



# **NIGERIA**

# **AFRICA'S**

# **WALKING EAGLE**

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#### AUTHORED BY

- Senyo Hosi  
Finance & Economic Policy Analyst  
Tesah Capital Research
- Prof. E. Agbloyor  
Lecturer, University of Ghana  
Tesah Capital Research
- Dr. D. Nsafoah  
Lecturer, Niagara University  
Tesah Capital Research

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# OUTLINE



## Review of the Nigerian Economy

GDP Growth & Outlook  
Revenue Optimisation  
Expenditure Efficiency & Sustainability  
Structural Issues



## Policy Recommendations

Fiscal Readjustments  
Structural Reforms  
Debt Sustainability  
Monetary Policy Considerations

# NIGERIA GDP GROWTH AND OUTLOOK

01

Nigeria's economy has been recovering from the COVID-19 pandemic, but the growth outlook remains uncertain due to persistent structural challenges, such as inadequate infrastructure, weak governance, and limited diversification.

02

Nigeria was severely impacted by the fall in petroleum prices at the height of the Covid pandemic.

03

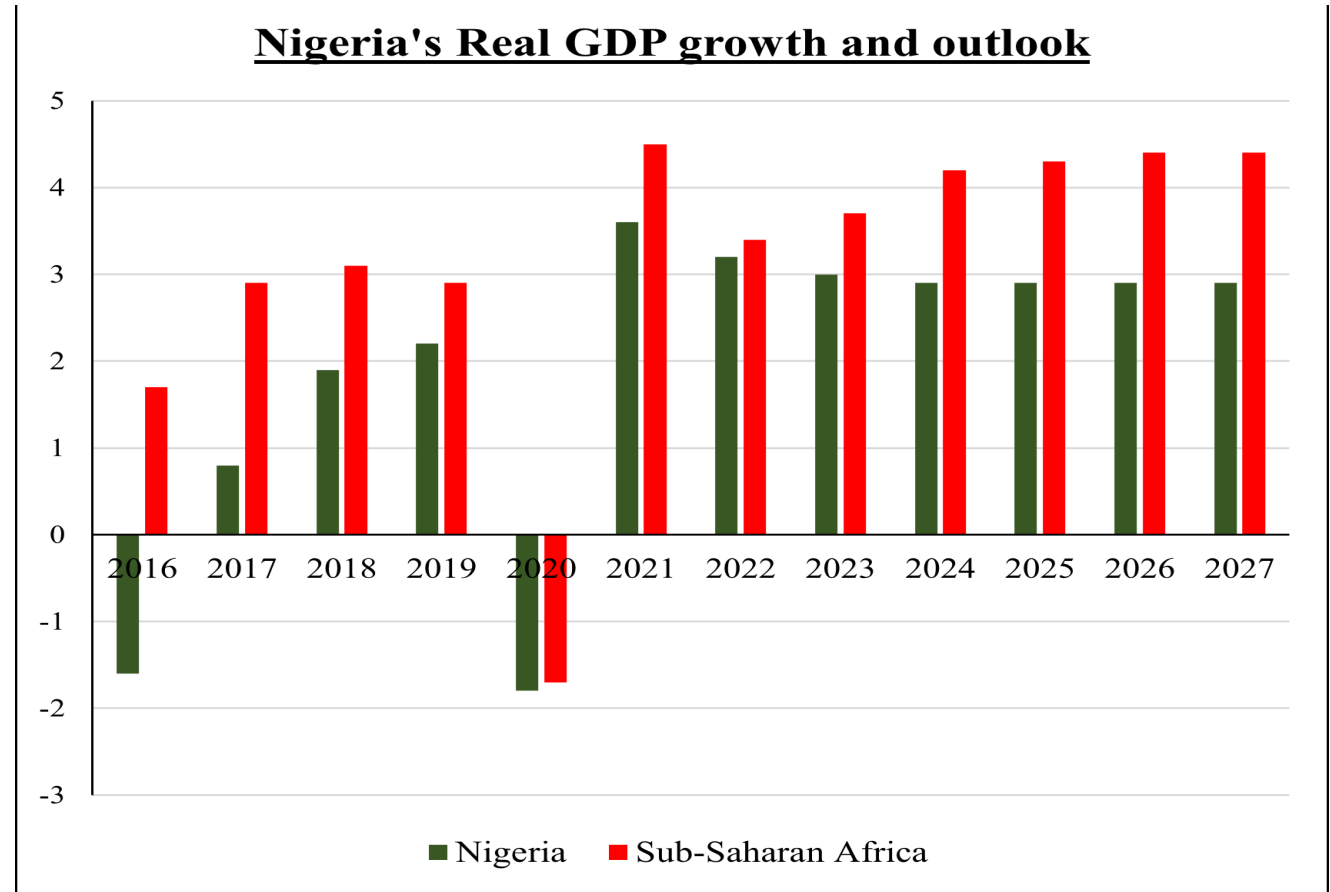
Nigeria has underperformed the GDP growth of its peers in sub-Saharan Africa (SSA) in recent history and outlook.

04

Nigeria remains Africa's largest economy and most populous country (Real GDP (2021)- \$518bn, World Bank).

05

Nigeria trails Togo, Kenya, South Africa, Ghana and even Haiti in its UN Human Development index (HDI) rank for 2021. Save for Nigeria's high GNI per capita, its HDI ranking would be worse.

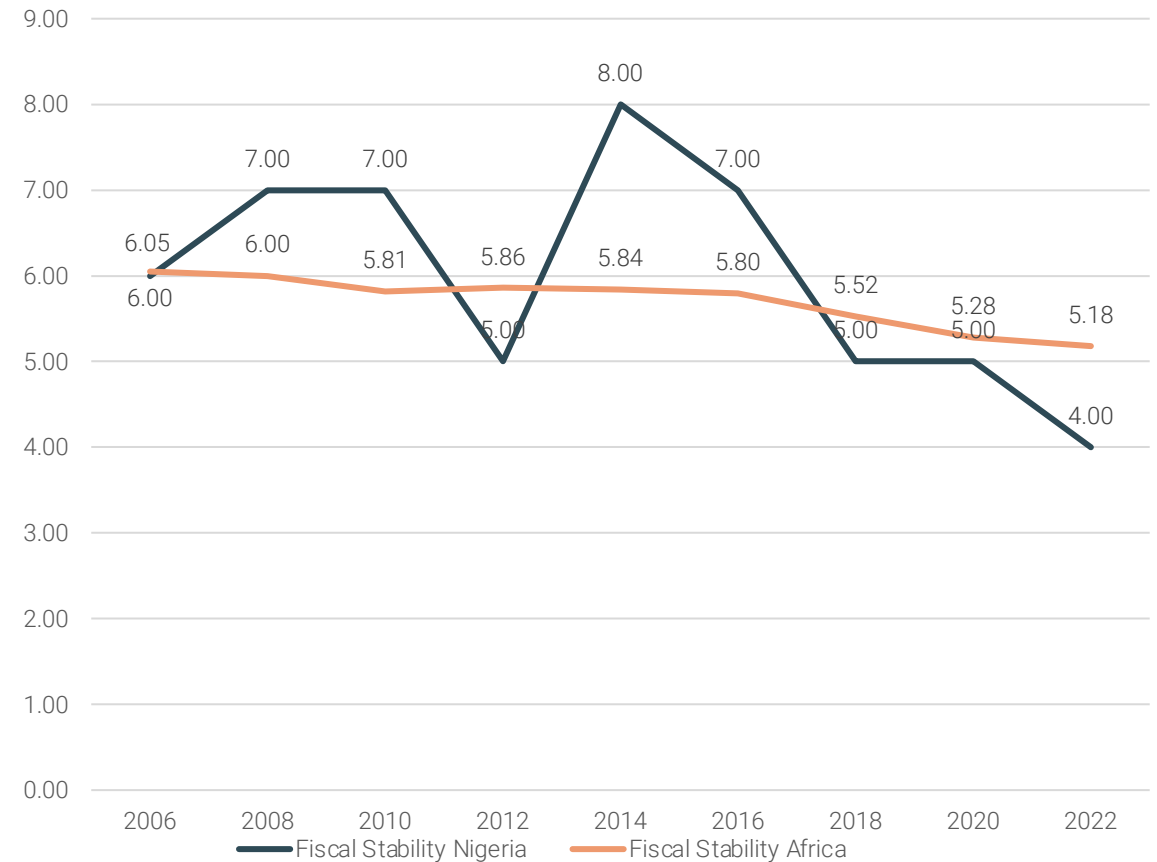


Source: IMF Data

# FISCAL STABILITY

Fiscal stability in Nigeria has generally been on the decline and is now worse than the continental average.

**Note:** *The Bertelsmann Transformation Index (BTI) assesses whether a government is pursuing a stability oriented fiscal policy which includes medium-term objectives and measures for debt sustainability and fiscal consolidation, and potentially the establishment of a stabilization mechanism to reduce external vulnerability.*



Source: Bertelsmann Stiftung

# NIGERIA & REVENUE

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The Sleeping Giant

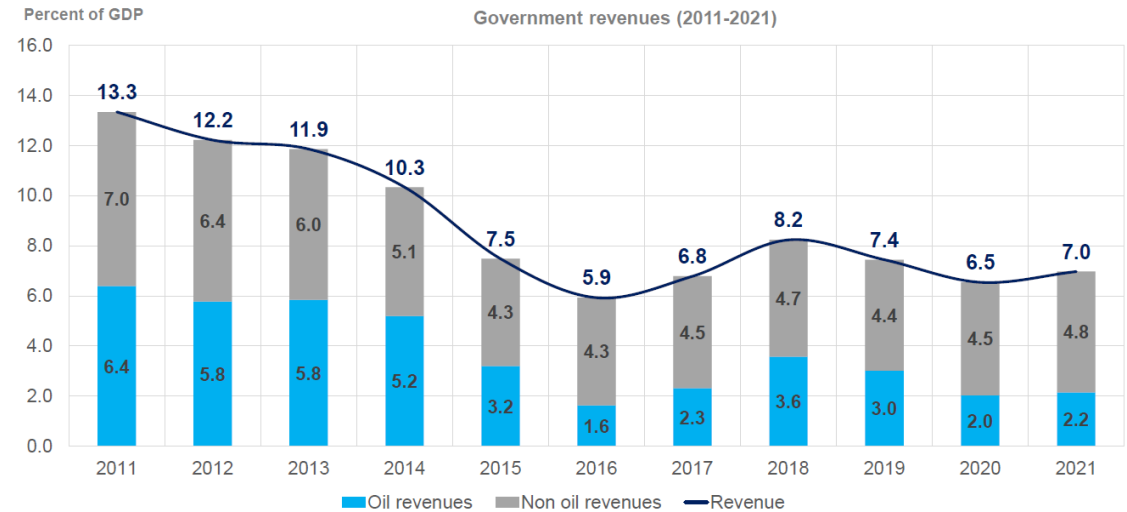
# LOW REVENUE MOBILIZATION

01

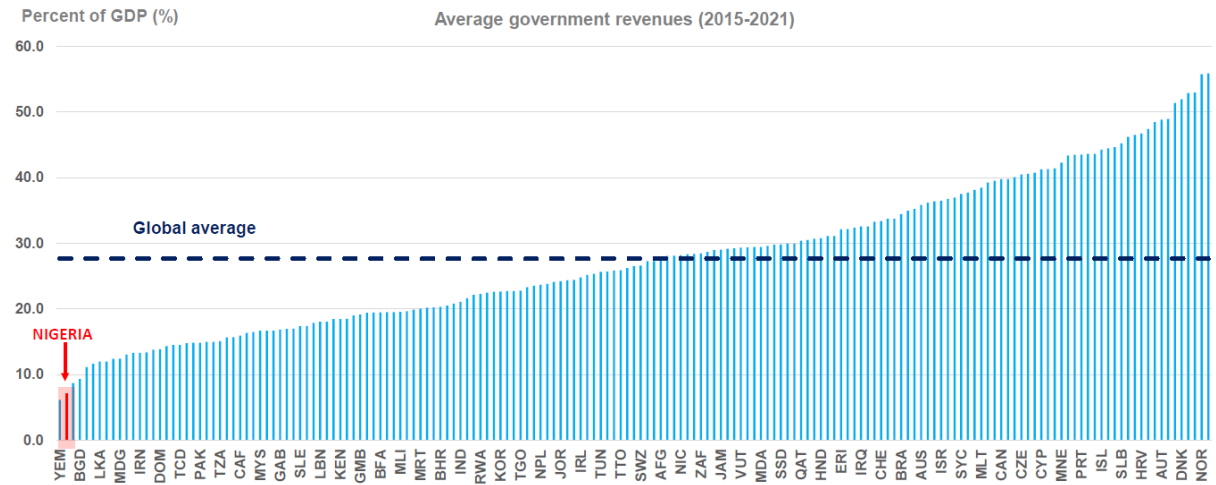
Nigeria's government revenues are one of the lowest in the world.

02

Not only are Nigeria's revenues one of the lowest in the world, but they have also been on the decline in the last decade on a Revenue to GDP basis.



Source: World Bank



Source: World Bank

# BIG POTENTIAL, LOW PERFORMANCE, ABYSMAL OUTLOOK

01

Nigeria's Tax-to-GDP ratio is the least among the 31 African countries sampled for 2020. This reflects the weak actual tax collection compared to tax capacity (or tax potential).

02

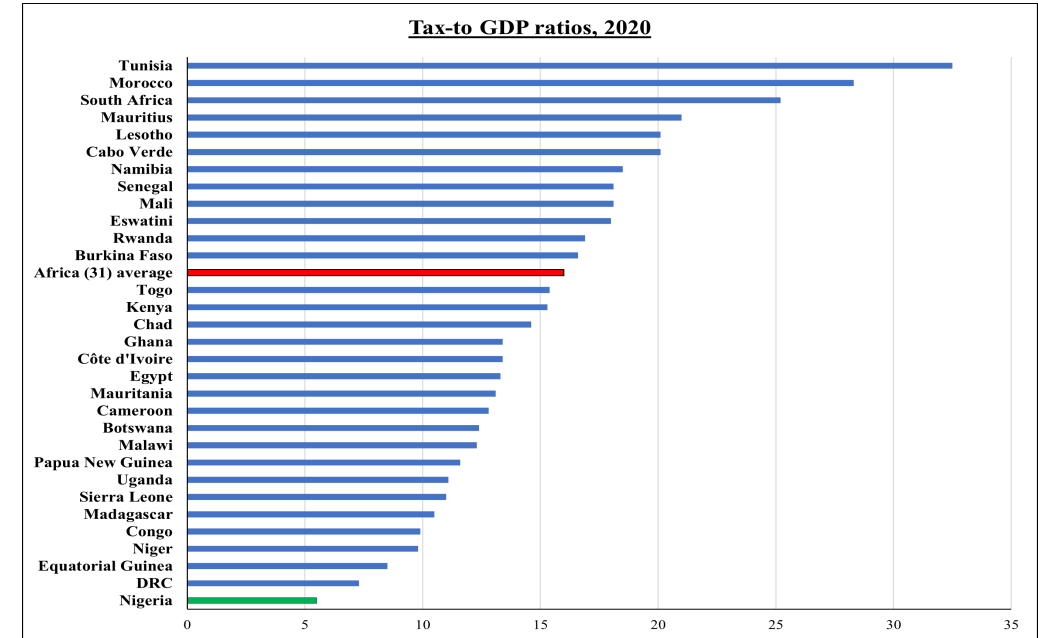
IMF recommends a minimum 15% Tax to GDP ratio for developing countries to effectively invest in the future and sustain economic growth.

03

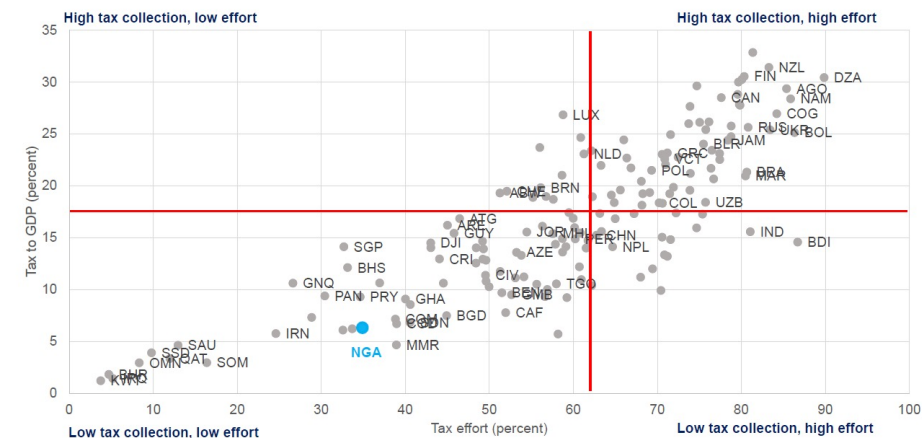
Nigeria's total revenue (tax and grants) to GDP ratio for 2022 stands at 8.4%

04

IMF expects Tax-GDP to fall to 7.5% by 2027.



Source: OECD



Source: World Bank



# OVER DEPENDENCE ON OIL

01

Oil revenue accounted for about 43% of general Government revenue for 2022.

02

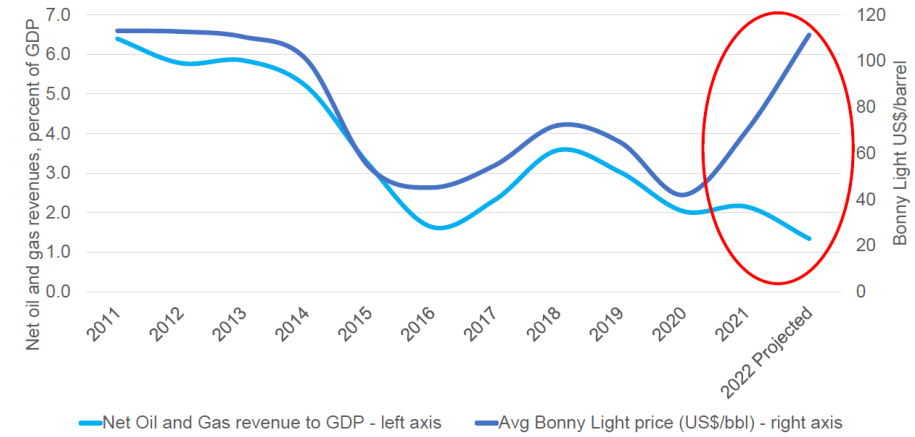
Oil revenues which have contributed significantly to revenue in the past have continued to fall despite higher oil prices.

03

There has been a historically unprecedented decoupling between oil revenue and oil prices partly due to lower crude oil production.

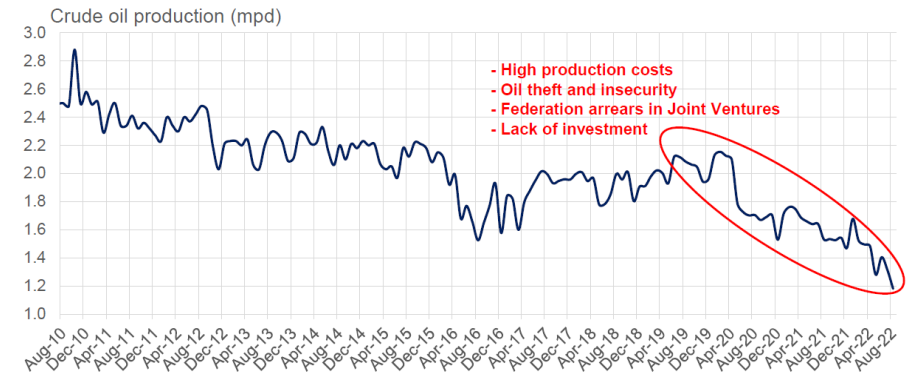
04

Nigeria's revenue is heavily exposed to the single point risk of Oil, making it overly concentrated, susceptible to external shocks and less diversified for sustainability.

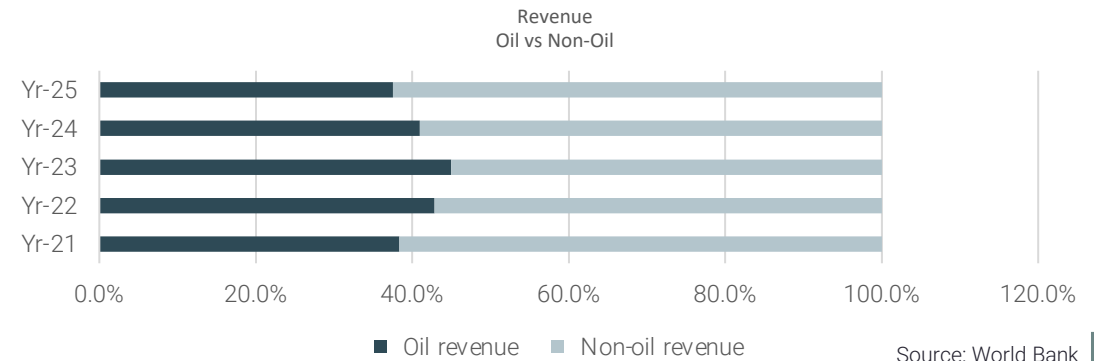


Source: World Bank

In H1 2022, oil production was the lowest in three decades



Source: World Bank



Source: World Bank

# LOW TAX RATES, POOR TAX ADMINISTRATION

01

Low tax revenues is also due to low tax rates (even after recent reforms) and inefficiencies in administration.

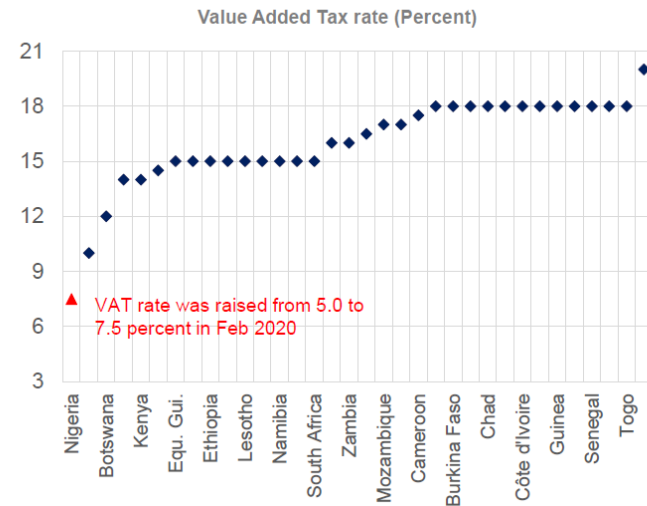
02

Nigeria's VAT stands at 7.5% while typical rates among its peers ranges between 15% and 18%.

03

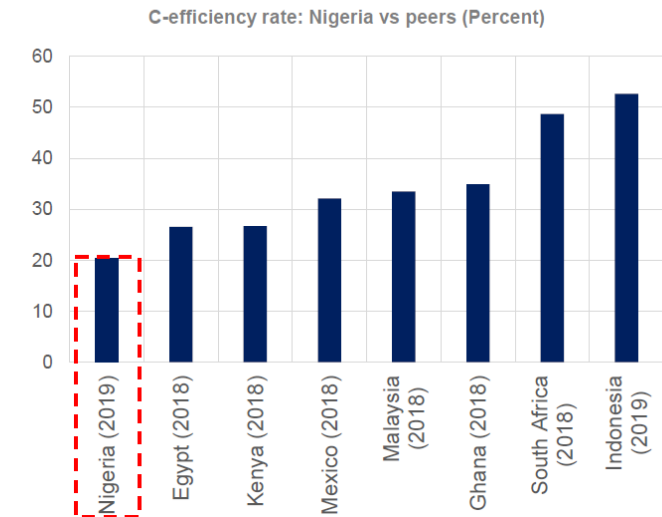
Collection efficiency is also low.

The VAT rate is the lowest in SSA...



Source: World Bank

... and its collection is not very efficient



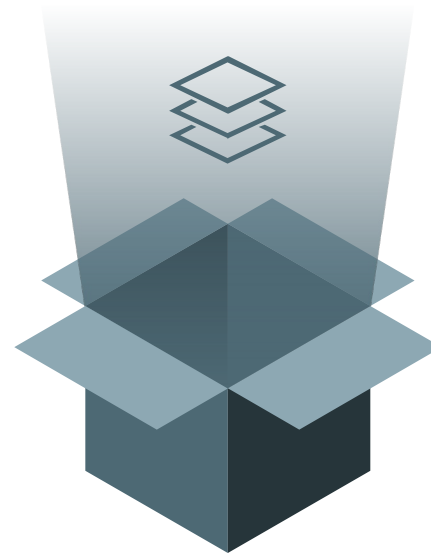
# EXPENDITURE EFFICIENCY

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# PUBLIC EXPENDITURE GUIDE



Economic output is a function of the efficiency of labour and Capital of a given economy.



Sustainable expenditure on labour and capital is required to optimize an economy



Efficient expenditure must optimize the productivity of the citizenry and the efficiency of capital expenditure to unlock the economy.

# LOW AND CONSTRAINED SPENDING

01

Efficient government spending in critical sectors of the economy is necessary for Nigeria's economic development.

02

Public spending in Nigeria is among the lowest in the world.

03

Low expenditure to GDP is not driven by fiscal consolidation but rather low revenues.

04

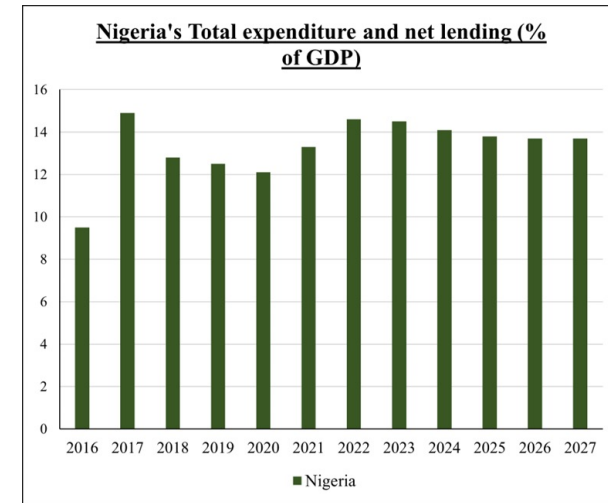
IMF outlook on expenditure remains bleak.

05

Low spending exists amidst high deficits.

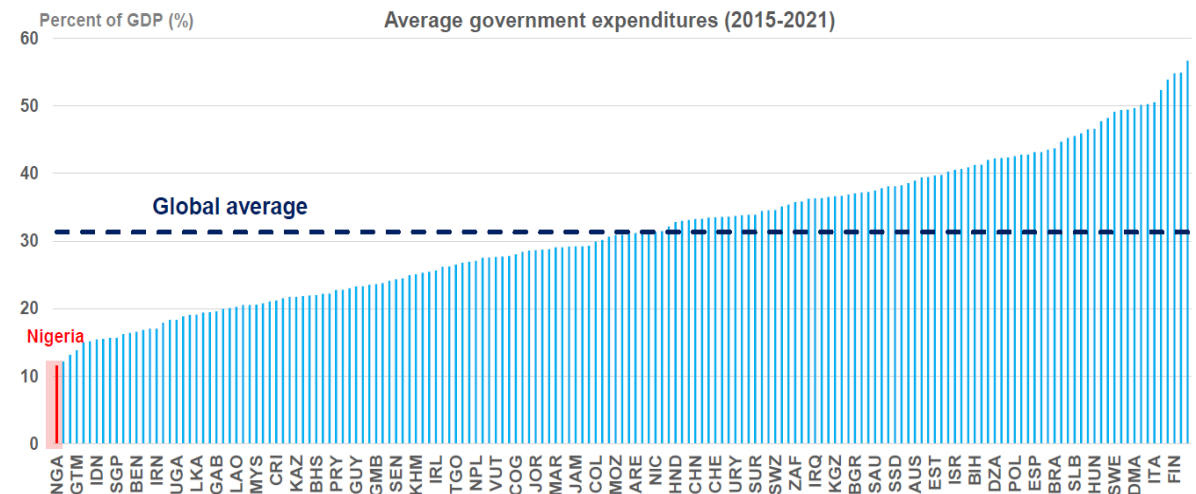
06

Leakages from corruption make the effective spend even lower.



Source: IMF Data

Nigeria's government expenditures are the lowest globally



Source: World Bank

# LOW SPEND ON LABOUR OPTIMIZATION

## Inadequate spending on Education & Health

01

Labour optimization requires adequate and effective spending on health, education and skills development.

02

Nigeria spends \$23 per person on education while Ghana and south Africa spend \$88 and \$350 per person.

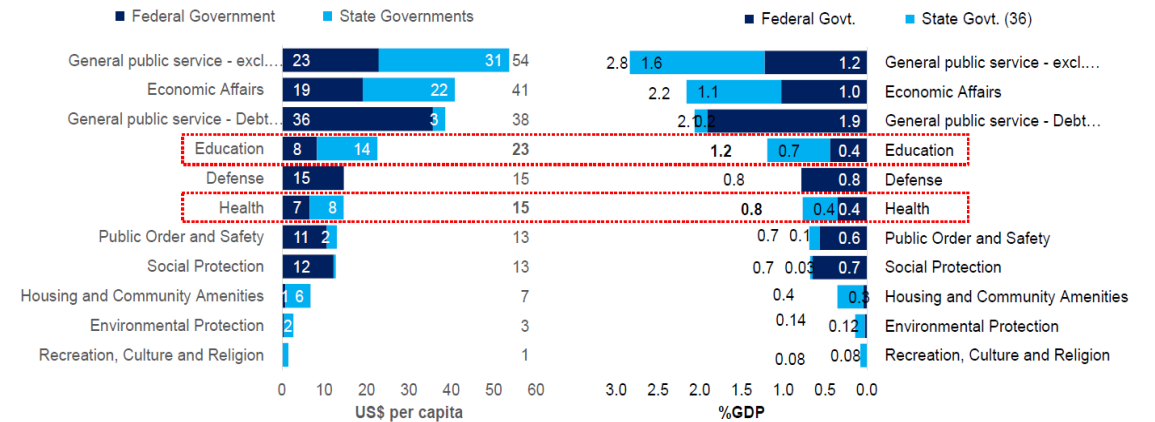
03

Nigeria's spending is more on unproductive sectors of the economy.

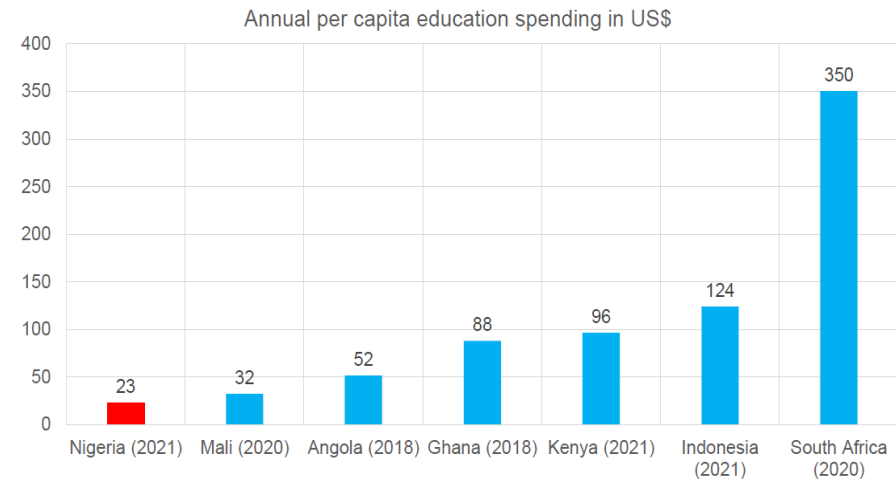
04

Spending on social sector is particularly low (even relative to comparable countries).

General government (federal and state) budget allocations across government functions (2021)



Source: World Bank



Another example – healthcare:

Nigeria spends **US\$15** per person per year on public healthcare, much lower than Indonesia's spending of **US\$55** per person

Source: World Bank

# LOW CAPEX INVESTMENTS

01

Nigeria's spending is insufficient to close the infrastructure gap.

02

Nigeria needs a minimum \$100bn per year efficient infrastructure investment to close the infrastructure deficit in 30 years (Ref. *National Integrated Infrastructure Master Plan*)

03

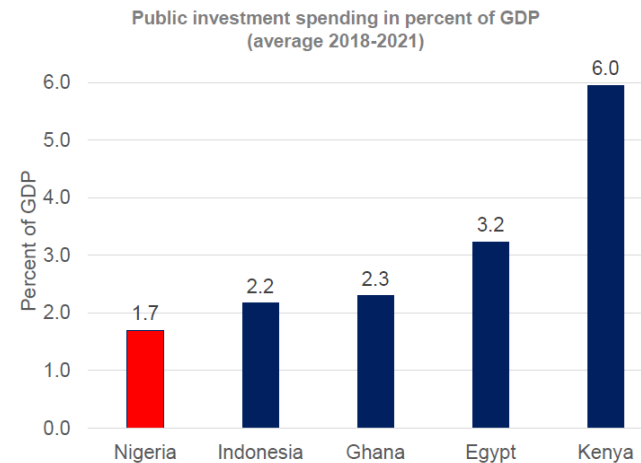
This is reflective in its low access to electricity. A critical resource for industrial transformation.

04

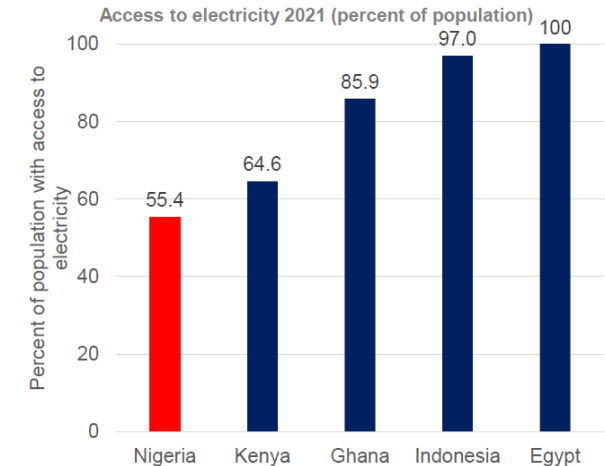
Capex spend for 2022 was under \$20bn.

At the current rate of capital spending, it would take 300 years to close Nigeria's infrastructure gap

Public investment spending in Nigeria lags those in other countries...



...resulting in poor quality of and access to infrastructure



Source: World Bank

# DEBT CRISIS & THE OVER BEARING INTEREST PAYMENTS

01

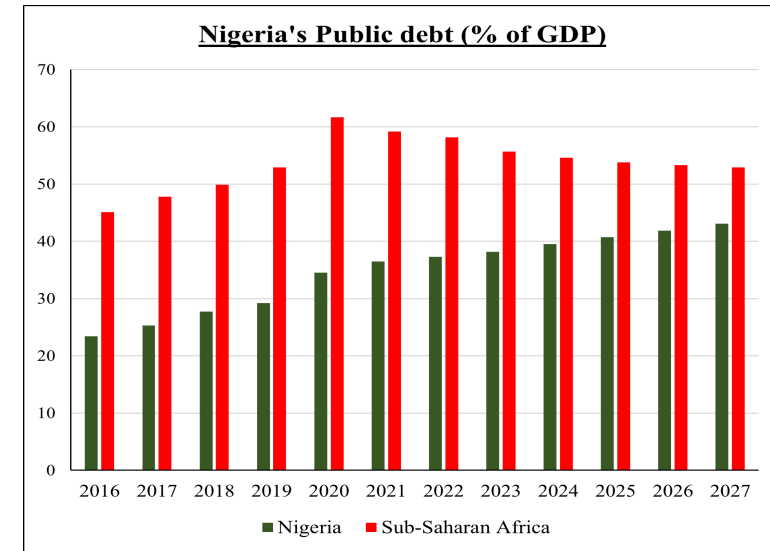
Though Nigeria's debt to GDP (37.3%) is lower than the sub-Saharan African average (58.2%), the FGN interest payment to FGN revenue is unsustainable at 96.3% (2022)

02

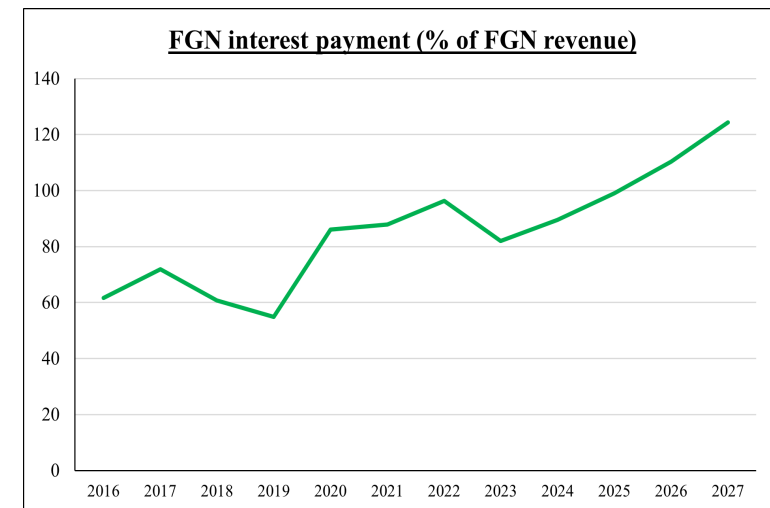
Debt is not serviced from GDP. It is serviced from Revenue. At current revenue levels, Nigeria is in a debt crisis!

03

There is the need for fiscal reforms to create needed fiscal space to put public debt on sound footing and reduce vulnerabilities.



Source: IMF Data



Source: IMF Data

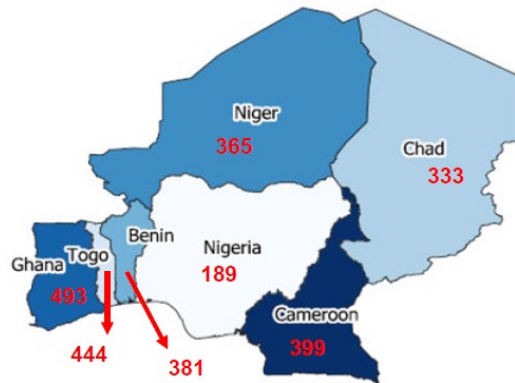


# FUEL SUBSIDY: AN ELEPHANT IN THE ROOM

**Nigeria's low petrol prices create incentives for smuggling petrol to neighboring countries and benefit mainly the rich**

Nigeria's petrol prices are by the lowest in the region, creating strong incentives for smuggling

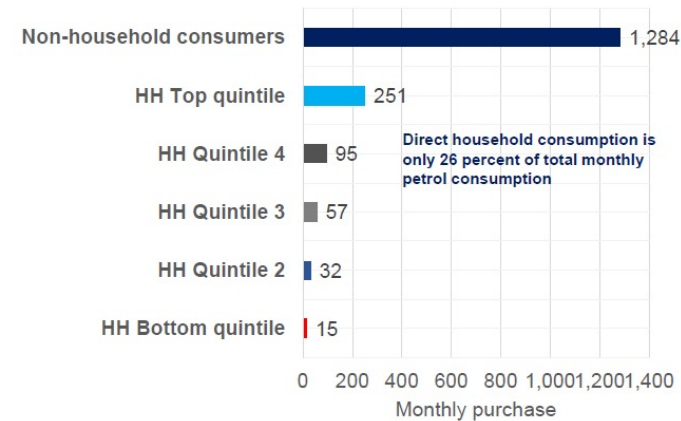
Petrol prices in Nigeria and neighboring countries in September 2022 (naira)



Source: World Bank

**The poorest 40 percent of the population purchase just 3 percent of all subsidized petrol**

Petrol consumption by quintile (million liters)



Fuel subsidies disproportionately benefit richer households and leak to neighbouring countries. The poorest 40% of Nigeria's population benefits only 3% from petrol subsidies. 26% of total general government revenue and grants was used to subsidise petrol.

# STRUCTURAL ECONOMIC ISSUES

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# MONETARY STABILITY

01

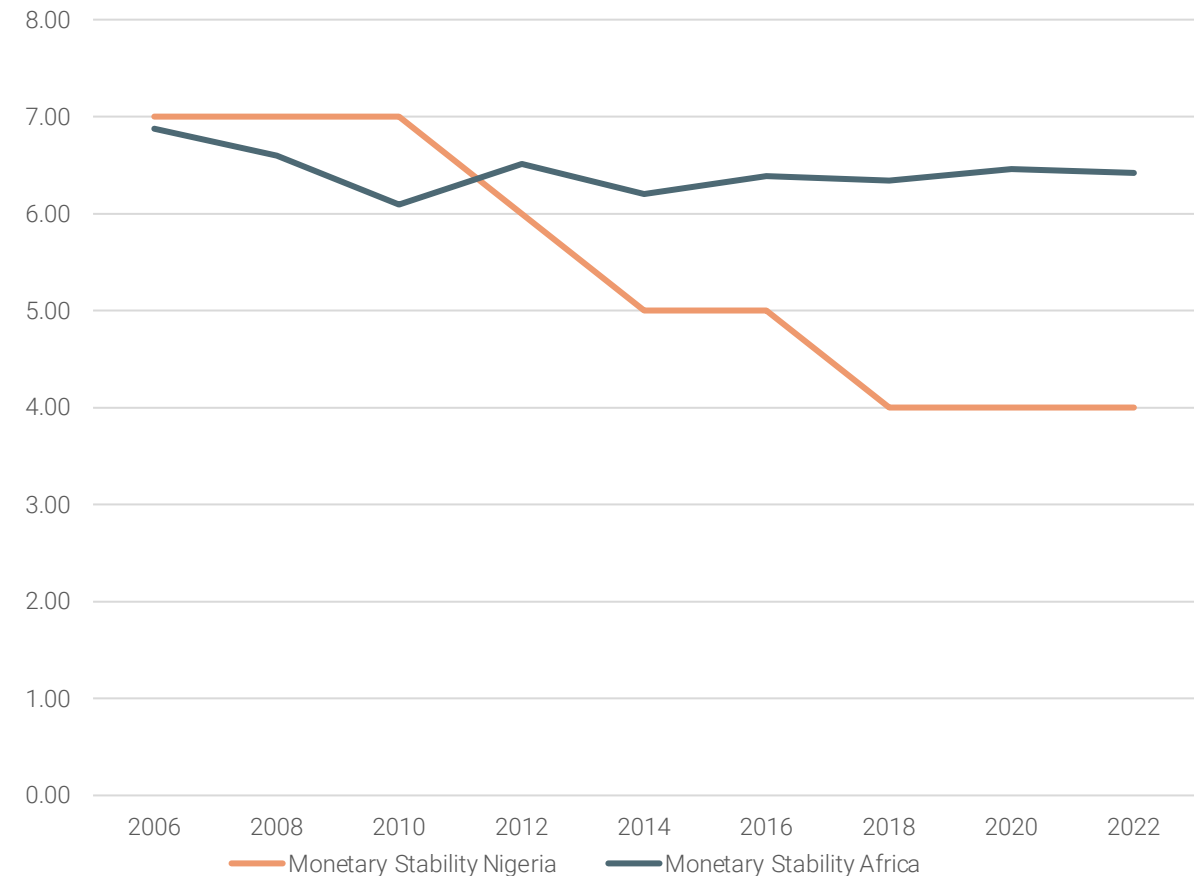
Monetary stability in Nigeria was higher than the continental average between 2006 to 2010.

02

There has been a sharp decline in monetary stability.

03

Monetary stability is now far lower than the continental average.



Source: Bertelsmann Stiftung

# FOOD INSECURITY

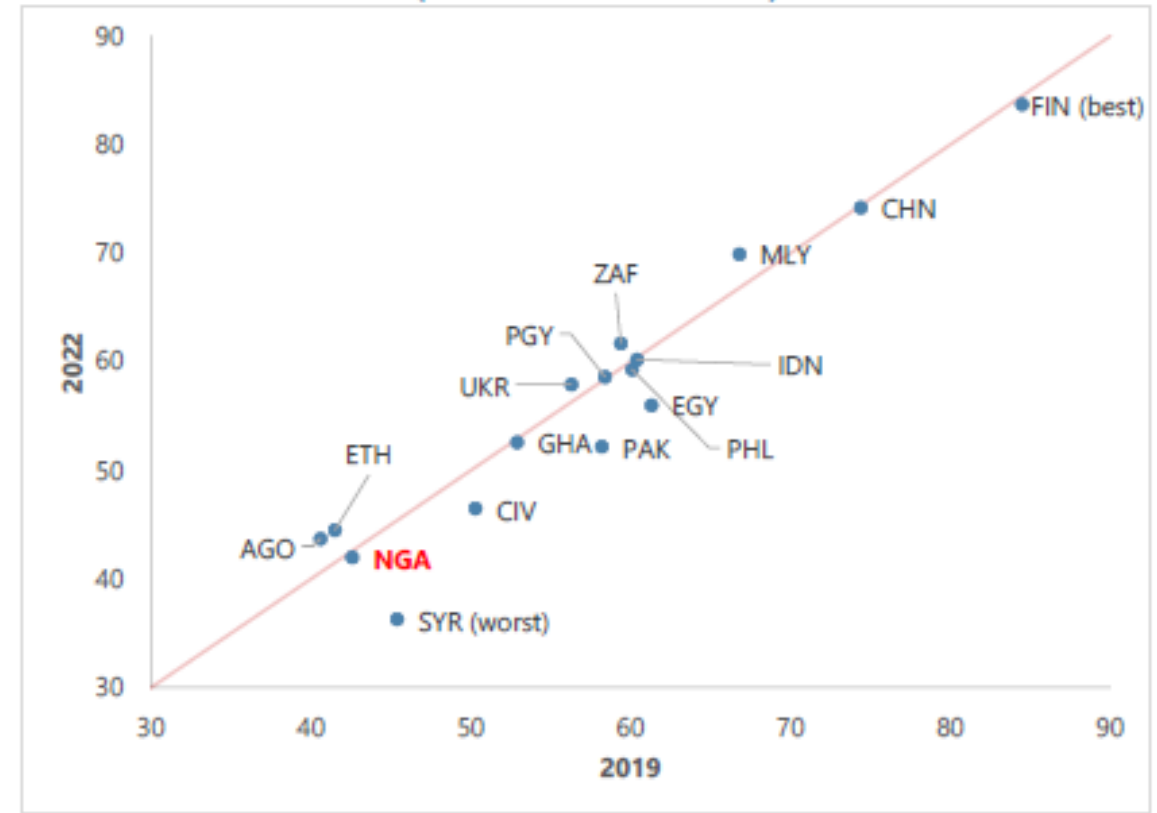
Nigeria is among the countries with the lowest food security in the world.

Nigeria has the 7<sup>th</sup> largest arable land in the world with 35mn Ha and it has about 1mn ha of internal water bodies. About 90k ha is irrigated.

Nigeria globally ranks 34<sup>th</sup> in the world for fresh renewable fresh water supply ahead of Ukraine.

40% of Nigerians are consider highly food insecure

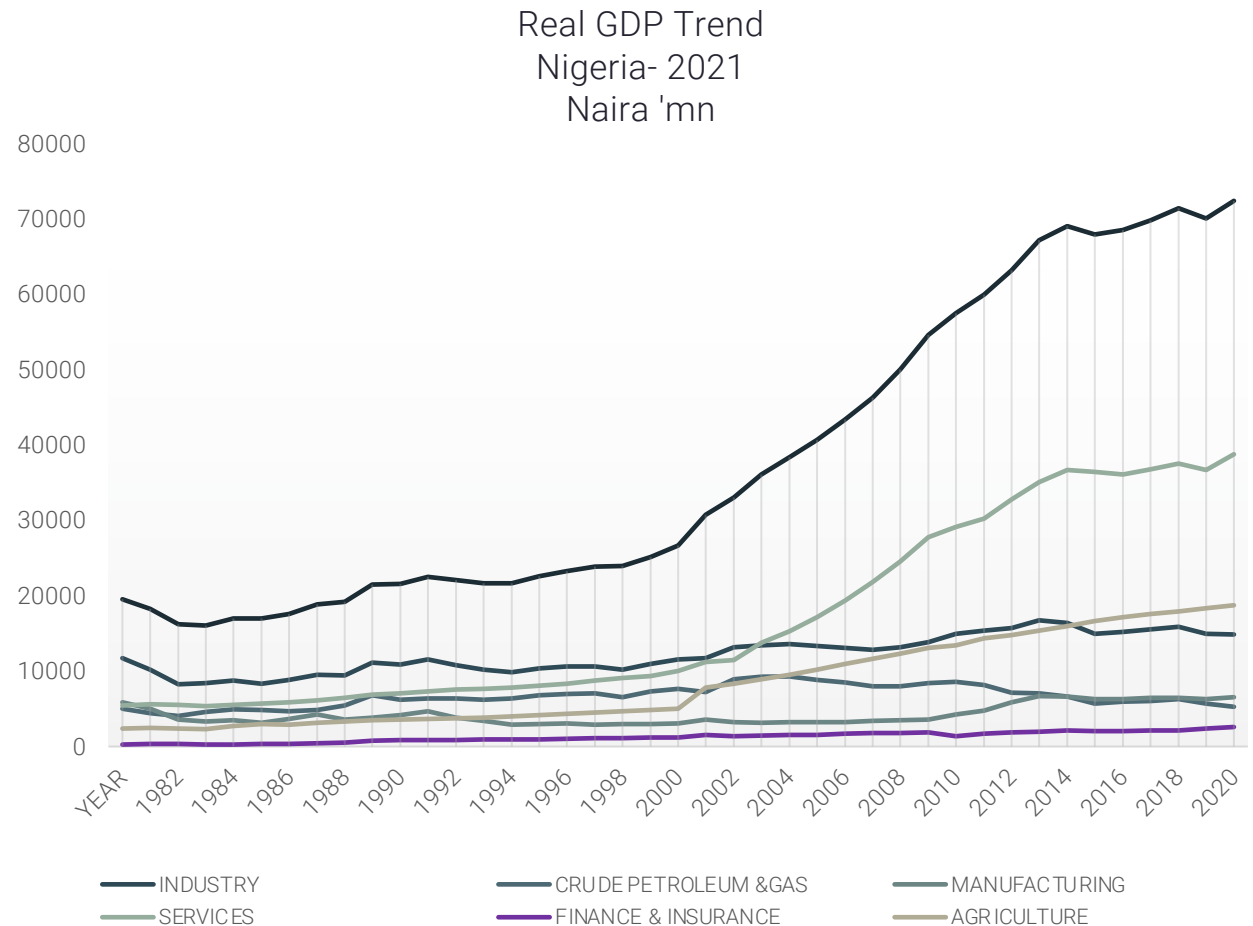
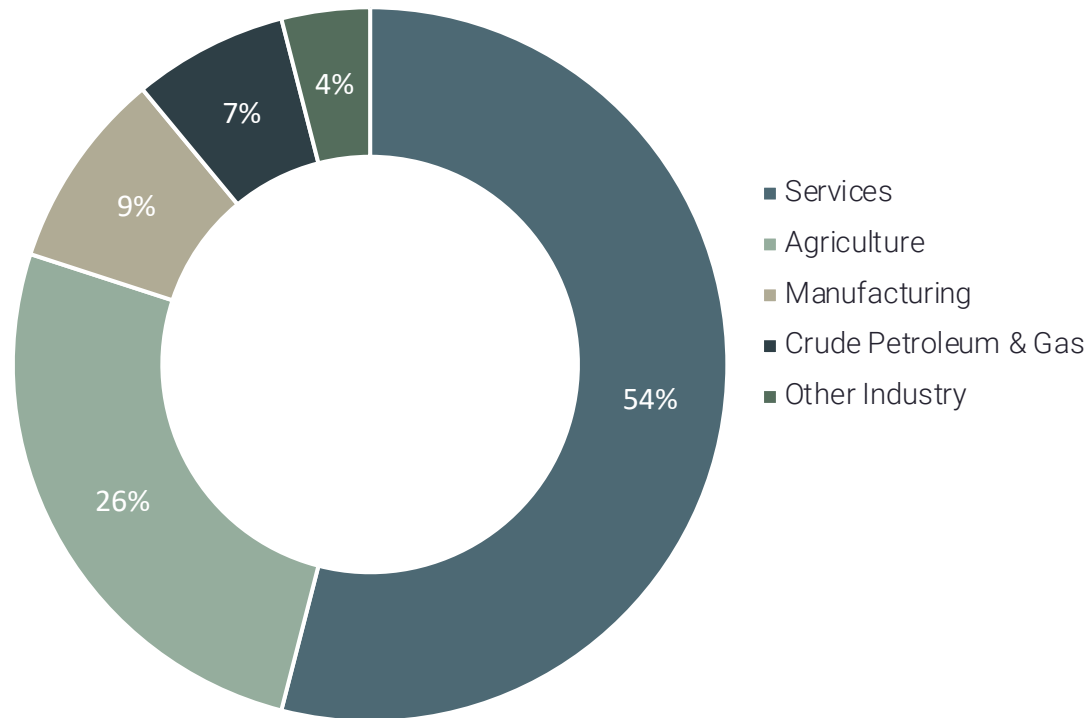
**Food Security Index, 2019 and 2022**  
(Score= 0 to 100)



Source: World Bank

# LOW ECONOMIC DIVERSIFICATION

Contribution to real GDP by industry, a major vehicle for addressing unemployment, has been stagnating or falling. The economy is heavily skewed towards services at 54% while revenue remains dependent (43%) on crude which accounts for below 7% of RGDP. This presents major growth opportunities for a resource rich, underdeveloped and populous economy like Nigeria going forward. There is a need for a restructuring of the Industry and Agric sectors to optimise development.



Source: CBN Data

# UNDERPERFORMING FINANCIAL SECTOR

01

Despite having a high savings to GDP rate (34%) above the global average (27%), the Nigerian Financial sector's contribution to GDP has been underwhelming. This suggests that the financial sector is either underdeveloped or inefficient. It struggles to effectively allocate savings towards productive investments and lacks financial innovation and diverse financial products.

02

The Financial sector's contribution to the services sector has been under performing all other major sectors with relatively flat growth and increasingly lower real contribution to the services sub-sector.

03

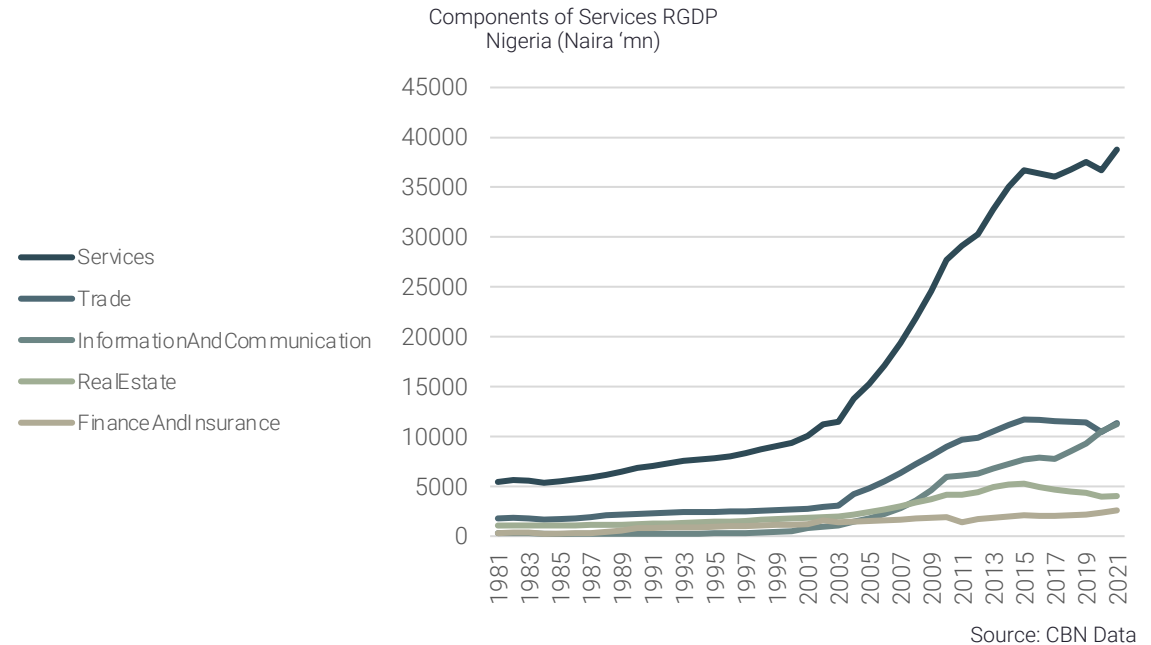
This is indicative of a major structural weakness in the Nigerian economy. Financial inclusion is extremely low with over 30% excluded.

04

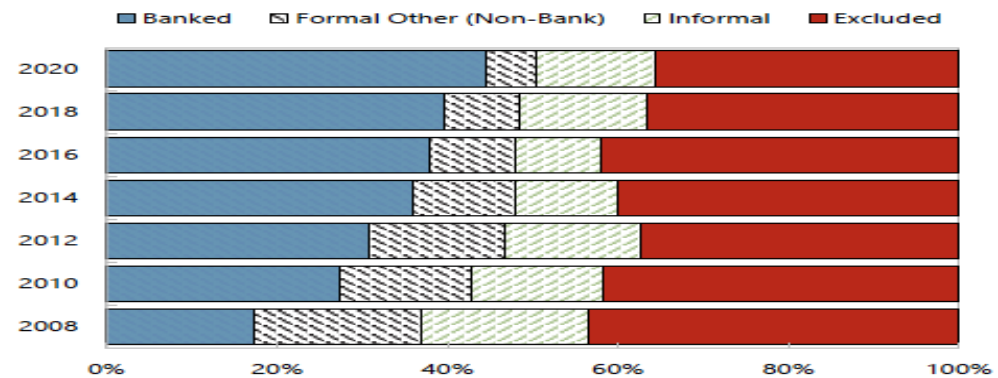
The Finance sector is crucial in promoting economic efficiency and transformation.

05

The high savings culture in Nigeria presents opportunities for the financial sector to be the driver of a major economic transformation amidst challenges with FDIs.



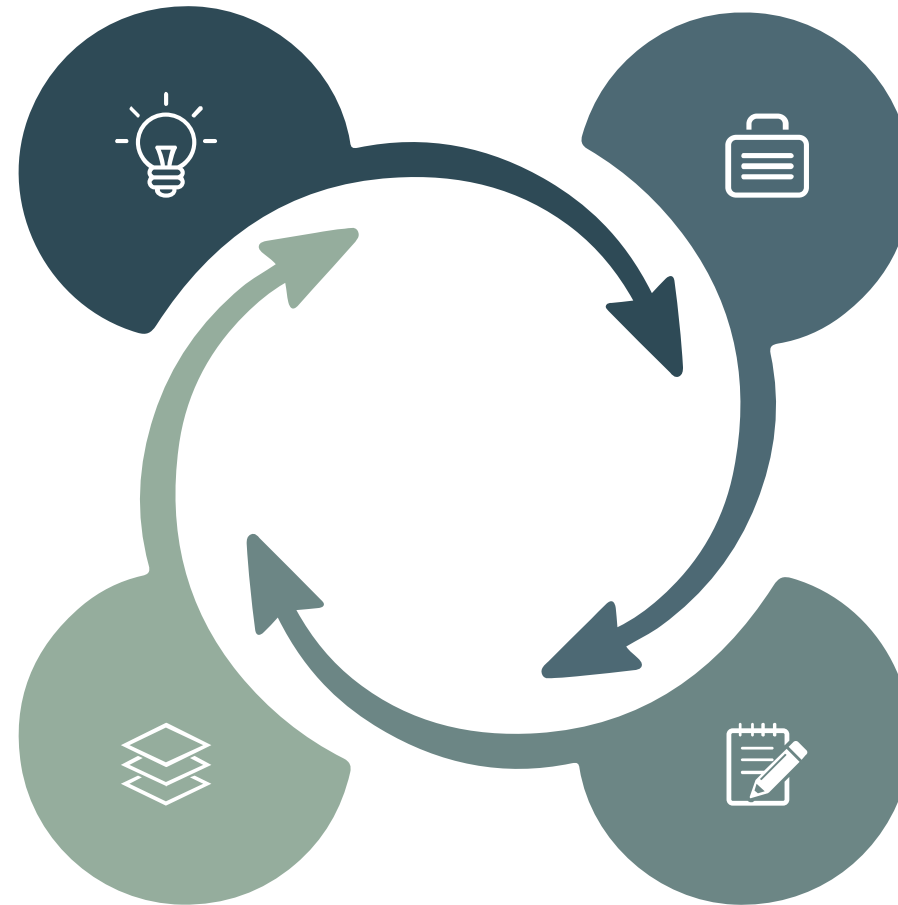
## Progress in Financial Inclusion



# UNEMPLOYMENT AND SOCIAL IMBALANCES

Unemployment estimated at over 33% (Dec. 2020)

4 in 10 Nigerians earn less than 90 US cents a day



25million new jobs are required over the next decade to meet new labour market entrants (not those outstanding)

Nearly 133mn (63%) are multidimensionally poor

# POLICY RECOMMENDATIONS

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Flying the Eagle



# SWOT ANALYSIS - NIGERIA

## Strengths

- Significant Natural Resources (Oil & Gas, Arable Land, Water)
- Strong Internal demand/high population
- High entrepreneurial populace
- Regional influence
- Very young population (43% under 14yrs)
- High savings culture
- Constructive location for continental trade along and south of the gulf of guinea.
- Africa's largest economy

## Threats

- Energy Transition
- Oil & Gas price crush
- Political Instability
- Politically Polarized and weak institutions

# SWOT ANALYSIS - NIGERIA

## Weaknesses

- Poor Tax administration
- Corruption
- Over dependence on Oil and Gas for revenue
- Poor infrastructure
- Political interference in public institutions hampering the ease of doing business
- Lack of central bank independence
- Low social sector investments (education & health)
- Skilled human resource drain
- Weak public institutions
- Low FDI attractiveness
- Unreliable power supply

## Opportunities

- Economy diversification
- Access to underdeveloped African Markets
- Untapped revenue opportunity
- Infrastructure gap
- Africa Continental Free Trade Agreement
- Continental presence of indigenous banks.
- Low cost of unskilled labour
- Access to resources for efficient power generation (renewable, hydro and thermal)

# POLICY RECOMMENDATION



# CREATE FISCAL SPACE

Optimizing revenue

Why revenue optimization?

- Reduction of debt service to revenue ratio to sustainable levels.
- Funding the infrastructure gap and optimizing capital productivity
- Stimulating sustainable growth
- Investing in optimizing labour capacity and productivity

Crude Revenue Optimisation

Revise existing petroleum agreements to incentivise IOCs make necessary investments to boost production. This may include divesting FGN stake to private sector and pension funds.

Revise tax structure to align with contemporary models

- Property taxes
- VAT rate increase to 15-18%. Attach key social and labour optimising investment to increase (e.g. National Health Insurance)
- VAT collection optimisation
- Tax income from government and corporate bonds & Bills (benchmark rent tax income)
- Reform tax administration, closing legal tax loopholes and leveraging on technology to support tax compliance

Review tax strategy for service sector and increase service sector tax revenue contribution

Widen the direct tax base by educating and enforcing tax laws. Tax compliance certificates should be required and directly linked to access to key public goods (like driver's license, Passports, Banking facilities)

# CAUTION



Pursuing tax compliance to optimise revenue will likely be ineffective if not seen and felt to be coterminous with the fight against corruption and efficient expenditure by Government.

# INVEST RIGHT-OPTIMISING EXPENDITURE

Leverage fiscal space to invest in



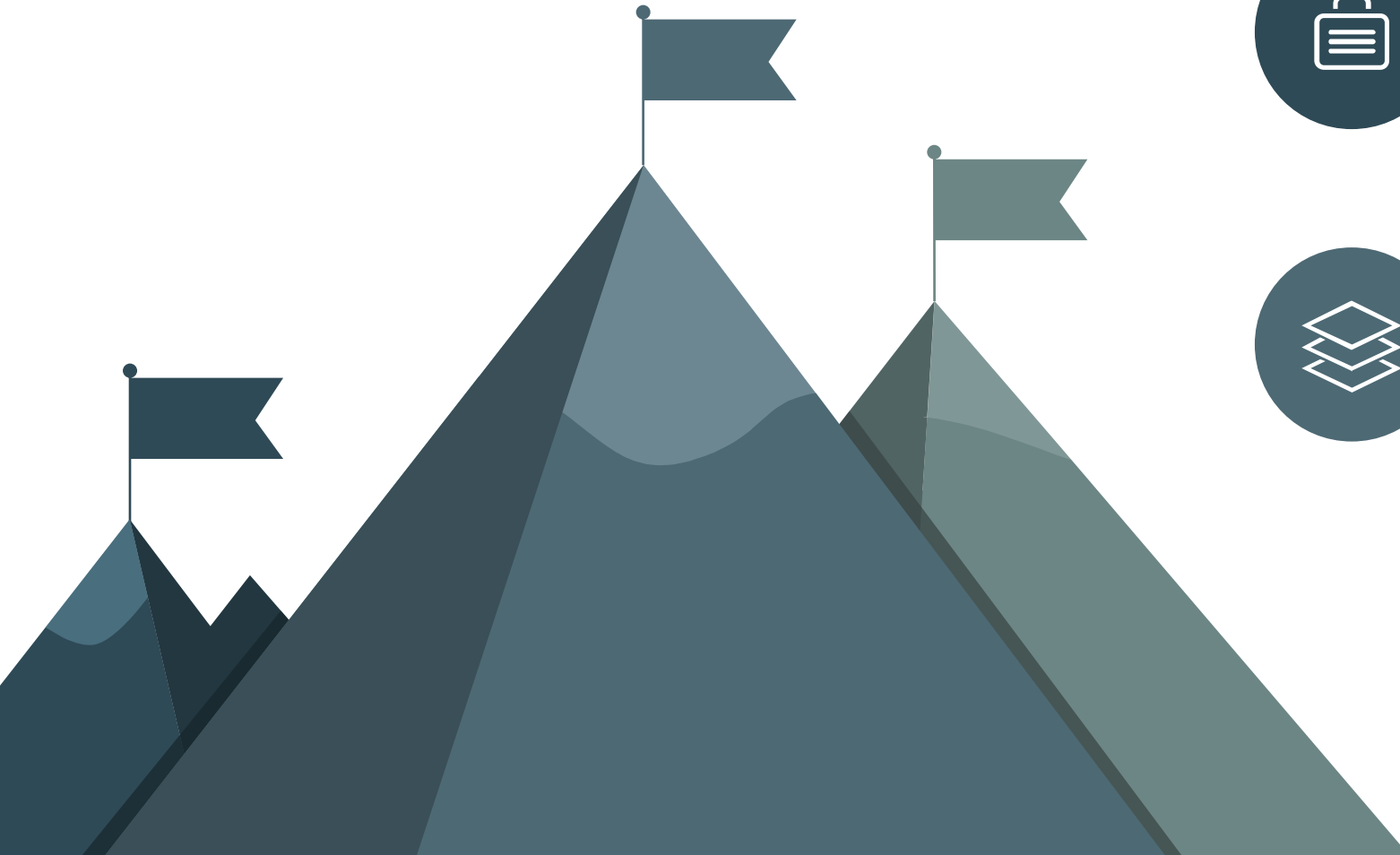
## Optimizing labour

Increase education and health expenditure per capita equal to or more than Ghana's position.



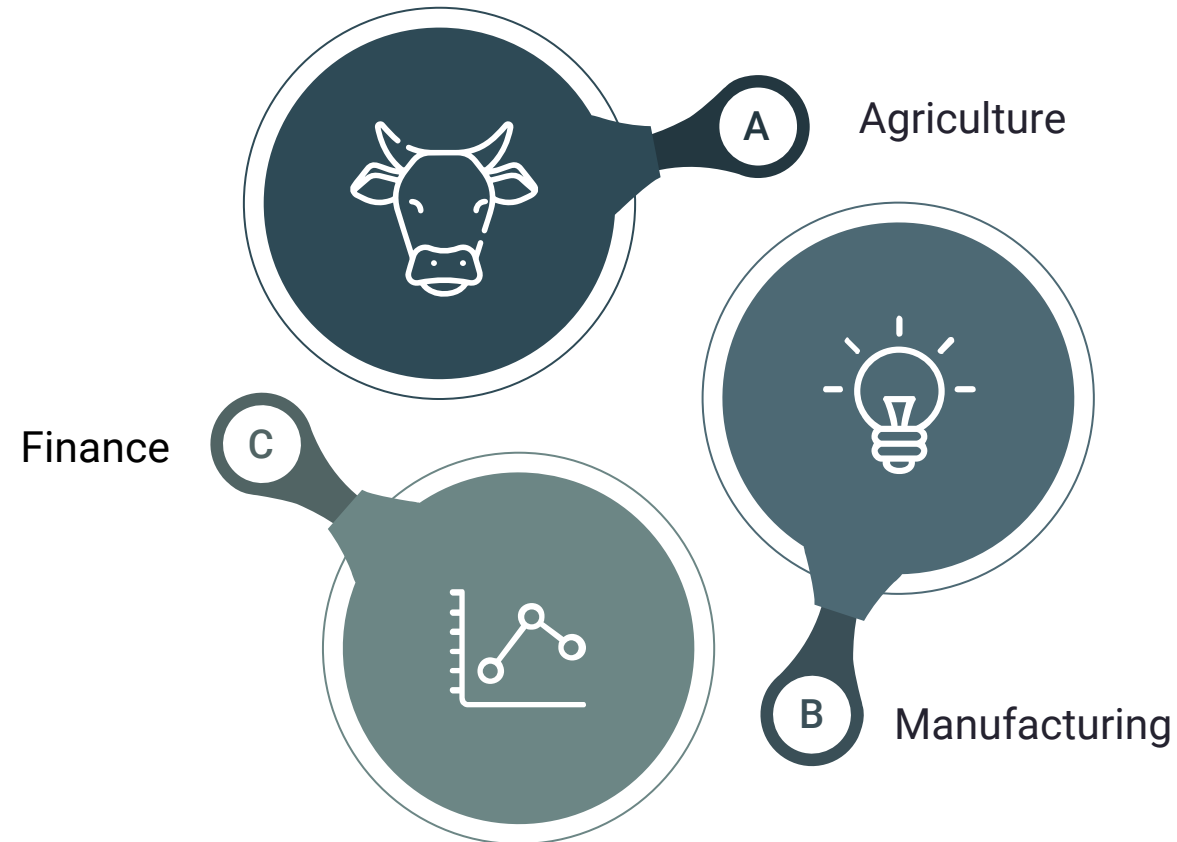
## Filling the Infrastructure gap

Focus on agriculture, irrigation development, mass transportation and sustained power supply. These sectors provide the base for economic transformation.



# ECONOMY DIVERSIFICATION

The Africa free trade area presents Nigeria with both an opportunity and a potential threat. Nigeria's internal demand, natural resources and savings rate positions it to dominate the continent with the following anchors to diversify its economy and generate sustainable and meaningful jobs.



# AGRICULTURE

An anchor for sustainable growth

With the 7<sup>th</sup> largest arable land and more renewable freshwater than Ukraine, Nigeria should be a breadbasket for West Africa.



Agriculture must be large scale, mechanised and very commercial to provide the raw material base for low to medium manufacturing and industrialization through which sustainable jobs shall be created.



Agriculture should not be viewed as a driver for creating jobs through subsistence farming. Agric investments must cease being seen as social interventions but rather commercial and economic interventions.



Government expenditure must be focused on debottlenecking the agric supply chain for easier private sector financing. Developing agric land banks, expanding the irrigation infrastructure and regulating the supply chain will be key.



The sector framework and policy



# MANUFACTURING

- Cost of power in Nigeria (7 cents) is lower than China (9 cents for industries). And Nigeria is centrally located to feed most of Africa
- With a strong internal and continental market and a high savings rate (improving access to funds), the only way for Nigeria is up.
- Manufacturing and its related supply chain will provide the jobs to sustain



# FISCAL SPACE EXPENDITURE



## Remove Fuel Subsidy

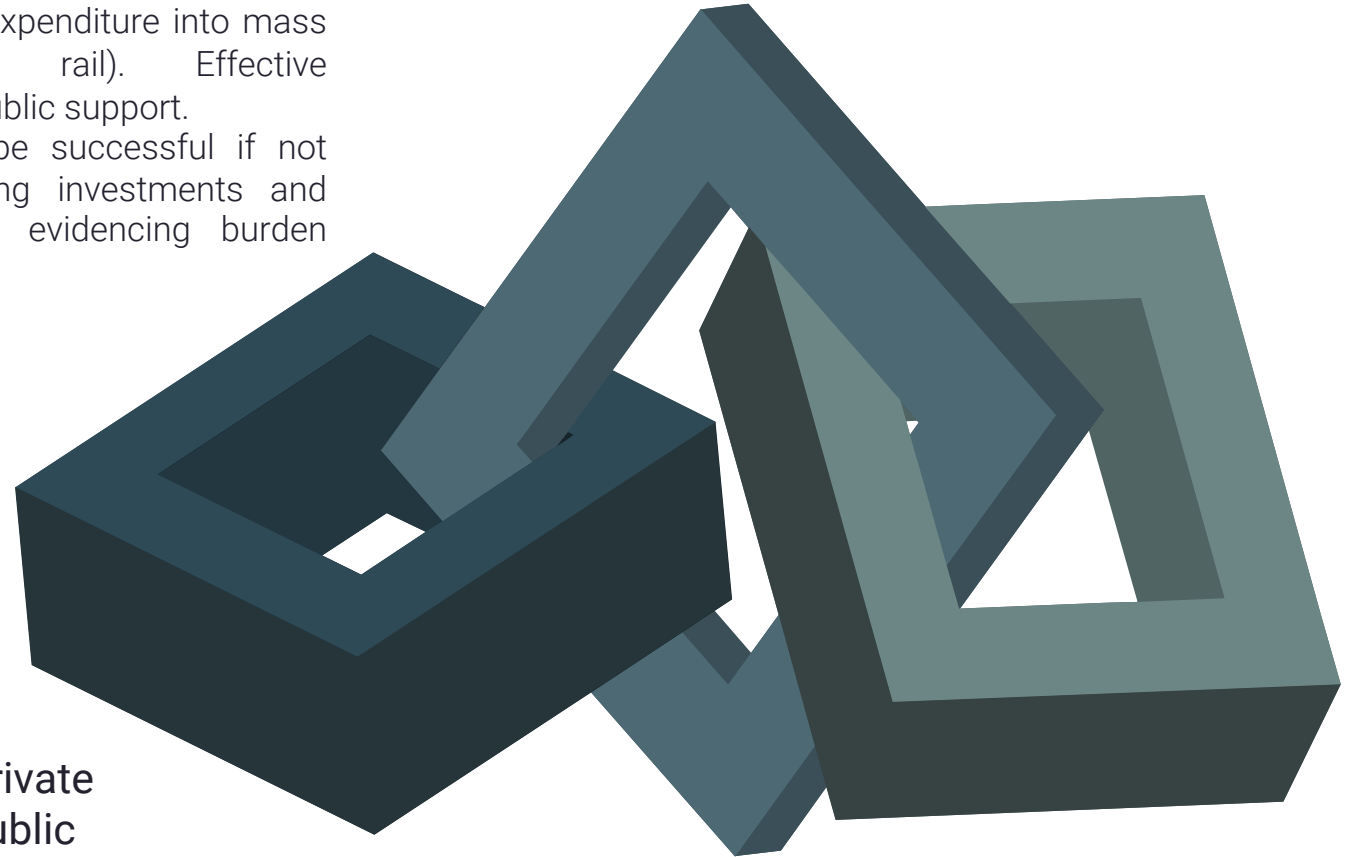
- End petroleum subsidies and redirect expenditure into mass transportation investments (like rail). Effective communication may optimize rallying public support.
- The removal of subsidies may not be successful if not accompanied with clear compensating investments and visible government expenditure cuts evidencing burden sharing.



## Genuine and committed fight against corruption



## Right size government and adopt private sector outsourcing for inefficient public sector services



# FINANCE

Invest in public financial literacy, deepen efforts to leverage technology through solutions like mobile money and low KYC digital bank accounts to promote financial inclusion



Credibility and policy stability in the financial sector is key to attracting funding and financing to spur the economic diversification and transformation Nigeria can achieve



Strengthen the central bank's autonomy, reduce the presence of government officials at the Board and the CBN's committees. Safeguard the independence and tenure of central bank officials to inspire investor confidence



Modernize the Central Bank of Nigeria Act to enshrine price stability as the primary objective



Leverage continental presence of Nigerian Banks to deepen, prioritise and facilitate Nigerian continental trade



# CONTACT US.

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SSNIT Emporium (8th Floor), Liberation Road  
Airport City, Accra  
GPS: GL-126-4342



Phone

+233 (0)302 97 7813



E-mail

[info@tesahcapital.com](mailto:info@tesahcapital.com)



Website

[tesahcapital.com](http://tesahcapital.com)

