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Fiscal space for social protection in Nigeria

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Key points

- Despite its relative wealth, Nigeria spends less on social protection than many African countries
- Fiscal space for social protection can be increased by improving efficiency of government expenditure but will be determined by political commitment
- Under particular conditions, the newly created sovereign wealth fund may be used to fund social protection programmes

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Nigeria is an oil-rich country, which has achieved high growth rates in the last five years – approximately 6.5% annually. Equally it spends a large proportion of its gross domestic product (GDP) on government expenditure (33.8% of GDP in 2010). However, despite this, 54% of the Nigerian population still lives in poverty (MDGs Nigeria, 2010). Improving social protection would be one way to address this policy paradox.

To date the scope, coverage and spending on social protection in Nigeria have been low. This Project Briefing analyses whether it is possible to create fiscal space for social protection in Nigeria. It analyses six mechanisms to achieve this, summarised in Box 1. It is part of a project funded by UNICEF Nigeria to support the Government of Nigeria in realising its overarching development strategy and development of a national social protection strategy, and is one of five thematic outputs (the others relate to mapping of social protection, cash transfers, HIV/AIDS and child protection).

Social protection expenditure

General public services and economic affairs together made up more than 50% of Nigeria's consolidated government expenditure in 2010, with spending on social sectors averaging 20% over the period 2005-2010. Of the social sectors, education made up approximately 12% of total government expenditure in 2009, health around 7% and social protection only about 1.4%.[1]

Figure 1 (overleaf) shows expenditure shares of the major social sectors from 2005 to 2008. Education and health expenditure shares decreased significantly in 2009, dropping to levels lower than in 2005. Social protection expenditure (excluding civil servant pensions) on the other hand, experienced a threefold increase since 2009, although remaining at a lower level than the other social sectors.

If social insurance (e.g. contributory civil servant pension schemes) is also considered, total social protection spending would double in both absolute and relative terms. However, while social insurance is important in maintaining income standards it is not generally pro-poor.

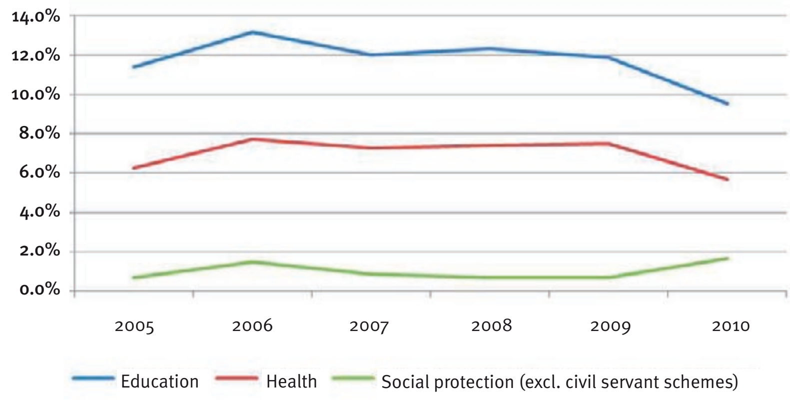
Despite being relatively rich compared with other countries in sub-Saharan Africa in terms of per capita GDP, Nigeria spends a significantly lower share on social protection. In 2006-2007, Nigeria spent 0.9%; Ethiopia, Kenya, Malawi, Mozambique and Uganda spent an average of 1.4% in the same year.

Box 1: What is fiscal space?

An analysis of fiscal space looks at whether there is room in the budget for a government to provide greater resources for a particular sector, e.g. social protection, without any prejudice to the sustainability of its financial position (see Heller, 2005). It considers the following mechanisms:

- Mobilisation of domestic revenues
- Increased discretionary expenditure through debt cancellation or increased borrowing
- Reallocation of expenditure between sectors
- Larger aid flows
- Improvements in the financial management of expenditure
- Finally, it is important to consider the level of political commitment to support an expansion in social protection provision.

Figure 1: Sectoral expenditure as share of government expenditure, 2005-2010



Source: Government of Nigeria Budget Office (various years); IMF (2010); and MDG Office (2010).

Box 2: The National Sovereign Investment Authority (NSIA)

NSIA will replace the current oil savings mechanism. There are three proposed components: a stabilisation fund (to offset shortfalls in hydrocarbon revenues), a savings fund (for future generations), and a domestic infrastructure fund (to develop infrastructure). The spending from the infrastructure fund will initially focus on power generation and distribution, water services and transport networks. At present the proposed channel for NSIA's support to infrastructure is via private equity investments in reputable firms engaged in infrastructure activities, co-investment directly in infrastructure projects, and participation in infrastructure funds with multiple outside investors. It is unclear whether the NSIA can also be used as a vehicle to fund greater social protection projects. On the surface, it seems unlikely, as the fund is targeted to capital and investment expenditure only and not to support an increase in Nigeria's recurrent budget – which normally funds social protection provision. That said, one avenue to possibly explore would be the establishment of public works schemes to support the development of investment programmes. Channelling the funds in such a way would allow for the expansion of social protection provision, whilst also achieving the investment objectives of the fund.

Affordability of greater social protection expenditure

This section discusses the first four mechanisms for creating fiscal space for social protection in NIgeria. The first mechanism concerns the mobilisation of domestic resources, and it is achieved via two principal channels: higher real GDP growth for a given tax system and structure, and an increase in tax yields. The latter may involve the creation of new taxes, higher tax rates and improved administration or the broadening of the tax base.

In terms of the former, Nigeria has experienced robust, high levels of economic growth since 2005, which look set to continue over the next five years. In addition, oil revenues have rebounded following a large drop in 2009 and are expected to remain strong in the immediate future. Although oil revenues are volatile, attempts are being made to limit the impact of the volatility through the establishment of a sovereign wealth fund, the National Sovereign Investment Authority (IMF, 2010) (see Box 2). It may also be possible to use oil funds to finance specific social protection programmes. Non-oil revenue provides a stable, albeit smaller, contribution to total revenue at around 7% of GDP and is expected to remain small relative to oil revenues in the future.

There have been improvements recently in the tax system, but anecdotal evidence suggests that the tax base should be further diversified. In addition, other ways to improve the current tax administration system include strengthening compliance management and improving the taxpayer register. Such procedures would be likely to increase tax coverage (and therefore revenues) and sustainability, both important factors for long-term fiscal space.

The second mechanism to create fiscal space is by managing debt, either by: i) having all or part of a country's debt stock written off in order to free fiscal space for development spending by using resources that would otherwise have gone on servicing government debt; or ii) increasing either domestic or external borrowing. Nigeria has historically been plagued by very high levels of total debt, equalling approximately 93% of gross national product in 2002. However, an agreement with the Paris Club in 2005 cancelled Nigeria's external debt stock of $22.8 billion (including a buy-back part). The debt service saved from the cancellation and buy-back of the debt, which amounted to around $1 billion per year, was subsequently invested in the Millennium Development Goal (MDG) Fund, of which approximately 5% was spent on cash transfers. Since then, the country has maintained low-risk total debt levels.

Having already benefited from having its external debt written off, there is no scope for Nigeria to improve fiscal space using this channel. In addition, Nigeria's experience of extremely onerous debt-servicing arrangements means it would be inadvisable to increase domestic or external borrowing to fund social protection, which is inherently recurrent and requires sustainable financing. Financing it via borrowing could create significant financial liabilities and forward fiscal risks for the budget.

The third mechanism to create fiscal space is to reallocate spending to priority sectors and from less to more productive programmes. There may be scope to reallocate money previously earmarked for the oil subsidy to new social protection activities. Furthermore, spending on civil servant schemes (which cover a small share of the population, mainly formal public sector workers) is triple spending on social assistance. Civil servant pensions – while having an important function in maintaining living standards – are often regressive, which means they are not pro-poor. The Nigerian government might be able to reallocate some of these funds to more pro-poor spending, although this would be a politically unpopular, and therefore potentially unfeasible, approach.

As Figure 1 implies, there is little scope to move money from social sectors to social protection, given the current downsizing of education and health budgets as a proportion of government expenditure (and pressing service gaps in these sectors). Furthermore, there are strong links between social protection and other social services: increasing social protection coverage raises demand for other social services, such as education and health. It is therefore unadvisable to decrease their supply.

Budget analysis indicates increases in military expenditure (as a proportion of total expenditure) during 2007-2010. However, reallocating military expenditure is unlikely to be a politically acceptable option. Further exploration of the potential for budgetary reallocation would require more reliable data on current spending patterns across sectors, as well as a better understanding of political priorities, programme activity, costs at the sector level and how well the programmes currently function. This option for increased fiscal space is fundamentally a question of political preferences (discussed separately below).

Another approach to reallocate funding to priority sectors is to assess the scope to increase expenditure on social protection by looking at the government's non-discretionary (mandatory) expenditure, such as on salaries. Funding for most social protection programmes comes under discretionary expenditure (except mandatory expenditure such as pensions), which has on average fallen as a percentage of total federal expenditure since 2007. Simultaneously, non-discretionary expenditure in relative terms has seen a positive trend since 2007. This implies there is diminishing scope for funding for non-discretionary items, including social protection.

The fourth mechanism to create fiscal space is related to aid flows. It is difficult to assess whether Nigeria is likely to benefit from any significant increase in official development assistance (ODA) in the short to medium term. A large proportion of ODA to Nigeria over the second half of the past decade took the form of debt relief. ODA given to social protection remained relatively constant between 2007 and 2009 (at less than 0.5% of total ODA). However, global trends towards social protection programming, development partners' interest in the issue and conditional cash transfer pilots in the country suggest there may be more resources available for social protection in the future, even if overall ODA remains unchanged. In light of this, there may be potential for increased fiscal space for social protection through this mechanism.

Public expenditure management

The fifth mechanism looks at creating fiscal space by improving the efficiency of spending and reducing wastage in public expenditure. There have been some significant successes in governance related to public expenditure management (PEM) in Nigeria recently, with the government putting in place a series of reforms and establishing anti-corruption bodies. Areas where there have been improvements include the legal and regulatory framework for PEM; public access to budget information; the management of cash balances and debts; and the quality of in-year budget reporting (IMF, 2010; World Bank, 2006). The government is planning further measures to strengthen the PEM, including performance-based budgeting, which will help in assessing the effectiveness of spending and facilitate the prioritisation of expenditure.

However, significant challenges remain (World Bank, 2006) in terms of corruption, off-budget government spending, lack of consolidated and actual expenditure data, weak oversight and reporting on the performance of parastatals, and the unpredictability of government funding (IMF, 2010; World Bank, 2006). The situation is more constrained again at the sub-national level. This is of particular concern since half the consolidated budget, and the majority of the social protection budget, is executed at the state level. Inter-governmental transfers – both federal to state and state to local – are a major source of corruption (Norad, 2010).

Overall, there is scope to increase fiscal space by improving efficiency and reducing wastage, but this will take time to achieve. Also, the actual savings created by such improvements will be difficult to measure and hence hard to translate to defined increases in social protection funding. However, support for an ongoing effort to strengthen the efficiency and effectiveness of spending is important not only for social protection allocations but also for broader development outcomes.

Political commitment

The final mechanism that will affect the scope for greater fiscal space for social protection is the level of political commitment to this area. Social protection is emerging as an area of policy interest in Nigeria but is not currently a priority for the federal government, as reflected by the limited funding allocated to this sector. The fact that there is no single ministry and/or agency in charge of social protection makes the development of a comprehensive strategy and policy more difficult. A number of key informants suggested that the government preferred to invest in visible projects, such as infrastructure, rather than less tangible service provision initiatives in the social protection sectors. This also reflects the fact that government expenditure is generally not pro-poor.

There is significant state-level variation in terms of commitment to social protection. Some states are demonstrating interest and resources and developing programming on pro-poor social spending in general and, increasingly, social protection in particular. Nigeria needs to build on these successes and utilise the political will at state level to contribute to an overall social protection agenda.

Is there fiscal space for social protection?

The greatest scope for increasing fiscal space for pro-poor social protection is via 1) the improved mobilisation of domestic resources; 2) allocating an increased proportion of ODA to social protection programmes; and 3) improved PEM. It is important to explore options for the sovereign wealth fund to be used to finance public works programmes that fit the infrastructure investment requirement, but also have a social protection component.

However, ensuring fiscal space is used to expand social protection programmes will depend on the Nigerian government's political commitment. At present, social protection does not appear to be a priority for the federal government, although a number of state governments have demonstrated political and financial commitment to cash transfers.

Creating fiscal space for social protection should not come at the cost of other social sectors, if the impacts of social protection are to be maximised in terms of human development outcomes. Therefore, donors and domestic social protection advocates need to strengthen engagement with the Nigerian government to support the argument for increased pro-poor expenditure in general and expanded social protection in particular.

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Endnotes, references and project information

Endnotes:

1 It is extremely difficult to get comprehensive budget data (both budget and actual expenditure) for federal, state and local level for Nigeria. To compensate for data gaps, we utilise estimation techniques to present a complete picture. The full report discusses data sources, methodology and limitations in more detail. For this study, 'social protection' includes all expenditure on women, poverty and social development affairs.

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Project Information:

This Project Briefing is part of a UNICEF Nigeria funded project on child-sensitive social protection entitled 'Social Protection Diagnostic and Forward Agenda for UNICEF'. The project aims to support the Government of Nigeria in realising its overarching development strategy (*The Vision 20:2020*) and the development of a national social protection strategy. The project has five thematic sub-components: social protection mapping and effectiveness; cash transfers; HIV/AIDS; child protection; and fiscal space. The study has been commissioned by UNICEF Nigeria and the National Planning Commission and funded by UNICEF Nigeria and UNFPA. It was carried out by ODI in partnership with Gender and Development Action (GADA) and the Centre for Women's Health & Information (CEWHIN).

For more information visit: http://bit.ly/social-protection-nigeria

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