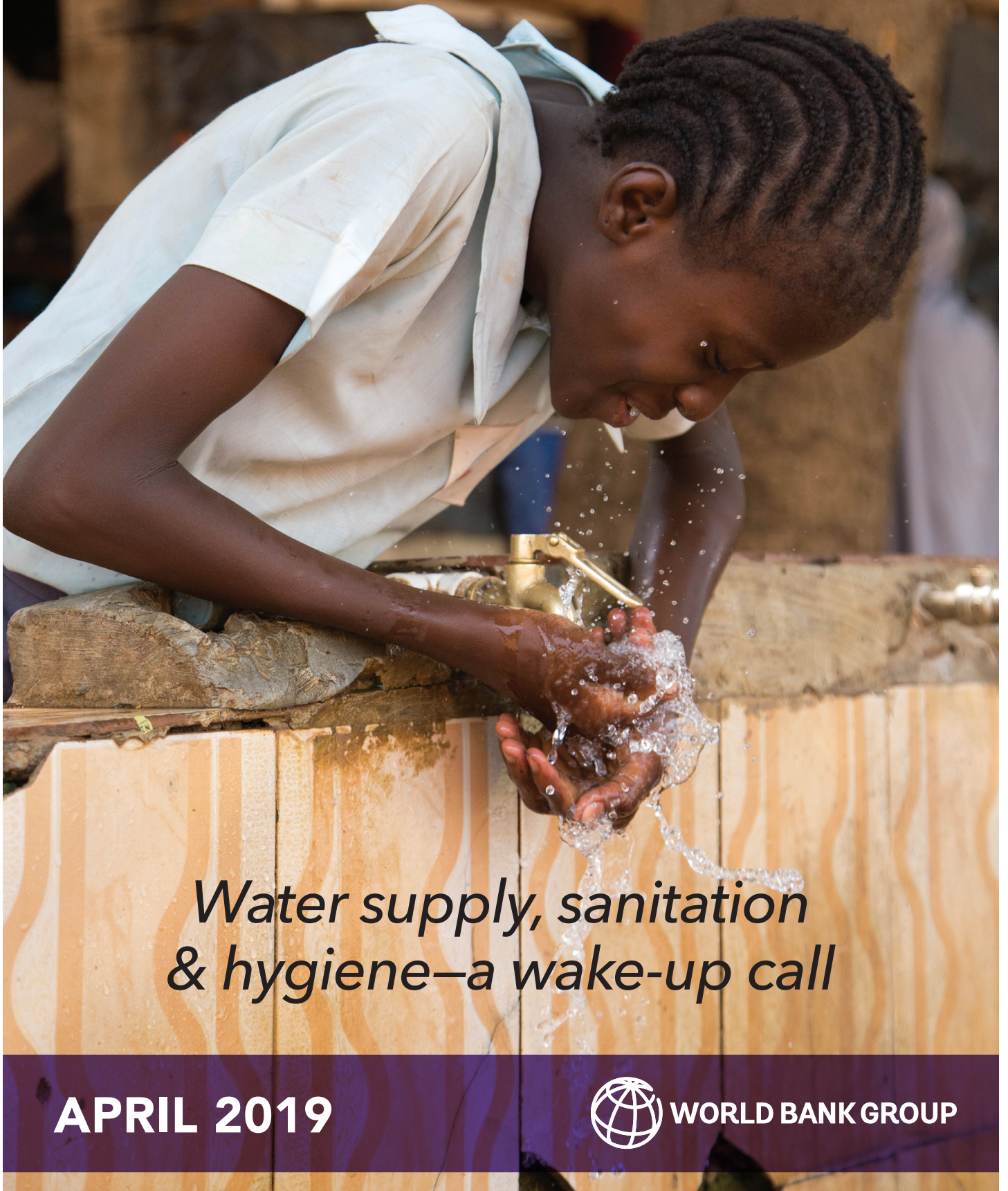


NIGERIA BIENNIAL ECONOMIC UPDATE



*Water supply, sanitation
& hygiene—a wake-up call*

APRIL 2019



WORLD BANK GROUP

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PREFACE

The Nigeria Biannual Economic Update is a product of the staff of the World Bank and has three broad aims. First, it reports on the key developments in the Nigerian Economy in the recent past. Secondly, it summarizes the staff's assessment of likely economic outcomes in the short-to-medium term, given the policy developments, and highlights key short-term risks. Finally, the Update provides a more in-depth examination of selected highly relevant economic policy topics.

This edition of the Nigeria BEU was prepared by the World Bank Macroeconomics, Trade and Investment Global Practice Nigeria Team, and was led by Gloria Joseph-Raji (Senior Economist) and Emilija Timmis (Economist). Mohammed Shuaibu and Joseph Ogebe (Consultants) provided valuable contributions. Luis Andres (Lead Economist) and Khairy Al-Jamal (Senior Water & Sanitation Specialist) are the primary authors of the special topic Chapter. The report was prepared under the overall supervision of Francisco Carneiro (Practice Manager), Indira Konjhodzic (Country Program Coordinator) and Rachid Benmessaoud (Country Director). The report benefited greatly from valuable insights and comments from Maria Angelica Sotomayor (Water Practice Manager) and Markus Kitzmuller (Senior Economist). The World Bank team is grateful to the IMF Senior Resident Representative and Mission Chief, Amine Mati, and his team for invitations to participate in IMF macro-monitoring missions and for continued dialogue and collaboration.

The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

To be included on an email distribution list for this bi-annual series and related publications, and for questions and comments relating to this publication, please contact Emilija Timmis (etimmis@worldbank.org). For information about the World Bank and its activities in Nigeria, please visit <http://www.worldbank.org/en/country/nigeria>.

Photo Credits: (i) Cover Photo: Chuka Agu; featuring a female student of Government Secondary School, Wuse Zone 6, Abuja, Nigeria enjoying piped water at her school. (ii) Photos on pages 2 and 4: Gloria Joseph-Raji; featuring residents of Karara community, near Lokoja, Nigeria at a river which is the main source of water for the community.



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GLOSSARY

ABP	Anchor Borrowers Program	mb/d	Million barrels per day
ACGS	Agricultural Credit Guarantee Scheme	MDG	Millennium Development Goal
AMCON	Asset Management Company of Nigeria	MFB	Micro Finance Bank
bbl	Barrels	ml/d	million liters per day
BDC	Bureau De Change	MSME	Micro, Small and Medium Enterprises
bn	Billion	MTEF	Medium-Term Expenditure Framework
BoP	Balance of Payments	NSIA	Nigeria Sovereign Investment Authority
CAB	Current Account Balance	NIRSAL	Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending
CACS	Commercial Agriculture Credit Scheme	NPL	Non-Performing Loan
CAR	Capital Adequacy Ratio	NSE	Nigerian Stock Exchange
CBN	Central Bank of Nigeria	NSIA	Nigeria Sovereign Investment Authority
CIT	Corporate Income Tax	O&M	Operation and Maintenance
CPI	Consumer Price Index	o/w	Of which
CRR	Cash Reserve Ratio	OAGF	Office of the Accountant General
DHS	Demographic Health Survey	OMO	Open Market Operations
DMO	Debt Management Office	PBOC	People's Bank of China
ECA	Excess Crude Account	PEFA	Public Expenditure and Financial Accountability
ECOWAS	Economic Community of West African States	PEWASH	Partnership for Expanded Water Supply, Sanitation and Hygiene
ERGP	Economic Recovery and Growth Plan	PPP	Purchasing Power Parity
FCT	Federal Capital Territory	PPPs	Public-Private Partnerships
FDI	Foreign Direct Investment	RSSF	Real Sector Support Facility
FGN	Federal Government of Nigeria	S&P	Standard & Poor
FRA	Fiscal Responsibility Act	SDGs	Sustainable Development Goals
FMOF	Federal Ministry of Finance	SME	Small and Medium Enterprise
FMWR	Federal Ministry of Water Resources	SOE	State-Owned Enterprise
forex	Foreign Exchange	SSA	Sub-Saharan Africa
FPI	Foreign Portfolio Investment	SWAs	State Water Agencies
G&S	Goods and Services	SWF	Sovereign Wealth Fund
GDP	Gross Domestic Product	UNICEF	United Nations International Children's Emergency Fund
GOE	government-owned enterprises	USD	US Dollars
H1	First Half of the Calendar Year	VAT	Value Added Tax
H2	Second Half of the Calendar Year	WASH	Water, Sanitation and Hygiene
HCI	Human Capital Index	WHO	World Health Organization
ICT	Information and Communications Technology	yoy	Year on Year
IEFX	Investors and Exporters Foreign		
IFRS	International Financial Reporting Standards		
IGR	Internally Generate Revenue		
IMF	International Monetary Fund		
JMP	Joint Monitoring Programme		
LCU	local currency		
LGAs	Local Government Areas		

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EXECUTIVE SUMMARY

Nigeria's emergence from recession remains slow: real GDP grew by 1.9 percent in 2018. While this was above the 0.8 percent growth of 2017, it was below the population growth rate, government projections and pre-recession levels. The oil and gas sector reverted to contraction from the second quarter of the year and the non-oil economy was thus the main driver of growth in 2018. While agriculture slowed down significantly due to conflict and weather events, whose effects were not counteracted by direct interventions by the Central Bank of Nigeria (CBN), non-oil, non-agricultural growth, which remained negative up to the third quarter of 2017 strengthened through 2018 - but remained weak – with services (primarily ICT) resuming as the key driver.

As the oil sector is not labor-intensive, and the non-oil economy was still relatively weak, nearly a quarter of the work force was unemployed in 2018; and another 20 percent under-employed. With 3.9 million net entrants into the labor force (now 90.5 million people) during 2018 (up to September) (4.5 percent growth), but virtually no growth in the stock of jobs, unemployment rose by 2.7 percentage points since end-2017, and more than doubled compared to the pre-recession levels (9.9 percent in Q3 of 2015).

The country's current account balance remained positive (1.3% of GDP in 2018) but declined, as goods and services import growth outstripped export growth. Higher oil prices not only increased the value of oil exports; but also, the value of fuel imports, which were further bloated by the rising petrol demand, ostensibly due in part to portions smuggled out of Nigeria as occasioned by the subsisting petrol subsidy. Non-fuel imports remained subdued by weak demand and CBN foreign exchange restrictions, except for capital imports for the private refinery. Service imports exhibited strong growth. A stable Investors & Exporters Foreign Exchange (IEFX) window rate and high short-term domestic money market rates supported portfolio investments in the first half of the year, but a subsequent decline in rates, coupled with increasing emerging market volatility as well as pre-election uncertainties led to net portfolio outflows in the second half of the year. Foreign direct investment (FDI) inflows remained muted throughout 2018 (at 0.2 percent of GDP), despite government's deliberate efforts to improve the business environment and attract long term investments. This was likely due to long-term policy and regulatory uncertainties, including uncertainties related to the 2019 general elections. Also, the regulatory spat between the local unit of South-African Telecommunications Company, MTN and the CBN (which also involved local units of 3 foreign commercial banks), may have sent misleading signals to other investors.

External reserves grew modestly, supported by higher oil prices, net portfolio inflows, and Eurobond issuances totaling US\$5.4 billion. Despite the decline in the reserves by 7 percent between March and the end of 2018, as portfolio outflows heightened and the CBN applied reserves to safeguard the value of the Naira, the reserves closed out at US\$43.1 billion (equivalent to seven months of import cover), up from US\$39 billion at end-December 2017.

Monetary Policy signaling was not completely overt, as the key monetary policy rates were held stable throughout the year, but the CBN used other tools to tighten the money supply as it deemed fit. The CBN used regular and special Open Market Operations (OMOs) as well as a sometimes asymmetric Cash Reserve Requirement (CRR) regime at different times to drain liquidity from the system. It also increased its sales of CBN bills at elevated rates towards the latter part of the year to attract portfolio investments to counteract the outflow that was observable also in the latter half of the year.

Inflation maintained a downward trajectory in the first half of the year in response to monetary tightening since 2017 and exchange rate stability. The headline inflation declined continuously from 18.7 percent in January 2017 to 11.1 percent in July 2018. However, from August 2018, inflation increased slightly, mainly driven by marginally-increasing food prices, to close the year at 11.4 percent. The core component of inflation on a year-on-year basis declined up till August and remained stable till the end of the year. The CBN has for the first time in almost three years, reduced the Monetary Policy Rate (MPR) by 50 basis points in March 2019 in order to signal a looser policy stance. It however kept the Cash Reserve Requirement (CRR) and the Liquidity Ratio unchanged.

Banking sector performance improved in 2018 but vulnerabilities remain. The Non-Performing Loans (NPLs) declined from 14.8 percent to 11.0 percent, and the Capital Adequacy Ratio (CAR) of the sector increased markedly from 10.2 to 15.3 percent, helped by the recovery of oil prices and stronger asset quality; but banking sector vulnerabilities still exist; given that the loan concentration in the volatile oil and gas sector remains high (about a third of total industry lending). The CBN-managed Asset Management Company of Nigeria (AMCON) purchased one underperforming commercial bank and will source for new investors for the bank.

The fiscal space remains constrained, as only 73 percent of the budgeted federally-collected revenues were realized in calendar year 2018. Oil and gas revenue growth has continuously been undermined by fuel subsidy deductions. Although corporate taxes recorded some increase (with the recovering economy), the VAT and customs revenues stagnated in real terms. The Federal Government returned to the commercial markets by issuing US\$2.9 billion of Eurobonds in November (having issued US\$2.5 billion earlier in February); with yields having increased to reflect the increasing fed rate, increased volatility in emerging markets, and Nigeria's domestic election-related uncertainty. In the lead up to the elections, and thanks to Eurobond issuances, Federal Government capital spending increased by 35 percent in the calendar year 2018. The fiscal buffers in the Excess Crude Account have been exhausted by special withdrawals, including for the purchase of the new military air-fleet.

Nigeria has just held general elections in the first quarter of 2019 which were beset with some complications, but nonetheless did not present extraordinary challenges in Nigeria's context. Foreign portfolio investment inflows have heightened after the elections, but the delayed approval of

the 2019-2021 Medium-Term Expenditure Framework/Fiscal Strategy Paper (MTEF/FSP) and the 2019 budget contributes to policy uncertainty, postponing longer-term investment decisions across sectors of the economy and foregoing potential growth-spurring injections. Furthermore, structural constraints, particularly low stock of investment in physical and human capital lower the growth potential, while slow implementation of structural reforms – for example in the power sector - are expected to constrain growth to just over 2 percent in the medium term. The growth in the oil sector is expected to be constrained by the continued regulatory uncertainty which will limit investments. Agriculture is likely to remain affected by unresolved conflicts and climate change, which will further contribute to food insecurity. The non-oil non-agriculture economic outlook remains constrained by the lack of consumer demand and weak private sector credit.

The risks to the outlook remain high, as current monetary and external policy solutions are fragile to external and domestic shocks. The oil and gas sector remains a necessary but not sufficient condition for growth; any negative oil production or price shocks could affect the fiscal revenues, external balance, and banking sector stability. In the short-run, any resulting exchange rate instability could translate into capital flight, wiping off any positive effects of the recent exchange rate stability and leaving the public authorities with a debt service bill. The weakness of non-oil revenue reform continues to make the government over-reliant on the volatile oil revenues, whose future trajectory remains uncertain not only due to inherent international oil price volatility, but also due to the lack of transformative oil sector governance and management reforms.

Swift focus on reform priorities by the incoming government administration could immediately promote needed economic and fiscal resilience. The new or renewed governments at both Federal and State levels could save time by adopting and reasserting ownership of the reforms already articulated in the Economic Recovery and Growth Plan (ERGP 2017-2020) and accelerate their implementation. The starter priorities are unchanged, and the possibility of even muddling through another potential economic crises without their implementation is highly unlikely. Most of these were highlighted in the October 2018 World Bank Nigeria Biannual Economic Update (BEU) and include: (i) Acceleration of the economic diversification agenda; (ii) Upholding of a stronger counter-cyclical fiscal policy stance to guard against oil price shocks; (iii) Reform of the petrol subsidy regime and implementation of the Power Sector Recovery Program (PSRP) to improve the fiscal space and revive growth; (iv) Full harmonization of all exchange rates in the economy; (v) Improvements in the domestic revenue (particularly non-oil) mobilization drive to reduce volatilities in government revenues and expand fiscal space; and (vi) Promotion of private sector financing of large human and physical infrastructure needs.

Building on the October 2018 World Bank Nigeria BEU on “Investing in Human Capital for Nigeria’s Future”, the special topic in Chapter 3 provides an update on the Water, Sanitation and Hygiene

(WASH) sector in Nigeria, a critical element of human capital development. Nigeria's WASH sector is in critical condition and requires immediate attention. Despite the progress achieved between 1990 and 2015 for access rates to improved water sources, Nigeria has actually regressed with regards to access to piped water service. Access to piped water on premises in urban areas dropped from 3 in every 10 persons in 1990, to even less than 1 in 2015. Indicators for sanitation are not only lagging but suggest that the subsector has been neglected by policy-makers and is in an alarming state of dilapidation. Less than one-third of Nigerians have access to improved and unshared sanitation facilities, and only 5.6 percent make use of sewerage systems. Further, there is a clear wealth divide in access to water and sanitation. The richest 20 percent of households in Nigeria have more than 90 percent access to improved water and sanitation while slightly less than 30 percent of households in the poorest quintile have access to improved water, and only 12 percent of these households have access to improved sanitation.

The sector is constrained by inefficient service delivery and failing facilities. More than 38 percent of all improved water points and around 46 percent of all water schemes in Nigeria are nonfunctional (deemed out of service in 2015, at the time of the survey). Further, nearly 30 percent of water points and water schemes appeared to fail in the first year of operation after construction, presumably because of poor build quality. When considering most water-utility service indicators, Nigeria underperforms in relation to both African and global averages. To achieve the Sustainable Development Goals (SDGs) in WASH, **Nigeria would need to invest at least three times more than it does today** and spend more efficiently.

On November 8th, 2018, President Muhammadu Buhari lent his high-level political support to the WASH sector by officially declaring a state of emergency in the sector, while simultaneously launching the National Action Plan for the Revitalization of Nigeria's WASH Sector (AP). The overall goal of the AP is to ensure that all Nigerians have access to sustainable and safely-managed WASH services by 2030, in compliance with the SDGs for Water (Goal 6.1) and Sanitation (Goal 6.2). It seeks to both strengthen and expand Nigeria's WASH services while simultaneously improving their effective and sustainable management. The AP establishes concrete actions for both the Federal and State governments to follow to ensure that all Nigerians have access to sustainable and safely-managed WASH services by 2030, in compliance with the SDGs. It is important to note that the success of the AP hinges on its effective implementation at both the Federal and State levels.

Achieving the SDGs for Water & Sanitation is still within reach. Equipped with a thorough assessment of the sector, a clear roadmap for government and stakeholders to follow, steadfast political will, and sustained follow-through, it is possible for Nigeria to transcend the current crisis and improve its Water & Sanitation sector. Achieving the SDGs is still within reach. The costs of not moving forward in the sector are simply too great to ignore; the lives of 190 million individuals—and the fate of the nation as a whole—are linked to progress in this sector.

NIGERIA: KEY ECONOMIC DATA SNAPSHOT

Economy	2015	2016	2017	2018e	2019f	
Real GDP Growth (% yoy)	2.7	-1.6	0.8	1.9	2.1	The growth outlook is constrained by weak macroeconomic framework
Nominal GDP (US\$ bn)	487	405	376	397	414	The nominal GDP in US\$ has not recovered to pre-crisis levels yet, partly because of the ER depreciation
Oil Production (mb/d)	2.1	1.8	1.9	1.9	2.1	Based on existing investments, oil production growth is constrained
Oil Price (US\$/bbl)	54.2	45.2	54.8	72.1	70.4	Oil price has increased, the outlook is flat, but subject to downside risks
Inflation (%yoy, average)	9.0	15.6	16.5	12.1	11.9	Inflation has declined but remains in double digits as CBN prioritizes ER
Nominal GDP Composition (%):						
Agriculture	20	21	21	21	22	Agriculture constitutes about a fifth of GDP but employs over half of the population.
Oil industry	6	5	9	11	11	Oil sector is small, but key for forex and fiscal revenues.
Non-oil industry	14	13	13	13	13	Non-oil industries, while small, are expected to grow, though slowly
Services	59	60	56	54	53	Services alone represent more than half of the economy.
Real sectoral growth (% yoy)						
Agriculture	3.7	4.1	3.4	2.1	2.4	Agricultural growth slowed down due to persistent conflicts in the North East and the Middle-Belt, and floods
Oil industry	-5.4	-14.4	4.7	1.1	6.8	Oil production stabilized; its direct contribution to growth is small due to sector's small size.
Non-oil industry	0.1	-5.0	0.6	2.4	2.2	Non-oil industry growth is slow, constrained by uncondusive policy environment.
Services	4.8	-0.8	-0.9	1.8	1.2	Service sector growth is driven by ICT and transportation.
External Sector						
Exchange rate - official (N/US\$, average)	196	253	306	306		The official exchange rate remains stable, but only applied to restricted transactions.
Exchange rate - parallel (N/US\$, average)	223	381	397	362		The parallel exchange rate is expected to remain stable in the short-term, in line with IEFX window rate.
Current Account Balance (US\$ bn)	-15.4	2.7	10.4	5.3		The current account balance remains positive with rising value of oil exports
Current Account Balance (%GDP)	-3.2	0.7	2.8	1.3		And constrained imports
Exports of Goods and Services (US\$ bn)	49	38	51	68		Export growth is primarily driven by oil export value due to higher oil price.
Imports of Goods and Services (US\$ bn)	72	47	51	72		The growth in imports are driven by increasing value of imported fuel.
Remittances (net, US\$ bn)	19	19	22	24		Remittances strengthened.
External Reserves (US\$ bn, end of period)	29	26	39	43		External reserves in 2018 have been stabilized by FPI and thus even more susceptible to external shocks
Equivalent months of imports of G&S	4.8	6.6	9.1	7		

NIGERIA: KEY ECONOMIC DATA SNAPSHOT

<i>Fiscal</i>	2015	2016	2017	2018e	2019f	
Federation						
General Govt. Expenditures (WB)	10.7	9.7	10.6	12.2	2.5	<i>Public spending, after recovering slightly with slowly increasing oil revenues and pre-election spending, is expected to level-off</i>
General Govt. Revenues (WB)	7.5	5.9	6.7	7.8	8.2	
Net federally collected revenues (%GDP)	5.6	4.2	4.9	6.1	6.2	<i>Federally collected revenue growth is driven by oil and gas revenues, although they are growing slower than oil price due to increasing deductions (including the fuel subsidy).</i>
Oil and gas (%GDP)	3.2	2.0	2.6	3.7	3.8	
Non-oil (VAT, CIT, Customs) (%GDP)	2.3	2.2	2.3	2.3	2.4	
Total Public Debt (% GDP)	14.	17	19	22	24	<i>Public debt is growing with continued deficits, but remain low by international standards</i>
Federal Govt. (FGN)						
Total FGN Expenditures (Actual, %GDP)	5.0	4.7	5.6	6.1	6.1	<i>FGN expenditures are growing with increasing recurrent and capital spending.</i>
Total FGN Revenues (Actual, %GDP)	2.7	2.0	2.4	2.8	2.8	<i>The revenue growth is driven by oil revenues.</i>
FGN Debt (%GDP)	10.8	13.1	14.7	16.7	18.5	<i>The growth in FGN debt drives the growth in total public debt.</i>
FGN Debt (% FGN Revenues)	395	654	622	600	663	<i>FGN needs to increase revenue to ensure debt sustainability.</i>
FGN interest-payments-to-revenue ratio (%)	39	61	57	60	62	<i>FGN's interest-payments-to-revenue ratio remains high due to low revenues and increasing interest bill</i>
States Govt. (incl. FCT; excl. Local Govt.)						
States Expenditures (%GDP)	4.0	3.6	3.3	4.1	4.5	<i>States expenditures leveled off are estimated to have increased with rising revenues and election spending.</i>
States Total Revenue and Grants (%GDP)	3.0	2.5	2.7	3.1	3.5	
State IGR in Total States revenues (%)	25	33	31	27	23	<i>States IGR is growing, but slower than oil revenues.</i>
State Debt (%GDP)	3.3	4.2	4.3	4.9	5.4	<i>States' collective public debt is expected to grow with sustained fiscal deficits.</i>
States interest-payments-to-revenue ratio (%)	6.4	9.8	9.9	9.2	8.0	<i>States' interest-payments-to-revenue remain low and decreasing with growing revenues.</i>

NIGERIA: KEY ECONOMIC DATA SNAPSHOT

<i>Investment Climate</i>	2018
<i>Doing Business</i> 2019 ranking	146
DB 2019 Distance to the frontier	52.9
Net credit to the government (%GDP)	3.77
Growth of net credit to the government (% yoy)	33.8
Net credit to the private sector (%GDP)	16.36
<i>compared to SSA average of</i>	<i>n.a</i>
Growth of net credit to the private sector (% yoy)	2.0

<i>Banking industry</i>	2017	2018
Banking industry	2017	2018
NPL to Gross loans	14.8	11.0
Capital Adequacy Ratio	10.2	15.3
Return on Assets (%) (Q2)	2.6	1.8
Return on Equity (%) (Q2)	23.7	21.3
Sectoral concentration of credit (%)	2017	2018
Agriculture	7.0	7.6
Oil Industry	47.5	47.7
Non-oil industry	35.4	34.7
Services	10.1	10.0

Sources: NBS, CBN, DMO, OAGF, JTB, World Bank

1

CHAPTER 1:

RECENT ECONOMIC DEVELOPMENTS

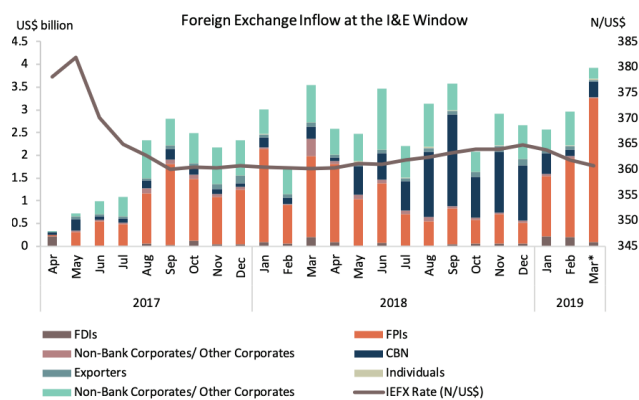
Despite stronger growth in 2018, Nigeria's recovery remains weak overall, with growth still lagging its potential, below the pre-recession levels and government targets. Higher oil prices and stable output improved the fiscal situation as well as the external position. Short-term foreign capital inflows, while volatile in 2018, were higher overall than in 2017, and were also instrumental in improving the external position and maintaining nominal exchange rate stability. While the fiscal revenues improved relative to 2017, the fiscal situation remains challenging. Federally collected revenues continue to underperform in the absence of significant non-oil tax revenue reform and in the face of increasing prior deductions from oil revenues, particularly the increasing unbudgeted fuel subsidies. The Federal Government continues to rebalance its debt portfolio towards external borrowing, which gave boost to capital spending (at the federal level) in the lead up to the elections. Commercial banks remain risk-averse, favoring government paper above lending to the private sector. Thus, private sector credit growth remains weak.

1.1 Growth of Nigeria's non-oil sector has strengthened but the recovery remains weak overall

- 1. Nigeria's emergence from recession remains slow: annual real GDP growth averaged 1.9% in 2018; accentuating structural and policy weaknesses.** While accelerating from 0.8 percent in 2017, growth remained below the rate of population growth (estimated at 2.6 percent), below the government projections (3.5 percent) and below the pre-recession levels (6% in 2013-2014). Nigeria's recovery is also slower than in structurally similar countries (mainly commodity exporters with large populations, see Figure 1.1), highlighting Nigeria's deep structural issues, the importance of the adequacy of macroeconomic and financial policies, further amplified by the political and policy uncertainty associated with the Federal and State elections.
- 2. Sectoral performance remains mixed, with oil and agriculture performing below expectations.** Although production was stable at an estimated average of 1.9 mbd and prices averaged above the 2017 level, oil GDP growth slowed in 2018. Agriculture growth also slowed significantly due to the farmer-herdsman clashes, insurgency in the north-east, and floods. Services resumed as the key driver of growth, and

FIGURE 1.1:

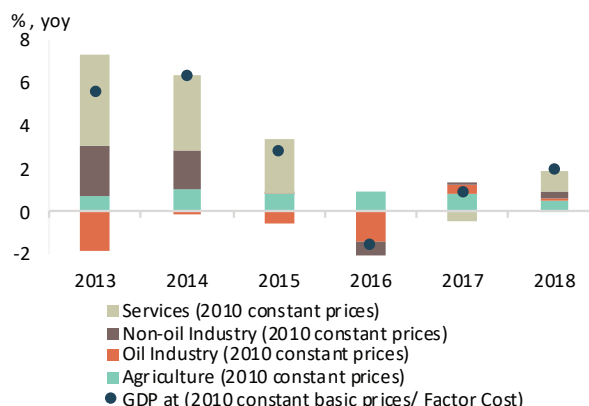
Real GDP Growth in Nigeria lags behind growth in Peer Countries¹ Since 2016



Source: World Development Indicators; World Bank Global Economic Prospects

FIGURE 1.2:

With stable oil sector, non-oil economy resumed as the driver of growth



Source: NBS

together with non-oil industry performance remained sluggish compared to their historical performance due to stagnating demand, forex restrictions and declining private sector credit (see Figure 1.2; and Tables 1.1-1.2).

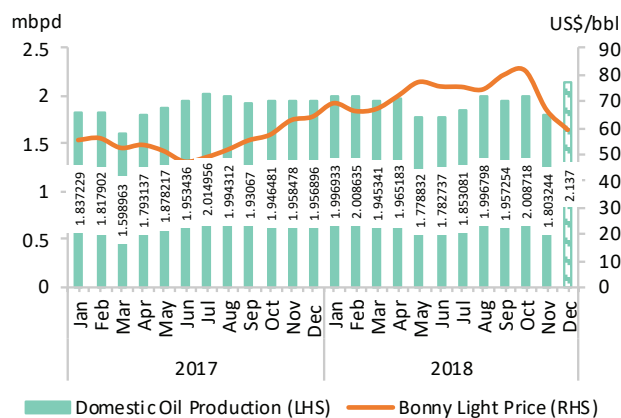
The oil sector’s real growth slowed to 1.1 percent in 2018 from a more robust level of 4.7 percent in 2017. After growing by as much as 14.8 percent in the first quarter of 2018 (partly due to base effects), the sector fell into decline (in real terms) in the second quarter of the year, partly due to various *force majeure* episodes declared by oil companies at different times during the year as well as maintenance disruptions. Oil output did not increase as envisaged by the government (Medium Term Fiscal Framework and Federal Government Budget 2018 projected 2.3 mb/d for 2018) but remained relatively stable overall in 2018 at an estimated average of 1.9 mb/d (see Figure 1.3). New investments in the sector have been limited. Thus, despite the strengthening of oil prices (the price of Nigerian crude, Bonny Light, increased to an average of US\$72.1 per barrel, compared to US\$54.8 in 2017), the sector fell back into contraction in 3 out of four quarters of 2018 (see Table 1.1, Figure 1.2).

1 Three sets of comparator country groups are used to benchmark Nigeria’s economic outcomes: i) structural, ii) aspirational and iii) regional peers. Structural peers include countries that resemble Nigeria in the key economic structure and performance indicators: these are lower middle-income countries with nominal lower-middle countries with nominal income per capita of at least 50% that of Nigeria’s, and/or upper-middle income countries with nominal income per capita less than double that of Nigeria’s; with natural resource share in total exports of 20% or more (Algeria, Egypt, India, Indonesia and Iran) and large populations. Aspirational peers are countries that Nigeria can potentially improve to match its economic performance: upper-middle income countries with nominal income per capita at least double that of Nigeria’s; with natural resource share in total exports of 20% or more, and population of over 30 million (Brazil, Colombia, Malaysia, Mexico, Peru, Russian Federation and South Africa). Regional peers are geographically close countries that exhibit similar economic characteristics (Angola, Cameroon, Cote D’Ivoire, Ethiopia, Ghana, Kenya, Senegal, Tanzania and Uganda).

3. **Adverse weather and conflict events affected agricultural sector growth, which fell to 2.1 percent in 2018, the lowest in recent history.** The impact of direct government support (including through the CBN) to the sector to boost crop production did not robustly counteract the effects of conflicts and floods which affected agricultural farmlands, fostered insecurity, disrupted economic activity, decreased food security; and led to internal displacement of persons (see Table 1.1, Figure 1.3).

FIGURE 1.3:

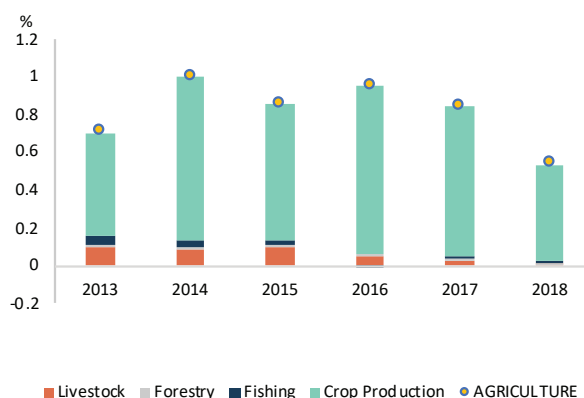
Oil Price Increased, Production Remained Stable in 2018



Source: NNPC, World Bank estimates for 2018 December.

FIGURE 1.4:

Agricultural, particularly crop, performance weakened



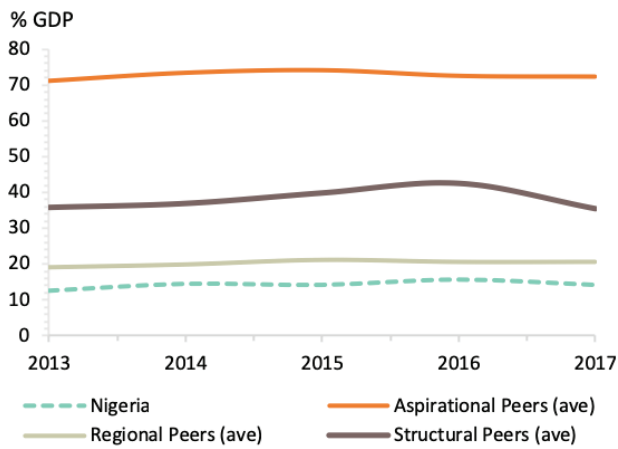
Source: NBS

4. **On a positive note, non-oil, non-agricultural growth, which remained negative up to the third quarter of 2017, strengthened through 2018, driven by construction and ICT.** Growth in the key non-oil industry sub-sectors strengthened: manufacturing to 2.1 percent from a contraction of 0.2 percent in 2017; and construction to 2.3 percent from 1.0 percent in 2017. The construction industry benefited from a notable increase in road and rail construction across the country during the year. Following prolonged weakness (and decline) of the services sector, growth accelerated to 1.8 percent in 2018, mainly due to significant pick-up in information and communications technology (ICT) activity. Most other service sub-sectors remained in decline, including domestic trade, real estate and public administration. Expansion of internet connectivity around the country and the significant growth in internet data consumption is likely responsible for the growth in ICT value added.

- 5. At the same time, non-oil, non-agriculture growth potentially remains constrained by lack of private sector credit.** The level of domestic credit (Figure 1.5) in Nigeria is low, and below structural – and way below aspirational – peers. The domestic supply of private sector credit growth is limited by the attractiveness of the high rates of the government (and CBN) securities. Furthermore, it is concentrated in the oil and gas sector (see Figure 1.7). Also, the level of Foreign Direct Investment (FDI, Figure 1.6) is low, below aspirational peers. The foreign direct investment inflows are constrained by a variety of factors, including: slowly recovering domestic consumer demand; trade restrictions; and uncertainty of the policies related to exchange rates and profit repatriation. FDI inflows are negligible relative to the FPI (Figure 1.8); and also concentrated in the oil sector.
- 6. Overall, despite the strengthening in 2018, non-oil sector growth remained weak relative to the pre-recession period.** The Federal Government’s Economic Recovery and Growth Plan (ERGP) articulates the goal to drive economic growth, diversification and job-creation with a special focus on the real sectors of agriculture, manufacturing (including MSME-led manufacturing), and energy; as well as key services. The CBN is playing a key role in this regard, and it has expanded its development finance interventions to increase the flow of credit to the real sectors, as commercial bank credit to the private sector remains weak (see Section 1.3 for more details). CBN has established several agricultural development schemes to boost domestic agricultural production. These include the Agricultural Credit Guarantee Scheme (ACGS), the Commercial Agriculture Credit Scheme (CACCS), and the Anchor Borrowers Program (ABP). In February 2019, CBN announced the establishment of the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL) Micro Finance Bank (MFB) with the aim of empowering about 400,000 small enterprises and small-holder farmers. However, CBN financing and implementation of these schemes (as opposed to funding through the federal budget and channeling through appropriate development institutions e.g. the Bank of Agriculture) obscures the transparency of fiscal policy and reduces the effectiveness of the monetary policy.

FIGURE 1.5:

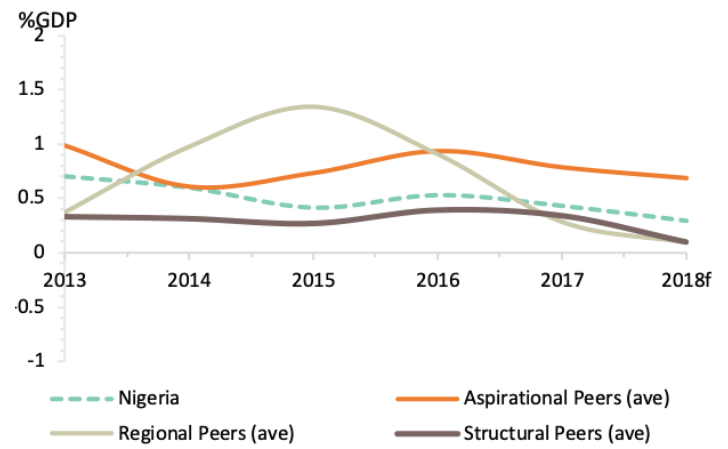
Nigeria's domestic private sector credit is low and declining



Source: WDI

FIGURE 1.6:

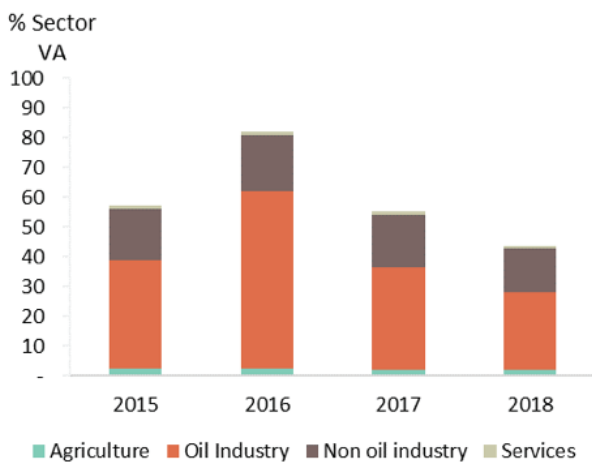
Foreign direct investment in Nigeria is low and declining



Source: WDI

FIGURE 1.7:

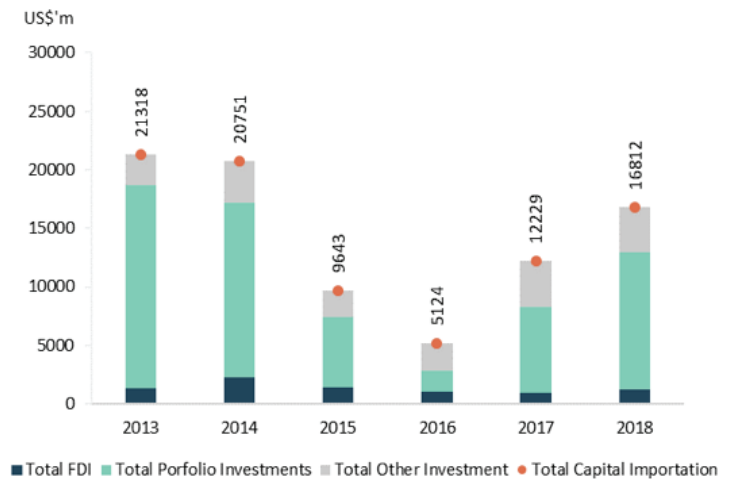
Concentration of Banking Credit (Total credit as percentage of sector value-added)



Source: World Bank calculations using NBS data

FIGURE 1.8:

Composition of Gross Capital Importation



Source: NBS

TABLE 1.1: Real GDP Growth by Sector and Selected Sub-Sectors (percent, year-on-year)

ACTIVITY SECTOR	ANNUAL			QUARTERLY			
	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Total GDP (2010 market prices)	-1.6	0.8	1.9	2.0	1.5	1.8	2.4
Total GDP (2010 basic prices)	-1.6	0.8	1.9	2.0	1.5	1.8	2.4
Agriculture	4.1	3.4	2.1	3.0	1.2	1.9	2.5
Industry	-8.9	2.1	1.9	6.9	0.4	-0.1	0.9
Oil and Gas	-14.4	4.7	1.1	14.8	-4.0	-2.9	-1.6
Manufacturing	-4.3	-0.2	2.1	3.4	0.7	1.9	2.4
Construction	-5.9	1.0	2.3	-1.5	7.7	0.5	2.0
Services	-0.8	-0.9	1.8	-0.5	2.1	2.6	2.9
Trade (wholesale and retail)	-0.2	-1.1	-0.6	-2.6	-2.1	1.0	1.0
ICT	2.0	-1.0	9.7	1.6	11.8	12.1	13.2
Finance and Insurance	-4.5	1.3	2.0	13.3	1.3	-4.8	-1.8
Real Estate	-6.9	-4.3	-4.7	-9.4	-3.9	-2.7	-3.8
Public Administration	-4.6	-0.4	-2.0	-1.7	-5.2	-0.9	-0.3
Oil GDP	-14.4	4.7	1.1	14.8	-4.0	-2.9	-1.6
Non-Oil GDP	-0.2	0.5	2.0	0.8	2.0	2.3	2.7
Non-oil industry	-5.0	0.6	2.4	2.2	3.1	2.1	2.4
Non-Oil, Non-Agriculture	-1.7	-0.6	2.0	0.1	2.3	2.5	2.8

Source: NBS

TABLE 1.2: Sector and Selected Sub-Sector Shares in Nigeria's real GDP (percent)

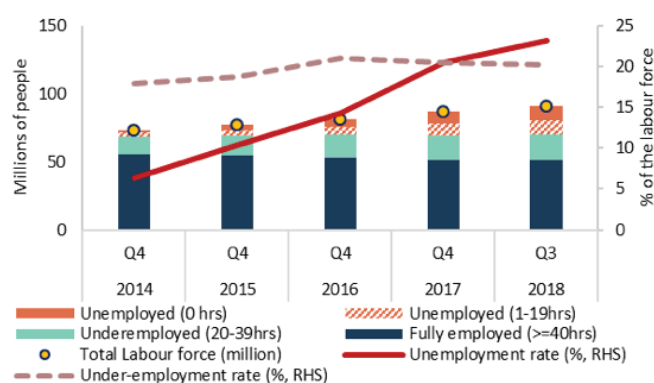
ACTIVITY SECTOR	ANNUAL			QUARTERLY			
	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Total GDP (2010 basic prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	24.4	25.1	25.1	21.7	22.9	29.2	26.1
Industry	22.0	22.2	22.3	24.0	23.2	22.0	20.2
Oil and Gas	8.3	8.7	8.6	9.6	8.6	9.4	7.1
Manufacturing	9.3	9.2	9.2	9.9	9.3	8.8	8.9
Construction	3.7	3.7	3.7	4.0	4.5	3.0	3.5
Services	53.6	52.7	52.6	54.3	54.0	48.8	53.6
Trade (wholesale and retail)	17.2	16.9	16.4	17.1	16.5	15.8	16.5
ICT	11.6	11.4	12.2	12.4	13.6	10.6	12.4
Finance and Insurance	3.0	3.0	3.0	3.5	3.3	2.5	2.7
Real Estate	7.2	6.9	6.4	5.6	6.8	6.5	6.6
Public Administration	2.3	2.3	2.2	2.2	2.3	2.0	2.2
Oil GDP	8.3	8.7	8.6	9.6	8.6	9.4	7.1
Non-Oil GDP	91.7	91.3	91.4	90.4	91.4	90.6	92.9
Non-oil industry	13.6	13.6	13.6	14.4	14.6	12.6	13.2
Non-Oil, Non-Agriculture	67.2	66.2	66.3	68.7	68.6	61.4	66.8

Source: NBS

7. In line with the relative strengthening of economic growth, aggregate demand recovered slightly in the first half of 2018.² Total consumption expenditure (public and private) grew by 1.8 percent, in contrast to a decline of 5 percent in the first half of 2017, while total investment expenditure growth strengthened to 3.8 percent from 2.5 percent in H1 2017. Net exports growth however weakened in 2018 relative to 2017.
8. However, with the oil sector not being labor-intensive, and the non-oil economy still relatively weak, unemployment grew to 23.1 percent in the third quarter of 2018 from 17.7 percent in 2017Q3 (Figure 1.9). Another 20 percent of the work force remained under-employed. With 5.3 million net new entrants into the labor force (now 90.5 million people) during the course of the year (4.5 percent growth), but virtually no growth in the stock of jobs, unemployment rose by 4.3 percentage points since 2017Q3, and more than doubled compared to the pre-recession levels (9.9% in 2015Q3).
9. With population growth exceeding economic growth, per capita income is declining, and poverty is estimated to be rising slowly: half of the population is estimated to live in extreme poverty (Figure 1.10). Many of the poor live in rural areas, especially in the northern part of the country, where the private sector is less developed and human capital is low. The combination of low growth, insufficient employment creation and weak agriculture sector growth impeded improvements in household welfare, especially of low-income households. The social safety net is still weak and does not reach many of the poor.

FIGURE 1.9:

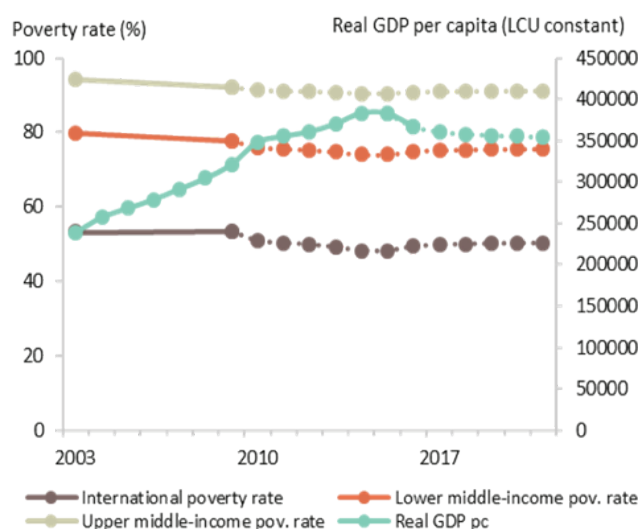
Unemployment and labor force



Source: NBS

FIGURE 1.10:

Nigeria's poverty rates (using different poverty lines) and real GDP per capita



Source: World Bank

² GDP expenditure-side data has been released only up to Q2 2018.

1.2 Nigeria's Current Account Balance Remained Positive, but Declined in 2018

10. The current account balance (CAB) decreased to 1.3 percent of GDP in 2018, from 2.8 percent in 2017, as the value of Goods & Services imports increased more than that of exports. The export performance remains strong: dominated by oil, the value of exports continued increasing as oil prices rose compared to 2017. After strengthening in the first half of the year, due to higher oil prices, the current account balance weakened in the third and fourth quarters of the year due to a significant rise in non-oil imports (machinery and equipment relating to the construction of a new private petroleum refinery). The value of the oil (gasoline) imports also increased due to the higher oil price as well as higher import volumes (fuel consumption grew to 54 million liters per day (ml/d) from 40 ml/d in 2017, ostensibly due partly to out-smuggling). The services and income components of the current account remained negative; current transfers (mainly remittances) increased slightly, reaching US\$ 24 billion in 2018. Overtime, Nigeria's steady current transfers have been particularly instrumental in supporting the current account, which would be negative in most periods without such steady remittance flows.

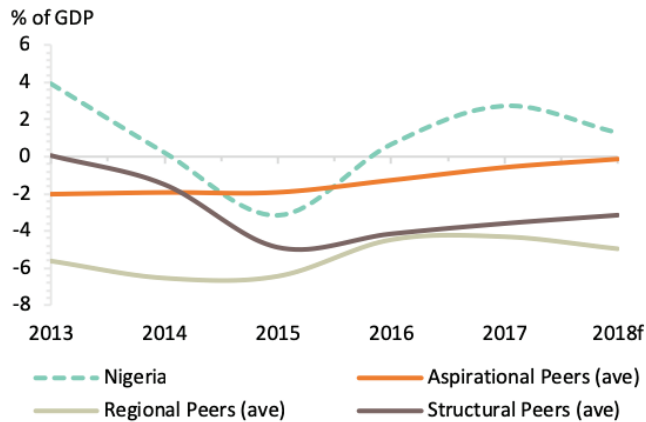
11. Nigeria's positive CAB also reflects some effects of protectionist policies and slow recovery of intermediary imports. The government promotes import substitution through foreign exchange restrictions to a targeted group of imports. Since 2015, the CBN has restricted foreign exchange access to a list of 41 import groups³ (covering over 700 items) to promote domestic industries. The effectiveness of these policies, in a country with highly porous borders, a large informal sector, and undeveloped domestic supply chains, remains limited. The diversification of exports remains minimal due to weak regional integration (including ECOWAS), with high estimated volumes of informal trade⁴ (particularly imports of goods on the 'negative list' and re-exports of subsidized fuel products) and non-competitiveness of non-oil exports. While the real exchange rate was estimated to be only minorly overvalued in 2018 (IMF Article IV Report, 2018), the misalignment could increase again if the CBN continues to prioritize nominal exchange rate stability and maintain protectionist trade policies in the double-digit domestic inflation environment.

³ The initial list contained 40 import groups (including staples such as rice and tomato paste) and capital (Eurobonds); in December 2018, fertilizer was added as the 41st import item.

⁴ Central Bank of Nigeria (CBN)'s study of 2016 'Measuring Informal Cross-Border Trade in Nigeria'. The data collection period only covered 12 months in 2013-2014, and thus yield already outdated data. Even then, however, **the total informal trade flows were estimated at US\$ 6.9 billion** (US\$ 2.8 billion worth of informal exports, and US\$ 5.2 billion informal imports); these values could be expected to have increased given the introduction of formal-trade-restricting CBN policies and increased fuel subsidy. 38 percent of the observed informal trade was transported via lorry, so relatively organized; only 7 percent of goods were carried by traders on foot.

FIGURE 1.11:

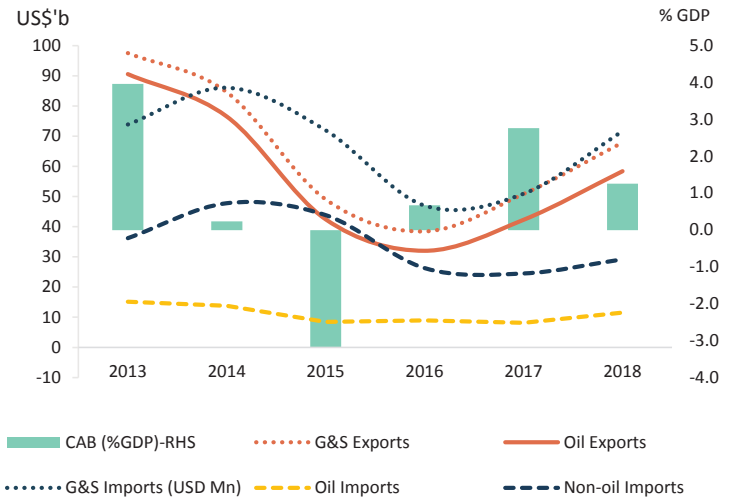
Nigeria's Current Account Balance Generally Compares more favorably with Peer Countries



Source: WDI and Macroeconomic-Poverty Outlook forecasts

FIGURE 1.12:

Nigeria's imports picked up in 2018, reducing CAB



Source: CBN

12. The financial account balance improved in 2018 because of increased foreign portfolio and other investment inflows. The foreign portfolio investment (FPI) inflows strengthened significantly in the first half of 2018 but weakened in the second half. While a stable Investors & Exporters Foreign Exchange (IEFX) window rate and high short-term domestic money market rates (Nigerian Treasury Bills and CBN Bills) supported portfolio investments in the first half of the year, a decline in rates, coupled with increasing emerging market volatility as well as pre-election uncertainties led to the net portfolio outflows in the second half of the year. Overall in 2018 though, FPI inflows to Nigeria were 47 percent higher than in 2017. Foreign direct investment (FDI) inflows remained low throughout 2018 (at 0.5 percent of GDP), despite government's deliberate efforts to improve the business environment and attract long term investments.⁵ This was likely due to long-term policy and regulatory uncertainties, including uncertainties related to the 2019 general elections. Also, the regulatory spat between the local unit of South-African Telecommunications Company, MTN and the CBN (which also involved local units of 3 foreign commercial banks), may have sent wrong signals to other investors.

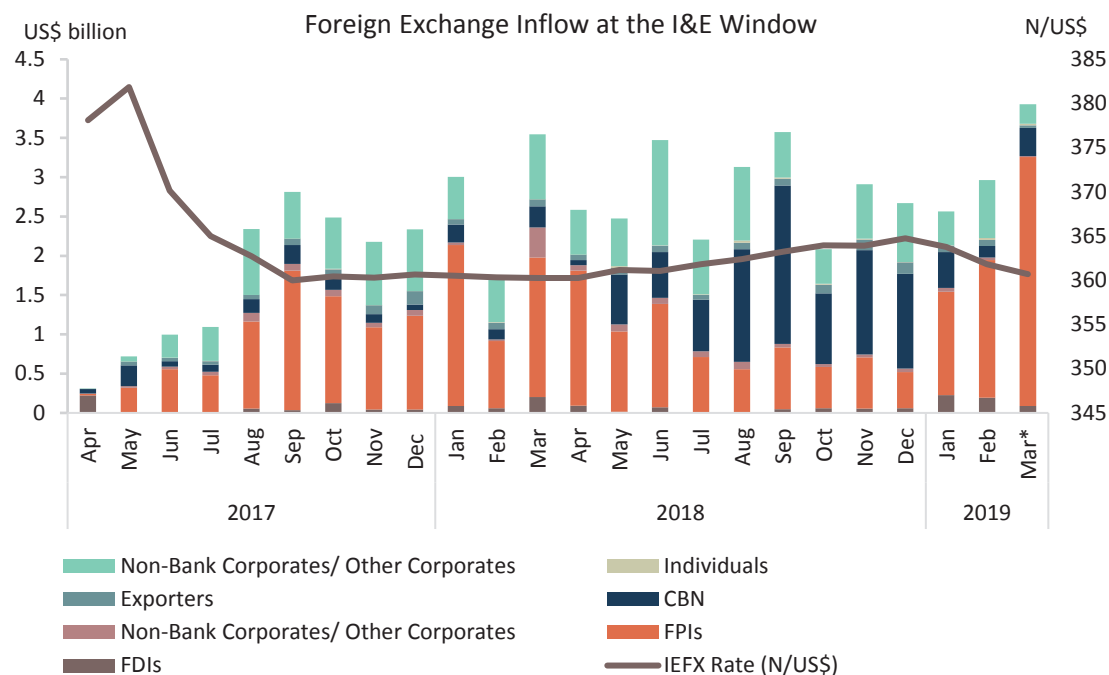
⁵ During 2017 and 2018, the Federal Government (working through a Presidential Enabling Business Environment Council) executed three 60-day National Action Plans with a series of specific actions and result targets for improving the business environment in Nigeria. A fourth 60-day National Action Plan has just been launched in March 2019.

1.3 Nigeria's Monetary and Exchange Rate Policies are Increasingly Intertwined

13. Foreign exchange restrictions aim to support industrialization through import substitution while protecting the level of FX reserves. Reserves are used to provide (through CBN direct intervention, Figure 1.13) a stabilizing buffer for keeping nominal exchange rates stable (Figures 1.13 - 1.14). The stability of the nominal exchange rate (particularly in the IEFX window) and high rates on CBN bills, which the CBN uses to mop-up naira liquidity and maintain a tight monetary stance (Figure 1.15), attract FPI, which in turn help managing the reserves and the nominal exchange rate. These high rates and volumes of CBN bills, at times imposed on the private banks through involuntary OMOs, constrain private sector credit growth (Figure 1.15), whose nominal growth rates remain way below inflation, i.e. contracting in real terms. The FPI inflows are very sensitive to political developments and have increased immediately after the February 2019 national elections (Figure 1.13).

FIGURE 1.13:

Nigeria's Monetary and Exchange Rate Policies are Increasingly Intertwined

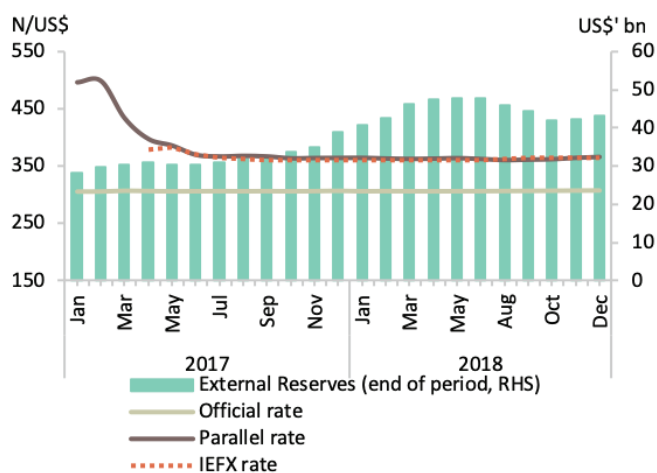


Source: FMDQ

Note: * = inflow from 1st to 14th

FIGURE 1.14:

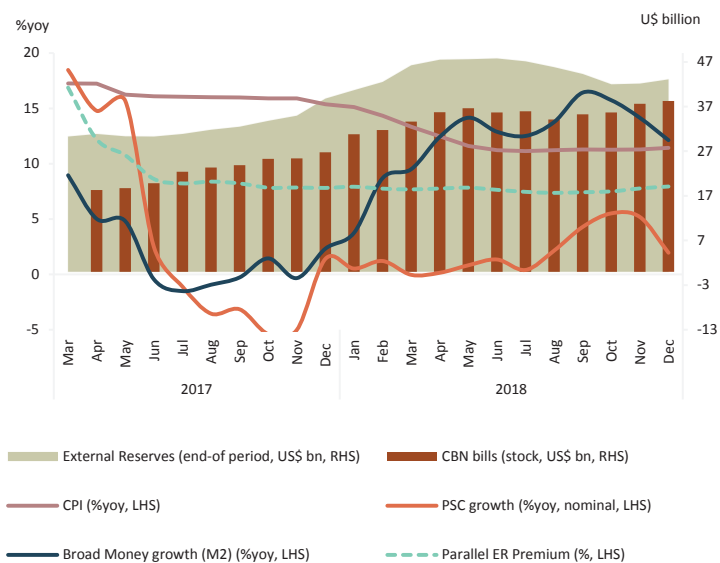
External Reserves Increased up to June; IEFX, BDC Rates Convergence was Sustained



Source: CBN, FMDQ, Aboki FX

FIGURE 1.15:

Monetary and exchange policies are intertwined



Source: CBN, NBS, FMDQ, Aboki FX

14. The foreign exchange market has achieved greater convergence across multiple exchange rates but is still segmented.

The CBN continued to intervene in the different foreign exchange windows to adjust foreign exchange liquidity and keep the rates stable. An official rate in the range of N305-N307/US\$ is primarily used to implicitly subsidize fuel imports and external debt service and for purposes of national accounting, an interbank (wholesale and retail) intervention rate in the range of N340 – N345/US\$ (achieving greater convergence with most other rates) was applicable to most other imports through the banks (although some banks were able to access limited quantities of foreign exchange at the interbank at the CBN official rate); a rate of N360/US\$ continued for *invisibles* and SMEs. The CBN also continued to intervene assertively in the IEFX window (Figure 1.13) - through which most of transactions occur - to keep the rate stable in the region of N360/US\$. At these levels, the IEFX, SME and invisibles window rates are in the same region as the parallel rate. The Renminbi 16 billion (US\$2.5 billion) bilateral currency swap deal between the CBN and the People’s Bank of China (PBoC) executed in April 2018 was aimed at supporting easier trade and investments with China, rather than supporting the reserve levels.

15. The country’s external reserves grew modestly in 2018, as BoP inflows exceeded the outflows, overall.

The reserves spiked to a high of US\$46.3 billion at the end of March (Figure 1.14), buoyed by increasing oil exports, steady diaspora remittances, improvements in portfolio and other inflows as well as proceeds from the successful US\$2.5 billion Eurobonds issued in February, but subsequently grew only

gradually to US\$47.8 billion at the end of the June 2018. Reserves began to decline in July due to the change in investor stance and consequent deceleration of portfolio inflows; as well as the repayment of US\$0.5 billion maturing Eurobonds (five-year bonds issued in July 2013). Reserves thus declined to US\$45.8 billion in August. Coupled with a decline in oil prices starting in October, and CBN's resolve to defend the value of the Naira through more aggressive interventions in the foreign exchange market, following heightened portfolio outflows, the external reserves had declined to US\$43.1 billion at end-December (representing seven months of goods and services import coverage). This was despite the US\$2.86 billion Eurobond issuance in November. The CBN continued to maintain its foreign exchange demand management policy stance through foreign exchange restrictions for 41 groups of products. It added fertilizers to this foreign exchange restriction category in December 2018.

TABLE 1.3: The Balance of Payments of Nigeria (USD billion)

ACTIVITY SECTOR	ANNUAL			QUARTERLY			
	2016	2017	2018	Q1 2018	Q2 2018	Q3 2018	Q4 2018
CURRENT ACCOUNT BALANCE	2.7	10.4	5.3	1.4	4.4	-1.5	1.1
Trade Balance	-0.5	13.1	22.3	4.4	7.4	3.8	6.8
Exports (fob)	34.7	45.8	63.1	14.5	15.8	16.2	16.7
o/w Crude Oil and Gas	32.0	42.3	58.4	13.5	14.0	15.3	15.6
Imports (fob)	-35.2	-32.7	-40.8	-10.1	-8.3	-12.4	-9.9
o/w Oil and Gas -	9.0	-8.2	-11.6	-3.9	-2.2	-3.1	-2.4
Services(net)	-8.0	-13.2	-26.1	-5.5	-5.2	-7.1	-8.3
Credit	3.7	5.0	4.8	0.8	1.2	1.5	1.4
Debit	-11.8	-18.3	-30.9	-6.2	-6.3	-8.6	-9.7
Income(net)	-8.6	-11.5	-15.1	-3.3	-3.9	-4.2	-3.7
Current transfers(net)	19.9	22.0	24.1	5.8	6.0	6.0	6.3
FINANCIAL ACCOUNT BALANCE	0.7	8.2	4.2	6.8	-0.4	0.1	-2.3
Net Direct Investment	3.1	2.2	0.6	0.5	0.1	0.1	0.0
Outflows	-1.3	-1.3	-1.4	-0.3	-0.4	-0.3	-0.3
Inflows	4.4	3.5	2.0	0.8	0.4	0.4	0.3
Net Portfolio Investment	1.7	8.5	12.5	5.1	4.2	1.8	1.4
Outflows	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Inflows	1.9	8.5	12.5	5.1	4.2	1.8	1.4
Net Other Investment	-4.2	-2.5	-9.0	1.2	-4.7	-1.8	-3.7
Outflows	-3.1	-11.0	-16.3	-6.6	-4.5	-0.2	-5.1
Inflows	-1.1	8.5	7.3	7.8	-0.2	-1.7	1.4
CHANGE IN RESERVES (positive sign indicates reserve spending, i.e. reduction in reserves)	1.0	-12.2	-3.3	-7.3	-0.5	4.5	0.0
NET ERRORS AND OMISSIONS	-4.4	-6.4	-6.2	-0.9	-3.5	-3.1	1.2

Source: CBN. Note that 2018 Q4 figures are provisional

1.4 Monetary Policy Signaling was Somewhat Covert and Private Sector Credit Growth Remained Weak

16. Despite keeping the key policy rates stable throughout the year, the CBN used other tools to influence the money supply. The monetary policy rate (MPR) remained at 14 percent throughout the year, where it has been since July 2016; and the cash reserve requirement (CRR) and liquidity ratio remained respectively at 22.5 percent at 30 percent, where they have been since March 2016. With persistently declining inflation since early 2017, the CBN, in early 2018 began to cut back on its liquidity-draining Open Market Operations. Broad money growth (Figures 1.15, 1.16) increased from 2.3 percent at end-December 2017 to 12.9 percent (yoy) at end-June 2018 while money market rates began to decline. The rates on Nigerian treasury bills and government bonds also declined in similar vein. This development was well-aligned with the fiscal policy stance of cutting back on domestic money market borrowing by the Federal Government in order to limit the crowding out effect on the private sector. However, with the onset of weaker portfolio investor sentiment in the course of the year, the CBN began more aggressive sales of CBN bills at elevated rates to attract portfolio investments; rather than to curb liquidity expansion. This re-enacted the high interest rate regime as short-term interest rates inched up and broad money growth decelerated. Throughout the year, private sector credit remained weak, even during the months of looser liquidity and lower money market rates. The CBN continued to engage in quasi-fiscal operations through its varied development financing programs, adding to the liquidity created by government budgetary financing.

17. The partial ease in liquidity during 2018 did not stimulate private sector lending, because of high rates, slow economic recovery - limiting the demand, and continued risk aversion on the part of banks - lowering the supply (Figure 1.15). Despite the expansion in the money supply in earlier months and declining yields on government securities, credit to the private sector remained weak; with a y-o-y growth of only 1.3 percent in June and 2 percent at the end of the year. Gains from the N300 billion Real Sector Support Facility (RSSF) instituted by the CBN in August 2018 to increase the flow of credit to the real sector of the economy are yet to be perceived. However, as this is not the first initiative of its kind geared towards stimulating real sector lending, it is uncertain that the RSSF would unlock credit to the real sector. It will appear that risk aversion rather than liquidity seems to be the main constraint for lending to the real sector.

18. Although monetary policy was primarily focused on the management of the (multiple) nominal exchange rates (and external reserve stabilization), the resulting relatively tight monetary stance helped control inflation. Inflation reached a two-year low and stabilized at around 11% since June 2018. However, from August, inflation remained sticky, mainly on account of marginally-increasing food infla-

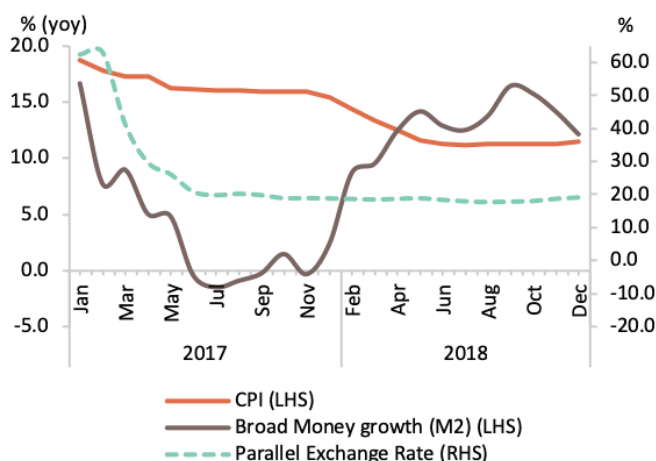
tion to close the year at 11.4 percent. The core component of inflation on a year-on-year basis declined up till August and remained stable till the end of the year. The CBN has for the first time in almost three years, reduced the Monetary Policy Rate (MPR) by 50 basis points in March 2019 in order to signal a looser monetary policy stance in support of growth. It however kept the Cash Reserve Rate (CRR) and the Liquidity Ratio unchanged.

19. Inflation in Nigeria was significantly above the averages recorded by peer countries since 2015.

These countries maintained single-digit inflation, while Nigeria’s inflation reached over 18 percent in 2016, following currency depreciation and partial elimination of petrol and electricity subsidies. Although the structural peers recorded double-digit inflation in 2017 and 2018, these were, on average, still below the levels recorded by Nigeria.

FIGURE 1.16:

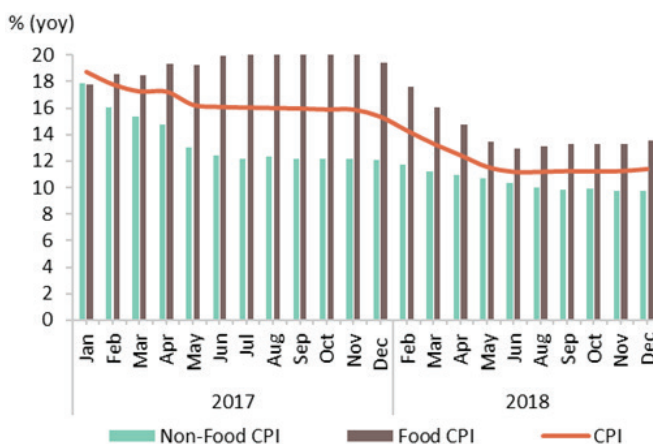
Broad Money Grew Slower Towards Year-end



Source: CBN, NBS, Aboki FX

FIGURE 1.17:

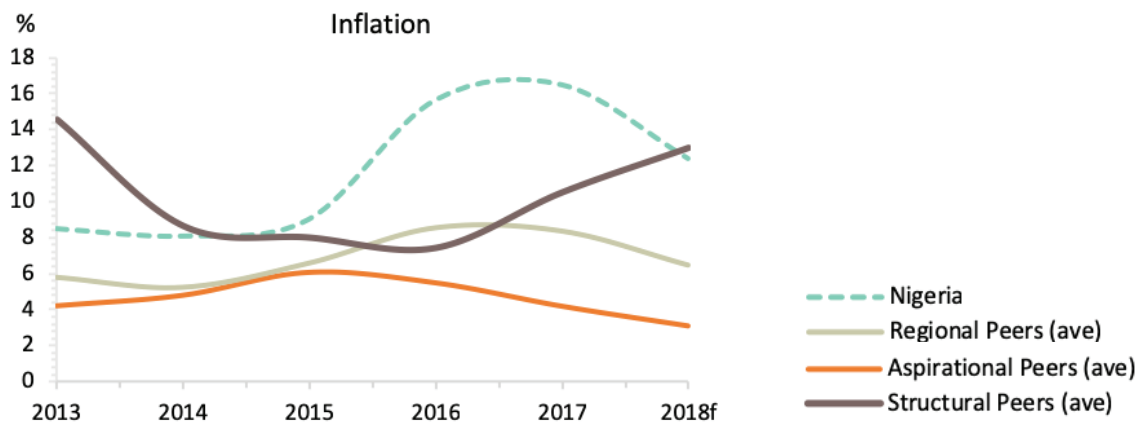
Year-on-Year Inflation Increased Marginally



Source: NBS

FIGURE 1.18:

Year-on-Year Inflation Increased Marginally



Source: WDI and Macroeconomic-Poverty Outlook forecasts

20. Banking sector performance improved in 2018, helped by the oil price recovery and a reduction in the volume of high-risk assets of the industry.⁶ Higher oil prices supported stronger asset quality (as 30 percent of the total industry exposure is to the oil and gas sector) and non-performing loans (NPLs) declined from 14.8 percent at end-2017 to 11.7 percent at end-2018. Also, the recent issuance of promissory notes by the Federal Government to settle long-standing contractor arrears contributed to the improvement. The transition to International Financial Reporting Standards (IFRS)-9 would ordinarily have resulted in increased loan loss charges against shareholders' funds; however, the introduction of a four-year transitional period reduced the need for the additional provisioning costs expected by end-2018.⁷ Furthermore, the industry capital adequacy ratio improved significantly from 10.2 percent in December 2017 to 15.3 percent in December 2018. However, the sector remains vulnerable to negative oil and gas sector shocks, given the high loan concentration to this sector. The license of one bank – Skye Bank – was revoked by the CBN in September 2018 (following its inability to shore up its capital after two years of regulatory forbearance) and a bridge bank – Polaris Bank – was set up to take over its assets and liabilities. The Asset Management Company of Nigeria (AMCON) is to capitalize the bridge bank and source buyers for it. Unlike 2017, banks' stocks suffered losses overall, during the year and the NSE Banking Index declined by 16.1 percent in 2018.

6 Nigeria's financial system is dominated by banks which comprise the largest share of the financial system. Hence, the system's stability depends on their performance.

7 Most banks initially saw between 150-500 basis points (bps) shaved off their capital as a result of IFRS-9 implementation. But in a move to cushion the effect of the new loan loss provisions on tier 1 capital, the CBN subsequently introduced a 4-year transitional arrangement which will require banks to hold static the Adjusted Day One impact of IFRS-9 impairment figures and spread it over a 4-year period.

TABLE 1.4: Monetary and Financial Indicators

	2017	2018
Monetary & Financial Sector Indicators (% change, end of period)	YoY	YoY
Broad Money	2.3	12.1
Narrow Money	-0.9	5.2
Net Foreign Assets	69.6	18.5
Net Domestic Credit	-3.5	6.3
o/w to the Federal Government (Net)	-25.4	33.8
o/w to the Private Sector (Net)	-1.2	2.0
	2017	2018
Monetary Policy Rate (absolute rate, end of period)	14	14
Liquidity Ratio (absolute rate, end of period)	30	30
Cash Reserve Requirement (absolute rate, end of period)	22.5	22.5
Exchange Rates (end of period)		
Exchange rate (LCU/\$US)	306	306
Real effective exchange rate index (Nov 2009=100)	99.4	86.8
Financial Market Indicators (end of period)		
Stock Market (NSE) Index	38,243	31,431
Fitch Sovereign Long Term Foreign Debt Rating	B+	B+
Moody's Sovereign Long Term Foreign Debt Rating	B2	B2
S&P Sovereign Long Term Foreign Debt Rating	B	B

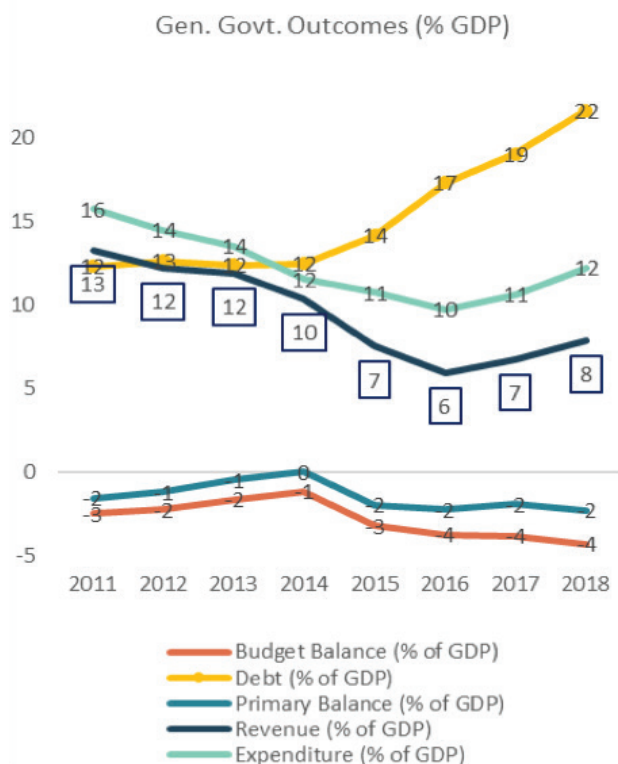
Sources: Central Bank of Nigeria, Securities & Exchange Commission, Fitch, Moody's, S&P.

1.5 Nigeria's fiscal space remains constrained by the low and underperforming revenues

21. Nigeria's fiscal situation remains challenged due to low revenues. General government spending (budgetary Federal, State, and Local Governments, excluding Government-owned enterprises) is low, estimated at 12 percent of GDP in 2018. Inadequate to meet even the basic public spending needs, Nigeria's low spending is due to extremely low revenues. Nigeria's total government revenues remain low: 8 percent of GDP in 2018. The Federal Government (6 percent of GDP) is responsible for about half of general government spending. Compared to the subnational governments, the FGN was able to sustain and finance its deficits (around 3 percent of GDP), which now systemically exceeds its retained revenues (2.8 percent of GDP in 2018). FGN's borrowing is the main contributor to the build-up of Nigeria's public debt.

FIGURE 1.19:

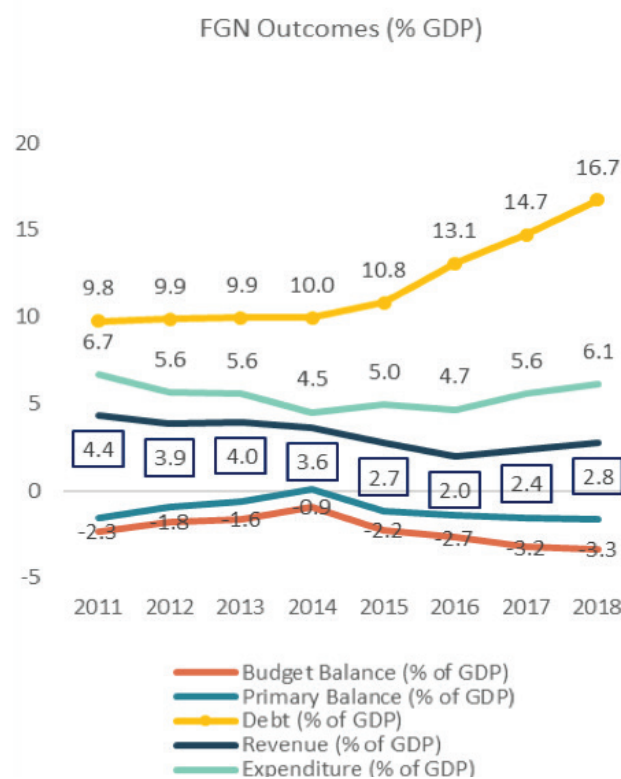
General government of Nigeria fiscal outcomes over time



Source: World Bank fiscal database, using OAGF, CBN, DMO, JTB data.

FIGURE 1.20:

Federal Government of Nigeria fiscal outcomes over time



Source: World Bank fiscal database, using OAGF, CBN, DMO, JTB data. 2018 spending includes power sector shortfall.

22. Federally collected revenues⁸ continue to underperform in the absence of significant non-oil tax revenue reform and in the face of increasing deductions. While in nominal terms the total federally collected revenues (federation account oil and non-oil revenue, and the VAT) grew by 40 percent in 2018 compared to 2017, only three-quarters of the budgeted federation account and VAT revenues were collected in 2018. A number of factors contribute to this underperformance: i) the budgeted figures remain aspirational without any significant tax policy changes; ii) limited yields from tax administration improvements; iii) the budgeting process is not based on sound macroeconomic assumptions; iv) the sustained significant unbudgeted deductions from oil revenues, particularly the increasing unbudgeted fuel subsidies.

⁸ This refers to the net measure of federation account and VAT revenues (i.e. revenues net of revenue-collection agencies' costs of collection, cost recoveries on oil and gas sales (including unbudgeted petrol subsidy deductions), government's contribution to cost of oil production and costs of other federally-funded upstream projects). It is the net revenue that is distributed to the three tiers of government, in line with the existing revenue-sharing formulae.

TABLE 1.5: Federally-collected revenues (%GDP)

% GDP	2016			2017			2018		
	Budget (%GDP)	Actual (%GDP)	Budget Perf.	Budget (%GDP)	Actual (%GDP)	Budget Perf.	Budget (%GDP)	Actual (%GDP)	Budget Perf.
Total Federation Account Net Revenues	5.8	4.2	72%	8.2	4.9	60%	8.4	6.1	73%
Oil and Gas (Net) /1	1.7	1.6	97%	4.4	2.3	53%	5.3	3.6	67%
Other Extractives-related revenues and inflows /2	0.2	0.4	n/a /4	0.3	0.3	n/a /4	0.0	0.2	n/a /4
Non-oil Revenues (Net)	3.9	2.2	56%	3.5	2.3	65%	3.0	2.4	78%
Corporate	1.7	0.9	53%	1.4	1.0	67%	1.3	1.1	83%
Customs	0.8	0.5	64%	0.6	0.5	88%	0.6	0.5	83%
VAT	1.4	0.8	55%	1.5	0.8	53%	1.1	0.8	71%

/1 After budgeted and discretionary deductions, but before derivation. /2 Includes Solid Minerals, NLNG Dividend, and Signature Bonus; unbudgeted oil revenues (exchange rate difference, excess PPT); excludes NNPC Refund and Special ECA distribution (not revenue). /3 Budget performance not calculated as actuals include both budgeted and unbudgeted amounts. /4 Oil Revenue not projected.

23. Oil and gas revenue collection increased in 2018 but remained below potential. Net oil and gas revenues retained in the federation account grew by 73 percent in nominal terms: as oil production remained stable, the increase has been driven by the oil price increase – on average, 32 percent higher in 2018 (US\$ 72/bbl) relative to 2017 (US\$ 55/bbl). As cost is not linearly proportional to the oil price increments, more growth in the oil revenues were expected, and only about two-third of the budgeted net oil and gas revenues were actually collected (see table 1.5). The oil revenues continue to underperform both relative to the budget targets and their realistic potential due to the unbudgeted fuel subsidy (Nigerian National Petroleum Corporation (NNPC) ‘cost under-recovery’), which amounted to N731 billion in 2018, among other discretionary deductions, and the dollar-naira conversion using an exchange rate lower than that prevailing in the convertible IEFX window. The NNPC financial reports indicate that about US\$2 billion (equivalent to 0.6 percent GDP) were deducted from the gross oil revenue prior to the transfer to the federation account for the unbudgeted fuel subsidy (‘cost under-recovery’). The calculations for the fuel subsidy are based on heavily inflated fuel consumption estimates, with the fiscally severely constrained Nigerian government effectively subsidizing neighbouring countries’ petrol consumption as some of the fuel is informally re-exported through the porous borders.

24. Federally collected non-oil revenues grew in nominal terms, but remained largely stable relative to GDP and continue to underperform relative to the budget targets. The VAT and customs collections grew largely in line with inflation – which would be expected if no administrative or policy reforms were implemented, and

which implies stagnation in real terms and relative to the GDP (0.8 percent and 0.5 percent, respectively). Corporate revenues increased slightly relative to the crisis years, in line with the economic recovery, and only minimal contribution from the tax amnesty (Voluntary Assets and Income Declaration Scheme). All of the non-oil revenues continue to fall short of the budgeted targets (see table 1.5). The VAT budget performance improved from 53 percent in 2017 to 71 percent in 2018, as the budgeted targets were revised downwards.

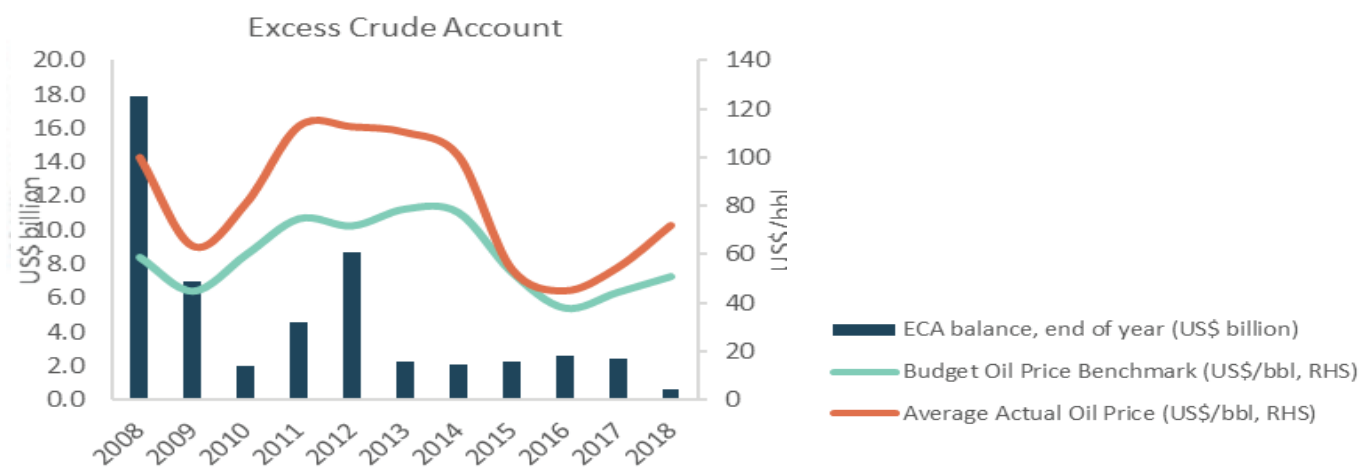
25. The Federal Government maintained the fiscal deficit in 2018. Preliminary estimates based on the OAGF fiscal accounts indicate that the Federal Government ran an overall deficit of 3.3 percent of GDP in the calendar year 2018. With the underperforming federation revenues – the main source of revenues of the Federal Government inflows – and systemically underperforming FGN own revenues, only 70 percent of the budgeted revenues accrued to the Federal Government. The total revenue envelope of the Federal Government remains very low, at 2.8 percent of GDP (N 3.6 trillion, or US\$ 11 billion). With, as usual, nearly full implementation of the recurrent budget, the revenue shortfalls translated into under-performance of capital spending. With Federal Government revenues equivalent to merely non-interest recurrent spending, deficit goes beyond capital expenditure financing. The deficit levels roughly comply with the deficit ceiling of 3 percent of GDP established in the Fiscal Responsibility Act (FRA 2007).

26. Fiscal buffers in the Excess Crude Account were virtually depleted, despite the actual Bonny Light price exceeding the budget benchmark by US\$21/bbl on average throughout 2018 (see Figure 1.21). The ECA was established on the basis of Section 35 of the Federal Fiscal Responsibility Law which stipulates a commodity (oil) price-based fiscal rule requiring that savings should accrue to the ECA if the price exceeds the budget benchmark.⁹ The savings would be applied to smooth out the oil revenue path in the event of declined oil prices. However, accruals have not been realized in recent years because in practice, compensations are also made for oil output shortfalls as well as non-oil revenue shortfalls. In 2018, the small balance of US\$ 2.5 billion available at the beginning of the year was almost fully exhausted by special withdrawals from the account, (e.g. the purchase of the new military air-fleet), and the closing balance dropped to US\$ 0.6 billion, leaving no fiscal buffer going ahead.

⁹ Savings in the ECA have been variously challenged (including in the courts) on the basis that Section 35 of the FRA is at variance with the Constitutional provision that allows for all revenues accruing to the federation account to be distributed among the tiers of government.

FIGURE 1.21:

The Excess Crude Oil Account is Virtually Depleted...



Source: OAGF, BOF

27. With continued heavy dependence on volatile oil revenues, and the depletion of fiscal buffers, Nigeria's fiscal situation remains fragile.

The country also faces the risk of reversion to procyclicality of fiscal policy and this has important consequences for macroeconomic stability and the sustainability of growth. Procyclicality of public spending implies that primary spending and real GDP growth move in the same direction. Procyclical fiscal policies tend to generate macroeconomic instability and amplify economic fluctuations. The latter are associated with the volatility of long-term economic growth by discouraging new investment, undermining human capital through high unemployment, generating volatile government revenues and the terms of trade, and undermining debt sustainability.¹⁰ Furthermore, there is significant evidence across the world that the procyclicality of fiscal stance deteriorates welfare and poverty outcomes.¹¹ Although the procyclicality of fiscal policy of resource-rich countries in SSA might appear as a norm, countries such as Botswana and South Africa managed to escape the procyclicality trap.

28. Increased non-oil revenue mobilization, together with careful rethinking of fiscal rules and their effectiveness, would help avert the procyclicality of fiscal policy in Nigeria.

Herrera, Kouame, and Mandon (2019) explains that the rigid component of public spending reduces the procyclicality of public expenditure. Public spending can be rigid in many ways among which the establishment of fiscal rules. The latter can take different forms, among which establishing a maximum debt-to-GDP ratio, a threshold of fiscal deficit, or specific requirement on the composition of public spending. High public debt also fosters the procyclicality of the fiscal stance with the negative consequences on development outcomes:

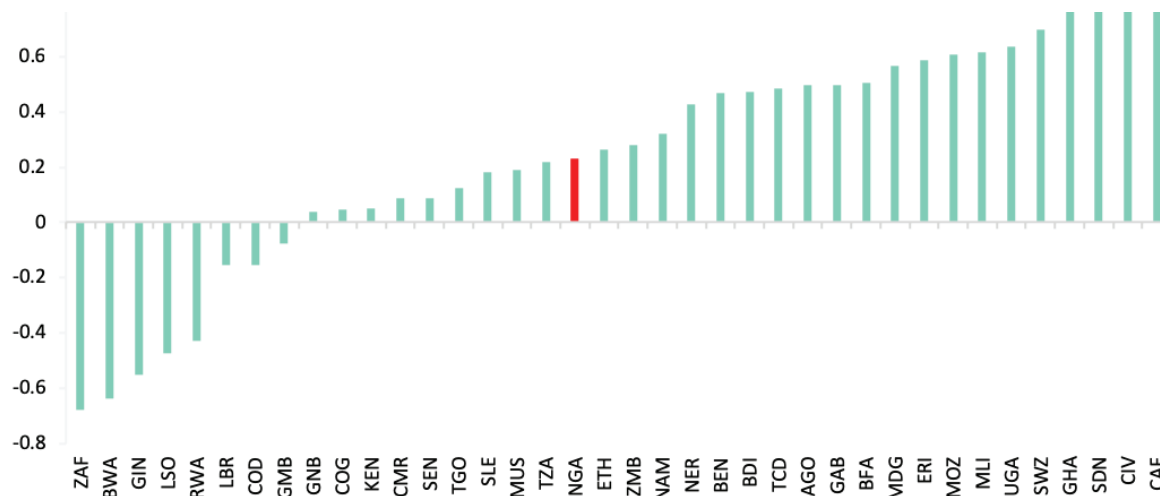
10 Bernanke (1983), Eichengreen and Hausmann (2004), Martin and Rogers (1997), Hercowitz and Strawczynski (2004), and Brueckner and Carneiro (2017) for extensive discussion on the impact of the procyclicality of fiscal stance.

11 Woo, J. (2005). Social polarization, fiscal instability, and growth. *European Economic Review*, 49(6), 1451-1477;

however, the public debt in Nigeria remains low, its sustainability threatened primarily by low revenues. Several other factors such as the corruption in both political sphere and public services, limited credit to the private sector increase the procyclicality of the public stance – addressing those would help reduce fiscal procyclicality.

FIGURE 1.22:

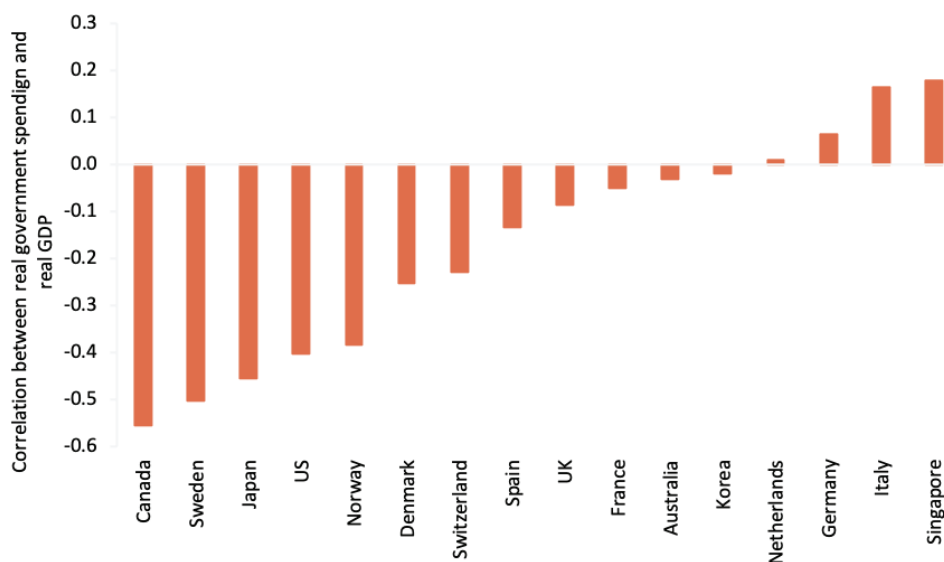
Nigeria, like the majority of SSA countries, favor pro-cyclical fiscal policy: Public spending procyclicality in SSA, 2009–2016



Source: Adapted from Herrera, Kouame, and Mandon (2019)

FIGURE 1.23:

Developed countries systemically favor counter-cyclical fiscal policy



Source: Izvorski and Karakulah. 2019, using the IMF’s Fiscal Prudence and Profligacy database, WDI World Bank, and the Maddison Project Database 2018. Note: The Figures plot the correlation between the cyclical component of real GDP and the cyclical component of real government spending.

- 29. While capital spending doubled since the fiscal crisis of 2015-2016, it remains very low (1.3% of GDP in 2018).** The Federal Government capital expenditures continue recovering, in part at the back of successful Eurobond issuances, less than two-thirds of the budgeted capital expenditures are implemented. Federal Government's interest payments (estimated 1.7 percent GDP in 2018) continue to increase with the sustained borrowing at double-digit domestic interest, and remain higher than the total capital spending (1.3 percent GDP). As revenues remain extremely low, the FGN interest-payment-to-revenue ratio remains high at 60 percent.
- 30. The new minimum wage will add to the government's personnel cost.** Following a complex but largely peaceful negotiation, the president transmitted a new national minimum wage bill (to increase the minimum wage by 50 percent - from the current N18,000 to N27,000 a month)¹² to the National Assembly in January 2019. Applicable to civil servants nationally, and formal private sector firms with a minimum of 50 employees, the increased national minimum wage, which is an inelastic expenditure, will build on to the fiscal pressures in the medium term. However, as the minimum wage is applicable to the civil servants on the lowest rung of the payscale and the government plans to adopt the principle of relativity, rather than absolute application, the added recurrent expense may be relatively measured in 2019 and over the medium term.
- 31. The Federal Government started settling salary, pension, and contractor arrears.** As according to the FRA 2007, the Federal Government is only mandated to borrow for capital and human development spending, the recurrent expenditure arrears are incrementally embedded in the Federal Government budget. The stock of contractor arrears estimated at N 2 trillion at the end of 2016; have begun to be settled through the issuance of promissory notes, bearing no coupon payments. However, only N1 trillion has been approved for payment through promissory notes. This stock is planned to be cleared over a 10 year horizon. In 2018, N 330bn promissory notes have been issued.
- 32. Nigeria's public debt (reaching 21.6 percent of GDP at the end 2018) remains low by international standards, but continues rising with sustained fiscal deficits.** The Federal Government's debt stood at 16 percent GDP, but as revenues remain extremely low, and the interest rates remain high, the FGN interest-payment-to-revenue ratio remains high at 60 percent. In accordance with its debt management strategy, the Federal Government continued to increase the external borrowing component; and in particular, its external commercial debt stock. The Federal Government returned to the market by issuing US\$2.9 billion worth of Eurobonds in November (bringing the total issuance of US\$ 5.4 billion in 2018). However, the costs are increasing to reflect the increasing Fed rate, increased volatility in the emerging

12 Both chambers of the national assembly have recently approved a higher minimum wage of N30,000, but this still has to be assented to by the President.

TABLE 1.6: Federally-collected revenues (%GDP)

% GDP	2016			2017			2018		
	Budget (%GDP)	Actual (%GDP)	Budget Perf.	Budget (%GDP)	Actual (%GDP)	Budget Perf.	Budget (%GDP)	Actual (%GDP)	Budget Perf.
Total FGN Revenue	3.7	2.0	54%	3.9	2.4	61%	4.0	2.8	70%
Oil and Gas	0.7	0.7	97%	1.8	1.0	53%	2.2	1.5	67%
Non-oil Revenues	1.4	0.8	56%	1.2	0.8	70%	1.1	0.9	81%
Corporate	0.8	0.4	53%	0.7	0.5	67%	0.6	0.5	83%
Customs	0.4	0.2	64%	0.3	0.2	88%	0.3	0.2	83%
VAT	0.2	0.1	55%	0.2	0.1	53%	0.2	0.1	71%
FGN Independent Revenues	1.5	0.2	16%	0.7	0.3	41%	0.7	0.3	47%
Other Inflows /1	0.1	0.3	279%	0.1	0.3	213%	0.1	0.1	92%
Total FGN Expenditures	5.9	4.7	80%	6.4	5.6	87%	7.1	6.1	87%
Recurrent Expenditures (excl. Statutory Transfers)	4.0	3.7	92%	4.1	4.1	100%	4.4	4.2	96%
o/w interest payments /2	1.3	1.2	96%	1.4	1.4	99%	1.7	1.7	98%
Capital Expenditures (calendar) /3	1.5	0.6	38%	1.9	1.1	57%	2.2	1.3	59%
Statutory Transfers	0.3	0.3	98%	0.4	0.4	101%	0.4	0.4	86%
Other Outflows /4	0.0	0.1		0.0	0.0		0.0	0.2	
Fiscal Balance	-2.2	-2.7	124%	-2.5	-3.2	128%	-3.1	-3.3	108%
Interest-payment-to-Revenue Ratio	35%	61%		35%	57%		43%	60%	

Notes: The reported revenue and fiscal balance figures differ from the published FGN budget figures as the World Bank excludes the non-revenue items under international classification; total expenditure for some years differs from the FGN reports as the World Bank excludes amortisation payments from expenditure (and puts it below the line). /1 Other inflows include Mineral revenues, NLNG Dividend, Exchange rate difference, and Excess oil PPT; but excludes Balances in Special Accounts, Mopped up capital, TSA Pool Account and Paris Club overdeduction. /2 Interest rate, unlike in FGN accounts, excludes interest on ways and means (CBN overdraft) /3 The actual capital spending reported are for calendar year. /4 Other Outflows include CBN disbursement for power sector tariff shortfall. Refund to MDAs and Banks, ECA Loan Deduction, but exclude Settlement of State Coupon Payment, Mopped up Capital Refunded, Reimbursement of Paris Club overdeduction.

markets, and Nigeria's domestic election-related uncertainty. Although the strategy was partly adopted to reduce the over-crowding of the domestic markets and reduce the borrowing costs, it is undermined by the increased CBN bill issuances, which are regarded as substitutes for the government paper.

33. The States are estimated to run a collective budget deficit of 1 percent in 2018.¹³ While the repayment of the Paris Club overdeduction will improve the States' fiscal envelope, the disbursement of the funds was not effective until the beginning of 2019, thus yielding no impact on 2018 expenditures.

¹³ States' fiscal accounts for 2018 are not available at the time of publication.

2

CHAPTER 2:

ECONOMIC OUTLOOK

Nigeria's weak macro-economic framework is expected to constrain growth over medium-term. Multiple exchange rates and foreign exchange restrictions, distortionary quasi-fiscal activities, inadequate fiscal consolidation efforts, and slow implementation of structural reforms – for example in the power sector - are expected to constrain growth to just over 2%. The growth in the oil sector is expected to be constrained by the continued regulatory uncertainty which will limit investments. Agriculture remains affected by unresolved conflicts and climate change, which further contributes to food insecurity in the north east region. Although the uncertainty of elections has passed, economic risks remain high, as macroeconomic outcomes are vulnerable to external and domestic shocks. Negative shocks to oil production or prices would weigh on fiscal revenues, external balances, banking sector stability, and could spur capital flight. On the positive side, the accelerated implementation of structural reforms, in line with Economic Recovery and Growth Plan, could boost inclusive growth.

2.1 Nigeria's short-to-medium-term growth outlook is constrained by a weak macroeconomic framework, policy uncertainty, and slow progress in the implementation of the already articulated structural reforms

34. Inadequate monetary and fiscal policies severely limit medium-term growth outlook. Overall, Nigeria's growth is expected to hover just over 2 percent in the medium term, below historical trends, below its potential, and below the rate of the population growth. Inadequate monetary and fiscal policy continuously constrain private sector contributions to recovery. Furthermore, structural constraints, particularly low stock of investment in physical and human capital lower the growth potential. The Federal and State elections were fraught with some complications but did not present particularly extraordinary challenges in Nigeria's context. Nonetheless, the delayed approval of the 2019-2021 MTEF/FSP and 2019 budget contributes to policy uncertainty, postponing investment decisions across the sectors of the economy and foregoing potential growth-spurring injections.

- 35. Nigeria's medium- and longer-term growth trajectory depends on the implementation of significant structural macroeconomic, fiscal, and sectoral reforms to incentivize private sector activity.** Nigeria's public sector is small – among the smallest globally – and marred with inefficiencies and coordination problems, so the medium-term growth trajectory depends largely on private sector development. However, the government still has a crucial role to play in creating a conducive environment for the private sector to thrive through a coherent and stable macroeconomic framework, reliable power supply and distribution, and ensuring an educated, healthy and connected population able to participate and add to employment opportunities.
- 36. Maximizing private sector financing is necessary as total financing needs are enormous and far exceed public resources.** To increase (domestic and foreign) investor confidence, improving the business environment at both the Federal and State level will be important, alongside a stable macroeconomic environment; strategic use of public capital investments could further crowd-in private sector investment. Nigeria improved 23 positions on the World Bank ease of *Doing Business* (DB) index during 2016-2018, but it still ranks 146th in DB 2019, with room for improvement particularly in the areas of Registering property (184th), Trading Across borders (182nd) and Getting Electricity (171st). The government remains committed and has ambitious plans to go sub-100 in the DB rankings; in October 2018 launched the subnational DB rankings to motivate reforms at the State level, which is expected to generate some competition across States in attracting still very limited FDI.

2.2 Oil production is expected to remain levelled, but the price fluctuations will affect the non-oil sector performance

- 37. Oil production is projected to be relatively stable over the 2019-2021 period.** Based on existing and formalized investment decisions, the oil production is forecasted to grow slowly, up to 2.3 mb/d by 2021, slowed by the pending regulatory uncertainty limiting investments in the sector. The production levels remain subject to risks of significant production disruptions which may lower the output, particularly from the still not fully resolved situation in the Niger Delta. The World Bank's baseline projections remain below government's own targets articulated in the draft 2019 Federal budget, medium term fiscal strategy, and the ERGP. Although the World Bank official baseline crude oil price forecast (articulated in the 2019 January edition of the *Global Economic Prospects*) remains around US\$70 US\$/bbl¹⁴, there is a wide range of potential lower realization, given the uncertainty of the outcomes of the OPEC negotiations to cap production, other (including US) supply factors, and slowing global demand in the face of lower projected global economic growth. The small oil sector will contribute only marginally to the Nigerian economic growth directly.

¹⁴ The numbers reported here include a small upward adjustment based on the historical premium of Bonny Light (Nigerian crude) over the price of the Brent crude.

38. Stability in the oil production and price remains an important determinant of the non-oil economic recovery. As demonstrated during 2016 recession, the performance in the oil sector can impact the non-oil economic growth through several indirect channels. Firstly, oil and gas exports – which still represent around 90 percent of Nigeria’s goods and services exports – are one of the key source of foreign exchange earnings, with direct impact on the monetary and exchange rate policy decisions. Secondly, the oil and gas revenues are still the largest single source of government revenues. With stagnating (as a share of GDP) non-oil revenues, and the link between oil sector and the level of external reserves and exchange rate stability, as well as movements in inflation, the oil production and price shocks can have significant impact on both the real and nominal sides of the economy. While international oil price volatility is beyond Nigerian authorities’ control, a more flexible approach to the nominal exchange rate management would lessen monetary policy’s dependency on the oil price fluctuations. Rebuilding at least some fiscal buffers by effectively following established mechanisms (excess crude account) would help lessen the impact of oil revenue fluctuations and start calibrating fiscal policy for growth. Continued government efforts to prevent militant activity in the Niger delta can limit negative shocks to oil production, while serious governance reforms are needed to secure oil sector investments needed to counteract the natural production decline.

TABLE 2.1: World Bank Medium-term Macro-Fiscal Projections

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	-1.6	0.8	1.9	2.1	2.2	2.4
Private Consumption	-5.7	-1.0	0.6	0.6	1.4	1.5
Government Consumption	-15.1	-8.0	9.5	4.1	-2.7	0.1
Gross Fixed Capital Investment	-4.8	-3.0	23.0	-1.2	2.1	1.9
Exports, Goods and Services	11.5	8.7	0.5	6.7	4.5	4.0
Imports, Goods and Services	-10.4	4.8	28.8	1.7	2.2	0.0
Real GDP growth, at constant factor prices	-1.6	0.8	1.9	2.1	2.2	2.4
Agriculture	4.1	3.4	2.1	2.4	2.7	3.1
Industry-oil (Oil GDP)	-14.4	4.7	1.1	6.8	4.1	3.7
Industry-non-oil	-5.0	0.6	2.4	2.2	2.5	2.7
Services	-0.8	-0.9	1.8	1.2	1.7	1.8
Inflation (Consumer Price Index)	15.7	16.5	12.1	11.9	11.7	10.5
Current Account Balance (% of GDP)	0.7	2.8	1.3	1.9	2.2	2.7
Fiscal Balance (% of GDP)	-3.8	-3.9	-4.3	-4.3	-4.3	-4.3
Debt (% of GDP)	17.2	19.0	21.6	23.8	25.7	27.6
Primary Balance (% of GDP)	-2.3	-2.2	-2.4	-2.3	-1.7	-1.6
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	49.4	49.8	50.0	50.2	50.3	50.3
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	74.9	75.2	75.3	75.4	75.5	75.5
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	90.8	91.0	91.0	91.1	91.1	91.1
Bonny Light price (US\$/bbl)	45	55	72	70	70	70
Oil production (mb/d)	1.8	1.9	1.9	2.1	2.2	2.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2010-, 2014-, and 2009-LSS. Actual data: 2009. Nowcast: 2010-2018. Forecast are from 2019 to 2021.

(b) Projection using annualized elasticity (2010-2014) with pass-through = 0.7 based on GDP per capita in constant LCU.

2.3 The non-oil economy outlook remains constrained by ongoing conflicts, poor infrastructure and financial policies inconducive to private sector development

39. The agriculture sector outlook is weakened by ongoing conflicts, despite targeted government support.

Agriculture performance is expected to remain weak relative to its historical patterns. The take-up and impact of the support received from the government, particularly from the unsustainable CBN subsidized lending schemes, remains unmeasured, distorting and likely limited. It already proved insufficient to counter the negative impact from conflicts (farmer-herdsmen clashes over land in the Middle Belt and the insurgency in the North East) and increasing frequency of climate-change induced weather events. With the sector attracting more than half of the labor force and identified as one of the ERGP priorities, continued government support is expected, yet its design and delivery will determine the potential to improve the sector's growth in the medium-term horizon, and thus needs to be carefully thought out and delivered through the appropriate institutions and instruments.

40. The non-oil non-agriculture economic outlook remains constrained by the lack of consumer demand and financial policies inconsistent with the private sector development.

In the short-to-medium term, the growth of non-oil non-agriculture sector (i.e. non-oil industry and services) – the majority of the economy – will remain limited by a slow recovery in private demand (slightly improved towards the end of the year by new minimum wage introduction) and the lack of investment in the medium-to-long term. The growth of credit to the private sector, which was negative in 2018 in real terms, is expected to remain constrained and crowded out by government borrowing and the CBN's naira-liquidity draining operations targeting nominal exchange rate stability. The banking sector remains risk-averse, watching the oil price fluctuations given the portfolio concentration in the oil and gas sector, and will continue to remain enticed by the safety and high-yields of the government securities. With not much visible election-related spending bump from either public or private purse, and only slowly recovering private demand in the face of double-digit inflation and high unemployment, the sectoral growth patterns are expected to stabilize without much acceleration beyond levels seen in 2019, remaining below the pre-oil shock levels.

41. Non-oil industry contribution to growth is expected to come primarily from the construction sector as few big projects are in progress (particularly the new private oil refinery) moving in tandem with cement production, with a further positive contribution from food and beverage industry.

The new fertilizer plant is expected to start adding to the non-oil industry GDP in 2019; its full effect on the consumer prices remains to be determined by the costing structure and the effects of protectionist CBN support. Dominated by MS-MEs, the growth of the service sector (which represents over half of the economy) is similarly constrained by a subdued demand and limited lending. The growth here is expected to continue to be driven by the ICT but may be subdued by the regulatory volatility and uncertainty.

2.4 The CBN is expected to closely control the level of liquidity in the economy to maintain the exchange rates stable and mute swings in the external reserves

- 42. Inflation is expected to remain in double digits, impeding private consumption growth and sustaining high financing costs.** In the absence of any significant external or domestic shocks, the CBN is expected to maintain the tight monetary policy stance. Weak agriculture sector outlook, implementation of small excises on alcohol and tobacco, and slow development of domestic value chains to reduce the reliance on imports are expected to keep the food inflation in the double digits. In the short-term, the core inflation is expected to remain stable with the CBN closely control the liquidity in the system to minimize the pressure on the nominal exchange rates. In the medium term, introducing cost-reflective power tariffs, eliminating the unbudgeted fuel subsidy, and re-aligning the nominal exchange rates in line with market fundamentals will all be expected to add temporarily to the necessary inflationary pressures accompanying the urgently needed structural policy reforms. The CBN is expected to continue to rely on policy instruments beyond the standard policy signals in favor of the issuance of CBN bills, deviating the effective MPR and CRR from the articulated policy levels.
- 43. Multiple exchange rates will continue creating a complex scheme of implicit public subsidies and distort national accounting,** unless there is change in policy post the 2019 elections aiming to strengthen macroeconomic framework. Although the private sector primarily operates in the IEFX window, some priority pockets of the economy continue to enjoy preferential rates, reducing market transparency. Despite the recent convergence, retaining multiple exchange rates remains distortionary. Although maintaining a stable exchange rate in the IEFX helped attracting foreign portfolio inflows, the increased reliance on the FPI amplifies the susceptibility of the monetary policy and the level of reserves to external sector fluctuations. The nominal exchange rate will also require inevitable re-alignment with market fundamentals given the sizeable inflation differential. Furthermore, multiple exchange rate practices create accounting distortions as different rates are used: to close various banks' books; for national or public accounting (e.g. evaluation of Naira value of exports in the national accounts of for custom revenue collection or expressing public debt in single currency). Application of the official rate for public finances subsidizes the public debt servicing, fuel imports, and CBN operations, but, on the other hand, it reduces the domestic currency value of dollar denominated (including oil) revenue receipts. The CBN is expected to continue to prioritize exchange rate stability in the IEFX market, through direct intervention and naira liquidity management. The post-election exchange rate management will depend on broader future political, macroeconomic and fiscal developments.
- 44. Private sector lending is expected to remain subdued, with limited space for expansion, crowded-out by the public sector.** Despite the improving financial sector health, the commercial banks remain risk-averse, especially with relatively high yields still available from the government securities and low private sector demand. The space for credit growth is likely to remain limited if the CBN continues aggressive issuance of CBN bills and the Federal Government increases the domestic deficit financing component.

2.5 Despite oil price volatility, the current account balance is expected to be positive as low investment and protectionist policies continue to subdue import demand

45. As exports remain dominated by crude oil and gas, their value will be susceptible to any international price fluctuations. With the World Bank projecting a relatively high and stable oil price (around US\$ 70/ bbl for Nigeria's Bonny Light), the downward swings are not unlikely. As the oil production is projected to remain relatively stable, slightly above 2 mb/d, any downward production shocks would also hamper the current account balance. With weakened agricultural sector outlook, the comparatively small volume of the formally recorded non-oil exports is expected to remain limited, potentially increasing slightly with the supply of the fertilizer products. The fuel imports are expected to remain elevated unless there's a price drop relative to 2018, which would limit the subsidized informal re-exports to the neighboring countries. In the medium term, the new domestic refinery would provide an alternative source of petroleum products to Nigeria but its net effect on consumer prices would depend on various parameters which remain undisclosed. As the refinery's capacity would exceed the domestic market demand, there will be export potential. Their net effect on the balance of payments remains dependent on the undisclosed configuration of the refinery, but likely to be lower than widely anticipated: it would reduce the exports of crude oil, with the net gain arising from the savings of the shipping costs and the margins between the refined petroleum products and the crude oil import. The recorded imports of the non-oil goods are expected to remain relatively stable: the CBN continues to limit access to forex for the 41 groups of goods; consumer demand is recovering only slowly; and the importation of capital goods remains subdued with low domestic and foreign direct investment, bar from the few ongoing large projects.

46. The increased reliance on the FPI inflows are costly and further amplifies the susceptibility of the forex reserves to external and domestic shocks. The CBN's house of cards of issuance of CBN bills at increasing rates delivered in attracting sizeable short-term foreign investment and momentarily stabilizing the level of reserves. However effective in the short, pre-election term it may have proved, it is not sustainable from the servicing cost perspective, and made the external policies doubly sensitive to oil price fluctuation: a fall in the oil price would not only reduce forex earnings from oil and gas exports but may also induce capital flight, threatening rapid depreciation of the exchange rate. Any heightened emerging market volatility may add to these pressures.

2.6 The fiscal deficits will be sustained, building up the debt stock

- 47. The public authorities are expected to sustain the fiscal deficits:** slightly over 3 percent of national GDP for the Federal Government, and collective 1 percent of national GDP for the States' governments. Overall public debt will rise steadily but remain relatively low (about quarter of national GDP). With no space to increase the overall deficit, and increasing interest payments, the primary deficit will slightly decline, reflecting the squeezing of capital expenditures.
- 48. With no significant tax policy changes announced so far in 2019, the revenues are expected to stagnate.** Oil and gas will continue to underperform both relative to the budget targets and their potential due to the unbudgeted fuel subsidy (NNPC 'cost under-recovery') and the continued dollar-naira conversion using an exchange rate lower than that prevailing in the convertible IEFX window. However, the effect of potential downward movements in crude oil price on the net retained government revenues should be slightly offset by the reduction in the fuel subsidy. Domestic market fuel price deregulation would present a policy opportunity to reduce the fiscal leakages – amplified by the uncertain volume of true domestic consumption vis-à-vis the amounts smuggled to neighboring countries. It would also potentially allow to target public spending explicitly towards pro-poor, human-capital-enhancing areas, and implementing infrastructure project which could attract more private sector investment and create jobs.
- 49. Federation non-oil revenue collection will continue to stagnate as a share of GDP and again fall below targets.** The implementation of the administrative and starter policy reforms articulated in the *FMOF Strategic Revenue Growth Initiative* would start harnessing the low hanging fruits of tax-net-widening actions and policy changes not requiring parliamentary approval. With the debt sustainability threatened by the high and rising debt servicing costs relative to the revenue inflows, abysmally low investment in human and physical infrastructure, and exhausted fiscal buffers, the incoming administration will have ample opportunities and urgency to revise the tax policies to spurt the collection towards some growth trajectory, to enable improvements in service delivery and start improving social contract. The States are expected to continue improving their IGR collection, although with rising private sector dissatisfaction with rising multiplicity of taxes across different collection agencies, the States need to make sure the implementation of the new revenue and levy structure is not deflecting private sector activities.
- 50. The Federal Government capital expenditures, after recovering for two years, are expected to level off.** Firstly, the passing of the 2019 budget is again delayed, and subject to any further delays related to the dynamics and outcomes of the Federal elections. Secondly, the sizeable releases for the capital spending in the recent years followed the issuance of the Eurobonds: none are currently planned for the 2019, with the external borrowing plan not even submitted to the legislative. Thirdly, the recurrent spending is facing

increasing additional though limited pressures from the passing of the new minimum wage (even if it contained given small fraction of the Federal Government salaries falling under the N 30,000 level) and increasing debt servicing cost. The revenues are stagnating, with again over-optimistic (draft) revenue targets, and the cost of domestic financing is increasing, partly due to the CBN's thrusting the monetary and exchange policy through the issuance of CBN bills.

51. The total level of the public sector spending remains obscured by limited information on the financial activities of the government-owned enterprises (GOEs). The lack of information of the activities of the GOEs doesn't allow properly estimating their operating surpluses, which are part of the FGN independent revenues. Furthermore, it obscures the estimation of the potential fiscal risks from contingent liabilities. The initiative of the BOF to bring on 9 largest GOEs on the Federal Government is vastly welcomed; it will be very important to adequately report on the actual, and not just budgeted, levels of their revenues, expenditures, debt and arrear accumulation. However, two of the biggest Nigerian GOEs conducting significant amounts of quasi-fiscal activities remain left out: the NNPC with the significant fuel subsidies, and the CBN with its facility to the power sector and subsidized lending schemes to the targeted sectors.

2.7 Risks remain high, as macroeconomic outcomes are vulnerable to external and domestic shocks

52. Although the uncertainty of the elections has passed, economic risks remain high, with current macroeconomic outcomes fragile to external and domestic shocks. The potential adverse impact of shocks could be significant, as current monetary and external policy solutions are fragile and fragile to downside risks:

- a. In 2016, when oil price collapsed, general government revenues went down to 6% of GDP, with oil and gas contributing under 2% of GDP; the government investment crashed. The recovery of government revenues to just under 8% of GDP in 2018 was entirely driven by oil revenue recovery, allowing for some increase in capital expenditures (and that with maxed-out deficits). Any downward oil price or production shocks would again reduce oil revenues. With growing interest payments to service increasing debt, already low capital spending could be virtually eliminated, especially if external borrowing is constrained (as fiscal buffers are already depleted). The lack of non-oil revenue reform continues to make the government over-reliant on the volatile oil revenues, whose future trajectory remains uncertain not only due to inherent international oil price volatility, but also due to lack of transformative oil sector governance and management reforms.
- b. With Nigeria's exports still concentrated in oil and gas, the downward price (or production) shocks would reduce export earnings. This would directly negatively affect the external reserves; and CBN's ability to maintain stability in the IEFX window. In the short-run, the resulting exchange rate instability could translate into capital flight, wiping off any positive effects of the recent exchange rate stability and leaving the public authorities with an even larger debt service bill. Sufficiently large downward shock would put pressure on the CBN to devalue the currency.

- c. Capital flight would increase financing costs for both private and public sector. With reduced ability to borrow abroad (due to collapse in investor confidence), the government would have to finance the fiscal deficits domestically. This would increase already high interest rates, further crowd out private sector credit, and again increase inflation. A combination of risks may push the economy back into recession, further increase unemployment and poverty rates.

53. On the positive side, the government's commitment to accelerate implementation of the structural reforms (including the power sector) articulated in the Economic Recovery and Growth Plan could boost growth rates and start reducing poverty. Ending forex restrictions and multiple exchange rate practices would increase competitiveness. Ensuring consistency, transparency and predictability of the monetary policy would improve conditions for the private sector credit growth, helping private sector development, job creation and poverty reduction. Domestic revenue mobilization through non-oil tax policy reform would allow increasing investment in human (particularly through ensuring funding for health and education) and physical capital.

2.8 Swift adoption and accelerated implementation of existing reform priorities could go a long way

54. The incoming administration – at both Federal and State levels – may consider adopting and reasserting ownership of the reforms already articulated in the *Economic Recovery and Growth Plan (ERGP 2017-2020)* and accelerate their implementation. Key priorities are unchanged and muddling through another economic crises without their implementation is highly unlikely. Most of these priorities have already been highlighted in the October 2018 World Bank biannual economic report and include:

- **Acceleration of the economic diversification agenda targeting agriculture and manufacturing:** Continued high oil dependency for fiscal revenues by all tiers of the Nigerian government and for foreign exchange earnings will continue to keep the economy at risk of macroeconomic instability. It was in recognition of this that the Federal Government in early 2017, articulated its *Economic Recovery and Growth Plan (2017-2020)* with a vision to restore macroeconomic stability and set the economy on a path of diversification. The diversification plan aims to ensure that the revenue and export base of the economy would be broadened beyond oil. It identified agriculture and manufacturing as key sectors to achieve economic diversification as well as job creation.
- **Upholding of a stronger counter-cyclical fiscal policy stance to guard against oil price shocks:** The commodity (oil) price-based fiscal rule established by the Federal Fiscal Responsibility Act (FRA, 2007) has been variously challenged as not binding on the Federal Government, and the lack of corresponding fiscal responsibility laws establishing rules on States and Local governments' public finances. The Nigeria Sovereign Investment Authority (NSIA) Act (2011) provided for a Sovereign Wealth Fund (SWF) to be funded monthly by "residual funds above the budgetary smoothing amount". Despite an annual budget oil benchmark, neither provisions of the FRA or NSIA Act is upheld and

neither the ECA nor the SWF is growing in value as originally envisaged. To avoid further boom-bust fiscal cycles, a stronger counter-cyclical fiscal policy stance needs to be upheld.

- **Reform of the petrol subsidy regime and implementation of the Power Sector Recovery Program (PSRP) to improve the fiscal space and revive growth:** Several studies and analyses have shown that the petrol subsidy regime in Nigeria (explicit or implicit) not only constitutes a significant drain on fiscal resources of the three tiers of government, but is inherently regressive, allowing larger and richer consumers to capture most of the benefits. Moreover, the subsidy extends to citizens of neighboring countries. The intention of the petrol subsidy by successive governments is to provide benefits to the population in the form of lower fuel prices, which can directly affect welfare through savings in the purchase of fuel, as well as bring indirect benefits through lower costs of transportation. However, while this is certainly a very valid objective, the regressive nature demands that subsidies be better targeted. For example, compensatory measures to protect the poor and vulnerable could be introduced instead. Also, as access to energy remains extremely low in Nigeria and a major constraint to firm productivity (especially in manufacturing and services) and thus, economic growth, the Federal Government developed the PSRP in 2017. The PSRP includes measures to, among other things, improve the financial viability of power sector in support of the goal of achieving energy sufficiency. Implementation has however been slow and needs to be accelerated.
- **Full harmonization of all exchange rates in the economy:** As earlier highlighted, multiple exchange rates continue to create a complex scheme of implicit public subsidies and distort national accounting. Thus, full exchange rate convergence across the various exchange rate windows (at a market-convertible rate, as the IEFX) is essential, including to increase transparency and confidence for all market participants, with a flexible exchange rate regime as a consideration for policy direction.
- **Improvements in domestic revenue (particularly non-oil) mobilization to reduce volatility in government revenues and expand fiscal space:** Given the macro-vulnerabilities arising from volatile (mostly) oil revenues, securing non-oil revenue mobilization and effective and efficient resource allocation through the three tiers of government is essential. Nigeria's fiscal space is currently limited by very low revenue levels. Thus, stronger and more effective tax policies and tax administration would be required. Ongoing efforts are not yet yielding the level of returns that could boost the fiscal space and enable substantial increases in productive and priority fiscal expenditures.
- **Promoting Private Sector Financing to close large human and physical infrastructure gap:** While working on strengthening domestic revenue mobilization and providing fiscal space to finance public goods, priority also needs to be placed on complementary improvement of the business environment to attract private capital—mobilizing private finance for development.

3

CHAPTER 3:

WATER, SANITATION, AND HYGIENE IN NIGERIA

3.1 Water, Sanitation and Hygiene (WASH) – A Critical Element of Investing in Human Capital for Nigeria’s Future

- 55. At the World Bank/IMF Annual Meetings in October 2018, the World Bank launched the Human Capital Project and the associated Human Capital Index (HCI) to much acclaim.** The HCI is both an indicator of current development success, as well as a metric of a country’s foregone development potential. It combines five measures of human capital into a single index to quantify the contribution that health and education have on the productivity of the next generation of workers. The indicators which comprise the index are all measures of health and education. And while none of these indicators explicitly mention water, sanitation, and hygiene (WASH), they underly and impact each measure of the HCI.
- 56. There are numerous pathways through which the WASH sector can impact human capital accumulation.** While deficiencies in WASH can hamper human capital accumulation, the timing of when these occur during a person’s life is crucial. Because human growth and development occurs non-linearly, a ‘shock’ or deprivation experienced by a young child may have devastating short- and long-term impacts, while the same deprivation experienced by an adult could be less harmful. It is well established that deprivations and exposure to harmful conditions in utero, or in the very early years of life, have lasting consequences that can impede human development. For instance, a host of waterborne illnesses may contribute to higher rates of infant mortality, undernutrition, stunting, anemia, and inflammation – conditions which impair cognitive functioning and physical development in children. As the child moves through adolescence these impacts cascade beyond health – showing up through lower rates of school attendance and poor academic performance. In adulthood, this eventually translates into lower human capital, productivity and wages. If there is further exposure to poor water quality and unhygienic sanitary conditions in adulthood, the burden of morbidity and mortality rises above baseline levels. A significant body of literature has attempted to quantify the economic costs of these impacts typically in terms of productivity and labor market outcomes such as the wage penalty. There is also a less extensive, though

convincing, body of evidence that documents water related extreme climate events on children who may end up stunted, less educated, and less wealthy.¹⁵

57. As discussed in our previous Biannual Economic Update, Nigeria is lagging behind most other sub-Saharan African countries in the overall HCI, as well as in all of its five components.¹⁶ Given the WASH sector's significant impact on all of these components, Nigeria's ability to increase access to safely-managed and sustainable WASH services will prove critical to ending poverty and boosting shared prosperity in Africa's largest and most populous economy.

58. This chapter summarizes the findings of "A Wake-Up Call", the World Bank's Nigeria WASH Poverty Diagnostic, and describes recent developments in the country's WASH sector.¹⁷ We begin with an assessment of the current state of the WASH sector in Nigeria, including an explanation of the synergies between health and access to WASH. The chapter then addresses the sustainability of the water sector by evaluating the performance and efficiency of piped water service providers, as well as water points and water schemes, the primary sources of improved water supply for rural communities. It then describes the public expenditure in the sector. We then provide a set of policy recommendations to address the sector's deficiencies and describe recent actions taken by the government of Nigeria before concluding with some final remarks.

3.2 Current Status of the WASH Sector in Nigeria

59. Nigeria met the Millennium Development Goal (MDG) targets for water—69 percent of the population now have access to improved water.¹⁸ Between 1990 and 2015, Nigeria increased access to improved water by 29 percentage points. In 2015, 69 percent of households had access to improved water. This improvement was mainly driven by a 32-percentage point increase in coverage for rural areas—from 25 percent in 1990, to 57 percent in 2015 (Figure 3.1). While coverage in urban areas is higher, access to improved water increased by only 5 percentage points during this 15-year period.

60. While access to improved water at the national level increased, access to piped water on premises declined by 10 percentage points: from 12 percent in 1990 to 2 percent in 2015. This is mainly due to a steep decline of 29 percentage points in access to piped water in urban areas – from 32 percent to 3 percent – due to rapid urbanization, lack of investment, and institutional constraints in the expansion

15 Andres, L., C., Y. Chen, R. Damania, G. Joseph, R. Namara, J. Russ, and E. Dilip Zaveri (2018). "Water and Human Capital: Impacts across the lifecycle," World Bank, Washington, DC: World Bank, Washington, DC. November 2018

16 World Bank. 2018. "Investing in Human Capital for Nigeria's Future." Nigeria Biannual Economic Update. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/346771542864299850/Investing-in-Human-Capital-for-Nigerias-Future>

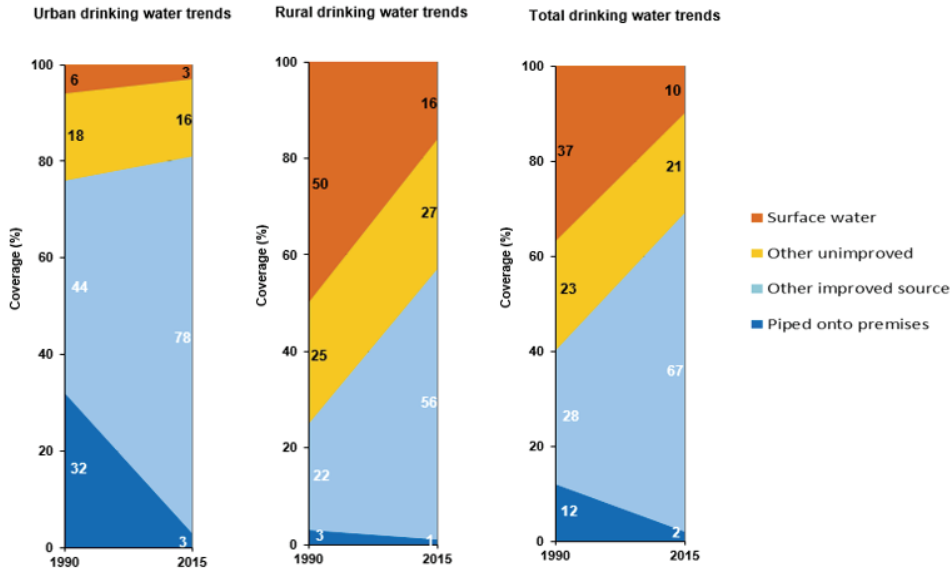
17 World Bank. 2017. "A Wake Up Call: Nigeria Water Supply, Sanitation, and Hygiene Poverty Diagnostic." WASH Poverty Diagnostic Series working paper., Washington, DC: World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/27703>

18 See Box 1 for the definitions of access to water and sanitation as per the SDGs.

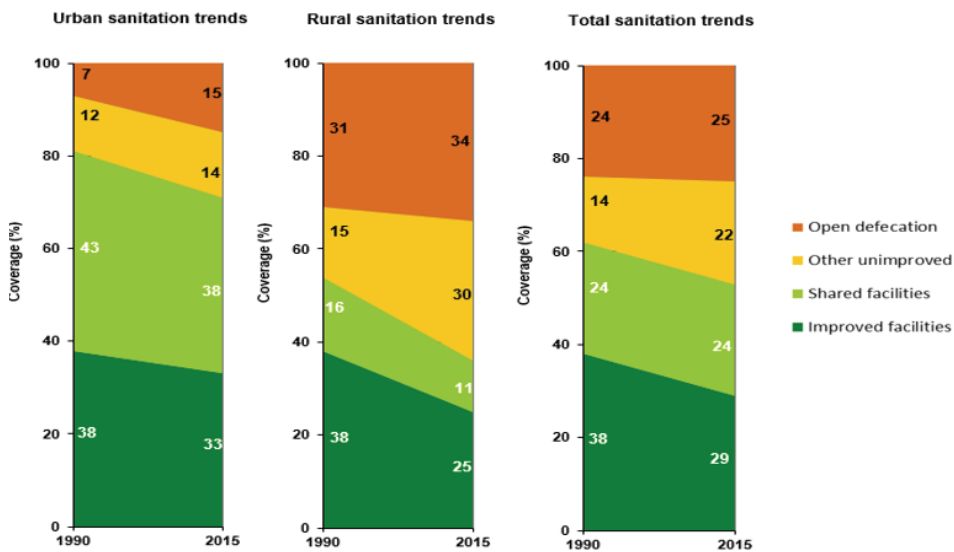
FIGURE 3.1:

Trends in Access to Water and Sanitation, Nigeria, 1990–2015

a. Water



b. Sanitation



Source: World Health Organization/United Nations Children’s Fund. 2015. 25 years progress on Sanitation and Drinking Water: 2015 Update and MDG Assessment. Joint Monitoring Programme (JMP) for Water Supply and Sanitation.

of services. Moreover, households continually face the risk of bacteriological or chemical contamination by increasingly relying on alternative water providers or private household solutions, such as unregulated manually drilled boreholes, which offer limited data on aquifer recharge and saline intrusion. On the supply side, the decrease in the provision of water to less than 50 liters per person per day affects the sustainability of the water utility systems, and leads to an inconsistent supply of water for those few consumers who have access to a water connection.¹⁹ In rural areas, access to piped water was already low in 1990, and there was an additional decrease of 2 percentage points by 2015.

61. Nigeria did not meet the sanitation targets for the MDG, and the country has seen an overall decline in access to improved sanitation. At a national level, there was a decrease of 9 percentage points in access to improved sanitation. Access decreased from 38 percent in 1990 to 29 percent in 2015. Urban and rural access to improved sanitation were both 38 percent in 1990, and decreased to 33 percent in urban areas and 25 percent in rural areas in 2015 (Figure 3.1).

62. About 25 percent of the population still practice open defecation, representing a 1 percentage point increase over the past 25 years. However, open defecation more than doubled in urban areas, from 7 percent in 1990 to 15 percent in 2015. The practice of open defecation also increased in rural areas during this time period, though to a lesser extent—from 31 percent to 34 percent. There is significant reliance on on-site sanitation as a low-cost form of technology for reducing levels of open defecation, and the private sector provides services for excreta management. However, the final disposal sites of on-site sanitation technologies raise significant concerns about sustainability.²⁰

63. Access rates for WASH, while comparable to those of many countries in Sub-Saharan Africa, are much lower than the rates of most other countries in Africa. Most noticeably, access to piped water in Nigeria is below that of most countries in Sub-Saharan Africa. Similarly, access to improved sanitation in Nigeria falls below estimates for Senegal and Rwanda.

64. To assess the current state of access to water and sanitation in Nigeria, “A Wake Up Call” draws primarily from the findings of the NWSS household survey, implemented in 2015 by the Federal Ministry of Water Resources (FMWR).²¹ As part of the NWSS, 201,842 households were surveyed, and the survey captures information on a household’s access to water and sanitation services, using indicators based upon the Sustainable Development Goals (SDGs) as described in Box 1. The 2011 Multiple Indicator Cluster Survey was also used to understand the linkages between access to water and sanitation and poverty.

19 Macheve B, Danilenko A, Bove A, Abdullah R, Moffit L J .2015. Nigeria: Performance Assessment of the State Water Agencies. World Bank Group <https://openknowledge.worldbank.org/bitstream/handle/10986/22581/9781464806575.pdf?sequence=1&isAllowed=y>

20 World Bank. World Bank. 2009: Water and Sanitation Program—Africa Region: Water Supply and Sanitation in Nigeria. Nairobi: Water and Sanitation Program.

21 World Bank. 2017. “A Wake Up Call: Nigeria Water Supply, Sanitation, and Hygiene Poverty Diagnostic.”

- 65. The majority of Nigerians (61 percent) have access to at least *limited water services*, but only a small percentage of them have access to *improved water on premises*.** Approximately 45 percent of the population have access to *basic water*, only 31 percent has access to *improved water on premises*, and a mere 7 percent has access to *pipled water on premises*.²²
- 66. Although data are limited, we estimate that between 15 percent and 20 percent of households have access to “safely managed water,” the SDG for water.** There are no data available in Nigeria that allow us to fully comply with the definition of *safely managed*, but we use access to an improved water source on premises and uninterrupted service over the last two weeks as a proxy for whether the service is available when needed. Therefore, out of the 31 percent of the population that have access to improved water on premises, only 26.1 percent potentially have access to *safely managed* water. Data on water quality are quite scarce, but a study conducted in Port Harcourt found that 21 percent of drinking water sources in the dry season and 42 percent of water sources in the rainy season were contaminated by thermotolerant coliforms.
- 67. As shown in map 3.1 and the rural accessibility index²³ in table 3.1 (pg. 55), only 38.7 percent of the rural population live within a 30-minute round-trip of a functioning water source, and 34.3 percent of the population live at least two hours away from these sources.** Most alarmingly, over 26 million Nigerians living in rural areas must travel four or more hours round-trip to access functioning water points. Even if we assume “perfect functionality” for all rural water sources (last column in table 3.1), only 42.3 percent of the rural population would have access to a water sources within 30 minutes, and more than 30 percent of the rural population would need to walk at least two hours to these sources.
- 68. Less than one-third of Nigerians have access to *unshared improved sanitation*, and a mere 5.6 percent actually make use of *sewerage systems*.** Overall, 44 percent of the population use an improved shared facility, but only 28.6 percent have access to an improved sanitation facility that is not shared with other households. Given that the urban population is increasing, this finding is particularly alarming, since evidence suggests that the use of improved sanitation has a significant impact on health and anthropometric characteristics.
- 69. Overall, the southern regions of Nigeria outperform their northern counterparts in access to *limited water services*, while most northern regions have higher rates of *basic sanitation*.** The South West has the highest rate of access to *limited water* (71.5 percent) and *improved water on premises* (41.4 percent) of all regions. *Basic sanitation* is higher in the north, with the North West having the highest level of access.

²³ The rural accessibility index uses NWSS household data, as well as data from the NWSS census of water points and water schemes, to estimate the round-trip distance to a functioning water source as of the time the survey was conducted.

BOX 1

Water and Sanitation Indicators based upon the Sustainable Development Goals (SDGs)

Through the SDGs, the world has now committed to achieving universal access to water, sanitation, and hygiene under a broader, more refined and more intricate monitoring framework. The new SDG indicators for measuring access are composite and stricter than the previous MDG indicators. This chapter presents detailed information on the current state of the water and sanitation sector, making use of relevant SDG indicators as permitted by data availability.²⁴

WATER

- **Limited access (formerly access to improved water sources)** are those which, by the nature of their construction and when properly used, adequately protect the source from outside contamination, particularly fecal matter. Such sources include piped water, public taps or standpipes, tube wells or boreholes, protected springs, and rainwater.
- **Basic water** satisfies the requirement for “improved technology” as specified by improved water, but it also assumes a maximum 30-minute round-trip collection time.
- **Improved water on premises** fulfills the same requirements as basic water, but further requires availability directly on one’s premise.
- **Piped water on premises** fulfills the same requirements as “improved water on premises,” but water is provided through pipes.
- **Safely managed water** fulfills the same requirements as improved water on premises, but further requires that the source is available when needed and free of fecal and locally relevant chemical contamination.

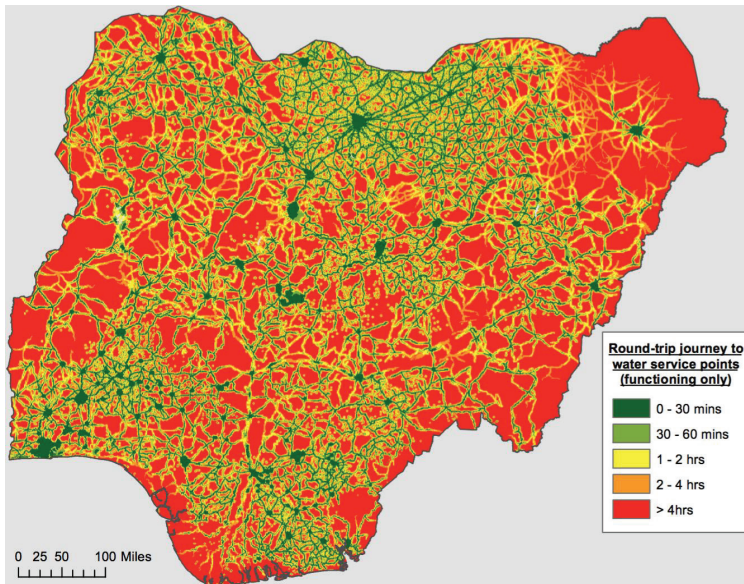
SANITATION

- **Fixed-point sanitation** implies defecation into a pit or other containment structure, regardless of the quality of the structure or whether it is hygienically maintained (i.e., access to both improved and unimproved facilities). It is estimated as the opposite of open defecation, which is defined as “not having access to any type of toilet” or “going into the field.”
- **Limited sanitation** implies access to a facility that hygienically separates human excreta from human contact that is unshared or is shared between two or more households.
- **Basic sanitation (formerly Improved sanitation)** implies access to a sanitation facility that hygienically separates human excreta from human contact and is not shared with any other households.
- **Safely managed sanitation** refers to basic sanitation facilities where excreta is safely reused or treated in situ or transported to a treatment plant.
- **Sewerage** implies that a household is connected to a sewer system.

24 WHO and UNICEF (United Nations Children's Fund). 2017. *Progress on Drinking Water, Sanitation and Hygiene*. Geneva: WHO and UNICEF.

Map 3.1:

Round-trip Journey to the Closest Functioning Improved Water Source (in minutes) in Nigeria, 2015



Source: World Bank. 2017. "A Wake-Up Call: Nigeria Water Supply, Sanitation, and Hygiene Poverty Diagnostic."

Note: The map presents travel distances, so it is not weighed by population density.

Table 3.1:

Rural Accessibility Index in Nigeria, 2015 (Percent)

	Functioning	Any
<30 mins	38.7%	42.3%
30-60 mins	11.6%	11.3%
1-2 hours	15.3%	15.4%
2-4 hours	15.0%	13.9%
4-6 hours	7.8%	7.1%
More than 6 hrs	11.5%	9.9%

Source: World Bank. 2017. "A Wake-Up Call: Nigeria Water Supply, Sanitation, and Hygiene Poverty Diagnostic."

Note: This table, based on data in map 3.1, presents the amount of time reported as needed to complete a round-trip journey to a functioning water source from a given location, which we define as the rural accessibility index. The distribution presented in the table is weighted by population density.

70. Urban areas²⁵ and State capitals display higher rates of access to *limited water services* and *improved water on premises*. This finding is likely explained by the presence of better infrastructure in urban areas across Nigeria. State capitals are particularly at an advantage, since they have greater access to improved WASH across all indicators.

71. As technological standards for water access increase, from the most attainable (*limited water*) to the most stringent (*pipled on premises*), we observe a steady decline in access rates nationally. As observed in map 3.2, we observe that clusters in the North Central, South West and South South regions exhibit the best performance in terms of *improved water*, *basic water*, and *improved water on premises*.

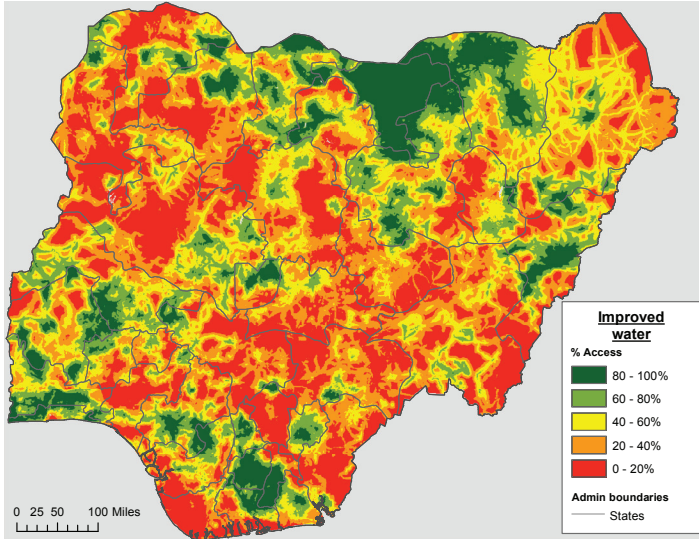
72. States in Nigeria experience low levels of access to *improved water on premises* across the board. Nearly all States—with the exception of Lagos—have rates of access to *improved water* on premises that are below 60 percent. Approximately 5.6 million individuals still lack access in Lagos State. The State of Kano, while not exhibiting the absolute lowest rate of access, has approximately 9.1 million individuals who lack access to *improved water on premises*. *Pipled water on premises* is scarcely available throughout the country, short of a few minor pockets in Taraba, Jigawa, and Yobe States.

25 Per Nigeria's National Water Supply and Sanitation Policy (2000), urban areas are defined as having a population of greater than 20,000 people, semi-urban areas (small towns) have a population between 5,000 and 20,000, and rural areas are inhabited by fewer than 5,000 people.

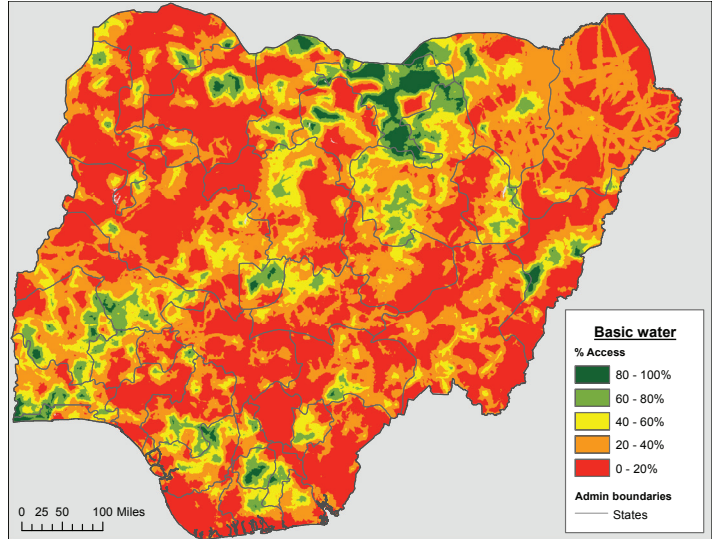
Map 3.2:

Access to Water in Nigeria, 2015

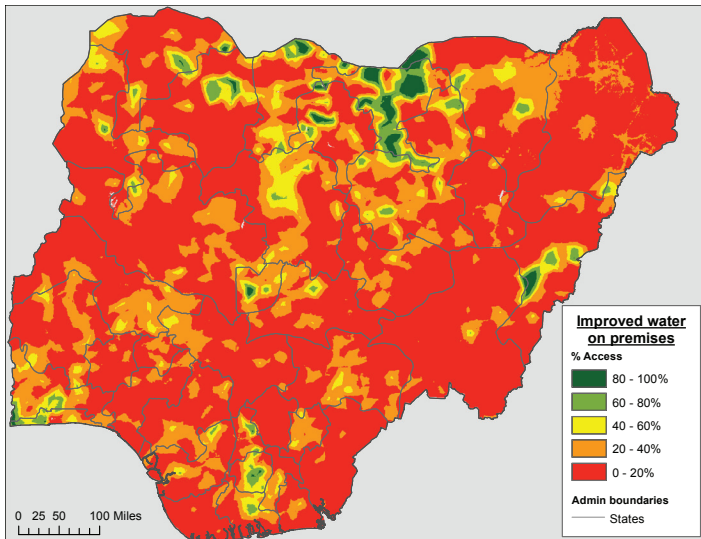
a. Limited water



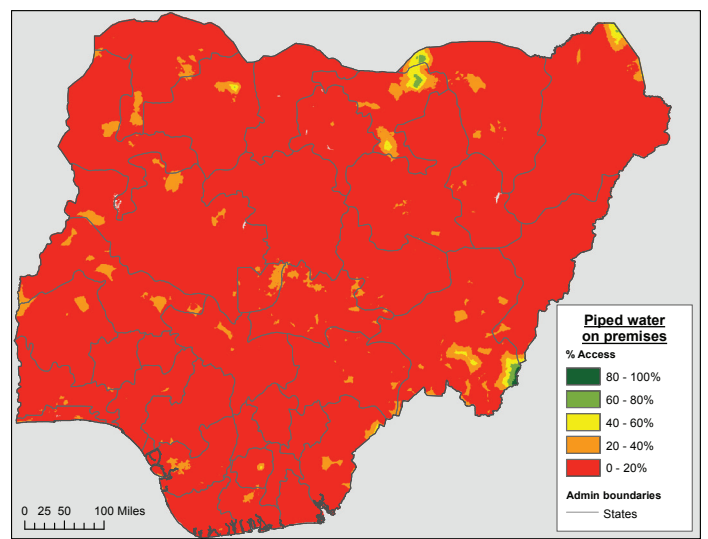
b. Basic water



c. Improved water on premises



d. Piped water on premises



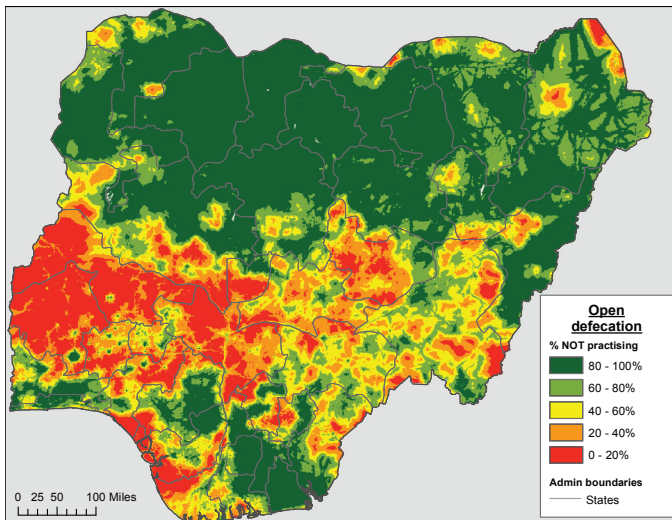
Source: World Bank. 2017. "A Wake-Up Call: Nigeria Water Supply, Sanitation, and Hygiene Poverty Diagnostic."

73. There is a sharp north-south divide in access to *fixed-point sanitation* and access to improved sanitation. As shown in map 3.3, panel a (which shows the percentage of households with *fixed-point sanitation*, or not practicing open defecation), there is a belt extending from the South West to the South East of the country, separating regions with high open defecation rates in the south from regions with low open defecation rates in the north. The South South region, with low rates of open defecation, is an exception. As shown in panel b, access to *basic sanitation* shows a similar north-south divide, although there is an overwhelming lack of access to across the country. As shown in panel c, only a few scattered regional pockets possess proper sewerage infrastructure in Nigeria.

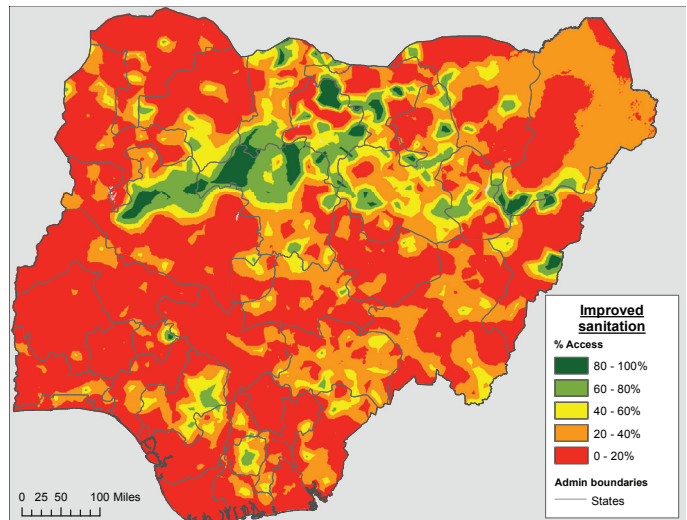
Map 3.3:

Access to Sanitation in Nigeria, 2015

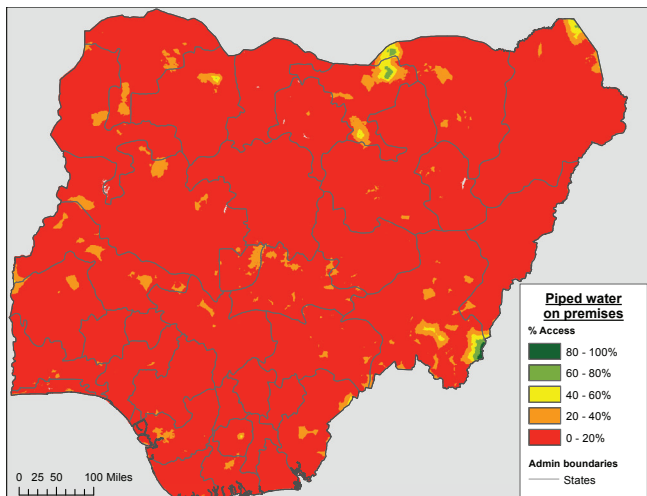
a. Fixed sanitation



b. Basic sanitation



c. Sewerage connection



Source: World Bank. 2017. "A Wake-Up Call: Nigeria Water Supply, Sanitation, and Hygiene Poverty Diagnostic."

- 74. Access to *basic sanitation* is low nationally, and lowest in the North West, South West, and South-South regions.** Several States have large segments of their populations that lack access to improved sanitation. The States of Imo, Kaduna, and Katsina have the highest rates of access to improved sanitation: between 40 percent and 60 percent. Yet between 2 million and 4 million residents in these States are without *basic sanitation*, which is roughly on par with the majority of States in the country. In contrast, Lagos, Oyo, and Kano are among the States with the lowest access: around 6 million to 13 million individuals in these States lack access to *basic sanitation*.
- 75. The central region of the country experiences high open defecation rates.** There are eight States, from Oyo in the west, to Taraba in the east, for which open defecation rates range from 40 percent to 80 percent. Yet, because of low levels of population density, many of these States do not have particularly high numbers of citizens practicing open defecation; most States have between 1 to 2 million people practicing open defecation. Estimates range from 1.1 million in Nasarawa State to 3.5 million in Oyo State.
- 76. Although there is limited information on the use of household sanitation facilities, the data reveal interesting patterns in how the facilities are employed.** In the States of Enugu and Ekiti 81 percent of households that own a latrine and have improved facilities stated that at least one household member does not use the latrine. There is also a large gender divide in the use of latrines – adult men are more likely than adult women to use the toilet. Almost 50 percent of young boys and almost 30 percent of young girls don't use toilets at home. Respondents cited various reasons for not using the toilet, even if their household owned one. For instance, several female household members reported fear of contracting diseases as a key reason for not using the toilet. Some respondents stated that young boys under the age of 10 were “too young” to use the toilet.
- 77. Overall, income, education, and urban or rural location explain most of the variation in access to WASH services.** For instance, only 29 percent of households in the poorest quintile have access to improved water, compared to 91 percent of households in the richest quintile. Moreover, while 34 percent of households in which the household head has no education have access to improved sanitation (including shared facilities), that percentage jumps to 67 percent among households in which the household head has a secondary education degree or above. This suggests that strategies that deliberately target the most vulnerable groups may yield the greatest health impacts.

3.3. WASH and Health

78. Access to safe WASH services underpins many aspects of social and human development – from better health and nutrition, to lower absenteeism and school dropout rates, to improved household income.

Safely managed WASH services have been shown to reduce diarrhea and enteropathy,²⁶ improve school attendance rates by reducing the time required to fetch water,²⁷ and improve household productivity from reduced susceptibility to water-related diseases.²⁸

79. Undernutrition is a major public health problem in Nigeria. The 2013 Demographic Health Survey (DHS) estimates that 36.8 percent of children under five in Nigeria are stunted, 18.5 percent are wasted, and 29 percent are underweight. Close to half of children in the two poorest quintiles of the wealth distribution are stunted, and 37 percent of children in these quintiles are underweight. Similar patterns can be found in rural areas. While the proportion of under-five children who are stunted has improved since the previous DHS in 2008, the extent of wasting and underweight among children has actually worsened, suggesting an ongoing nutritional deficiency among children in the country.

80. Inadequate WASH can contribute to adverse health and development consequences, and some subsets of the population are more vulnerable to WASH-related risks than others. People with poor health and nutrition are especially vulnerable to experiencing the adverse effects of inadequate WASH. For example, being undernourished increases both the likelihood and severity of diarrheal disease, and those without access to timely health care are more likely to die as a result of an infection.²⁹ Moreover, children who are undernourished and lack access to quality health care face an increased risk of diarrheal disease and death related to poor access to WASH.

81. WASH-related risk of disease varies significantly across regions and income groups in Nigeria. All regions in Nigeria show disparities in risk between the poorest and richest quintiles, with the poorest having the highest mean risk index values. The reasons for this are threefold: (a) the variability in WASH-related exposures—with children in poorer households having higher exposures; (b) these same children are likely to be much more vulnerable due to underlying poor nutrition and a lack of access to basic health services; and (c) both WASH and health vulnerabilities are the product of underlying economic and geographic inequalities. This pattern is especially evident in the South West region. Areas exhibiting the highest risk index values are concentrated in the north, with children from the North West and North East regions being particularly vulnerable to disease

26 Sachs, J.D., 2001. Macroeconomics and health: investing in health for economic development. Report of the Commission on Macroeconomics and Health.
27 Kremer, M., N. Chaudhury, F. Rogers, K. Muralidharan, and J. Hammer. 2005. "Teacher absence in India: a snapshot." *Journal of the European Economic Association*, 3(2–3): 658–667.
28 Strauss, J., & Thomas, D. 1998. Health, Nutrition, and Economic Development. *Journal of Economic Literature*, 36(2), 766–817. Retrieved from <http://www.jstor.org/stable/2565122>.
29 Dangour A. D., L. Watson, O. Cumming, S. Boisson, Y. Che, Y. Velleman, S. Cavill, E. Allen, and R. Uauy. 2013. "Interventions to Improve Water Quality and Supply, Sanitation and Hygiene Practices, and Their Effects on the Nutritional Status of Children." *Cochrane Database of Systematic Reviews* 8. doi:10.1002/14651858.CD009382.pub2.

risk. Children from these regions would therefore experience the greatest risk reduction in response to improvements in access to water or sanitation, but all regions would benefit from such improvements.

3.4. Efficiency in the WASH Sector

- 82. While faced with rapid population growth, there has not been an improvement in the institutional capacity of water utilities in Nigeria.** When compared with global and regional averages, Nigeria's water infrastructure—as measured by staff productivity, total consumption, service continuity, and cost recovery—has underperformed. While there were improvements in staff productivity, water continuity, and water quality for water agencies between 2011 and 2015, indicators of financial performance (e.g., average revenue and operational cost coverage) registered a decline. Water consumption also decreased during this period.
- 83. The drivers behind this poor performance is uncertain: there are inconsistent patterns between certain measures of efficiency, availability, quality, and financial sustainability, as well as in the overall performance of water agencies.** The worst-performing State Water Agencies (SWAs) had nine times more employees per 1,000 connections than the best-performing SWAs. Similarly, while the best-performing SWAs provide service for 20 hours a day, the worst performers only do so for five hours a day. In the same vein, the best performers tend to be in a cost recovery situation, with 100 percent quality test compliance, and an average delivery of 120 liters per person per day. In contrast, the worst performers recover only 10 percent of their costs, no more than 70 percent of the quality tests have passed current standards, and they deliver only around 20 liters per person per day.
- 84. Nigeria faces wide-ranging deficiencies in the technical capacity of its water sector.** Hydrogeological base maps for the country are of poor quality, and thus of little use in developing a water exploration and extraction plan. Poor knowledge of the Nigerian geological terrain, a lack of adequate infrastructure, and an inefficient legislative body have caused problems in the exploration, use, and management of surface and ground water. Moreover, the country faces major problems with regard to the functionality of water pumps, resulting in a water service delivery system that does not match the population's increasing demand for water.
- 85. Half of Nigeria's water schemes and 38 percent of water points are not functioning.** Evidence from our analysis suggests that nearly 27 percent of water points are likely to fail in the first year of construction and 40 percent are likely to fail in the long run (after eight to 10 years). Similarly, approximately 30 percent of water schemes are likely to fail in the first year, with around 60 percent likely to fail after 10 years.

86. If water points and schemes are more carefully attended to during their design, implementation, and operation, failure rates can be drastically reduced. In the first year of operation, factors that can be controlled in the design, operations, and implementation stages predict the failure of 66 percent of water schemes and 56 percent of water points. As water points age, there is an increase in the relative importance of those factors that can be controlled during the design and implementation stage in explaining their failure. As water schemes age, there is an increase in the relative importance of factors that can be controlled during the operational stages in explaining the SWAs' failure.

3.5. WASH Public Expenditure Review

87. The Nigerian government invested close to US\$1 billion per year between 2006 and 2010 in the water sector. Despite assignment of primary responsibility for water services to subnational governments, the largest share of the total water expenditure was initially executed by the Federal Government (2006). In 2007, the share of total water expenditure for Federal and State governments was basically the same. More recently, from 2008–10, public expenditure on water has become more unevenly distributed with an average of 0.13 percent spent by the Federal and 0.27 percent by State governments during that period. There is insufficient data on local government expenditure, although their contribution is believed to be quite low.

88. Between 2006 and 2010, total expenditure in the sector averaged 0.47 percent of GDP, with capital expenditure averaging 0.32 percent of GDP and recurrent expenditure averaging 0.15 percent. During this period, total government expenditure on water has been mostly driven by capital expenditure. The Federal Government's total expenditure in water dropped from US\$607.5 million in 2006 to US\$136.2 million in 2009, a reduction of almost 80 percent in three years. During the same period, the States Government's total expenditure in water raised from US\$411 million in 2006 to US\$670 million in 2009, an increase of 63 percent in three years.

89. Nigeria's capital investments in WASH are insufficient. Nigeria's average annual investment in capital expenditure of 0.32 percent of its GDP is lower than regional levels (0.7 percent) and falls short of what is needed for the country to reach the SDGs.³⁰ Moreover, the Federal Government has far greater levels of capital expenditure than recurrent expenditure. This stands in sharp contrast with State Governments' expenditure on water, which demonstrates a more even distribution. Though to some extent, higher recurrent expenditure in the water sector is expected at State level given that they are assigned a greater role in the maintenance of infrastructure and in employing frontline staff.

90. Recent estimates produced by the World Bank show that the investment needed for Nigeria to achieve the SDG for WASH is equivalent to US\$8 billion,³¹ or 1.7 percentage points of GDP per year. Nigeria

³⁰ Foster, V. and C. Briceño-Garmendia. 2010. *Africa's Infrastructure: A Time for Transformation*. Washington, DC: World Bank.

³¹ In 2015 prices.

is among the countries that contribute the largest share of global costs toward achieving the water SDGs. Other countries in this group include China, 0.20 percentage points of GDP; Brazil, 0.27; Mexico, 0.29; and India, 1.0.³²

91. Urban areas and drinking-water services receive a disproportionate amount of WASH funding. Ni-

geria has laws recognizing the right of all citizens to water and sanitation, and it has a universal “access for all” policy. However, funds are mainly directed to urban areas and drinking water services, whereas the majority of the unserved are concentrated in rural areas and access levels to sanitation are lower than those for water.³³ A more equal distribution of services between urban and rural areas, and between drinking water and improved sanitation services, is required to help address the equity issues surrounding access to WASH services in Nigeria.

92. Execution of the Federal budget often suffers from significant delays and deviations. The budget

system provides a high degree of discretion to the Accountant General’s Office. Problems with timely budget approvals and cash management during budget execution affect capital budgets, with recurrent spending generally being favored.³⁴ Moreover, approved budget heads often differ from the amount of funds being made available to ministries, departments, and agencies, and delays are common. Shortfalls in revenues often lead to cash rationing and delays in budget execution.

93. Budget execution rates are low for water supply and sanitation, further constraining the sector.

Issues that impact budget execution include capacity limitations, overly ambitious goals, delays in the flow of resources, and lack of transparency in the allocation of resources. At the State level, dependence on unpredictable Federal transfers, as well as discretionary cash rationing and uncompetitive procurement processes in the governors’ office are also key challenges. The 2011 PEFA documents low execution rates for State capital budgets; capital expenditures represent a larger share of actual State spending on water supply than recurrent costs.³⁵ In-year adjustments are typically made without formally updating the budget, making it difficult to predict the availability of funds against the approved budget. Data from the Nigeria States’ Fiscal Database indicate that the average actual State expenditure for Housing and Community Affairs (which includes water supply) ranged from 46 percent to 62 percent of the approved budget between 2008 and 2013.

32 Hutton, G., and M. Varughese. 2016. “The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene.” Water and Sanitation Program Technical Paper 103171, World Bank, Washington, DC.

33 Nigeria-GLAAS. 2015. Sanitation, Drinking-Water and Hygiene Status Overview: Highlights based on country reported GLAAS 2013/14 data. UN-Water Global Analysis and Assessment of Sanitation and Drinking Water. World Health Organization.

34 Nigeria-GLAAS 2015 database, http://www.who.int/water_sanitation_health/monitoring/investments/glaas/en/.

35 World Bank. 2015. Performance Assessment of the State Water Agencies.

- 94. These inefficiencies in public expenditure are evidenced by the poor track record of Federally-funded infrastructure projects;** for the 2006-07 budget, 44 percent of borehole construction projects were never started, and only 37 percent of borehole projects were fully completed. The proportion is even smaller for dam and canal projects: only 10 percent and 5 percent of projects, respectively, were completed. 15 percent of completed projects are rated unsatisfactory.³⁶
- 95. For urban water, State governments rather than SWAs take the lead on capital investments, “providing the necessary permissions to proceed, approving the design and financial plans, managing the bidding process, supervision of projects, commissioning the investment and transferring it to the SWA.”³⁷** A 2015 World Bank performance assessment of utilities finds that 71 percent of SWAs had prepared investment plans and 77 percent had prepared feasibility studies or design documents for capital projects, even if resources to fulfill them were unavailable.
- 96. For local governments, a key issue is whether Federal transfers reach local government accounts.** Inter-governmental transfers to local governments flow from the Federal level to States, which—in principle—are expected to release funds to the LGAs. A key issue is that Federal transfers do not always reach local governments. There is a great deal of variation in the public financial management arrangements between States and LGAs across the country, as well as limited transparency in how these arrangements work in practice. The 2011 PEFA finds indications that States withheld significant amounts of funds due to local governments, using them for common projects and the direct payment of civil servants and teachers employed by LGAs.³⁸

3.6. Main Policy Recommendations

In light of the critical condition of Nigeria’s WASH sector and lessons learned from the experiences of other countries, the Government should consider the following policy recommendations:

- 97. Demonstrate a long-term commitment to finding pathways for better service delivery in Nigeria in the context of a Federal system with enormous potential, but uneven institutional capabilities.** The fragmentation of responsibilities across Federal and State governments, the low priority of water on the political agenda, and misaligned incentives and weak accountability systems hinder the enactment of policies and institutional reforms. Water service providers continue to be subject to direct political interference by State Governments, enjoy minimal autonomy, and have few incentives to improve performance. Water providers are also chronically underfinanced: they have inadequate tariff revenues and operate on shoestring budgets, in-

36 Rasul, I., and D. Rogger. 2016. “Management of Bureaucrats and Public Service Delivery: Evidence from the Nigerian Civil Service.” *Economic Journal*. doi:10.1111/eoj.12418.

37 World Bank. 2015. *Performance Assessment of the State Water Agencies*.

38 World Bank. 2011b. *Nigeria: State Level Public Expenditure Management and Financial Accountability Review: A Synthesis Report*. Washington, DC: World Bank.

compatible with the basic operations, maintenance, and management functions of a utility. The establishment of sustainable independent State regulatory agencies is also failing, inviting consideration of more pragmatic alternatives, such as regulatory provisions embedded in State-SWA performance contracts. Finally, SWAs offer very little transparency and accountability to their customers, and civil society is only marginally involved in helping to improve the sector. As a result of such governance failings, utility services give way to unsafe, expensive, and unequitable water supply alternatives, such as informal vending and, for those who can afford them, private boreholes.

98. Strengthen the long-term commitment to governance and institutional reforms that better align institutional incentives, offer more robust accountability mechanisms, and prioritize financing and capacity building. A renewed Federal-State coalition may be needed, by which Federal and States agree to clarified responsibilities, including a Federal mandate to incentivize, support, and oversee sector development efforts by the States. Given the challenge at hand, governments should embrace an increased participation of civil society to represent users and monitor governance and service gains.

99. Invest in closing implementation gaps, supporting service delivery capabilities, and promoting greater integration of the private sector into the water and sanitation sectors. At both the Federal and State levels, policy making, oversight, planning, and regulatory roles are often impaired by uneven institutional capacities, insufficient resources, and inadequate data. Public service providers face similar challenges, with unclear lines of accountability and limited incentives to perform. The sector requires pragmatic approaches to scaling up capacity-building programs, which build on locally owned solutions to bottlenecks that impair performance. The sector also requires pragmatic approaches to human resource management to better align incentives, promote greater accountability, and encourage the retention of talent. Moreover, there should be strategic promotion of private sector involvement in water management, paving the way for the introduction of new approaches and skills. The careful introduction of PPPs for operation and maintenance (O&M) could allow the sector to witness effective O&M, build local capacity, and learn from experimentation, while also placing pressure on public operations to offer better, more efficient services. Similarly, in the interest of customers and citizens, the role of informal water vending, well-drilling, and fecal sludge disposal businesses should be formally recognized within legal and political frameworks, and better integrated—through regulation and capacitation—into service delivery chains.

- 100. Secure greater and more efficient financing and investment in the WASH sector, including improved tariff structures.** The large deficits in WSS service access suggest chronic underinvestment in infrastructure expansion, upgrade, and renewal. Poor coordination among Federal and State actors leads to highly inefficient public expenditure. Coverage of recurrent O&M costs through tariff revenues and subsidies is insufficient, leading to the systemic neglect of maintenance needs, erosion of service standards, and loss of market share to informal service options. An updated water pricing and financing structure is required to promote cost-recovery, and to provide more substantial budget support for capital works. States' attitudes toward tariff reform and regulation should evolve, recognizing that inadequately low tariffs are contributing to the disappearance of SWAs' service, forcing citizens, especially in poorer areas, to buy scarce, unsafe, and much more expensive water supplies from private vendors. To attain cost-recovery and affordability objectives, there should be a greater emphasis on decoupling tariffs and subsidies, with tariffs consistent with cost-recovery and consumption subsidies narrowly targeted on the poor households who need them.
- 101. Reform budgeting and financing structures to be more accountable and driven by results.** The establishment of rules-based funds that channel Federal budgetary support to State investments in a more transparent manner would empower Federal leadership to guide and incentivize sector development and reform by the States. Renewed emphasis is also needed on a long-term utility credit-worthiness agenda that promotes access to commercial finance.
- 102. Undertake a multisectoral approach that harnesses the synergies between WASH and other sectors, boosting social impact.** Access to WASH services in Nigeria is sharply conditioned by differences in levels of poverty, education, wealth, geographic location, and health. To generate a sustained impact, the WASH sector must be fully coordinated with the interventions and programming of associated sectors, such as public health, education, urban and rural development, environment, and governance. New efforts should also consider geographical mapping and targeting to ensure that programs reach populations most in need.

3.7. Recent developments in the WASH sector

- 103. On November 8th, 2018, President Muhammadu Buhari lent his high-level political support to the WASH sector by officially declaring a state of emergency in the sector, while simultaneously launching the National Action Plan for the Revitalization of Nigeria's WASH Sector (AP).³⁹** President Buhari reiterated the importance of prioritizing access to sustainable and safely-managed water supply, sanitation, and hygiene services for Nigeria's development. The president specifically

³⁹ Nigeria Federal Ministry of Water Resources. 2018. "National Action Plan for Revitalization of the WASH Sector." Abuja: Federal Ministry of Water Resources.

emphasized the importance of support from State Governments and sector stakeholders to achieving the SDG WASH targets by 2030 and announced that Federal support to State Governments will be conditioned on their commitment to both implement the AP and end open defecation by 2025 in their respective States. President Buhari pledged that his administration would prioritize WASH infrastructure development, long-term planning, and stakeholder coordination in accordance with the AP.

104. The overall goal of the AP is to ensure that all Nigerians have access to sustainable and safely-managed WASH services by 2030, in compliance with the SDGs for Water (Goal 6.1) and Sanitation (Goal 6.2). It seeks to both strengthen and expand Nigeria’s WASH services while simultaneously improving their effective and sustainable management.

105. The objectives of the AP are as follows:

- i. Clarification of roles of Federal, State, and Local Governments in water supply and sanitation service provision. The role of each government agency will be explicitly documented, with principles established for effective coordination and communications between each tier. Agencies should be insulated from political pressures, which tend to deemphasize sustainability in favor of quick wins;
- ii. Improving the technical capacity of water agencies at the Federal, State, and Local Government levels;
- iii. Establishment of the National WASH Fund to complement State-level budget allocations by providing additional resources in line with estimates of required expenditure to attain the SDG goals for water and sanitation for all Nigerians by 2030;
- iv. Institutionalize sanitation as a necessary counterpart to water supply;
- v. Design of a strategy for improving spending efficiency to reduce the staggering proportion of planned projects never started, not fully completed, or not rated satisfactorily;
- vi. Strategies for improving the effective targeting of scarce public resources to the poor and vulnerable lacking access to improved water and sanitation facilities;
- vii. Actions to improve the functioning and creditworthiness of networked services, including improving the autonomy of SWAs over their fiscal and human resources, increasing tariff collection, institutionalizing regular maintenance, establishing independent regulators at the State and/or Federal level, introducing performance contracts and conditional transfers, and promoting private sector involvement;
- viii. Strategies for improving rural water supply provision;
- ix. Measures to regulate the informal sector in water supply and sanitation;
- x. Interventions to promote household-level capital expenditures;
- xi. Mainstream data collection; and
- xii. Design of a communications strategy with both the public and other stakeholders on the rollout of the AP.

- 106. The AP is the result of extensive consultation between the Federal and State Governments.** The AP was first conceived in September 2017 during the National Retreat on Revitalizing the Urban Water Supply and Sanitation Sector. The retreat, which marked the launch of “A Wake Up Call”, the World Bank’s Nigeria WASH Poverty Diagnostic, was attended by over 350 participants, including Vice President Yemi Osinbajo, the Minister of Water Resources Suleiman Adamu, sector leaders from both Federal and State governments, service providers, and development partners. During this retreat, it was recommended that the FMWR and the States urgently develop an emergency action plan, to attain the 2030 WASH SDGs for both rural and urban areas. The first draft of the AP was developed in December 2017 by a task force, convened by the FMWR and comprising sector leaders and experts from all levels of government and service provision. A Second National Retreat was held in February 2018, during which input was received from State Commissioners and SWA General Managers representing 28 States. The AP was approved by the Federal Executive Council in April 2018.
- 107. The AP establishes concrete actions for both the Federal and State Governments to follow to ensure that all Nigerians have access to sustainable and safely-managed WASH services by 2030, in compliance with the SDGs.** In order to best harness the political will demonstrated by the declaration of the State of Emergency and to precipitate immediate improvements within the sector, the initial five years of the 13-year *Revitalization Strategy* is designated as a 5-year *Recovery Program*, within which the first 18 months is prioritized as the *Emergency Plan*. The AP is intended to incorporate and build upon recent efforts to better harmonize and expand efforts to attain the 2030 WASH SDGs for rural communities through the Partnership for Expanded Water Supply, Sanitation and Hygiene (PEWASH) (2016).
- 108. The *Emergency Plan* aims to launch a renewed Federal-State partnership for WASH sector development** by committing both levels of government to jointly: a) Improve the sustainable management of existing WASH services in both urban and rural areas to address the emergency; and b) Engage development and civil society organizations and other key stakeholders in the expansion of services, therefore establishing the partnerships and momentum required for the duration of the *Revitalization Strategy*.
- 109. The *Recovery Program* aims to establish and institutionalize the enabling environment required to support the effective and sustainable management of Nigeria’s WASH services, laying the groundwork for implementing the necessary reforms through sound policies and laws.** The *Recovery Program* also seeks to demonstrate immediate progress in the expansion of service quality and accessibility to maintain the enthusiasm and engagement required of all stakeholders to attain the objective of the overall *Revitalization Strategy* – the attainment of the SDGs for Water and Sanitation.

- 110. The AP comprises five components: Governance, Sustainability, Sanitation, Funding and Financing, and Monitoring and Evaluation.** The revitalization of Nigeria’s WASH sector will require multifaceted reforms, with each component necessary to attain the plan’s goal. The components are interrelated, as actions within each component generally affect one or more of the other components simultaneously.

3.8. Final remarks

- 111. Failure to address the current situation will have dire consequences for the nation.** Without immediate attention by policy makers and other key stakeholders, the country will at best continue to suffer from the damaging effects of the status quo. At worst, the situation will continue to deteriorate, making it increasingly difficult to recover and establish the policies and programming needed to rehabilitate the sector in the future. It is thus imperative to take stock of past failings and take decisive action now as part of a sustained national commitment.
- 112. The declaration of a state of emergency and the launch of the AP mark historic moments that aim to markedly improve the WASH sector.** As countless countries have proven before, increasing access to improved water and sanitation facilities, decreasing open defecation, and promoting improved hygiene practices can help Nigeria elevate its people out of poor health and poverty, and promote shared economic prosperity. The AP will support these efforts, presenting a clear roadmap to improve the human capital of its people.
- 113. It is important to note that the success of the AP hinges on its effective implementation at both the Federal and State levels.** The achievement of the SDGs in WASH will require Nigeria to invest at least three times more than it does today, and substantial reform is required throughout the sector to clarify the roles of each government agency, augment their technical capabilities, improve monitoring and evaluation systems to foster sustainability, and ensure that interventions are successfully completed and targeted to the poor and vulnerable.
- 114. The country can and *should* take significant action to improve its water and sanitation sector.** Equipped with a thorough assessment of the sector, a clear roadmap for government and stakeholders to follow, steadfast political will, and sustained follow-through, it is possible for Nigeria to transcend the current crisis. Achieving the SDGs is still within reach. The costs of not moving forward in the sector are simply too great to ignore; the lives of 190 million individuals—and the fate of the nation as a whole—are linked to progress in this sector.

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