

# **MDGS NEEDS ASSESSMENT AND FINANCING STRATEGY FOR NIGERIA**

## **Policy Brief**

### **1. INTRODUCTION**

Since Nigeria assented to the 2000 Millennium Declaration of the United Nations, the government has taken a number of steps geared towards achieving the Millennium Development Goals (MDGs). Two of these relate to the adoption of MDG-based planning and the commissioning of an MDG Needs Assessment study whose broad objective is to provide a solid foundation for policy, budgeting, planning and financing strategy on the MDGs. The specific objectives of the study are to:

- Determine the level, composition and sequence of MDG spending in Nigeria
- Establish the funding gaps towards achieving the MDGs, and the strategies for bridging the observed gaps
- Formulate policies that improve the efficiency and effectiveness of MDG activities in Nigeria, thereby keeping the country on the track of achieving the MDGs by 2015

The needs assessment study has been concluded and one of the outputs is this Policy Brief. It provides insights into the nature of interventions and financial requirements to achieve the MDGs by 2015. The financial strategies are also highlighted. But before providing these highlights, the current development challenges of the country and the policy responses are first reviewed.

### **2. SITUATION ANALYSIS AND GOVERNMENT RESPONSE**

Perhaps the most daunting challenge that Nigeria has faced since the 1980s is mass poverty. The poverty level rose precipitously from about one-quarter in 1980 to two-thirds of the population in 1996. The trend has, however, been abated since 2004 when poverty fell to 54.6 per cent, having dropped from over 65 per cent in 1996. Yet, more than half of the population are still living below the nationally defined poverty line. A related challenge is the observed gap in the growth of the Nigerian economy. This problem was pronounced in the 1980s when the economy declined by an average of 1.3 per cent. Growth performance has improved, at about 2 per cent in the 1990s, and 6 per cent since 2000. Projections have, however, shown that the Nigerian economy needs to grow by at least 10 per cent annually to achieve the development objectives of the country.

The structure of the Nigerian economy is also a major source of concern. The economy is largely mineral-based, with oil and gas accounting for the bulk of government revenue and export earnings, and one-quarter of the national income. The performance of the manufacturing sector, which is expected to be a major driver of the economy, is abysmal.

The sector contributes less than 4 per cent of the national output and is unable to compete internationally. The rate of collapse of manufacturing firms is alarming; and those remaining in business suffer from a myriad of problems such as low capacity utilization occasioned by a disabling environment, among other things.

The National Planning Commission (NPC) has produced three annual MDG reports for Nigeria: those for 2004-2006. Each of the reports tracks the progress the country has made towards achieving the MDGs. A trend analysis of the reports show that Nigeria would not achieve all the MDGs by 2015. The country has the potential to achieve the targets set for universal primary education, gender equality and women empowerment, HIV & AIDS, environmental stability and developing a global partnership for development. In contrast, progress is sluggish in poverty reduction, child mortality, maternal health, and diseases other than HIV & AIDS. The 2006 MDG report identifies three main challenges to the achievement of the MDGs by 2015 in Nigeria: the quality of governance, inadequate complementary efforts by sub-national governments to reform efforts at the federal level, and lapses in the system of information gathering and management.

In recognition of several long-standing challenges facing Nigeria, the federal government seized the opportunity of the return to civil rule in 1999 to embark on a series of economic reforms some of which have influenced economic performance since then. The economic reforms became more coherent in 2004 with the launch of the National Economic Empowerment and Development Strategy (NEEDS) which subsequently served as the pivot of the reform agenda. The NEEDS is essentially a poverty reduction strategy and has gained the support of state and local governments which also came up with their own PRS, namely, SEEDS and LEEDS. In 2007, the federal government envisioned placing Nigeria among the top 20 leading economies in the world by 2020. In furtherance of this objective, the federal government has also introduced the 7-Point Agenda comprising (a) sustainable growth in the real sector of the economy; (b) improvement of infrastructure (power, energy and transportation); (c) agriculture and agro-industry development; (d) human capital development (education and health); (e) security, law and order (including electoral reform); (f) combating corruption; and (g) conflict resolution through promoting equitable and sustainable regional development (Niger Delta development). The broad policy objectives of both Vision 20: 2020 and the 7-Point Agenda are sustenance of a rapid broad-based GDP growth, poverty reduction, employment generation, macroeconomic stability and economic diversification.

Public financial management reform has constituted a major intervention in the economic system since 2004, most especially at the federal level. Government has passed the Fiscal Responsibility Act to provide for prudent management of the nation's resources and ensure long-term macroeconomic stability of the Nigerian economy. The Act establishes the Fiscal Responsibility Council to promote and enforce the nation's development objectives; it also institutionalizes the Medium-Term Expenditure Framework as a tool of fiscal management. Moreover, the Act has institutionalized a rule-based approach to fiscal management, including a fiscal strategy anchored on the reference price of crude oil to insulate the budget from the volatility of oil revenue. In the same vein, government passed the public procurement legislation in 2007 to enhance the due process mechanism in public procurement and improve the efficiency and transparency of the system. Following this Act, government established the Bureau of Public Procurement as a policy making and monitoring institution.

In 2006, the federal government adopted MDG-based development planning to channel investments quickly for meeting the MDGs. The government established the Virtual Poverty Fund (VPF) into which it pooled the fortuitous gains from the debt relief and from which it finances the MDG activities. The estimated gains amount to US\$1 billion annually, three-quarters of which accrues to the federal government, while the remaining one-quarter accrues to states. The federal government has also inaugurated the Presidential Committee on the assessment and monitoring of the MDGs in Nigeria and introduced the ‘Overview of Public Expenditure in NEEDS’ (OPEN), for tagging and tracking MDG expenditures. In addition, the federal government established the Office of the Senior Special Assistant to the President on Millennium Development Goals (OSSAP-MDGs). This Office has the mandate ‘to act as secretariat to the Presidential Committee on the MDGs, develop a coherent approach for the achievement of the MDGs and facilitate the design of appropriate systems to tag and track debt relief funded MDG expenditure’.

Governance and structural reforms have also been intensified since 2003. The federal government has established an economic management team for macroeconomic management and sectoral policy coordination. The government also embarked on the restructuring and reform of the civil service to promote its efficiency and effectiveness. Legislations have been passed on the deregulation of certain sectors of the economy, including telecommunications, electricity and public-private sector partnership in infrastructure development and some of them are already being implemented. There are also some anti-corruption initiatives, including the establishment of the EFCC and adoption of the Nigeria Extractive Industry Transparency Initiative (NEITI).

Specific reforms have been introduced in key sectors of the Nigerian economy. In the education sector, the federal government has demonstrated commitment to the Global Education for All (EFA) initiative, and adopted the Universal Basic Education (UBE) programme, the literacy programme and nomadic education. In the energy sector, legislation has been enacted to remove public sector monopoly, with the government encouraging private generation through Emergency Power Projects and Independent Power Projects. In the environment sector, the federal government adopted the Environmental Renewal and Development Initiative to restore and rejuvenate the environment.

### **3. MDG COSTING EXERCISE**

#### **3.1 Rationale and Purpose of the Costing Exercise**

Since 2006, the federal government has incorporated the use of debt relief gains into the national budget through OSSAP-MDGs. This innovation has benefited ten sectors, including agriculture, education, health, housing and women affairs. The debt relief budget amounted to about ₦100 billion each in 2006 and 2007. However, in the process of executing its mandate, the OSSAP-MDGs soon realized the need to sharpen the focus of MDG spending by costing the MDGs, establishing the funding gaps and evolving a financial strategy for bridging observed financing gaps, and, finally, formulating complementary policies for achieving the MDGs.

The MDG needs assessment seeks to determine the investment component of the MDG-based planning strategy and to provide a solid foundation for financing MDG strategy and policy. The specific objectives are to determine the aggregate cost, composition and timelines of MDG activities in Nigeria up to 2015. In addition, the assessment seeks to

identify policies that improve the efficiency and effectiveness of MDG activities in Nigeria, thereby keeping the country on the track of achieving the MDGs.

### **3.2 Methodology**

The costing exercise uses 2006 as the baseline and covers the period 2006-2015. Since the focus is on the cost of achieving the MDGs at the national level, it means that the costing exercise estimates what it would cost the three tiers of government and the private sector to achieve the MDGs.

The Nigerian costing exercise focuses on the first seven (out of eight) MDGs, 11 targets and 32 indicators. The eighth MDG, together with its seven targets and 16 indicators, is discounted because the associated activities depend heavily on the activities of development partners; and because the domestic component is largely policy driven. The expectation is that a sound policy would attract official development assistance and promote effective private sector participation, including foreign direct investment (FDI). The Millennium Declaration permits development outcomes in excess of the basic or minimum MDGs. Nonetheless, this assessment is limited to what it would cost to achieve the basic MDGs. The costing exercise focuses on eight MDG sectors. They are agriculture, education, energy, environment, health, housing, roads, and water and sanitation. Gender mainstreaming and women empowerment are regarded as cross-cutting issues for all sectors to grapple with

The models adopted are sector-based rather than goal-based. Therefore, they estimate the cost of interventions in each of the MDG sectors rather than the cost of attaining each of the goals. The models for agriculture, energy, environment, housing, roads, and water and sanitation are based on the UN Millennium Project costing tools. The education sector adopts the Education Policy and Strategy Simulation Model, developed by UNESCO, while the health sector adopts the Marginal Budgeting for Bottlenecks, developed jointly by UNICEF, the World Bank and WHO. Each of the models is excel-based. All the models, except the MBB, estimate directly the total cost rather than the incremental cost of achieving the MDGs. The total cost refers to the total resource needs for meeting the MDGs and includes the cost of sustaining the subsisting service coverage. In the case of MBB, the focus is to estimate the incremental cost of removing bottlenecks in the health service delivery system. The sum of the incremental cost of removing observed bottlenecks and the prevailing budget for the health sector then constitutes the total cost of interventions for the health sector. All the models provide estimates of the financial cost rather than the economic costs of achieving the MDGs. They, therefore, estimate the cash flows required to meet the MDGs. Essentially, each of the models identifies the interventions (goods, services and infrastructure) needed to meet the MDGs, and then sequences and costs the interventions. The costing exercise requires information on the outcome targets in each year, the target and covered population, the ratio of the covered population to the chosen interventions and the unit cost of each intervention.

The technical team for the costing exercise comprised experts from the UN Millennium Project, sector costing teams, the national costing team; a steering committee drawn from the OSSAP, the NPC and the UNDP; and national consultants. The costing exercise has undergone a phased approach. Phase 1 of the exercise commenced in October 2006, with

the training of sector costing teams and costing in five of the sectors (agriculture, energy, health, housing, roads, and water and sanitation). A follow-up retreat was held in December 2006 to fine-tune the preliminary results of the first workshop, deepen the costing skills of sector costing teams, and review the underlying assumptions and data used for the costing exercise. A data harmonization workshop was held in June 2007 for the purpose of formulating uniform standards for data collection and analysis. Under Phase 2, another workshop was held in June 2007. This focused on the three remaining sectors (education, housing and environment) and also reviewed the costing done in the previous workshops. In July 2008, three consultants were engaged to review and revise the draft report.

### 3.3 Key findings

Cumulatively, the projected cost of meeting the MDGs up to 2015 is US\$247.54 billion (Table 1). On annual basis, the total cost rises from US\$19.65 billion in 2009 to US\$43.33 billion in 2015, and averages US\$27.50 billion. In per capita terms, the cumulative cost is US\$1,475. The estimated per capita cost rises from about US\$127.72 in 2009 to US\$233 in 2015, and averages about US\$164.

Agriculture accounts for US\$55.12 billion of the cumulative cost of MDG interventions, education US\$48.04 billion, energy US\$38.84 billion, environment US\$1.77 billion, health US\$34.94 billion, housing US\$6.42 billion, roads US\$39.74 billion, and water and sanitation US\$22.68 billion (Table 2).

**Table 1: Aggregate and Per Capita MDG Cost and Distribution by Economic Composition**

Year	Annual Total (US\$ b)	Recurrent (US\$ b)	Capital (US\$ b)	Per Capita (US\$)
2007	15.36	8.75	6.61	106.30
2008	17.36	10.41	6.95	116.43
2009	19.65	12.21	7.44	127.72
2010	22.66	14.60	8.05	142.67
2011	26.17	17.16	9.01	159.66
2012	30.11	19.92	10.19	178.04
2013	34.09	23.10	10.99	195.28
2014	38.82	26.52	12.30	215.49
2015	43.33	29.31	14.03	233.11
<b>Cumulative</b>	<b>247.54</b>	<b>161.97</b>	<b>85.57</b>	<b>1,474.70</b>
<b>Annual Average</b>	<b>27.50</b>	<b>18.00</b>	<b>9.51</b>	<b>163.86</b>

**Table 2: Sectoral Distribution of Aggregate Cost of Achieving the MDGs**

Sector	Cumulative (2007-2015) (US\$ b)	Annual Average (US\$ b)	Share (%)
Agriculture	55.12	6.12	22.3
Education	48.04	5.34	19.4
Energy	38.84	4.32	15.7
Environment	1.77	0.20	0.7
Health	34.94	3.88	14.1

Housing	6.42	0.71	2.6
Roads	39.74	4.42	16.1
Water and Sanitation	22.68	2.52	9.2

The annual average per capita cost of achieving the MDGs is higher in Nigeria than in the other selected Sub-Saharan African countries, namely Ghana, Ethiopia, Tanzania and Uganda. This disparity could be due to the ambitious nature of some of the interventions, differences in unit costs, or the assumptions made. For example, in the education sector, teachers' salaries were costed at five times GDP per capita.

The economic composition of the estimated cost shows that recurrent expenditure amounts to US\$161.97 billion, while capital expenditure amounts to US\$85.57 billion (Table 1). Of the capital cost, physical infrastructure amounts to US\$74.56 billion, human capital US\$9.26 billion, and other items such as equipment US\$1.75 billion (Table 3). The distribution of infrastructure cost by sector shows that roads, and water and sanitation are the dominant sectors, which account for about 39 and 16 per cent of the total cost of infrastructure, respectively. In the case of human capital, agriculture, education, and water and sanitation account for about 74, 16 and 10 per cent of the total cost, respectively.

During 2003-2006, the federal government accounted for 34.5 per cent of government MDG spending, state governments 48 per cent and local governments 17.5 per cent. Based on this pattern, MDG interventions would amount to US\$85.40 billion at the federal level; US\$118.82 billion at the state level; and US\$43.32 billion at the local government level (Table 5). These estimates can be fine-tuned with the conduct of MDG needs assessment for each tier of government.

**Table 3: Infrastructure Cost of Achieving the MDGs**

Year	Infrastructure		Human Capacity Cost	
	Annual Total (US\$ b)	Per Capita (US\$)	Annual Total (US\$ b)	Per Capita (US\$)
2007	5.50	38.10	1.03	7.15
2008	5.83	39.12	1.03	6.92
2009	6.31	40.99	1.03	6.68
2010	6.90	43.46	1.02	6.44
2011	7.83	47.77	1.02	6.23
2012	8.97	53.06	1.02	6.04
2013	9.71	55.65	1.02	5.86
2014	10.95	60.77	1.03	5.72
<b>2015</b>	<b>12.55</b>	<b>67.54</b>	<b>1.04</b>	<b>5.62</b>
<b>Cumulative</b>	<b>74.56</b>	<b>446.45</b>	<b>9.26</b>	<b>56.68</b>
<b>Annual Average</b>	<b>8.28</b>	<b>49.61</b>	<b>1.03</b>	<b>6.30</b>

The dominant agricultural intervention is farm inputs. On average, farm inputs, such as fertilizer and animal feed, account for 62 per cent of total cost of agricultural interventions. Community interventions account for 9.2 per cent of total agricultural cost, small-scale water management 5 per cent, nutrition and food security 11.5 per cent, and national research and extension service 12.2 per cent. In the education sector, the predominant intervention is staffing, which accounts for about 71 per cent of the total cost. Infrastructure accounts for 21 per cent, while school materials such as textbooks account for 8 per cent. In the energy sector, electrification accounts for about two-thirds of total

cost, improved cooking systems 30 per cent and mechanical power for the rural sector 3.5 per cent. The dominant intervention in the environment sector is governance and institutions, which accounts for about 82 per cent of the cost of interventions.

Individual-oriented programmes take the lion's share of the cost of health interventions, accounting for up to three-quarters of the amount, on average. Population activities account for 10.1 per cent of total cost, family-oriented programmes account for 7.7 per cent, provincial management 3.4 per cent, district management 2.8 per cent, and technical support 0.5 per cent. In the housing sector, the most prominent interventions are water supply and slum electrification. These interventions account for 64.5 and 22.7 per cent of the total cost of interventions, respectively. In the roads sector, federal roads account for 28 per cent of total cost; state roads 26 per cent, urban roads 19 per cent, and local roads 27 per cent. Interventions in water supply and sanitation account for 55 and 41 per cent of total cost.

#### **4. FINANCING STRATEGY**

The cost estimates provide insights into the annual and cumulative costs of the various interventions that Nigeria must implement to achieve the MDGs by 2015. The projected cumulative cost of meeting the MDGs up to 2015 is US\$247.54 billion. Annually, the total cost rises from US\$17.36 billion in 2008 to US\$43.33 billion in 2015, and averages US\$27.50 billion. In per capita terms, the cumulative cost is US\$1,475. The per capita cost rises annually from US\$116.43 in 2008 to US\$111 in 2015, and averages US\$163.86 between 2007 and 2015. These figures constitute huge financial requirements and mobilizing such resources poses a significant challenge to the three tiers of government in the country. Other poor countries face a similar challenge of how to step up resource mobilization significantly to finance development. As the resource mobilization can be both internal and external, the challenge translates to three issues: how much of domestic resources can be mobilized; the mechanisms and sources of external funds that can be mobilized to supplement domestic resources effectively; and how to ensure that the resources mobilized are used to finance development in an efficient and effective way. This section examines these issues carefully and provides policy directions. Also, as the projected cost figures relate to what the entire country should spend in order to achieve the MDGs, the evolving strategy provides insights into what major stakeholder groups, e.g., government, households and development partners, should contribute towards meeting the costs. Essentially, the financing strategies involve vigorous promotion of economic growth as a basis for effective domestic revenue mobilization, and tapping domestic resources and external assistance as supplementary finance.

##### **4.1 Domestic versus External Resources**

Generally, resources to finance development can be mobilized from two sources: domestic sources and foreign sources. The major sources of domestic resources to finance development in Nigeria have been domestic savings which are channelled into development through various formal and informal avenues, taxation, domestic borrowing (including borrowing from the banking system and private sector), bond financing, external reserves, surpluses of public enterprises, and very importantly, the oil sector. On the other hand, external resources include Official Development Assistance (ODA), foreign borrowing and debt relief, migrant remittances and foreign investment. Domestic resources should ideally constitute the major source of financing development and should be the first port of call. It

is a better long-term option and, in this regard, is crucial to achieving the MDGs and sustaining the achievement, and any longer-term development goals.

On the other hand, external resources should be seen as providing supplementary finance to domestic resources. External finance has proved difficult to predict and sustain. Indeed, some forms of external finance, for example, ODA, portfolio investment and bank lending that may appear to be important have tended to be highly volatile and hence potentially risky and problematic for development. Also, there has been scepticism about aid effectiveness such that ‘despite the declared huge disbursement by donors, there is not much on the ground to show for it’ (Nigeria, NPC, 2008). Besides, the debt component of ODA has resulted in burdensome external debt for many poor countries, thus suggesting a preference for grant-based financing. Finally, Nigeria’s experience with external assistance suggests the need for caution in relying heavily on such financing. The commitment to aid giving, management and expected result have not been commensurate to the level of expectations required of donors. In other words, aid inflows have not lived up to expectations as had been witnessed since the First National Development Plan, 1962-1968.

Finally, if domestic resources must provide a robust basis for sustainable progress in meeting the MDGs, then policies need to be implemented which would increase domestic saving and raise the revenue (tax and non-tax) GDP ratio significantly beyond current levels. Underpinning this is robust and sustainable economic growth. This should enable more non-oil tax revenue to be raised, halve income poverty and enable households to contribute to the provision of social services. The promotion of high rates of economic growth as envisaged in the government’s policy documents such as the NEEDS, the 7-Point Agenda, etc., is thus crucial.

#### 4.2 Financing Gaps and Strategies

As earlier noted, the costing estimates indicate sizable financial requirements to meet the MDGs by 2015. Table 4 shows the aggregate annual costs and the estimated contributions by government, households and development partners. The development partners contribute in the form of external assistance to meet the costs. In making the projections, households are assumed to be able to finance some of the MDG interventions such as those in the agriculture, energy, housing, and water and sanitation. On the other hand, it should be noted that user fees tend to prevent the poor from accessing basic services. Therefore, to avoid this situation and ensure the achievement of the MDGs, user fees are not projected to contribute to the cost of interventions relating to primary education, health care, roads, and environmental sustainability. Publicly financed investments in human capabilities, social services, infrastructure and environmental sustainability are deemed very vital to promoting human development. The government’s contribution to the financing is estimated on the basis of projected economic growth rates, the proportion of the consolidated government spending on MDGs in total expenditure and an assumption on the amount of domestically-financed MDGs as a proportion of the GDP. Finally, external assistance is calculated as the difference between total resource requirements and projected contributions to the MDGs financing by both government and households.

**Table 4 Summary of Financing Sources for Nigeria’s MDGs (Scenario B – with higher Projections of Government Financing) (US Billion Dollars)**

Financing Source/Estimated Amount of	2007	2008	2009	2010	2011	2012	2013	2014	2015	Annual Average (2007-	Cumulative Average (2007-

Contribution										2015)	2015)
Households	1.13	1.41	1.72	2.10	2.45	2.86	3.34	3.85	4.28	2.57	23.11
Government	9.40	11.01	13.39	15.97	19.05	22.71	27.09	32.32	38.58	21.06	189.54
External	4.83	4.94	4.54	4.59	4.67	4.54	3.66	2.65	0.47	3.88	34.82
Total MDG Cost	15.36	17.36	19.65	22.66	26.17	30.11	34.09	38.82	43.33	27.51	247.54
MDGs Cost per Capita	106.30	116.43	127.72	142.67	159.66	178.04	195.28	215.49	233.11	163.86	1,474.70

In estimating government contribution to the financing, two scenarios are considered, one, based on lower government revenue projections (scenario A) and, two, based on higher government revenue projections (scenario B). Considering scenario A, in order to meet the MDGs, Nigeria needed to spend a total of US\$ 116.43 per capita in 2008, increasing to US\$233.11 by 2015. This translates to a cumulative investment of US\$247.54 billion between 2007 and 2015, which is equivalent to an average annual per capita need of US\$163.86. Of the US\$163.86, the estimates show that US\$122.63 (74.84per cent) will be financed domestically through household and government contributions. The government contributions alone account for US\$107.33 or 65.5 per cent. On the other hand, the supplementary financing expected from external sources is an average of US\$41.18 (25.13 per cent) per capita over the period. This appears very high considering the current reality of about US\$ 5.0 per capita ODA inflow. Therefore, scenario B which projects higher government financing and less reliance on ODA is preferred (Table 6). Here, the role of external assistance reduces significantly. In this direction, out of the average US\$ 163.86 per capita cost estimate, US\$ 139.50 (85.13per cent) will be financed domestically through household and government contributions. On its own, the government is expected to contribute US\$ 124.40(75.92per cent) per capita. The residual contribution expected from external sources is US\$ 24.25 (14.87per cent) per capita. The table also shows the absolute magnitudes of the contributions for each year and over the entire period. And for the whole period, 2007 – 2015, the cumulative contributions are: households (US\$23.11 billion); government (US\$189.54 billion); and external (US\$ 34.82 billion).

One issue that arises from the projected cumulative contribution of US\$189.54 billion to the financing of the MDGs by government is the share of each tier of government – federal, state and local. For a guide, we may need to look at the share of each tier’s expenditure on MDG sectors in the consolidated MDGs expenditure. As earlier reported in Section 3, the share of government financing of the MDGs between 2003 and 2006 was in the following proportion: federal government (34.5per cent), state governments (48.0per cent) and local governments (17.5per cent). Table 5 shows the financing shares of the different tiers of government.

**Table 5: Distribution of Government Financing among the three Tiers of Government (Billion US Dollars)**

Year/Tier of Government	Federal Government	State Governments.	Local Governments	Total
2008	3.80	5.28	1.93	11.01
2009	4.62	6.43	2.34	13.39
2010	5.51	7.67	2.79	15.97
2011	6.57	9.14	3.33	19.05
2012	7.83	10.90	3.97	22.71
2013	9.35	13.0	4.74	27.09
2014	11.15	15.51	5.66	32.32
2015	13.31	18.52	6.75	38.58

The ratios used for the distribution seem to be consistent with the expectation that the lower tiers of government should be the major implementers of MDG interventions. However, while all the tiers of government must be more ambitious in their revenue mobilization efforts to raise the consolidated revenue/GDP ratio significantly from the 22.4 per cent attained in 2006, the federal government would need to sustain and enhance the present conditional grants to the lower tiers of government. This is because at present, by the existing revenue allocation formula, the bulk of the Federation's revenue accrues to the Federal Government. Yet, it is the sub-national governments that are better-positioned to implement MDGs related programmes and projects.

### **4.3 The Fiscal Space for the MDGs**

In the light of the central and dominant role that the three tiers of government are expected to play in financing the MDGs, it is important to have insights into the prospects of the key revenue sources. In other words, what are the chances of mobilizing substantial revenues from the various domestic sources? This requires considering the profiles of the centrally-collected revenue and of the sub-national governments, among other things.

#### **(i) Federally-Collected Revenue**

The bulk of the revenue accruing to the three tiers of government comes from federally-collected revenue, made up mainly or deriving from oil and gas exports, domestic crude oil sales, petroleum profits tax, mining rents and royalties, etc. Against the backdrop of growing oil revenue, the aggregate revenue/GDP ratio has shown an upward trend from 10.7 per cent in 1981-89 to 31.0 per cent in 2001-2006. With such high revenue/GDP ratios, Nigeria should be able to meet the MDGs, barring leakages and inefficient and ineffective public expenditure. But there is a problem with the revenue structure. Non-oil revenues (company income tax, customs and excise duties, VAT, and independent revenue of the federal government) are very low. They accounted for about 20 per cent of total federally-collected revenue in 2006. In other words, the sources which would normally provide a more stable and predictable revenue have been undermined by the phenomenon of oil revenue which is highly susceptible to the vagaries of the international oil market. The plummeting oil prices in the world market are a pointer to the fiscal implications of over-dependence on one natural resource commodity. Thus, a subsisting challenge there is for the government to exert considerable effort to improve the domestic non-oil tax effort, diversify and steer the economy away from dependence on oil revenues.

#### **(ii) Internally-Generated Revenues (IGR) of Sub-National Governments**

The lower tiers of government, being closer to the people, are expected to focus more on MDG-related activities. To do this effectively, they should be able to generate significant proportions of their revenue from internal sources. But so far this has not been the case. Statutory allocation from the Federation Account accounted for 83.2, 69.8, and 65.8 per cent of state governments' revenues in 1990, 2004 and 2006. This means that the internally generated revenue which includes tax revenue accounted for 13.4 and 8.1 per cent in 2002 and 2006. Of course, there are a few states, for example, Lagos, that can generate over 50 per cent of their revenue as IGR; indeed 62.5 per cent for Lagos State in 2007. The same pattern of capacity for internal revenue generation is exhibited at the local government level. At this level, IGR constitutes less than 10 per cent of total revenue. Therefore, the lower tiers of government need to exert significant effort to boost IGR in a significant

manner by tapping potential sources of revenue. But then, more tax revenue will be raised by the three tiers of government if the taxpayer and tax administrator are treated well and if government invests adequately in its revenue system and manages the Nigerian society well.

### **(iii) Domestic Capital Market/Domestic Bonds**

The successive governments in Nigeria have had cause to issue bonds to finance development programmes, beginning with the N600,000.00 development stock issued in 1946 by the British colonial government. In recent years, under the democratic dispensation, there has been a resurgence of interest in issuing bonds in the capital market by both the federal government and some state governments. Since 2003, the federal government has issued several new instruments: 1st FGN bonds (2003) – N72.5 billion; 2nd FGN Bonds (2005) – N178.3 billion; 3rd FGN Bonds (2006) – N282.1 billion; special FGN Bonds (2006) – N166.8 billion. Also, for example, in its 2008 budget the Lagos State Government proposed to issue N75.0 billion bonds, representing 24.5 per cent of its revenue. Thus, against the background of recent developments, there are good prospects of financing MDG activities, especially infrastructure, through long-term bond financing. Commercial banks and non-bank public can be encouraged to buy government bonds and securities.

### **(iv) Excess Revenue Account/External Reserves**

As a result of the government's fiscal strategy of crude oil price benchmarking, for budgeting purposes, there has been an accumulation of sizable revenue, in both foreign exchange and naira, in the Excess Revenue Account. As at July 2008, the balances on the Excess Revenue Accounts were as follows: Excess Foreign Crude Account, US\$15.3 billion; and Domestic Excess Crude Account, ₦404.9 billion. Although its primary purpose is to achieve macroeconomic stabilization, a portion of the revenue could be made available for financing MDG-related programmes and projects. Similarly, as a result of the very favourable outlook in the world oil market, until recently, Nigeria has accumulated a huge stock of foreign exchange reserves in the last eight years. From US\$5.5 billion in 1999 (equivalent to 7.6 months of imports), the stock of foreign exchange reserves increased to about US\$64.0 billion (equivalent to 32 months imports) as at the second quarter of 2008. However, these massive amounts of foreign exchange reserves have large opportunity costs associated with them. Besides, they help to subsidize consumption in a number of developed countries, especially in the United States and Europe. Thus, in the context of domestic resources, there is a reasonable prospect of partly meeting the MDG resource gap from the country's external reserves. Targeting import spending will minimize the macroeconomic implications of increased government spending.

### **(v) Debt Relief Fund**

Debt relief, obtained through debt cancellation, broadens the fiscal space in that resources previously used for debt servicing become available as additional resources to finance development priorities. Up to the end of 2004, Nigeria was heavily burdened by external debt totalling US\$35.9 billion out of which about US\$30 billion was owed to the Paris Club. The country secured debt relief from the Paris Club entailing the wiping out of the huge burden of US\$19.293 billion from the debt profile. The savings in debt service payments accrued to both the federal and state governments in the proportions of 75 per cent and 25 per cent. In essence, about US\$1.0 billion that could have been used in

servicing the Paris Club debt annually became available for financing MDG-related programmes and projects. The share of this amount that accrues to the federal government is US\$750 million or about ₦100 billion while the rest goes to the state governments. However, the funds are already being spent through the standard line ministries of government on MDG programmes and projects in the context of normal budget frameworks. Therefore, additional debt relief gains would not be available for financing additional interventions identified through the costing process.

#### **(vi) Contributions from Households**

This becomes necessary where it is perceived that some segments of the population have the ability to pay for services and where there is private provision of basic social services in which event user fees are charged. User fees, however, have the effect of preventing the poor from accessing basic services such as water, primary education, health and transportation. Since the structural adjustment programme in Nigeria, private provision of social services in the area of education, health, etc, has become widespread. But the user fees have tended to restrict access, thus detracting from the achievement of the MDGs. And so, in financing the MDGs in Nigeria, it would be desirable to exclude households from contributing to the cost of providing basic health care, primary education, junior secondary education, adult literacy programmes, improving gender equality, environmental sustainability programmes, and transport infrastructure. In the light of this, the contributions of households to MDGs financing may not be that significant.

#### **(vii) Can the Private Sector Contribute to an MDG Fund?**

In the course of preparing this report the research team interacted with stakeholders in both the public and private sectors, in particular, with representatives of the organized private sector [such as Manufacturers Association of Nigeria (MAN), National Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA), and National Association of Small-Scale Industries (NASSI)]. Owing to scepticism about government's ability to use funds efficiently and effectively, the private sector operators expressed reluctance to contribute to any special funds dedicated to MDGs. They are wary to contribute to a fund which may be squandered or diverted into private pockets. But they could contribute in kind, e.g., by donating their products and services in education, health, environmental sustainability. Besides, they can also be encouraged along two other lines:

- To adopt specific MDG intervention projects, e.g., rehabilitation, upgrading and maintenance or construction of schools, hospitals and water schemes
- To step up corporate social responsibility in MDG programme implementation

#### **(viii) External Assistance**

As earlier noted, external assistance has not lived up to expectation in the country. Two recent government documents, 'Nigeria: Proposals for Improving Aid Harmonization and Coordination in the Context of Paris Declaration' (2007) and 'A Review of Official Development Assistance to Nigeria, 1999-2007' (2008) estimate the annual average ODA inflows at US\$337.31 million and US\$676.04 million, respectively, over the period 1999-2007. These represent US\$2.335 and US\$4.674 per capita. These are very low figures compared to the Sub-Saharan African average of US\$28 per capita. Nevertheless, the Nigerian government has stressed the need for ODA flows to increase significantly if the financing gaps for attaining the MDGs are to be closed. It also spells out priority areas for

development assistance on the eight goals (Millennium Development Goals Report, 2006). Accordingly, therefore, there is a role for external assistance in the MDGs Needs Assessment and Costing Report. It is desirable, however, that incoming development assistance should be in the form of grants and technical assistance aimed at human, technical and institutional capacity building for the achievement of the MDGs. Nigeria has recently been freed from a debilitating external debt burden and is thus moving along a sustainable debt path. The country should, therefore, not relapse into the era of unguarded borrowing.

#### **4.4 Risks and Challenges**

From the foregoing analysis, it is obvious that some of the expected major sources of financing the MDGs entail a lot of risks and challenges, three of which are notable. First, is the precarious dependence of government revenue on the oil sector. The possible fiscal risks arising from oil dependence relate to the vagaries of the international oil market which causes high volatility in domestic revenue of government and foreign exchange earnings. The specific risks that create problems for fiscal management and programme implementation arise from: possible oil production costs arising from continuing crisis in the Niger Delta Region; oil price trending downwards as is currently happening in the world oil market; and inability of revenue agencies to meet targets. Thus, any shortfalls in oil revenue will adversely affect MDG programme implementation and undermine the achievement of the goals. Second, is the risk that external assistance may not be as forthcoming as projected. ODA and foreign bank lending can be as volatile as oil revenue. As the current signals of recession in a number of donor countries become deep, their willingness and ability to provide aid will be weak. Thus, both oil revenue and external assistance can hardly be predicted in a satisfactory manner. Third, the projected government financing of the MDGs partly depends on economic growth performance which is also important for halving the incidence of poverty. The expected financing may not be realized if the growth performance is weak. The lessons are thus clear: lay a solid foundation for sustainable growth; rely more on domestic sources of financing, especially non-inflationary sources; and diversify the revenue base away from oil to non-oil tax sources.

#### **4.5 Issues of Absorptive Capacity and Public Spending Efficiency**

Arising from subsisting concerns, serious scepticisms have been expressed about the capacity of the MDAs to absorb the huge budgetary resources envisaged for the MDG interventions. The quality of public spending has also been a major issue of concern.

##### **Absorptive Capacity**

Trends that are now becoming established in government's fiscal operations indicate very low absorptive capacity for budgetary resources at the federal level – equally true of most state governments. In the 2008 budget President Musa Yar 'Adua acknowledged the relatively low utilization of capital budget in 2007, hence the reduced level of capital budget in 2008. And in his Independence Day broadcast (1 October 2008), the President confirmed that over ₦400 billion was recovered from MDAs as unspent capital funds released in 2007. This amount represented 51 per cent of the 2007 capital budget. The situation has not improved in 2008. Nine months into the fiscal year, at least three quarters or 75 per cent of the capital budgets with cash backing had been released to the MDAs. Yet,

available data shows funds utilization rate to be very low, 24.11 per cent overall. Many MDAs achieved less than 10 per cent funds utilization rate. This problem of low absorptive capacity needs to be investigated thoroughly to determine whether it relates to any, all or more of the following: inadequate human resources; inadequate complementary facilities; administrative bottlenecks, such as the Due Process Mechanism, late budget passage and late releases of budgeted funds for project implementation, etc. If the low absorptive capacity continues, it means that the MDG interventions risk being unimplemented and the goals unachieved.

## **Public Spending Efficiency**

In Nigeria, public spending has tended to yield poor outcomes and has limited impact on economic and social conditions. In the annual budget, so much emphasis is placed on inputs and less on outputs and the quality of spending. The quality of spending has been so low in efficiency and effectiveness, that the resources spent annually are grossly disproportionate to the limited outputs realized. Partly accounting for this is corruption, which is endemic. The World Bank (2007) concluded that the real problem with Nigeria's budgetary system is low efficiency of budget spending, not inadequate funding (see Box 1). Indicators of low public spending efficiency include the poor state of the services – health, education, roads, power, etc, and the country's high Incremental Capital Output Ratio (ICOR) (12.7 in 1975-2004 and 10.4 in 1994-2004). Thus, the major improvement in service delivery in the short to medium-term should come as much from further expenditure growth as from much better utilization of the existing allocations. Therefore, if the anticipated huge amounts of resources targeted at achieving the MDGs are to yield the desired results, then greater emphasis must be placed on improving spending efficiency.

## **5 POLICY MEASURES**

### **5.1 Costing Strategies and Implementation**

- (i) Scale up MDG spending substantially.** This is important in achieve the MDGs. At present, government spending on the MDG sectors at all tiers fall short of the appropriate scale for achieving the MDGs; and government spending skews heavily toward the non-MDG sectors. MDG spending would need to be scaled-up by reallocating resources from the non-MDG sectors to the MDG sectors, and mobilizing more resources for public sector activities in general and for the MDG sectors in particular.
- (ii) Accelerate the pace of MDG spending in the medium term.** The projections show that the annual cost of the MDGs is not constant, but rises in absolute terms annually, which may constitute a risk for the achievement of the MDGs later in the MDG cycle. To avert this problem, Nigerian governments need to adopt the front-loaded approach to MDG management, by accelerating the pace of MDG spending in the first half of the MDG cycle to reduce effort in the latter half of the cycle.
- (iii) Nigerian governments should strive to achieve an appropriate balance between recurrent and capital expenditure.** The projections made show that the bulk of MDG spending goes to recurrent expenditure. The most appropriate balance between recurrent and capital expenditures is not necessarily one in which both categories of expenditure have equal shares. The most appropriate balance

depends on the relative productivity of both categories of public investments. Service delivery should be the focus of the resource allocation process, which calls for the prioritization of those items of recurrent expenditure such as maintenance and operational costs that are complementary to capital expenditures.

- (iv) **The federal government should strengthen its support to sub-national governments on the MDGs.** Projections show that the burden of MDG spending falls more heavily on sub-national governments than on the federal. However, the fiscal profile of the tiers of governments points to relative buoyancy at the federal level. Thus the federal government should support the effort of sub-national governments to achieve the MDGs, by bolstering up its conditional grants from the VPF and other sources.
- (v) **Place top priority on infrastructure and human capital development.** Capital expenditure on the MDGs comprises largely infrastructure and human capacity building. These items of expenditure, if inadequately supplied, would generate bottlenecks in the service delivery system. The infrastructure that require improvements include roads, classrooms for primary education, health centres, electrification and water supply. Similarly, on capacity building, it is necessary to train primary school teachers. Training is also required in community storage, community mobilization, micro-finance loans, agro-processing and adaptive research; training in water quality standards, water administration and hygiene and education for behavioural change.
- (vi) **All tiers of government should engage in the strategic prioritization of their resources.** The costing exercise provides a guide on which sectors and sub-sectors should constitute the top priorities of Nigerian governments. The dominant sectors are agriculture, education, roads, energy and health, while the environment sector and housing occupy the lowest rung of the spectrum. In order to facilitate the prioritization process, the government should promote a strong alignment between planning and budgeting, comprehensiveness of the budget, and budget implementation in line with the Appropriation Act.
- (vii) **Full integration of evidence-based costing into the budgeting process at the federal level.** The MDG needs assessment provides a scientific and evidence-based approach to decision making. However, the costing exercise focuses only on MDG sectors, which account for less than one-quarter of total government spending nationally and at the federal level. The prevailing budgeting system is therefore dualistic with MDG-based planning adopted for the MDG sectors, while the administrative approach to budgeting is applied for the non-MDG sectors. The overall efficiency of the budgeting system could be enhanced with the integration of the needs assessment into the entire budgeting process.
- (viii) **Extension of the costing exercise to sub-national governments.** One of the major lapses identified in the 2006 MDG report on Nigeria is inadequate complementary efforts by sub-national governments to reform efforts at the federal level. The MDG needs assessment conducted is national, with the federal government serving as the driving force. Some selected states, such as Kaduna and Lagos, participated in the process, but no assessment has been conducted in any of the states. The principal function of the MDG needs assessment is to

provide a solid foundation for budgeting, planning and financial strategy. The information base provided would be richer if the costing exercise is conducted at each tier and for each government. Specifically, there is need for validation of what has been done at the federal level in the states; advocacy for MDG-based planning at the sub-national level; and capacity building at this level.

**(ix) Alignment of the costing methodology for the health sector with that of the other sectors in subsequent costing exercise.** The costing tools in six of the MDG sectors for the costing exercise were based on the Millennium Project costing methodology, which are similar in approach. In particular, the approach computes the total financial costs of interventions for achieving the MDGs. Although UNESCO developed the EPSSim model used for the education sector, the approach adopted is similar to that of the Millennium Project in the sense that it also computes the total financial costs of interventions. In contrast, the MBB tool that was adopted for the health sector computes only the marginal or incremental cost of bottleneck reduction in the service delivery system. To align the cost estimates for the health sector with those of the other sectors, the sum of the incremental cost and the prevailing budget for the sector is generated. In essence, one is compelled to sum up historical cost with projections of the cost of removing bottlenecks in the health sector. This misalignment can be avoided by also adopting the Millennium Project tool, or some other acceptable tools uniformly for all the sectors.

**(x) Strengthening of the capacity of the NBS to collect and process data for regular and periodic monitoring of the MDGs.** The 2006 MDG report on Nigeria identifies lapses in the system of information gathering and management as one of the major challenges to the achievement of the MDGs by 2015. Officials of the NBS have also asserted that data management was not fashioned into the MDGs, specifically that NBS data was not formatted for the MDGs, which makes monitoring and tracking difficult. This problem can be mitigated by strengthening the capacity of the NBS to collect and process data on the MDGs.

## **5.2 Financing Strategies and Implementation**

The huge financial resources required to achieve the MDGs by 2015 pose significant challenges to the revenue mobilization capabilities of the three tiers of government, particularly now that the oil market has shown significant weakness. The primary strategies to consider in efforts to address the financing gaps are the mobilization of domestic resources and the promotion of high rates of economic growth.

If domestic resources must provide a robust basis for sustainable progress in meeting the MDGs, then policies need to be implemented which would increase domestic saving and raise the revenue (tax and non-tax) GDP ratio significantly beyond current levels. Underpinning this will be robust and sustainable economic growth. Domestic resources provide a better, long-term option. They are crucial to achieving the MDGs and sustaining the achievement, and any longer-term development goals. Given that oil revenue, which is the dominant form of domestic resource, and the major form of external assistance, ODA, are highly unstable and unpredictable, it is necessary for policy to move in two directions: more reliance on domestic sources of finance, especially the non-inflationary sources; and diversification of the revenue base away from oil revenue to non-oil revenue tax sources.

Both will enhance the predictability of government revenue and the realization of programme and project goals. Some specific financial policy directions are outlined as follows:

(a) Domestic Savings. Savings can be channelled into MDG spending through households' contributions and government spending. This can arise from the government's borrowing from the banking and non-banking public, and from budget surpluses. The latter can be achieved through: (i) curtailing administrative expenses and non-essential recurrent expenditure; (ii) improving internal revenue collection; and (iii) tapping additional sources of revenue. Nigeria has the potential to mobilize substantial savings from domestic sources. To this end, private savings can be raised and its allocation improved through a number of channels: (i) maintenance of a stable macroeconomic environment (low inflation, stable exchange rate, etc.); (ii) removal of distortions in financial markets and having appropriate interest rate policies; (iii) promotion of a well-functioning capital market and availability of appropriate instruments, e.g. government bonds and annuities; (iv) adequate funding of public and private pension schemes to support economic development; and (v) policies to enhance the recovery of the real sectors of the economy.

(b) Taxation and Internally-Generated Revenue (IGR). Taxation is the most important source of government revenue in modern economies where taxes amount to about 30 per cent of GDP. But in Nigeria, owing partly to the importance of oil revenue, the ratio of non-oil tax revenue to the GDP at the federal and sub-national levels is very low – less than 10 per cent. Yet, the country cannot continue to rely on oil-based revenues for reasons already outlined. Therefore, all the tiers of government need to exert significant effort to boost non-oil tax revenue and other forms of IGR in a significant manner by tapping potential sources of revenue and implementing reforms, among which are the following:

- User charges
- Taxes on property
- Broadening the base of some taxes
- Tapping of non-mineral and other resources in the states
- Engagement in viable ventures
- Adequate development of tourism
- Improvement in operations and efficiency of administering internal sources of revenue
- Tax reform which entail, among other things, harnessing the existing sources through maximization of collections at minimal costs, setting of performance targets/goals in revenue collection, relating productivity or performance to appropriate reward/incentive system, judicious use and management of revenue collected so that the goods and services provided with tax revenue are visibly seen, adequate empowerment of tax officials and collectors in terms of the logistics for tax collection

As earlier observed, more tax revenue will be raised by the three tiers of government if the taxpayer and tax administrator are treated well and if government invests adequately in its revenue system and manages the Nigerian society well.

(c) Deficit Financing. Government borrowing from the banking system, particularly the Central Bank, should be kept within safety limits because of the inflationary implications. Indeed, the government should maintain its policy of not borrowing from the Central Bank

which has been in the vogue in the last few years. Instead, government is encouraged to borrow from the capital market.

(d) Capital Market/Bond Financing. Against the background of positive developments in this area in the last few years, there are good prospects of financing MDGs activities, especially infrastructure, through long-term bond financing. Commercial banks and non-bank public should be encouraged to purchase government bonds and securities.

(e) Financing from the Financial Sector. Considering the social nature of MDG-related spending, financing with short-term financial sector loans is ill-suited and not advisable. Neither is Central Bank financing suitable because of its inflationary consequences. However, microfinance banks and the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) can be encouraged to finance poverty-reducing economic activities by granting loans on highly concessional terms.

(f) Excess Revenue/Large Foreign Exchange Reserves. The federal government has accumulated huge excess crude oil revenue balances in both foreign exchange and naira, totalling about US\$20.00 billion. Similarly, the country has a huge stock of external reserves, estimated at about US\$64 billion (equivalent to 32 months imports cover) as at the end of second quarter in 2008. It is necessary to explore the possibility of using part of the excess revenues and foreign exchange reserves to finance MDG programmes and projects. In the light of the objectives of holding external reserves, an optimal level can be determined and any amount in excess of this could be deployed to financing development projects, especially in health, transport, solid minerals development, etc. Targeting import spending will minimize the macroeconomic implications of increased government spending of such revenues on MDG projects.

(g) Spending by Households. This is in the form of payment of user charges for certain social services such as energy, water and sanitation and senior secondary education. However, in order not to prevent the poor from receiving basic social services which attract user charges, they need to be protected. Therefore, subsidies can be considered along with private provision of services to enable the poor have access. Furthermore, as user fees tend to restrict access and detract from the achievement of the MDGs, publicly financed investment in human capabilities, social services, infrastructure and environmental sustainability become indispensable.

(h) Contributions from the Organized Private Sector, comprising NACCIMA, MAN, NASSI,, etc. Owing to scepticism about government's ability to use funds efficiently and effectively, private sectors operators have expressed reluctance to contribute to any special funds dedicated to the MDGs. They are wary to contribute to a fund which may be squandered or diverted through corruption. But they would contribute in kind, e.g., by donating their products and services in such sectors as education, health and environmental sustainability. Besides, they can also be encouraged along two other lines:

- To adopt specific MDGs interventions, e.g., rehabilitation, upgrading and maintenance or construction of schools, hospitals and provision of water schemes
- To step up corporate social responsibility in MDGs programme implementation

(j) External Assistance. As earlier noted, external assistance should play a supplementary role to domestic resources, considering its nature and past performance in the country. It has not lived up to expectations with ODA inflow currently standing at between US\$ 2 and US\$5 per capita. There is thus a strong argument for enhanced aid inflows.

- (i) In particular there is a need for:
- increased aid coordination and harmonization to enhance aid effectiveness;
  - donor operations to be consistent with the aspirations and priorities of the government and the people. Indeed, donors need to pay more attention to the needs and priorities of the host communities;
  - increased individual and institutional capacity building for increased aid absorption
  - mechanisms for aid projects sustainability
- (ii) Of the different forms of external assistance, ODA in the form of grants, is the more preferable. It should be largely directed at building national capacities for domestic revenue mobilization to reduce aid dependence and to achieve the MDGs. Also important is technical assistance aimed at human, technical and institutional capacity building to achieve the MDGs.
- (j) Although debt relief liberates resources otherwise meant for debt servicing, which can be diverted to financing MDGs, it can provide only limited resources. This makes new resources in the form of grants to be important.
- (iii) Migrant remittances have become an increasing and stable source of foreign exchange for some poor countries. The inflow of such resources to Nigeria in 2007 was US\$15 billion. The role of remittances has, however, tended to be limited by the high cost of transferring the resources from abroad. It is therefore desirable for international policy to target reducing the rather punitive transfer costs of remittances.
- (iv) Nigeria is currently threading a sustainable external debt path because of its recent exit from burdensome external debt, courtesy of the Paris Club. Therefore, it should not return to unsustainable debt profile by borrowing indiscriminately even on concessional terms.
- (k) Issue of Absorptive Capacity. Strong concerns have been expressed about the absorptive capacity of MDAs for the huge budgetary resources envisaged for MDG interventions. In the last three years, there has been glaring evidence of low utilization of budgeted resources by MDAs at the federal level. This might also be the case with the sub-national governments. Therefore, while the causes of low absorptive capacity need to be investigated thoroughly, in the interim, reforms are required and should be deepened to improve the absorptive capacity. These should aim at:
- Making the Due Process Mechanism less cumbersome and constraining
  - Timely design and passage of budgets into law and prompt release of cash backing
  - Effective capacity building in project design, execution, monitoring and evaluation
  - Building private sector capacity
- (l) Public Spending Efficiency. For some time now, public spending efficiency has, elicited deep concern given that such spending has tended to yield poor outcomes and impact on economic and social conditions. The quality of public spending has been so low in efficiency and effectiveness that the quantum of resources spent annually is grossly disproportionate to the limited outputs realized. Apparently, corruption and other forms of

leakages have played a notable role in this outcome. In its review of this problem, the World Bank (2007) concluded that the problem with Nigerian budgeting system is low efficiency of budget spending, not inadequate amount of money for spending. Low efficiency in spending is reflected in the poor state of economic and social services all over the country and high incremental capital/output ratio (ICOR). If Nigeria's ICOR were to reduce significantly, it means that the same amount of public investment would translate into a much higher rate of GDP growth. Therefore, for the huge amounts of money earmarked for the MDG interventions to yield the desired results there must be improvement in public spending efficiency. Important measures to consider in this direction include:

- Enforcing a more robust transparency and accountability regime to improve cost efficiency in the system
- Strengthening the quality of project planning and implementation
- Bringing improvements to bear on the quality of the government's capital project portfolio
- Restructuring public service delivery to focus on basic services which meet the needs of majority of the people
- Restructuring recurrent expenditures to focus more on increasing the financing of operational and maintenance costs while other costs are rationalized.

## **6 CONCLUSION**

Following current trends, Nigeria is unlikely to achieve all the MDGs by 2015. Investments in the MDGs would need to be scaled up substantially to achieve the MDGs by the target date of 2015. The huge financial resources required to achieve the MDGs by this date pose significant challenges to the revenue mobilization capabilities of the three tiers of government. The primary strategies to consider in efforts to address the financing gaps are the mobilization of domestic resources and the promotion of high rates of economic growth. Resource mobilization in the public sector should be supported by improvements in the absorptive capacity of the public service delivery system for the huge budgetary resources envisaged for MDG interventions; and improvement in public spending efficiency through, for instance, stronger transparency and accountability arrangements and restructuring of the public service delivery system to focus on basic services that meet the needs of majority of the people.