

COURTESY MEETING OF THE IMF ARTICLE IV MISSION TO THE NIGERIA GOVERNORS' FORUM SECRETARIAT

Time: 10am

Date: 31 January 2017

Venue: Conference Room, NGFS

In Attendance:

1. Prof. Afeikhena Jerome, NGF
2. Dr. Haruna Abdullahi, PFM Advisor, NGF
3. David Nabena, Economist, NGF
4. Uzuchukwu Alutu, Economist, NGF
5. Timilehin Ogunbeku, Knowledge Management Adviser, NGF
6. Amine Mati, Senior Resident Representative, African Department, IMF
7. Gene Leon, Mission Chief, IMF
8. Sampawende Tapsoba, Economist, IMF
9. Yue man Lee, Economist, World Bank
10. Barbara Barungi, Lead Economist, AfDB
11. Osana J. Odonye, Senior Advisor, IMF
12. Emilya Timmins, World Bank
13. Nanrup Ibrahim Olajide, AO I, FMF
14. Ogbuehi Chukwuemeka, AO II, FMF

Meeting Highlights

The meeting was scheduled as part of the Mission's engagement with Stakeholders in Nigeria in preparation for the forthcoming IMF Article IV Report for Nigeria. Specifically, the IMF mission met with the NGF team to better understand the fiscal situation of States (in light of the fall in oil receipts which has significantly reduced government revenues), and governments' policy responses to the crisis (including the bailout packages, the budget support facility and the 22-point fiscal sustainability plan). The Fund also requested for useful data to help strengthen the sub-national section of the Nigeria country report.

The NGFS team provided an overview of the role and activities of the Forum, and the Secretariat as its policy hub. The team also briefed the mission on the fiscal situation of States, including the fall in revenues by over 60 percent; rising domestic debts (including salary and pension arrears, contractors' arrears, commercial bank loans and other liabilities); the rise in gross deductions from federation allocations which has exacerbated the already tightening fiscal space; and poor adjustment responses from State budgets to the new reality.

The Secretariat further highlighted some of its recent programmes designed to provide support to State governments – such as the IGR Dashboard which is designed to assess the tax/revenue

environment of States and facilitate peer learning through research and evidence; ongoing State-by-State fiscal assessment which is based on the conditions of the fiscal sustainability plan; and the HelpDesk which will provide direct technical assistance to States.

Emerging Issues:

The following are highpoints that emanated from the meeting:

- The need for the adoption of expenditure control mechanisms at all levels of government to cut the high cost of governance. Streamlining government expenditure is critical to ensuring the needed fiscal adjustment. Cost of governance at all tiers of government needs to fundamentally change to strengthen fiscal discipline, policy administration and address corruption.
- The need to implement a unified exchange rate policy for the country to reduce arbitrage opportunities which encourage speculation and underhand activities.
- The need for a systemic approach to raising Nigeria's VAT which is one of the lowest in the world. At 5 percent, Nigeria has one of the lowest value added tax (VAT) rates in the world, well below the regional ECOWAS requirement of 10 percent. Companies income tax (CIT) revenue is also lower (1.5 percent of GDP against an average of 5 percent in other oil exporting countries). The adoption of certain taxes such as property taxes should also be encouraged.
- The lack of provision for savings in the Nigerian constitution has contributed to the failure or weakness of the government's response to periods of economic depression. The rapidly changing dynamics and volatility of the oil market has underscored the need to build fiscal savings; however, the country's performance in this area has remained poor and at odds with the global growth in oil and gas-related SWFs which grew (as % of total) from 55.2 per cent in 2010 to 57.11 percent in June 2016. The scale of the country's current fiscal crisis shows very low preparedness on the part of the government. While countries such as Norway and Saudi Arabia have strengthened their sovereign wealth fund (SWF) assets to over US\$850 billion and US\$792 billion respectively, Nigeria's Sovereign Investment Authority was only US\$1.4 billion as at June 2016, growing only marginally from its US\$1 billion initial funding.
- Lack of useful data at all levels of government remains a major hindrance to proper economic planning and budgeting.

Actions and Next Steps:

- NGF to share with the IMF, useful data and research carried out in recent times – *DONE*
- IMF and NGF to build an engagement framework to address some of the issues discussed. This will be carried out in close partnership with other finance institutions such as the AfDB and World Bank to sustain a common approach to assisting Nigeria – *ONGOING*