NIGERIA

COMMITMENT TO REDUCING INEQUALITY INDEX (CRII)
The richest man earns about 150,000 times more from his wealth than the poorest 10% of Nigerians spend on their basic consumption.

As COVID hit, Nigeria was woefully unprepared. It was spending only 5% of budget on health leaving more than 40% of Nigerians with no access to universal health services.

Ranks last in ECOWAS+ and is second from bottom on the Africa-wide rank because its spending is very low, and public services are extremely limited and of very poor quality.
An estimated $2.9 billion of potential revenues are lost to questionable tax incentives for the rich, while tax on basic foodstuffs increased from 5% to 7.5% in 2020 despite COVID hitting the poorest.

Has introduced a very high minimum wage policy, but enforcement is weak while top wages are high, placing it second from the bottom in terms of wage inequality in ECOWAS+ region.

Commits 2% of the budget to agriculture, ranking 4th from the bottom in ECOWAS+ region.

International financial institutions dramatically increased loans to help cover the costs of the COVID response, increasing Liberia's debt service from a low 7% of revenue in 2019 to around 20% of revenue in 2020.
Nigeria has the fifth highest income inequality in ECOWAS+. It performs 157th of 158 countries in the CRI, 46th of 47 in Africa and 16th in ECOWAS+. Its performance is weak on all three pillars, but particularly bad on anti-inequality public services and labour rights.

Nigeria’s public services spending remains very low in all three sectors (7% on education and social protection, 5% on health²). This contributes to poor outcomes in public services, with only 15% of the poorest children completing secondary school, more than 40% of Nigerians with no access to universal health care, and only 4% of the population receiving any social protection (pre-COVID). Nigeria’s tax system is partly progressive on paper, with a reasonably high CIT rate but its top PIT rate is too low and its VAT does not exempt basic foods. In addition, it collects very little CIT and PIT and total tax/GDP is only 3.6%, so taxes have only a very marginal impact on inequality. Its labour policies are ranked bottom in the CRI, with much key legislation on labour rights missing, notably laws to protect women from equal pay and sexual violence, and implementation is weak. A number of amendments to labour laws are currently being reviewed by the national assembly, which may see Nigeria improve in future years, but rapid action is required for Nigeria to improve on their labour rights in law. It has made important efforts to increase the minimum wage but this requires enforcement with companies, and 80% of Nigerian workers are informally or vulnerably employed or unemployed so have no workers’ rights. Government spending in agriculture is marginal, the debt burden is high and crowding out SDG spending, and the COVID-19 response has focused on inequality only by expanding social protection.

To achieve its goal of eliminating extreme poverty by 2030, Nigeria will need to accelerate anti-poverty policy efforts by:

i) spending much on education, health and social protection for the poorest;

ii) making its tax system more progressive and increasing collection of income taxes;

iii) improving labour rights especially for women and continuing to increase its minimum wage; and

iv) receiving comprehensive debt relief to free funds for anti-poverty spending.
SCALE OF INEQUALITY

Whether measured by Gini coefficient (0.430) or Palma Ratio (2.17), Nigeria was until recently the 5th most unequal country in ECOWAS+ (based on data from a 2009 survey). More recent numbers from the 2018 Household Survey suggest that inequality has fallen with the Gini at 0.351 and the Palma at 1.43, which would make it the 4th most equal country in the ECOWAS+ region.

However, a small but growing group is fantastically rich, compared to the majority who struggle to meet even their most basic needs and the most essential elements of a dignified life -- access to quality education, healthcare and decent jobs. As a result, the richest man earns about 150,000 times more from his wealth than the poorest 10% of Nigerians spend on their basic consumption. It would cost $24bn a year to lift the 60% of Nigerians who live in extreme poverty above this line (of $1.90 a day). By comparison, the wealth of the five richest Nigerian men combined stands at $29.9bn.

KEY POLICIES TO FIGHT INEQUALITY – LESSONS FROM THE CRI

The third edition of the CRI Index ranks 158 governments on their commitment to reducing inequality. It measures their policies in three areas proven to be directly related to reducing inequality: 1) Public services (health, education and social protection); 2) Taxation; and 3) Workers’ rights.

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OUT OF 158, ~ OUT OF 15 ECOWAS MEMBER STATES + MAURITANIA  #OUT OF 46 COUNTRIES (NOT ALL COUNTRIES HAVE DATA AVAILABLE)
After coming bottom of the global index in the first two editions, Nigeria has been replaced by South Sudan, an extremely fragile country, new to the Index. It comes bottom of the ECOWAS+ ranks, and second to bottom on the Africa ranks. In other words, instead of fighting inequality, Nigeria is performing very poorly on the CRI Index. It continues to collect shockingly low levels of tax, has very low spending and coverage on public services, and is right at the bottom of the rankings on labour rights.

On public spending and services, Nigeria comes bottom of the ECOWAS+ rank, and second from bottom on both the Africa-wide and global ranks, because its spending is very low, and public services are extremely limited and of poor quality, especially for Nigeria’s poorest citizens.

**EDUCATION**

Nigeria is at the bottom of the education spending ranking at only 7% of the budget - it is home to the highest number of out-of-school children in the world, yet it still spends the least on education. It also has huge education inequalities: 90% of the richest pupils complete secondary school, compared with only 15% from the poorest households.

**HEALTH**

As COVID hit, health spending was well below the recommended Abuja commitment of 15% of government budget – at just 5%. This chronic underfunding deprives the poorest Nigerians of access to basic healthcare, with most citizens abandoned to the vagaries of a hugely unequal system. More than 40% of Nigerians have no access to universal health services, leaving 1 in 10 Nigerian’s (or 22 million) spending more than 10% of their income on accessing basic health services.

**SOCIAL PROTECTION**

Nigeria does marginally better on social protection spending – at 6.7% of budget, this comes just below the sub-Saharan average at 8%. But only about 7% of the population are covered by pensions, and only 4% by one form of social protection. As COVID hit, the country expanded social protection, but this still covers only 10 million people when 90 million live on less than $2 a day.

**IMPACT OF SOCIAL SPENDING ON INEQUALITY.**

Due to such low levels of spending, and such poor coverage for many Nigerian citizens, the impact of public services on inequality (as measured by Gini) is very low – in fact, the third smallest impact on the Index (changing the Gini by just 0.01).
On tax, Nigeria comes in at 127, firmly in the bottom third of countries.

**PROGRESSIVE TAX SYSTEM.**

Nigeria performs relatively well - comparative to other areas of the index - on its policies “on paper” on progressive tax systems, coming around half way down the ranking of African countries and 10th among ECOWAS+. This is mainly due to a CIT rate at 30%, slightly above the average in the West Africa region (27.8%). However, overall, the system is made more regressive by a PIT rate for top earners that is too low, and a VAT system which fails to exempt basic foodstuffs and small traders, even if the basic rate (5%) is low. However, since COVID hit, low income earners and small businesses have been given temporary relief from paying income tax.

**TAX COLLECTION.**

On tax collection Nigeria performs considerably worse - ranked right near the bottom of both the ECOWAS+ and Africa rank – mainly because of very poor CIT and PIT tax collection. This is, in part, because the government offers a range of tax waivers and tax holidays, and large corporations utilise loopholes in tax laws to shift huge profits generated in the country to low tax jurisdictions – with an estimated $2.9 billion of potential revenues lost to questionable tax incentives. Too many wealthy Nigerians are also not paying tax. As a result, Nigeria relies too heavily on taxes raised from VAT. Overall, there is still significant potential for Nigeria to raise and collect more tax, with only 12% of all of potential tax revenues raised. As a result, Nigeria has one of the lowest tax-GDP ratios in the world (just 3.6% in 2019) and although Nigeria also raised 3.4% of GDP from non-tax revenues (such as oil) in 2019 overall levels are still shamefully low, leaving the government starved of the vital resources it needs to invest in public services.

**IMPACT OF TAXES ON INEQUALITY.**

Nigerian tax could work much harder to fight inequality - i.e. making VAT more progressive and collecting more income tax – as currently it has a very marginal impact on inequality.
Nigeria has the worst record on protecting workers right and labour rights, and tackling wage inequality coming bottom of the ECOWAS+, Africa-wide and global CRI Index.

**LABOUR RIGHTS.**

On labour rights – freedom of association and collective bargaining rights – is let down by missing some critical legislation, and violations in ensuring collective labour rights. In the past few years Nigeria has seen an increase in the number of labour rights violations; for instance, court orders were used to stop strike actions. A number of amendments to labour laws are currently being reviewed by the national assembly, which may see Nigeria improve in future years. But rapid action is required for Nigeria to improve future performance on this indicator.

**WOMEN’S LABOUR RIGHTS.**

Women workers are particularly badly protected in Nigeria, with the country at the bottom of this indicator, there are no laws for equal pay; to prevent gender-based discrimination in the workplace, to protect women from rape; and days for maternity leave are very low.

**MINIMUM WAGES.**

Nigeria fares better on minimum wages. It has made concerted efforts to improve the minimum wages in recent years. In 2020, the minimum monthly wage was set to increase to 30,000 naira ($98), which if implemented will see Nigeria fare better in future CRII editions – that said, there is a need for much stronger effort to enforce the minimum wage so this can help to fight wage inequality in Nigeria.

**COVERAGE OF WORKERS’ RIGHTS.**

The vast majority of Nigerian citizens (80%) are not covered by even these flimsy legal protections, because they are either informally or vulnerably employed, or unemployed. For this reason, Nigeria scores very badly on this indicator.

**IMPACT ON WAGE INEQUALITY.**

Nigeria needs to work much harder at using labour laws to fight wage inequality. This underlines the need to increase the minimum wage further, and to expand protections for workers in the workplace – especially women.
Agriculture contributes only around 22% of Nigeria’s GDP, but 38% of the workforce are employed in the sector, and poverty levels are higher in rural areas. To reverse the stagnation and achieve the promise the agriculture sector holds for boosting income levels and transforming the region’s economy, in 2014 West African countries recommitted to the Comprehensive Africa Agricultural Development Programme (CAADP), which called, among other things, for governments to increase their budgetary allocations to the sector to at least 10% annually. How far has Nigeria gone in fulfilling their commitments to boost agriculture?

In Nigeria it is very difficult to obtain information on agriculture spending, but according to BudgIT, the 2020 federal government budget allocated a sum of N183.1bn, 1.7% of the total budget, to the Ministry of Agriculture. This is well below the CAAPD commitment and one of the lowest in the region. Moreover, this allocation has dropped from 2.2% since 2018.

Nigeria went into COVID ill-prepared, with only 42% of citizens covered by universal health services as COVID hit. It implemented strict initial anti-COVID measures including border closures and quarantines, as well as a full lockdown, which were gradually eased but partly restored during a second wave in early 2021. As a result, the health consequences of COVID have been limited, with only 208,153 cases and 2,756 deaths, though both have been rising faster in 2021. However, its vaccine programme is moving extremely slowly, with only 7.3 million doses given by October 13, enough to vaccinate only 1.8% of the population. As with most low-income countries, this largely reflects the failure of the international community to supply sufficient doses.

On the other hand, the economic impact of COVID has been severe, with real GDP falling by 3.2% in 2020, compared with recent growth averaging 1.6%. Only 1 in 5 Nigerians were protected by workers’ rights, and social protection reached only 8% of the population. As a result, the pandemic has hit the poorest harder, with the number of poor people estimated to have risen by 11 million (5.5% of the population) as a result of COVID, reversing recent declines.

The government’s initial response to COVID was small and focused on health (0.34% of GDP). This came in the context of a collapse in oil revenues, which led it to large cuts in some vital social services; for example, the education budget was reduced from 6.5% at the start of 2020 (planned spending) to 5.6%. However, later in 2020 the Federal Economic Council approved an additional 1.2% of GDP in spending, including providing cash transfers to an extra million people (0.5% of the population) as well as support to agriculture, public works, housing, roads and
Debt servicing is sucking away precious revenues from already woefully low levels of public spending – this means the fiscal system is working even less hard to fight inequality. Over the past five years, Nigeria has spent an average of 49% of its revenue on debt servicing, and in 2020, before COVID, this was expected to be 29% or $6 billion. This amount was almost four times the education and social protection budgets, six times the health budget and 14 times the agriculture budget. Since then, the Nigerian government has borrowed $4.34 billion from the domestic bond market to finance its budget, and almost $8 billion from multilateral organisations. Nigeria’s debt burden is severely limiting its space for anti-inequality spending but until now the government has avoided joining any debt relief initiatives such as the G20 Debt Service Suspension Initiative (DSSI) because it has preferred to continue refinancing debt service by borrowing new loans. Given the continued negative economic effects of COVID in 2021, it remains to be seen whether this policy will be sustainable, and there is no doubt that comprehensive debt relief, if provided in a way which did not undermine creditworthiness, would free up large sums for anti-inequality spending.

What has been the role of the international financial institutions, charged by the G20 with leading the global financial response to the pandemic? The IMF has been supportive of increased health and social protection spending as COVID has hit. This has included providing an emergency loan of $3.4 billion in May 2020 to help cover anti-COVID spending and revenue shortfalls.

Nigeria does not currently have a broader economic reform programme agreed with the IMF. However, the IMF continues to provide policy advice via the annual Article IV dialogue and technical assistance support. The main focus of this advice has been on how to close a yawning budget deficit and provide limited additional space for social spending, by raising much more budget revenue. It includes recommending increasing VAT to 15% by 2025: though offset by additional measures to increase corporate income tax and property tax collections, this will make Nigeria’s tax system less progressive. Based on analysis of the poverty impact of fiscal measures conducted in 2018, the IMF also suggests increasing social spending by 2% of GDP to offset the poverty-increasing impact of these measures and oil subsidy reductions. The potential revenue increases would mean that Nigeria could avoid additional austerity over the next few years (following the major spending cuts introduced in 2019-20). However, these measures combined will not begin to provide the major reduction in inequality which Nigeria needs to end extreme poverty by 2030. The World Bank country diagnosis and recent loans have barely noted the issue of inequality, and have focussed almost entirely on poverty reduction. Much more serious measures to reduce inequality are needed as Nigeria recovers from COVID, if Nigeria is to come remotely near reaching the Sustainable Development Goals.
Nigeria does far too little to tackle inequality: even though the President has said that tackling inequality is important, because it can lead to political instability. There are policy areas that should be commended, notably the CIT rate, recent measures to raise the minimum wage, and actions to support the poorest during COVID-19. But many areas need urgent action:

**PUBLIC SERVICES**

- Sharply increase its spending on education and health, and ensure that more of all its social spending gets to the poor to address chronic underfunding of public services and very poor outcomes/coverage for the poorest, and unequal outcomes overall. Currently, Nigeria is very far away from the Abuja 15% of budget share recommendation in health, and the 20% recommendation for meeting SDG 4.

- The worrying cuts to both health and education budgets in 2020 must be urgently reversed – in light of current fiscal crunches it is vital that the already dismal record on public service provision is not further threatened by reductions to vital budgets for public services.

- Urgently scale-up social protection, including enacting the social protection plans for the country to meet coverage levels more in line with Nigeria’s middle-income status.

- Urgently improving transparency and accountability by publishing budgets both at federal and state level and enabling greater scrutiny of future allocations and expenditure by making education budgets publicly available. This must also include information on debt servicing and impacts on public budgets.

**TAX**

- Maintain the corporate income tax rate at 30%, and work to vastly reduce the tax incentives and tax dodging which allows vast resources to flow out of Nigeria: increase the PIT rate to 30% for top earners in line with ECOWAS+ average.

- Urgently increase tax collection (and overall revenues). Nigeria should be working towards raising tax as a ratio of GDP to 25% by 2030, to match the average of lower middle-income countries. Apart from reducing exemptions, other measures to increase revenue are:
  - renegotiate contracts with extractive sector companies;
  - increase income tax rates for the wealthiest individuals and corporations;
  - consider adding a “solidarity” tax on top of them to cover the additional needs for post-COVID recovery by taking steps to tax wealth including raising the taxes on financial transactions, inheritance and gifts, and capital gains.
LABOUR

- Improving its anti-rape law to define rape as lack of consent rather than violence, and to explicitly include marital rape.
- Increasing its minimum wage more rapidly, ensuring the 2020 commitment to further raise the minimum wages.
- Extending worker’s rights and social protection as much as possible to workers in informal and vulnerable employment.

DEBT AND IMF

- Take advantage of the COVID-related offers of debt relief to get its current debt service suspended, and negotiate a comprehensive cancellation of its overall debt as soon as possible, so as to free up massive amounts of money for anti-inequality spending. It is vital the Nigerian Government gets debt cancellation to ensure the fiscal space to save lives, fight the pandemic and resuscitate the economy.

References

1. ECOWAS + includes the 15 ECOWAS member states plus Mauritania
2. The budget figures in this profile are taken from 2019 Federal budgets (planned) to align with the country data with the CRI Index 2020. 2020 budget data from BudgIT shows these to be 8.08% in education and 4.05% in health (planned figures pre-COVID).
4. Nigeria spending is based on Federal level budgets only. Nigeria has a Federalised system, and budgets are allocated at both federal and state level; however, many states do not publish their budgets, and it is impossible to aggregate nationwide spending levels. One key priority for Nigeria should be to improve state-level budget transparency.
5. https://ilostat.ilo.org/topics/social-protection/
6. The CRI uses data from 2019; however, in 2019, the Government announced a scheduled increase to VAT to 7.5%, which would make the system more regressive, but post-COVID a number of other measures have been enacted which has exempted low income earners and VAT; together these temporary measures would make the system marginally more progressive.
11. Figures supplied by BudgIT Nigeria to Oxfam Nigeria.
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19. Figures supplied by BudgIT Nigeria to Oxfam Nigeria.