Reality of Post-MDRI: Fiscal Sustainability and Development Trajectory of the Nigerian Economy

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Abstract:
Nigeria is trapped in fiscal unsustainability crises over a few decades, due to excessive debt accumulation and inability to strategically utilise borrowed funds on the projects that could allow self-liquidation. Available data support the arguments that deficit financing in most cases is utilised on recurrent expenditures. Consequently, accumulation of debt increases debt service obligations, which further aggravate the amount expended on recurrent expenditure. Viciously, more borrowing is usually required to meet debt servicing obligations. Meanwhile, the fiscal problem aggravates the excessive dependence on revenues from crude oil with little attention to non-oil revenue mobilisation; in this case, the crude oil price volatility creates incessant shocks on the expenditure plans vis-à-vis revenues shortage whenever the oil price crashes. This paper however, reviews the development trajectory of the country within the framework of relevant data up to 2021. It is however, observed that in the past six years, there are evidences that the country is reversing the poor trends on some macroeconomic parameters. For instance, the federal government attention is currently being shifted from oil revenues dependency to non-oil revenues mobilisation, such that in 2021, the percentage of non-oil revenues to total revenues is more than those from oil revenues. The same is observed on the non-oil export promotion which is sharing higher proportions compared to what had been obtainable in the past few decades. This paper therefore showcases that consistency in revenue diversification to non-oil sources and also the invigoration of non-oil export promotion will provide strong foundation for Nigeria fiscal liberation in the near future.

Key words: Fiscal Sustainability, Economic Diversification, Nigeria Economy

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Introduction

Nigerian economy is confronted with myriad of development challenges over the last four decades partly as a result of financial crises which could be traced to early '80s when the price of primary products crashed in the global commodity market, culminating to the inability of the country to meet her financial obligations appropriately. In order to salvage the economy from the financial quagmire, the country had to opt for borrowing, some of which was premised on strict conditionality, especially from multilateral organisation, majorly IMF. The crises consequently became multifaceted. On one hand, the foreign exchange was dwindling due to the poor condition in the global commodity market which drastically reduced the revenue to the government. At the same time, the strict conditionality of creditors culminated into devaluation of the Nigeria currency which led to imported inflation via exchange rate. So also, the rising price was aggravated by removal of subsidies and increase tax on the products which is known as austerity measure. The rising prices and Naira devaluation increased domestic value of dollar denominated loans. In a short period, Nigeria had become huge, indebted country.

The debt management problem became paramount when loan repayment defaults accumulated into external debt crisis. In the country, the accumulation of debt was unprecedented, grappling with the issue of economic development problem which followed the crash of prices of primary products in the world market; savings became low and imported capital were required to augment local resources (Todaro, 1997). The debt levels were aggravated, as the crashed prices were followed with a rise in interest rate on loans (Wu et al, 2022). The interest and debt service payment became a problem. In an attempt to forcefully meet with the debt obligation, the huge debt servicing payment took away significant portion of domestic savings, thus creating serious balance of payment problems in Nigeria. Economic growth remained unresponsive, with external reserves drawn down, while borrowing continued on upward trend. It should be noted that debt servicing and loan repayment are not only burden to the immediate generation, but also to the future generations, due to excessive decline in foreign exchange and stagnation in the private sector. The gravity of the burden of debt in any context is assessed through fiscal sustainability frameworks. This is necessary given that it is not in all cases huge debt is evil, rather, debt becomes evil and burdensome when the countries involved are unable to sustain it within the limit of resources available to them.

Fiscal sustainability is therefore dominant in the discourse of developing and underdeveloped economies like Nigeria, due to unique nature of their debt crises. Conceptually, fiscal position is sustainable if the ratio of debt to income is constant or declines in the long term. However, when this is not the case, the economy is said to be fiscally unsustainable, (Adedokun & Babatunde, 2017). Meanwhile, many developing countries habitually engage in debt accumulation and uncontrolled fiscal deficit. In a study, (Chew & Clement, 2022) expresses that fiscal sustainability would become a problem when there is gap between targeted debt level and the debt that would ensue if tax and spending policies were continued without change. It simply implies, fiscal sustainability of a country is premised around the size of public debt of the country. In other words, fiscal sustainability is not an issue when there is no problem of debt management.

The debt management problem in Nigeria became paramount when loan repayment defaults accumulated into external debt crisis. It is somehow pathetic that with $95.56 million debt service payment in 1970, it rose sharply to $1.79 billion in 1980 and $2.94 billion in 1990. The high incidences of debt crisis drew the attention of Non-Governmental Organisations, development agencies and civil society on the need to proffer decisive solution to the debt problem of Nigeria and other developing countries in the same high incidence of debt condition.

The initial step to alleviate the effects of the debt crisis was the introduction of Structural Adjustment Programme (SAP) in the mid '80s, with a view to liberalizing some aspects of the economy in order to correct the negative imbalances in the economy including balance of payment. This gave rise to the austerity measure. It was expected that the borrowing problem would be solved and thus help in turning the negative growth to positive as a way to position the country on the path of sustainable development. But the impact of SAP on the poor was very tense, as they were no longer able to afford basic commodities due to removal of subsidies (Sahn & Sarris, 1991; Rich, Winter-Nelson & Nelson, 1997). The SAP ended up failing to correct the debt crises.

The efforts of Nigeria to exit the burden of debt alongside other African countries in the same shoe took different dimension at different time. A significant one was the introduced of Heavily Indebted Poor Countries (HIPC-1) initiative by IMF/World Bank in the mid-1990s which aimed at alleviating the burden of debt in the heavily indebted countries. The selected countries were made on the bases of high poverty prevalence and debt incidence that is higher than 200-250% of present value of external debt to export ratio or the present value of external debt to government revenue that is in excess of 280%, (Martin & Johnson 2001; Ferry, Raffinot & Venet, 2021). IMF/World Bank premised the qualification for the relief on the readiness of the countries to utilize any benefit from the debt relief on the poverty reduction program. It was therefore a key condition that all qualified countries must develop a blueprint within the frameworks of the Poverty Reduction Strategic Paper (PRSP) which should be an indigenous based development strategy expected to be promoted by all the identified countries. The variant of the blueprint of PRSP that was developed in Nigeria was the National Economic Empowerment and Development Strategy (NEEDS). The policy was given a wide implementation strategy in which all States and Local government partnered with the federal government to implement the program under the State Economic Empowerment and Development Strategy (SEEDS) and Local Economic Empowerment and Development Strategy (LEEDS) respectively.

However, HIPCs-1 was widely criticised for tight conditionality which made it difficult for many countries to qualify for debt relief over the following three years in 1999. The HIPC-1 document was modified in the eve of new millennium, which culminated into the ratification of the enhanced Heavily Indebted Poor Countries initiative (HIPC-II), with more relaxed conditionalities. Unfortunate, the condition for qualification for debt relief under the HIPC-II did not allow Nigeria to be named among the 39 countries identified given that the country passed most of the threshold for classifying a country as indebted. More specifically, the present value of external debt to export ratio was reduced from 200-250% to 150% and external debt to government revenue reduced to 250%, (Ferry, Raffinot, & Venet 2021). The reality of the first five years promoted and intensified new advocacy among civil society, Non-Governmental Organisation and development institutions, asking the donor agencies especially the Breton Wood institutions for outright cancellation of all the multilateral debt owe to its institutions. Consequently, the Multilateral Debt Relief Initiative (MDRI) of HIPC-II was agreed upon in 2005. This window paved the way for Nigeria to renegotiate her debt, despite that Nigeria was not among the HIPC countries. Consequently, Nigeria external debt to Breton wood institutions was renegotiated and paid off $30 Billion using $12 Billion, in which case $18 Billion was cancelled.

The realities of the post MDRI in Nigeria shows some degree of rapid rising in the debt stock. Fifteen years down the debt relief, Nigeria is seriously engulfed in another debt profile which is prompting another research question of why is the debt rising when at the level of initial debt relief, the country fully satisfied the conditions for debt sustainability with a sharp fall of debt ratio to GDP from 66.13% in 2002 to 12.29% in 2006?

Meanwhile, debt crises or debt unsustainability has serious implication for economic development, starting with its crowd-out effects on foreign exchange and on other resources in the country, which could have otherwise been used to embark on development projects. So also, a country fragility is partly measured by the degree of its debt sustainability. The implication is that a country with unsustainable debt profile would be limited in its ability to mobilise foreign direct and portfolio investments into the economy. In Nigeria, the debt profile over the past four decades has raised several questions on how sustainable it is, given the rising debt service payment, high rates of poverty, poor infrastructure and high inequality in the income distribution.

Major questions from the background review of the debt history in Nigeria are; first, are there any reasonable debt trend reversal after the debt cancellation that was accorded Nigeria in 2006? Secondly, are there substantial reversal in the heavily dependent of government on oil revenues as against non-oil revenue sources? Finally, are there any positive changes in the non-oil export earning relative to the oil exports? The three key elements raised in the questions; debt trend reversal, non-oil revenue and non-oil export are fundamental to the long-run fiscal sustainability of any oil dependent economy like Nigeria.

This paper therefore examines the fiscal performance of Nigerian economy over the years, with specific attention to the periods after the multilateral debt relief initiatives of 2006. The trend analysis of debt profile, export pattern and revenue distribution among non-oil and oil sources and other relevant development variables are expected to give some perspectives on Nigeria debt structure and its possible effect on the development prospect of the country in the future.

Theoretical Perspectives and Method of Analysis

Theoretical perspectives to fiscal sustainability and development

Assessment of fiscal sustainability is premised around debt and its management ability. Debt is not bad in itself, especially when it is invested in self-liquidating economic activities. In most cases, such liquidating economic activities would create positive multiplier effects in the economy, thus the issue of unsustainability as a whole would be underplayed. Unfortunately, deficit financing is habitual to many countries especially developing and less developed economies, in which case, the debt financing are expended on recurrent expenditure which are deadweight. In the economic discourse, Keynes made strong argument in favour of debt financing of government spending, such that debt financing aims at stimulating an economy and end economic depression. However, in contrast to common understanding, Keynes did not advocate the kind of consumption pattern or counter-cyclical fiscal policy often regarded as one of the characteristics of 'Keynesian'. More also, Keynes did not support the deliberate creation of government budget deficits. To this effect, Keynes appears to have been somewhat more conservative towards the issue of public debt than how it is commonly propagated. This is reflected in his proposal for a formal distinction between the government's current and capital budgetary items (Dwyer, 2011). Keynes opposed discretionary budget deficits of current expenditures over current revenues. However, Keynes did maintain that public capital expenditures should be at least partly debt financed. As such, Keynes's concern was with the accumulation of public debt issued to finance current expenditure, or so-called 'dead-weight debt'. Keynesian position does not preclude debt as a source of financing current expenditure or capital accumulation. However, prudency is the basis for his various arguments.

The aim of this article is the examination of debt trend and corresponding public spending that could enhance fiscal sustainability in Nigeria. Theoretically, the positive theory of foreign currency states that, foreign borrowing impact positively on investment and growth up to a point or a threshold beyond which its effects turn negative which result in 'Laffer Curve' relationship with the external debt and per capita income or investment (Semmler & Sieveking 2000; Cleasen, 1990). Meanwhile, excessive debt has negative effect as it leads to debt overhang, retards growth by increasing investors' uncertainty about government policy towards the meeting of its high debt-servicing obligations. Therefore, as the stock of public sector debt rises, investors are likely to be worried that the government might want to finance debt-service obligations through unappealing measures, like increase in the money supply which may result in inflation. When this exists, investors are skeptical on investment and even when they do invest, they are likely to be comfortable with portfolio investment which brings quick returns than investment in real projects which could enhance sustainable long-run growth, (Clement et al, 2005)

Meanwhile, external finance which culminated into debt has different implications depending on the environment and policy frameworks and economic environment surrounding the decision to borrow in the debtor's country. Theoretically, debt may be acquired to finance short fall in the current consumption account, and it may be used for capital investment. The implication of each differs both in the short-run and long run. As shown in (Flemming & Stein, 2004), borrowing either to finance government consumption or promote investment and growth entails two different risks. The first is through the fluctuations in the return on domestic investments, while the other is the randomness of the interest rate paid to international institutions on debt. Issue is how to determine the level of debt at which the total utility from consumption will be maximized, given the constraints and uncertainties in the country or society under consideration. In the developing countries, such as Nigeria, where external borrowings have been argued to lack the inbuilt mechanism for repayment, foreign loan would have different implication compared to countries that invest in the long-term investment project with inbuilt mechanism for repayment. In other words, the foreign borrowings are largely spent on consumption in some countries rather than on investment. The optimal solution in such economy therefore is to smooth the time path of real consumption by controlling the size of debt to be accumulated according to its implicit solutions.

However, in mitigating or correcting for high debt profile, time preference is critical in deficit balance and fiscal stance of an economy. An increase in foreign aid decreases deficit if the discount rate is endogenous and decreasing in savings, (Cui & Gong, 2008). If foreign aid increases income and savings, people are more patient and hence they save more, which decreases the deficit. The timing in the tax-smoothing model support that increase in current foreign income specifically foreign aid, decreases optimal deficit (Barro 1979; Kimbrough, 1986). In the same way, debt relief improves incentive of the recipient countries, thus leads to a decrease in budget deficit.

Method of Analysis

The paper examines the trends of key macro-economic variables which are relevant to studying fiscal sustainability in Nigeria, thus, a mix of quantitative and qualitative analyses are adopted. On one side, critical desk review of literature over the past few decades are carried out for historical development of debt and fiscal sustainability in Nigeria. So also, secondary data from Statistical Bulletin of Central Bank of Nigeria and Africa Development Indicator database of World Bank are collected over the period of 1981 to 2022 and presented in statistical chart, to examine trend pattern. The pattern observable through the trends analyses of the data are critically revied through the lens of relevant literature to form a new opinion about the debt trend, revenue and export distribution and pattern and then reach conclusion about future expected direction of the variables and development prospects.

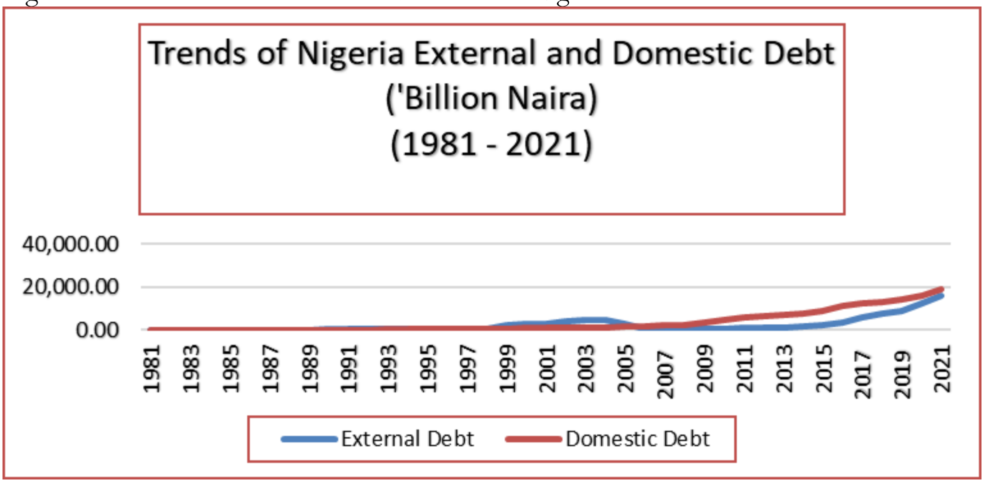
Nigeria Fiscal Challenges

There are several challenges that have confronted Nigerian economy over the past decades since independent in 1960. But the challenges were not so much pronounced in the earlier periods of the independence as much as the country experienced in the past four decades. The challenges could be discussed under some specific macroeconomic parameters.

Rising Debt, Fiscal imbalance and Growth pattern

Nigeria is claimed to be one of the countries with excessive budget deficit in the world, (Tule, Onipede & Ebuh, 2020; Sala-i-Martin & Subramanian, 2003) for frequent extra budgetary allocation and the allegation of high incidence of corruption. It is expressed in a study that 'the analysis of Nigeria fiscal expenditure profile shows gross violation of laid down procedures in accumulation and expenditure of public funds to the detriment of not only the development of the Nigerian State in particular but also against the principle of natural justices (Orluwene, 2013). Trailing on the argument that spending above the level absorbable by the economic reality of a country, triggers debt crisis, it is clear that fiscal sustainability problem and debt management challenge might naturally be inevitable in Nigeria. However, in (Adedokun, 2015), it is argued that the trend of expenditure in the country is higher than what the optimal spending should be from early 1980s. It gradually widening, but sharply closed up in 1986. The sharp convergence was attributed to emergence of Structural Adjustment Program (SAP) introduced as measure to curb financial crisis that followed oil price collapse in the international market in the 80s. Prior to the introduction of SAP, a cut in government revenues following the crashed oil price in the international market gave rise to debt management problem. It was so, because the huge debt servicing payment took away a significant portion of government revenue, thereby creating serious balance of payment problems for the country. Consequently, economic growth became negative, with external reserves drawn down. In a short time, debt servicing became a serious burden with unprecedented decline in foreign exchange earnings and stagnation in the private sector. All these combined to arouse international attention, consequently, the introduction of SAP. In the aftermath of the introduction of SAP, expenditure still continue to rise steadily till 1995 (ibid). This widened gap was due to a response to the high criticism of SAP program and its austerity measures, in which various subsidies were removed on basic items with consequential negative impacts on the welfare of people. The government expansionary fiscal policies to relax the effects of SAP program further triggered the government spending. The widening gap between the government revenue and expenditure aggravated deficit financing that were perpetually funded through borrowing thus, upshot debt stocks as shown in Figure 1.

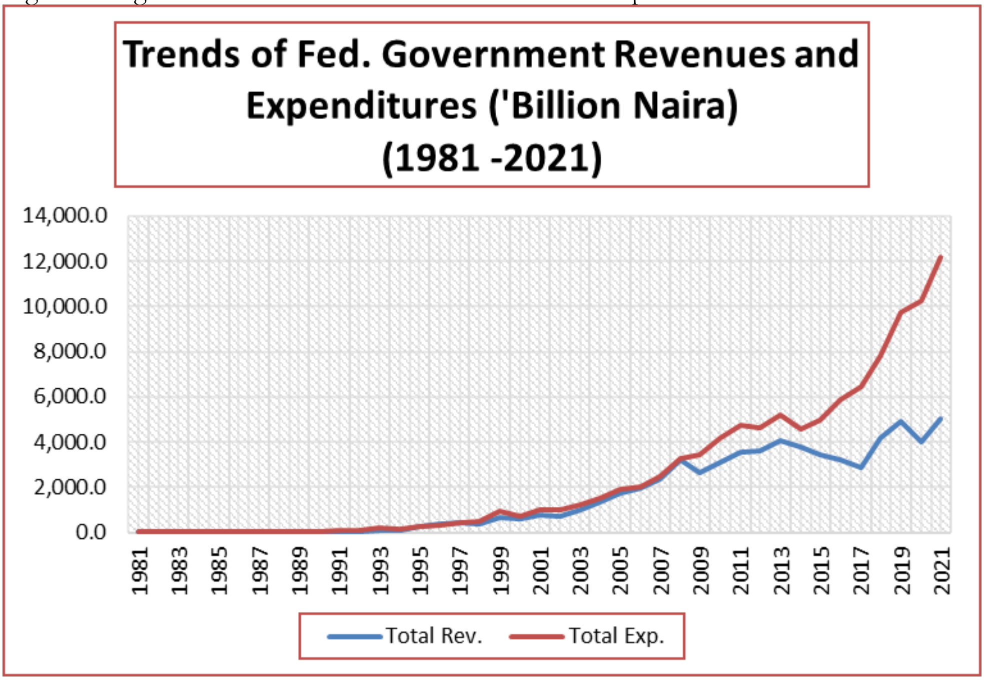
Figure 1: External and Domestic Debt Trend in Nigeria



Source: Author's computation using data from 2021 CBN Statistical Bulletin

However, figure 2 examines the historical trends of government revenues and expenditures over the years. It is observed that around 1997, shortly after the death of the military head of State, General Sanni Abacha and the inception of Gen. Abdul Salam Abubakar, a level of fiscal discipline returns which narrowed the gap between the revenues and expenditures. The administration ushered in civilian government headed by President Olusegun Obasanjo. The inception of the administration further invigorated fiscal discipline sustainably till 2007, the end of Olusegun Obasanjo's administration. It could be concluded that financial probity is associated with political will and desire of a leader to be accountable. It is worth of note that, the Obasanjo regime actually negotiated the debt owe to the Parish Club which gave birth to elimination of $18 billion dollar debt owe to the institution after the payment of $12 Billion of the total $30 billion outstanding. It was very obvious that after Nigeria was relieved of her debt burden in 2006, the issue of fiscal sustainability was not a problem in Nigeria as shown through a sharp decline in the trend of external debt around 2006 in Figure 1.

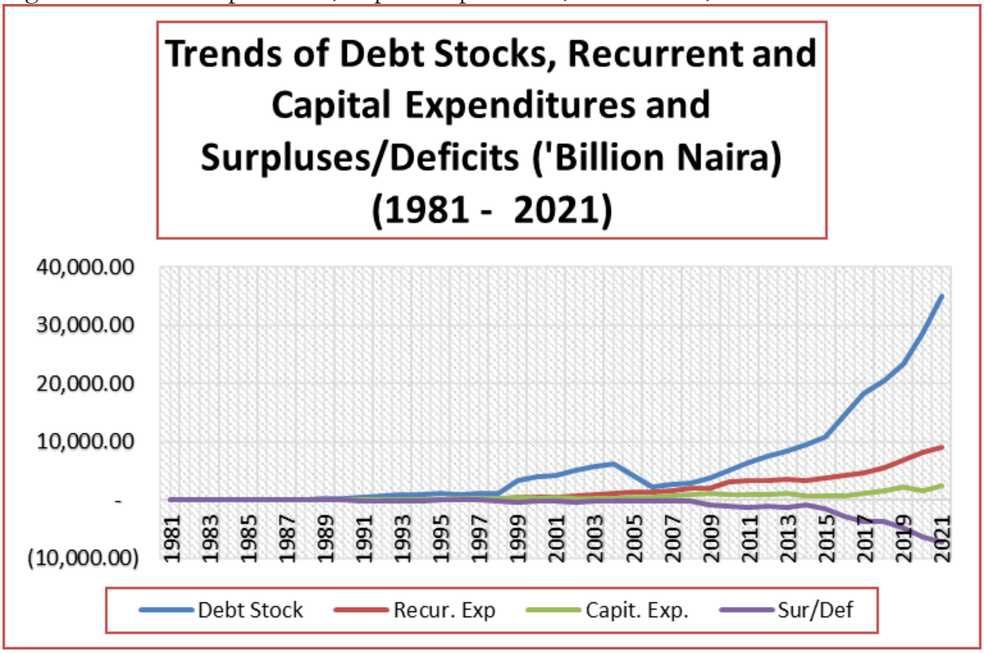
Figure 2: Nigeria Federal Government's Revenues and Expenditures



Source: Author's computation using data from 2021 CBN Statistical Bulletin

Unfortunately, after the end of Obasanjo's regime and following the debt relief of 2006, government spending responded negatively and sharply as the expenditure trend could not justify the expected effects of the removal of debt servicing obligations. Instead, the government expenditures were on upward trend with wide divergence from revenue trend path. The divergent trend pattern has since then continued till 2021 without any sign of possible convergence in the nearest future.

Figure 3: Current Expenditure, Capital Expenditure, fiscal deficit, Debt Stock



Source: Author's computation using data from 2021 CBN Statistical Bulletin

In order to probe further the composition of what constitute the rising expenditure alongside deficit and increasing debt stocks, the expenditure data is disaggregated into recurrent and capital expenditure. In figure 3, deficit financing increases expenditures, but spike recurrent expenditure more than it shows in capital expenditure. This has serious negative implications on the quality of debt stock the country is accumulating in terms of its ability to be self-liquidated. When deficits that accumulate into debt are expended as recurrent expenditures, there are tendencies for deadweight implications on the economy. It is equally observed that deficits and debt trends worsened from 2008 till 2021. The fiscal pattern in figure 3 is awkward, knowing that Nigeria had oil revenue boom between 2010 and 2013, but the impact seems counterproductive as debt stock worsened. This is in quantum with 'Dutch Disease'.

Dutch Disease in Nigeria

T The argument of Dutch disease starts with 'resource curse', in which the resource-poor countries have outperformed the resource-rich countries considerably. The curse becomes an impediment to development as it leads to Dutch disease. Resource curse makes a country slump in other sectors of the economy after the influx of revenues from oil exports. The dependence on oil (or other natural resources) revenues makes the national economy vulnerable to market prices. The volatility of oil prices in international markets lead to significant problems in fiscal planning, reduces the quality of public spending, and lead to financial disaster when oil prices collapse. When oil prices fall, however, fiscal budgets go into deficit, countries start taking loans leveraged against their reserves, and march unimpeded into debt (Otaha, 2012). Indeed, according to Schubert (2006), oil states such as Nigeria, Angola and Cameroon have tended to borrow faster and deeper than non-oil states to cover unexpected shortfalls in income. The uncontrolled appetite of resource rich countries to borrow endlessly is referred as Dutch Disease.

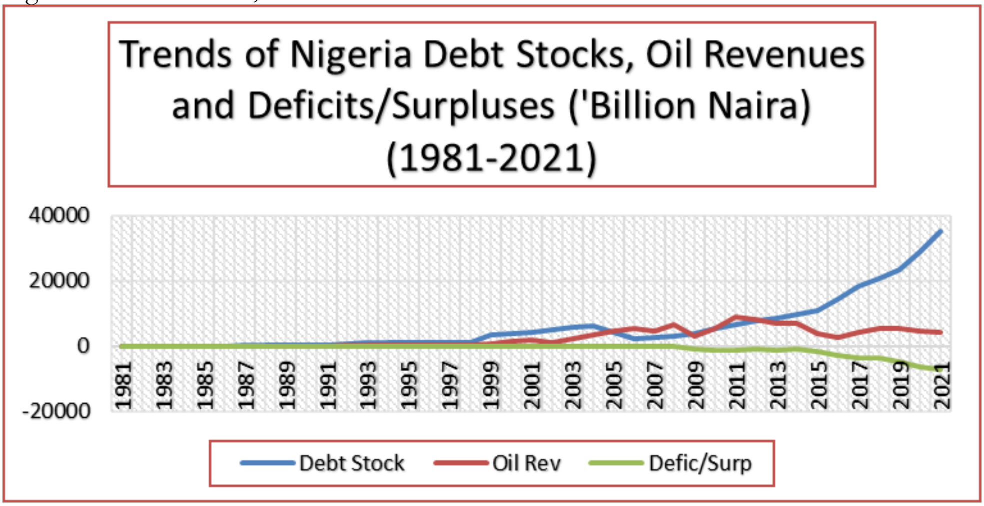
Nigeria first discovered oil in 1956. A joint operation between Royal Dutch Shell and British Petroleum begun production in 1958 and more foreign companies joined in the production after the independence in 1960. Currently, Nigeria is the twelfth largest producer of oil in the world and major supplier of Liquified Natural Gas (LNG). Upon the discovery of huge deposit of crude oil in the country, income from oil and gas became the lifeblood of the nation's revenues and the economy's mainstay. It accounts for about 40% of the Gross Domestic Product and 70% of government revenues. In 2003, oil and gas accounted for 80.6% of total federal government revenue receipts (Ikelegbe, 2005). Meanwhile, the proceed from the rapidly expanding oil industry is strewed in criticism of exportation into private accounts of few political class and related corruption rather than usage in development activities and poverty reduction.

Prior to 1970, agriculture was the mainstay of the Nigerian economy. Between 1960 and 1970, on the average, the sector accounted for about 50 percent of the GDP and employed 72 percent of the labor force, (World Bank, 2006). Perhaps more significant was the sector's foreign exchange earning capacity. In the 60s, Nigeria was the world's largest exporter of groundnut, the second largest exporter of cocoa and palm produce and an important exporter of rubber, cotton, and hides and skin (World Bank, 2006). In real terms, in 1970, the country produced 305,000 tons of cocoa, 800,000 tons of palm oil and Kernel and over one million tons of groundnut (Udeaja & Onyebuchi, 2015). Well over 50 percent of the country's total export earnings came from the agricultural sector prior to the 70s, (Ogunbiyi, 2022). The state apparatus was consolidated, much infrastructure was created.

However, in 1970s, on discovery of crude oil in large quantities, other exports of the country like agriculture were seen as nonprofitable due to increased oil revenues. Industrialization was not encouraged due to the ease in access to imported consumer goods. The few industrialized projects that were developed using the import substitution model failed (Bevan, Collier & Gunning, 1999). According to (Collier, 2007), resource wealth sometimes contributes to a conflict trap and the surplus from natural resource exports reduces growth. He explains how the Dutch disease can damage the growth process by closing out on the exports in other promising sectors of the economy. In support of Collier argument, oil boom in Nigeria is simultaneously giving way to excessive government borrowing and investment on wasteful projects that made the corruption in the country more apparent. Unfortunately, as the world price of crude oil crashed in 1980s, Nigeria's oil revenues reduced drastically and external debt increased unprecedentedly, giving way to debt crises.

As presented in figure 4a and 4b, the crude oil prices and resulting rise in oil revenues has no positive influence on fiscal deficits. Instead, the rising prices of crude oil and increase in oil revenues trigger steady rise in both the debt stocks and fiscal deficits. This is symptom of 'resource curse'.

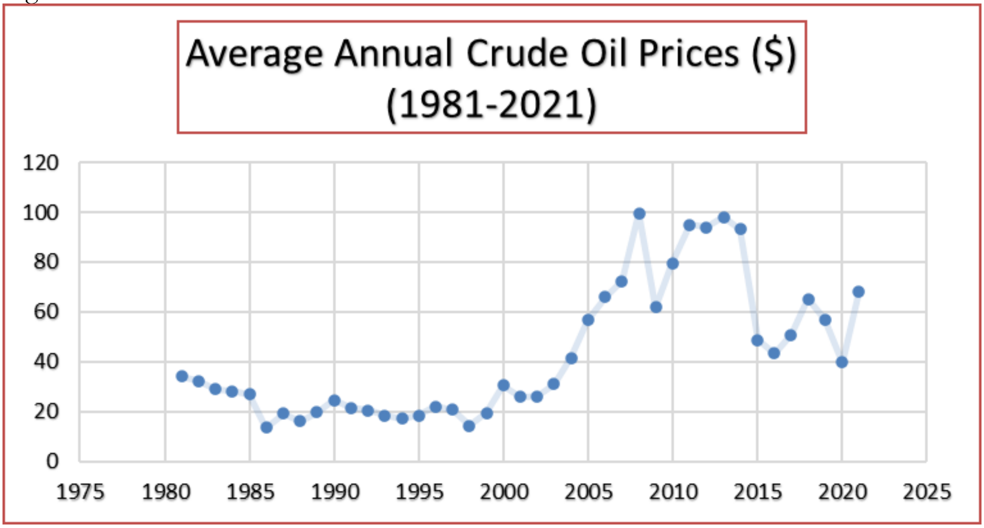
Figure 4a: Oil Revenue, Fiscal Deficits and Debt Stocks



Source: Author's computation using data from 2021 CBN Statistical Bulletin

A major Nigeria economic challenge is 'resource curse'. In a normal case, the rising price of oil in the global economy is expected to have positive impacts on the economic growth and development and the immediate impact on the welfare of the citizen. Unfortunately, the rising prices of the crude oil which increase the foreign exchange into the economy is counterproductive because as an import dependent economy, the dividend of increasing oil revenues is eroded through several channels. For instance, the refined oil is reimported into the economy with its consequential increases in import price, culminating into rising values of government oil subsidy. In other words, the increased cost of refined oil translates into rising prices of basic domestic items. More also, Naira exchange rate consistently depreciate as a result of low domestic non-oil productivity. The huge dependence on the importation further aggravates the Naira depreciation. In order to discourage import and encourage exports, deliberate action of the government also aggravate the Naira value falls. Consequently, all the importation in the country turns out to have high domestic price as a result of imported inflation or exchange rate induced inflation. Summarily, the rising price of crude oil which should be a huge blessing to the country ended up aggravating the problem of inflation with little or no significant improvement on the foreign reserve. This is due to repatriation of benefits on the increased bills of importation of finished products especially the refined oil.

Figure 4b: Crude Oil Prices



Source: Author's computation using data from 2021 CBN Statistical Bulletin

The evidence in support of the above could be traced to the Russian-Ukrainians war which enhances the quantity of quotas of OPEC to Nigeria coupled with the increase in the global price of oil. However, the positive effect of this is still in oblivion.

Recent Fiscal Reforms in Nigeria and Development Prospect

The economic crises of 2014 to 2016 and the covid-19 induced financial and economic crisis of 2020-2023 served as the bases for more realistic assurance that oil dependency is not sustainable due to high volatility of the prices which in most cases are highly unpredictable. This was observed during the Covid-19 crises when the global economy experienced complete lockdown and the price of crude oil practically turned to zero in the global market. It thus, points to the weakness of monocultural economy in which a country substantially depends on the revenues from Oil. The events of the past eight years in Nigeria made the government to take critical and deliberate step towards economic and revenue diversification. Consequently, several initiatives were carried out in line with non-oil promotion and strategic expansion and intensification of efforts in line with non-oil tax mobilisation. Some of these are briefly discussed.

Non-Oil Revenue Mobilisation

In the process of non-oil revenue mobilisation, government foreclosed increase in tax rate, but focused on how to expand the tax base. In order to achieve this, the administration introduced a number of tax reforms to diversify Nigeria's income base as well as improve tax administration, with ministry of finance and Federal Inland Revenue Service (FIRS) on the forefront. One of the initiatives is the Voluntary Assets and Income Declaration Scheme (VAIDS). In June 2017, the federal government signed an executive order to commence the Voluntary Assets and Income Declaration Scheme (VAIDS). It was a tax amnesty program offered 12 months of opportunity for taxpayers; individual and corporate within and abroad to voluntarily disclose previously hidden assets and income for the purpose of payment of all outstanding tax arrears between 2010 and 2015, with incentives which exclude them paying the interest and penalties as well as enjoying the immunity from prosecution. VAIDS was geared towards raising the percentage of non-oil tax revenue from the six percent it was at the time to the 15 percent by 2020 while broadening the federal and state tax brackets.

Another initiative was the introduction of Voluntary Offshore Asset Regularisation Scheme (VOARS), which became effective in October 2018 after the expiration of VAIDS. VOARS initiative mandated Nigerian taxpayers to declare and pay tax on their offshore assets. The scheme provided a platform for taxpayers, who have defaulted in the payment of taxes, to voluntarily declare their offshore assets in exchange for a one-time levy of 35% on all offshore assets. Just like it was under VAIDS, it also granted them immunity from prosecution.

Federal government, in 2018, as part of her efforts at expanding non-oil tax took an unusual step by directing banks to freeze the accounts of over six thousand defaulting taxpayers. Within months of its introduction, the FIRS generated over N23 billion from suspended corporate bank accounts of tax defaulters, particularly on 3,000 companies who had deducted Value Added Tax (VAT) and Withholding Tax (WHT) on behalf of the federal government but had not remitted them in due course. The initiative was later suspended upon discovery of loophole in the process.

There was also an introduction of special Companies Income Tax process (Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme) Order, which was signed in January 2019, enabling private companies to fund the construction of major road projects in the country while they get tax credit and reductions in return. Apart from enabling the government to leverage private sector funding in a manner that creates value for money through private sector discipline, the executive order was meant to be in force for ten years and enable participants utilize the road infrastructure tax credit certificate as the corporate income tax (CIT) in and for the relevant fiscal years, in which the project cost is incurred, until it is fully utilized.

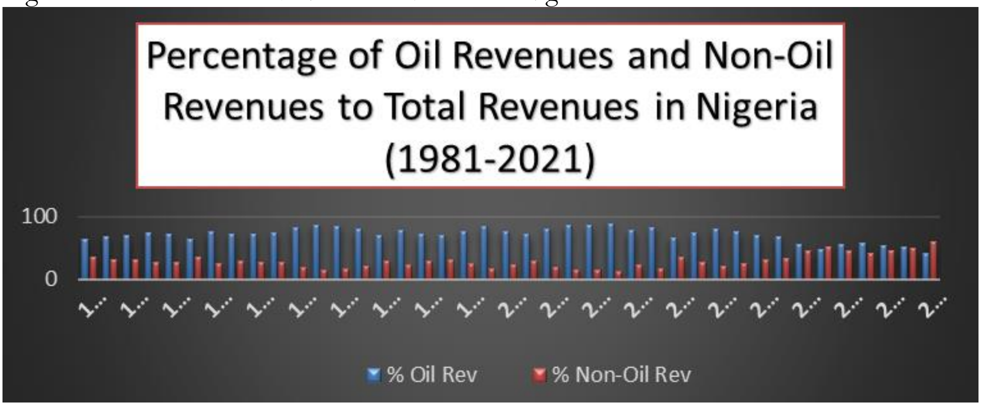
In June, 2018, federal government also approved two executive orders and five amendment bills to remove value-added tax on residential properties and amend the company income tax law. The orders included Value Added Tax Act (Modification) Order and Review of Goods Liable to Excise Duties and Applicable Rate Order, while the five Amendment Bills were the Companies Income Tax Act (Amendment) Bill; Value

Added Tax Act (Amendment) Bill; Customs, Excise, Tariff (Consolidation) Act (Amendment) Bill; Personal Income Tax Act (Amendment) Bill and Industrial Development (Income Tax Relief) Act (Amendment) Bill. The essence of the modifications as argued by Federal Government were to reduce the tax burden on Nigerians and boost ease of doing business. More also, apart from simplifying the process of paying taxes, the policies were also geared towards removing obsolete, ambiguous and contradictory provisions in the laws while also increasing government revenue.

In order to evaluate the impacts of the various initiatives, Asadu (2019) argued that the records of Federal Inland Revenue Service (FIRS) show that in the area of revenue generation, tax revenue has continued to increase, with decline recorded only in 2016; from the N3.74 trillion recorded as revenue in 2015 to the N3.3 trillion in 2016 and N4 trillion in 2017. However, 2018 saw Nigeria earning a record-breaking tax revenue of N5.3 trillion, a 30 percent increase above the figure in 2015 when the new administration took over the government affairs. There has also been a sharp increase in the number of taxpayers registered over the four years. Data from the Joint Tax Board shows that from the 10 million registered taxpayers in 2015, at least 30 million more Nigerians have been captured in the tax net, with the figure about to hit 45 million in 2019.

The historical data provides evidence that there is improvement in non-oil tax revenues, as the redistribution of percentage share of oil and non-oil revenues improves in favour of non-oil revenues in the past seven years from 2015.

Figure 5: Chart of Oil and No-Oil Revenues in Nigeria



Source: Author's computation using data from 2021 CBN Statistical Bulletin

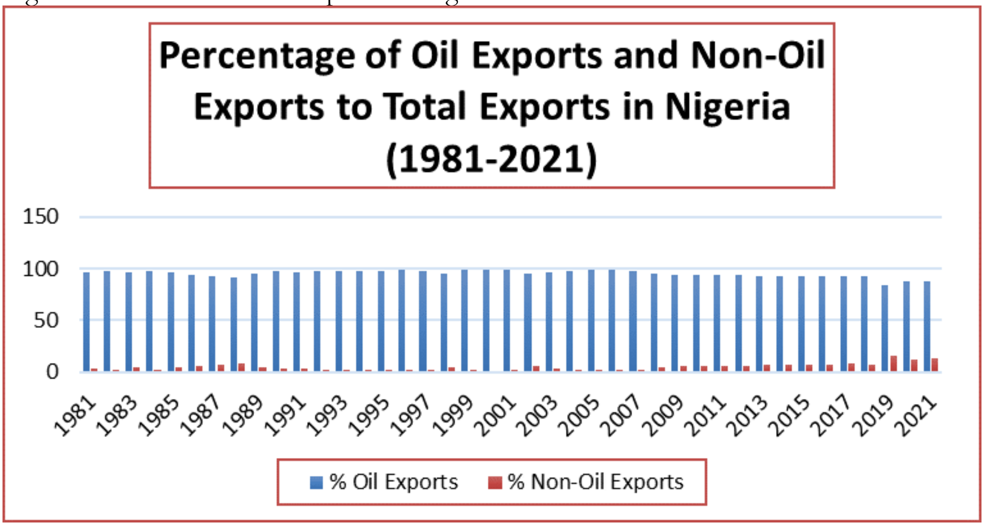
As shown in figure 5, precisely from 2015, the percentage growth of non-oil revenue has been rising and steady. More significantly, the percentage of non-oil revenue surpassed that of oil revenues in 2021. This is a great improvement and unprecedented since 1981.

Economic Diversification and Export Promotion

Nigeria introduced Economic Recovery and Growth Programme (ERGP) as economic diversification blueprints to drive industrialization, with emphasis on small and medium scale enterprises to increase non-oil exports. Principally, the focus is on the development of agriculture, solid minerals, science and technology, manufacturing industries and ICT. The initiative involves joint efforts of federal government and central bank of Nigeria through the deployment of various programs focussing on diverse groups of people in the country.

However, there is evidence to support positive outcome of the initiative. In 2021, oil sector contributed 7.24 per cent to the economy, while the non-oil sector contributed 92.76 per cent. In the non-oil sector, agricultural sector remains the largest sector in the economy, contributing 25.9 per cent to the real GDP, with an estimated value of N18.74 trillion in 2021. The sector grew by 2.1 per cent year-on-year from N18.35 trillion recorded in the previous year. The manufacturing sector contributed 9 per cent to the country's real GDP with a value of N6.5 trillion, increasing by 3.35 per cent year-on-year from N6.29 trillion recorded in the previous year. Trade sector expanded by 8.62 per cent year-on-year in real terms in 2021, contributing 15.7 per cent to the nation's economy with a value of N11.36 trillion. The same applied to non-oil export promotion in which cocoa and sesame seeds revenues grew by 79.4 million dollars and 153 million dollars respectively.

Figure 6: Oil and Non-Oil Exports in Nigeria



Source: Author's computation using data from 2021 CBN Statistical Bulletin

The export promotion of non-oil sector reflects this improvement as shown in historical data presented in figure 6. Specifically, the non-oil export improvement is noticeable since 2019. If the trend is maintained, there is hope that in the coming years, there will be significant improvement in the export diversification towards non-oil in Nigeria.

Conclusion

Nigeria fiscal system over the year is trapped in fiscal unsustainability crises, due to excessive debt accumulation and inability to strategically utilise borrowed funds on the projects that could be self-liquidating. The available data trends support the arguments that deficit financing in most cases is utilised on recurrent expenditures. In returns, the accumulation of debt increases debt service obligations which further aggravate the amount expended on recurrent expenditure. Consequently, more borrowing is usually required to meet debt servicing obligations with little or no attention to commensurate development projects.

The Nigeria fiscal problem is also compounded with excessive dependence on revenues from crude oil with little attention to non-oil revenue mobilisation; in this case, the crude oil price volatility creates incessant shocks on the expenditure plans vis-à-vis revenues shortage due to price crash. The same problem is observed on the export patterns, in which the country depends excessively on the foreign exchange from Oil, while non-oil exports are neglected. The monocultural economy put heavy pressure on the import bills, given that Nigeria is heavy importer of raw materials and finished goods. In the time of crude oil price crash, the negative impacts are quickly felt on the foreign reserves and Naira exchange rates. These and many other factors are responsible for the fiscal crises in the country.

However, in the past six years, there are evidences that the country is reversing the poor trends on some macroeconomic parameters. For instance, the federal government attention is currently being shifted from oil revenues dependency to non-oil revenues mobilisation, such that in 2021, the percentage of non-oil revenues to total revenues is more than those from oil revenues. The same is observed on the non-oil export promotion which is sharing higher proportions compared to past few decades. This is a right move in the right direction, if the pattern is not derailed going forward. In other words, government should intensify effort to expansive non-oil revenue sources, non-oil export promotion and utilisation of borrowing on capital projects which could be self-liquidating over the coming years.

Finally, the sub-national governments have key roles to play in the process of repositioning the country on the roads to financial prudency and fiscal sustainability path. It is observed that sub-national government should follow the recent policy pattern of the federal government ensuring that much development activities is achieved with little resources. Holistic efforts of government at all levels in Nigeria in line with recent pattern could ensure fiscal sustainability and positive development trend for the country.

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