



# Macroeconomic Priorities for State Governments

Engagement Note for New and Returning Governors in Nigeria

**David Nabena**

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May 2023

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# Acronyms and Abbreviations

AfDB	African Development Bank Group
AFREXIM	African Export-Import Bank
CBN	Central Bank of Nigeria
DD	Domestic Debt
DRM	Domestic Revenue Mobilization
ED	External Debt
Eol	Exchange of Information
FAAC	Federation Accounts Allocation Committee
FCT	Federal Capital Territory
IGR	Internally Generated Revenue
NGF	Nigeria Governors' Forum
PFM	Public Financial Management
PMS	Premium Motor Spirit
Q4	Fourth Quarter
SEZs	Special Economic Zones
TfS	Tax for Service
TITA	The Intelligent Tax Authority
TPD	Total Public Debt
TRR	Total Recurrent Revenue
TSA	Treasury Single Account

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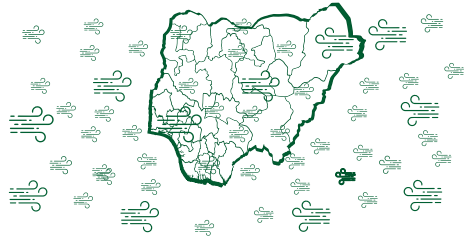
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# 1.0 Navigating today's economic and political headwinds

On the 29th of May 2023, new and returning governors will be inaugurated to administer public policy in State economies that have faced significant economic, social, and environmental challenges in recent years. No State has been spared from the fallouts of nine (9) major headwinds that have contributed to worsening living conditions for the majority of their citizens, as government responses proved inadequate. These conditions have largely resulted in heightened economic, social, and political instability - and they call for increased government response in a country where public legitimacy is waning. The declining trend in citizens livelihoods is not unfamiliar, but in the new order, accountability in public governance is gaining significant public attention and scrutiny. Political activism in the last year has shifted public attention to how governments are run, and it is generating messages and shaping the opinions and behaviours of many Nigerians. The key trends influencing public governance today include the following:



1. The latent effects of the COVID pandemic and the ENDSARS movement which has culminated in the bulge in youth activism to bring about political and social change.
2. Insecurity across parts of the country has impacted on public safety, State spending, labour mobility, business supply chains, as well as citizens perception of the administration of law and order.
3. Skyrocketing inflation which surpassed 20% in 2022 has led to a cost-of-living crisis for 63% of Nigerians who are multidimensionally poor.
4. Eroding oil revenues have destabilised government budgets due to the PMS subsidy conundrum which cost the country N5.3 trillion



- in unearned income in 2022.
5. The steep devaluation of the Naira from an average of N380 per USD in 2020 to N460 (official rate) and N750 (parallel rate) in April 2023 has contributed to imported inflation and rising debt servicing for foreign currency denominated debts.
  6. Monetary policy tightening (interest rate hikes) in the West aimed at curbing inflation has contributed to a global redirection of capital flows, halting the previously stable and attractive case for investments into the country.
  7. The severe effects of climate change are still unmitigated, such as the floods of September 2022 which caused the death of over 600 people and the displacement of 1.3 million people.
  8. The unprecedented rise in rural-urban migration and the agglomeration of cities across the country continues to place heavy pressures on public infrastructure and public access to social services.
  9. The political climate since the 2023 general elections has been characterised by a polarised political and media environment.

## 2.0 Macroeconomic Priorities for State Governments

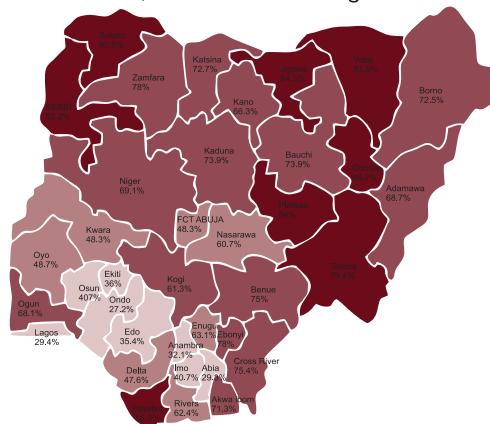
The visibility of challenges at the local level, and the expectation for immediate action from the government places a heavy burden on State and local governments for timely action. The following are three (3) macroeconomic and fiscal issues that the government must prioritise to build the prosperous future that their citizens deserve.

### **2.1 A vibrant manufacturing sector is the main engine of growth and catch up.**

Today, many States are experiencing what has been described as premature de-industrialization, as the bulk of labour and youthful population are engaged in non-tradable services which operate at very low levels of productivity and income. This explains why although

Nigeria had experienced stable economic growth of over 6% between 2000 - 2015, unemployment doubled during the period and has continued to rise, reaching over 33% today. The absence of transformational change from primary to value-added production has meant that incomes have remain suppressed while opportunities for stable jobs are scarce. Today, 63% of persons living in Nigeria (133 million people) are considered to be multidimensionally poor (figure 1), amidst a rearing cost of living crisis (figure 2). The country's experience has revealed that services cannot deliver rapid growth and good jobs

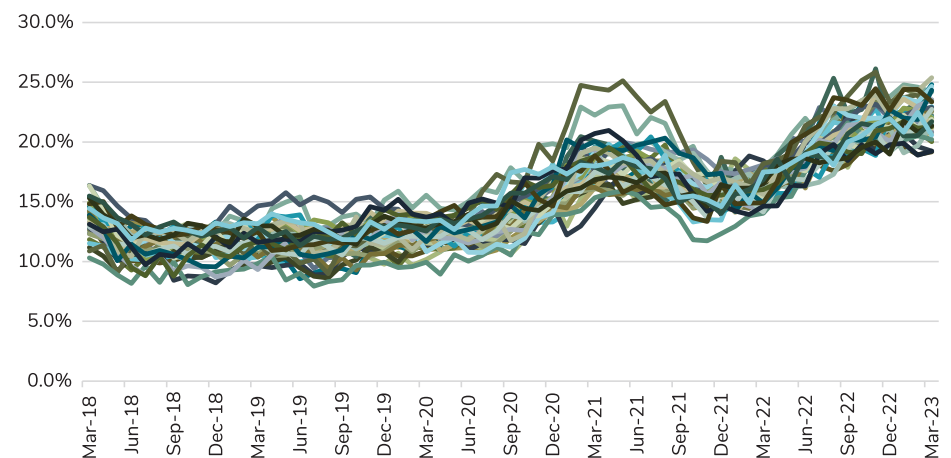
Figure 1: The high rate of multidimensional poverty measures beyond income, people's lack of access to health, education and living standards.



Source: National Bureau of Statistics, 2023

since the majority of persons with service jobs are operating at low margins and low levels of productivity.

Figure 2: Skyrocketing inflation in all States hasn't spared any section of the country from falling disposable incomes and a cost-of-living crisis.

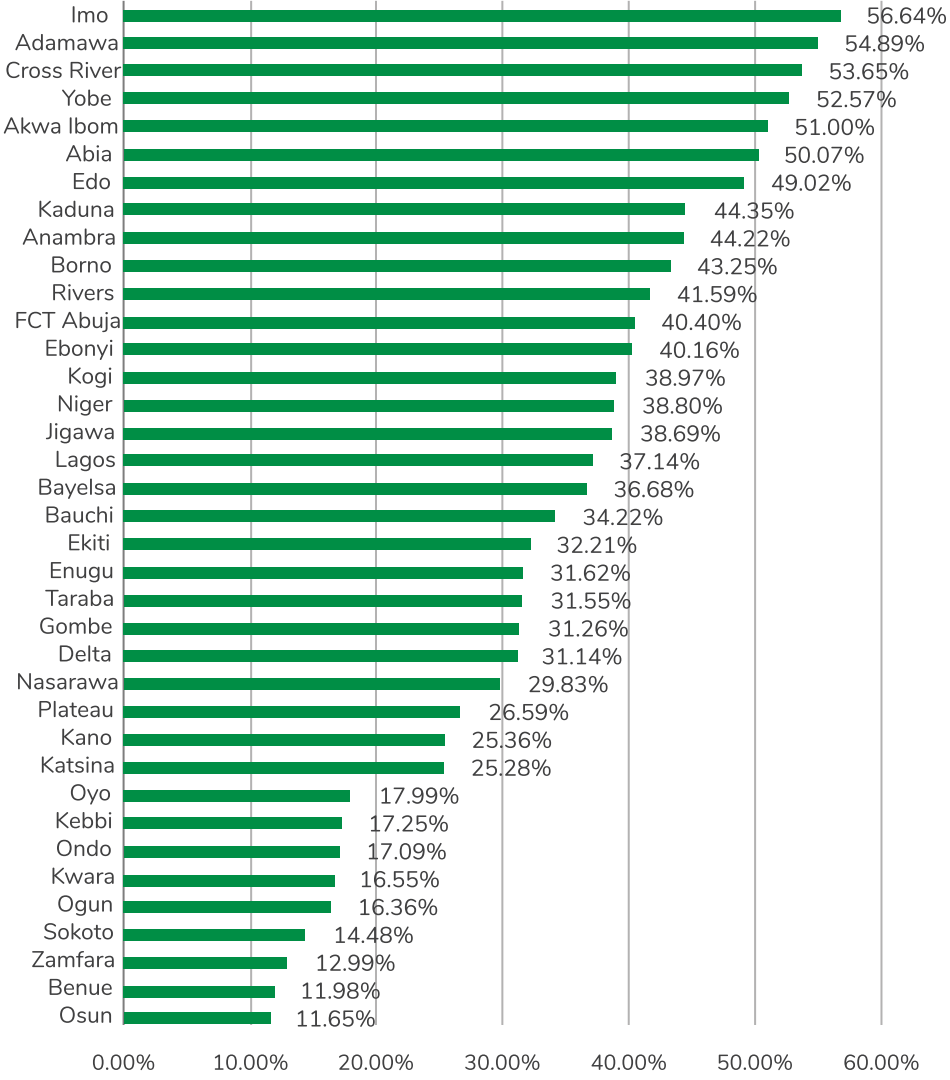


Source: Calculated based on underlying data from the Nigeria Bureau of Statistics, 2023. Market baskets differ from State to State, In the last 5 years, inflation across States has doubled from between 10 - 15% to 20 - 25% today.

Value addition in the agricultural sector and innovation-based manufacturing are essential for any economic transition to occur. An aggressive manufacturing agenda will reduce the burden on high unemployment and poverty by creating a sustainable pool of high-skilled, high-paying jobs. Targeted infrastructure, skills development, harmonising regulations, making quality connections with the private sector, and preparing for a more digital future are important conditions to accelerate this process. In the global pursuit of a trading advantage, special economic zones (SEZs) such as free-trade zones, export-processing zones, industrial parks, economic and technology-development zones,

high-tech zones, science and technology parks, free ports, enterprise zones have become the most common vehicles to deliver a competitive advantage, although more extensively successful among the East Asian countries. To record a quick transition to a value-based economy, this transition requires cooperation with the federal government and other States, sincerity, clarity, credibility, and partnership with multilateral finance institutions such as the African Export-Import Bank (AFREXIM) and the African Development Bank Group (AfDB) who are positioned to mobilise funding and the technical guidance needed to improve the bankability of such projects.

Figure 3: High unemployment means that State economies are unable to generate enough quality jobs for people seeking work.



Source: National Bureau of Statistics, 2021

## **2.2. The fastest way to attract large scale investments into States is through regional cooperation for projects, policies, and regulations.**

Integration creates a business case for large-scale investments because it provides a standardised and predictable risk profile for a large section of the country rather than dealing with multiple jurisdictions, with multiple regulations and supply chain arrangements. In a world where the delivery of services matters as much as the distribution of goods, State governments must prioritise the harmonisation of rules, regulations, taxes, and standards to support the integration of business processes and value chains to ease the operation of multi-State businesses.

A regional outlook should also be of priority to States because of the rate of urbanisation which has overwhelmed many governments and intensified social, economic, and political inequality in their domains. The latest constitutional amendments which empower States to generate, transmit, and distribute electricity in areas covered by the national grid and which has moved "railway" from the exclusive legislative list to the concurrent list are novel policy changes that provide additional headroom for States to take the

reins in mobilising large scale infrastructure investments into their domains.

## **2.3 Public financial management (PFM) remains central to the steering of development and the provision of public and private services.**

Although many States have initiated measures of fiscal consolidation through improved budget and financial reporting transparency, payroll audits, implementation of the treasury single account (TSA) and biometric audits, these reforms are unlikely to be adequate to provide long term fiscal sustainability and intergenerational equity. Fiscal resilience is weak, revenues are low and debt levels are rising (see figures 4 - 8).

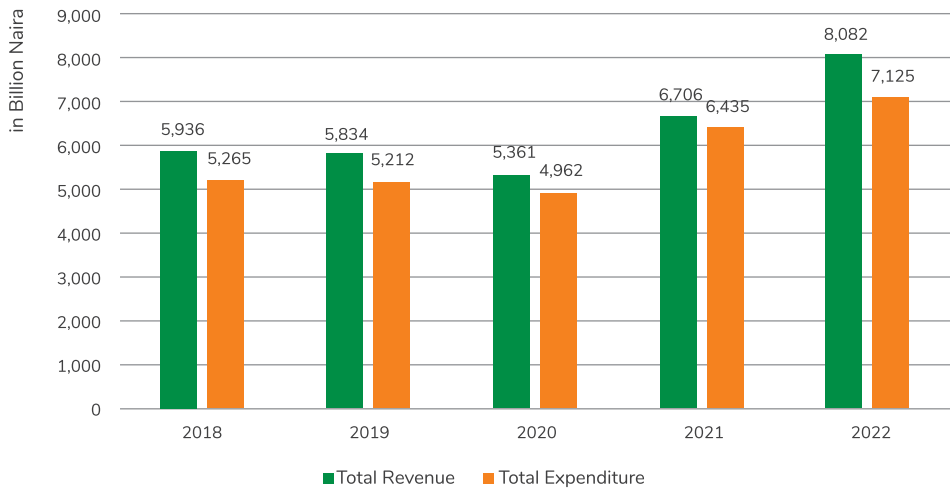
Effective tax reform can anchor the government's long-term strategy to finance development, support private sector growth and strengthen public legitimacy. The NGF Secretariat estimates that a revenue gap of between N50 billion - N240 billion (including value added tax) per State can be closed in the short term through a more structured and organised approach to domestic resource mobilisation (DRM), including initiatives to strengthen the role and function of

## Key conditions for effective tax reforms:

1. Administrative and financial autonomy for the tax authority.
2. A simplified, harmonised, and consolidated revenue code.
3. A functional social service delivery programme to build public trust.
4. A whole-of-government approach to reform implementation to drive inter-agency collaboration.
5. Digital transformation of tax administration and government processes.

the State tax authority, digitalisation of government services, as well as the introduction of trust-building public-facing services. State governments must eliminate organisational silos through the introduction of cross government platforms to facilitate central data management and sharing. Like the private sector, the public sector must transform itself to maximise its opportunities in the digital era.

Figure 4 : The ups and downs of the scale of public administration in all 36 States.



Source: 2018- 2021 data from the NGF Public Finance Database, 2022 data from States' Budget Implementation Reports, Q4, 2022. 2022 data are preliminary and may change after figures are audited.

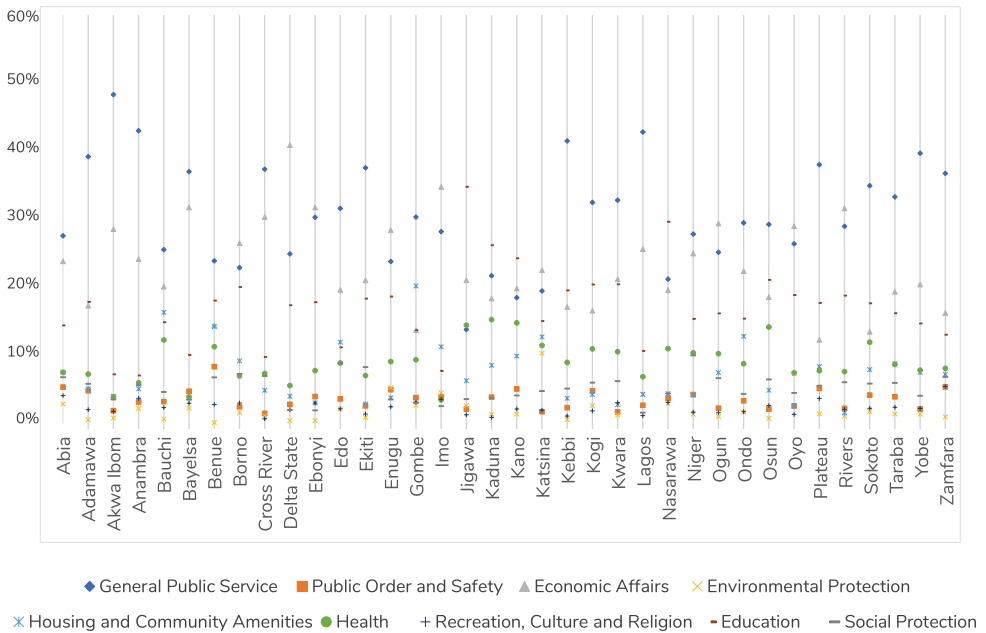
There have been concerns that many State budgets are not realistic, because of the wide discrepancy between what the government had proposed to spend and what it spent. There are also

concerns about the efficiency of public expenditure, as government resources are allocated across its priorities such as economic affairs, health, education, environmental protection, public order and safety,

social protection, housing, recreation culture and religion as well as general government services. Whether budgets are under executed or over executed, in both cases, lack of budget credibility undermines the usefulness of the budget process for public expenditure management, it distorts private sector decisions signalling and it erodes public trust in the government and its policies. Today, government spending on general public services (31%), economic affairs (23%) and education (17%) together take up over 70% of State government

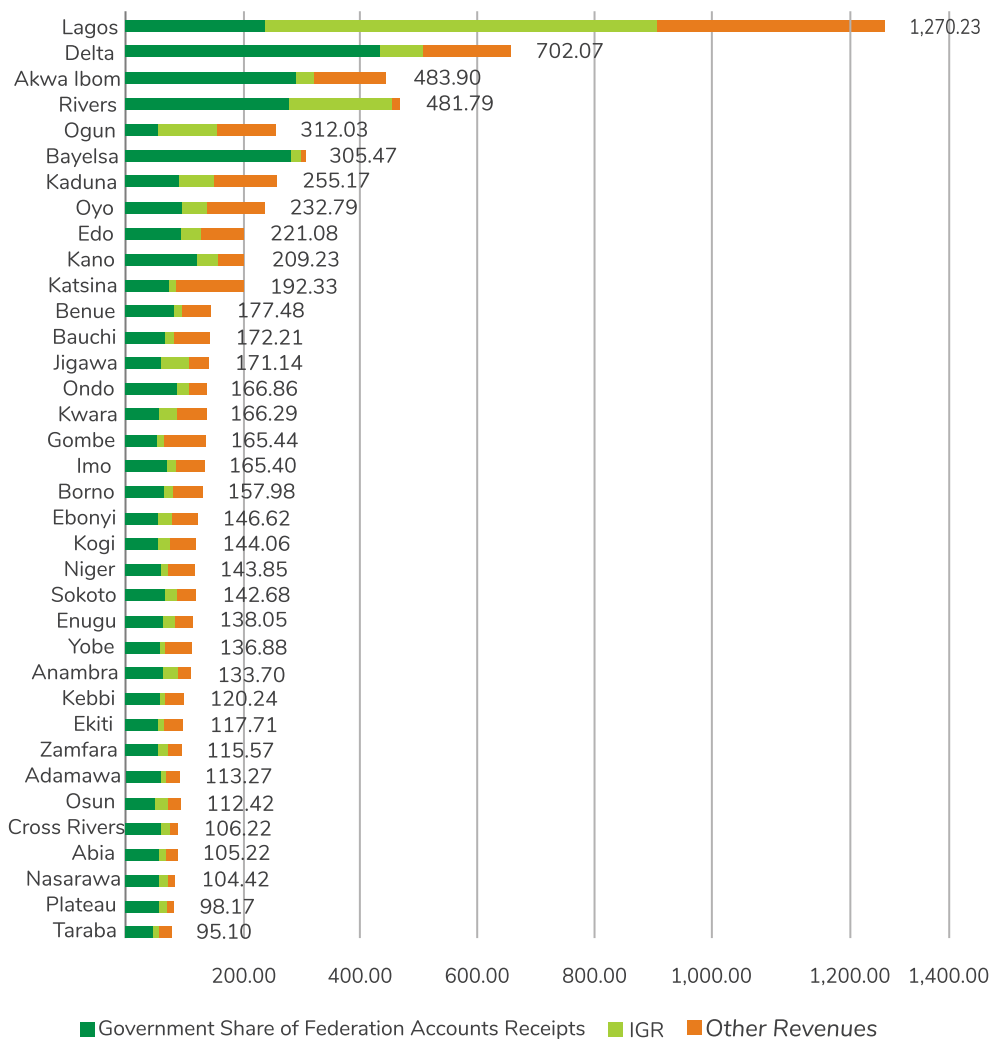
spending. Looking ahead, an increase in domestic resource mobilisation through tax and private investments, and efficiency gains in public administration through the digitalisation of government services should lead to a redistribution of government resources to areas such as health, social protection, and environmental protection, given the high rate of poverty, disease burdens and climate-induced risks the country is experiencing (including floods, droughts, and deforestation).

Figure 5: Priorities of State governments, average share of spending, 2021 - 2023.



Source: Calculated from underlying data from the Approved Budgets of States, 2021- 2023

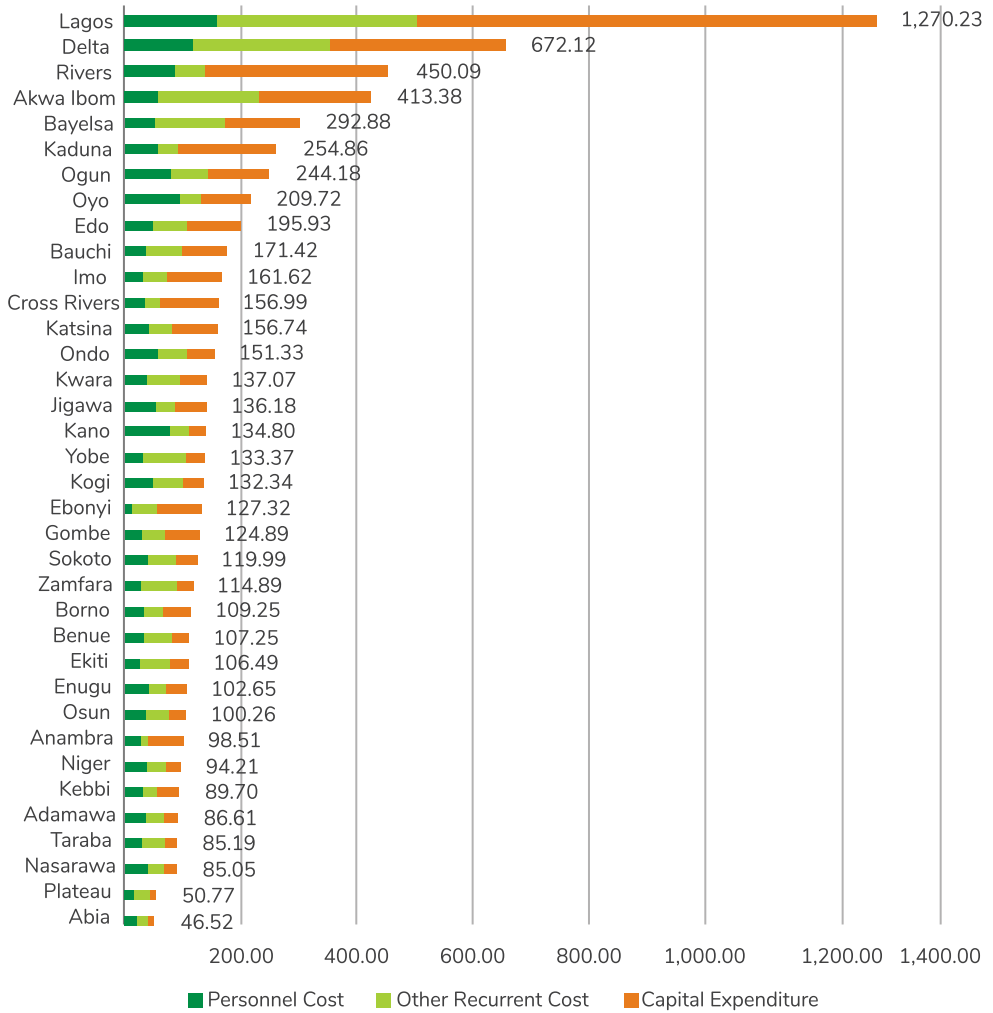
Figure 6: Total Revenue of States, (in Billion Naira), 2022



Source: Budget Implementation Reports of States, Q4, 2022. 2022 data are preliminary and may change after figures are audited by the Office of the State Auditor General.

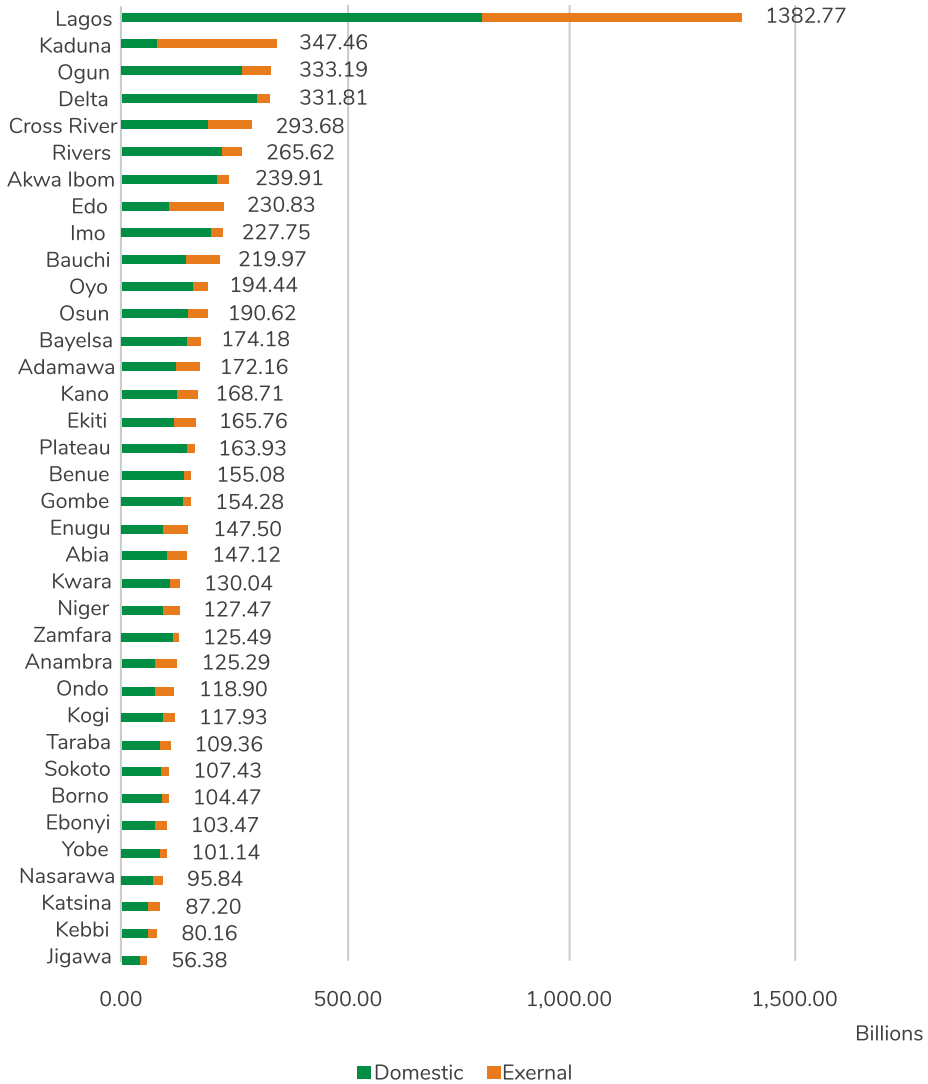


Figure 7: Total Expenditure of States, (in Billion Naira), 2022



Source: Budget Implementation Reports of States, Q4, 2022. 2022 data are preliminary and may change after figures are audited by the Office of the State Auditor General.

Figure 8: Public debts continue to place a heavy burden on successive governments.



Source: Debt Management Office 2023. All data as at end 2022 except for Katsina and Taraba States (as at September 30, 2022) and Rivers State (as at September 30, 2021). External debts have been adjusted using the CBN exchange rate of N460.43 per US dollar.

Table 1: The headroom to finance long-term debts depends on the government's ability to raise additional revenues and keep debt levels low

S/N	State	DD/TRR (50%)	DD/IGR (150%)	ED/TRR (50%)	ED/FAAC (150%)	TPD/TRR (150%)	RISK ASSESSMENT (0 low- 5 high)
1	Abia	132%	614%	55%	70%	187%	5
2	Adamawa	169%	953%	66%	80%	235%	5
3	Akwa Ibom	115%	700%	11%	13%	126%	2
4	Anambra	88%	304%	54%	77%	143%	4
5	Bauchi	161%	802%	86%	107%	247%	5
6	Bayelsa	68%	787%	13%	14%	81%	2
7	Benue	182%	1121%	18%	21%	200%	3
8	Borno	97%	389%	8%	11%	105%	2
9	Cross Rivers	205%	861%	101%	132%	306%	5
10	Delta	96%	425%	9%	11%	104%	2
11	Ebonyi	95%	294%	34%	49%	129%	2
12	Edo	81%	287%	88%	123%	169%	5
13	Ekiti	164%	667%	68%	90%	233%	5
14	Enugu	106%	344%	64%	92%	169%	5
15	Gombe	190%	753%	20%	27%	211%	3
16	Imo	206%	761%	24%	33%	230%	3
17	Jigawa	40%	105%	11%	18%	52%	-
18	Kaduna	63%	159%	200%	333%	264%	5
19	Kano	82%	301%	31%	43%	114%	2
20	Katsina	65%	374%	26%	31%	91%	2
21	Kebbi	88%	609%	27%	32%	115%	2
22	Kogi	109%	400%	28%	39%	137%	2
23	Kwara	131%	409%	25%	36%	156%	3
24	Lagos	108%	146%	77%	297%	185%	4
25	Nasarawa	97%	345%	33%	46%	131%	2
26	Niger	96%	394%	32%	43%	129%	2
27	Ogun	167%	268%	39%	102%	205%	4
28	Ondo	73%	206%	39%	61%	112%	3
29	Osun	195%	679%	56%	78%	251%	5
30	Oyo	123%	309%	25%	42%	148%	2
31	Plateau	233%	695%	23%	35%	257%	3
32	Rivers	72%	159%	13%	24%	85%	2
33	Sokoto	102%	381%	19%	26%	121%	2
34	Taraba	131%	900%	32%	37%	163%	3
35	Yobe	137%	1073%	16%	18%	152%	3
36	Zamfara	149%	865%	18%	21%	167%	3

Source: Calculations based on data from the budget implementation reports of States, Q4 2022. DD = Domestic Debt; TRR = Total Recurrent Revenue; IGR = Internally Generated Revenues; ED = External Debt; FAAC = Federation Accounts Allocation Committee Receipts; TPD = Total Public Debt.

## 3.0 How We Support States



### 3.1 Research and Policy Support for Domestic Resource Mobilisation:<sup>1</sup>

We carry out independent and collaborative research to generate evidence for DRM-focused State-level policy making, advocacy and action. Some of the areas we assess are the political economy conditions, the quality of the government's policies, the place of legal provisions, administrative practices, government legitimacy as well as citizens perceptions, culture, and attitudes.

### 3.2 Data Creation, Analysis and Sharing

#### i. The IGR Dashboard:<sup>2</sup>

Launched in 2017, the IGR Dashboard provides an annual assessment of the tax reform environment of all the 36 State governments and the Federal Capital Territory (FCT), by tracking key indicators in tax administration, tax processing, tax procedures, tax enforcement. The platform uses cross-State evidence to drive action in the implementation of tax reforms.

#### ii. Public Finance Database:<sup>3</sup>

Nigeria's first open-source database of the fiscal data of the 36 State governments of Nigeria was launched in 2022. The portal hosts comparable annual data on general government spending, revenues, and financing. It also features hundreds of performance indicators that track and gauge the quality of public spending in service delivery areas such as economic affairs, health, education, environmental protection, public order and safety, social protection, housing, recreation culture and religion as well

<sup>1</sup><https://ngfrepository.org.ng:8443/handle/123456789/70>

<sup>2</sup><http://www.nggovernorsforum.org/igrdashboard/homengf.php>

<sup>3</sup><https://www.publicfinance.ngf.org.ng/>

as general government services.

### iii. **Social and Demographic Database:**

Through structured household surveys, interviews and focus group discussions, the NGF Secretariat collects social and demographic information across States. These datasets are used to support our policy interventions.

## 3.3 **State Capacity Building**

### i. **HelpDesk:**<sup>4</sup>

The HelpDesk technical support programme was created in 2017 with the mandate of providing demand-based advice and technical support to States through direct technical assistance, workshops, and knowledge transfer. Though not exclusively, the programme's primary areas of support are reforms aimed at improving government outcomes in domestic revenue mobilisation and public expenditure management.

### ii. **eLMS:**<sup>5</sup>

The newly developed eLearning Management System is a one-stop learning platform for State government officials, where training modules will be tailored to fit their challenges and needs.

## 3.4 **High-level Policy Advocacy**

High level advocacy is essential to fast track the implementation of reforms. By gaining the commitment of governors, we are able to secure strong political buy-in and a whole-of-government approach to the implementation of reforms.

## 3.5 **Knowledge Development and Management:**<sup>6</sup>

Because we know that States are at different stages of reform implementation, we develop and collect knowledge resources such as training manuals, policy toolkits, templates, guides, and research reports to aid self-paced reforms domestication.

## 3.6 **Organisation of Peer Learning Events**

Every year, we bring together senior government officials from State ministries, departments, and agencies (MDAs) to national dialogues for knowledge and experience sharing.

## 3.7 **Development of Innovation Initiatives**

Innovation initiatives provide great platforms for catch up.

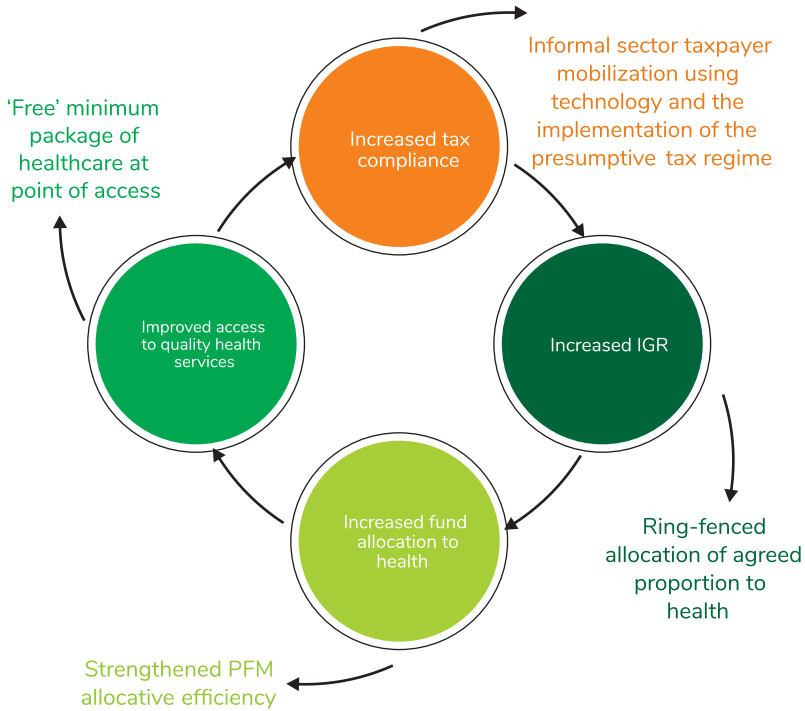
- i. Our **Tax for Service** initiative in which informal sector workers pay taxes in exchange for free minimum healthcare is a policy innovation that rides on

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<sup>4</sup><http://nggovernorsforum.org/helpdesk/home.html>

<sup>5</sup><https://elms.ngf.org.ng/>

<sup>6</sup><https://ngfrepository.org.ng:8443/>

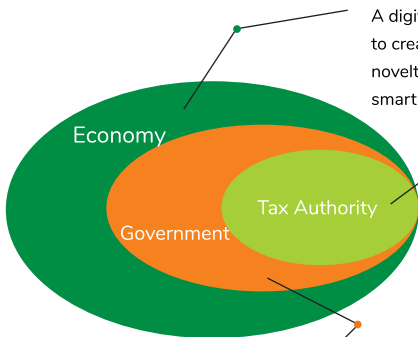


the capacity to raise revenues from the informal sector for a core domain of human development.

- ii. Our **TITA programme** - a digitalised end-to-end taxpayer management and revenue administration system can accommodate the varying maturity levels of tax authorities in the country in the digital transformation agenda.

### Digital Economy

A digital economy encompasses the use of information technology to create or adapt, market, or consume goods and services. Digital novelties include digital banking, e-commerce, virtual education, smartphone apps and collaborative platforms.



### TITA

An Intelligent tax authority has an integrated tax administration system for the collection, analyses, and processing of information relating to all taxes, levies, fees, fines, and funds collected on behalf of the government. Data is shareable amongst the units of the authority and each taxpayer has an identifier.

### Government as a platform

A digital government has a digital infrastructure capable of facilitating data sharing amongst government agencies. It is usually designed as a service platform.

iii. The **Exchange of Information (Eoi)** initiative will help catalyse the development of a standardised rules engine for information exchange amongst all States in the country, starting with tax authorities. This is a digital public infrastructure solution capable of triggering further initiatives to centralise, share and use government-owned data in a more interoperable environment.

