed to these types of shocks. Therefore, policies and programmes need to be framed around supporting household contributions to ensure affordability and accessibility for all.

The COVID-19 crisis highlights the urgency of increasing the coverage and financing of Nigeria's National Health Insurance Scheme (NHIS) to ensure a resilient recovery from the pandemic. At present the NHIS has only six million residents enrolled. However, as shown in Ghana (Box 3), in highly informal economies and countries where taxation is low, widening the range of financing sources is required to implement an effective NHIS.[53] This finding is consistent with the FGN's National Health Development Plan (2018–22), which called for health insurance to be scaled up to 30% by 2022 along with an increase in domestic and international public resources to meet the financing gap.[54]

BOX 3: GHANA NHIS SUCCESS DRIVERS

The National Health Insurance Scheme (NHIS) is a social intervention programme aimed at providing financial access to health care for residents in Ghana. First established in 2003, the programme has made unprecedented progress in terms of growth and coverage compared with other schemes on the continent. Most importantly, it has covered 10.3 million residents and ensured more equitable geographic provision, where the previous cash-and-carry system excluded many rural Ghanaians and caused serious delays in seeking health care.

The scheme is funded by a range of sources, which has been a key element of its success. These include the National Health Insurance Levy, the Social Security and National Insurance Trust, return on National Health Insurance Fund investments, and government allocations and premiums paid by informal sector subscribers. Indeed, a key barrier to scaling up the NHIS has been the limited financial resources.

Ghana's NHIS is not without its challenges, however. The scheme has, justifiably, focused resources on testing and treating malaria throughout the country, to the detriment of delivering affordable and quality health care for many other health conditions and diseases. The lack of medicines on offer means patients are still prescribed medicines that they must purchase; this disproportionately affects rural communities where a lack of pharmacies and other health infrastructure means that there are additional costs when travelling to purchase prescriptions. Citizens also face barriers to registration.

Sources:

Annals of Tropical Medicine and Public Health, 2012. Challenges to the scale-up of the Nigerian National Health Insurance Scheme. Available at: http://www.atmph.org/article.asp?issn=1755- 6783;year=2012;volume=5;issue=1;spage=34;epage=39;aulast=Lawan

Report in Ghana Business News dated 21 November 2019

https://www.ghanabusinessnews.com/2019/11/21/challenges-with-nhis-hindering-quality- malaria-care-other-basic-health-services/)

Since 2017, the government has also developed innovative bonds to channel domestic private investment, including the first sovereign green bond in Africa and sukuk bonds that have supported road construction. Savings bonds have also been developed to support household savings and financial inclusion. While bonds in Nigeria have been issued mainly by the FGN, states governments, particularly in the south, and some corporations have also issued bonds. Although creditworthiness remains a key barrier, the municipal green bond issuance by Johannesburg and the Baobab Senegal bond (Box 4) highlight the potential for state governments and corporations to use these instruments to advance environmental sustainability and support development of MSMEs. Although the domestic debt market has remained strong over the last few years, a key trade-off will be maintaining public debt sustainability while tapping into the potential of these innovative financing instruments and impact investors.

BOX 4: GREEN BONDS IN JOHANNESBURG AND THE BAOBAB SENEGAL BOND

Despite the barriers many cities around the world face when it comes to green urban development, the green bond in Johannesburg has provided the South African city with a new source of funding that capitalises on socially responsible investors to implement its climate mitigation strategy (see: C40 good practice guides: Johannesburg green bond. Available at: https://www.c40.org/case_studies/c40-good- practice-guides-johannesburg-green-bond)

The bond received a very positive response on the market, at 150% oversubscription. This was due to the city's strong creditworthiness, having issued seven long-dated bonds prior to their green bond, and its political commitment to green projects. Issued in June 2014, the bond is worth approximately US$143 million and has contributed to a multitude of projects across a range of sectors, which will bring about economic and environmental benefits and an estimated 18,600 job opportunities.

Baobab Senegal demonstrates the success a corporation can have from the issuance of bonds. The Baobab Group is a digital finance group that provides financial inclusion to unbanked individuals and MSMEs. It is also present in Nigeria. The Senegalese branch issued a €15.2 million bond in 2019 that has allowed the company to diversify its financing sources. At seven years, it represents an important long-term financing tool. It received a positive response on the market, at 100% subscription, and represents a positive future for the company and for financial inclusion in Senegal. (See: Baobab press announcement dated 1 July 1 2019. Available at: https://baobab.bz/announcement/baobab-senegal-emet-avec-succes- une-emission-obligataire-de-fcfa-10-milliards/)

Although it is difficult to quantify the financing contribution of MSMEs to development, they are the backbone of the Nigerian economy. MSMEs account for 50% of Nigeria's GDP and employ 77% of the country's total workforce[55], and their development will be crucial for future job creation and economic growth. As shown in Figure 17 in the case of WASH vendors, MSMEs can play a key role in service delivery related to the sustainable development goals. However, the COVID-19 pandemic is having a significant impact on their operations. In a recent survey, 94% of MSMEs indicated that the pandemic had impacted their business and less than half expected their businesses to survive.[56] While the FGN and states are providing support with tax payment holidays, lowering VAT thresholds, and access to credit, 94% of MSMEs in the survey reported receiving no support. Going forward, maintaining and growing MSMEs will depend on the government understanding the landscape of MSMEs and their specific needs.

Alongside domestic private investment and household contributions to financing development, there is a growing emergence of domestic private philanthropy in Nigeria through corporate social responsibility (CSR) programmes and individual giving. CSR programmes are principally developed by multinational companies within the oil sector, although there is an increasing number of domestic companies with CSR programmes such as Fidelity

Bank.[57] However, due to a lack of trust in the government, many CSR programmes directly target beneficiaries and are not guided by government, leading to a lack of strategic investments based on development priorities. Moving forward, the FGN is looking at how to better guide CSR programmes, identify its vital role in medical and pharmaceutical research in the fight against COVID-19, and boost contributions through tax incentives.[58] State governments, such as Oyo,[59] have developed COVID-19 endowment funds, which have received significant investment from a range of actors, including CSR programmes and individual donors and philanthropists. While better guidance and support from governments may increase domestic philanthropy, as shown in India (Box 5), there may also be opportunities for governments to encourage CSR through legal means.

International private resources

BOX 5: INDIA'S 2% CSR PROFIT LAW

As of April 2014, India became the first country to enshrine corporate giving into law, whereby businesses with annual revenues exceeding ₹10 billion (£105 million) were mandated to donate 2% of their net profit to charity as part of CSR. The initiative was aimed at increasing the available funds for social development, as companies can invest in areas including education, poverty, gender equality and hunger. The law had an immediate impact, as the private sectors' total charitable spend increased from ₹33.67 billion (£357.5 million) in 2013 to ₹250 billion (£2.63 billion) following the law's enactment. By 2018, this value had risen by another 47%, with most allocations going to the education sector.

India has faced challenges with the law's implementation. In its first year, 52 out of the largest 100 companies failed to meet their CSR requirements. Due to its focus on how much is being donated, it fails to address underlying issues regarding questionable business practices to generate the revenue in the first place. Without clear sustainability criteria for defining CSR practices and aligning them with the SDGs, this laws risks becoming a CSR 'box-ticking' exercise. (See article in Economic Times dated Oct 21, 2015. Available at: https://economictimes.indiatimes.com/news/economy/finance/how-indian-companies- are-misusing-public-trusts-to-launder-their-csr-spending/articleshow/49474584.cms)

Following the onset of the COVID-19 pandemic, corporate expenditures to fight the disease were included as eligible CSR activities. As a result, CSR has been a key contributor to the fight against COVID-19, with over ₹32 billion having been donated to pandemic activities to date, overwhelmingly towards disaster relief (₹30.4 billion), followed by health care (₹2.5 billion). (Data from India Data Insights. Available at: https://www.indiadatainsights.com/free-interact/Covid-19-global-efforts/)

Figure 7 highlighted the key role played by international private resources for development financing in Nigeria. Of those, remittances make up a significant proportion and are estimated to have grown in real terms from US$1.8 billion in 2003 to US$21.7 billion in 2019. Almost half the remittances in 2017 came from the US and UK, with Cameroon also a key source (Figure 26).

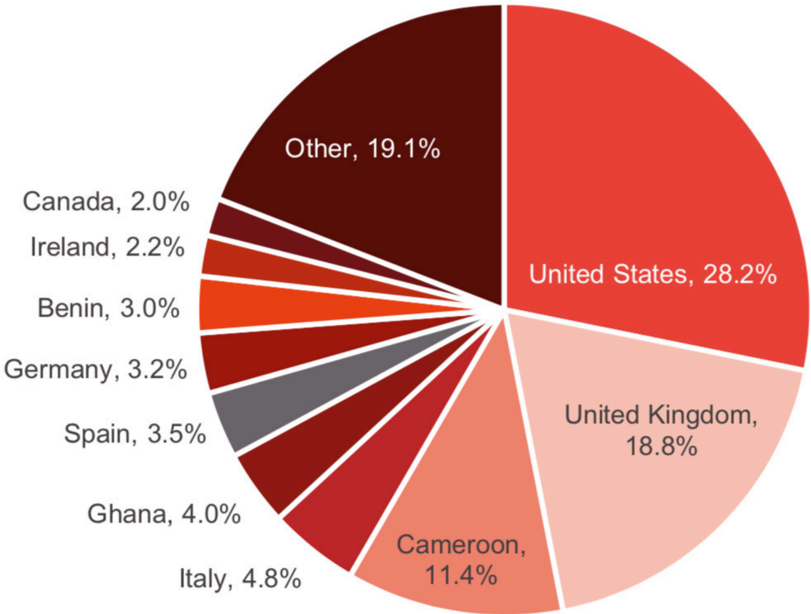


Figure 26: Composition of healthcare funding in Nigeria, 2000 to 2017

Source: World Health Organization Global Health Expenditure Data

A significant amount of the remittance inflows is lost through the cost of transferring money from Nigeria's top 10 remitting countries (Figure 27). Over time, estimated transaction costs fell from 8.3% in 2014 to 6.2% in 2017, but they have since risen to 7.8% in 2019. If the transaction cost target of 3% set out in the SDGs had been met in 2019, this would have resulted in an additional US$1 billion of net inflows to Nigeria, which is equivalent to the total consolidated government spending on agriculture. Therefore, this presents an opportunity for the FGN to work with money transmitters to seek ways to reduce transaction costs of transferring money into Nigeria. Lower transaction costs could also help stimulate increased flow of remittances, which is estimated to be significantly impacted by the COVID-19 pandemic.

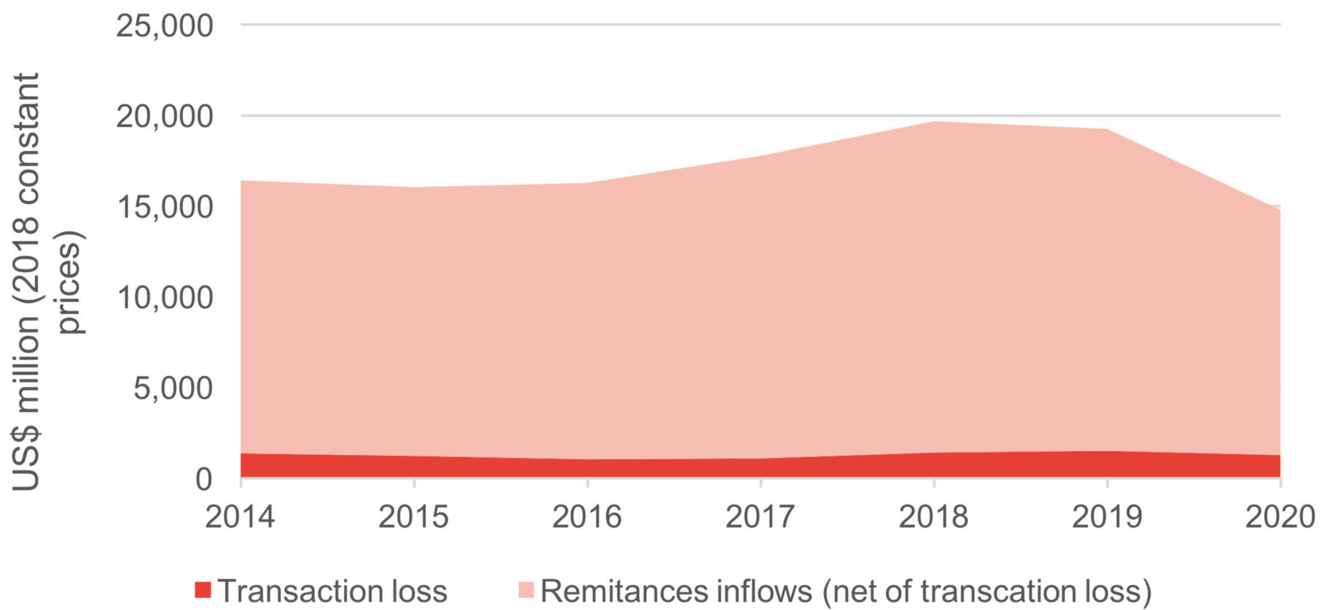


Figure 27: Remittance inflows and transaction loss, top 10 countries of origin, 2014 to 2020

Source: World Bank data on migration and remittances

The Nigeria Living Standards Survey 2018–2019[60] 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 (Figure 28). This is a similar pattern to domestic public and private sector flows, outlining a trend of lower development resources where SDG attainment is most off-track, which is an important consideration for policymakers.

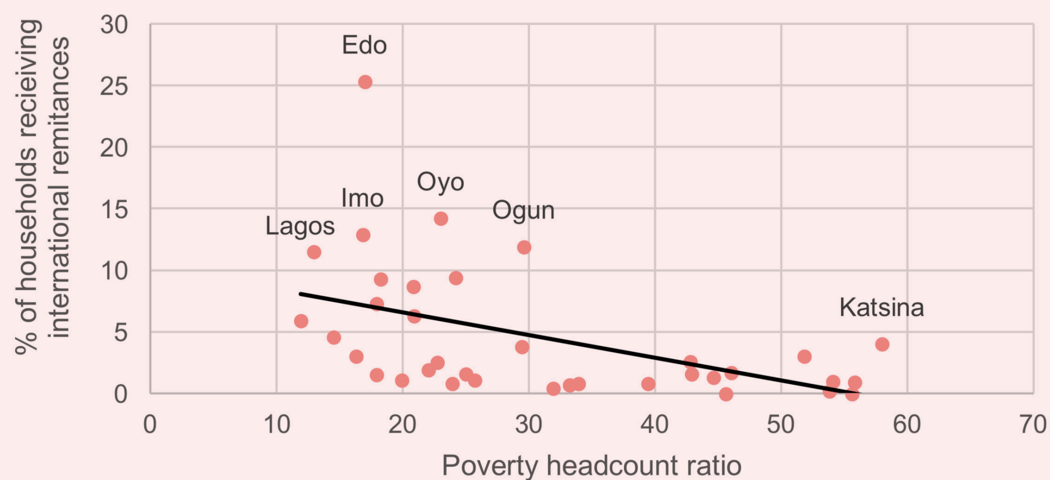


Figure 28: Households in states with higher poverty proportionally receive fewer remittances

Source: Nigeria Living Standards Survey 2018–2019

Notes: Line of best fit is included to demonstrate inverse relationship between poverty and remittance levels

Research by the Commonwealth Secretariat has shown 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.[61] For example, 12% reported investing in government bonds. In response to this interest in 2017, the FGN developed the Diaspora Bond to directly target investment, and in 2018 it made up 1.2% of the external debt stock. The survey also showed that 70% of respondents were interested in investing more in Nigeria, with the highest areas of interest being youth development (60%) and poverty reduction (59%). Therefore, the government in Nigeria may want to consider other schemes to channel diaspora funds, as in the case of Pakistan's 'donate for dam' scheme (Box 6). Although there is interest from the diaspora, respondents to the survey by the Commonwealth Secretariat cited key obstacles to investing, such as corruption (70%), political instability (45%) and weak legal frameworks (41%) (see Dimension 3: Public–private collaboration).

BOX 6: DIRECT CHANNELLING OF DONATIONS FROM THE DIASPORA TO SUPPORT DAM INVESTMENTS IN PAKISTAN

In September 2018, Prime Minister Imran Khan called for the Pakistani diaspora to 'donate for dams.' This led the Supreme Court of Pakistan to set up a fund-raising drive for the Diamer- Bhasha and Mohmand dams. As of 11 March 2019, the fund had raised PKR10 billion (US$96 million). While the primary purpose of the dams is electricity production and irrigation, the experience shows the clear potential to fund the WASH sector directly through donations. However, as the WASH sector is the responsibility of provincial governments, it may be more difficult to create publicity for donation campaigns, given that the initial call for the 'donate for dams' scheme came from the prime minister.

Source: Media for transparency 2019. Available at: http://pakrtidata.org/2019/08/07/what- happened-to-the-supreme-court-diamer-bhasha-and-mohmand-dams-fund/

The classification of Nigeria as a lower middle-income country in 2015 implies limited access to funding from the concessional multilateral and bilateral sources. This has led to increased external borrowing from commercial sources (Eurobonds and the Diaspora Bond). External debt stock held in Eurobonds has grown from US$1.5 billion in 2014 to US$10.7 billion in 2018. While no Eurobonds were issued in 2019, the FGN has sought to issue a further US$3.3 billion in 2020 to support budget finance due to the COVID-19 pandemic. Although there is a clear demand from investors for Nigerian Eurobonds given consistent oversubscription, their continued use in the medium

to longer term potentially risks debt unsustainability, especially given the recent downgrading of Nigeria's credit rating. The FGN adopted its new Debt Management Strategy 2020–2023,[62] which 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 onset of 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.

FDI is another significant source of international private financial inflow to Nigeria. In 2019 FDI inflows amounted to US$3.3 billion, a real-term rise from US$1.3 billion in 2000. However, the extractives sector is a significant focus of FDI, and inflows have been largest when global oil prices were high. For example, the drop in FDI from US$6.4 billion in 2018 to US$3.3 billion in 2019 was largely attributed to a weaker growth outlook and lower global demand for commodities.[63] FDI inflows to Nigeria are heavily concentrated in the Federal Capital Territory and Lagos, which together received over 85% of total inflows in 2018. Mining and quarrying accounted for 35% of the total value, manufacturing 24%, construction 20%, transportation and storage 15%, while other sectors accounted for 6%.[64]

The agricultural sector 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. Furthermore, only 40% of arable land is cultivated, and Nigeria's agricultural sector has been in decline over the past four decades.[65]

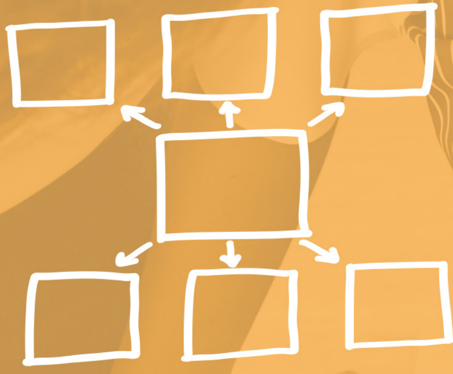
A key policy aim of the government is to diversify the economy, and through efforts to improve the business environment (see Dimension 3: Public–private collaboration) there were signs of a shift in emphasis before COVID-19. For example, a US$600 million steel plant was built in Kaduna state and an agreement signed with Volkswagen – a step towards the state's long-term vision of becoming an automotive hub. China has also been investing considerably in the country, mainly in the textile, automotive and aerospace industries.

However, 2020 is likely to see further decline in FDI given the continued fall in demand for oil and the global economic slowdown. Therefore, while there is political will to increase FDI in the country, it will be important to identify potential shifts in the global economy following COVID-19, such as increased use of information and communications technology services, and position the country accordingly.

While FDI inflows are projected to remain depressed, impact investment in Nigeria offers short-term opportunities to harness private sector investment towards sustainable development projects. Nigeria is the largest recipient of impact investments in West Africa, amounting to a total of at least US$4.7

billion between 2015 and 2019[66], according to the latest figures from the Global Impact Investment Network. Although FDI to Nigeria focused mostly on the hydrocarbon, manufacturing and transport sectors, impact investors favour smaller deals (US$1–5 million) targeting economic sectors with a large development dividend, such as agriculture, technology and financial services, with a focus on financial technology and getting financial access to the unbanked.' In Nigeria, agriculture and energy are among the top three sectors that attract impact capital. Most investors are fund managers who invest on behalf of foreign investors, with the Tony Elumelu Foundation being the main local investor. Mobilising local impact investment can also help local currency lending. These trends point to the potential for impact investment to contribute to the FGN's economic diversification objectives (See Dimension 3: Public– private collaboration).

The relatively patient nature of impact capital has, to an extent, allowed some investors to weather the negative effects of short-term volatility because they use a longer time horizon to assess their return on investment. Impact investors in Nigeria are diversifying, with a significant increase in investors that are not development finance institutions. Many of these new investors focus on commercially viable deals that have an impact as opposed to providing concessional capital and accepting below-market-rate returns. For this reason, truly patient impact capital (i.e. that accepts below-market-rate returns to invest in riskier or higher-impact deals) remains in short supply.



DIMENSION 2

Integrated Planning and Financing

Previous sections of this DFA focused on the sustainable development context and financing landscape in Nigeria, from which several key findings have emerged. Development planning and priorities have set an ambitious agenda towards the attainment of the SDGs against a backdrop of financing flows, which, at present, are not sufficient to fully cover the estimated costs of achieving the SDGs and vary significantly geographically in the levels of financing. While the previous section (see Dimension 1: Financing trends) highlighted a range of opportunities to bridge the financing gap, it is essential that the effective and efficient use of resources is maximised, while making progress towards increasing the total available development finance. One of the ways to work towards this within the context of the INFF is to ensure planning and financing processes are integrated, which is the focus of this section.

Common elements of government planning and financing systems in Nigeria

Within the FGN and state governments, there are a range of documents and processes that guide the connection and coordination between planning and financing processes (Figure 29). At the federal level, both the Vision 2020 document and the medium-term plans that support it highlight the need to scale up domestic and private financing. Within the ERGP, a macroeconomic framework provides a benchmark for performance, although targets on government revenue did not consider the impact of the policy changes that were outlined, and there is no overall strategic financing plan that sets out priority financing sources, both public and private, for specific spending areas or policy objectives.

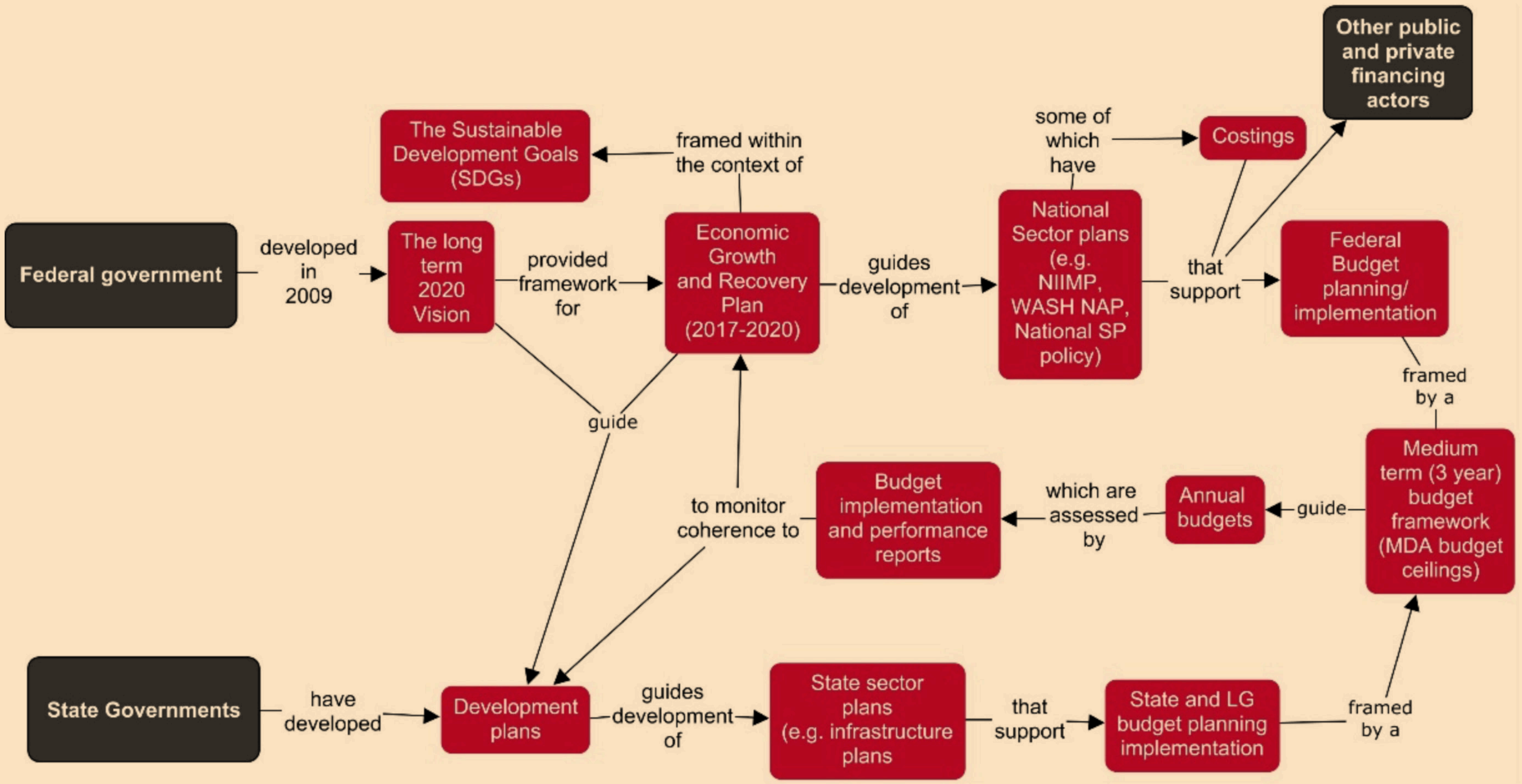


Figure 29: Mapping of government planning and financing framework

Source: Authors' own elaboration

To improve the understanding of the financing required to meet development priorities, several sector-specific plans have been developed. The National Integrated Infrastructure Master Plan (NIIMP)[67] developed in 2012 outlined investment requirements for eight distinct focus areas with a breakdown by region, a prioritisation list of projects, and potential financing plans. More recently in 2018, the Federal Ministry of Water Resources produced a National Action Plan (NAP) for the WASH sector[x] and the Federal Ministry of Health produced its National Strategic Health Development Plan 2018–2022, both of which detail the investments required in the sector by the state in order to achieve the targets. The ERGP and sector-specific costings have supported the development of federal budget planning, including MTEFs and fiscal strategy papers as well as ministry, department and agency (MDA) budget proposals, which are aided by the development of medium-term sector strategies (MTSS).[68] In addition, the plans provide advisory guidance to state governments in their planning and budgetary processes.

While the expenditure element of financing across different levels of government is largely separated, the federal revenue structure is interconnected among the three tiers of government (Figure 30). For example, federal revenue is transferred through the FAAC and a proportion of IGR from state governments is transferred to LGAs. In addition, borrowing by states is overseen by the FGN. This means that the efficiency and effectiveness of financing against stated planning is to some extent dependent on decisions and actions by other levels of government.

x Known as the National Action Plan for Revitalization of the WASH sector.

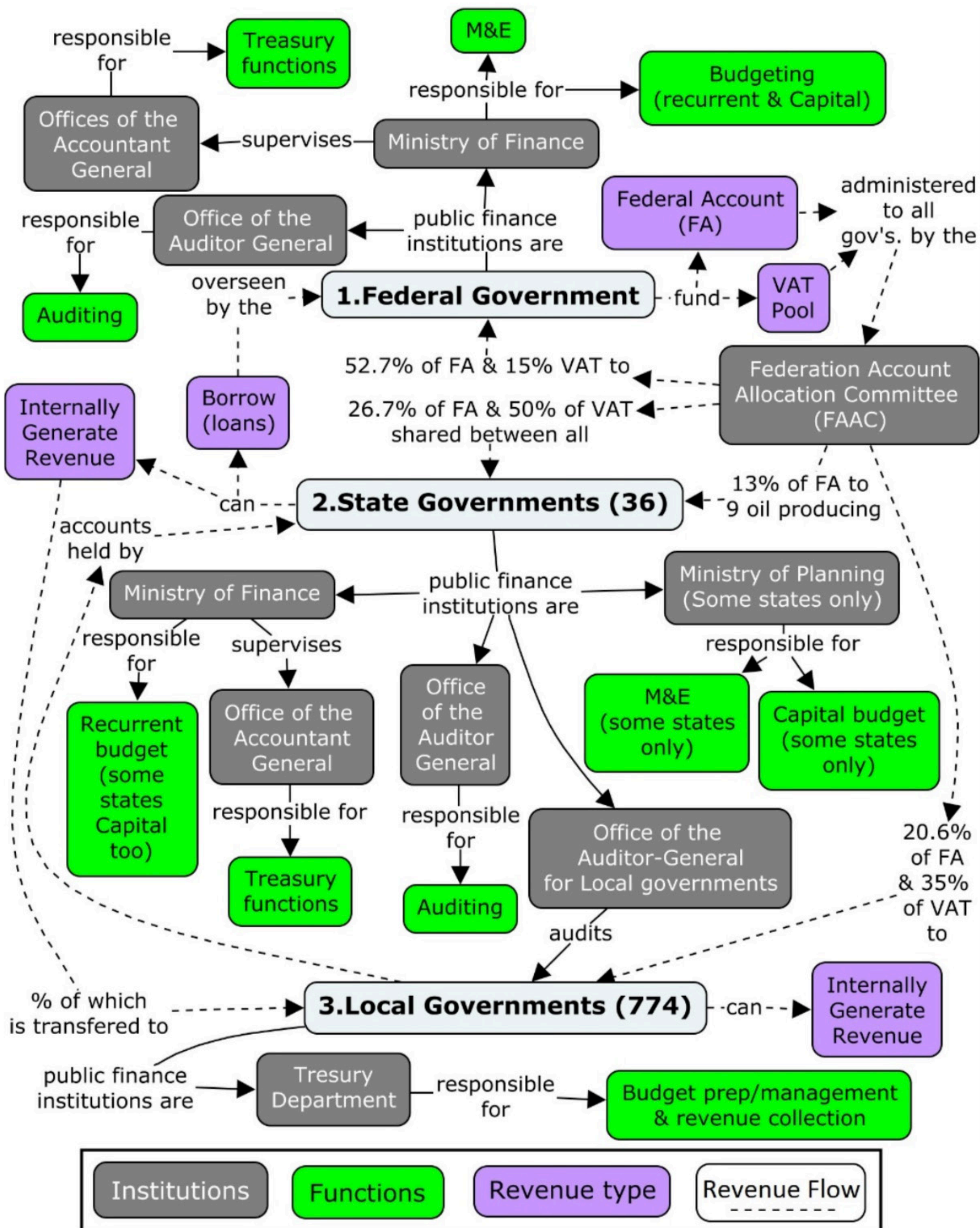


Figure 30: **Finance institutions, functions and revenue flows across the three tiers of government**

Source: Authors' own elaboration

Planning that supports public and private financing

While the current Vision 2020 outlines a strategic planning direction for the country, the revised Agenda 2050 is set to include econometric modelling (dynamic computable general equilibrium and the integrated SDG model shown in Figure 13) to map out financing requirements to meet the SDG targets and beyond. This approach is similar to long-term development plans in Nepal[69] and Timor Leste[70], which have enabled a better understanding of the potential for different forms of finance to bridge the resource gap. In addition, the new medium-term plan is set to use an input–output model, similar to that used by the government of the Philippines.[71] This should provide a clearer picture of the financing required to meet policy objectives and constitutes a critical building block towards implementing an INFF soon.

As noted above, sector costing models such as NIIMP, the WASH NAP and National Strategic Health Development Plan 2018–2022 have provided financing actors with a clearer picture of the financing requirements to meet stated goals. As Figure 31 shows, the estimates used for new capital WASH infrastructure under the NIIMP and the NAP are similar to estimates by international organisations. However, given that costs included in those models are based on often out-of-date national or regional estimates, there is the potential to gather local costings data from a different context in Nigeria, like in the case of Ethiopia (Box 7).

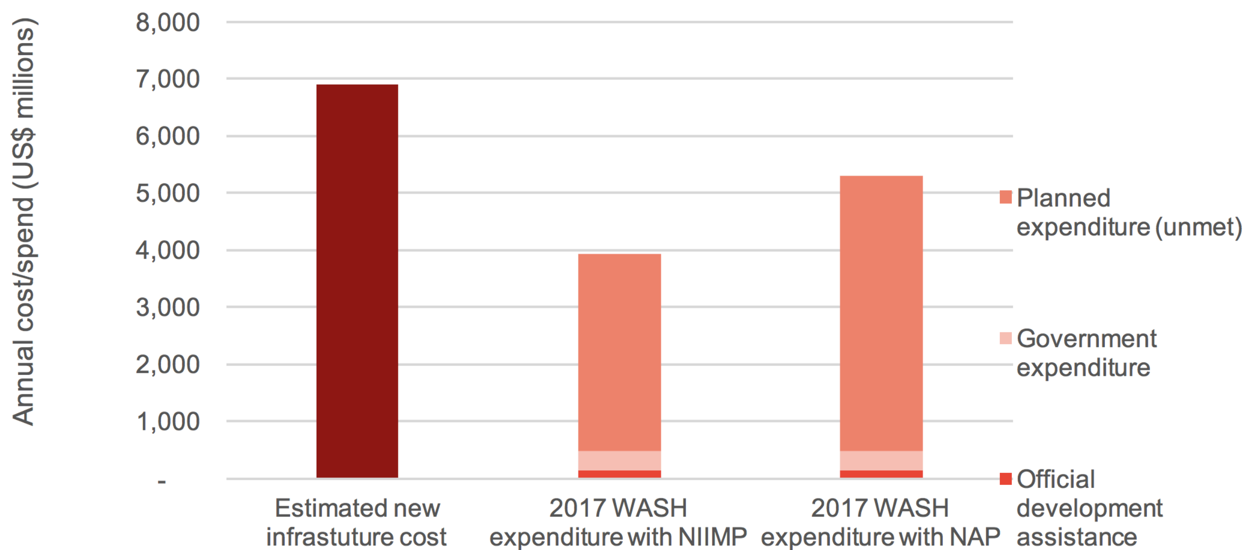


Figure 31: **Government costings estimates are similar to international estimates**

Source: Equal to the task: financing for a state of emergency in Nigeria's water, sanitation, and hygiene sector. WaterAid UK and Development Initiatives

BOX 7: LOCALISED COST ESTIMATES IN ETHIOPIA TO BETTER INFORM PLANNING AND FINANCING

In Ethiopia, as in Nigeria, there are many physical environments and variations in the availability of goods and their unit costs, due to aspects such as remoteness. Therefore, if national costing exercises are based on single unit costs at a country or regional level, they could lead to inaccurate modelling. To better inform costing estimates within the WASH sector in Ethiopia, localised costing exercises are being used to provide up-to-date and relevant data to feed into national and international costing models. For example, UNICEF (2019) and the One Wash National Programme (2018) in Ethiopia captured local unit costs and technology approaches in distinct regions of the country to improve the accuracy of national estimates.

Local costs of WASH implementation may be derived from a range of sources. A key example of the latter is a life cycle cost analysis assessment (LCCA). LCCAs focus on local governments, known as woredas, in Ethiopia to collect data on the coverage and use of WASH services and the costs of local WASH technologies. Such LCCAs demonstrate the usefulness of localised costing exercises to inform accurate implementation costs.

Another area that is given increasing attention within developing countries with financing gaps is the modelling of interventions to estimate those with the highest impact and prioritise projects and interventions within financial constraints. These have primarily been developed within the health and nutrition sector,[72] with the FGN considering using the Optima Nutrition Tool, as in Bangladesh (Box 8, see following page). This tool aims to optimise budget allocations to either get the same impact with fewer resources or get greater developmental outcomes with the same resources.

The Optima Nutrition Tool can be used alongside MINIMOD,[xi] which looks at cost savings within interventions, where in Cameroon it helped reduce costs of rolling out its vitamin A programme.[73] While these models may provide insights into the benefits of certain interventions over others, the ideal model in practice may not be feasible from a social and political perspective. But they can be used as part of a wider planning discussion to decide budgetary allocations. However, there is potential for them to be useful to feed into certain MDA MTSS processes at the federal level and within state governments.

Within the context of revenue generation, to better coordinate between planning and financing, the FGN has initiated several approaches. In 2019, it launched the Strategic Revenue Growth Initiative, which sought to identify opportunities to raise revenue to GDP to its long-term goal of 15%. In addition, it is also working with development partners to develop a medium-term revenue strategy (MTRS) that looks holistically at spending needs, revenue potential that takes into consideration the social contract (e.g. equity and fairness), impact and reforms required, and ways development partners can assist.

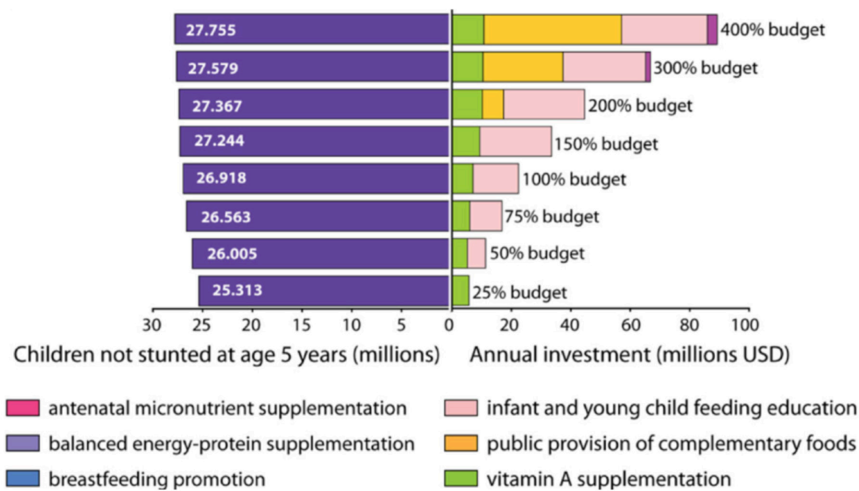
xi MINIMOD is a decision-analytic model that examines allocative efficiency of nutrition investments and identifies a mix of interventions that maximise specific nutrition or health outcomes in the population.

BOX 8: OPTIMA NUTRITION MODEL IN BANGLADESH

Optima Nutrition was created in 2017 as a tool to provide economic and impact analysis for nutrition. For a given budget, the tool provides policymakers with an optimal combination of nutrition investments to deliver the best outcomes and indicates the potentially achievable impact should the budget envelope expand.

The figure below illustrates the simulations for infant and young children feeding (IYCF) interventions in Bangladesh. As the budget increases, investments in IYCF should continue to receive higher funding. Eventually, at approximately 150% of the current budget, IYCF's expanded coverage means increasingly high marginal costs to reach additional children. This indicates the optimal level of IYCF interventions. Beyond this level of investment, more impact can be achieved by scaling up other interventions.

The figure shows that the number of additional children benefitting from additional investments in IYCF decreases as investments increase. Such tools can inform policy trade-offs between the additional investments and having fewer stunted children, given budget availability.



Source:

Pearson et al. BMC Public Health (2018). Optima Nutrition: an allocative efficiency tool to reduce childhood stunting by better targeting of nutrition-related interventions. Available at: http://www.optimamodel.com/pubs/Pearson%20 2018.pdf

Planning that supports coordination between different financing actors

Within the context of planning vertically with the FGN and the subnational governments, the Joint Planning Board, chaired by the Secretary to the National Planning Commission, meets to brief state governments on national planning and monitors states' planning requirements. Meetings are usually held bi-annually to coordinate, discuss and develop strategies. Deliberations and propositions are taken to the National Economic Council for executive action. Despite this, the many overlapping sector responsibilities vertically across government have made effective planning and financing challenging.

Figure 32: Distribution of sector responsibilities by level of government

Source: World Bank Report no.67934, FGN and state budget documents and Commonwealth Local Government Forum

Regarding international public financing, in 2020 the FGN developed its ODA policy for Nigeria. This sets the framework for international partners to provide support in the pursuit of nationally-owned development priorities. In addition, as highlighted above, sector strategies have detailed financing requirements for development partners

to guide support and coordination. An institutional framework made up of national and subnational committees on ODA will offer guidance on priority areas of support from development partners. Support has also been guided recently by the creation of the COVID-19 Crisis Intervention Fund, which is a basket fund established by the FGN to support effective planning and management of the pandemic. Related to the basket fund, many countries such as Ethiopia (Box 9) have linked planning and funding mechanisms together in sector-wide approaches, which could help strengthen the coordination between development partners and government planning and financing in Nigeria.

BOX 9: EXAMPLE OF RECENT POOLED FUNDING SWAP, THE ONE WASH NATIONAL PROGRAMME IN ETHIOPIA

The One WASH National Programme (OWNP), launched in 2013 and currently in phase II, is a sector-wide approach (SWAp) that provides a framework for financing, coordination, monitoring and evaluation between the different actors. The OWNP is aligned with the goals laid out in the Growth and Transformation Plan II and the SDGs, with an overarching strategy and activities, and is costed annually to 2020 with indicative funding from 2021 to 2030 outlined. Within the OWNP, a pooled funding mechanism, known as the consolidated WASH account (CWA), has been established to channel both government and development partner funding, although the OWNP also receives funding outside of the CWA.

Integrating the costing, planning and financing of the COVID-19 recovery and SDGs

This DFA finds that FGN's development planning and budgeting architecture are well- developed, but offer limited clarity on how public spending and financing strategies contribute to sustainable development results (see Dimension 4). The country's federal governance structure has resulted in a complex public finance management system, both on the revenue side as well as the spending side, weakening clear accountability for spending and results.

The ERGP does not include a holistic set of performance indicators coherent with sectoral plans and the nationalised SDG targets and indicators. This duplicates monitoring efforts across levels of government, sectoral plans and the SDG monitoring architecture.

The COVID-19 pandemic has added an additional layer of complexity to Nigeria's existing economic governance through the one-year Economic Sustainability

Plan, with its additional corresponding governance setup.

The INFF can support streamlining this increasingly complex economic governance by connecting it explicitly to Nigeria's long-term sustainable development priorities. It would support mainstreaming Nigeria's nationalised SDG indicators as a common, nationally-owned set of performance indicators across the long-term development strategy, sectoral strategies, financing policies and the annual budget process.

To this end, the ongoing formulation of the successor to the ERGP, Nigeria Agenda 2050, provides a unique opportunity to embed the nationalised SDGs' performance indicators as the yardstick for Nigeria's sustainable development progress (see Figure 33). Thus, it would provide a coherent performance monitoring framework that would practically connect the country's long-term development aspirations with its medium-term action plans and its annual budget.

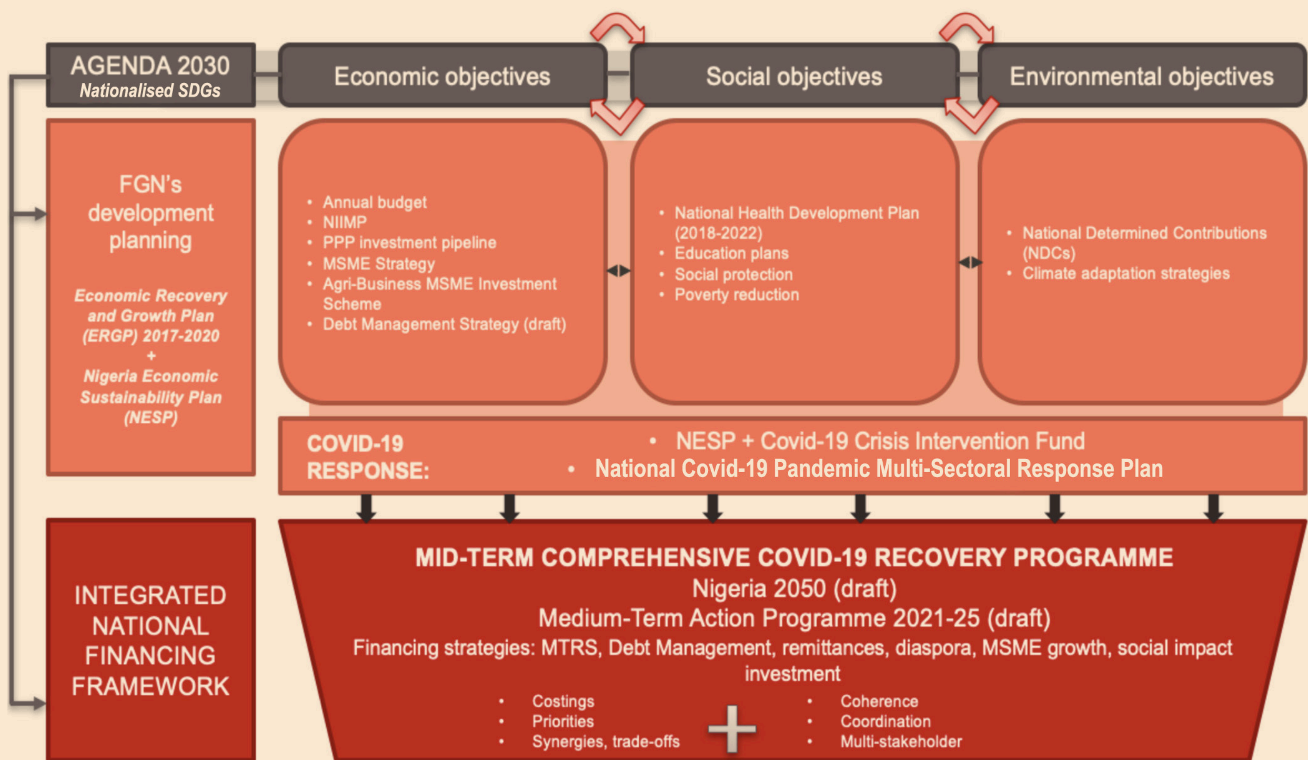


Figure 33: Integrating SDG costing, planning and financing with development results through an INFF in Nigeria

Source: Authors' own elaboration

Furthermore, this common framework of performance indicators could also inform and strengthen vertical coherence of planning and financing approaches between the federal level and the individual state levels. By adopting a localised SDG costing approach, tailored to each state's local context, it would inform the assessment of the

This DFA finds that FGN's development planning and budgeting architecture are well-developed, but offer limited clarity on how public spending and financing strategies contribute to sustainable development results

development financing priorities for the COVID-19 recovery and the development strategy succeeding the ERGP in the context of an INFF. A localised approach would help address the wide disparities across Nigeria's states with regards to COVID-19's impact, socio-economic development, and available financing and needs. It would support the development of state-specific strategic guidance for actors and the harnessing of all possible financing flows towards accelerating development achievements in said states, and would be in line with approaches at the federal level.

Practically, this DFA envisions that an INFF would support Nigerian authorities with managing and coordinating their multiple ongoing policy processes (the ERGP, the NESP, the COVID-19 Response Strategy, Medium-Term Action Programme 2021–25, and the Nigeria Agenda 2050). This would identify duplications and promote synergies across corresponding financing instruments and policies. It would culminate in a holistic financing strategy that would underpin the implementation of the successor to the ERGP and its medium-term action plans.

An INFF could provide the high-level, holistic framework to prioritise, coordinate and inform the monitoring of this multidimensional recovery agenda and accelerate SDG financing in Nigeria. It supports the effective involvement of wider stakeholders in planning and financing for a durable and resilient COVID-19 recovery that leaves no one behind.

Public–Private Collaboration

Since the development of NEEDS, and throughout the resultant development planning in Nigeria, the issue of private sector development has been a central policy objective of subsequent governments. Furthermore, the sectoral strategies recognise the role of development partners and commercial investors in bridging the significant financing gap the country faces in realising its national development agenda and the SDGs.

The private sector consists of more than formal businesses. Individuals and households, from rich to poor, also operate as private economic actors when they consume goods and services, sell their labour, farm, or produce goods and services. Therefore, accelerating the post-COVID-19 recovery requires greater effort to address the needs and maximise the contribution of the many informal enterprises, family-run farms and self-employed men and women of Nigeria's informal sector, estimated at 65% of GDP.

This dimension reviews FGN's most recent policies and institutions to harness SDG-aligned private sector investment. It focuses on how public and private actors can collaborate around the 2030 Agenda and how they may act to promote not just economic gains, but also more sustainable, inclusive private finance. It identifies opportunities to enhance the policy environment, incentivise untapped sources of private finance and deepen public–private collaboration, in order to grow private sector investment and shape it in pursuit of the SDGs.

Harnessing the domestic private sector

The ERGP actively promotes economic diversification away from oil by building a competitive manufacturing and agribusiness sector, which aims to facilitate integration into global value chains and boost productivity and food self-sufficiency. To achieve this goal, the FGN has 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.

Developing the private sector requires concerted government action to overcome significant challenges to private sector growth. In Nigeria, these main challenges include deficient energy and transport infrastructure, excessive red tape, widespread corruption, a difficult macroeconomic environment and lack of access to credit. The merger of trade, industry and investment responsibilities under the ambit of the Federal Ministry of Industry, Trade and Investment therefore marked a key step towards more effective coordination between these three key areas to address regulatory constraints that prevent a more coherent trading and investment environment in Nigeria. This appears to have paid off as indicated by Nigeria's strong improvements in the World Bank's 'Doing Business' ranking.

A second critical point entails setting up effective monitoring and evaluation mechanisms to continuously assess the impact of the development strategies, their financing approaches and their

corresponding policy instruments. Conducting an exhaustive and transparent evaluation of the ERGP's achievements against its stated goals and its contribution to Nigeria's capacity to achieve Agenda 2030 would be timely as it may yield valuable lessons for the preparation of its successor development strategy and action plans.

The latter is particularly relevant for Nigeria's current and past efforts to harness its private sector for sustainable development. The next sections assess the multiple policies and instruments used for harnessing private investments towards accelerating sustainable socio-economic development. This DFA has found little evidence of systematic monitoring and evaluation of their implementation and contribution to development results.

The Federal Ministry of Industry, Trade and Investment is well placed to strengthen the oversight and coordination of these multiple initiatives and ensure that any new private sector-related policy is assessed against its SDG alignment and complementarity with existing schemes, be they at the federal or the state level. The coordinated COVID-19 response to sustain Nigeria's MSMEs and informal livelihoods can be an opportunity to take stock of the effectiveness of existing mechanism and to streamline them into a holistic and coherent MSME recovery package over the medium term.

Promoting economic diversification away from oil

In 2016, the Nigerian Export Promotion Council launched a Zero Oil Plan to mobilise public and private resources towards boosting the country's meagre non-oil exports. The plan targets 11 strategic products with high financial value to replace oil.[xii] Focusing on farming and agribusiness, it aims to increase employment in the non-oil sector by providing 500,000 new jobs annually in line with SDG 8: "decent work and economic growth." Mid-term reviews of the Zero Oil Plan revealed several inherent constraints hampering more rapid progress: the lack of formal tenure rights, a predominance of smallholder farms and the importance of informal trade exports.[74] This implies that any scheme that favours the growth of large-scale commercial farming would require addressing politically sensitive land-ownership reforms to make any meaningful impact.

A state export development fund has also been created with proceeds from a ₦50 billion debenture with investment by the Central Bank of Nigeria (CBN) and disbursed by the Nigeria Export-Import Bank. The fund offers a long-term loan at a single-digit interest rate to qualifying export-oriented projects under the State Export Development Programme.

The ERGP foresees establishing special economic zones (SEZs) to boost manufacturing (including agro-processing), and clusters and hubs (e.g. for agro-processing and information and communications technology) in collaboration with state governments. The presidential initiative 'Made in Nigeria for Export' (MINE) and Nigeria SEZ Investment Company Limited are dedicated to manufacturing goods for export, regionally and globally. In line with the public–private partnerships

xii The 11 products are palm oil, cashew, cocoa, soya beans, rubber, rice, petrochemicals, leather, ginger, cotton and shea butter.

(PPP) model, a special purpose PPP entity, Nigeria SEZ Investment Company Limited, was designed to enable institutional investors to participate in project MINE alongside the FGN.[xiii] The Nigerian Export Processing Zone Authority allows duty-free import of all equipment and raw materials into its export processing zones. It encourages private sector participation and partnership with state and local governments under the free trade zones programme.

Strengthening the 'doing business' environment in Nigeria

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)[xiv] 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 level of government underpinned an extensive reform agenda culminating in significant improvements in the latest 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 ten reformers.

Translating these improvements into favourable political and regulatory risk perceptions by foreign investors may require more time and a whole-of-government focus on rebuilding trust in Nigeria's legal and regulatory framework and its implementation. Foreign investors have adopted a cautious approach and withheld planned investments considering the risk of instability associated with Nigeria's elections and disputes[xv] between the government and some large multinational enterprises.[75]

Indeed, public sector corruption remains high, despite indications of a slight decrease in the incidence of corruption according to the 2019 Corruption Survey by the National Statistics Commission and international measures such as the World Bank's control of corruption indicator (see Dimension 5). This downward trend contrasts with a lingering perception of corruption by citizens and the diaspora. This finding reinforces the need to improve Nigeria's image both domestically and abroad, to maximise the impact of the significant business reforms enacted.

The World Bank's Doing Business 2020 report[76] further 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. This is an opportunity to fast-track successful homegrown reform approaches across states. Kaduna, Enugu, Abia, Lagos and Anambra show the greatest progress towards the global 'good practice' frontier. The report recommends state governments proactively implement federal reform initiatives in centrally regulated areas

xiii Strategic investment partners are African Export-Import Bank, Bank of Industry Limited, Nigeria Sovereign Investment Authority (NSIA), Africa Finance Corporation and African Development Bank.

xiv PEBEC is an intergovernmental and inter-ministerial council chaired by Vice President Yemi Osinbajo and comprises ten 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.

xv Examples include the MTN (a mobile telecommunications firm) repatriation scandal, the backlog of taxes slammed on oil companies and the withdrawal of two global financial institutions from Nigeria.

and design and implement their own reforms in areas under state authority.

Getting access to electricity ranks as one of the major constraints for the private sector, according to the Doing Business 2020 report. About 47% of Nigerians do not have access to grid electricity, and those who have access face regular power cuts. The economic cost of power shortages in Nigeria is estimated at US$28 billion – equivalent to 2% of its GDP.[77] Failure to fix the electricity infrastructure gap would impede industrial growth and mean continued high levels of use of back-up generation (which is more polluting), slowing down Nigeria's sustainable development. Under pressure from international financial institutions as a condition to obtain emergency financial assistance for Nigeria's COVID-19 response, the FGN took an important step in making the sector more attractive to private investors by removing fuel subsidies and moving towards full cost-reflective electricity tariffs by 2021.

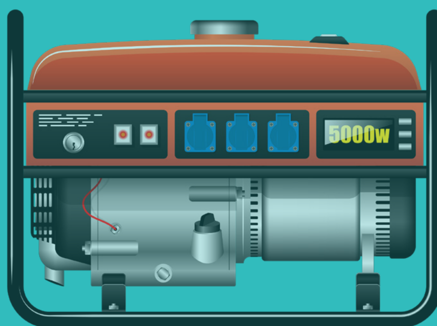
The fiscal savings realised through improved governance and management can support financing the recovery from COVID-19. Improved power sector management and governance would help reduce outages and transmission losses and underpin investor confidence. Oil sector reforms would help revive oil production, while successful implementation of the gas masterplan would foster gas-to-power, industrial development, and expansion of the gas network to industrial hubs. Reducing bioenergy use across all sectors would bring several benefits, not least because its use is strongly linked to deforestation and air pollution.

Lack of access to credit hampers MSME growth

The World Bank Enterprise Survey revealed access to finance to be the number one constraint to business by one-third of firms surveyed in Nigeria. According to a 2017 joint International Finance Corporation/World Bank study, the MSME financing gap in Nigeria amounted to 33% of GDP or US$158.1 billion.[78] This was followed, to a lesser extent, by electricity and corruption. Considering the supportive legal environment for access to credit, according to the latest World Bank's 'Doing Business' ranking, these survey responses suggest that there must be implementation gaps or other non-regulatory impediments to accessing credit. On the banks' side, MSMEs have limited capacity to pursue and demonstrate reliable corporate governance, accounting and financial reporting, which explains the risk aversion of banks. Borrowers' lack of collateral and high interest rates are additional challenges that hinder access to credit for MSMEs.

There is mounting evidence suggesting that solid credit information systems, movable collateral frameworks and registries, and efficient insolvency regimes can increase lending to MSMEs.[79] 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 is needed to ensure banks make full use of the National Collateral Registry and to increase credit registry coverage (which in Nigeria, as a percentage of adults, stood at 0.1% compared with OECD's average of 63.7%).[80]

The economic cost of power shortages in Nigeria is estimated at US$28 billion - equivalent to 2% of its GDP.77 Failure to fix the electricity infrastructure gap would impede industrial growth and mean continued high levels of use of back-up generation (which is more polluting), slowing down Nigeria's sustainable development



The FGN's main approach to increasing access to credit to MSMEs is by providing funds to financial intermediaries that are tasked to on-lend to specific private sector actors. For example, the Bankers Committee in April 2018 launched the Agri-Business Small and Medium Enterprise Investment Scheme, which provides access to credit to MSMEs at a concessionary rate with no collateral. The Development Bank of Nigeria provides wholesale term funding and risk-sharing facilities to participating financial institutions (eligible retail intermediaries such as commercial banks, microfinance banks, existing retail development finance institutions and leasing companies) for on-lending to MSMEs. As of May 2019, the Development Bank of Nigeria credit line to private financial institutions (PFIs) for on-lending to MSMEs has disbursed US$243.7 million, reaching nearly 50,000 end-borrowers, of which 70% were women. The Development Bank of Nigeria has on-boarded a total of ten commercial banks and 15 microfinance institutions, bringing the total number of participating financial institutions to 25. In 2019, the CBN established NIRSAL microfinance bank to be the country's leading microfinance institution.

International development partners provide an important source of funding for such on- lending schemes. For example, the European Investment Bank's dedicated Nigeria Private Enterprise Investment Facility is a lending scheme intended to support private sector investment in the country, enabling entrepreneurs and companies to access loans with a longer tenor than traditionally available. Since 2015, the European Investment Bank has provided a total of €120 million in credit lines. The International Finance Corporation has announced a US$50 million loan to Nigeria's First City Monument Bank Limited to expand MSME credit and sustain business activity disrupted by the COVID-19 pandemic.

Development finance institutions could consider jointly scaling up some of Nigeria's most successful credit facilitation schemes to foster increased private sector investment towards SDG-aligned priority sectors or states that are lagging. Framed as an SDG investment scheme, the funding could prioritise MSMEs from priority economic sectors as identified through UNDP's SDG Impact Investors Maps (Box 12).

Cognisant of the importance of MSMEs in underpinning economic development, the FGN approved the national policy on MSMEs for 2015 to 2025 as part of the Financial System Strategy 2020. The National Council on MSMEs is the coordinating and highest policymaking body in the MSMEs subsector, tasked with monitoring implementation of the policy. The MSME policy is the outcome of a series of consultations with all stakeholder institutions, both in the private and public sectors. The policy deals with various areas of MSME development such as finance, institutional, legal and regulatory frameworks, skills development, technology, research, support services, marketing, infrastructure, and so on. It is unclear how the MSME policy is explicitly aligned with the SDGs or the ERGP. This makes it difficult to assess its success in contributing to MSME growth and Nigeria's sustainable development results.

Some economic policies do not provide

an enabling environment for the growth of MSMEs. There are some policies that contradict the development of MSMEs. An example is the local content policy, which calls for patronage of local products and services, but public procurement laws set rules (such as turnover, previous works executed) that make it difficult for MSMEs to be eligible.[81] Domestic public debt crowds out private sector investment in Nigeria.[82] 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. In 2019, the CBN increased the credit-to-funding ratio requirements to encourage banks to lend more to MSMEs. Banks' fear of increasing their share of non-performing loans led to a subdued impact of this measure on MSME lending. This illustrates the point that any effort to increase MSME financing should be a concerted one addressing both supply and demand constraints simultaneously.

Promoting financial inclusion

The aforementioned improvements in the 'doing business' environment and most of the government's efforts to sustain MSMEs to weather the COVID-19 pandemic focus on the formal sector. This leaves out most of Nigeria's informal business ventures, estimated to be 65% of GDP. In 2013, there were almost 37 million micro-enterprises in the country employing fewer than ten people each, most of which were not formally registered.[83] Supporting these informal business ventures requires pragmatic approaches to identify beneficiaries and target support. Typically, this would involve providing small interest-free loans or grants to these enterprises through microfinance facilities and other community- based channels.[84] It is worth considering whether grants remain a valid solution from a sustainability perspective and an optimal use of public resources. In addition, many potential beneficiaries (poor households and businesses in the informal sector) are not aware of the available economic packages and policies to support them through the COVID-19 crisis.

Accelerating financial inclusion can be a sustainable approach that underpins a resilient recovery from the COVID-19 crisis. Approximately 80 million Nigerians remain without access to financial services. Improving their access to finance could be an important driver of sustainable economic growth, reducing poverty and unemployment, and enhancing the stability of the financial sector.

Nigeria's National Financial Inclusion Strategy 2.0, launched in 2012 and updated in 2018, aims to reduce the percentage of adult Nigerians who do not have access to financial services from 46.3% in 2010 to 20% 2020. In addition, the strategy stipulates that 70% of those to be included in the financial system by 2020 should be in the formal sector. The strategy is not explicitly aligned with the SDGs nor with the ERGP.

The strategy aims to leverage digital financial services to drive financial inclusion by enabling a digital identity, expanding agent networks, focusing on business cases that would drive government-to-people and people-to-government payments, among other priority areas. A major improvement of the revised National Financial Inclusion Strategy is the inclusion

of non-traditional players, such as mobile network operators, fast-moving consumer goods companies and all entities with large distribution networks, to leverage their existing structures to provide financial services for the unbanked. CBN's decision to open the market to non-bank providers drove landmark investments worth US$170 million in Nigerian financial technology, mostly from Chinese investors.[85]

Although 90% of adults in Nigeria claim to have a mobile phone and SIM card, mobile money has not boomed in Nigeria yet. Following the issuance of mobile banking licences to telecom companies, Nigeria's mobile money market is likely to grow substantially in the next five to six years to reach US$73 billion by 2025.

Realising this potential requires addressing some of the structural challenges, which have hampered a more rapid pick-up in mobile money so far. More Nigerians are getting access to mobile broadband but the country lags regional peers in 4G adoption. Helping accelerate adoption would set the stage for more advanced services and a bigger positive societal impact. The mobile ecosystem represented 5.5% of GDP in 2017 and was responsible for nearly 500,000 direct and indirect jobs.[86] It contributed US$1.8 billion in tax revenue. With spectrum allocation and licensing crucial to the delivery of Nigeria's digital future, the GSMA (an association which represents the interests of mobile operators worldwide) identified support for and release of a harmonised spectrum and modernised licensing framework as fundamental building blocks for future growth.

Another important challenge is the lack of knowledge about the underserved, financial literacy and consumer education, and identity poverty. Nigeria does not have a robust national information management system, making electronic payments difficult. Progress in establishing bank verification numbers and valid international identities has been slow. This has resulted in many people in the National Social Register not receiving the money promised by the government.

Accelerating financial inclusion would allow considering alternative, digital means of targeting financial support to the most vulnerable and increase the impact of the COVID- 19 response support measures. An immediate solution the government can explore is to provide prepaid debit cards to the poor.[87] In the medium term, accelerating progress with implementation of the ID Card Ecosystems project will be crucial. In June 2020, the FGN inaugurated a steering committee for the project to fast-track the implementation of the strategic roadmap for accelerating digital identity development for Nigeria. To date, 41 million Nigerians have been issued a unique identifier. A major objective of an accelerated digital identification system is to increase the enrolment of the entire eligible population, which means increasing the database by 187 million within the next three to five years.

The uptake of internet broadband connections is likely to further underpin the swift pace of innovation in Nigeria's financial technology space. While some forward-looking companies have become national fintech giants[xvi], regulations guiding their activities continue to evolve. Trying to regulate

xvi Paystack, Flutterwave and Remita

traditional financial services while providing the flexibility needed for innovation to thrive is a balancing act. In July 2020, the CBN launched a draft framework for regulatory sandbox operations in Nigeria[88] - a controlled testing environment where innovators can test their ideas and business models. The regulatory sandbox provides a new, more flexible way of engaging with the industry.

Attracting quality FDI

The Nigeria Investment Promotion Commission (NIPC) plays a key role in coordinating FGN efforts to attract FDI. It acts as a one-stop investment centre that nominally uses 27 governmental and parastatal agencies to consolidate and streamline administrative procedures for new businesses and investments. The unresolved challenges to the investment and business environment in Nigeria limit the ability of the NIPC to attract new investment, however. Despite its strong fundamentals for attracting market and resource- seeking FDI, inflows remain heavily dependent on the evolution of the oil price (see Dimension 1).

The NIPC's activities include, among others, implementing Nigeria's Country-Focused Investment Promotion Strategy, establishing state investment promotion agencies, supporting the Enabling Business Environment Secretariat to coordinate subnational 'doing business' reforms geared towards improving the country's ranking, and modernising Nigeria's existing bilateral investment treaties.[xvii]

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.[89] In anticipation of the likely increase of FDI inflows to Nigeria over the medium term, the FGN may want to consider reviewing the SDG alignment of the country's current investment policies, including its bilateral investment treaties and free trade agreements, most of which date from the pre-SDG era. 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.[90]

For example, the 2016 Morocco-Nigeria bilateral investment treaty, yet to be enforced, is a step in the right direction.[91] Its stated goal is the pursuit of sustainable development and it contains a range of obligations relating not only to environmental protection but also to social, labor and human rights. For example, investors are required to comply with environmental assessment screening and processes in accordance with the most rigorous laws of either the home or the host state, and to comply with social impact assessments based on standards agreed within a joint committee consisting of government representatives. Furthermore, the treaty contains express reservations for the regulatory powers of the states, including the right to exercise discretion in a non- discriminatory manner: "with respect to regulatory, compliance,

xvii Sixteen bilateral investment treaties and four multilateral investment agreements were considered for either negotiation, renegotiation or termination.

In anticipation of the likely increase of FDI inflows to Nigeria over the medium term, the FGN may want to consider reviewing the SDG alignment of the country's current investment policies, including its bilateral investment treaties and free trade agreements

investigatory, and prosecutorial matters and to make decisions regarding the allocation of resources to enforcement with respect to other environmental matters determined to have higher priorities."

Mainstreaming a 'sustainable' investment approach into the NIPC's everyday activities may also accelerate Nigeria's transition towards a greener economy. Underpinning this change of mentality within the institution requires aligning the NIPC's performance evaluation metrics not only with the quantity of FDI it attracts but also with its nature and scope, according to an agreed set of sustainability criteria.

The FGN maintains different and overlapping incentive programmes to facilitate commercial investment. The Industrial Development (Income Tax Relief) Act Cap 17 Laws of the Federation of Nigeria 2004 provides incentives to pioneer industries deemed beneficial to Nigeria's economic development and to labour-intensive industries, such as apparel. Additional tax incentives are available for investments in domestic research and development for companies that invest in LGAs deemed disadvantaged, for local value- added processing, and for investments in solid minerals and oil and gas.

Considering Nigeria's low tax ratio and limited fiscal space, there is a clear trade-off between giving tax incentives that result in revenue losses versus using the foregone tax revenues on social spending or capital expenditures. Ideally, tax incentives would therefore be linked to the size of investment and better targeted to reduce investment costs, such as accelerated depreciation or investment tax credit schemes (e.g. the road infrastructure tax credit scheme) rather than opaque tax exemptions. Nigeria already reports its tax expenditures annually in its budget process. An important next step would be to consider periodic cost–benefit analyses that look at how effective incentives are in mobilising investments that contribute to national sustainable development objectives.

Nigeria's low competitiveness hampers attracting more and better FDI. In

contrast to improvements in the World Bank's 'Doing Business' ranking, Nigeria dropped a position on the World Economic Forum's (WEF) Global Competitiveness Ranking to 116 out of 141 countries, compared with 115 in 2018. According to the WEF's ranking it is below the sub-Saharan African average and income group peers in the areas of 'enabling environment' and 'human capital.' The latter is alarming as investors perceive Nigeria's large pool of cheap labour as a comparative advantage for attracting private investment. Achieving sustainable improvements in human capital requires time and sustained investments in functioning health and education systems.

The COVID-19 pandemic's impact on Nigeria's fiscal envelope is likely to undermine more rapid progress in that area, potentially further undermining the fundamentals needed to attract more and better FDI. Therefore, the government could consider incentivising the private sector to invest in the country's young workforce, for example through effective on-the-job learning or apprentice schemes. The design and implementation of such schemes should be considered in partnership with the respective private sector associations.

Enhancing PPPs

Nigeria is increasingly looking to PPPs to enable private investment support for its state- led infrastructure development. In 2009, the Federal Executive Council (FEC) approved a National Policy on PPP. Subsequently, the FGN introduced a National Integrated Infrastructure Master Plan (NIIMP) for coordinated implementation of projects designed to fill this infrastructure gap over a 30-year period (from 2014 to 2043). At the time, the plan estimated the country needed as much as US$3.0 trillion over 30 years to close its infrastructure gap. The NIIMP's scope is nationwide development of new infrastructure and expansion or renovation of existing assets in the areas of power generation and transmission/distribution networks, roads and bridges, ports, railways, inland container depots and logistics hubs, and health care facilities, among others. The Infrastructure Concession Regulatory Commission coordinates and leads the implementation of the PPP policy in line with the NIIMP. The Federal Executive Council formally approves all PPPs before awarding the contract to ensure it is aligned with the ERGP and the country's development priorities. The Infrastructure Concession Regulatory Commission has recorded 69 projects totalling US$36 billion from 2004, almost a third of which are currently in the procurement or development phase, with three quarters focused on the transport sector (e.g. roads and ports).[92]

All PPP processes that involve FGN borrowing and guarantees and other long-term contingent liabilities must be approved by the Debt Management Office and managed within the government's economic and fiscal forecast. Following the Debt Management Office's approval, multilateral agencies get involved by providing guarantees or other financial instruments. Therefore, credible relationships between the Nigerian government and the development finance institutions can enhance project bankability and leverage private finance around infrastructure projects.

State governments such as Lagos have also established PPP legal frameworks and identified several projects where

PPP arrangements are potentially viable.[93] However, most projects implemented are within southern states and in the transport sector where return on investment is high and easier to identify. Strengthening the regulatory and judicial framework within the FGN and state governments could support wider implementation of PPP. Pakistan is a good example of best practice in this regard (Box 10). It highlights that, although there is a clear opportunity for further investment by the private sector using this model, it may not be viable for certain sectors and geographies, but it could facilitate reprioritisation of public resources to these areas.

BOX 10: PPP DEVELOPMENT IN PAKISTAN

Pakistan is regarded as one of the best practice examples across developing countries concerning the legislative framework and the implementation of public–private partnerships (PPPs). At the federal government level, the 2017 PPP Act guides implementation with support for line ministries by the PPP Authority under the Ministry of Finance. In addition, provincial governments also have legislative frameworks in place, such as the 2014 PPP acts in Punjab and Khyber Pakhtunkhwa, and provide specific agencies to support their development, such as the PPP cell within the Planning and Development Board of the Punjab Provincial Government. PPPs are seen as a key mechanism to increase private sector investment in physical infrastructure as part of Vision 2025, the 12th National Five-Year Development Plan and provincial government development plans. To this end, the federal government PPP Authority (known previously as the Infrastructure Project Development Unit) successfully implemented four projects totalling 100 billion Pakistani rupees (equivalent to US$954 million in 2017 exchange rates), focused on road transport. The Government of Punjab also has several PPP operational projects in the health and transport sectors.

Various successful PPP models[xviii] indicate they can be a viable approach to developing infrastructure projects. The Lekki-Epe toll road project, supported by Lagos state, attracted US$290 million of private investment from both local and international investors. As of March 2020, over 60 PPP projects were in progress.

xviii These include the construction of the Lagos-Ibadan expressway, the Abuja light rail project, the second Niger Bridge, Inland Container Depots in Kebbi, Kogi, Anambra and Delta State, Lekki Toll Road in Lagos, Muritala Mohammed II Airport Project in Lagos, Tinapa Free Trade Zone in Cross River, the Lekki Deep Seaport, and the Lekki-Epe Expressway in Lagos, among others.

Nevertheless, several structural challenges undermine or delay attracting private finance to infrastructure projects in Nigeria, including macroeconomic instability, political risk and inadequate structures to address disputes. Shallow domestic capital markets and high interest rates on local currency debt require project developers to rely on US dollar/euro denominated debt, exposing the projects to exchange risk as project cash flows are in local currency. Several policy reversals[xix] on major infrastructure projects underpin the perceived political risk and undermine investor confidence. A lack of community buy-in or resistance can significantly delay project negotiation processes, as was the case in the Lekki-Epe toll road concession.

To address these challenges, the Presidential Infrastructure Development Fund was launched in 2018. Managed by the NSIA, it was granted US$650 million in seed funding to spur investments in critical road and energy infrastructure on behalf of the FGN. It aims to eliminate the risks of project funding, cost variation and completion that have plagued the development of the nation's critical infrastructure assets, such as the second Niger Bridge, Lagos to Ibadan expressway, East–West Road, Abuja to Kano road, Mambilla hydroelectric power, over the last few decades. As such, the NSIA is an important tool to attract foreign investment, support economic diversification, and boost the long-term growth of the economy through the development of a diversified investment portfolio.

In March 2019, the president of the FGN established the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme. The scheme seeks to encourage PPP intervention in the construction and refurbishment of road infrastructure projects in Nigeria. The private participants of the scheme provide the funds for the construction and refurbishment projects and, in exchange, participants are entitled to recoup the funds provided as a credit against the companies' upcoming income tax payments. Currently, three companies (Dangote Industries Ltd, Lafarge Africa Plc and Unilever Nigeria Plc) are investing in this scheme as a pilot in 19 road projects. An important improvement for such schemes would be to ensure the project selection criteria are aligned with the SDGs and investments are geared towards priority projects with maximum development impact potential.

Enabling impact investment

Harnessing impact investment in Nigeria requires adopting a conducive regulatory environment, raising awareness of the development potential of impact investment, and identifying SDG-aligned priority sectors and regions for private investment, including impact investment. The recently established National Advisory Board for Impact Investment[xx] is an important first step towards developing a roadmap for harnessing impact investment. It is currently working on selecting key priority recommendations for improving the impact investment environment of Nigeria. It could also consider raising awareness across the Nigerian business community to improve its understanding

xix For example, the cancellation of the Lagos-Ibadan expressway concession and the Lagos International Airport concession demonstrate the risk of policy reversals due to changes of government or ministers.

xx Assisted by an EU project – The Nigeria Competitiveness project (NICOP) – in cooperation with the GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit).

of the concept and address current misconceptions around it being a form of philanthropy with little room for financial returns. Nigeria's vast pool of MSMEs may offer innovative ways to address social and environmental difficulties, because they offer a unique insight into Nigeria's challenges and are well-placed to identify potential solutions. Finally, the UNDP's SDG Investor Maps in Nigeria can inform public and private stakeholders to help them identify priority investment opportunity areas that are aligned with the SDGs and contribute to addressing the sustainable development needs of the country (Box 11).

BOX 11: SDG IMPACT – INVESTOR MAPS

Investors identify the lack of a viable pipeline and market intelligence as the main barrier to SDG-aligned investment. SDG impact tools address this constraint by making it easier for investors to direct capital to work towards the attainment of the SDGs. Investor maps and impact facilitation strengthen INFF and DFA processes. They:

- Provide evidence, data and concrete recommendations or viable business models enhancing DFAs
- Inform national SDG financing strategies with market intelligence
- Can support impact measurement and SDG finance reporting through
- the SDG Impact Standards
- Provide entry points for public–private financing dialogue platforms.

Source: UNDP 2020. SDG Investor Maps. Impact Intelligence and Facilitation Services. Available at: https://sdgimpact.undp.org/assets/SDG-Investor- Maps.pdf

Additionally, enabling local fundraising (Box 12) and recognising impact investing as a strategy would likely unlock the greatest supply-side effects and accelerate the growth of impact investment in Nigeria. To do so requires correcting negative perceptions that impact capital is philanthropic and offers no economic returns, building greater awareness around the impact investment strategy, and reducing regulatory requirements that limit asset allocation decisions (as is the case with institutional investors such as pension funds and insurers).

BOX 12: SOUTH AFRICA'S APPROACH TO MOBILISING DOMESTIC PRIVATE FINANCING FOR IMPACT INVESTMENT

South Africa's Venture Capital Company (VCC) regime is a tax regime that incentivises local investment. Companies and trusts that invest in VCCs can deduct the amount spent on VCC shares from their income and, consequently, reduce their income taxes on the condition of holding the VCC shares for more than five years. By the end of 2018, there were more than 100 registered VCCs in South Africa which, collectively, had raised over US$240 million in domestic funding and delivered it to South African SMEs.

In 2019, South Africa launched the South African SME Fund as a standalone investment vehicle that pools funding from more than 50 Johannesburg Stock Exchange-listed firms and the Public Investment Corporation. As a fund of funds, it does not invest directly but channels resources to specialised equity managers, incubators and accelerators, and growth and impact funds.

Source: Impact Investors' Foundation, 2019. Nigeria and Ghana impact investing and policy landscape. Available at: https://thegiin.org/assets/IIF%20Study%20on%20Impact%20Investing%20Full%20 Report.pdf

Faith-based financing, philanthropy and civil society

Nigeria intends to explore the benefits of Islamic finance products to attract FDI and deepen financial intermediation. Already in 2017 sukuk bonds were successfully issued as an alternative source of financing key infrastructure projects across the country (see Dimension 1). Zakat[xxi] is also practiced in Nigeria. However, there is no systematic data collection that allows for estimating the nature and scope of Zakat-related development finance in Nigeria. Zakat has been an important source of social finance in most Muslim societies, but it is difficult to estimate how much has been collected worldwide. It has been claimed that between US$200 billion and US$1 trillion are collected annually.[94] Compliance with Zakat differs from a country to country, but in several Islamic countries it is well over 90%.[95] Considering Muslims make up at least 50% of the population and are considered the poorest people, cultivating the habit of Zakat among wealthy Muslims could be an effective approach towards alleviating poverty in the northern regions.

Philanthropic responses to the pandemic have supported either the immediate crisis response, such as through donations of cash and in-kind items to private and public health care providers, or by addressing the economic effects caused by strict lockdowns. The CBN, along with the Aliko Dangote Foundation and Access Bank, spearheaded the creation of the Coalition Against Covid (CACovid) to mobilise private sector resources towards supporting the government's response to the crisis. By the end of June, CACovid had mobilised more than US$72 million in donations

xxi Zakat is the compulsory giving of a set proportion of one's wealth to charity. It does not refer to charitable gifts given out of kindness or generosity but to the systematic giving of 2.5% of one's wealth each year to benefit the poor.

and it comprised more than 50 partner organisations, including multinationals. These funds will be used for the purchase of food relief materials and to provide medical facilities and equipment in different regions of the country. Furthermore, certain state governments set up COVID-19 response trust funds to channel philanthropic donations towards local COVID-19-related financing needs. While shifting from a 'response' to a 'recovery' mode, authorities may consider using these trust funds to facilitate financial inclusion by supporting local microfinance institutions or through blended facilities to de-risk investment projects in innovative digital technology.

Harnessing remittances towards sustainable development

The bulk of remittances flowing into Nigeria are primarily used to subsidise households' consumption, education and health expenditures (74.3%).[xxii] These categories of expenses have positive multiplier effects on the local economy and on human capital accumulation over time. Other important macro-level analyses in Nigeria found a strong positive effect of remittances on fixed capital formation through loanable funds and on financial development and economic growth through human and material investments.

Nigeria's large remittance inflows may, thus, constitute an important opportunity to 'co- finance' local or regional community development projects in the areas of water, infrastructure, sanitation, rural electrification, and so on. Options include 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 (Box 13). A major advantage of such co-financing schemes is their transparency and built-in accountability, which can ensure the highest return on investment.

BOX 13: MEXICO'S TRES POR UNO

Under the Mexican 'Tres por uno' scheme, for every dollar put up by a Mexican migrant association in the US, the federal, state and LGAs in Mexico each match the sum, thus significantly increasing the total funding made available by remittances for development projects in Mexico.

In 2017, Nigeria issued its debut Diaspora Bond, raising US$300 million. This successful issuance marked the beginning of the possibility for a programmed sourcing of diaspora funds. This has the advantages of minimising the risk of mismanaging monies sent by migrants, minimising the cost of sending monies, creating a window of opportunity for long-term investment, wealth creation, and

xxii Based on a new dataset involving 697 end users of remittances collected at money operating facilities in the country between the periods of March 2011 and December 2012.

infrastructural development, improving the country's foreign exchange earnings, and injecting investment capital. The COVID-19 pandemic, however, has tapered this source of debt financing for the immediate future.

Designing a targeted diaspora investment and innovation strategy to attract sustainable investment flows requires addressing current information asymmetries between the government and diaspora's interests. Informed by surveys and consultations, the government could develop detailed profiles of the Nigerian diaspora by location, economic activity, skills, earnings, savings and investments. Subsequently, 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. Furthermore, members of the diaspora can be a useful source and facilitator of research and innovation, technology transfer and skills development.[96]

Public–private dialogue mechanisms to inform policymaking and build trust

Institutional and policy reforms are at the heart of efforts to reduce poverty through private sector development. Such reforms are often difficult and time-consuming, involving interaction between the state, the private sector and civil society, and require a careful mix of contestation and negotiation to overcome resistance to change. For example, the failure to pass the initial Petroleum Industry Governance Bill in 2018 due to several inadequacies and inconsistencies revealed the need for more extensive consultations with local constituencies and the importance of embracing their contributions and concerns before presenting all the other sections of the bill to the National Assembly. These regulatory uncertainties concerning one of Nigeria's critical economic sectors have deterred or delayed significant FDI volumes.

More systematic, structured and inclusive dialogue processes can foster trust and facilitate difficult negotiations towards achieving consensus. The processes also encourage monitoring by the private sector and civil society to ensure that reforms are properly implemented. Such open and transparent monitoring may underpin private investors' trust in Nigeria's policymaking process. For example, business sentiment and FDI inflows suffered from the MTN (a mobile telecommunications firm) repatriation scandal, the backlog of taxes slammed on oil companies and the withdrawal of two global financial institutions from Nigeria.

Aligning private sector interests with the government's national development priorities requires a two-way public–private dialogue (PPD) based on trust and accountability between relevant government agencies and national business associations. The business sector's insights, experience and stakes in growth give it an essential role in the design and ongoing regulation of an ideal, supportive, business-enabling environment and in planning and delivering access to finance, skills and infrastructure. PPD requires transparent and evidence-based dialogue to underpin the independence of the platform and help deal with vested interests, build trust and reduce mutual suspicion. For example, Cambodia based its dialogue on evidence-based analysis of specific issues and position papers prepared by the private sector. These PPDs can inform practical SDG financing initiatives such as 'SDG investment fairs' to match investors with priority SDG

BOX 14: GHANA'S SDG INVESTMENT FAIR

Ghana's SDG Investment Fair brought together civil society organisations, politicians, entrepreneurs, investors, technocrats, students and the media. It provided a forum where business, investors and other support systems met to find solutions to current and future challenges, explore opportunities for private sector collaboration in government pipeline projects, and kick-start entrepreneurial initiatives, especially among youth and women.

development projects seeking funding (Box 14).

Nigeria boasts several existing PPD mechanisms that could be harnessed for enhancing the SDG alignment of the private sector, such as the long-standing Nigerian Economic Summit Group (NESG). Established in 1993, the NESG organises the annual Nigerian Economic Summit, which provides the government and private sector with an opportunity to review the progress made in economic reform efforts and agree on practical ways to manage issues that may have constrained effective policy implementation. The National Assembly Business Roundtable allows the private sector to engage and lobby members of the national parliament in a structured and development-oriented manner. Nigeria's Competitiveness Forum Working Group, later rebranded as the Better Business Initiative, is an example of a dialogue that tended to get bogged down in obscure protocol and complicated committee structures.[97] A lesson learned from this example is to keep the structure simple – cut down on acronyms and protocol. The PPD structure should be clear, simple and immediately comprehensible.

In order to effectively engage all stakeholders, the Senior Special Assistant to the President (OSSAP) on SDGs hosts a Private Sector Advisory Group, a Donors' Forum on the SDGs, and the Civil Society Organizations Advisory Group on SDGs. This existing high-level, multi-clustered institutional framework could take stock of the already existing public–private sector mechanisms, such as the NESG, and assess their relevance and effectiveness. The most relevant PPD mechanisms could be streamlined into a coherent SDG financing dialogue architecture that spans the three tiers of government. Underneath this high-level setup, more specific, temporary thematic working groups can be established to assess the SDG alignment of any new sectoral strategy or financing policy, along with ensuring the broad views of all stakeholders are being considered prior to their validation.

Practically, this could mean that the OSSAP would provide informative SDG alignment assessments along with the draft strategies or documentation when they are submitted to parliament for discussion and validation. This may require legislative changes to the budget process and building the capacity of OSSAP and related stakeholders to take up such tasks. The development of a COVID-19 recovery package, along with the successor plan for the ERGP, provides a critical and timely opportunity to install such a process.

DIMENSION 4

Monitoring and Review

Effective monitoring and review frameworks are a critical component of an integrated approach to financing and can be implemented throughout planning and financing and within a results framework. These include inputs such as financial tracking systems that capture information on financing, the resources that are being invested, who is investing them and how; monitoring the process of financing, including performance and implementation of actors; and monitoring systems that capture information on developmental results and the data infrastructure behind it to effectively measure progress towards stated priorities and policy aims.

This dimension of the DFA looks at the quality of these systems and the ability to connect them and use this information to inform policymaking. Overall, it identifies steps that can be taken to strengthen finance tracking and monitoring systems, enhance the potential to connect the two and support more informed finance policymaking.

Link between planning priorities and intended outcomes

Within development plans such as Vision 2020 and ERGP, while there are guiding policy priorities and some macroeconomic targets detailed, there is no specific framework of indicators to guide the financing process (unlike in countries such as the Philippines; Box 15). However, the FGN has detailed indicators and targets within sector-specific plans such as health and PEBEC NAP, which could be used in the development of a results matrix within either Agenda 2050 or the new medium-term plan.

BOX 15: RESULTS-BASED FRAMEWORK WITHIN THE NATIONAL DEVELOPMENT PLAN IN THE PHILIPPINES

The Philippines Development Plan (2017–2022) is the current medium-term plan, which is guided by Vision 2040. To strengthen the linkages between the strategy and the budgetary process, the National Economic and Development Authority implemented a results matrix, which takes the goals and outcomes within each chapter of the plan and details indicators and yearly targets to be achieved. This has shifted the budgetary focus from an input–output model to a results framework, as ministers can use them to assess to what extent their projects, activities and programmes align with the strategy. This in turn helps decision making on what to fund though the public investment programme and other public resources.

While a results-oriented development plan can set the framework for financing targeted at the intended outcomes, it is critical that financing is linked to the intended policy outcomes. Within the context of the FGN, responsibility for this rests with individual MDAs to formulate budgetary allocations (principally capital expenditure) in line with development plans through the MTSS, rather than a holistic government approach. An increasing number of countries are developing budgetary systems that link to planning and outcomes, such as Malaysia (Box 16, following page). The latest PEFA report suggested that the FGN could improve the MTSS process through implementing it holistically, although this is hampered somewhat by the use of zero-based budgeting. While reform in this area could have benefits, based on experiences in other countries, it is key that this form of budgeting is mainstreamed and not just constitute an addition to ongoing strictures that add greater burden on resources.[98]

Financial monitoring systems linked to outputs and outcomes

Alongside alignment of the financing of stated policy objectives, it is important that the process of allocation and disbursement of funding is monitored and assessed and that the outputs (project delivery, staff payment) and outcomes are linked to set developmental targets. Within the FGN and state governments there is a significant amount of financial reporting, including payment reports, budget implementation reports and financial statements (audited and unaudited). These have highlighted several challenges regarding the process of financing development, including delayed disbursement of money vertically and horizontally across governments and low budgetary execution rates.[xxiii] In relation to monitoring outputs and outcomes, the FGN MDAs are responsible for detailing the performance in monetary allocations and disbursements and project performance through site visits and potential changes in outcomes through related sectoral indicators. However, as noted in the 2019 PEFA assessments, there is no clear reporting on financing at the level of service delivery.

In addition to budgetary monitoring, in 2011 the FGN developed the Development Assistance Database (DAD) to monitor international public resource flows, to which development partners are asked to voluntarily report. However, the FGN has highlighted significant data gaps within the platform, given inconsistent reporting, and in its usefulness in providing policy-relevant information.[99] To aid compliance, the FGN has outlined in its ODA policy that it will share compliance issues with donors and seek sanctions if necessary. In addition, to complement the DAD, the FGN is looking at using the International Aid Transparency Initiative (IATI) Standard. This has the potential to provide additional insights, although care will be needed given reporting standards are highly varied across donors. In addition, the government could make use of donor platforms, such as from the UK[100] or the World Bank,[101] that publish project implementation reports, to better understand the overall outcomes and impact of donor projects.

xxiii While these are essential challenges to achieving efficiency and effectiveness of budgetary resources, the specifics of these issues fall outside of the scope of this DFA, but they can be reviewed within the report details and in other assessment such as PEFA.

BOX 16: OUTCOME-BASED BUDGETING IN MALAYSIA

Outcome-based budgeting (OBB) is an evolution from performance-based budgeting (PBB), and uses top-down strategic planning and alignment with bottom-up budgeting and reporting. Malaysia was one of the first countries in Asia to adopt PBB and, despite its success in aligning the annual budget process towards medium-term national strategies, the country moved to the OBB framework in 2013 to better align this budget with strategies in Malaysia's five-year plan and government policies.

Under OBB, the budget is formulated at the activity level, but each activity must be mapped to a specific programme, which is consolidated at the ministry level based on the performance agreement for the budget year. Key performance indicators (KPIs) are defined at each level, meaning reporting clearly maps up-wards to the national KPIs, which in turn describe the national focus areas and strategies. These formal linkages have the potential to improve coherence for policymakers and ensure that the creation of new programmes and activities is justified by their demonstrable relevance to national goals.

There have, however, been challenges in the implementation of OBB. The creation of a single online system for all ministries has been far slower than expected. Importantly, there is no formal requirement for ministries to report on their KPIs and no process in place to validate the accuracy of information. This means that the eventual impact of OBB cannot yet be assessed. Malaysia did not accompany this change in budget practices with a change in reward and recognition systems within government. Hence, there is low demand for this change within the country's ministries.

Source:

World Bank 2018. Budgeting for performance in Malaysia. Available at:

http://documents1.worldbank.org/curated/en/364481527665422087/pd-f/126690-WP- WorldBankReportOBBVFull-PUBLIC.pdf

Mechanisms that support alignment of financing with development plans

Another element of critical importance is that mechanisms exist to ensure alignment with financing for development planning. For example, within the FGN, MDAs are required to report to the Ministry of Finance and Economic Planning on their financing monitoring systems detailed above. This reporting is then developed into an overall budget implementation and performance monitoring report.[102] However, MDAs do not undergo a full assessment of their overall compliance to the ERGP, as is the case in Uganda (Box 17), something which could be considered in the future.

BOX 17: BUDGET COMPLIANCE CERTIFICATES FOR MDAS AND LGAS IN UGANDA

Uganda has legislated the Certificate of Compliance for MDAs and LGAs to ensure the successful implementation of the National Development Plans. Established in fiscal year (FY) 2015/16, the certificate's aim is to institutionalise the alignment of the annual budget with the national planning frameworks by confirming the level of compliance for each annual budget.

The process allows Uganda to learn and analyse how well its financing is aligned with the national plan in a given budget year. This has dropped to 59.7% compliance in the recent FY 2019/20 assessment. This assessment is carried out at four important levels: macroeconomic, national strategic, sector and MDA, with different results at each. For instance, Uganda performs well at the national strategic level, but relatively poorly at the macroeconomic level. Importantly, Uganda also assesses the compliance of the budget against the SDGs, which signals a deeper understanding of where Uganda's budget sits within the wider development context. This has increased from 60.9% in FY 2018/19 to 63% in FY 2019/20.

The assessment offers recommendations on how the government can improve budget compliance. This process shows that Uganda continues to be on top of its financing for its national plans and is able to react quickly when needed.

Source:

Website of National Planning Authority of Uganda. Available at:

http://www.npa.go.ug/development-performance/certificate-of-compliance/

Regarding ODA alignment, and based on the 2020 Aid Policy the FGN has outlined, it will look to instigate periodic monitoring and evaluation of ODA policy and inflows with donors and peer reviews. To guide the formulation of these mechanisms, the framework created in Lao PDR provides a useful reference point (Box 18).

the FGN has detailed indicators and targets within sector-specific plans such as health and PEBEC NAP, which could be used in the development of a results matrix within either Agenda 2050 or the new medium-term plan

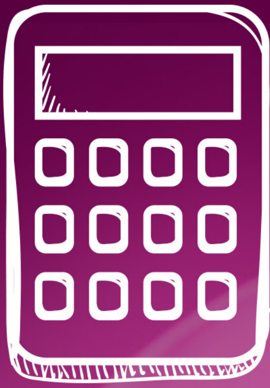
BOX 18: DONOR ROUNDTABLE PROCESS IN LAO PDR

In Lao PDR, a roundtable process is used to facilitate coordination between government and development partners. The process has evolved around the cycle of the five-year national plan and has adapted to the changing global focus on aid and development effectiveness. Over time the process has deepened, moving from a focus on mobilising resources to incorporate advocacy and knowledge-sharing to holistic discussions about policy with a wider range of actors, including the private sector and non-profit associations. The process is structured around annual meetings that take stock of progress achieved toward the National Socio- Economic Development Plan and set priorities for the coming year, with ten sector working groups that convene more regularly.

The overarching statistical systems within a country are key to the successful functioning of a monitoring and evaluation framework. However, there are a significant number of challenges when it comes to Nigeria. Regarding civil registration and vital statistics data, only 47% of births are registered, making it challenging to identify and target those most in need. Health and education management systems have significant challenges with the quality and availability of data due to low resource capacity and the lack of private sector engagement in reporting. In addition, while federal and state government bureaus of statistics are increasing the number of surveys, many are supported by development partners, meaning their formulation could be driven by donors, and reduced aid funding in the future could hamper planned work.

A recent study of the national statistical system in Nigeria[103] also identified a number of issues that adversely affect the functioning of this system, including non- professionalisation of the statistical system, politicisation of data and appointments to the statistical system, the non-existence of statistical institutes for training and developing staff, and inadequate funding and staff resources.

Although significant improvements in statistical systems require large investments in the medium to long term, there could be opportunities for low-cost approaches to obtain real- time information on development outcomes. For example, the use of satellite imagery could help inform decision making, a fact highlighted by recent investment from the Group on Earth Observations and Amazon in Nigeria.[104] In addition, as shown by the COVID-19 phone survey in Nigeria, there are low-cost means to get real-time information, which could be applied to other contexts (e.g. taxpayer or patient surveys).



Transparency and account-ability

Transparency and accountability are of key importance both in seizing opportunities to scale up development resources and improving the efficiency and effectiveness of their use. From a government perspective, being transparent and having effective accountability mechanisms are crucial in order to develop trust to facilitate taxpayer compliance, gain trust from partners (e.g. donors), encourage the private sector to invest, and recover assets from illicit financial flows. In addition, transparency and accountability mechanisms can help other financing actors and citizens work to support government activities and development priorities. Likewise, transparency and information sharing from other finance actors are key to the government's understanding of development financial flows and activities within the country.

This dimension of the DFA focuses on both the government's own transparency and quality of reporting fiscal and statistical information to inform stakeholders (publicly and privately) and the extent to which other financing actors provide information to be accountable to the government and wider civil society.

Government fiscal transparency and accountability

With the development of NEEDS in 2003, it was recognised that, to drive growth in the country, increasing financial resources and developing the private sector were vital. As a result of this, and recognising its reliance on the extractive sector, the government voluntarily signed up to the Extractive Industries Transparency Initiative, which it enshrined into law in 2007. Following the decline in oil prices in 2015, and in recognition of the need to diversify away from the sector, there has been a move towards general government transparency and accountability, exemplified by the Open Government Partnership in 2016.

Nigeria is in the process of implementing commitments contained in the second Open Government Partnership National Action Plan (NAP II)[105], which covers 2019 to 2021. The NAP II has seven thematic areas:

- Fiscal transparency
- Extractive transparency
- Anti-corruption
- Access to information
- Citizens' engagement and empowerment
- Inclusiveness
- Service delivery

Following the formulation of NAP II (and the earlier NAP I, which covered 2017 to 2019), there were a range of initiatives to improve government transparency and accountability on financial reporting, including portals such as the PEBEC app for citizens to report violations and register complaints[106], Open Treasury to detail the FGN budget performance and provide an opportunity for citizens to offer feedback[107], NOCOPO to track progress on public procurement[108], and the Infrastructure Concession Regulation Commissions PPP data portal.[109] However, while these platforms are a significant step, their usefulness to non-state actors and their completeness has been questioned,[110] highlighting the need to continue to seek feedback and improve on them in the future, potentially guided by best practice examples such as in Peru (Box 19). In addition, despite progress, there continues to be a lack of participation in the budgetary process, which is something the FGN is intending to address through a range of initiatives.[111] Also, within the FGN, there have been improvements in financial accountability through the Treasury Single Account as well as in the auditing process.

BOX 19: PERU'S CONSOLIDATED AND REAL-TIME OPEN BUDGET PLATFORM

Developed in 2001, Peru's Economic Transparency Portal is an open-data platform that allows users to have real-time information on economic metrics from the Ministry of Finance. The portal details standardised budgetary allocations and disbursements across national, regional and local governments. Portal is available at: https://www.mef.gob.pe/es/presentacion.

The FGN, with the support of donors, has engaged with state governments to increase their own transparency and accountability. The States Fiscal Transparency, Accountability, and Sustainability project,[112] with the support of the World Bank, provides grants to states making progress on fiscal transparency, accountability and sustainability. However, while some states such as Kaduna have made significant progress in this area, highlighted by them joining the Open Government Partnership in 2018, progress is not uniform. In February, Budgit, a civil society organisation specialising in analysis of national and state budgets in Nigeria, reported that, of the 36 states, 11 states' 2020 budget documents were not accessible.[113]

Wider financing actors' transparency and accountability

With respect to donors within Nigeria (as detailed in Dimension 4: Monitoring and review), the use of the DAD platform should increase the transparency of activities, especially if reporting to the DAD is made compulsory rather than the current voluntary arrangement. Transparency will also be aided by an improvement in donor reporting to other platforms such as IATI.[114] In addition, the 2020 ODA policy is seeking to better understand the flows and management of aid operations through the registration of civil society organisations that have relationships with donors.

Citizens' access to budget information and participation in budget processes

The International Budget Partnership's (IBP) 2019 Open Budget Survey[115] scored Nigeria 21 out of 100 for budget transparency, indicating that 'minimal information' is available on the national budget. Specifically, the survey found that several key budget documents including pre-budget statements, mid-year reviews and audit reports were either published late or not made publicly available. This ranking placed Nigeria 97 out of 117 countries surveyed by the IBP.

Within the thematic area of fiscal transparency, NAP II contains specific commitments to ensuring more effective citizen participation across the budget cycle. This follows on from the first commitment of the first Open Government Partnership National Action Plan (NAP I) to "ensure that budget planning, approval, implementation, monitoring and reporting meet the needs of citizens and that citizens have open access to budget information in a format that is both human and machine-readable."

The commitments in NAP I and NAP II have increased the publication of documents related to budgets. There was also an increase in the number of public consultations with the National Assembly, with multiple such consultations on the budget in 2018 and 2019. However, the effectiveness of these public consultations has been hampered by short notice and insufficient advance information provided. For example, media reports of the September 2019 public consultation on the MTEF stated that the consultation was announced at short notice and that the draft MTEF was not made available in advance of the consultation.[116]

The iMonitor portal was developed to enable citizens to access budget information in real time and to monitor projects while encouraging proactive feedback to the government. This platform allows citizens to give feedback directly to the government on budget implementation in their community or inform the government about projects they would like to see in the budget for their communities.

At the end of 2019, the Nigerian government took a further step towards greater fiscal transparency by launching the Open Treasury portal (see Dimension 5: Transparency and accountability). The regulation establishing the portal sets out a number of requirements for publication of financial information

by both the Office of the Accountant General of the Federation and from individual MDAs.

To be published daily:

- A treasury statement giving summary flows in and out of treasury with a breakdown of agencies responsible.
- A payments report showing payments of at least ₦10 million from the Office of the Accountant General of the Federation and ₦5 million from MDAs. This will outline the MDA responsible, the beneficiary, purpose and amount of each payment.

To be published monthly:

- Reports showing the performance of the budget by various categories including MDAs, functions and economic activities performed by all FGN agencies. This is to be published within seven days of the end of the month.
- Accounts showing fiscal performance of the federation including receipts from all the collection agencies and payments out of the federation account. This is to be published within 14 days of the end of the month.

To be published quarterly:

- Unaudited financial statements by the MDA, to be published within a month of the end of the quarter.
- Unaudited consolidated financial statements for the FGN, to be published within a month of the end of the quarter.

To be published annually:

- Audited financial statements for the FGN and all public sector entities, to be published within a month of the end of the first quarter of the following year.

In March 2020 the IBP reported that the data published to the Open Treasury portal provided improved analysis of spending by MDA – showing, for example, which MDAs had underspent their budgets.[117] However, the IBP also found that the information was incomplete and had variations between MDAs in the level of information published. Disaggregated information on budget spending was not available for most ministries in the economic sector and many sub-agencies had partial or no information.

Budget oversight by the legislature

The ability of Nigeria's legislature to monitor and influence the budget process at all stages is established in sections of the 1999 constitution and several acts – notably the Fiscal Responsibility Act of 2007 (FRA 2007).

At the stage of budget formulation and planning, FRA 2007 section 11(1)(b) stipulates that the FGN must be prepared to provide the National Assembly with an MTEF for the next three financial years, no later than four months before the commencement of the next financial year. Furthermore, FRA 2007 section 11(2) requires the National Assembly, through resolutions passed by both houses, to consider and approve the MTEF with necessary modifications.

During the process of approving the annual budget, the National Assembly has wide- ranging powers to amend the draft budget, with section 80(4) of the 1999 constitution stating that "no money shall be withdrawn from the Consolidated Revenue Fund or any other public fund of the Federation, except in the manner prescribed by the National Assembly." Both the Senate and the House of Representatives must pass the same version of the budget for it to qualify for the state president's assent.

To facilitate oversight of the budget, a consolidated budget execution report is to be submitted to the National Assembly and disseminated to the public within six months of the end of the financial year. The 1999 constitution contains provisions that allow the National Assembly to direct an investigation into the administration of government expenditure for the purpose of enabling it to expose corruption, inefficiency or waste in the administration of funds.

However, a recent report from the Collaborative Africa Budget Reform Initiative[118] identified several challenges facing legislators when carrying out their duties with regard to budgetary oversight. The lack of an organic budget law was highlighted, which has resulted in the absence of a timeline, a legal framework and a set of rules for structuring and streamlining the budget process. The report also highlights difficulties in engagement between the executive and the legislature, mainly stemming from disagreements on key budget parameters, notably the projected level of oil production and the price of oil. Another issue identified was the delay in the production of a number of key documents in the budgetary process, with delays in the MTEF process, the submission of the appropriation bill, the publication of the budget implementation report and the Auditor General's report all cited. Other issues noted were the perceived lack of independence of the Auditor General and of the National Assembly Budget and Research Office.

Anti-corruption agenda

As noted elsewhere in this DFA report, corruption has long been recognised as a significant problem and a potential barrier to Nigeria's ambition in achieving Agenda 2030. Tackling corruption has been a stated priority of the current government since it took power in 2015.

Some progress appears to have been made. In December 2019, Nigeria and the UN jointly published the Second Survey on Corruption as Experienced by the Population[119], which reported a small reduction in the nationwide prevalence of bribery between 2018 and 2019. However, this survey focused on individual instances of bribery as opposed to larger scale issues of governance and use of public funds. A broader perspective can be inferred from the World Bank's Worldwide Governance Indicators dataset, which includes a 'control of corruption' indicator for each country.[120] This indicator has a value ranging from –2.5, indicating a weak governance performance in relation to corruption, to +2.5, indicating a strong governance performance. On this measure, Nigeria improved its score from –1.3 in 2014 to –1.0 in 2018. However, this is low compared with –0.9 achieved in 2008. Nigeria's score of –1.0 in 2018, although an improvement, still places it in the bottom 30 countries (out of 209) rated using this indicator.

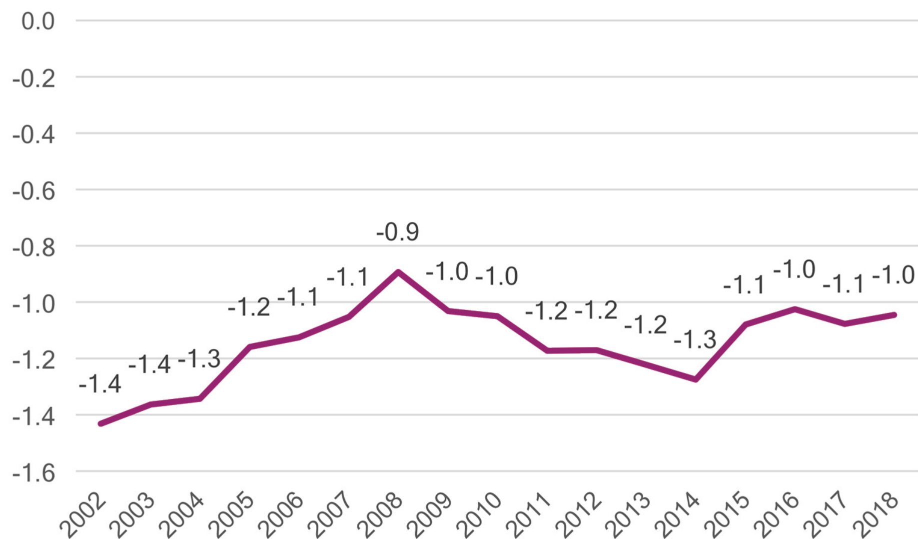


Figure 34: Nigeria's progress on the World Bank's control of corruption indicator

Source: World Bank Worldwide Governance Indicators

The main government agency charged with tackling corruption in Nigeria is the Economic and Financial Crimes Commission (EFCC), which works alongside a second body, the Independent Corrupt Practices Commission.

A review of the EFCC[121] was published in June 2019 by the SOAS Anti-Corruption Evidence research consortium. The review noted that the EFCC has been instrumental in charging and prosecuting a number of political leaders and businessmen, resulting in the recovery and repatriation of significant stolen resources. However, the review also noted that only 3.75% of cases investigated were filed in court, where 23% resulted in convictions. Additionally, the EFCC achieved higher filing and conviction rates on low- or mid-level crimes than higher level corruption.

NAP I and NAP II contain several specific commitments to tackling corruption, including:

- The establishment of a public central register of beneficial owners of companies
- A commitment to taking appropriate action to coordinate anti-corruption activities, improve integrity, transparency and accountability
- The implementation of open contracting and public participation in the public contracting process
- The strengthening of Nigeria's asset recovery legislation including non-conviction-based confiscating powers and the implementation of unexplained wealth orders.

Conclusions

This DFA argues there is value in the FGN adopting an INFF to accelerate the financing of Agenda 2030 and the post-COVID-19 recovery efforts. An INFF could accelerate the financing of these efforts by providing guidance on the types of financing and investments needed and the strategic approach to be taken to mobilise and effectively invest available public and private finance flows. It would support bringing together multiple financing reforms within a coherent, overarching framework that helps the government prioritise the most strategic ways forward, avoid overlaps and address synergies across reform areas (see Figure 33). This is particularly relevant considering the changes triggered by COVID- 19 and the drive to mitigate and recover from this shock.

The development of a successor development plan to the ERGP this year, along with the implementation of the Economic Sustainability Plan, provides a timely opportunity to consider underpinning it by an INFF.

The DFA therefore proposes a roadmap for developing a holistic SDG financing strategy as an urgent and fundamental foundation for adopting a country-owned INFF over the medium term. It focuses on priority reforms for public finance, private finance and the key policy and institutional structures that government uses to influence these financing flows. Harnessing the momentum of the recently concluded VNR, the financing strategy can rally effective partnerships with all relevant stakeholders, based on the SDGs' principle of shared responsibility.

The SDG financing strategy serves the dual purpose of accelerating SDG financing towards meeting Agenda 2030 as well as informing the FGN's approach towards financing the post COVID-19

recovery. Thus, it provides a strategic framework for the various public and private finance flows to be mobilized for achieving the nationalized SDG targets and development priorities. This may greatly enhance the operationalisation of Nigeria Agenda 2050 and its Medium-Term National Development Plan, currently under development.

The DFA analysis acknowledges the wide variety in development progress and financing needs and opportunities across Nigeria's 36 states. However, for practical reasons and due to limited time, the recommendations of this first DFA in Nigeria focus mainly on financing solutions to be implemented at the federal level, albeit mindful of the importance of devising differentiated responses and financing approaches at the state level according to individual needs and opportunities. Conducting a lighter version of the DFA analysis across all states would be a first step towards filling a knowledge gap regarding state-specific financing needs and opportunities. Subsequently, these differentiated analyses could inform progress towards an INFF that is tailored to each state's different financing opportunities and needs.

Upon validation and adoption of the roadmap by the 'DFA Oversight Committee,' its effective implementation will require clear institutional ownership. This involves identifying and agreeing on institutional responsibilities, timelines, resources and the specific steps to be undertaken towards implementing the SDG financing solutions. Possible options to be considered include:

- Transforming the 'DFA Oversight Committee' into an 'INFF Oversight Committee' to drive the process towards establishing an INFF with its corresponding SDG financing strategy.
- Utilizing the existing SDG implementation architecture, the Office of the Senior Special Assistant to the President on SDGs (OSSAP-SDGs) could consider fulfilling the function of the central oversight body of the SDG financing framework, tasked with technical roles in monitoring, substantive coordination and convening across government. This function would benefit from the office's multi-stakeholder convening capacity and political backing at the highest level, as evidenced by the successful conclusion of the VNR.
- Utilizing the recently created COVID-19 response mechanisms, spearheaded by the Presidential Task Force on COVID-19.

Recommendations for increasing available public finance:

Develop a medium-term revenue strategy (MTRS)

Despite the need to prioritise the short-term responses to the crisis, Nigeria will soon need to focus on economic recovery and the government revenue imperative will be to provide timely stimulus and pave the way for a medium-term fiscal consolidation. Nigeria's critically low tax ratio calls for sustained efforts towards strengthening its tax system. Nigeria's severe fiscal crisis, triggered by the oil slump and compounded

by the COVID-19 response, may well create the conditions to enable the FGN to undertake profound reforms of its tax system[xxiv] and overcome strong patronage networks.

For this purpose, the FGN could accelerate the development of a Medium-Term Revenue Strategy (MTRS), supported by the Platform for Collaboration on Tax (PCT).[xxv] A MTRS is a comprehensive approach to undertaking effective tax systems reform for boosting tax revenues over the medium term through a country-led and whole-of-government approach. Such an approach places the tax system reform in the context of a government's overall medium-term expenditure needs for financing its recovery from COVID-19 in line with its long-term development goals. The political economy of the tax system reform requires that the process gets government support at the highest level – notably to pursue the necessary legislative reforms in parliament.

Specific components of the MTRS can focus on strengthening basic, yet critical, tax administration functions, such as updating the taxpayer register, together with addressing specific fiscal policy issues, including wasteful tax incentives, tax evasion and avoidance, fiscal policies for health or environmental objectives, and so on.

Streamline tax incentives and exemptions

Nigeria plans to report annually on its tax expenditures. This is a great first step to enhance transparency around the nature and size of tax expenditures and exemptions. It is important to act upon this information and discuss the revenue implications of these tax expenditures based on a thorough cost–benefit analysis that looks at how effective incentives are at mobilising investments that contribute to national sustainable development objectives.

Tackle tax evasion and avoidance

The Federal Inland Revenue Service has said it loses US$15 billion annually to tax evasion.[122] The FGN could consider soliciting technical assistance to accelerate its implementation of Automatic Exchange of (financial account) Information (AEOI) and ensure it has the capacity to act on the increased availability of information. Such support cold be channelled through the existing partnership with the OECD/UNDP 'Tax Inspectors Without Borders.'

Consider adopting a carbon tax

Nigeria currently has no carbon tax system. Conduct 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.

xxiv Strong revenue pressures, often a consequence of macroeconomic crises, were the trigger for comprehensive tax reforms in Bangladesh, India, Indonesia, Pakistan and Nepal. Overseas Development Institute (ODI), 2017. Domestic resource mobilisation and the transition to sustainable development: synthesis of Asia case studies. Available at: https://www.odi.org/sites/odi.org.uk/files/resource-documents/11753.pdf

xxv The PCT is a joint initiative of the IMF, OECD, UN and the World Bank.

Reform fossil fuel subsidies to finance social expenditure

The structurally low oil prices and the real depreciation of the naira provide a window of opportunity to reduce inefficient fossil fuel subsidies. An important recent step forward has been the inclusion of the removal of the electricity subsidy in Nigeria's 2020 Finance Act. It is important that the country proceeds with its implementation 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.

Consider debt-for-nature or debt-for-health swaps

Debt-for-nature (DFN) initiatives were conceived to address the rapid loss of resources and biodiversity in developing countries that were heavily indebted to foreign creditors. The FGN could consider negotiating a similar scheme for increasing public investments towards addressing environmental degradation, or for financing priority health care spending to recover from the COVID-19 crisis.

Recommendations for increasing the developmental impact of public spending

This DFA reveals Nigeria's current inability to easily connect its public expenditure with development results. This complicates assessing the adequacy of spending decisions and priority-setting over time. There are two important ongoing analytical processes which will address this knowledge gap and support measures to improve the developmental impact of public spending by Nigerian authorities. These studies are the World Bank's Public Expenditure Review and the IMF's SDG investments simulations. While awaiting the incorporation of the results of these targeted and detailed studies in the INFF's holistic financing strategy, this DFA identifies specific short-term opportunities to be considered:

- Accelerate the expansion of social protection mechanisms and COVID-19 response measures to the informal sector.
- Strengthen the SDG alignment with public spending by conducting rapid integrated assessments (RIA) of national budgets to understand how actual budget expenditure aligns with SDGs and their targets. Ideally the RIA would have to be executed at both the federal and state levels to establish a complete assessment of the budget's contribution to the SDGs. The findings from this analysis would greatly complement the World Bank's Public Expenditure Review and inform the budget discussion and validation by Parliament.
- Review FAAC disbursement mechanisms to align them with the SDGs and adapt to differentiated needs across states. The FAAC are regulated by the constitution and hence may be hard to modify, yet creative approaches can be considered to top up regular FAAC disbursements for states and their vulnerable populations most disproportionately affected by the COVID-19 crisis or most lagging behind on SDG progress. Alternative approaches may include considering some types outcome-based incentive funds.

Opportunities to improve international public finance

Strengthen aid effectiveness

Harness the COVID-19 coordinated development partner support to improve aid transparency, coordination and alignment. The UN COVID-19 Response Basket Fund could be turned into a sectoral trust fund for channelling donor resources towards priority areas of the successor plan to the ERGP, e.g. health, education, environment.

De-risk priority infrastructure projects through blended finance

Innovative risk-sharing tools, such as credit guarantee schemes or first loss capital, can enhance access to finance for firms lacking collateral. IFIs and multilateral development banks could consider issuing 'guarantees for development' (a type of innovative financing instrument that protects governments, banks or investors from the risk of non-payment or loss of value of an investment) to provide the assurance that investors need to back long- term infrastructure investments and thus increase the chances of the project materializing. Technical assistance grants may be required to build the capacity of state government to provide the policy and institutional mechanisms to attract long-term capital, develop bankable project pipelines and develop blended finance institutions, which can link policies to sectoral strategies, investment plans and sustainability standards.

Opportunities to enhance private finance

Nigeria's widening SDG financing gap calls for decisive action to harness the potential of private finance and non-state actors to contribute to achieving Nigeria's sustainable development priorities. This DFA reveals there are no targeted financing strategies for several important private finance flows, including for remittances and the diaspora, impact investment, faith-based development finance and local philanthropy. The scope for harnessing additional finance varies significantly across these flows, as does their relevance to different states and their potential to contribute to different SDGs. Additional analyses would be required to map these financing flows with greater detail (e.g. disaggregated by sector, state and gender) to inform their respective financing strategies and create a baseline for monitoring the financing strategies' impact.

Remittances and diaspora

Remittances provide the largest scope for channelling additional private finance to sustain household spending on the 'people's SDGs' (SDGs 1 to 6). The headline objective of a financing strategy for remittances would be to lower the cost of sending them. In addition, this DFA suggests following specific approaches:

- Inviting the diaspora to participate in various economic (privatisation, for instance) or cultural (preservation of cultural sites and artefacts) projects, or to be involved in the national development in any other meaningful way.
- Providing diaspora microloans to rural areas or diaspora business-funded

basic income-type programmes (e.g. channel 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)[123] could be a model to consider.
- Developing and strengthening the supply of bank and non-bank products for migrants. For example, developing classic linked bank accounts will serve as a tool to promote access to banking services and financial inclusion in the countries of origin and to mobilise the transferred savings.

Impact investment

The National Advisory Board for Impact Investment could consider developing a roadmap for a conducive regulatory environment to harness impact investment in Nigeria that would address both supply and demand side constraints. To enhance the SDG alignment of future impact investment, the roadmap should focus on targeting priority economic sectors identified by UNDP’s SDG Impact analysis.

Faith-based development finance

Consider harnessing Zakat to finance local social assistance, health and education schemes in Nigerian states which have a predominantly Muslim population. Practical steps may include setting up a centralised database on Zakat at the state level to understand the scope and nature of Zakat finance and inform a financing strategy for SDG-aligned Zakat. State governments may consider requesting the legal registrations of religious endowments along with guidance on aligning Zakat with the SDGs, and monitoring that they are used in line with the endowment documents.

Opportunities to better align private finance with SDGs

The analysis of Nigeria’s measures to harness private development finance and develop its private sector revealed a multiplicity of policies, instruments and programmes, with limited information on their impact and relevance. This risks dispersing efforts that require scarce resources, undermining their effective governance. Therefore, a headline recommendation of this DFA is for the FGN to consider mapping and harmonising its existing private sector strategies (e.g. for MSME finance programmes, FDI promotion, export promotion, PPPs) with the financing needs and sustainable development priorities, such as those in development for the COVID-19 recovery programme, the SDG-aligned 2020–2025 Development Plan and sectoral development strategies. Focus should be on beneficiaries (targeted populations, sectors and businesses) of the policies and programmes, the SDG alignment of the selection criteria and the evaluation of the development impact of the respective policies. Such analysis would allow streamlining the functioning private finance measures into an overarching financing strategy that integrates all private finance flows

and non-state actors.

This DFA recommends that authorities consider systematically mainstreaming shared and standard sustainability criteria (e.g. environmental, social and corporate governance standards) across existing and future private finance incentive and lending programmes, Nigeria's existing and future bilateral investment treaties and free trade agreements, and PPP selection criteria. Nigeria's main institutional investors (pension funds and the NSIA) can take the lead by encouraging their investees to adopt sustainable practices and integrate sustainability information into their reporting cycles.

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 can 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).

Opportunities to strengthen public–private dialogue (PPD)

The success and development impact of private finance-related reforms can be greatly enhanced by involving concerned private sector stakeholders upfront in their design and implementation. This calls for genuine and effective PPD mechanisms that enable engagement with private sector and other non-state stakeholders to share their perspectives and concerns at the onset of specific private sector-related policy reform processes, rather than engaging them for commenting on advanced draft reform proposals. It is important to systematically engage those actors in dialogue throughout policy design, implementation and review processes. Such an approach would contribute to rebuilding the private sector's trust in Nigeria's public institutions and can strengthen existing measures for enhancing transparency. The latter is particularly important for facilitating local buy-in for major infrastructural development projects with significant impact on local livelihoods.

Nigeria's existing SDG progress monitoring framework, which was used to complete Nigeria's second Voluntary National Review, can be used for monitoring the coherence between existing and new private finance-related reform proposals and the reforms' SDG alignment at the highest level. The Private Sector Advisory Group can drive this process and coordinate the state-level PPD on SDG progress and private sector participation.

Prior to developing new, sector-specific or finance flow-specific PPDs, this DFA recommends mapping existing and past dialogue mechanisms to evaluate their overall effectiveness and impact. An important aspect of such a review entails assessing the existing PPDs' 'fit' for informing the COVID-19 recovery efforts. Then, sector-specific PPDs can be institutionalised, building on the ongoing sector-specific dialogues of the SDG Impact analysis. Building on what works, specific PPDs can be

set up for informing the financing strategies for remittances, the diaspora, impact investment, Zakat, social entrepreneurship and domestic philanthropy.

Opportunities for improving Nigeria's monitoring framework

Effective monitoring and review frameworks are a critical component of an INFF. Finance tracking systems capture information on financing, the resources that are being invested, who is investing and how. Monitoring systems capture information on development results and the progress that is made towards the SDGs. The quality of these public and private systems and the ability to connect information between them will determine the extent to which a clear picture can be developed of the effects that different types of investment are having on SDG outcomes, and crucially whether those investments are also cost-effective.[124]

- Consider the use of outcome-based budgeting to enable linking public spending to the SDG. Outcome-based budgeting is a prerequisite to considering implementing SDG budgeting, enabling a more systematic monitoring of the effectiveness of public expenditure in the achievement of SDGs.
- Improve civil registration systems and processes. Currently only half of births are registered, resulting in a very large information gap on the makeup of the Nigerian population.
- Consider the institution of an independent body to provide economic forecasts and conduct independent budget analysis. This could end disagreements between the legislature and executive over budget parameters such as oil output and price that are a source of contention (and delay) in the budget process.
- Establish a budget calendar and commit to adhering to it.
- Ensure that all relevant areas of government provide complete, consistent and timely data to the Open Treasury portal. This is a very promising initiative in budget transparency, which is currently hampered by data gaps and variability of data supplied by different ministries.

Opportunities to enhance transparency and accountability mechanisms

Transparency and mutual accountability between public and private actors are important for building trust that promotes collaboration and as a mechanism for boosting spending effectiveness. Transparency and accountability are two-way responsibilities. For government, it encompasses fiscal transparency and the degree of openness to scrutiny by actors including parliament, civil society, the media, and others. Private actors and development partners also have a responsibility to publish information on their activities. This is a key enabler for these actors to be held to account and for the creation of an environment that enables enhanced public and

private contributions to sustainable development.[125]

- Increase the independence of the auditor general and National Assembly Budget and Research Office.
- Swiftly conclude the implementation of a public register of beneficial owners of companies.

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