# Nigeria faces threat to its existence as 119% of Revenue goes into debt servicing, World Bank warns

The World Bank has raised the alarm that Nigeria might be facing an existential threat. The warning comes in the wake of Nigeria's dwindling revenue, the continued payment of trillions of naira on fuel subsidy by the government and the attendant economic challenges it has brought. The international financial institution warned that if the country failed to optimise its tax system and focus on other areas to boost its revenue, the already low revenue would continue to drop. It noted that despite the rise in the price of oil in the international market, Nigeria had not reaped the benefits because of the huge amount spent on fuel subsidy.

The Senior Public Sector Specialist, Domestic Resource Mobilisation, at the World Bank, Mr Rajul Awasthi, said these at a virtual pre-summit, with the theme 'Critical Tax Reforms for Shared Prosperity', organised by the Nigerian Economic Summit Group on Wednesday. He insisted Nigeria would have to eliminate the subsidy regime eventually. After the Federal Government earmarked about N4tn for subsidy payment in 2022, the Minister of Finance, Budget and National Planning, Mrs Zainab Ahmed, said recently that government might spend a whopping N6.72tn as fuel subsidy in 2023 or pay N3.36tn up to mid-2023 if the subsidy regime was to end in May 2023. Also, the minister had consistently said the nation was battling with revenue problems, which had compelled the government to keep borrowing. The debt stock had risen to N41.6tn in the first quarter of 2022 with projections that it could peak at N45tn by the end of the year. Nigeria is rated the fifth on the list of the World Bank's debtors, with $11.7bn debt stock as of June 30, 2021.

The International Monetary Fund had in March projected that Nigeria might spend 93 per cent of its revenue on debt servicing in 2022, but the minister disclosed a few weeks ago that about 119 per cent of the country's revenue was spent on debt servicing. This implied that government had to borrow to meet its debt financing obligations, a development many economists had described as disturbing and unsustainable. The virtual event, anchored by the PwC's Fiscal Policy Partner and Thematic Lead, NESG Fiscal Policy and Planning Thematic Group, Mr Taiwo Oyedele, was attended by several stakeholders, including the representative of the Manufacturers Association of Nigeria and the Executive Secretary of the Joint Tax Board, Mrs Nana-Aisha Obomeghie.

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Meanwhile, in a slide he shared during his presentation, which showed Nigeria's Development Update, Awasthi explained that between 2015 and 2019, Nigeria's non-oil revenues were among the lowest in the world and as a result the second lowest in spending, and that oil revenues were also falling even when oil prices were higher. He stated, "Nigeria has the largest economy in Africa and the largest country in Africa by population, so it is critical to Africa's progress. There is no doubt about that. But the government of Nigeria, from the public finance perspective, is really facing an existential threat. Let's not downplay the situation. That is the actual reality.

"Nigeria is 115th out of 115 countries in terms of the average revenue to Gross Domestic Product ratio. Despite the oil prices rising the way they have been, net oil and gas revenues have been coming down because of the tremendous impact of the subsidy.

"So, what is going to happen in 2022? The federation's revenues are going to be significantly lower. They are already very low, and Nigeria is already the lowest in the world out of 115 large countries and this year, it's really going to be lower than what it was in 2020 because of the debilitating impact of fuel subsidy."

On the perennial low revenue from tax in Nigeria, a former Finance Minister and Ahmed's predecessor, Mrs Kemi Adeosun, had in 2017 revealed that only 214 persons in Nigeria paid N20m and above as tax and that most active taxpayers in the country were people whose PAYE were deducted from source. She had also decried the low tax to GDP ratio at about six per cent, which she described as the lowest in the world and far below the 18 per cent average on the continent.

Speaking on how to get out of the woods, Awasthi stated that in the non-oil sector, Value Added Tax compliance gaps were immense and they needed to be breached as well as rationalise tax expenditures.

Citing the tax expenditure statement of the Budget Office in 2020, he said, "The VAT gap in 2019 was over N3.1tn whereas the collection was N1.2tn. Of that gap, about two-thirds, which is about N2tn, came from compliance gaps. That's a serious issue that needs to be addressed. It's because of this that we have a low tax base and a lot of people feel they are being overtaxed."

He also stressed the need for technology deployment in tax administration and data sharing between the Federal Inland Revenue Service and the states' Internal revenue services to boost the revenue from personal income tax. He also called for an increase in the tax levied on certain goods, like wine, cigarettes and beer.

He added, "Property taxes at the state and local government levels are also critical. Nigeria has a tremendous potential, with about 50 million households, taxable properties and there are many rich people who need to be paying property taxes. There is a tremendous opportunity there.

"Also, I think there is a huge opportunity to raise excise on goods like beer, wine, spirit and cigarettes. There is a very tiny tax that has been introduced on them and this could be higher. These are the kinds of things that across the world there is a consensus that these rates should be higher because they are supposed to attack and address negative externalities of these products.

"There is also a need to reform the fuel subsidy regime, moving towards its full elimination at least by 2024. Nigeria needs to roll back the PMC subsidies and adopt the free market price. This is critical for this country. There is also the need to improve revenue from cross-border transactions and other international tax measures."

While calling for increased enlightenment of the taxpayers, which he said the World Bank was collaborating with the World Bank to achieve, he noted that tax laws needed to be modernised and strengthened for a better outcome.

He added, "Going forward, the approach to revenue mobilisation has to be more strategic. We need to be more strategic and it's not just about taxing more, Nigeria needs to tax better. We need to review the collection system and not just about what to collect and from who. There have been discussions about how the tax system has to be progressive and efficient in terms of compliance and making sure we are targeting the right tax bases."

In his submission, the Director-General of MAN, Mr Segun Ajayi-Kadiri, represented by the Director of Mr Oluwasegun Osidipe, said there was no doubt that the country needed money but that the government must exercise caution in introducing more taxes.

He tasked the government to expand the tax base, ensure the inclusion of more people in the informal sector and make the tax system progressive such that the rich would pay more than the poor.