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POLICY BRIEF
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Addressing Budget and Debt Vulnerability amidst COVID-19: Policy Pathways for Nigeria

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Executive Summary

Budget constraints and rising debt burdens in Nigeria are macroeconomic issues that have to be addressed sustainably. Such issues can clog the wheels of progress on economic growth and sustainable development in the country. This policy brief considers the disconnection between economic growth objectives and national budgeting amidst closely related problems of limited revenues, declining oil price, and the resulting debt burdens. Some options for policymakers to address the challenges as a vehicle to ensure better human capital outcomes are highlighted. These include: redefining Nigeria's objectives for budgeting; shifting emphasis from budgetary allocations to funding; addressing inadequate revenue generation; and financing of the national budget. Others entail: improving budget implementation towards achieving the budgeting objectives; orientation of citizens to understand that federal government budgets should fund federal projects alone; and monitoring of sub-national governments.

Background

Funding Nigeria's budget has remained a policy concern due to limited revenue that exists in the face of growing public expenditure, increasing population, and geopolitical differences. In dealing with the deficits arising from tight budgets, the government has resorted to borrowing at an unsustainable scale. For example, the percentage of external debt stock to exports and gross national income (GNI) skyrocketed multiple folds from 18.5% and 4.5% in 2010 to 77.3% and 11.1% in 2017, respectively (World Bank, 2020). There has been increasing concern on the sustainability of such reliance on external debt for government funding at the federal and sub-national governments (i.e. States and Local) levels, including the inability to meet debt repayment obligations alongside infrastructural needs and other socio-economic responsibilities. As a result, there is a significant burden on government funding in an already fiscally and growth constrained environment.

Therefore, in the face of looming risks arising from debt vulnerability, there is the need to explore policy options to restructure the debt profile for fiscal sustainability with a minimal negative impact on socio-economic growth. This issue is also important as Nigeria becomes even more susceptible to dwindling crude oil revenue and other uncertainties arising from negative external shocks such as COVID-19 pandemic that has further strained resources of donors and creditors in the global south.

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Policy Issues

Two key issues need to be considered by policymakers for sustainable budgeting. First, is the need to understand the objectives of the national budgeting; second, is understanding the related problems of budget appropriation, implementation, and monitoring, as well as, debt vulnerability such that budgetary and economic outcomes can be improved. In addressing these issues, it is recommended that policymakers recognise that the impact of COVID-19 pandemic on Nigeria's economy will be worsened by lower domestic income and consumption; pronounced and prolonged decline in oil prices; spikes in risk aversion in global financial markets and decline in international trade. The impacts can percolate through the financial, demand and supply channels as represented in Figure 1.

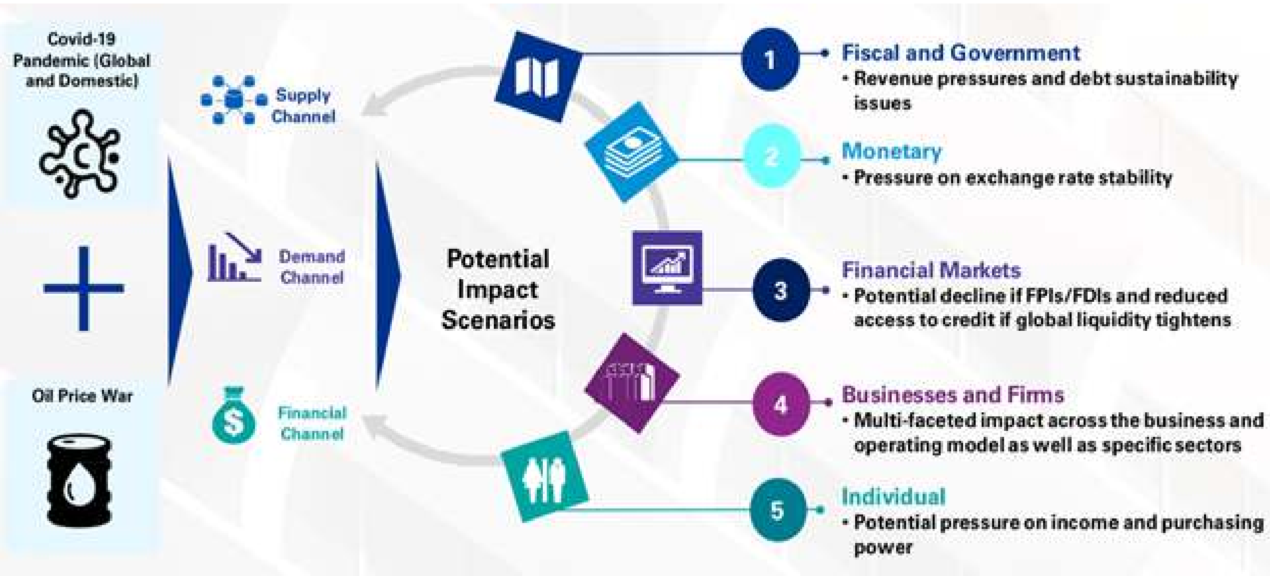

Figure 1: Possible Impacts of COVID-19 Pandemic on Nigeria's Economy
Source: KPMG (2020:1)

Hence, the need for an urgent shift in emphasis from budgetary allocations to funding. More so, it is necessary to: address inadequate revenue generation; re-orientate citizens to understand that federal budgets should fund national projects alone; as well as, improve budget implementation and monitoring of sub-national governments as a vehicle to ensure better human capital outcomes. Finally, a national reorientation of sharing the national cake to baking the national cake needs to be seriously considered.

What Can Policy Makers Do?

In this section, the steps that can be taken in achieving a sustainable budget framework for

Nigeria are discussed. These steps are categorised as budgeting and the general economy and sectoral policy measures.

Budgeting and the General Economy

First, there should be a timely approval of the national budget. For example, the 2020 budget was approved by the National Assembly in December 2019 within 60 days after its presentation by the President, compared to the 2019 budget that was approved within several months. Such a timely budget approval process is commendable and should be sustained. The various stages involved in the national budgeting process ranging from the preparation phase (stages 1-4) to the approval phase (10-14) is shown in Figure 2.

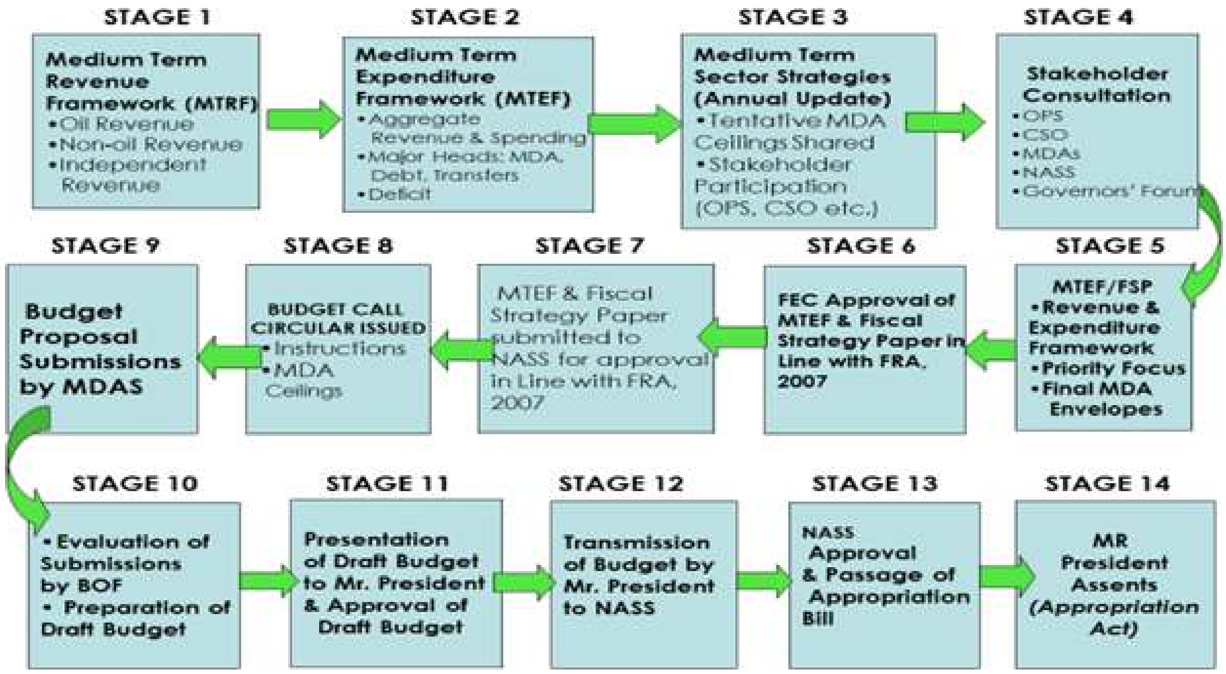

Figure 2: Summary of the Stages in National Budgeting Process
Source: Akabueze (2020:36)

Also, there is a need to have an embedded shocks absorbent concession in the budgetary process that can enhance smooth implementation, even if there is an emergence of a disruptive externality. In this case, such shocks can be addressed through supplementary budgeting, effective budget adjustments and critical evaluation by all stakeholders on an intermittent basis.

Second, the national budget approved by the federal government should mainly be concerned about projects of national interest. Such priority is necessary for building a framework for enterprise growth and human capital development for sustainability. Third, there is an urgent need for budget planning, which should be complemented with adequate

budget implementation and monitoring to avoid waste and mismanagement. For example, to enhance efficiency and reduce unproductive bureaucracies, governments (at all levels) should cut the cost of governance (Adewole & Osabuohien, 2007) by reducing the number of Ministries, Departments and Agencies (MDAs), particularly where duplication and similarity of functions exist. Such efficiency can be achieved through adequate monitoring.
Fourth, funding – including domestic resource mobilisation (DRM) - is a critical component for financing an effective budget implementation. Such DRM can easily be actualised through diversification of the revenue base of the federal government from crude oil. Thus, a broad harmonisation of tax remittance structure is fundamental. While the effort of the FGN on single treasury account for MDAs is recognised, a further improvement of tax and revenue remittance process, such as electronic payment system of fines and charges can ensure effectiveness and transparency. The fifth is the appreciation of the complementing role of policymakers, researchers, and analysts in reviewing the national budgeting strategy to prioritise a few productive sectors each year towards meeting pre-determined developments goals before focusing on others. There could also be shared responsibility and collaboration between government and the private sector. Sixth, if the government must borrow, then such borrowing should be targeted to ensure productive utilisation of fund and discretionary expenditure that is capital and not recurrent expenditure. For instance, such funds could be used for targeted infrastructure projects. Seventh, government funding should prioritise research and development (R&D) funding for innovative outcomes, and educational sector – especially Nigerian universities for knowledge development and engagement and policy-relevant research. Finally, technology and system automation should be deployed in MDAs to combat corrupt practices.

Sectoral Policy Measures

The first emphasis should be in the growth and development of the Small and Medium Enterprises, which contribute 48% of national gross domestic products (GDP), account for 96% of businesses, and 84% of employment (PWC, 2020). Steps in actualising this development can include: first, creating an enabling environment (adequate infrastructure and incentive policies) for Nigerian SMEs to thrive particularly as the African Continental Free Trade Area (AfCFTA) is anticipated to begin. Second, umbrella organisations such as Manufacturers Association of Nigeria (MAN) and The Nigerian Association of Chambers of Commerce, Industry, Mines, and Agriculture (NACCIMA) can help bridge existing information gaps so that small and medium-scale enterprises (SMEs) can know and access government incentives, grants and loans, as well as, innovations from the academia. Third, is the clustering of informal SMEs will facilitate their access to government incentives and grants, thereby ensuring effective government regulation and taxing of such clustered informal businesses.

The second emphasis should be the development of the agricultural sector. The government need to invest in R&D that leads to innovation in the agricultural sector. Farmers, especially smallholders, should be able to access necessary incentives to boost productivity such as access to right seeds, fertilisers, as well as, agricultural loans and grants. The third priority sector should be the health sector. Health should be prioritised in government budget since it is an essential ingredient for economic growth and development. This is crucial as the COVID-19 pandemic has further brought to light the fragility of the country's health sector.

Concluding Remarks

In summary, the rising debt burdens and budget constraints can be addressed by fiscal responsibility and prioritising key sectors. Peradventure debt is required to fund budgets; such debts must be targeted at capital projects and not to fund recurrent expenditures.

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