



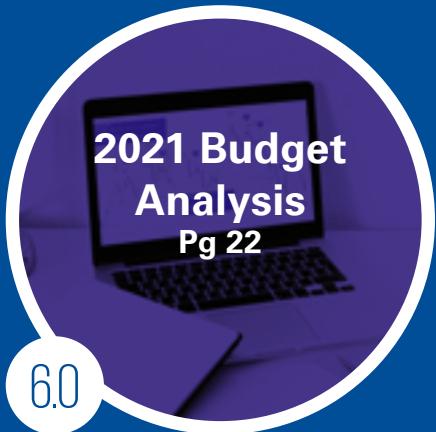
National Budget 2021

April 2021

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1.0 Foreword



Nigeria recorded a Gross Domestic Product (GDP) growth of 1.87% in the first quarter of 2020, keeping pace with its average GDP growth rate of 1.88% over the previous 11 quarters. However, the economy was stopped in its tracks in Q2 2020 by the Twin Shocks of the COVID-19 pandemic and the significant reduction in the oil price.

At the end of the 2nd quarter, the Nigerian economy had contracted by 6.1% and this decline continued in the 3rd quarter of 2020 with a further contraction of 3.62% resulting in the economy going into a recession. However, the economy experienced some respite in the last quarter of the year with a GDP growth rate of 0.11%, which extricated the country from its second recession in five years and moderated the annual GDP growth rate to -1.92%. The recovery in the second half of the year was largely due to the positive growths recorded by the Agriculture, Information and Communication, and Financial Services sectors of the economy.

Despite the fall in oil demand in 2020 and the oil production cuts mandated by the Organization of the Petroleum Exporting Countries (OPEC), Nigeria achieved an average crude oil production level of 1.78 million barrels per day (mbpd) in 2020. This is close to the 1.80 mbpd estimated in the revised 2020 National Budget.

The oil sector contributed 8.16% to the country's GDP in 2020, according to statistics published by the National Bureau of Statistics (NBS), while the non-oil sector contributed the balance of 91.84%.

The purchasing power of Nigerians deteriorated in 2020, as inflation remained in double digits and increased steadily from 12.13% (year-on-year) in January 2020 to a three-year high of 15.75% (year-on-year) in December 2020. The rise in inflation is largely attributable to the closure of land borders in 2019 and part of 2020, the increase in Value Added Tax (VAT) rate in February 2020, COVID-19 induced lockdowns and movement restrictions, rising insecurity and the depreciation of the Naira.

Despite the severe economic challenges experienced by businesses, the Federal Inland Revenue Service (FIRS) achieved revenue collection of ₦4.95 trillion in 2020¹. This represents about 98% of the tax authority's budgeted revenue and is ₦0.31 trillion short of the ₦5.26 trillion it collected in 2019². We applaud the FIRS' effort in adopting technology to improve tax compliance and collection, which aligns the nation with global best practices and further enhances the ease of doing business in Nigeria.

The 2021 National Budget has support for economic recovery and growth as its top priority and focuses on internal generation of revenue and investment in capital infrastructure. The Budget, which was termed the Budget of Economic Recovery and Resilience, leverages on the 2020 Budget of Sustaining Growth and Job Creation to foster and boost the country's recovery from the impact of the COVID-19 pandemic.

As anticipated, the Federal Government (FG) adopted conservative crude oil price and production benchmarks of US\$40 per barrel and 1.86 mbpd, respectively, in the 2021 Budget, following the fall in oil prices recorded in 2020. Accordingly, there is more revenue generation focus on the non-oil sector of the economy.

One of the ways by which the FG intends to mobilize non-oil revenues in 2021 is through incremental tax reform. The FG has initiated this process with the enactment of Finance Act, 2020 ("the Act") which introduced targeted tax incentives and tax relief measures aimed at cushioning the effect of the COVID-19 pandemic on businesses and easing tax administration. The Act amends extant tax laws to align with global best practices, provides further clarifications on areas of contention between taxpayers and tax authorities and aids revenue generation for the 2021 Budget.

It is imperative that the FG achieves or even surpasses its budgeted revenue of ₦7.99 trillion in 2021, to ensure effective implementation of the ₦13.59 trillion budgeted expenditure and curtail the country's budget deficit which currently stands at ₦5.60 trillion (i.e., the equivalent of 3.9% of the country's GDP).

The effective implementation of the 2021 Budget will also spur economic growth. The question, though, is "*How much growth?*"

The FG has projected a GDP growth rate of 3% for 2021 fiscal year, which is double the 1.5% projected by the International Monetary Fund (IMF), and higher than the 1% and 0.7% projected by the World Bank and the African Development Bank, respectively. The FG's projection is consistent with the 2021 - 2023 Medium-Term Expenditure Framework and Fiscal Strategy Paper which documents Nigeria's plan to achieve year-on-year GDP growth rates of 3%, 4.86% and 3.86% in 2021, 2022 and 2023 fiscal years, respectively. However, it remains to be seen if the FG would be able to deliver the forecasted GDP growth by taking bold, concerted steps to stabilize the macroeconomic environment, leverage its human capital, improve the country's competitiveness and attract capital flows.

This Publication reviews Nigeria's economic performance in 2020, FG's budget for 2021 and discusses the impact of the budget allocations and policy changes on the various sectors of the Nigerian economy.



Kunle Elebute

National Senior Partner, KPMG Nigeria & Chairman, KPMG Africa

¹<https://www.firs.gov.ng/tax-statistics-report/>

²<https://www.firs.gov.ng/tax-statistics-report/>

2.0

Budget Financials

2021 Budget at a Glance

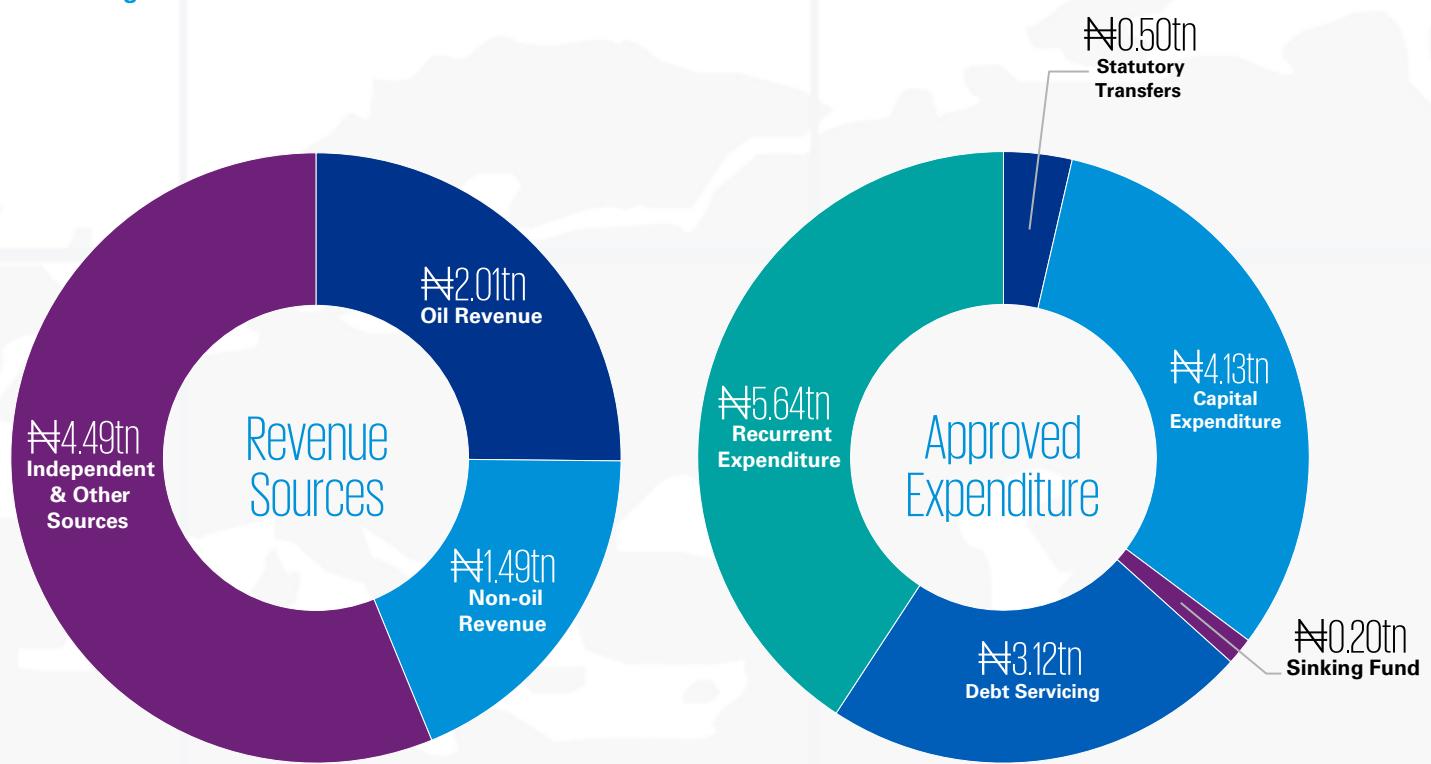


Figure 1: 2021 Budget at a Glance

Recurrent Expenditure

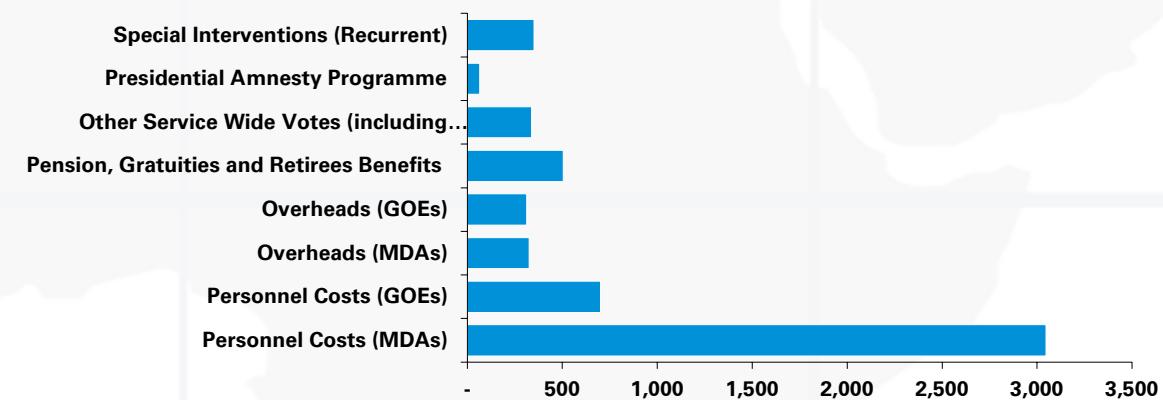


Figure 2: Recurrent Expenditure

Capital Expenditure

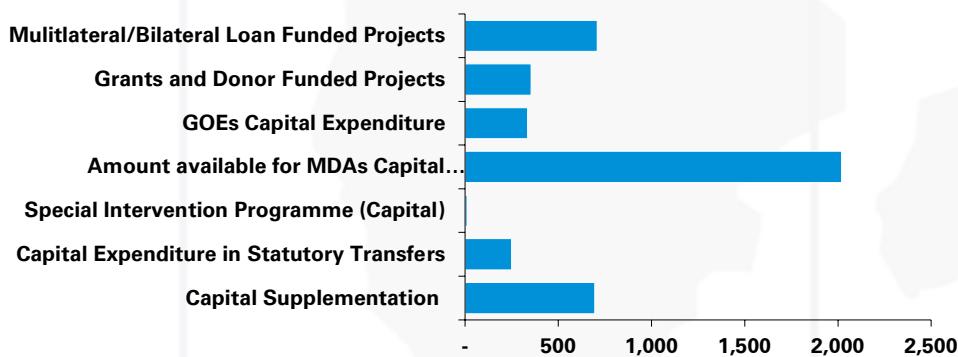


Figure 3: Capital Expenditure

In a Nutshell: 2021 Budget Financials

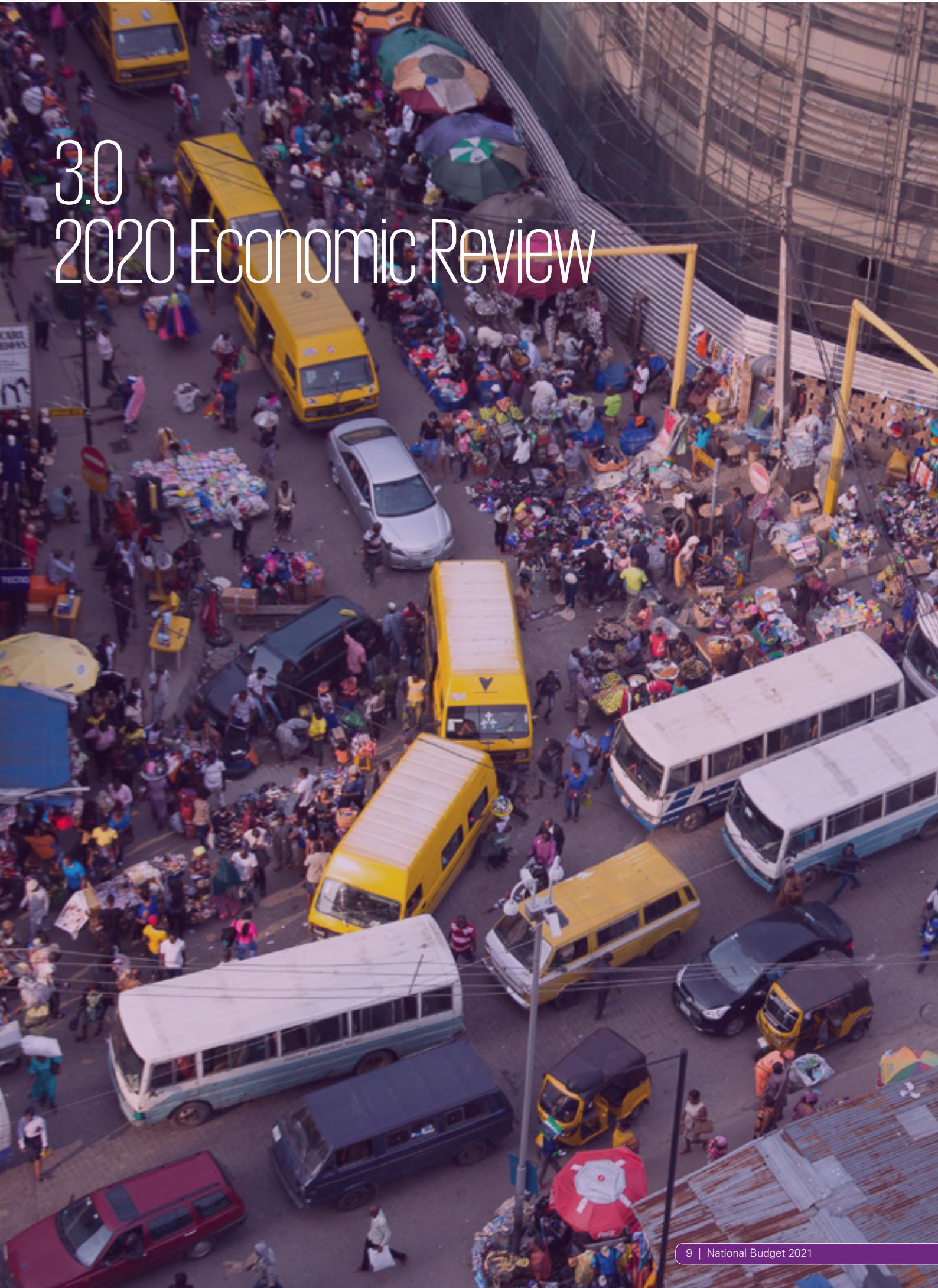
Baseline Assumptions	2020 Approved Budget	2021 Approved Budget	Percentage Change
Benchmark oil price	\$28 per barrel	\$40 per barrel	43%
Oil production volume (mbpd)	1.8 million	1.86 million	3%
Average exchange rate	₦360:1	₦379:1	5%
Inflation (%)	14.13%	11.95%	-2%
GDP growth rate (%)	-4.2%	3.00%	7%
Expenditure Framework	(₦) billions	(₦) billions	Percentage Change
Statutory transfer	428.03	496.53	16%
Debt service	2,678.81	3,124.38	17%
Sinking fund	272.90	200.00	-27%
Recurrent (Non-Debt):			
Personnel Costs (MDAs)	2,827.65	3,046.46	8%
Personnel Costs (GOEs)	218.81	701.16	220%
Overheads (MDAs)	243.18	325.88	34%
Overheads (GOEs)	89.61	312.08	248%
Pension, Gratuities and Retirees Benefits	536.72	504.19	-6%
Other Service Wide Votes (including GAVI/Immunization)	397.33	337.19	-15%
Other Service Wide Votes COVID-19 Crisis Intervention Fund)	213.98	-	-100%
Presidential Amnesty Programme	65.00	65.00	0%
Special Interventions (Recurrent)	350.00	350.00	0%
Capital Expenditure:			
Capital Supplementation	261.35	695.90	166%
Capital Expenditure in Statutory Transfers	196.77	249.05	27%
Special Intervention Programme (Capital)	20.00	10.00	-50%
Amount available for MDAs Capital Expenditure (Including ₦100bn reallocation of existing capital for COVID-19)	1,349.99	2,019.12	50%
COVID-19 Crisis Intervention Fund - Incremental Capital	99.65	-	-100%
COVID-19 Intervention Across the Federation	186.37	-	-100%
GOEs Capital Expenditure	141.17	335.59	138%
Grants and Donor Funded Projects	42.70	354.85	731%
Multilateral/Bilateral Loan Funded Projects	387.30	709.69	83%
Total Expenditure (exclusive of transfers)	10,810.55	13,587.07	26%

Baseline Assumptions	2020 Approved Budget	2021 Approved Budget	Percentage Change
Amount Available For FGN Budget	(₦) billions	(₦) billions	
Share of Oil Revenue	1,013.77	2,011.02	98%
Share of Dividend (NLNG)	80.38	208.54	159%
Share of Minerals & Mining	1.90	2.65	39%
Share of Non-Oil:			
Share of CIT	821.67	681.72	-17%
Share of VAT	284.11	238.43	-16%
Share of Customs	450.70	508.27	13%
Share of Federation Acct. Levies	68.46	60.51	-12%
Revenue from GOEs	990.11	2,173.86	120%
Top 10 GOEs Operating Surplus (80% of which is captured in Independent Revenue)	-520.53	-825.02	58%
Independent Revenue	932.84	1,061.90	14%
Transfers from Special Levies Accounts	300.00	300.00	0%
Transfers from Special Accounts	345.00	-	-100%
Signature Bonus / Renewals / Early Renewals	350.52	677.02	93%
Domestic Recoveries + Assets + Fines	237.01	32.68	-86%
Stamp Duty	200.00	500.00	150%
Grants and Donor Funding	42.70	354.85	731%
Transfers from Special Accounts for COVID-19 Intervention across the Federation	186.37	-	-100%
Grants and Donations for COVID-19 Crisis Intervention Fund	50.00	-	-100%
Amount available for FGN Budget (including GOEs)	5,835.01	7,986.41	37%
Fiscal Balance			
Fiscal deficit (Including GOEs and Project-tied Loans)	4,975.5	5,601.6	13%
Fiscal deficit as a share of GDP (%)	3.57%	3.93%	10%

Data Source: Public presentation of the 2021 Budget, Office of the Honourable Minister of Finance, Budget and National Planning



3.0 2020 Economic Review



1. Gross Domestic Product

According to the NBS, Nigeria's GDP contracted by 6.10% and 3.62% in the second and third quarters of 2020, respectively, and grew by 0.11% in the last quarter of the year. Although the Q4 2020 GDP growth rate represented a 3.73% points improvement from the -3.62% recorded in Q3 2020, the country still closed the year with a negative annual GDP growth rate of -1.92%. This is a 4.20% point decline from the 2.27% annual GDP growth rate recorded in 2019.

In the fourth quarter of 2020, Nigeria recorded an average daily oil production of 1.56 mbpd. This was 0.44mbpd lower than the average production of 2.00mbpd recorded in the same quarter of 2019, and 0.11mbpd lower than the Q3 2020 production volume of 1.67mbpd. The decline in crude oil production, coupled with depressed oil prices, affected the oil sector's contribution to GDP negatively, as it recorded a negative GDP growth rate of -8.89% and made an overall contribution of 8.16% to GDP in 2020 (compared to its 8.78% contribution to GDP in 2019).

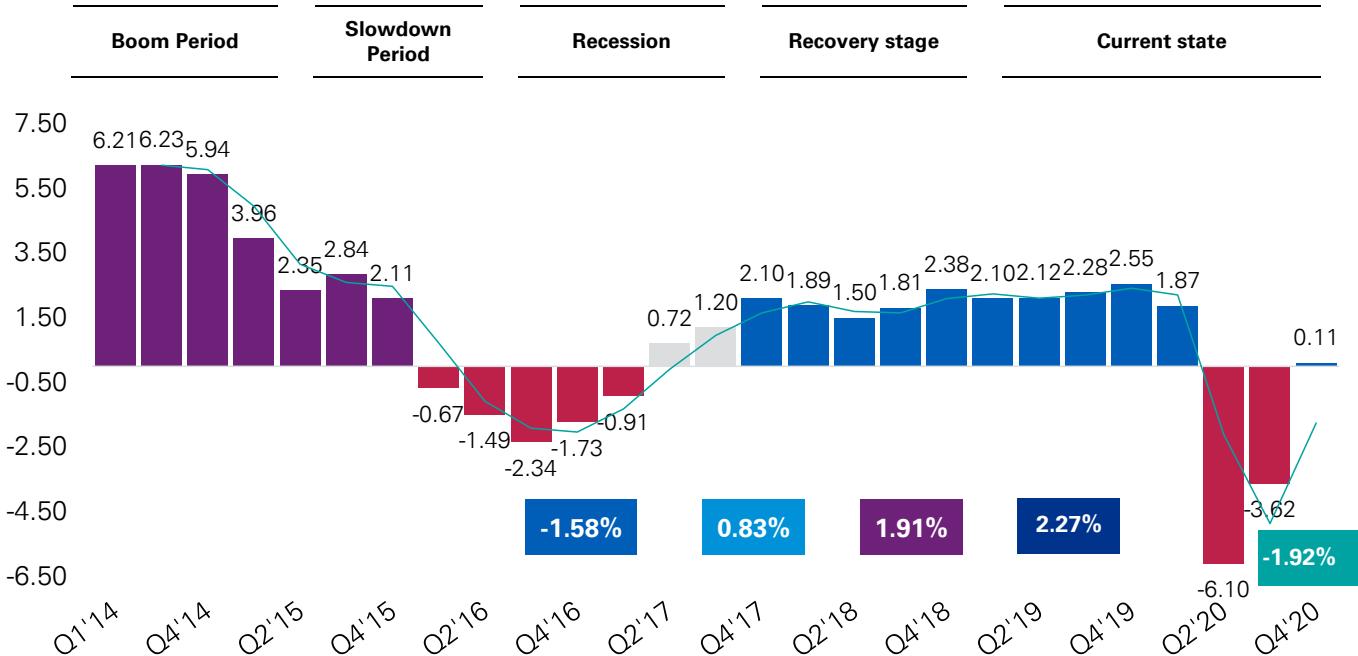
The non-oil sector contracted by 1.25% in 2020. This negative growth was moderated by the positive growth rates of 1.55% and 1.69% recorded in the first and fourth quarters of 2020, respectively.

The growth in Q4 2020 was a positive recovery of 4.19% from the third quarter, as the sector declined by 6.51% in Q2 2020 – for the first time since Q3 2017 – and recorded a negative growth rate of -2.51% in Q3 2020.

The major sectors of the Nigerian economy that had high negative growth rates in 2020 in real terms were Oil Refining (-62.22%), Transport and Storage (-22.26%), Accommodation and Food Services (-17.75%), Insurance (-15.30%), Education (-13.57%), Mining and Quarrying (-8.54%), and Trade (-8.49%). Nevertheless, growths in sectors such as Financial Institution (13.34%), Information and Communication (12.90%), Water Supply, Sewerage, Waste Management and Remediation (3.81%), and Agriculture (2.17%), amongst others, moderated the contraction in the country's GDP.

According to the NBS³, the performance of the economy in Q2 and Q3 2020 reflected residual effects of the restrictions on movement and economic activities implemented across the country in early Q2 in response to the COVID-19 pandemic. However, the growth in Q4 2020 was attributed to the gradual return of economic activities following the easing of restricted movements and limited local and international commercial activities in the preceding quarters.

GDP Growth 2014 to 2020 (%)



Source: NBS and KPMG Analysis

Note: GDP provides the economic snapshot of Nigeria in growth rate and economic size

³NBS Q3 and Q4 GDP Reports

2. Unemployment/underemployment

According to the latest NBS Labour Force Survey⁴, Nigeria's unemployment rate was 33.3% in Q4 2020, a jump of 6.2% from the 27.1% reported in the penultimate report for Q2 2020, which itself reflected a 4% uptick from the 23.1% unemployment rate reported in the NBS' Q3 2018 report. The country's underemployment rate, however, declined from 28.6% in Q2 2020 to 22.8% in Q4 2020, having previously increased from 20.1% in Q3 2018. This shows that one in every two Nigerians in the country's labour force is either unemployed or underemployed.

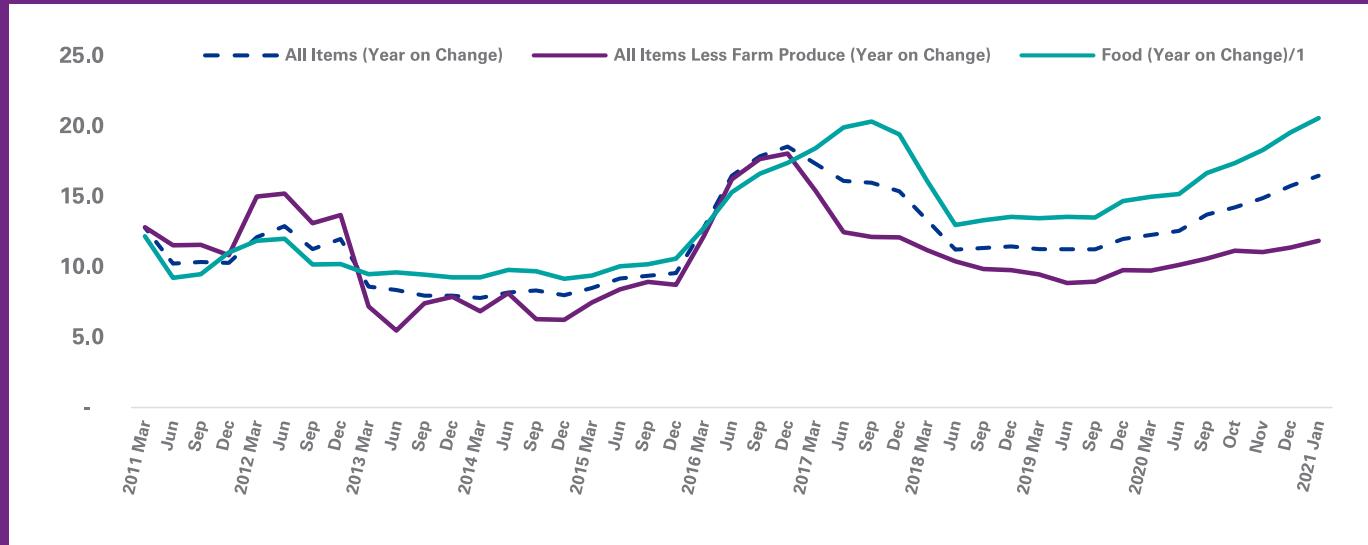
The World Bank (in its Nigeria Development Update report issued in June 2020) predicted a high emigration from the country due to income gaps, demographic imbalance and labour opportunities in Organisation for Economic Co-operation and Development (OECD) markets with aging population⁵.

3. Inflation

Nigeria's inflation quickened to a three-year high in December 2020 due to the lockdown occasioned by the COVID-19 pandemic, the increase in VAT rate from 5% to 7.5%, dollar shortages, insecurity, and supply bottlenecks arising from the border closure which pushed commodity prices higher.

The country recorded an average inflation rate of 13.2% in 2020, which was a 15.79% increase from the 2019 average inflation of 11.4%⁶.

Inflation; Headline & Food Inflation (%)



Source: NBS, KPMG Analysis

Note: 1. Inflation depicts the purchasing power of the Nigerian currency

2. Food Inflation otherwise called non-core inflation measures a rise in the cost of an essential food item relative to the previous price.

3. All items less farm produce otherwise known as core inflation is the change in the price of goods and services excluding those from the food and energy sectors

⁴NBS Labour Force Statistics: Unemployment and Underemployment Report (Q4 2020)

⁵<http://documents1.worldbank.org/curated/en/695491593024516552/pdf/Nigeria-in-Times-of-COVID-19-Laying-Foundations-for-a-Strong-Recovery.pdf>

⁶NBS Consumer Price Index December 2020

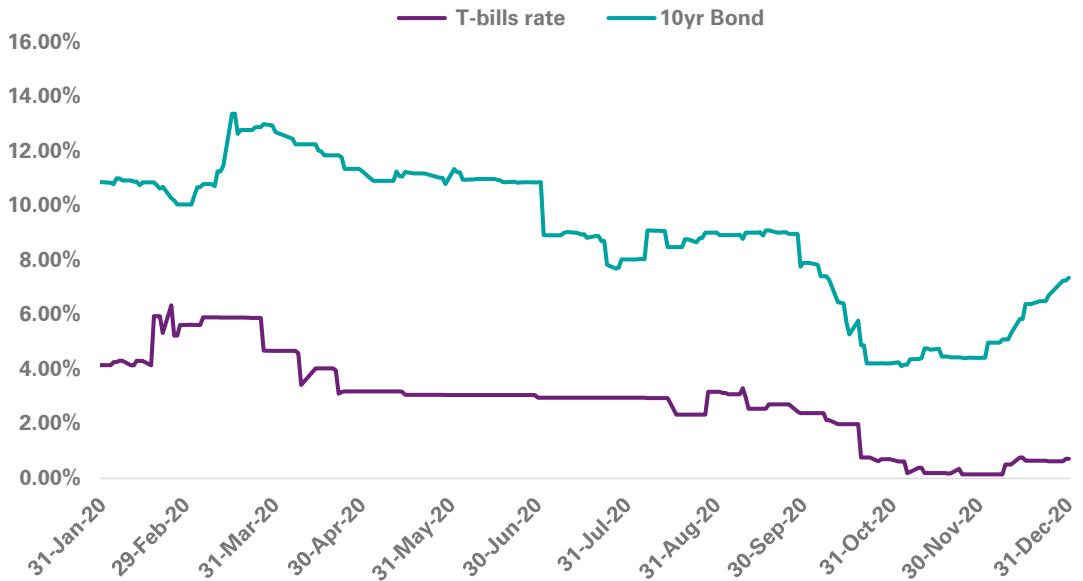
4. Foreign exchange/foreign reserves/foreign investment

With the fall in oil price and foreign receipts from sale of oil, the country laboured to maintain its official exchange rate of ₦360:US\$1 to no avail. The Naira closed at an official rate of ₦379 - ₦380:US\$1 on 31 December 2020⁷ and ₦410.25:US\$1 on the Investors and Exporters Window⁸.

The sustained intervention of the CBN in the foreign exchange window continues to have an adverse impact on the country's foreign reserves. The reserves, which stood at US\$38.54 billion⁹ as at January 2020, declined to US\$33.4 billion in April 2020 before increasing mildly to US\$35.37 billion as at 31 December 2020 due to loan injection from the IMF and improved oil prices.

The total value of capital importation into Nigeria stood at US\$1,069.68 million in Q4 2020, with other investments (loans and other claims) totalling \$738.26 million being the dominant contributor in the quarter. This represents a 26.81% and 71.87% decline when compared to Q3 2020 and Q4 2019, respectively¹⁰. Overall, the total capital importation in 2020 was \$9.68 billion, which is 59.65% less than the \$23.99 billion reported in 2019 and the lowest since 2016 (\$5.12 billion).

Interest rates and the yield on Govt Bonds



Source: CBN, KPMG Analysis

Note:

1. Treasury Bills (T-bills) rate measures rates on short-term investment securities issued by the government to finance nationwide borrowing requirements
2. 10 year bond measures interest rate yield on the bond instruments issued by the government

⁷<https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp>

⁸<https://www.vanguardngr.com/2021/01/cbn-depreciates-naira-to-n410-25-in-ie-window/>

⁹<https://www.cbn.gov.ng/intops/reserve.asp>

¹⁰NBS – Nigerian Capital Importation Q4 2020

4.0

2020 Budget Implementation



The 2020 Budget of Sustaining Growth and Job Creation was signed into law by President Muhammadu Buhari, GCFR on 17 December 2019 after approval by the National Assembly. This was an early passage compared to the 2019 National Budget that was passed into law five months into the 2019 fiscal year.

Effect of COVID-19 on Budget Implementation

The twin shocks of the COVID-19 pandemic and drastic fall in global oil prices affected the demand for Nigeria's crude oil and severely impacted the country's fiscal position and actualization of the 2020 Budget. This caused the FG to revise the 2020 Budget projections downwards halfway into the year.

Specifically, the COVID-19 pandemic led to disruptions and restrictions in economic activities on an unprecedented scale. The major disruptions that adversely impacted the 2020 Budget are:

- disruption to global supply/ output chains resulting in weak input demand and low commodity prices.
- disruption of international travels and trades.
- deterioration of local demand for goods and services arising from lockdown of major economic centres and social distancing policies.
- significant erosions across financial markets due to rising uncertainties leading to reversal of capital flows to emerging markets, including the Nigerian market.
- increased pressure on the Naira and Nigeria's foreign reserves due to decrease in receipts from crude oil sales.

The effect of these disruptions resulted in a significant fall in real GDP in Q2 2020 to -6.10% and an overall GDP contraction of 1.92% in 2020.

Below is a summary of our assessment of the budget implementation:

Budget Performance Parameters

S/N	Description	2020 Revised Budget	2020 Actuals (Jan - Dec)
1	Oil Price Benchmark (US\$/b)	28.00	43.02
2	Average Oil Production (mbpd)	1.80	1.78*
3	Exchange Rate (₦:US\$)	360:1	379:1
4	Inflation (%)	14.13	15.75
5	GDP Growth Rate (%)	(4.20)	(1.92)

Source: Minister of Finance 2021 Budget Presentation, NBS and KPMG Analysis*

- Although crude oil prices remained high at the beginning of the year, the combined effect of the COVID-19 pandemic and Russia-Saudi-Arabia oil price war resulted in the collapse of crude oil demand and price in the international market. Consequently, the oil price benchmark in the 2020 Budget was reviewed downwards from \$57 per barrel to \$28 per barrel in the 2020 Budget to reflect the economic realities of the time.
- Crude oil prices recovered slightly from US\$34.8 per barrel to US\$43 per barrel between 28 May and 18 July 2020 to provide a little bright spot¹¹, and rose to almost US\$50 in December 2020. However, on the whole, oil prices were relatively low and volatile in 2020 with negative implications on exchange rate stability and fiscal consolidation.
- Nigeria recorded an average daily oil production of 1.78 mbpd in 2020. This represents a variance of 0.02 mbpd (1.11%) from the 1.80 mbpd benchmark in the revised 2020 Budget. However, the average daily oil production in 2020 was 11.44% lower than the 2.01 mbpd recorded in 2019.
- CBN adjusted the official exchange rate to ₦379:US\$1 in August 2020 – 5.28% above the target rate ₦360:US\$1 in the Revised 2020 National Budget – and maintained the rate till the end of the year.
- Inflation rate remained in the double digit of 15.75% as at the end of 2020 which indicated a 1.62% increase over the expected inflation rate of 14.13%. This figure is also 3.77% higher than the inflation rate recorded at the end of 2019 and was largely driven by the increase in both food and core inflation.
- Overall GDP growth rate in 2020 was much better than projected, as the Nigerian economy suffered a decline of only 1.92% as against the contraction of 4.20% forecasted in the Revised 2020 National Budget.

¹¹CBN Communiqué No. 131 of the Monetary Policy Committee Meeting of July 20, 2020

Revenue Performance

Fiscal Items		2020 Revised Budget	Actuals (Jan- Dec)	Variance	Percentage Change
		(₦)Billions	(₦)Billions	(₦)Billions	%
S/N	FGN Retained Revenues (Excluding GOEs)	5,365.42	3,937.34	(1,428.08)	-27%
A	Oil Revenue	2,720.98	2,943.62	222.64	8%
		1,096.05	1,667.53	571.48	
1	Oil Revenue	1,013.77	1,521.44	507.67	50%
2	Share of Dividend (NLNG)	80.38	144.00	63.62	79%
3	Minerals & Mining Revenue	1.90	2.09	0.19	10%
B	Non-Oil Revenue:	1,624.93	1,276.09	(348.84)	-21%
i	CIT	821.67	673.22	(148.45)	-18%
ii	VAT	284.11	192.66	(91.45)	-32%
iii	Customs Revenues	450.70	396.37	(54.33)	-12%
iv	Federation Account Levies	68.46	13.84	(54.62)	-80%
C	Independent & Other Sources	2,644.45	993.73	(1,650.72)	-62%
1	FGN Independent Revenue	932.84	519.36	(413.48)	-44%
2	FGN Drawdowns from Special Accounts/Levies	645.00	384.11	(260.89)	-40%
3	Signature Bonus/Renewals/Early Renewals	350.52	78.72	(271.80)	-78%
4	Domestic Recoveries + Assets + Fines	237.01	11.54	(225.47)	-95%
5	Stamp Duty	200.00	-	(200.00)	-100%
6	Grants and Donor Funding	42.70	-	(42.70)	-100%
7	Transfers from Special Accounts for COVID-19 Intervention Across the Federation	186.37	-	(186.37)	-100%
8	Grants and Donations for COVID-19 Crisis Intervention Fund	50.00	-	(50.00)	-100%

- Aggregate revenue for the 2020 Revised Budget declined significantly, worsening the fiscal position of the FG. As at the end of 2020 fiscal year, FG's retained revenues were ₦3.94 trillion, representing 73% of the revised target of ₦5.37 trillion. The underperformance was largely as a result of the decline in oil price and the negative impact of the COVID-19 pandemic on the global economy.
- FGN's share of oil revenues was ₦1.53 trillion, representing 157% of the revised target of ₦1.01 trillion due to the pessimistic price estimate adopted by the Government, while non-oil tax revenue was ₦1.28 trillion, representing 79% of the revised target of ₦1.62 trillion.
- Revenue generation from all sources was lower than budgeted except in relation to oil revenue, minerals and mining revenues, and share of dividend (NLNG) which were 50%, 10% and 79% higher than the Revised Budget estimates, respectively.
- Based on the Budget presentation made by the Honourable Minister of Finance, Budget and National Planning (HMoFBNP), FGN's share of stamp duties, grants and donor funding, transfers from special accounts for COVID-19 intervention across the Federation, and grants and donations for COVID-19 crisis intervention fund yielded nothing in the year. However, the FIRS reported stamp duties collection of ₦120.16 Billion¹² for 2020.

¹²<https://www.firs.gov.ng/tax-statistics-report/>

Expenditure Performance¹¹

	Fiscal Items	2020 Revised Budget	Actuals (Jan- Dec)	Variance	Percentage Change
		(₦)Billions	(₦)Billions	(₦)Billions	%
	FGN Expenditure (Excluding GOEs and project-tied loans)	9,973.67	10,083.17	(109.50)	-1%
A	Statutory Transfers	428.03	428.03	-	0%
B	Recurrent Expenditure	7,585.57	7,910.68	(325.11)	-4%
C	Capital Expenditure	1,960.07	1,744.46	215.61	11%
1	Non-Debt Recurrent Expenditure	4,633.86	4,645.21	(11.35)	0%
i	Personnel Costs	2,827.65	2,827.65	-	0%
ii	Pensions & Gratuities including Service wide pension	536.72	359.60	177.12	33%
iii	Overheads	243.18	243.18	-	0%
iv	Other Service Wide Votes	397.33	262.18	135.15	34%
	Other Service Wide Votes (COVID-19)	213.98	213.98	-	0%
v	Presidential Amnesty	65.00	65.00	-	0%
vi	Special Intervention Programme	350.00	303.87	46.13	13%
vii	Payment from Special accounts	-	369.75	(369.75)	-
2	Debt Service	2,951.71	3,265.47	(313.76)	-11%
i	Domestic Debt	1,873.34	1,795.15	78.19	4%
ii	Foreign Debt	805.47	553.18	252.29	31%
iii	Sinking Fund	272.90	4.58	268.32	98%
iv	Interest on Ways and Means	-	912.57	(912.57)	-

- FG spent ₦10.08 trillion in 2020, ₦109.50 billion above the 2020 Revised Budget expenditure of ₦9.97 trillion. The Statutory Transfers component of the Revised Budget was fully implemented, while the actual recurrent expenditure exceeded budget by 4%. However, capital expenditure underperformed due to the lockdown and movement restrictions necessitated by the COVID-19 pandemic.
- 89% of the budgeted capital expenditure was released as at the end 2020. About ₦118.37 billion of the capital expenditure was utilised for COVID-19 capital expenditure¹³.
- FG exceeded its budget for recurrent expenditure by ₦325 billion. Nigeria's expanding debt portfolio and the change in Nigeria's minimum wage structure both contributed to the increase in recurrent expenditure. As a result, FGN spent **78%** of its total expenditure on recurrent items.
- FG obtained ₦912 billion from CBN as interest on ways and means in 2020. This figure is quite high when compared to the corresponding figure in 2019 (₦196 billion as at September 2019). The direct consequences of this huge disbursement by CBN include increasing challenges to monetary policy implementation, as tight management of domestic liquidity is a key tool under the CBN's policy of prioritising the stability of the naira. It could also complicate official efforts to bring inflation back under control.

¹³Office of the Honorable Minister of Finance, Budget & National Planning: Public presentation of the 2021 executive budget proposal

5.0

2021 Macro-Economic Analysis



Macro-Economic Performance: 2020 Reflections

The Nigerian economy was challenged in 2020 by the “twin shocks” of falling oil prices and dual waves of the COVID-19 pandemic. Oil prices plummeted, initially due to the price wars between Saudi Arabia and Russia, then remained subdued due to regulatory responses to the COVID-19 pandemic as government imposed nationwide movement and trade restrictions, halting economic activities. The Coronavirus disease, which spread with speed, infected millions globally in its first year. Despite the breakthrough vaccine distributed in major countries, the re-ignition of economic activities has triggered the second wave of the virus. With more potent strains identified in major economies, lockdown measures have been reinstated to curb the spread. As at the time of this publication, over 141 million cases have been identified, with more than 3.02 million deaths worldwide¹⁴.

Nigeria's fiscal and monetary policy interventions were faster and bolder than during the last recession of 2016. Some of the fiscal policy interventions were a ₦2.3 trillion stimulus focused on job-intensive projects, an emergency loan of US\$3.4billion from IMF to support the economy, the enactment of Finance Act, 2020, and the proposed establishment of an infrastructure company wholly focused on critical infrastructural investments in Nigeria. The monetary authorities responded more aggressively with policy interventions and several tactical steps, including adjustment of the official exchange rate by 24.5% (from ₦306.5/US\$1 to ₦381/US\$1), reduction of interest rates from 9% to 5%, reduction of monetary policy rate by 200 basis points from 13.5% to 11.5%, introduction of “Special Bills” as part of efforts to control money supply in the economy, Diaspora Remittance Policy to improve liquidity in the retail end of the FX market, and plans to provide total financing and intervention initiatives of ₦1.8 trillion¹⁵.

In summary, Nigeria's economic performance in 2020 was benign due to the recession dip in Q3 and the slow pick-up of economic activities in Q4. However, the country has evolved into relatively high inflation and a low/negative yield environment. As stated in Chapter 3 above, inflation, riding on accelerating food prices, rose to 15.75% compared to an average of 5% in other emerging economies and 14% in select SSA economies as at December 2020¹⁶. Capital flows remain a major pressure factor to the country's currency value. The NBS reported a contraction in foreign portfolio investment in Q4 2020 by 99.18%, from US\$4.31billion reported in Q1 2020 to US\$35.15million in Q4 2020¹⁷. This was triggered by increased capital reversal which further aggravated pressure on the country's foreign reserves.

Macroeconomic Outlook and Implications for the 2021 Budget

We have reviewed three major economic factors and highlighted their implications for the realization of the 2021 Budget.

1. Global Pressure Points

Although renewed waves and new variants of the Coronavirus pose concerns for the global economic outlook, the recovery of the global economy is expected to be modest in 2021, as advanced economies embark on massive vaccination programmes. Global factors, such as oil price, oil production and demand, and capital flows will shape Nigeria's budget implementation and economic recovery.

First, average global Brent crude oil price is expected to be moderate in 2021 (Energy Information Administration (EIA) - US\$52per barrel (pb), Goldman Sachs – US\$55.63pb), implying an improved outlook in Brent oil price compared to the 2020 average Brent oil price of US\$41.46pb¹⁸. This implies that the oil price benchmark of US\$40pb in the 2021 Budget appears realistic going by current market fundamentals. We expect average oil prices to be relatively stronger in 2021 than in 2020, although the new waves of the virus could potentially keep oil prices below the pre-pandemic level.

Further, global oil demand is expected to rise following improvements in economic activities. EIA forecasts that global liquid fuels consumption will grow by 5.6 mbpd in 2021 and 3.3 mbpd in 2022. Also, the decision of the OPEC and partner countries (OPEC+) to largely maintain the current production cuts in April 2021, combined with Saudi Arabia's extension of its 1 mbpd voluntary production cut into April, is expected to buoy oil prices. However, given the geopolitics of oil markets and the need to respond to changes in demand, there is a low-to-medium probability that a deeper cut may be required. This may threaten Nigeria's oil production benchmark (1.86mbpd) in the 2021 Budget and affect the realization of the budgeted oil revenue of ₦7.99 trillion¹⁹.

Lastly, Nigeria's exchange rate environment is underpinned by subdued foreign capital inflows (US\$1.07 billion – Q4 2020) and declining remittances²⁰. These trends are underscored by both global economic sentiments in developed economies and unattractive domestic investment and exchange rate policy environments. We expect that stronger global economic recovery in 2021 will modestly reverse the trends, though the overall performance is expected to remain weak with or without bolder exchange rate policy actions.

¹⁴<https://www.worldometers.info/coronavirus/>

¹⁵Uncertain Recovery: 10 Macro Trends That Will Shape 2021

¹⁶IMF Inflation rate, average consumer prices

¹⁷Nigeria Capital Importation (Q3 2020)

¹⁸U.S. Energy Information Administration, Goldman Sachs

¹⁹Budget Office of the Federation - Federal Republic of Nigeria

²⁰National Bureau of Statistics

2. Fiscal Sustainability

Nigeria's fiscal landscape in 2021 will be characterised by four key subsisting themes: widening fiscal deficit, constrained fiscal space, optimising debt financing strategy, and driving effective budget execution.

Over the last few years, Nigeria's budget deficit has been widening. The deficit grew by 137% from ₦2.36 trillion in 2017 to ₦5.60 trillion in 2021²¹. The planned deficit amounts to 3.9% of Nigeria's GDP, which should ordinarily be somewhat concerning. However, given the urgent need to support economic recovery, the expected budget deficit for 2021 is in line with trends in similar economies like Brazil (6.3%), India (9.5%), and South Africa (15.7%)²².

Nigeria's fiscal space has become increasingly tight in recent years with debt to GDP accelerating from 16.27% in 2016 to 22.3% in 2020 and debt repayments to revenue worsening to 83% in 2020 from 50.3% in 2016²³. However, the fact that the Government has had to deal with two economic recessions in 2016 and 2020 put these figures in context. Other Emerging Markets and Developed Economies (EMDEs) have also towed similar lines with average debt to GDP amongst these countries rising to 60% in 2020. That said, it has been noted that there could be a potential sovereign debt crisis in 2021²⁴.

Nigeria's 2021 budget deficit is expected to be financed by borrowings from domestic sources (₦2.34 trillion), foreign loans (₦2.34 trillion), Multi-lateral /bi-lateral loan drawdowns (₦709.69 billion), and Privatisation proceeds (₦205.15 billion). An optimal deficit financing strategy will leverage the low yield within the domestic environment whilst ensuring that the private sector is not crowded out; and balance the borrowings from the international market while considering the associated foreign exchange risks.

The overall objective should be to reduce debt repayment bills and achieve debt sustainability while preserving both short- and long-term economic growth.

Typically, the FG has often repeated recourse to Ways and Means facility (WMF) with the CBN to fund the budget. In 2020, the FGN directly borrowed 1.9% of GDP (₦2.8 trillion) from the CBN to fund its fiscal deficit (Fitch Ratings estimated at 3.6% of GDP). Although the 2021 revenue projection is not premised on further significant borrowing/advances from this CBN facility, we believe the government may have to rely on the WMF if the deficit proves wider on the back of lower revenues or shortfalls in external financing targets²⁵.

In 2020, Budget execution performance was modest despite the revision to the budget. Target revenue realization was 73.4% in 2020, better than 58.9% in 2019. On the other hand, operating expenditure and capital expenditure execution were 104% and 89%, respectively²⁶.

The 2021 target revenue realization is expected to be aided by Finance Act, 2020, which has multiple provisions and initiatives. Effective execution of the Act which will depend on the following: impact on government revenues and ease of implementation; timeline of execution; ability of various government agencies to effectively coordinate execution and strategic communication; and change management of various impacted stakeholders. There is no gainsaying that for the budget to contribute to economic growth, there must a reasonable level of execution.

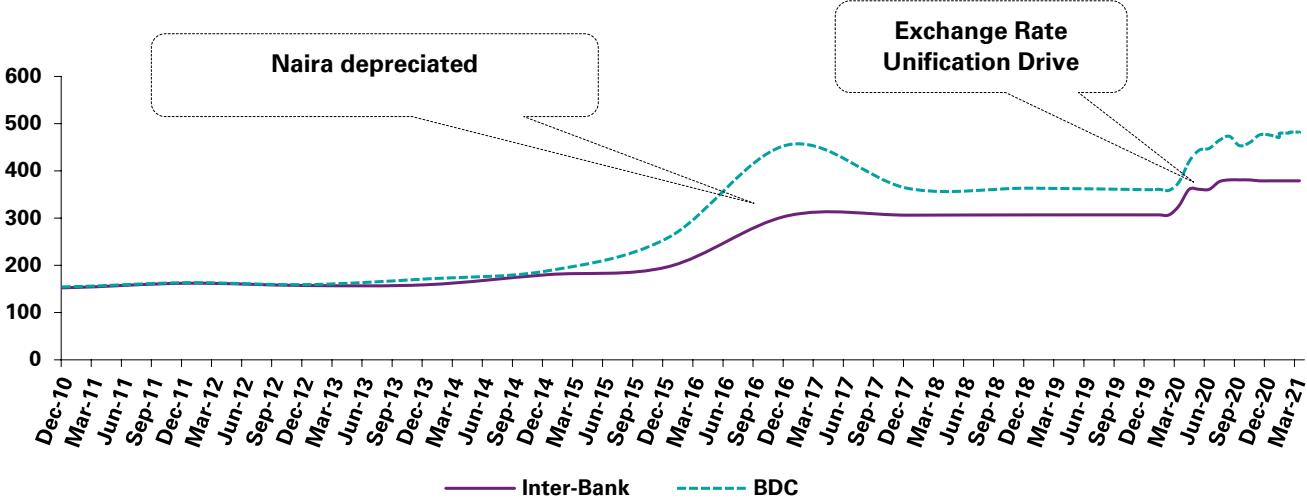


3. Monetary Policy Environment

Monetary policy developments will play a critical role in the realization of Government's objectives in the 2021 Budget especially as it relates to the exchange rate environment, interest rate environment, and price stability. Devaluation increases FG revenues but worsens debt repayment obligation while interest rate environment will determine the cost at which the FG accesses domestic market to raise the target ₦2.34 trillion. The FG has set a target of 11.95% for inflation and CBN's monetary policy will play a significant role in achieving the target.

Nigeria's exchange rate policy environment has improved, but still has some significant hurdles to cross for it to achieve convergence around market-reflective rates and improve Nigeria's balance of payment position. The CBN introduced a raft of policies aimed at stabilizing the FX environment in 2020 and early this year, including payment of remittances in foreign currency, protocols for eliminating over-invoicing and mispricing of imports via an independent Product Price Verification Mechanism, and the banning of exporters with unrepatriated export proceeds from all banking services. The CBN also adjusted the official exchange rate by 8.18% from ₦379/US\$1 previously adjusted in December 2020 to ₦410/US\$1 in its exchange rate unification policy.

Inter-bank and BDC Exchange Rates in Nigeria (December 2010 – March 2021)



Source: FMDQ, Central Bank of Nigeria

Note: The official exchange rate was adjusted by 19.4% from ₦306/US\$1 in January 2020 to ₦379 in December

Nigeria is entering stagflation – rapid increasing inflation, high unemployment, and negative economic growth worsened by negative real interest rate. With Nigeria's inflation at 15.75% as at the end of 2020²⁸, achieving the inflation target of 11.95% in the budget will require policy alignment between the fiscal and monetary authorities. While the current spike in inflation has been attributed to supply-side and structural issues, monetary issues of CBN interventions also play a significant role. The CBN's policy package to manage the demand side is challenged given the need to inflate the economy via improved access to credit, fund the government and sustain a low-interest-rate environment.

The significant hurdles that persist and negatively impact our economy's attractiveness to foreign capital flows include:

- i. misalignment of rates, as appropriate dollar valuation has been estimated to be between 10-30% higher than the current official rate of ₦410/US\$1²⁷;
- ii. CBN's foreign exchange allocation policy [such as the exclusion of specific items (including euro bond/foreign currency bond/share purchase) from access to official foreign exchange market and unclear allocation mechanism]; and
- iii. increasing frictions in the process and procedures for accessing and repatriating foreign exchange.

While the FG has set a target of ₦379/US\$1 for foreign exchange, we expect a potential adjustment in 2021 which could increase the government's oil revenue earnings and debt repayment obligations assuming all other budget assumptions are constant.

We expect the CBN to tactically waddle through the policy complexity of monetary expansionary stance, exchange rate stability, and price stability in 2021.

To sum up, the monetary policy outlook for 2021 is uncertain. Although Finance Act, 2020 and the relative increase in crude oil prices are expected to have a positive impact on the FG's budgeted revenues, debt repayment bill will be negative, and the budget inflation target rate of 11.95% is unlikely to be achieved.

²⁷FMDQ Securities Exchange Plc

²⁸National Bureau of Statistics

Conclusion and Recommendations

2021 is expected to be a better year than 2020 with a higher probability of the Nigerian economy exiting stagflation. We expect the economic growth rate to be within the range of 1 to 3% across three different scenarios. Given the aggressive stimulus policy intervention and possible containment of the second wave of the pandemic, we expect Nigeria's economy to recover across three pathways: accelerated growth (above 2.5%), a slow recovery (1 – 2.5%), and muted recovery (1%)²⁹. The 2021 Budget of Economic Recovery and Resilience is ambitious. While some of the fiscal assumptions are in line with our expectations and analyst consensus, some assumptions are likely to deviate from targets set due to external economic pressure and monetary policy actions.

Our tactical recommendations to the FG to enable the achievement of the 2021 Budget of Economic Recovery and Resilience are as follows:

- Adopt a structured approach to the execution of Finance Act, 2020: prioritize based on impact and ease of implementation, accelerate the execution of the quick wins and ensure coordination amongst relevant government agencies and roll out communication and change management framework to all stakeholders.
- Leverage technology extensively to drive revenue realization.
- Sustain policy alignment between the fiscal and monetary authorities. However, the monetary authority must maintain its credibility as an independent economic institution.
- Roll out a robust deficit financing framework (a combination of short-term strategy and tactical actions) that achieves faster access to finance, minimize debt repayment bills and drive the long-term economic growth of Nigeria.
- Roll out ongoing forecasting and scenario planning on both oil and non-oil revenues and proactively develop an action plan to address future shocks and deviations from assumptions.



6.0 2021 Budget Analysis



On 31 December 2020, His Excellency, President Muhammadu Buhari (GCFR) signed the 2021 Appropriation Bill ("2021 Budget") approved by the National Assembly. Subsequently, the HMoFBNP provided further details on the approved 2021 Budget at a virtual presentation in Abuja on 12 January 2021. The approved 2021 budget was increased by ₦505.6 billion by the National Assembly to make allowance for increased contribution to the Development Fund for Capital Expenditure for the year.

Highlights of the approved 2021 Budget and our commentaries are presented below:

1. Revenue Projection

Similar to the 2020 Budget and in response to the COVID-19 pandemic, the FG has set a conservative baseline crude oil production target of 1.86 mbpd in the approved 2021 Budget with a price benchmark of US\$40 per barrel.

Although Nigeria has a total production capacity of 2.50 mbpd and the World Bank's estimated average oil price for 2021 is US\$44 per barrel, the HMoFBNP indicated in her Budget presentation that the moderate oil production and oil price estimates adopted in the 2021 Budget are premised on the slow recovery of economies from recession and OPEC's quota agreements. Also, considering the oil price plunge experienced in 2020, it is necessary to insulate the Budget from the vagaries of oil prices and build fiscal buffers to respond to any negative oil price shocks.

In light of the above, it is our view that the oil price benchmark and oil production target are realistic.

Further to the above, the FG intends to generate 70% of the 2021 projected revenue from non-oil sources. This is lower than the 75% non-oil revenue projected in the 2020 Revised National Budget, but higher than the 55% 2020 Budget performance. This further reiterates the Government's intention to be less dependent on oil for revenue generation and focus more on internally generated revenue. It is expected that, going forward, there will be an increased drive to generate revenue from tax, government-owned enterprises (GOEs) and other non-oil sources.



2. Expenditures

2.1. Capital Expenditure

Capital expenditure (exclusive of transfers) is projected at ₦4.13 trillion in the 2021 Budget, which is a 65.8% increase when compared to the 2020 Revised Budget.

₦399.69 billion out of the above capital expenditure budget was allocated to the Ministry of Works and Housing for the provision of nationwide housing schemes and refurbishment of defunct housing sites, such as the NITEL site in Iponri, Lagos State. The capital allocation to the Federal Ministry of Agriculture and Rural Development increased from ₦102.49 billion in 2020 to ₦211.08 billion in 2021. This 106% increase underpins the FG's commitment to curb inflation and ensure food security.

Also, the Ministry of Transport received a ₦209.74 billion capital allocation in the 2021 Budget, which is a 92% increase over its ₦109.35 allocation in 2020. It is expected that the Ministry will complete its many rail projects and ease the burden of transportation on citizens.

A total capital expenditure of ₦226.22 billion was allocated to the Federal Ministry of Education (including University Basic Education Commission and Tertiary Education Trust Fund), up from ₦85 billion in 2020, underpinning the FG's commitment to increase investments in human capital development. Similarly, the budgetary allocation to the Ministry of Health increased from ₦51.40 billion in the 2020 Revised Budget to ₦134.59 billion in 2021.

The capital expenditure allocation to the Ministry of Finance, Budget and National Planning jumped from ₦3.61 billion to ₦376.36 billion. However, it is important to note that the allocation is inclusive of multilateral/bilateral project tied loans overseen by the Initiative for Environmental Research and Development and transfers to the Nigerian Bulk Electricity Trading Company.

The general expectation is that, in implementing its 2021 capital expenditure budget, the FG would prioritize the completion of ongoing capital projects, particularly those with high rates of return, to maximize their expected positive impact on the economy. This is especially important considering that numerous projects were put on hold last year due to the lockdown and restrictions to curtail the COVID-19 pandemic.

2.2. Recurrent Expenditure

One of the FG's medium-term fiscal policy objectives, based on the Medium-Term Expenditure Framework (2018 to 2020), is to address the recurrent and spending imbalance in previous national budgets by allocating at least 30% of FG's spending to the execution of capital projects. This objective has been achieved in the approved 2021 Budget, with capital expenditure allocation (exclusive of statutory transfers) at 30.36% of the aggregate expenditure. The resultant effect of that is a 26% reduction in recurrent expenditure compared to last year, from N7.59 trillion in the revised 2020 Budget to N5.64 trillion in 2021.

It is interesting to note, though, that despite the relative reduction in recurrent expenditure, the aggregate personnel cost of Government Ministries, Departments and Agencies (MDAs) and GOEs still increased by 23% year-on-year! The annual increase in the FG's wage bill – without a commensurate increase in government revenue – is a thread that has run through past national budgets. It, however, requires urgent review in light of current economic realities, as a situation where year-on-year increases in personnel cost far outpace revenue growth is clearly unsustainable.

3. Finance Act, 2020

As part of the Executive's commitment to align the country's laws and policies with globally acceptable policies, the President also presented Finance Act, 2020 ("the Act") alongside the 2021 Budget. The Act was subsequently passed by the National Assembly and signed into law by the President on 31 December 2020.

The passage of Finance Act is a laudable achievement by the FG and reinforces its commitment to making incremental changes to Nigeria's fiscal framework, to ensure that Nigeria has a fiscal environment that enables the achievement of the country's economic growth and development imperatives.



Finance Act, 2020 seeks to address five thematic areas:

- adopt counter-cyclical measures and crisis intervention initiatives,
- provide fiscal relief for mass transit
- amend the public procurement reforms to implement key procurement reforms
- amend key tax legislations and fiscal responsibility laws
- institutionalise the ease of doing business reforms.

The FG, through the Act, has implemented a wide range of modifications to existing tax legislation, some of which are highlighted below:

I. Value Added Tax (VAT)

- a. Finance Act, 2020 expanded the place of supply rules introduced by Finance Act, 2019 and has clarified the implementation of these rules. According to the Act, *vatable services are deemed to be supplied in Nigeria where "... the service is provided to and consumed by a person in Nigeria, regardless of whether the service is rendered within or outside Nigeria or whether or not the legal or contractual obligation to render such service rests on person [sic] within or outside Nigeria..."* The Act also expanded the definition of "place of supply" by introducing rules relating to services rendered with respect to immovable properties located in Nigeria as well as incorporeal property.
- b. Finance Act, 2020 introduced new definitions for "goods" and "services" to address the controversy surrounding the previous definitions of the terms. These definitions have clearly put to rest the erstwhile debate on the vatability of rental payments on commercial properties, as "goods" and "services" have been defined for VAT purposes to explicitly exclude land, building, money and securities from their scope.
- c. The Act also clarified the VAT registration requirement for non-resident vendors by changing the trigger for a non-resident's VAT registration to the making of "*taxable supply of goods or services to Nigeria*." The Act requires such vendors to obtain a tax identification number (TIN) from the FIRS upon registration, and include VAT on their invoices for the supply of taxable goods and services.

It is expected that the revision of the definition of "place of supply," "goods" and "services," and the clarification of the registration requirements of non-resident vendors will clarify the scope of Nigeria's VAT net and increase VAT collection. This should put the country on track to its target Tax-to-GDP ratio of 15% – although that target still falls short of the average Tax-to-GDP ratio for African countries (of 16.5%) per the OECD's Revenue Statistics in Africa 2020.

II. Companies Income Tax (CIT)

a. Taxation of incidental income earned by international shipping and airline companies (ISACs)

ISACs are governed by a distinct framework in the CIT Act under which they are liable to a minimum tax (MT) of 2% of the full profits arising from carriage of passengers, mails, livestock, or goods shipped or loaded into an aircraft in Nigeria. The MT regime has, however, generated significant controversy in recent years as the FIRS has argued that ISACs' incidental income – especially demurrage income arising from inbound containerized shipping – should be taxed under a separate CIT provision at an effective tax rate (ETR) of 6%.

To address the above controversy, Finance Act, 2020 amended the MT rules to preclude incomes from leasing, containers, non-freight operations or any other incidental income earned by ISACs, from being taxed under Section 14 of the CIT Act. By implication, those income streams may be taxed at an ETR of 6% going forward.

b. Introduction of penalties for deliberate filing of incorrect CIT returns

Finance Act, 2020 also introduced sanctions for a deliberate filing of incorrect CIT returns by companies. These sanctions include payment of the outstanding tax assessed by the FIRS and penalty and interest accruing on the outstanding amount from the date the incorrect return was filed.

While this amendment is intended to drive compliance amongst companies, it is also expected to increase the FG's non-oil revenue. That said, there may be practical challenges with the application of the provision as it may be difficult for the tax authority to determine when a taxpayer dishonestly files a return or when an incorrect tax return was filed by reason of an innocent mistake.

III. Personal Income Tax (PIT)

• Taxation of non-resident individuals

Similar to the introduction of the significant economic presence (SEP) rules introduced by Finance Act, 2019 to enable the taxation of non-resident companies in Nigeria, Finance Act, 2020 now extends this rule in taxing non-resident individuals. Specifically, income earned by non-resident individuals, executors and trustees from technical, management, consultancy or professional services provided to a person resident in Nigeria, will now be subject to a final 10% withholding tax in Nigeria, if such foreign service providers have a significant economic presence (SEP) in Nigeria.

IV. Companies and Allied Matters Act, 2020

• Unclaimed Dividend Trust Fund (UDTF)

Finance Act, 2020 also created a sub-fund to the Crisis Intervention Fund (CIF), called the UDTF, which will be funded by any unclaimed dividend of a public limited liability company quoted on the Nigerian Stock Exchange and any unutilized amounts in a dormant bank account maintained in or by a deposit money bank which has remained unclaimed or unutilised for a period of not less than six years from the date of declaring the dividend or domiciling the funds in a bank account. The funds in the UDTF shall be a special debt owed by the Federal Government to the shareholders and dormant bank account holders, respectively, and shall be available for claim, together with the yield thereon, at any time such shareholder or bank account holder makes a claim.

It is expected that these funds, when collected, will finance the 2021 Budget deficit and reduce the FG's borrowing costs.

Other initiatives of the FG to identify new revenue streams and enhance enforcement of existing tax revenue streams include:

- Revision of exemption from excise duties
- Introduction of a legislative basis for the President to impose excise duty on telecommunication services
- Introduction of the Electronic Money Transfer Levy

We are of the opinion that Finance Act, 2020 will:

- not only seek to raise tax revenue by closing existing loopholes in the laws, but also clarify contentious provisions of the tax laws while providing relief to taxpayers and revenue to the FG;
- stimulate investment in the agricultural and transportation sectors of the Nigerian economy while improving the standard of living of the populace;
- promote fiscal equity to prioritise job creation and accelerate economic recovery and growth; and
- further align our domestic laws with global best practices.

Please refer to our [Finance Act, 2020: Impact Analysis e-book](#) for a detailed review of the Act.

"Finance Act, 2020 also introduced sanctions for a deliberate filing of incorrect CIT returns by companies."

4. Exchange Rate

The approved 2021 Budget specified an exchange rate benchmark of ₦379:US\$1. This rate is consistent with the CBN's official exchange rate³⁰, but about 8% lower than the official Nigerian Autonomous Foreign Exchange (NAFEX) closing market rate of ₦410.25:US\$1 as at 31 December 2020³¹.

Over the years, there have been persistent calls for the unification of the multiple official exchange rates in the country. The CBN's creation of the Investors' & Exporters' Window in April 2017 to enable a market-determined exchange rate, the NAFEX, was initially viewed by many as its response to these calls. However, the FG's insistence on leaving the approved exchange rate at ₦379:US\$1 despite market realities, may suggest that it intends to continue to defend the naira in 2021, which will continue to put a strain on the country's external reserves.

5. Stamp Duties and Electronic Money Transfer Levy

Encouraged by its increased stamp duties collection in June 2020, the FG intends to generate stamp duties revenue of ₦500 billion to finance the 2021 Budget. This represents a 150% increase from the ₦200 billion budgeted in the 2020 Budget and a 400% increase from the budgeted stamp duties revenue for 2019.

Considering that a substantial part of the FIRS' stamp duties collection in 2020 accrued from the ₦50 stamp duty on qualifying electronic receipts and money transfers, which has now been recharacterized as Electronic Money Transfer Levy (EMTL), it is unclear if the EMTL would be accounted for as stamp duties, or as a standalone source of government revenue for budget reporting purposes, or if the FIRS would still be required to collect stamp duties (excluding EMTL) of ₦500 billion. What is clear, though, is that the FIRS is likely to continue to enforce compliance with the Stamp Duties Act in 2021 to achieve its revenue aspirations.

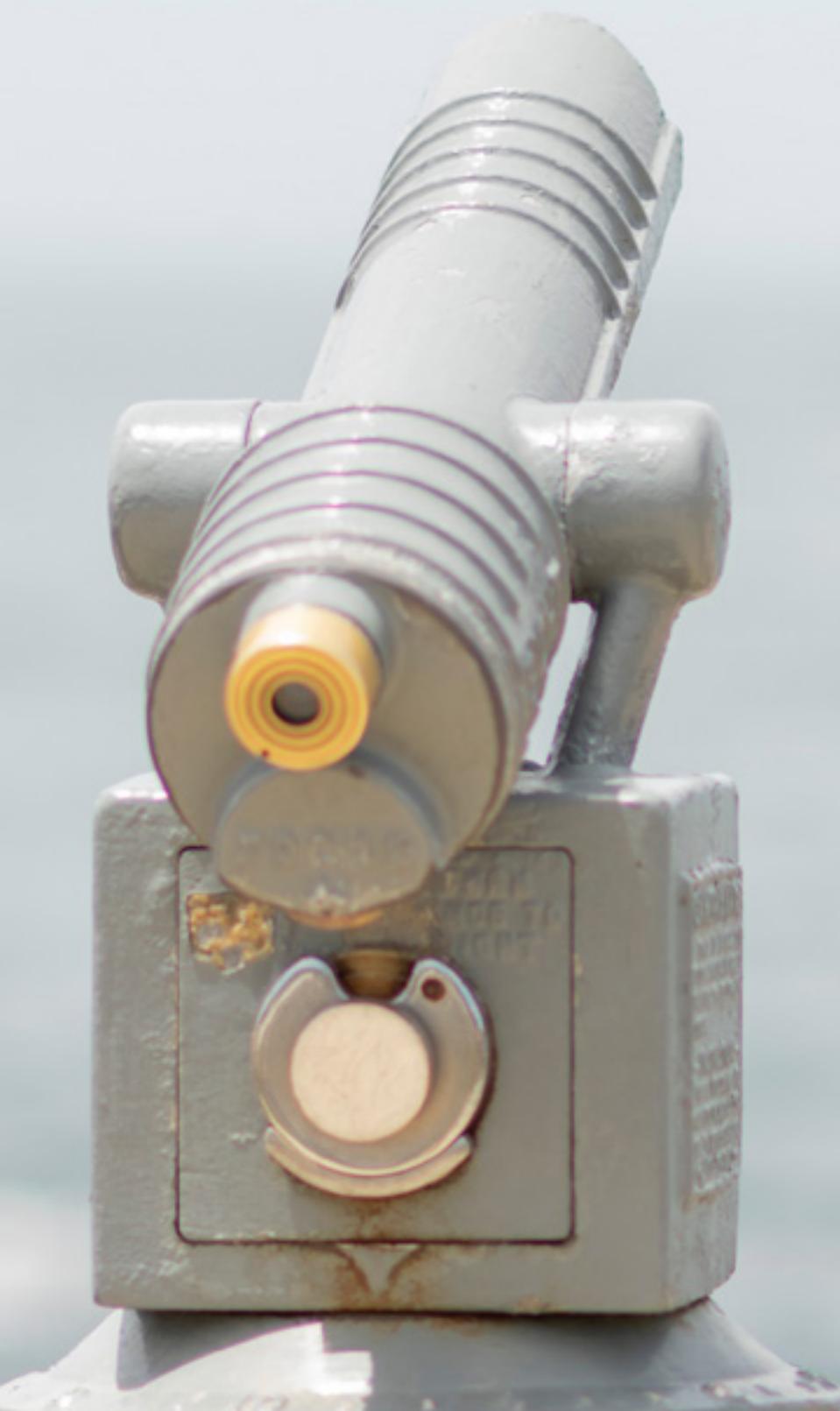


³⁰<https://www.cbn.gov.ng/rates/ExchRateByCurrency.asp>

³¹<https://fmdqgroup.com/>

7.0

2021 Business Sector Outlook & Recommendations





Agricultural Sector



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Partner & Head CIM

2020 Reflections

Nigeria is a signatory to the Maputo Declaration of 2003, which mandated all African Union member countries to allocate at least 10% of their total annual budgets to agriculture. Nigeria has not been able to honour this declaration in its annual budgets. The 2020 budget in which 1.34% of the total budget was allocated to the Agricultural Sector ("the Sector") was not an exception. Despite the underinvestment over the years, the agriculture sector continues to present a huge development potential for the Nigerian economy in terms of food security and contribution to GDP, and as a source of employment and foreign exchange earnings.

In 2020, COVID-19 slowed down investment in the Sector as government and private organisations struggled for survival. Insecurity and flooding also had a negative impact on agricultural productivity which, along with the land border closure in August 2019, resulted in supply shortages and price increase.

Despite the challenges faced in 2020, agriculture had an annual 2020 contribution of 26.21% to overall real GDP this is 1.05% higher than the 2019 contribution of 25.16%³². The real annual growth rate of the sector stood at 2.17%, a 0.19% decrease from the 2.36% recorded in 2019. Crop production remains the major driver of the sector, accounting for 89.67% of the Sector's overall nominal growth in the fourth quarter of 2020 and 91.44% for the year.

2021 Business Outlook

The second wave of COVID-19 infections pose a greater risk than experienced in 2020 due to the higher transmission and fatality rates being recorded. As the situation evolves, both Federal and State Governments continue to implement various measures to curtail the spread of the virus. This may affect the Agricultural Sector as a result of supply input constraints, especially for imported inputs. The arrival of the Oxford-AstraZeneca COVID-19 vaccine in Nigeria is not expected to fully eliminate this risk due to the time and effort that would be involved in vaccine procurement, distribution and administration.

The insecurity in the country is having a significant spill-over effect on agriculture – both production and distribution; thus, increasing food prices across the country. This, together with the increase in fuel prices and transportation cost, is pushing inflation upwards.

Inflation reached a 3-year high of 15.75% (year-on-year) in December 2020 from 14.89% in November 2020. This is the highest rate since November 2017 and is headlined by food inflation, which rose by 19.56% in December 2020 from 18.30% in November 2020³³. This positive correlation implies that the Sector plays a key role in driving the Nigerian economy and therefore interventions in controlling food inflation are required in 2021³⁴.

Whilst the COVID-19 and insecurity situation in the country are expected to continue to exert inflationary pressures on food prices, the recent re-opening of land borders and the commencement of the Africa Continental Free Trade Agreement (AfCFTA) should give rise to importation of cheaper food items and may have a moderating effect on food prices and, ultimately, headline inflation.

³²National Bureau of Statistics, Nigerian Gross Domestic Production Report – Q3 2020

³³National Bureau of Statistics, Consumer Price Index Report – December 2020

³⁴Fitch Solutions, Nigeria Agribusiness Report – Q1 2021

The impact of the border closure imposed in August 2019 imposed supply constraints on food items making it difficult to meet the country's demand. This situation created potential opportunities for investments in the agricultural sector to boost local production to meet the demand gap. With the re-opening of the borders in December 2020, investments into the sector may slow down as investors move to other African countries that are more competitive. This is more likely to be so as the take-off of AfCFTA has provided investors the flexibility to produce anywhere in Africa and export to other African countries.

To continue to improve the agriculture sector in 2021, the FG should consider the following:

- **Insecurity:** As indicated earlier, insecurity has become a major threat to food security in the short to medium term as agriculture production has recently become a target for insurgents and bandits in the Northern states of the country. To guarantee food security across the country, the FG needs to intensify efforts in ensuring the security of lives and properties of farm owners and other agribusiness operations. The relative stability experienced in the farmer-herdsman crises should be sustained by proactively exploring opportunities to manage tensions and build harmonious relationships between the farmers and herdsmen. It is expected that the capital expenditure of ₦127 billion allocated to the Ministry of Defence would be channelled towards equipping the military to tackle the insecurity problems. More collaboration between the various security agencies and intelligence gathering/sharing would also be required to effectively address the security challenges in the country.
- **Sustained financial support/funding:** In 2020, the CBN reduced interest rates from 9% to 5% and extended moratorium on interest and principal repayments for credit facilities provided through its various intervention loans (administered through various commercial banks, Bank of Industry, Bank of Agriculture, etc) by one year ending 31 March 2021. These were aimed at cushioning the impact of COVID-19 on the beneficiaries of the various interventions including many borrowers in the agricultural sector. With Nigeria well into the second wave of COVID-19 which appears to be more infectious, it is not clear when the country would become free of the virus. The CBN's recent extension of the reduced interest rate regime till 28 February 2022, and its indication that the roll-over of the moratorium on repayments would be considered on a case-by-case basis, should therefore boost agricultural activities and increase outputs.
- **Infrastructure challenges:** Adequate infrastructure across the country is critical to creating an enabling environment for large scale investments in the Sector. The FG needs to tackle the challenges of unreliable power supply which hampers the local processing of raw agriculture produce and poor transportation which limits distribution of farm produce from the farms to the markets. The provision of rural roads which was included in the 2021 Budget of the Federal Ministry of Agriculture and Rural Development, if executed along with the rail projects of the Federal Ministry of Transportation, irrigation programmes of the Federal Ministry of Water Resources, the road projects of the Ministry of Works and Housing and the various power projects of the Ministry of Power, should alleviate the infrastructure challenges hindering the progress of the sector. Collaboration between the various ministries is required to ensure the synergy necessary for overall efficiency and effectiveness in delivery of the various infrastructure projects required to unlock the Sector's full potential.

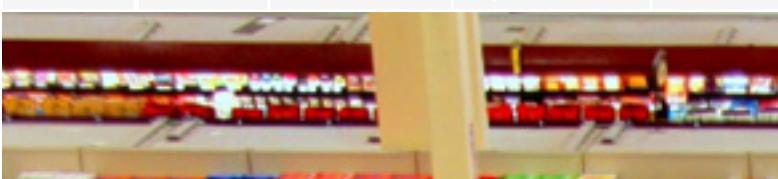
• **Fiscal and monetary policies:** The FG, through its agencies including the CBN and the Nigeria Custom Service, continues to issue guidelines which ban importation of or restrict access to foreign exchange on certain agricultural commodities (e.g., tomato concentrate, maize) with the aim of boosting local production. While these initiatives may present opportunities for the Sector in terms of creating local demand and thereby attracting both local and foreign investments, they also have the potential for creating short-term supply shortages, thus increasing prices and inflationary pressures. Also, import restrictions or ban may have a negative spill-over effect on the manufacturing sector where the affected product is a major input. The government will therefore need to evaluate the potential impact of any proposed import restriction or ban on the overall economy and ensure consistency in policies to boost investor confidence.

The fiscal policies in Finance Act, 2020 in the form of zero or reduced tariff aimed at encouraging importation of needed agricultural machinery to boost mechanization, are a step in the right direction.

• **Low yield:** Low yield has been a problem in the Sector (especially for small holder farmers who contribute over 80% of food production) and is attributable to factors such as poor farming practices due to limited knowledge of modern methods of agriculture, poor quality and timeliness of inputs, and very limited mechanisation. In the 2021 budget, the Federal Ministry of Agriculture has made a provision for training and deployment of extension service providers and access to inputs among other initiatives. If properly and timely executed along with the irrigation programme of the Ministry of Water Resources, these initiatives would help improve farming practices and increase product yield. Effective collaboration between the Ministry of Agriculture and Rural Development and the Ministry of Water Resources is necessary to achieve the desired outcomes.

Overall, we expect agriculture to remain a major contributor to GDP in 2021. With increasing population, there is need to ensure food security for the country. Unlocking the potential of the agricultural sector requires government to address the challenges confronting the Sector. This requires effective collaboration among the relevant government ministries and agencies. The insecurity in various parts of the country, especially in the Northern states, has become a major threat to agricultural productivity and must be effectively addressed if the country is to curtail food price inflation in 2021. Furthermore, provision of inputs and extension services (both of which are included in the 2021 Budget) would increase productivity of the Sector if properly executed along with other programmes/projects of related ministries such as Transportation, Power, Works and Housing and Water Resources. The implementation of the recommendations should be a useful guide in resolving the challenges and re-positioning the agricultural sector in 2021 and possibly beyond.





Consumer and Industrial Markets



Goodluck Obi
Partner & Head CIM

Tayo Ogunbenro
Partner CIM

2020 Reflections

According to the NBS, an analysis of the manufacturing sector in 2020 shows that real contribution to GDP in Q4 2020 was 8.60%, 0.14% lower than the 8.74% recorded in Q4 2019 and 0.33% lower than the 8.93% recorded in Q3 2020. However, annual contribution to real GDP stood at 8.99% for 2020. The manufacturing sector also contracted by 1.51% in Q4 2020 similar to that recorded in Q3 2020. The only positive growth margin of 0.43% was reflected in the first quarter of 2020 and understandably so due to the fact that the COVID-19 pandemic and lockdown measures by the Government officially took place between March and April.

The performance of FMCG (Fast Moving Consumer Goods) firms in 2020 was moderate, reflecting the numerous challenges encountered in light of the new economic realities. With Nigeria slipping into recession in November 2020, five sectors suffered the hardest hit, and these are: hospitality, real estate, wholesale and retail trade, manufacturing (FMCG) and oil and gas. The construction and cement segments experienced positive growth at the end of 2020 contributing 3.50% to real annual GDP. The sectors were able to recover after an unprecedented dip in Q2 2020. Growth in the segments is expected to remain positive going into 2021 on the back of Nigeria's 2021 Budget which makes a ₦3.9 trillion provision for capital projects, 43% higher than 2020 with the major bulk going into works, housing and transportation. Increasing urbanization is also expected to boost the sectors' performance and contribute to more growth and capacity expansion.

The Food and Consumer Goods segment continues to be impacted by low purchasing power and several macro forces pitched against the customer. Rising consumer prices, electricity tariff hikes, increasing fuel prices all contribute to the expenditure pressure faced by consumers. In 2020, household spending was forecasted to contract by 3.53%. According to the Manufacturers Association of Nigeria (MAN), manufacturers' inventory of unsold goods rose to a record high of ₦402.4 billion as consumer spending fell. Consumption is expected to be moderate in 2021 as economic activities rebound, whilst inflationary pressures are expected to be sustained in 2021 driven by rising costs. Reviewing the supply side, some of the measures embraced by the government to curtail the economic impact of the pandemic, which disrupted global and regional supply-chains, had an adverse impact on the manufacturing and services sectors in Nigeria. It is important to note that consumer confidence is dependent on income, savings levels and macro-economic conditions.

"With Nigeria slipping into recession in November 2020, five sectors suffered the hardest hit, and these are: hospitality, real estate, wholesale and retail trade, manufacturing (FMCG) and oil and gas.

2021 Outlook

The Consumer and Industrial Markets (CIM) sector's outlook for 2021 is modest and may swing both ways (positively and negatively) based on the following determinants:

- **Fiscal and Monetary Policies:** As part of the FG's efforts at engendering sustainable economic recovery, some fiscal and monetary policies were rolled out, particularly to benefit Micro, Small and Medium Enterprises such as the passage of Finance Act, 2019 which exempts small business from certain tax obligations. In spite of these policies, the manufacturing sector still experienced severe contraction as highlighted above.

The FX environment is also expected to remain under pressure with limited upside from FX earnings. Recent currency devaluations are likely to hurt the economy and bring pains to most Nigerians, given the country's import-dependent nature and dependence on oil revenue. The cost of importing critical raw materials will also rise, including for petroleum products that hitherto were subsidized at the official window.

Nigeria's food inflation increased by 1.26 % on a year-on-year basis from 18.30% in November 2020 to 19.56% in December 2020. The reversal of the land border closure is expected to ease food prices; however, the impact of this may not be felt immediately.

- **Supply and Demand Shocks:** Last year, the country's Purchasing Managers' Index (PMI) for both manufacturing and non-manufacturing sectors dipped to its lowest level since July 2014. More specifically, non-manufacturing PMI fell to 31 points in Q2 2020 from 56 points in the preceding quarter, whilst manufacturing PMI declined to 42 points in Q2 2020 from 56 points in the first quarter. Topline performance for most manufacturers in this space will be driven by demand for essential and non-essential items.

- **Productivity Constraints:** The increase in national minimum wage, which was expected to raise the level of wages in the country, is yet to permeate consumer pockets largely due to rising consumer living cost pressures. In addition, petrol prices are forecasted to sustain an uptrend in 2021 as oil prices rise. Another important uptick is the rise in electricity tariffs which is expected to continue well into 2021. Furthermore, the rising spate of insecurity and herdsmen attacks in the North remains a source of concern on food production. As a result, food prices are expected to be elevated in the first half of the year. Considering these challenges, the average consumer may need to brace up for a challenging 2021 with regards to spending power and budget flexibility.

- **AFCFTA:** The AFCFTA agreement which will officially begin this year will also have far-reaching implications on the CIM sector given that Nigeria is the largest economy in Africa and is responsible for 14.5% of the continent's GDP and 16.5% of its population. Some opportunities inherent for the sector include the fact that Nigerian manufacturers will be faced with intense competition and this could lead to greater efficiency, a potential reduction in production costs and induced economies of scale for businesses. One major risk for Nigeria when the AfCFTA comes into force is the potential abuse of rules of origin, a situation where traders or producers disguise that goods are produced within Africa, so they can qualify for tariff-free treatment.

To address this risk, there is need for a strict and enforceable mechanism within the trade agreement. Nigeria must also improve border scrutiny and security to prevent dumping.

- **Policy Regulation and Incentivisation:** The disbursement and effective utilization of the budgetary allocations to critical infrastructure, such as those listed below, has the potential to improve cost of doing business for the sector:
 - East-West highways dualization projects in the Niger Delta region
 - ₦71 billion counterpart funding for railway projects
 - Trade and Market Access - ₦10 billion for the development of Special Economic Zones
- **Automation of the Nigeria Customs Service:** This is expected to lead to increased availability of manufactured goods, reduce inefficiencies at the ports and ensure faster turnaround time for processing goods. Such productivity gains will lead to increased output and manufacturers will also be required to pay accurate custom duties.

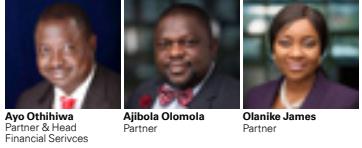
Conclusion

The Nigerian manufacturing landscape is changing rapidly with increased government policies aimed at stimulating private sector involvement and boosting local production of key products. In line with the diversification drive of the current administration as well as in fulfilment of one of its cardinal pillars of food security, it is expected that the government will continue to prioritize activities within the sector through targeted policies to attract investments.

As key food industry players continue to implement various strategies to increase volumes and market share and improve profitability, backward and forward integration could potentially be a key strategy for achieving sustainable growth in the long term. The full implementation of the increased minimum wage expanded credit provision to the private sector, and CBN's introduction of palliative measures are expected to boost growth and domestic demand. Further, addressing issues such as infrastructure deficit, paucity of skilled labour, inconsistent government policies and rising cost of production inputs which continue to put pressure on prices, will have a significant impact on the performance of the CIM sector in 2021.

Given the new realities that consumer goods' companies will deal with in light of the COVID-19 pandemic, the importance of having a strengthened supply chain cannot be over-emphasized. Traditional supply chains must evolve into connected, smart and highly efficient supply chain ecosystems with layers to address customer needs and digital operations. Enabling the supply chain to evolve and meet customers' changing expectations will be a core driver for investment. Businesses, therefore, need to start making the right decisions to ensure they remain at the forefront of the curve. Every company is at a different stage in its digital evolution; thus, a steadfast focus on fundamental capabilities is vital. FMCGs are advised to take advantage of digitalized processes whilst supporting organizational enablement and technology innovation. This will help them achieve their ambition and enjoy the related benefits.

Financial Services Industry



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2020 Reflections

Financial services industry (“the Industry”) performance in 2020 was modest and mixed. The sectorial GDP contribution for Q4 2020 was positive, although it decreased from 3.19% in Q4 2019 to 3.07%. This is however 0.4% points higher than the 2.67% recorded in Q3 2020. Despite overall recessionary trends in the economy, Nigeria’s equity market delivered strong returns and the Nigerian Stock Exchange (NSE) was the best performing stock exchange in the world among the 93 equities indexes tracked by Bloomberg.³⁵

The banking and insurance sectors reported strong performances with market capitalisation increasing by 10.1% and 50.6%, respectively. Similarly, the debt market, although characterized by low yields, remained resilient with a total turnover of ₦215.08trn, indicating a year-on-year decrease of 7.57% (₦17.61trn) on the turnover of ₦232.69trn recorded in 2019.³⁶

The industry contended with three major challenges in 2020 that shaped the performance outcomes. The first challenge was the weakened macro-environment arising from the twin shocks (of COVID-19 and depressed oil prices) and the policy responses characterised by exchange rate volatility including the devaluation of the naira by the CBN to ₦360/US\$ in March and then to ₦380/US\$ in July. The second challenge was the periodic regulatory shocks arising from the monetary policy authorities which was really unconventional. These regulatory shocks included unpredictable Cash Reserve Ratio (CRR) withdrawals, Loan-to-Deposit Ratio (LDR) sanctions and policy changes on trade and remittance collection processes. The third challenge was the increased adoption of digital platforms by customers instigated by the COVID-19 lockdown, which resulted in rapid growth in demand for digital transactions that was faster than what the industry’s business and operating model could support. The increased adoption of digital platforms also exposed the industry to elevated operational risks with cybersecurity, associated cyberattacks and frauds becoming top priority for executives.

The monetary authorities’ palliatives which allowed banks to restructure and vary the terms of their loans and advances to business affected by COVID-19 also meant that the impact of COVID-19 on impairments is deferred to 2021 and onwards.

"Despite overall recessionary trends in the economy, Nigeria's equity market delivered strong returns and the Nigerian Stock Exchange (NSE) was the best performing stock exchange in the world among the 93 equities indexes tracked by Bloomberg.

³⁵<https://www.bloomberg.com/africa>

³⁶<https://fmdqgroup.com/wp-content/uploads/2021/01/FMDQ-Exchange-FIC-Monthly-Report-December-2020.pdf>

2021 Outlook: The New Reality

2021 is the beginning of the New Reality. The post-COVID-19 period is expected to be characterised by increased adoption of digitisation, change in the way we work, and change in nature of interactions as it relates to communication, travel, and education. The “*New normal*” sets in as learned behaviours and empowering technologies tested during crisis become the standard. The nature of interactions (communication/travel/education) has irrevocably changed. Consequently, the main external factors that will shape the Industry are expected to be similar to what we saw 2020.

(i) Macroeconomic developments and policy responses:

There is a positive outlook for broad macroeconomic performance in 2021 and since the Industry performance correlates with macroeconomic performance, the Industry's performance is expected to be better than in 2020. The macro realities of FX instability and low-yield environment are expected to impact the Industry's performance in 2021, albeit at a milder level when compared to 2020. We also expect to see an increased manifestation of default risk in 2021.

(ii) Regulatory pressure and shocks:

Regulatory developments will remain the critical determinants of the overall performance of the Industry in 2021. As policy authorities focus on the objectives of supporting the fiscal authorities' expansionary policies, accelerating credit penetration into the real economy, managing liquidity in the economy and driving industry stability and confidence of customers and investors, the regulatory trends we saw in 2020 will persist.

We expect more reactionary tactical pronouncements on CRR and LDR, refinement to FX inflows/outflows processes as well as sanctions, regulation of the emerging digital space as well as expanding development finance schemes for the banking sector. There may be potential pick-up of the consolidation and strengthening of capital themes for the insurance sector.

New regulatory trends will also emerge to shape the evolution in the fintech and digital space which will cover their operation and products, consumer protection etc. For example, bitcoins (and other cryptocurrencies) and trading in the global capital markets will be in the regulatory spotlight in 2021.

(iii) Customer and digital transformation: The New Reality means customer experience and digital transformation will be a priority on the agenda of financial services executives in 2021 as the strong growth momentum in digital adoption is sustained. As of December 2020, there were about 204 million active internet subscribers according to the Nigerian Communications Commission (NCC).³⁷ This is expected to further drive new ways of working, new performance metrics, and new ways of connecting with and managing employees, well beyond the “*work from home*” dimension.

The Industry will need to increase investment in building a connected enterprise that is anchored on digital across their business and operating models.

2021 Budget and the Financial Services Industry

2021 Budget has varied implications for the financial services industry with implicit opportunities and threats for the Industry. Highlighted below are some of the elements of the Budget and their implications for the Industry:

(i) Deficit Financing: The Budget planned a deficit of approximately ₦5.2 trillion to be financed mainly by borrowings from domestic sources (₦2.34 trillion), foreign (₦2.34 trillion), multi-lateral /bi-lateral loan drawdowns (₦709.69 billion) and privatisation proceeds (₦205.15 billion).³⁸ How the domestic borrowing of ₦2.34 trillion is financed is very important: If it will be sourced from the domestic debt market, it provides an opportunity in the government debt markets for the financial services players.³⁹ On the other hand, if the deficit is financed through Ways and Means, the benefit to the Industry will be lost.

Also, there are potential risks of government crowding out the private sector from the debt market with the consequence of the current low interest rate environment persisting. A low-interest rate environment, which reduces cost of borrowing for the government, will result in lower returns and potential negative yields (given the high inflation rates of 15.75% as at December 2020) for financial services players including the Banks, Pensions, Insurance and Capital Market players. It will also discourage savings which is required for capital formation.

The Government's plan on privatization also offers capital market players opportunities to drive privatization advisory services and deals, and banks funding opportunities to support the acquirers of the government assets.

(ii) Revenue Mobilisation and Collection Drive Leveraging Digital Platforms: The government is aggressively driving revenue mobilization across several fronts using various digital initiatives. Banks can increase investment in digital collection platforms to support government with its various revenue mobilization programs.

On the other hand, the government initiatives to take over unclaimed dividends and dormant deposits within the financial systems will negatively affect the financial services industry as cheap source of liquidity will now be taken from the system. This may also affect investors' confidence in the capital market.

Finance Act, 2020 redesignated “*electronic banking transfer duties*” as Electronic Money Transfer Levy of ₦50 on electronic receipts and electronic transfers of ₦10,000 and above in any deposit money bank. This effectively allows Banks to continue to collect ₦50 charges on qualifying transactions.

(iii) Social Investments and Regional Interventions: The provision of ₦400 billion for special intervention program, ₦20 billion for Family Home Fund, ₦25 billion for Youth Investment fund and ₦65 billion for reintegration of militants present opportunities for on-lending services and Government-to-persons (G2P) payments and transaction support for the Banks.⁴⁰

³⁷<https://www.ncc.gov.ng/>

³⁸<https://budgetoffice.gov.ng/>

³⁹<https://budgetoffice.gov.ng/>

⁴⁰<https://budgetoffice.gov.ng/>

Sectorial Interventions with Potential to Enhance the Banking Industry Portfolio

- **Power Sector Recovery Programme:** In driving the Power Sector Recovery Programme, the 2021 Budget allocated ₦142.05 billion transfers to Nigerian Bulk Electricity Trading Plc (NBET), of which ₦131.5 billion is for the Power Sector Recovery Programme (PSRP). This is expected to positively impact the performance of the power sector and could potentially enhance the quality of the banking industry portfolio exposure to the sector.
- **Conversion of maturing bonds to local contractors:** The FG has made provision in the Budget to retire maturing bonds of ₦200 billion (1.68% of total expenditure to local contractors). The clearing of the contractual obligation is expected to enhance the banking industry's portfolio related to government contractors.
- **Education sector Fund allocation to UBEC and TETFUND:** The 2021 Budget allocation to education includes transfers to UBEC of ₦70.1 billion and transfers of ₦323.3 billion to TETFUND. This provide deposit mobilization opportunity for the public sector strategic business unit of the banking sector.

The Imperative for Financial Services Industry players in the New Reality

In the New Reality, we believe the industry must focus on the following:

- (i) **Harnessing the shift to a digital economy:** Programs and platforms to extend and improve digital delivery – through customer-facing, digital channels and the associated functionality, IT systems, and the cloud – need to be accelerated and scaled beyond individual products or channels to become enterprise-wide.
- (ii) **Accelerating play in the underserved segment of the market and driving product penetration:** The financial services landscape is evolving into an ecosystem play. Fostering partnerships and collaborations within the landscape (e.g. partnerships with fintech players) will enable opening technology infrastructure to the Industry's ecosystem to integrate and drive innovation.
- (iii) **Reimagining cost and the emergence of new operating models:** With income set to be squeezed, bad debt provisions rising, and cost bases enlarged, small incremental measures will not be sufficient to make a headway in the new reality. Bold thinking will be required to take advantage of the opportunities COVID-19 has created in re-engineering operations and processes.
- (iv) **Building a strong and resilient balance sheet:** The Industry will need to identify and implement short- to medium-term capital-accretive actions to optimize the balance sheets to accommodate both external and regulatory shocks.

(v) Rewriting the risk management playbook: The Industry players must adopt new models for operational risk and resiliency to cope with uncertainty (e.g. investment in cyber risk management). Operations must be able to flex between physical and virtual footprints or a hybrid of the two.

(vi) Adapting to new ways of working: The effects of COVID-19 have seen new ways of working, new performance metrics, and new ways of connecting with and managing employees, well beyond the "work from home" dimension. The Industry players will need to rethink employee experience to move beyond "return to work" and consider what steady-state looks like. They must relook their human capital strategy especially roles, hierarchies and spans, training and development, and the technology tools needed to support the strategy in a post-COVID-19 era.



Government



Dimeji Salaudeen
Partner

Oluwole Adelokun
Senior Manager

Setting the Context

Nigeria started the year 2020 with a nod from the World Bank for being one of the economies with the most notable improvement in the ease of doing business. The country was ranked 131 out of 190 in the World Bank's Doing Business 2020 index – 15 places up from its 2019 spot at 146.

Starting Q2 2020, Nigeria experienced unprecedented twin shocks of the COVID-19 pandemic and the plummeting oil price which led to a drastic reduction in revenue for the predominantly oil-financed economy. The enforcement of a lockdown also occasioned a loss of livelihood for many Nigerians who depended on daily commercial activities, events and physical movement to earn a living. By Q2 and Q3 2020, the economy had contracted by 6.1% and 3.62%, respectively, but showed slight improvement by the end of Q4 2020 with a reported 0.11% growth in GDP.

According to the World Bank's Nigeria Development Update report, about 11 million more Nigerians are expected to fall into poverty as a result of the COVID-19 pandemic and the economic recession. By implication, the total number of persons categorized as '*poor*' may increase from 90 million to 100 million (about half of the nation's population) by 2022.

In an effort to right the shape and adjust to the new economic realities, the President signed the revised 2020 Budget into law on 10 July 2020. The revised Budget adopted a conservative revenue estimate based on a US\$28 per barrel oil price benchmark with an estimated daily production volume of 1.8 mbpd. This was a significant departure from the initial budget estimates which projected a \$57 per barrel oil price with a corresponding production volume of 2.18 mbpd and an exchange rate of ₦360/US\$1.

Several interventions were introduced at both the national and sub-national levels in a bid to temper the effects of the pandemic on the populace. Notable among those were the measures put in place by the CBN to reflate the economy and support businesses. These included: reduction of interest rate on all CBN intervention facilities from 9% to 5% effective 1 March 2020; extended moratorium (principal and interest) for States on FG and CBN-funded loans; creation of a ₦50 billion targeted credit facility for households and Small and Medium-scale Enterprises (SMEs) that were particularly hard hit by COVID-19; and introduction of a ₦100 billion intervention scheme to promote infrastructure development in the healthcare industry. Also, the FG developed the ₦2.3 trillion Economic Sustainability Plan (ESP), which consists of fiscal, monetary and sectoral measures to enhance local production, support businesses, retain and create jobs, and provide succour to Nigerians.

In addition, an Emergency Economic Stimulus Bill, 2020 was passed by the House of Representatives to provide tax rebates to companies that do not layoff staff, defer payments of mortgages under the National Housing Fund and suspend import duties on medical equipment, medicines and personal protective gears required for the treatment and management of COVID-19.

Unfortunately, the Bill was not eventually enacted into law.

The 36 States of the Federation and the Federal Capital Territory were also granted access to the US\$90 million Regional Disease Surveillance Systems (REDISSE) facility to increase their ability to combat the effects of the pandemic.

The Federal and State tax authorities also provided support to businesses by extending filing deadlines, waiving penalties and enabling e-filing procedures. Other agencies such as the National Agency for Food and Drug Administration and Control and the Corporate Affairs Commission ramped up on the provision of services to the public through electronic channels.

In addition to the above, a magnitude of support was also provided by the private sector through philanthropic activities aimed at combating the pandemic at the Federal, State and Local levels. Donations were made by private companies, NGOs and individuals in the forms of cash, medical equipment and other relief materials. As the fight against the pandemic continues, the FG has been tasked with the difficult responsibility of rebuilding and reflating the Nigerian economy.

2021 Budget Allocation and Outlook

The 2021 Budget of Economic Recovery and Resilience is aimed at strengthening the economy and promoting recovery from the effects of COVID-19. Aggregate revenue available to fund the 2021 Budget is projected at ₦7.99 trillion (36.9% higher than 2020 revised projection of ₦5.84 trillion). About 70% of the Budget will be financed through non-oil sources such as corporate taxes, stamp duties, grants and donor funding and revenue from Government-owned assets. The balance is expected to be financed by oil revenue with the benchmark price set at US\$40 per barrel (slightly lower than the US\$44 World Bank forecast) and production volume estimates remaining at 1.8 mbpd.

The Government increased the 2021 healthcare budget by 52% from ₦396 billion to about ₦600 billion in a bid to address challenges that continually plague the industry. Other notable allocations were made towards the development of infrastructure for aviation, rail, power and housing projects.

The Government has also introduced Strategic Revenue Growth Initiative (SRGI) as part of its drive to increase government revenue drastically with less reliance on oil. The initiative focuses on implementing e-governance procedures across MDAs and optimising cost-to-revenue ratio of GOEs. The key provisions of the SRGI are broadly in line with Nigeria's Economic Recovery and Growth Plan which was released in 2017.

Finance Act, 2020 also contains several measures to advance the SRGI with specific amendments made to the Fiscal Responsibility and Public Procurement Acts for the purpose of increasing transparency and accountability of government corporations. The procurement process for government contracts and projects has been made more efficient and there is now a requirement for corporations to remit the balance of their operating surplus to the Consolidated Revenue Fund (CRF) on a quarterly basis.

In addition, the Act provides for the establishment of a ₦500 billion Crisis Intervention Fund (CIF) to be funded by allocations made from the CRF and any other sums as may be approved by the National Assembly. This fund will be utilised to meet any crisis-related expenditure that may arise in-country. A sub-fund of the CIF will also be set up as a Trust, called the Unclaimed Funds Trust (UFTF), which will be financed by unclaimed dividends and amounts held by individuals and/or companies in dormant bank accounts for six years or more.

Despite the government's aggressive revenue drive, specific measures are being emplaced to reduce the compliance burden on taxpayers, promote social inclusion by exempting small businesses from certain tax obligations and defer tax rate increases till the economy achieves a level of stability.

Key Focus Areas

Given the country's debt profile, there is a need for the FG to focus more aggressively on cost optimisation while aiming for an improvement in public service delivery, especially in health, education and business regulation. We have highlighted below, a few areas where we expect improvements to be made during the year:

- **MDA restructuring**

The FG has made several attempts to reduce recurrent expenditure which is mostly channelled toward financing salaries, pensions and other overhead costs of MDAs. In 2015, the Government set up a committee to review the White Paper report on the Restructuring and Rationalisation of FG Parastatals, Commissions and Agencies. The committee prepared a detailed report giving recommendations on MDAs that should be scrapped, merged or become self-funded.

However, there was no traction on the implementation of the proposals contained in the report until mid-2020 when the Government announced its plans to rationalise the MDAs leveraging the inputs from the committee's report. The expectation is that the suggestions in the report will be fully implemented with a view to reducing FG spending in 2021 and beyond.

- **Human capital development**

The Government allocated 5.7% (₦771.6 billion) of its total expenditure budget to the Federal Ministry of Education and its agencies. While this is a 15% increase from the budgetary allocation for education in 2020, it still falls well below the 26% yardstick set by the United Nations Educational, Scientific and Cultural Organisation (UNESCO). However, the increase in the education budget signposts the Government's commitment to promoting human capital development and bridging the skills gap in the country.

We expect that the FG will sustain this commitment by implementing the specific projects targeted at the educational sector in 2021, such as the establishment of six Federal Science & Technical Colleges, provisions for Universal Basic Education, scholarship allowances, etc.

- ***Improving technology adoption in government processes***

The COVID-19 pandemic has underscored the importance of technology in the public sector. The enforcement of lockdowns resulted in most of the labour force working from home. However, the transition was more seamless for private sector workers as many companies have, over time, incorporated the use of technology in their business processes.

Services provided by several government agencies were either put on hold or came to a complete halt due to a lack of technological infrastructure. Notable efforts were made by the tax authorities at Federal and State levels to employ the use of technology in carrying out their duties and ease tax compliance for businesses. Designated e-mail addresses were provided for the purpose of filing tax returns, reconciliation meetings were held via teleconference and several informative webinars were conducted. We expect that the Government will continue to roll out plans in support of e-governance and that the MDAs will take a cue from the revenue authorities and take the necessary steps to put the right infrastructure in place for efficient service delivery to the citizenry.

- ***Simplifying regulatory procedures***

Nigeria has already showed an improvement in its ease of doing business ranking with respect to starting a business, registering property and enforcing contracts. With the enactment of Finance Act, 2020 and the introduction of more progressive fiscal policies, we expect that the Government will remain focused on eliminating bottlenecks and red tape in the public sector thereby enabling a more conducive business environment to stimulate domestic and foreign investment flows.

"Notable efforts were made by the tax authorities at Federal and State levels to employ the use of technology in carrying out their duties and ease tax compliance for businesses. "





Health Care Sector



Dimeji Salaudeen
Partner

Lare Olaoju
Associate Director

2020 Reflections

The Healthcare Sector (“the Sector”) in Nigeria remains one of the critical focus areas of the economy. The Sector has been plagued with various challenges that have impacted the developmental aspirations of the country. To put things in perspective, out-of-pocket expense for healthcare stands at 60%, with over 90% of Nigeria’s growing population not covered by health insurance. In remote parts of the country, the challenges of access and quality of healthcare have proven intractable. The wealthy few in urban areas often seek quality healthcare abroad. In 2019 alone, an estimated US\$1 billion was spent on outbound medical tourism⁴¹.

The growth aspiration of the Sector continues to be challenged by:

- Inadequate health infrastructure and poor maintenance of public healthcare facilities.
- Inability to optimize processes due to a general lack of data and health records, poor record management systems and inadequate analytics.
- Limited number of qualified healthcare professionals. According to the World Health Organisation (WHO), Nigeria’s patient-to-doctor ratio for 2019 was 2,500:1 compared to the WHO recommendation of 1,000:1.
- High and increasing cost of care coupled with lack of access to quality care in remote areas.
- Ineffective health insurance system, which has impacted the attractiveness of the sector to funding opportunities from private investors.

The dismal state of the country’s health infrastructure was exposed in the wake of the COVID-19 pandemic – from insufficient testing kits to limited healthcare facilities and isolation centres. This necessitated rapid emergency funding and various intervention schemes at the State and Federal levels, and from the private sector and humanitarian organisations, to narrow the infrastructure deficit and forestall a health crisis. For example, the CBN introduced a ₦100 billion intervention scheme which is available to healthcare product manufacturers, healthcare service providers, etc. as may be determined by the Bank.

On the bright side, many healthcare providers were able to leverage technology to deliver basic healthcare through accessible telehealth digital platforms (messaging apps, teleconferencing tools, etc.), thus obviating the need for patient walk-ins and minimizing potential spread of the virus through physical contact. There was also a surge in demand for certain medical and pharmaceutical products such as surgical masks, hand sanitizers, antibiotics, vitamin supplements, etc. It is therefore not surprising that, despite the country’s aggregate quarter-on-quarter (QoQ) negative real GDP growth of -6.1% and -3.62% in Q2 and Q3 2020, the health sector recorded a QoQ GDP growth of 1.89% and 2.82% in Q2 and Q3 2020, consecutively in real terms⁴². In Q4 2020, the sector recorded a real GDP growth of 3.05% and an annual growth of 2.23% as against the negative growth of -0.56% recorded in 2019. Contribution to GDP stood at 0.69% for the year.

⁴¹Medic West Africa 2019 Healthcare Market Insights: Nigeria.

⁴²National Bureau of Statistics Gross Domestic Product Report 2020.

2021 Budget and the Health Sector

The FG has demonstrated its commitment to drive the Sector to achieve basic development outcomes through its expenditure framework for the health sector. In the 2021 Approved Budget, the FG proposes to disburse approximately ₦600 billion in the health sector, a 52% increase in budgetary allocation from the prior year. The Government has provisioned ₦515 billion for recurrent and capital expenditure for the Federal Ministry of Health (FMH) and its agencies. ₦45 billion has been set aside for the GAVI Immunization Funds; ₦5.5 billion for counterpart funding for donor-supported programmes; while ₦35 billion (representing 1% of Consolidated Reserve Fund) will be transferred to the Basic Healthcare Provision Fund.

In December 2020, the FMH unveiled Nigeria's health sector roadmap which contains proposed initiatives to intensify the push towards Universal Health Coverage in line with Nigeria's ERGP. The agenda includes new projects such as the implementation of mandatory Universal Health Insurance (UHI) (in collaboration with state governments and the Federal Capital Territory), operationalisation of the Basic Health Care Provision Fund (BHCDF) (in collaboration with relevant agencies and partners), and recruitment and deployment of 50,000 Community Health Extension Workers.

Outlook for 2021

We expect 2021 to be shaped by the following key developments:

- **Implementation of proposed development projects by the FMH**

We expect the FMH to implement the health sector development initiatives that were launched in 2020. These initiatives include:

- ✓ health infrastructure upgrade for selected Federal Teaching Hospitals across the country;
- ✓ collaboration with private sector investors to establish high-quality hospitals in Nigeria;
- ✓ continuing progress towards the achievement of health-related Sustainable Development Goals (SDGs);
- ✓ closure of the performance gaps in routine immunization noted in some states in the country; and
- ✓ sustenance of the progress made in revitalizing the primary healthcare system through the Primary Healthcare Under One Roof (PHCUOR) program, based on the consistent funding of the BHCDF for the fourth year running.

We also expect the FMH to execute other key initiatives in its health sector roadmap, such as the implementation of the mandatory UHI and the operationalisation of the BHCDF.

- **Continued health infrastructure spend for COVID-19 response**

Given the rise in the number of COVID-19 cases, the Nigeria Centre for Disease Control has announced that Nigeria is experiencing a second wave of the pandemic. We therefore expect the trend in healthcare infrastructure spend to continue – set-up of more isolation centres, provision of more hospital beds, and increased supply of testing kits, medical equipment and consumables.

We also expect that, through COVAX (a GAVI-led global initiative aimed at equitably distributing vaccines to poor countries) and other schemes, Nigeria will ramp up efforts to vaccinate at least 10% of its population by the end of 2021.

- **Continued philanthropic interventions by the private sector and donor organisations**

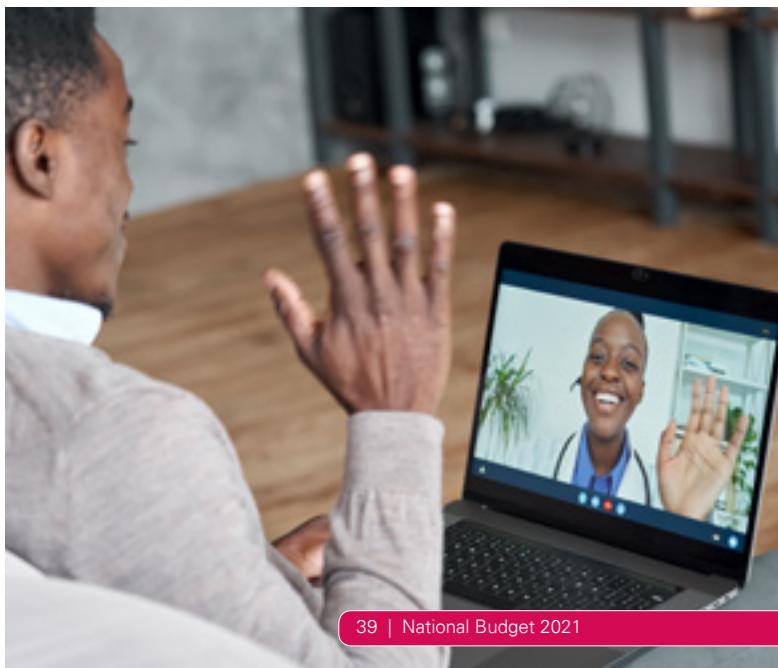
We expect that the corporate social responsibility efforts by the private sector and other endeavours by local and international donor organisations would result in increased funding for the health sector. For the for-profit organisations who might hitherto have been concerned about the tax deductibility of COVID-19 donations, Finance Act, 2020 provides that such donations would now be deductible for tax purposes subject to certain criteria.

- **Private sector-led investments**

The Government's efforts to introduce and enforce the implementation of a robust and effective UHI could stimulate the flow of private sector capital towards the provision of health infrastructure and services that would cater for primary, secondary and tertiary healthcare.

- **Increased adoption of telehealth and telemedicine services**

We expect the trend in the adoption of telehealth and telemedicine services to continue given the country's rising digital penetration and demographics. Indeed, many private sector healthcare providers will be able to provide more intelligent and robust diagnostics by leveraging data from portable devices that monitor heartbeat, cardiorespiratory activity, blood glucose level, blood pressure, etc.





Infrastructural Sector



Dimeji Saladeen
Partner

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Sector Review

Infrastructural development, a precursor to economic development, has primarily been impacted by poor planning and funding in the Nigerian context. According to the National Integrated Infrastructure Master Plan ("NIIMP"), Nigeria requires an investment of US\$3 trillion over the next 30 years to bridge its infrastructural gap. This implies an annual investment of US\$100 billion (approximately ₦4 trillion per year). The priority sectors identified for investment included:

- Energy (US\$1 trillion)
- Transport (US\$775 billion)
- Agriculture, Water & Mining (US\$400 billion)
- Housing & Regional Development (US\$350 billion)
- ICT (US\$325 billion)
- Social Infrastructure (US\$150 billion)
- Vital Registration and Security (US\$50 billion)

The required investments were proposed to be obtained through government budget, debt, government-controlled sources such as the Sovereign Wealth Fund, as well as private sector contributions, including Public-Private Partnerships (PPP).

Of the US\$31 billion allocated to capital expenditure between 2014 and 2018, only US\$17 billion (56%) was spent on infrastructure during that period by the FG.

In addition, the structure of the allocated spending was such that in each year, the Government identified several projects to which funds were allocated piecemeal, rather than prioritizing a few key projects and ensuring adequate monitoring to facilitate successful completion. Accordingly, the funds allocated to projects in each period were typically barely sufficient to meet the annual requirements for successful completion, resulting in project delays and cost escalations.

2021 Budget and the Infrastructural Sector

The 2021 Budget assumes revenue contribution from oil and non-oil sources, including taxation, revenue from government-owned entities, special levies and other sources. However, based on historical contribution of revenue sources and current economic realities in the light of the second wave of COVID-19 and slow economic recovery, the Government's revenue projections may yet be unattainable.

The ₦4.13 trillion earmarked as capital expenditure in the 2021 Budget has been allocated to infrastructural projects across the following key ministries:

- Works and Housing (₦400 billion)
- Transport (₦210 billion)
- Power (₦207 billion)
- Water Resources (₦160 billion)
- Aviation (₦97 billion)

Works and Housing

This Ministry has consistently received the highest allocation over the last five years, driven by ongoing critical projects required for economic development. The allocation in the current year is earmarked for about 120 projects, including:

- Upgrade and rehabilitation of Keffi-Akwanga-Lafia Road;
- Nationwide National Housing Programme;
- Rehabilitation of the Third Mainland Bridge;
- Construction of the Langtang-Wase Bridge; and
- Rehabilitation of Babban Lamba-Sharam Road.

Annual allocations are typically thinly spread across these projects, resulting in delays in project completion. In addition, the FG is typically unable to adequately fund approved construction costs. Specifically, as of November 2020, the FG owed 3,504 contractors about ₦70 billion for housing projects across the country. In the same vein, as of October 2020, the Government owed road contractors ₦392 billion for construction works on projects including those being financed under the Presidential Infrastructure Development Fund, the Sovereign Sukuk Fund, tax credits and other sources.

Transport

The proposed budgetary allocation to the Ministry of Transport has consistently been a priority, attributable to the significance of transport infrastructure in promoting economic development. Historically, transport infrastructure projects have been funded through third-party financing, including China Export and Import Bank, while the FG remains responsible for counterpart funding on those projects. Through this model, the Government has funded critical projects such as the Nigerian Railway Modernisation Project, airport terminal expansion projects and the Abuja Light Rail Project, among others.

Accordingly, the sum of ₦71 billion (34% of capital expenditure on transportation) has been allocated to counterpart funding on railway projects.

In view of the inadequate budget provision, the Government is encouraged to pursue programmes that facilitate private sector participation in the transport sector. To achieve this, the Government should fast-track the ongoing efforts at creating an enabling legislative and regulatory environment for the sector. It is therefore important that the transport sector reform bills (the National Inland Waterways Authority Bill, the Nigerian Ports and Harbours Authority Bill, the Nigerian Railway Authority Bill and the National Transport Commission Bill) that have been with the National Assembly for many years are now considered expeditiously and passed into law.

Water Resources

There was a significant allocation to the Ministry of Water Resources in the current budget, which primarily relates to key irrigation projects targeted at improving agricultural practices and overall economic development. The key beneficiary projects include the construction of Damaturu Water Supply Scheme, Itisi Dam Project, and the Gurara II Water Transfer Project.

Aviation

The aviation industry is underdeveloped relative to its potential, contributing only 0.2% to Nigeria's GDP as of 2019. There are six and 16 international and local airports in the country, respectively, serving a population of over 200 million people.

The ₦90 billion capital allocation to the Ministry in the 2021 budget will go towards the following key projects:

- Rehabilitation of airports across the country;
- Construction of a second runway at the Nnamdi Azikiwe International Airport, Abuja
- Establishment of a fire and truck maintenance refurbishment centre in Katsina
- Concessioning of four airports in Abuja, Lagos, Port Harcourt and Kano;
- Construction of a Maintenance, Repair and Overhaul facility;
- Development of agro-allied cargo terminals; and
- Establishment of a national carrier;



Conclusion

Capital budget performance in 2021 is expected to align with the historical period, as the Government may struggle to meet its current revenue projections.

The key success factors for infrastructural development in Nigeria include, but are not limited to, the following:

- rationalisation of existing portfolio of public infrastructure projects;
- stable and investment-friendly policy and regulatory framework for PPPs;
- development of a robust infrastructure project prioritization and selection process;
- development of innovative alternative mechanisms for the financing of infrastructure projects through the development, construction and operational phases;
- improved transparency in public procurement processes and resolution of legacy legal issues across key infrastructure sectors; and
- Political will.

Importantly, the role of the private sector in augmenting public capital contribution in infrastructural development is increasingly apparent, given the scale and depth of Nigeria's infrastructure deficit and the severely constrained fiscal space.

A number of developing countries have successfully integrated private sector participation in infrastructure development, which contributed significantly to their progress in the delivery of public infrastructure. For example, India's efforts at mobilizing private investment initially met with limited success. Of the total investment in infrastructure of US\$240 billion between 2002 and 2007, only 22% came from private investment. Subsequently, the Indian government initiated bold concerted measures, gaining global recognition, during 2007 – 2012, as the largest recipient of PPP investment, as reported by Public-Private Infrastructure Advisory Facility (PPIAF). During that period, the total investment in infrastructure doubled to US\$480 billion, with private investment increasing to 37 percent, from 22 percent during the previous period. Between 2012 and 2017, private sector investment in infrastructure in India amounted to US\$1.3 trillion.

Some of the initiatives implemented by India included creating an enabling policy and regulatory framework for attracting private capital; launch of innovative financing vehicles including the establishment of dedicated infrastructure funds; relaxation of rules governing employees' provident/ pension funds for infrastructure investment; and the mainstreaming of PPPs across key infrastructure sectors. One key policy thrust and catalyst for the success of the overall reform programme, was that, for projects which were economically justified but commercially unviable, the government introduced a scheme by which capital grant of up to 40% of project cost was provided to private participants, by way of a viability gap funding.



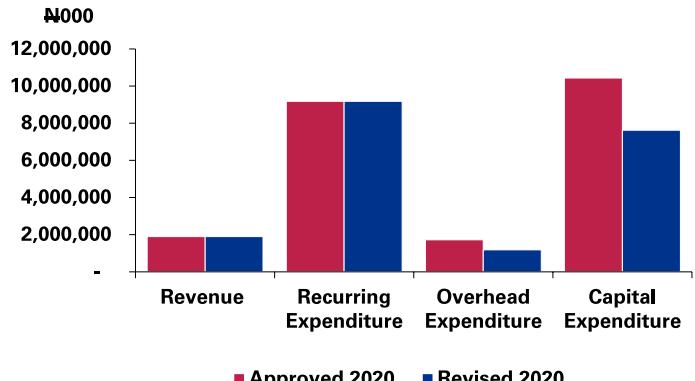


Mining Sector



2020 Reflections

The twin global shocks of COVID-19 pandemic and the declining crude oil prices impacted the FG's budgeted expenditure for the Mining Sector ("the Sector") in 2020. The comparison of the approved and revised 2020 budget for the Sector is shown below :



Source: 2020 Appropriation Act & 2020 Amended Appropriation Act

The reduction in the capital expenditure budget impacted the implementation of some initiatives in 2020. However, in the ESP developed by the FG in response to the economic impact of the COVID-19 pandemic, Government plans to deepen artisanal and small-scale mining through the promotion of mining clusters based on geographical proximity. The sum of ₦6 billion has been budgeted for this initiative which should be implemented within 12 months.

Notwithstanding the economic challenges, the Sector exceeded the budgeted revenue by about 10% (₦2.09billion as against ₦1.9billion⁴³), but decreased by 6.73% in its annual contribution to the nation's real GDP from 8.91% recorded in 2019 to 8.31%. The positive showing of the Sector can be attributed (in part) to some of the ongoing regulatory reforms of the Government.

"However, in the ESP developed by the FG in response to the economic impact of the COVID-19 pandemic, Government plans to deepen artisanal and small-scale mining through the promotion of mining clusters based on geographical proximity."



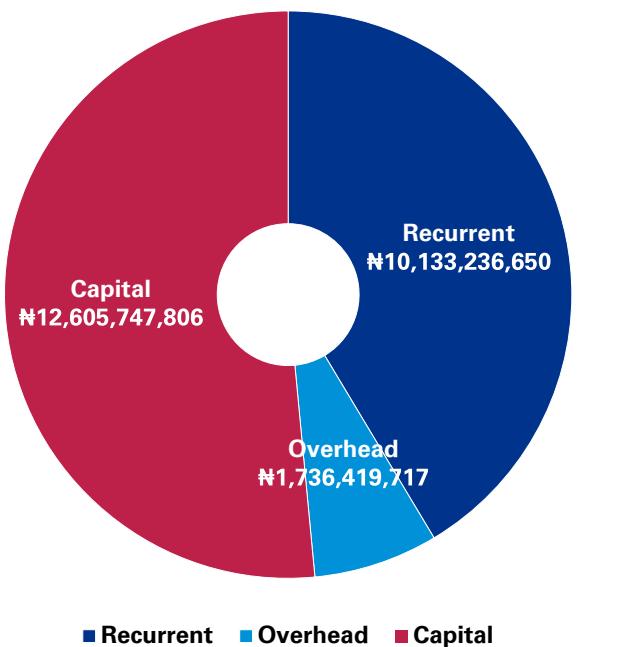
Robert Araeb
Partner

Olufemi Babem
Partner

⁴³Public presentation of the 2021 Approved Budget by the Honorable Minister of Finance, Budget & National Planning

2021 Budget and Mining Sector Outlook for 2021

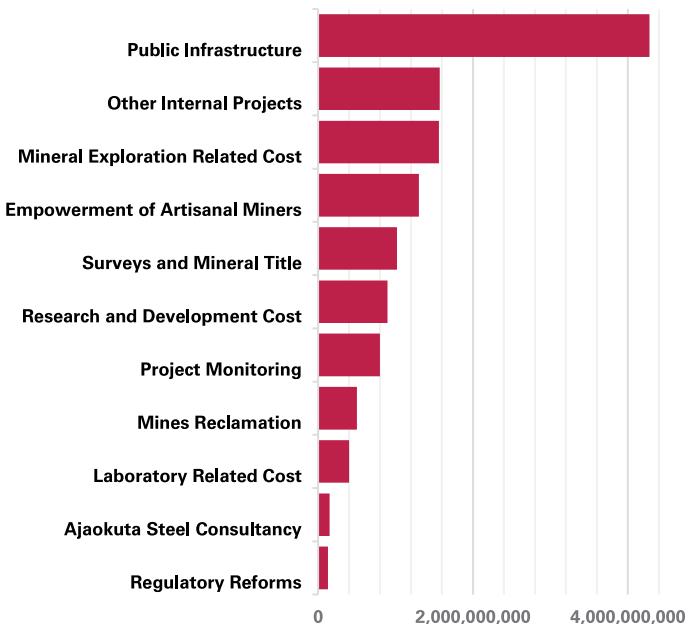
In 2021, the projected FG revenue from the Sector is ₦2.7 billion, while the budgeted expenditure is ₦24.5 billion as analysed below:



Source: 2020 Appropriation Act

The capital budget for the Sector is further allocated as follows:

Analysis of 2021 capital budget



The above table shows that Government intends to prioritise the provision of public infrastructure such as roads and electricity to some mining communities in 2021. This initiative should improve access to mining sites and improve mining operations in rural communities. This will be a welcome development as infrastructure challenges have been a significant pain point for many operators in the sector.

The other strategic focus of Government and outlook for 2021 are summarised below:

(i) Mining operations

This subsector attracted a lot of interest in 2020 evidenced by the announcement of new projects by private investors, especially in the mining of gold. We expect that some of the projects that were delayed in 2020 due to the COVID-19 pandemic would come on stream in 2021. The commencement of these projects should further signal Nigeria as a mining destination internationally.

In addition to the contributions of the private sector, Government intends to spend ₦1.6 billion acquiring exploration equipment and exploring for some minerals, including gemstones, bauxite, manganese, chromite and iron ore in different parts of the country. We expect that the information generated from these exploration activities would be of sufficient quality to attract bids from private sector players (especially the senior international mining companies) to develop any discovered mineral deposits.

Also, the FG is set to focus on the development and formalization of artisanal mining. It is estimated that more than 80% of the operators in the Sector are Artisanal miners. In addition to the ₦6 billion allocated to the formalization of Artisanal miners under the ESP, the Ministry of Mines and Steel Development (MMSD) has allocated more than ₦1.3 billion to continue initiatives to empower this group of miners.

Finally, the FG has budgeted about ₦500 million for reclamation of abandoned mining sites. Several of these abandoned mining sites are as a result of artisanal and illegal mining. Considering reports of fatalities and the environmental risks posed by the abandoned sites, the FG should urgently engage reputable companies to restore the sites. For ongoing mine operations, the FG should also monitor the provisions being made by companies for eventual reclamation/restoration of mining sites.

(ii) Improved monitoring of mines

The amount allocated to the acquisition of equipment for monitoring in 2021 increased by 43% to ₦800 million (2019: ₦560 million). The impact of effective monitoring is evident in the increased contributions of the Sector to Government's revenue and GDP. Therefore, it is important that this initiative is sustained and intensified to eliminate or significantly reduce illegal mining, and to promote transparency in the Sector. Also, Government should consider adopting technology to improve monitoring of mining sites and projects, especially in remote locations.

(iii) Research and development

Research and development (R&D) are critical to mining operations. This year, the Government has budgeted about ₦900 million for R&D activities in the areas of safe mining practices/techniques and domestic utilisation of locally available minerals. Hopefully, the results of these R&D activities would promote innovation in local mining operations and accelerate mining of minerals for local industrial use.

(iv) Development of support infrastructure

In addition to the significant amount allocated to the provision of public infrastructure, the FG has budgeted about ₦400 million for the construction and equipping of some laboratories across the country to facilitate mineral assay in Nigeria. The absence of a standard laboratory in Nigeria is one of the factors limiting the growth of the Sector. Therefore, if these labs are built and properly equipped and internationally certified to conduct the required types of mineral assay, it would promote the growth of the Sector and improve monitoring.

(v) Production of quality mineral resource data

Government intends to spend about ₦90 million on beaconing of mining sites in the six geopolitical zones in Nigeria as well as updating the Geo-data report from the 36 States of the Federation and the Federal Capital Territory, Abuja. This is in addition to other ongoing projects to improve availability of quality resource data and geological information. The availability of quality geo-physical and geo-science data on occurrence of mineral deposits across Nigeria would improve the Sector's attractiveness to investors, especially the senior international mining companies.

(vi) Ajaokuta Steel

About ₦150 million was budgeted for the concession of Ajaokuta Steel Company (2020: ₦652million). The technical evaluation of the plant by the proposed concessionaire did not happen in 2020. Hopefully, the technical evaluation would be done in 2021 so that the concessionaire can complete the take-over of the plant and commence its resuscitation.

(vii) Sector Reforms

About ₦128 million (2019: ₦331 million) was budgeted for the establishment of the Mining Regulatory Agency and amendment of mining laws. While both initiatives would positively impact the Sector, it is not clear whether it would be a priority for Government this year considering the immediate focus on reforms in the oil and gas sector of the economy.

Government recognises the strategic importance of the mining sector in promoting the ESP initiative, especially in employment generation. Therefore, the Government needs to be deliberate about the execution of the plans in the 2021 Budget to promote the growth of the Sector and make it attractive local and foreign investors.





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Oil and Gas Industry



As with the 2020 fiscal year, the Nigerian oil and gas industry is still the major contributor to Government's revenue. The industry is expected to generate about 30% of the total revenue of ₦7.99 trillion budgeted for 2021, although this projected contribution is more than twice the projection for 2020 in absolute terms. The increased contribution is mainly attributable to an expected increase in daily crude oil production, projected increased dividends from the Nigerian Liquefied Natural Gas Limited and increased revenue from signature bonus from oil licence renewals.

The key parameters for the 2021 Budget include benchmark oil price of US\$40 per barrel⁴⁴, and oil production estimate of 1.86 mbpd⁴⁵ (inclusive of condensates of 300,000 to 400,000 barrels per day), amongst others. These parameters appear realistic, given current realities.

Oil and Gas Industry and the Outlook for 2021

Upstream sector review

Consistent with the FG's aspiration to treat oil and gas as separate natural resources for production and fiscal purposes, we have highlighted the key initiatives for the oil and gas sub-sectors as follows:

Oil sub-sector

The upstream sector of the Nigerian oil and gas industry was significantly impacted by the twin shocks of the COVID-19 pandemic and plummeting oil prices in 2020. This led to the cut in the country's oil production benchmark volume twice in its 2020 Budget revisions during the year, in line with agreements by the OPEC+ to cut crude oil output to tackle the global oil crisis brought on by the pandemic. As oil prices recovered late 2020 into early 2021, the expectation is that this will be sustained throughout the year, going by the average oil price projection by the World Bank (US\$44/bbl) and the US Energy Information Administration (EIA) [US\$48.53 (for Brent crude grade)].

The key items and initiatives for this sector included in the Budget are:

- (i) **Projected revenue from signature bonus** – FG hopes to realize the sum of ₦677 billion from signature bonus/ renewals/early renewals, up from ₦351 billion in 2020. Given that only 23% of the 2020 projection (₦79 billion) was realized from this source as at November 2020, it is unclear how this over 100% increment will be achieved if deliberate action is not taken, amongst others, to unleash the potentials embedded in the oil assets portfolio of the state-owned oil company – the NNPC. Transparency and obtaining the best economic value for oil blocks should be key considerations during the process of oil licence renewals and negotiation in 2021.
- (ii) **Projected production volume of 1.86 mbpd** – The major drivers for the country achieving the above projection are peace in the Niger-Delta region and the impact of OPEC production quota. With government achieving sustained relative peace in the Niger-Delta region in the last couple of years, and hoping that this will continue in 2021, it is unlikely that the planned production quota would be negatively affected by restiveness in the region. However, the big elephant in the room is OPEC production restriction.

⁴⁴From US\$28 per the 2020 revised budget and US\$43 actual figures

⁴⁵From 2.18mbpd per the initial 2020 budget and 1.80mbpd per the revised 2020 budget. The increase is attributed to economies recovering from the pandemic.

Early in 2021, OPEC, in its efforts to stabilize the market and improve oil prices, has already mandated Nigeria to cut its production by as much as 939,000 bbls in three months!⁴⁶ In effect, the country's ability to achieve the desired oil revenue to fund the 2021 budget may have been challenged right from the beginning of the year, except where the reduction in production volume is neutralized by the surging/increasing oil price per barrel. The overall impact of OPEC quota restrictions on the 2021 Budget projections will, therefore, depend on the dynamics in the global oil industry during the year and how OPEC responds to it.

(iii) Nigerian oil and gas pipeline infrastructure rebirth⁴⁷

This involves reviewing Nigeria's pipeline infrastructure including those owned by the NNPC, to assess their adequacy for the Nigerian market, and determine the investment needed from the private sector to close the infrastructure gap. It is envisaged that private investors will be able to build pipelines and charge tariffs; and to this extent, the sum of ₦24.98 million has been earmarked in the Budget for its implementation.

(iv) Capacity building – To enhance skills acquisition in financial reporting in MDAs, the Government plans to train youths in petroleum engineering technology, provide training equipment for the Skills Development Academy, and develop critical managerial competencies including International Public Sector Accounting Standards (IPSAS) for the oil and gas sector within the MDAs, legislature and the Federal Accounts Allocation Committee. Consequently, a total of ₦373 million was earmarked for this purpose.

(v) Oil and Gas sector reforms – The Government has also budgeted the sum of ₦50 million for Oil and Gas sector reforms. Given the progress that was accomplished on the review of the Petroleum Industry Bill (PIB) in 2020, stakeholders in the sector have expressed some optimism that the passage of the PIB may be imminent.

(vi) Others⁴⁸ – The Government plans to develop and manage the Ministry of Petroleum Resources (MPR)'s oil and gas database, continue to pursue the general reform of the oil and gas industry, coordinate public sector reforms, implement nine oil and gas priority projects⁴⁹ (new initiative), upgrade the MPR's operations e-library, establish a Procurement Information Management System, and coordinate research and development programmes in the oil and gas industry. A total of ₦320 million has been earmarked for these projects.

An additional ₦202 million was also budgeted for statutory contributions to international energy organisations (APPO, OPEC, IEF, GECF).

Gas sub-sector

The key initiatives for the gas sub-sector included in the Budget are as follows:

(i) Implementation of the new Gas Policy – In furtherance of the National Gas Expansion Programme (NGEP) and the Autogas Scheme launched in December 2020, the FG has budgeted the sum of ₦113,750,895 for implementing the Gas Policy.

(ii) Construction/provision of infrastructure - The FG had hitherto declared 1 January 2021 to 31 December 2030 as "*the Decade of Gas Development for Nigeria*," in line with the National Gas Policy. Consequently, the FG has budgeted the sum of ₦471 million for provision of infrastructure to continue to promote natural gas usage in the country, as an alternative fuel for Nigerians.

There is no gainsaying that activities in the upstream sector will be largely influenced by how quickly the global oil market recovers from the disruptions caused by the pandemic, and whether new regulations issued by the Government will indeed encourage investment in the sector.

Downstream sector review

The global outlook for the downstream oil and gas industry in 2020 was one of good margins, a strong economy, and robust demand, but the global COVID-19 pandemic caught the oil and gas industry generally unprepared for a completely changed landscape. Airplanes were grounded and cars were parked due to lockdown measures imposed by governments across several jurisdictions to curtail the spread of COVID-19.

Countries around the world responded by introducing measures to curtail the impact of the pandemic on their economies and the well-being of their citizens. In Nigeria, the Government, through the Petroleum Product Pricing Regulatory Authority reduced the pump price of petroleum motor spirit (PMS) from ₦145/litre to ₦121.50/litre, to ease the impact of the lockdown on citizens.

However, the reduction was short-lived as the country continued to import most of the petroleum products consumed due to limited local refining capacity. As such, the increase in the price of crude oil in the global market has impacted the local price of petroleum products, leading to about 39% increase in pump price of PMS in December 2020. Consequently, the government capped the pump price of PMS at ₦162.44/ litre from ₦168/ litre, following the inflationary impact on citizens.

This step by the FG was thought inconsistent with its plan and policy to deregulate the sector, although, deregulation of price of petroleum was mentioned as one of the fiscal drainers that will be plugged during 2021. Industry players had expected more specific action plans and statements in the Budget regarding this sector, given the government's avowed commitment to deregulate. The jury is out whether any significant action will happen in this regard during 2021.

⁴⁶<https://www.thisdaylive.com/index.php/2021/01/10/opec-cut-covid-19-and-2021-budget/>

⁴⁷It is not clear why this is shown as a "new" project, seeing that ₦100,000,000 was allocated to it last year.

⁴⁸All these initiatives are new.

⁴⁹The Budget is silent on these projects.

Nonetheless, the industry will be shaped by the following factors in 2021 and beyond:

- (i) **Potential increase in inventories:** The second wave of the COVID-19 pandemic and any failure of OPEC+ countries to keep a check on supply could potentially lead to constraints and significant pressure, not only on oil prices, but also on the downstream oil and gas industry. Thus, demand may head south and lead to large inventory balances.
- (ii) **Shift in demand/ challenged consumption outlook:** As people have sheltered in place during the COVID-19 pandemic, telecommuting for meetings and working from home have proven to be successful solutions. This will have a long-term effect on the downstream industry. Airline-miles travel are projected to remain down 15 to 20% in the near term. Hence, product demand in the downstream sector is still likely to be impacted throughout 2021, with jet-fuel use potentially muted.
- (iii) **Completion of Dangote refinery:** The successful delivery of Dangote refinery and petrochemical is expected to drive significant change in the industry. The plant, expected to be the largest single-train refinery in the world, with a daily refining capacity of 650,000 barrels/day, will likely change the dynamics of the industry not only in Nigeria, but across African countries.
- (iv) **African Continental Free Trade Agreement:** The AfCFTA will catalyse the development of connecting infrastructure between and among African countries. Expectedly, it should improve trade of oil and gas products within the continent, with cascading effect on the refining capacity of existing plants.

To succeed in the unfolding business landscape, key players in the downstream sector will need to adapt their business and operating models to drive operational efficiency, reposition for cross-border operations, invest in technology to drive service delivery and implement cost optimization measures to remain profitable.



Regulatory review

- (i) **Petroleum Industry Bill:** The reintroduction of the revised PIB should be seen as some progress in the quest for the much-needed reforms in the industry, given the long wait by investors for a Bill expected to bring about sweeping reforms in the sector. The effects of the delay in passing the PIB cannot be overemphasized, as most investors had shelved investment plans in anticipation of these reforms. It is, therefore, hoped that the PIB will be passed into law, to facilitate the achievement of the various initiatives in the 2021 Budget which might have been hinged on the passage of the Bill, and enable the rejuvenation of the Nigerian oil and gas industry.
- (ii) **The Nigerian Local Content Development and Enforcement Commission Bill (NLCDECB):** In December 2019, the National Assembly proposed a bill to repeal the subsisting Nigerian Oil and Gas Industry Content Development Act (NOGICDA), 2010, and replace it with the NLCDECB ("the Bill"). The Bill seeks to *"establish the Nigerian Local Content Development Commission and provide for comprehensive framework, structures, programmes, and schemes for the institutionalization and strengthening of Nigerian local content in all sectors of the Nigerian economy for self-sufficiency, job creation, international competitiveness of Nigerian domestic businesses and economic diversification and for matters connected therewith."*

Amongst other provisions, the Bill seeks to impose a two percent (2%) surcharge on the monetary value of all contracts awarded in the oil and gas sector. This appears rather steep – a whopping 100% increase compared to the 1% in the subsisting NOGICDA. Furthermore, introducing it at a time when the industry and operators are still reeling under the impact of the COVID-19 pandemic, increased royalties⁵⁰ and plummeted crude oil prices may appear insensitive. Although there was not a lot of traction on the Bill in 2020, it is unclear whether it will be revisited in 2021. The proposed increase in the levy from 1% to 2% would lead to cost escalation in the industry, which may also impact the efficiency of operators in delivering the budgetary expectations around projected oil production.

Conclusion

Volatility in oil prices and uncertainty in regulation are not typically the best partners for investment. It remains to be seen if 2021 is the year that Nigeria finally solves one of them which is totally within its own control.



⁵⁰Given the amendment to the Deep Offshore and Inland Basin Production Sharing Contract Act



Power Sector



Segun Sowande
Partner

Martins Arogie
Partner

2020 Reflections

Nigeria is the largest economy in sub-Saharan Africa, but limitations in the power sector continue to constrain growth. According to the World Bank's Press Release of 23 June 2020, about 47% of Nigerians do not have access to the electricity grid, while others face regular power cuts. The Press Release estimates the economic cost of power shortages in Nigeria to be US\$28 billion – equivalent to 2% of the country's GDP⁵¹. Furthermore, the World Bank's 2020 Ease of Doing Business Report ranks access to electricity as one of the major constraints for the private sector in Nigeria. As noted by the World Bank Country Director for Nigeria, "*The lack of reliable power has stifled economic activity and private investment and job creation, which is ultimately what is needed to lift 100 million Nigerians out of poverty.*" Therefore, improving power sector performance, will be central to unlocking economic growth in Nigeria in 2021.

Nigeria currently has the potential to generate 10,396 megawatts (MW) of electric power from existing plants, but only generated around 4,000 MW in 2020 (occasionally hitting 5,000MW). The Nigerian Electricity Supply Industry (NESI) has been plagued by several challenges, ranging from financial and infrastructural, to technical, regulatory and customer-specific issues. It is therefore imperative for Government's planned interventions in the Industry in 2021 to focus on attracting significant private sector capital, improving baseline power supply (using data-driven innovations for on-and-off grid solutions) and enhancing sector governance.

Although concerted efforts have been made in the past through combined Government and private sector investment initiatives such as the World Bank's PSRP and Power Africa to address the key challenges in the Industry, the efforts have so far not yielded the required results. The adjustments in the implementation of the regulatory policy for service-based cost-recovery tariffs may have also not helped the challenges of the NESI in 2020.

Power Sector and the Outlook for 2021

Going into 2021, we expect the significant focus on increasing power generation through hydro, rural electricity access, metering, transmission and distribution expansion projects to increase grid access. These initiatives will ultimately impact the cost of power.

Consequently, the FG in its budget breakdown has sought to address some the issues highlighted above by allocating ₦206.746 billion (inclusive of ₦160.83 billion for multilateral and bilateral funded projects) to the Ministry of Power (MoP) for capital expenditure in the year 2021. A significant portion of the allocation to the MoP will be spent on counterpart funding needed to complete the construction of the hydro power projects and other renewable energy solutions, expansion of the transmission lines and rehabilitation of the existing infrastructure for the second successive year.

⁵¹<https://www.worldbank.org/en/news/press-release/2020/06/23/nigeria-to-keep-the-lights-on-and-power-its-economy>

We have highlighted below the impact and implications of the 2021 Budget allocation across the segments in the power sector.

Generation sub-sector

The generation sub-sector currently includes 23 grid-connected generating plants in operation with a total installed capacity of 10,396 MW (available capacity of 6,056MW). The thermal-based generation has an installed capacity of 8,457.6MW (available capacity of 4,996 MW), while hydropower has 1,938.4 MW of total installed capacity (available capacity of 1,060 MW)⁵².

About ₦200 million has been allocated to the MoP in the 2021 Budget for Government's counterpart-fund for the Mambilla Hydro power project. The project, which is being undertaken by MoP with the support of Chinese investments (China EXIM), is expected to be completed by 2030. An additional ₦717 million is allocated for construction of 2x60MVA 132/33KV substation and ₦700 million will be invested in the construction of 215MW LPFO/ gas power station in Kaduna. These amounts are not included in the ₦3.7 billion allocated to the Nigerian Rural Electrification Agency (REA) which will be used to fund the Rural Electrification Access Program in Federal Universities, completion of several renewable energy micro utility projects nationwide and the National Electrification programme.

The Nigerian Electricity Regulatory Commission (NERC) stated that about ten (10) new gas-fired power stations have been added to the national grid through the Niger-Delta Power Holding Company managed National Independent Power Projects (NIPPs). The NIPPs will be able to add about 4,774 MW to the national grid network upon completion. It is also expected that the FG will address the issue of insecurity and resolve the challenges around access to a sustainable gas supply for these plants to ensure the operation and evacuation of the stranded power capacity. Liquidity for power generating companies (Gencos) is also a critical aspect that requires FG's intervention in order to address their concerns regarding the future for the power sector and their performance in 2021.

There appears to be a positive outlook for the renewable segment of the generation sub-sector in 2021, especially with the planned investments by the FG and the development of renewables and off-grid solutions. It is expected that the influx of private investment in the renewable energy space will continue in 2021. Furthermore, where the issue of liquidity and sustainable gas supply is addressed, it is likely that there will be significant improvement in the generation and evacuation capacity of the country in 2021 and going forward.

Transmission sub-sector

Nigeria's transmission network consists of high voltage substations with a total (theoretical) transmission wheeling capacity of 7,500 MW and over 20,000 km of transmission lines. The current transmission wheeling capacity of 5,300 MW, although higher than the average operational generation capacity of 4,000 MW, is still far below the total installed generation capacity. There is need for an expansion of the transmission capacity to match the pace of growth in the generation segment.

Based on the 2021 Budget, the FG is working to assure Nigerians of clear efforts to improve the sub-sector with ₦160.83 billion earmarked for the expansion and rehabilitation of the country's transmission network (including the Abuja Power Feeding Scheme, Zungeru, Nigeria Electrification Project and other transmission access projects) and an additional ₦5 billion for the Kashambilla Transmission project.

The current projects are targeted to ensure continued nationwide improvement of the transmission infrastructure and extend grid access to additional customers. This will help reduce the current transmission loss by approximately 7.4% across the network, reduce the number of system collapses and improve the offtake of power from the Gencos. The projects earmarked by the FG in the 2021 Budget is expected to consolidate on the improvements from last year and promises to be a sustained good year from a transmission perspective.

Distribution sub-sector

Government, through NERC, has continued to make policy changes aimed at improving efficiency, profitability and competition in the sub-sector. The NERC recently approved the Minor Review Order (MRO) for 2019 – 2020 of the Multi-Year Tariff Order (MYTO) 2015. Although its implementation was delayed due to the COVID-19 pandemic and stakeholder disagreements, the MRO, when implemented, is expected to reflect the impact of changes in the Minor Review variables in the determination of cost-reflective tariffs, relevant tariff and market shortfalls for the years 2019 to 2020 and beyond. The MRO also reiterates the Government's commitment to the PSRP, which makes provision for all accrued liabilities arising from the tariff shortfall to be transferred from the bank accounts of the Discos and fully settled under the financing plan of the PSRP initiative.

In July 2020, the NERC issued Guidelines on Distribution Franchising to allow distribution companies (Discos) with inherent powers under their respective licence terms and conditions to cede any part of their functions to third parties subject to the approval of NERC. Consequently, the Energy Company of the Future (ECOF) (trading as "Konexa") in a joint venture agreement with Climate Fund Managers (CFM) recently signed a 20-year tenure energy generation and distribution sub-franchise concession with Kaduna Electricity Distribution Company ("KAEDCO") for the development of a unique vertically integrated utility platform. The sub-franchise will grant Konexa the right to provide energy to all customers in the sub-franchise area. The distribution franchising model provides a great opportunity for needed investment in the distribution value chain, and the possibility that more franchising agreements will be executed in 2021 should be regarded as a positive for the sub-sector.

⁵²<https://nerc.gov.ng/index.php/home/nesi/403generation>

Funding has remained a critical issue in the distribution sub-sector and Discos continue to struggle to pay for the power received from the Gencos. Despite the intervention of the CBN and the NERC to address the liquidity crisis of the Discos, they continue to struggle under heavy debt. This shortfall in funding has resulted in little or nothing left for capital improvements of the distribution network. The lack of significant capital investment in the distribution sub-sector makes it difficult for the sub-sector to cope with generation and transmission capacity. These highlight two critical aspects of the funding deficit at the distribution level of the electricity value chain – cash flows from customers on the one hand, and new investment to improve the ailing distribution network which does not adequately support the existing generation and transmission capacity in the country on the other.

Given the funding gap in the distribution segment of the value chain, the Discos need to take advantage of the benefits that the service-based tariff provides once implemented while seeking fresh funding for investments in metering and network improvement. The FG's National Mass Metering Programme (NMMP) in conjunction with the CBN was launched to address the mass-metering of Nigerians by providing low-interest loan facilities to:

- (i) the DisCos (for the procurement of meters for its customers); and
- (ii) the local meter manufacturers (for the manufacturing and assembling of meters).

However, customers have continued to experience challenges in getting meters due to manpower constraints on the part of manufacturers to meet the current demand. Nonetheless, overall, we expect to see an increased drive for collection and revenue protection by the Discos.

The FG continues to make efforts to invest in the distribution sub-sector such as the ₦1.5 billion allocation for distribution expansion programme projects to utilize the stranded power from the grid. There is also the Siemens AG power agreement for which approval for funding on Phase 1 was granted in 2020 – further and quicker progress should be made in 2021 to provide the necessary investment in the electricity infrastructure. Given the capital-intensive and long-term nature of these required investments, it is important that investment efforts are finalized in 2021 to allow for the expected benefits in coming years.

Conclusion

From the outlook, the power sector will continue to record new investments in 2021, but the key to unlocking the issues in the sector for end-users to feel the impact will depend on what progress is made in power transmission and distribution and sector governance. The Eligible Customer arrangement is also expected to continue to drive an increase in strategic alliance between some Gencos and Discos to provide power to premium service customers. However, it remains to be seen how much the impact of COVID-19 pandemic will affect the pricing under this arrangement. Further, improving regulatory certainty by the NERC and a meeting of minds by all the relevant stakeholders to work towards mitigating the challenges of the sector, should enhance sector governance and improve transparency in 2021 and going forward. We expect that there would be sustainable Public Private Partnership models within the sector – especially the distribution segment – to attract new investments targeted at improving power supply to customers.

The power sector will be under a lot of focus in 2021 and we expect that there will be several initiatives that will be channelled (both private and government) to help resolve the issues in the sector.





Alibola Olomola
Partner

Telecommunication, Media and Technology (TMT) Sector



2020 Reflections

Indeed, 2020 was a challenging year for Nigeria and the world at large. The effect of the COVID-19 pandemic was felt in all sectors of the economy, as the imposed lockdowns culminated in adverse disruptions in activities, deferment of new investments amongst other things. With a contraction in GDP of 6.1% and 3.62% in Q2 and Q3 of 2020, respectively, and a slip into recession, only a few sectors recorded favourable growth rates albeit the 0.11% recorded on Q4.

The telecommunications (telecoms) sector experienced a significant increase in demand. The rise in demand for data-related services spiked due to the imposed lockdowns in most countries and consumers relied on telecom services to work from home (WFH), maintain social ties, access entertainment and training amongst other things. Expectedly, this surge in demand led to increased revenue in the sector.

According to the NBS' 2020 Q4 GDP report, the Information and Communication Technology (ICT) sector was a major driver of growth of the Nigerian economy with a growth of 14.95%. The growth in the sector was majorly driven by the changes in the consumption of digital products and services. Specifically, the lockdown imposed in the country and globally, resulted in a significant shift to online platforms for work, study, and entertainment, with a direct increase in voice and data traffic.

In Q4 of 2020, Telecommunication and Information Services grew by 17.64%, an increase of 0.28% when compared to 2020 Q3, and an increase of 7.38% against the 10.26% recorded in 2019 Q4. The growth in 2020 Q2 (18.10%) is the highest growth recorded since Q4 of 2018, where a GDP growth of about 19% was recorded. MTN Nigeria Plc, one of Nigeria's large telecoms service provider, recorded a 13.9% increase in total revenue in 2020. Its data revenue increased by 48.9%, voice revenue by 4.7% and service revenue by 31.9%. On the other hand, Airtel Nigeria Plc recorded a 6.9% increase in total revenue.

The adoption of Voice over Internet Protocol (VoIP) applications (such as WhatsApp, Skype, Facetime etc.) for communication impacted voice revenue. Even though most telecoms companies recorded a major increase in revenue due to the spike in data traffic, voice revenue, though declining, remains a major source of revenue for these companies. In a bid to exploit other revenue streams and following the issuance of Payment Service Banks (PSBs) licenses by the CBN, telecoms companies are leveraging their existing network infrastructure and retail footprints to provide financial services to rural and unbanked customers in the country.

The adoption of VoIP applications and other technology (tech) tools positively impacted the tech sector. Teleconferencing tools such as Zoom, Microsoft Teams, ULesson, and Skype recorded a spike as consumers/users had to rely on technology to stay in touch for business, educational and social needs especially at the wake of the lockdown. In addition, there was increase in demand for cloud-based infrastructure to support the WFH strategies.

Government agencies such as the Corporate Affairs Commission and the FIRS deployed digital platforms to keep up with the new reality. Tax audits and several government conferences including the Federal Executive Council meetings, were conducted virtually. Also, tax filings and other statutory compliance obligations were done remotely to limit physical interactions. It is expected that Government and its agencies will continue to intensify efforts to completely digitalize their processes. The National Digital Economy Policy and Strategy (NDEPS) which was rolled out by the FG at the beginning of 2020, as part of FG's plans to accelerate the development of a digital economy, has been said to record several achievements. Some of the achievements include increase in broadband penetration, resolution of the long-standing issues on excessive right of way charges, swift implementation of the Nigerian National Broadband Plan amongst other things.

The Nigerian Financial Technology (Fintech) sector, particularly the mobile payment solutions providers, also experienced increase in usage as many unbanked consumers sought alternative payment mechanisms in the wake of the pandemic and lockdown. There were also reports of major investments in the Nigerian Fintech sector such as the acquisition of fintech company Paystack by global payments leader Stripe in a deal reported to be worth over US\$200 million, acquisition of software company Apposit by Paga, Jobberman acquiring its major competitor Ngcareers amongst others.

Whilst major subsectors in the tech industry recorded significant growth and activities, the hardware subsector was hit with reduced activities, due to trade tensions between the United States of America and China, restrictions in movement globally which led to limited availability of existing hardware, and delayed launch of new products.

The media sector recorded incommensurable growth in social media content and advertisement (Youtube, Facebook, Tik Tok, Instagram etc.), and other platforms such as Netflix, HBO Now, Amazon Prime, etc. However, the entertainment sub-sector saw a significant downturn, with the postponement of movie productions and premieres, major sports events, shut down of cinemas, concert and social events, due to strict social restrictions.

"In Q3 of 2020, Telecommunication and Information Services grew by 17.64%, an increase of 0.28% when compared to 2020 Q3, and an increase of 7.38% against the 10.26% recorded in 2019 Q4."

2021 Outlook of the TMT Sector

While there are signs of recovery, the outlook for the global economy remains unclear especially in light of the second wave of COVID-19 and likely deployment of vaccines. There are indications that recovery in 2021 may be K-shaped and uneven across industries. The TMT sector is expected to record steady growth as the shift to a digital society and technology-enabled business models will continue to support growth in the sector in 2021.

Currently, the population in Nigeria is estimated at over 200 million with an annual growth rate of 2.7%. As at December 2020, the total number of active telephony subscribers were over 204 million and teledensity stood at 107.18%, a decline from the 108.92% recorded in November 2020⁵³. It is therefore anticipated that the telecoms sector will continue to record growth in 2021. This may not necessarily be the same for other sub-sectors in this space: For instance, cinemas and other players in the entertainment space will be adversely impacted by COVID-19-related restrictions that are currently in place and expected to remain in the coming months. Players in this space will have to be innovative if they are to survive in 2021. The current requirement for SIM cards to be linked to National Identification Number (NIN) also poses a bit of a challenge to the telecoms sector, as citizens continue to struggle with the difficult task of obtaining their NIN. Notwithstanding, this challenge is expected to be short-lived.

An increase in acquisitions and partnerships in the Fintech sector is also expected; with the rise of new telecom-backed Fintech following the issuance of PSB licenses to telecoms service providers, and the continuous innovation of the traditional brick and mortar deposit banks with mobile services, the telecoms sector should exploit new growth drivers/revenue streams and continue to record stable growth in 2021.



⁵³ <https://www.ncc.gov.ng/stakeholder/statistics-reports/industry-overview#view-graphs-tables>

8.0

Looking Forward: 2022 Budget



Olusegun Zacheaus
Associate Director

The exit from the COVID-19 pandemic crisis and return to modest output growth could potentially shape the philosophy of the 2022 Budget. If the country gains control of the pandemic through widespread vaccination that covers mutant strains of the COVID-19 virus in 2021 and achieves modest output growth, the 2022 Budget may then focus on consolidation and normalisation of expansionary policies that are currently playing out. However, 2022 is also a pre-election year and the final full-year budget for the current government. Thus, this political consideration may play a significant role in shaping the philosophy of the 2022 Budget.

Looking forward, there are a few factors that will shape the details in the 2022 Budget. These include: the direction of budget assumptions; articulation, implementation, and outcomes of the Finance Bill and sectorial reform policies; and the need for the current government to leave behind legacies and ensure that major projects are completed, amongst other factors.

We have outlined below some of these important factors:

- The assumptions on oil price and production are expected to be higher, riding on the stronger global economic growth outlook in 2021 and 2022 which could increase oil demand and oil prices.
- Improved articulation and implementation of the Finance Bill for the 2022 fiscal year could potentially increase government tax revenues. Finance Act, 2021 – as it is expected to be called when enacted – should address gaps in the Finance Act, 2020 and extant tax legislation, and be directed to unlock hidden non-tax revenue opportunities for the government.
- Progress in the implementation of major sectorial reforms could potentially impact the government's revenue profile and capital expenditure allocation in 2022. The key reforms include the passage of the PIB, the approval and roll-out of the Power Sector Recovery Program Financing Plan, and the full take-off of the AfCFTA. We also expect the FG to sustain key subsidy reforms related to fuel prices to avoid future distortion in the fiscal framework related to the reintroduction of subsidy payments.
- Socio-economic challenges of the high level of poverty and unemployment are expected to persist in the short to medium term. Therefore, the government should still channel significant expenditure towards creating social safety nets, poverty alleviation, and job creation.

Spending interventions geared towards addressing political instability and insecurity issues including a restructuring of Nigeria, managing herdsmen crisis, curbing banditry, and rehabilitating militants will remain prominent in the 2022 Budget.

- The drive for the current government to leave behind tangible legacies and complete major infrastructural projects before the end of their tenure will shape the capital expenditure allocation in the 2022 Budget.

"If the country gains control of the pandemic through widespread vaccination that covers mutant strains of the COVID-19 virus in 2021 and achieves modest output growth, the 2022 Budget may then focus on consolidation and normalisation of expansionary policies that are currently playing out."

2022 Budget Outlook

Given the factors above, the outlook for the 2022 Budget are:

- i. A potential increase in oil revenues riding on the relatively higher oil price forecasts and potentially increased production subject to OPEC agreements and how the Dangote Oil Refinery (a domestic crude oil refining company that is not subject to OPEC quota) plays out.
- ii. Potential increase of non-tax revenues in line with economic recovery as well as increased tax collection effectiveness. However, potential revenue losses could be experienced as a result of the implementation of the ACFTA framework.
- iii. Rise in expenditure with increasing capital expenditure allocations geared at completing key infrastructural projects across the country. Increase in security and political stability-related spending.
- iv. The widening fiscal deficit is likely to remain a challenge in the 2022 Budget. While we expect a potential increase in oil revenues and improved non-tax revenues mobilisation, the interest payments on the current debt portfolio, as well as higher expenditure in the pre-election year, may likely cancel out FG to revise the 2020 Budget projections downwards halfway into the year.



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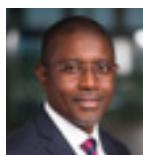
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