Nigerian budgetary response to the COVID-19 pandemic and its shrinking fiscal space: financial sustainability, employment, social inequality and business implications

Received 8 July 2020
Revised 1 September 2020
4 September 2020
Accepted 6 September 2020

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Abstract

Purpose – This article aims to explore the Nigerian government's budgetary response to the COVID-19 pandemic as well as the economic and social implications of the pandemic response.

Design/methodology/approach – Our analysis is based on a review of secondary evidence such as Nigerian Federal Government budget documents, policy documents, Central Bank of Nigeria circulars, news media articles, World Bank and International Monetary Fund reports, reports from Big Four accounting firms and policy think-tanks.

Findings – The authors highlight how increased borrowing to fund COVID-19 related economic and social interventions have significantly squeezed Nigeria's fiscal space. The authors also highlight that while some interventions provide short-term economic relief to the poor and small businesses, other interventions and gaps in the policy response have the potential for significant negative impact on businesses, households and unemployment. In addition, the authors highlight the potential for long-term benefits to the health sector and for private sector engagement in corporate responsibility and philanthropy.

Originality/value – The authors present a comprehensive account of the Nigerian government's budgetary response to the COVID 19 pandemic and the economic and social implications of this response.

Keywords Nigeria, CSR, Budget, Poverty, COVID, Fiscal space

Paper type Research paper

Introduction

The coronavirus (COVID-19) pandemic has affected most, if not all, countries in the world albeit to varying degrees, as some countries have been more successful than others in limiting the spread of the disease and in preventing deaths. All around the world unprecedented measures are being taken to combat the spread of the disease, while at the same time seeking to contain its effect on the economy and labor markets.

A country's ability to effectively respond to the COVID-19 pandemic and its attendant effects depends on its fiscal space. Fiscal space is defined as the "*capacity of government to provide additional budgetary resources for a desired purpose without any prejudice to the sustainability of its financial position*" (Heller, 2006, p. 75). A country with small fiscal space faces a significant threat to the stability of its economy or its ability to respond to unexpected economic shocks or recessions (Elmendorf and Sheiner, 2017).

Journal of Public Budgeting, Accounting & Financial Management
Vol. 32 No. 5, 2020
pp. 919-928

1096-3367
DOI 10.1108/JPBAFM-07-2020-0101

Prior to the COVID-19 pandemic, Nigeria was already facing significant shrinkage of its fiscal space. Although Nigeria has a diversified economy, the government relies disproportionately on the oil sector for its revenue. Nigeria's heavy reliance on oil has made it vulnerable to the vagaries of international oil prices. A fall in global oil prices and poor macroeconomic management led the country into a recession in 2016 from which it only started to recover in the second quarter of 2017. Even after the recession, economic growth has been slow with economic growth remaining at less than the population growth rate. The slump in oil prices from the first quarter of 2020 further weakened the Nigerian economy, shrinking even more its fiscal space and ability to manage in times of crisis.

With the outbreak of the COVID-19 pandemic, Nigeria faces both an economic and a health crisis to which it has responded with a raft of policy interventions, and it is important to understand the budgetary responses, their fiscal implications and implications on the country's financial sustainability, social inequality and socio-political stability (Bergmann and Grossi, 2014; Grossi and Cepiku, 2014). This paper seeks to analyze the Nigerian budgetary response to the COVID-19 pandemic and the short- and long-term implications of these responses drawing on secondary data such as Nigerian Federal Government budget documents, policy documents, Central Bank of Nigeria circulars, news media articles, World Bank and International Monetary Fund reports, Reports from Big Four accounting firms and policy think-tanks, etc.

The rest of the paper is split into three major sections: the first of these deals with the Nigerian government's response to COVID-19, the second deals with the funding of the pandemic response and the third deals with the implications of these responses. We then make some concluding remarks.

The Nigerian context

Nigeria is Africa's most populous nation with an estimated population of 205m people and GDP of ₦145.64 trillion ($448.12bn) in 2019 (United Nations, 2019). It is also the largest oil producer in Africa holding 29% of Africa's proven oil reserves and was the world's fourth-largest exporter of liquefied natural gas in 2015 (Ejiogu *et al.*, 2019). Oil and gas revenue represent about 10% of Nigeria's GDP. However, it accounts for about 50% of government revenues and over 90% of export earnings (Budget Office of the Federation, 2020a). In spite of its oil wealth, in the early 2018s, Nigeria overtook India as the "poverty capital" of the world accounting for 15% of the world's poor with an estimated 102m people in extreme poverty [1]. However, unlike India where poverty is in decline, extreme poverty is growing in Nigeria at an estimated six people every minute and Nigeria is projected to account for 30% of the world's poor by 2030 without taking the impact of COVID-19 into account (Kharas *et al.*, 2018; Page, 2020).

Prior to the pandemic, Nigeria's 2020 budget projected for revenue of ₦8.42 trillion and expenditure of ₦10.6 trillion (of which ₦2.45 trillion related to debt servicing). The deficit of ₦2.18 trillion ($5.65 billion) was to be financed by additional borrowing. Projections for the debt service to revenue ratio and the deficit to revenue ratio were 29% and 26%, respectively. However, the COVID-19 pandemic changed all of this. The lockdowns and economic closures globally led to a fall in demand for oil and a slump in oil prices. Given Nigeria's heavy reliance on oil revenue, this has had a significant impact on budgeted income. While income was squeezed, there was increasing pressure on the government to intervene to combat the spread of the virus as well as limit its economic and social impacts.

The response

To cope with the significant economic burden caused by the COVID-19 pandemic and the restrictions put in place to curb its spread, the Nigerian government introduced an amendment to the 2020 budget in May 2020. Table A1 presents key information from the original and amended budgets. The amended budget aimed at reprioritizing expenditure to ensure that funds are directed to areas in most need as well as providing a "modest" stimulus to the economy (Budget Office of the Federation, 2020a).

The amended 2020 budget includes a fiscal stimulus of ₦500bn ($1.3bn) designated as a COVID-19 Intervention Fund aimed at upgrading healthcare facilities, supporting sub-national government interventions, financing public works projects and funding social interventions. The COVID-19 Intervention Fund represents 4.7% of total expenditure in the amended budget. However, the stimulus effect of the COVID-19 Intervention fund may be blunted as the increased spending is more than offset by cuts to expenditure on capital projects, nonessential and deferrable projects as well as all nonessential expenditure of ₦594.5bn. Given these offsetting budgetary cuts, the stimulus package can have only "modest" impact and even this will depend on how well it is targeted.

Alongside providing stimulus, the crisis has presented the government with opportunities to push through some structural reforms with attendant social implications, which it might not have been able to do in normal circumstances. Particularly, in addition to the budgetary cuts already discussed, it removed ₦457.50bn allocated in the original pre-COVID budget for the subsidy of petroleum products. Introduced first over 40 years ago, the subsidy was aimed at protecting Nigeria's poor against economic consequences of higher oil prices. However, the subsidy regime has also been a drain on government revenues and linked too many cases of corruption and gross mismanagement (Akinola, 2018). Previous attempts to remove this subsidy have failed as a result of mass protests and strikes (Ejiogu *et al.*, 2013).

The government has also proposed to freeze nonessential recruitment into the public sector (with the exemption of health and security). Although the public service constitutes less than 1% of the population, personnel cost in the budget account for about 27% of projected expenditure. Employment in the public services has previously been used as a means to reduce unemployment rates. Attempts by previous governments to halt recruitment and reduce the size of the public services have been met with resistance from trade unions.

Allocations to sub-national governments have also been reduced in the budget. However, in order to maintain funding for essential sub-national government services the government is drawing US$150m from the Nigeria Sovereign Investment Authority Stabilization Fund. The budget also gives a debt and interest moratorium to sub-national governments on Federal Government and Central Bank of Nigeria (CBN) funded loans to sub-national governments in order to free up debt service obligations and ameliorate the impact of reduced budgetary allocations.

The CBN has also deployed monetary policy measures to complement the government's fiscal measures. The CBN reduced the lending interest rate from 9% to 5% for the one year starting from 1 March 2020. It established a ₦50bn credit facility targeted at households and small and medium-sized enterprises that have been significantly affected by the pandemic. This credit facility is to be administered by the NIRSAL Microfinance Bank (Central Bank of Nigeria, 2020a). It also introduced a ₦100bn credit intervention targeted at the indigenous pharmaceutical companies and other businesses in the health value chain with a view to enabling them expand capacity to meet potential increased demand for healthcare products and services (Central Bank of Nigeria, 2020b). The monetary policy response also included the devaluation of the Nigerian Naira and regulatory forbearance for the restructuring of credit facilities of financial institutions impacted by the pandemic (Cortes *et al.*, 2020).

The Nigerian Federal Government also deployed three major social interventions in response to the pandemic. First, it granted a three-month moratorium on government intervention loans. There are about 2m of these small scale government intervention loans which provide petty traders, farmers and small businesses with access to capital (Sanni, 2020). Second was the expansion of the existing national cash transfer scheme which targets the poorest and most vulnerable households in Nigeria. Prior to the pandemic, about 2.6m households were registered on this and receive about ₦5,000 ($13) monthly as social protection (cash transfer). However, with the growing incidence of the virus and the social distancing measures put in place, the government has added an additional one million households to the cash transfer scheme and beneficiaries will now receive a ₦20,000 ($52) payout. This represents an advance payment, rather than an increase in the monthly stipend (Opejobi, 2020). Third was the provision of food assistance (palliatives) to vulnerable households across the country to ameliorate the effects of the lockdown which had led people to face increased hunger in many regions of the country. While these social interventions have had some effects, they have been hindered by corruption and opaque accountability (Dixit *et al.*, 2020).

Funding the response

The economic, health and social interventions made by the Nigerian government have come at a time when the pandemic is also having significant effects on the country's revenue streams. The government's budget office estimates that net oil and gas revenue will decline by 80% from ₦5.47 trillion to ₦1.12 trillion, as a result of reduced production and falling oil prices; customs revenue will decline from ₦1.50 trillion to ₦1.156 trillion, as a result of border closures and reduced production; VAT receipts will decline by ₦60.42bn and there will be significant declines in personal and corporate income tax receipts (Akabueze, 2020).

Consequently, the Nigerian government has sought to raise funding for its interventions and indeed to finance its budget in a number of ways. First, it has increased its borrowing both locally and internationally. It obtained $3.4bn of emergency support from the IMF (International Monetary Fund, 2020) to tackle the economic impact of the pandemic and has borrowed $4.34bn from the domestic stock market (Dixit *et al.*, 2020). In addition, it plans to borrow an additional $2.5bn from the World Bank and $1bn from the African Development Bank bringing total pandemic related borrowing from multilateral lenders to $6.9bn (Dixit *et al.*, 2020; Osae-Brown and Soto, 2020).

Second, in collaboration with the United Nations in Nigeria (UNAIDS and UNDP), it launched a COVID-19 Basket Fund. The Basket Fund is to serve as the single COVID-19 financing and investment platform for international donors to channel their financial support to Nigeria in order to ensure that their support is used efficiently, effectively and impactfully (UNAIDS, 2020). While donors have contributed to the Basket Fund, they have done so cautiously and with a keen awareness of the issues of corruption and accountability inherent in the Nigerian government. For instance, the European Union (EU) has contributed EUR 50m to the fund but has insisted that allocation of the funds must be done in consultation with the EU (European External Action Service, 2020).

Third, the government, through the CBN, called on the private sector and local philanthropists to fund the government's COVID-19 interventions and indeed to engage in interventions of their own. As a result, the private sector in collaboration with the CBN established The Coalition Against COVID-19 (CACOVID) in March, 2020 (GBCHealth, 2020). Funds from this initiative are held by the CBN in a Private-Sector Led COVID-19 Relief Fund (Central Bank of Nigeria, 2020c). While CACOVID has raised over ₦30.1bn ($72m) as at the end of June 2020 (Coalition Against COVID-19, 2020), they have not come close to the ₦120bn ($310m) target set. This highlights the limitations of local (private sector-led) funding for government interventions.

Implications

Fiscal space

The different government interventions to alleviate the coronavirus may have long-term implications for the fiscal sustainability and viability of the Nigerian state. First, the new budget deficit represents 3.55% of the GDP, which contravenes the Nigerian Fiscal Responsibility Act (FRA) (2007). The FRA, enacted to ensure prudent fiscal management and long-term macro-economic stability, stipulates that the budget deficit should not exceed 3% of the GDP, except in the cases of threats to national sovereignty and security. The COVID-19 crisis could legitimately be deemed a threat to national security and as such the state needs extra fiscal measures. In addition, the significant reduction in government revenue has led to a deterioration of the deficit to revenue ratio from the pre-pandemic level of 26% (based on the original 2020 budget) to 89% based on the revised budget. The implication of this is that Nigeria's government is not only borrowing money to solve a crisis but its capacity to repay is also rapidly dwindling and it might never be able to repay if its revenue trend were to remain the same.

Another consequence of the COVID-19 and fiscal crisis is the ballooning of Nigeria's debt profile and the deterioration of its credit rating. Prior to the pandemic, Nigeria's total public debt stood at $80bn, i.e. 20% of GDP (Debt Management Office, 2020) and its income from oil was falling as a result of the drop in global oil prices. The fiscal space in Nigeria was lean. Borrowing to fund the COVID-19 interventions has put increased pressure on government finances and further squeezed the fiscal space in Nigeria. Indeed, without taking into account the additional COVID-19 related borrowing, the government projected a spend of about 48% of its budgeted revenue on debt service. With COVID-19 related borrowing, the debt to revenue ratio is also likely to increase even more. This raises further concerns about the viability of the new loans and the solvency and financial sustainability of the country. Indeed, these concerns are reflected in Moody's Investors Service recent downgrade of the country's credit rating from stable to negative.

Structural reforms

Historically, Nigerian borrowing from multi-lateral institutions such as the IMF and the World Bank has been tied to implementation of structural reforms including reduction in subsidies, curtailment of public expenditure, wage freezes, trade liberalization, currency devaluations, etc. (Agajelu *et al.*, 2016; Davies, 1990). While these reforms are aimed at achieving macro-economic stability, they have in fact led to lowering of standards of living and increased poverty in Nigeria (Igwe *et al.*, 2016). Research shows that 70% of Nigerians oppose reduction or removal of subsidies (McCulloch *et al.*, 2020) and indeed previous attempts to remove subsidies have been resisted by Nigerians through mass protests and strikes (Ejiogu *et al.*, 2013). While the new borrowing to fund the COVID-19 response did not come with any conditionalities, the economic crisis resulting from the pandemic created the space to enact structural reforms such as the removal of subsidies on petroleum products without the attendant protests. While, in the short-term, the impact of this will not be felt as oil prices are at rock bottom and in effect there are no subsidies being made, in the long-term when oil prices rise, people will have to pay more for petroleum products. In a country where most businesses and families depend on petrol to fuel private generating sets as electric power supply is erratic and, in some places, non-existent, this will have significant effects. For businesses, costs of production and service provision will rise leading to increases in prices of goods and services and further squeezing family incomes. This will affect the poor and vulnerable disproportionately.

Business and employment

While the CBN introduced credit facilities targeted at the healthcare sector, households and small businesses, no interventions have been directed at businesses more generally as the government's Emergency Economic Stimulus bill has been held up in the legislative process. Even if passed, the bill will only provide rebates of 50% of personal income tax deducted from staff to non-oil sector companies which do not make their staff redundant. This constitutes a significant gap in the interventions which may have long term effects as there are likely to be business failures, redundancies and increased unemployment in Nigeria. This is in the context of already very high levels of poverty and unemployment in the country. Indeed, in the latest years for which figures are available, between 2014 and 2018, 19m Nigerians entered the labor force but only 15m secured jobs, youth unemployment is acute with 66.6% of young people unemployed or inactive and the adult unemployment rate stands at 33.3% (Cortes *et al.*, 2020). The rise in youth unemployment has been linked with a rising spate of criminal activity and anti-social behavior (Budget Office of the Federation, 2020b).

Poverty and social inequality

In addition to being the "poverty capital" of the world, Nigeria is one of 10 countries which constitute the worst food crisis in the world (Food Security Information Network, 2020). Lockdowns and border closures have exacerbated issues of acute food insecurity, poverty and unemployment in Nigeria (Olurounbi, 2020). It is not surprising then that a number of interventions were specifically targeted at the poor and vulnerable.

Most of these interventions were designed as short-term measures aimed at alleviating the impact of the COVID-19 on the lives of the poor. These interventions such as food assistance (palliatives), loans to households and the moratorium on government intervention loans provide temporary relief to the poor without any real long-term social impact. While, the expansion of the conditional cash transfer scheme to take in an additional 1m beneficiaries has the potential to improve longer term educational and health outcomes for these families as conditions of the cash transfer usually relate to child attendance at schools, immunization and health checks, its impact is unlikely to be significant as the cash transfers of ₦5000 ($13) per month is far below the international poverty line ($1.9 per day).

As COVID-19 lockdowns loosen and the secondary effects of the pandemic and structural reforms enacted in response to the pandemic such as removal of subsidies on petroleum products bed in, we expect that poverty and food insecurity will become more acute and might lead to instances of civil unrest. In the extreme, these might lead to political instability creating a vicious cycle of poverty and political instability.

Corporate social responsibility and philanthropy

The government's approach to co-opting private sector and other nongovernmental actors in their response to the pandemic has galvanized these sectors and unleashed a wave of corporate social responsibility (CSR) and philanthropy on an unprecedented scale. These nongovernmental actors have played an important role in mitigating the fiscal weakness of the government and strengthening the efforts of the government in fighting the virus. Corporate bodies have either donated financially to support the government's effort or donated health facilities to serve as treatment or isolation centers. Religious bodies have also played an increased role in the state's response. For instance, the Catholic Church in Nigeria donated all of their 425 hospitals to the government as isolation centers (Ajayi, 2020); other religious bodies have also donated a range of health facilities from ventilators to PPEs and financial support to the government as well as providing palliatives to indigent members of society. While the immediate support and philanthropy might end with the pandemic, the effects on expectations of CSR and the role of the corporation in society are likely to persist for the longer term.

Health funding and infrastructure

Nigeria's health sector suffers from decades of poor funding and mismanagement. Indeed, the World Bank notes that the Nigerian government spends on health is less than that of nearly every country in the world. The budgetary allocation to health in 2018 by the Nigerian Federal Government was only 4.5%, compared to 7.1% for education and 7.8% for power, works and housing. It is not surprising then that health outcomes in the country are among the poorest in the world (Cortes *et al.*, 2020). The pandemic has focused attention on the gaps in the Nigerian healthcare system and interventions have been directed at building health infrastructure and strengthening capacity within the healthcare system. While these interventions will strengthen the healthcare system, the momentum needs to be sustained to have a long-term impact on the healthcare system and health outcomes. Indeed, a window of opportunity has now been created for the Nigerian government to improve funding of healthcare and create a better equipped, effective and more sustainable healthcare system.

Conclusion

This article engages with the budgetary response of the Nigerian government to the COVID-19 pandemic. We describe the fiscal, monetary and social interventions which were introduced by the Nigerian government, as well as the different ways in which the Nigerian government sought to raise funds for these interventions. We then analyze the social and economic impacts of these interventions. Our discussion highlights how increased borrowing has significantly impacted on Nigeria's fiscal space. It also highlights that while some interventions provide short-term economic relief to the poor and small businesses, other interventions and gaps in the policy response have potential for significant negative impact on businesses, households and unemployment. In addition, we highlight the potential for long-term benefits to the health sector and for private sector engagement in CSR and philanthropy. Taken together, while the budgetary responses to the pandemic have provided some economic and social relief, they have their inherent weaknesses which have renewed concerns about the financial and fiscal sustainability of the country.

Note

1. Data from the World Poverty Clock https://www.worldpoverty.io/headline

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Appendix

	2020 budget* ₦	Revised 2020 budget* ₦	Percentage change** %
Total revenue	8,419,164,479,598	5,559,123,316,422	−33.97
Total expenditure	(10,594,362,364,830)	(10,509,654,033,054)	−0.80
Deficit	(2,175,197,885,232)	(4,950,530,716,632)	127.59
New borrowing to finance deficit	1,594,986,007,544	4,173,560,052,788	161.67
GDP	142,960,529,369,007	139,517,515,936,044	−2.41
Debt servicing	2,452,598,930,000	2,678,810,000,000	9.22
Total debt	28,628,493,630,000	32,802,053,682,788	14.58
Deficit to GDP ratio (%)**	1.52	3.55	133
Debt service to revenue ratio (%)	29	48	66
Deficit to revenue ratio (%)	26	89	242
Total debt to GDP ratio (%)	20	24	20

Note(s): *Figures from the Budget Office of the Federation (Budget Office of the Federation, 2020a)
**Author derived figures

Table A1.
Budget extracts

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