



# An analysis of fiscal space for social protection in Nigeria

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February 2012



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## Acknowledgements

This research project was commissioned by UNICEF Nigeria and the Nigeria National Planning Commission, funded by UNICEF Nigeria and UNFPA, and carried out by ODI and EPRI in partnership with GADA and CEWHIN. . The project resulted in the following six reports:

- Hagen-Zanker, J. And Holmes, R. (2012) 'Social Protection in Nigeria: Synthesis Report'. ODI/UNICEF Nigeria
- Holmes, R. and Akinrimisi, B. with Morgan, J. and Buck, R. (2012) 'Social Protection in Nigeria: Mapping Programmes and Their Effectiveness'. ODI/UNICEF Nigeria
- Holmes, R., Samson, M., Magoronga, W. and Akinrimisi, B. with Morgan, J. (2012) 'The Potential for Cash Transfers in Nigeria'. ODI/UNICEF Nigeria
- Jones, N., Presler-Marshall, E., Cooke, N. and Akinrimisi, B. (2012) 'Promoting Synergies between Child Protection and Social Protection in Nigeria'. ODI/UNICEF Nigeria
- Samuels, F., Blake, C. and Akinrimisi, B. (2012) 'HIV Vulnerabilities and the Potential for Strengthening Social Protection Responses in the Context of HIV in Nigeria'. ODI/UNICEF Nigeria
- Hagen-Zanker, J. and Tavakoli, H. (2012) 'An Analysis of Fiscal Space for Social Protection in Nigeria'. ODI/UNICEF Nigeria

We are indebted to OSSAP-MDGs for providing the budget data and background report, which formed the basis for large parts of our analysis. Thanks to Lu Luo for research assistance and to Lesley Adams for conducting key informant interviews. Many thanks to the focus group and key informant interview participants in Adamawa, Benue, Edo and Lagos and key informants in Abuja. We would like to thank Daniel Rogger and Moustapha Doukoure for providing useful contextual information, contacts and data, and for their patience in answering questions, and Rebecca Holmes, Shalini Bahuguna and Maryam Abdu for comments on an earlier draft and to Roo Griffiths for editorial assistance.

We thank participants at the validation workshops in Lagos, 24 October 2011, Enugu, 26 October 2011 and Abuja, 28 October 2011 for their helpful comments.

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# Contents

|          |   |            |
|----------|---|------------|
|          | <b>Tables, figures &amp; boxes</b>  | <b>ii</b>  |
|          | <b>Abbreviations</b>  | <b>iii</b> |
|          | <b>Executive summary</b>  | <b>v</b>   |
| <b>1</b> | <b>Introduction</b>   | <b>1</b>   |
| <b>2</b> | <b>Data, definitions and methodology</b>                                      | <b>2</b>   |
| 2.1      | Data  | 2          |
| 2.2      | Definitions   | 3          |
| 2.3      | Methodology   | 4          |
| 2.4      | Limitations   | 6          |
| <b>3</b> | <b>Government expenditure</b>   | <b>8</b>   |
| 3.1      | Government expenditure  | 8          |
| 3.2      | Aid expenditure   | 11         |
| 3.3      | Comparison with other sub-Saharan African countries                           | 12         |
| <b>4</b> | <b>Analysis of the cost of increasing social protection expenditure</b>       | <b>16</b>  |
| 4.1      | Methodology   | 16         |
| 4.2      | Cost of basic social protection package                                       | 16         |
| <b>5</b> | <b>Analysis of fiscal space for social protection</b>                         | <b>19</b>  |
| 5.1      | Affordability   | 20         |
| 5.2      | Institutional analysis: public expenditure management                         | 27         |
| 5.3      | Political analysis  | 29         |
| 5.4      | Fiscal space for social protection  | 29         |
| <b>6</b> | <b>Conclusion</b>   | <b>31</b>  |
|          | <b>References</b>   | <b>32</b>  |
|          | <b>Appendix 1: List of key informant interviews</b>                           | <b>33</b>  |
|          | <b>Appendix 2: Budget allocations by functional classification, 2005–2009</b> | <b>34</b>  |

## Tables, figures & boxes

### Tables

|  |    |
|--|----|
| Table 1: List of data sources  | 2  |
| Table 2: Federal, state and local expenditure, by sector, 2009   | 6  |
| Table 3: Consolidated sectoral expenditure, 2005-2010  | 9  |
| Table 4: Aid expenditure, 2006-2009  | 11 |
| Table 5: Government expenditure on social protection in six sub-Saharan African countries                        | 13 |
| Table 6: Simulated cost of social protection in seven sub-Saharan African countries as a percentage of GDP, 2008 | 17 |
| Table 7: Creating, sustaining and using fiscal space – an indicative framework                                   | 19 |
| Table 8: GDP and real GDP growth, 2005-2015  | 20 |
| Table 9: Revenue as a percentage of GDP, 2007-2013   | 21 |
| Table 10: Growth in oil revenue, 2008-2013   | 21 |
| Table 11: Federal public sector debt and servicing, 2007-2030  | 23 |
| Table 12: Scope for fiscal space for social protection in Nigeria  | 30 |

### Figures

|  |    |
|--|----|
| Figure 1: Sectoral expenditure as a share of government expenditure, 2005-2010                                   | 10 |
| Figure 2: Social protection expenditure, 2009  | 11 |
| Figure 3: Social protection expenditure share (including civil servant schemes) vs. GDP per capita, 2006/07      | 14 |
| Figure 4: Social protection expenditure share (excluding civil servant schemes) vs. GDP per capita, 2006/07      | 14 |
| Figure 5: Social protection expenditure per capita (excluding civil servant schemes) vs. GDP per capita, 2006/07 | 15 |
| Figure 6: Cost of basic social protection packages vs. social protection expenditure, 2008                       | 18 |
| Figure 7: Federal discretionary and non-discretionary expenditure, 2007-2013                                     | 25 |
| Figure 8: Total ODA disbursements to Nigeria, 2005-2009  | 26 |

### Boxes

|   |    |
|---|----|
| Box 1: Nigerian budget data   | 2  |
| Box 2: Definition of social protection  | 3  |
| Box 3: How the state expenditure inflator is calculated                       | 5  |
| Box 4: The National Sovereign Investment Authority                            | 22 |
| Box 5: Debt relief for poverty reduction and progress against the MDG targets | 23 |

## Abbreviations

|            |   |
|------------|---|
| AfDB       | African Development Bank  |
| AU         | African Union   |
| CCT        | Conditional Cash Transfer   |
| CGS        | Conditional Grants Scheme   |
| COFOG      | Classification of the Functions of Government                       |
| COPE       | In Care of the Poor   |
| CRS        | Creditor Reporting System (OECD-DAC)                                |
| DAC        | Development Assistance Committee (DAC)                              |
| DFID       | UK Department for International Development                         |
| EC         | European Commission   |
| ECA        | Excess Crude Account  |
| EFCC       | Economic and Financial Crimes Commission                            |
| FCT        | Federal Capital Territory   |
| GDP        | Gross Domestic Product  |
| GNP        | Gross National Product  |
| HIPC       | Heavily Indebted Poor Countries                                     |
| IDA        | International Development Association                               |
| ILO        | International Labour Organization                                   |
| IMF        | International Monetary Fund   |
| LGA        | Local Government Authority  |
| MDG        | Millennium Development Goal   |
| Norad      | Norwegian Agency for Development Cooperation                        |
| NAPEP      | National Poverty Eradication Programme                              |
| NEITI      | Nigeria Extractive Industries Transparency Initiative               |
| NHIS       | National Health Insurance Scheme                                    |
| NSIA       | National Sovereign Investment Authority                             |
| NSITF      | National Social Insurance Trust Fund                                |
| ODA        | Official Development Assistance                                     |
| OECD       | Organisation for Economic Co-operation and Development              |
| OSSAP-MDGs | Office of the Senior Special Assistant to the President on the MDGs |
| PEM        | Public Expenditure Management                                       |
| PPP        | Purchasing Power Parity   |
| SAVI       | State Accountability and Voice Initiative                           |
| UK         | United Kingdom  |
| UN         | United Nations  |
| UNDP       | UN Development Programme  |
| UNICEF     | UN Children's Fund  |



## Executive summary

This report identifies the potential fiscal space for social protection in Nigeria. It forms part of a wider study that examines social protection provision in the country, intended to support the government in strengthening social security and social assistance and to assist the government's development partners in advancing a forward agenda for social protection in Nigeria.

In general terms, fiscal space refers to the availability of additional resources for increasing government expenditure, without prejudicing the sustainability of the government's financial position (Heller, 2007). Social protection encompasses a range of actions that seek to address risk and vulnerability among poor and near-poor households, as well as programmes to maintain income standards. In Nigeria, there is no clear distinction between social protection and poverty alleviation policies (Olaniyan et al., 2004) and poor data availability means that it is difficult to measure social protection expenditure. Nevertheless, this report attempts to measure past financial support for social protection and, through this, to assess the potential fiscal space for social protection activities going forward.

### Social protection

This report differentiates between social insurance (contributory social protection such as civil servant pensions) and social assistance (social protection targeted at poor and vulnerable households). Social protection consists of both social insurance and social assistance. According to the definition adopted by the Nigerian Office of the Senior Special Assistant to the President on the Millennium Development Goals (OSSAP-MDGs), social assistance includes expenditure on the following ministries or agencies (including the entire budget of the ministry/agency):

- Women Affairs;
- OSSAP-MDGs;
- National Poverty Eradication Programme (NAPEP);
- Small and Medium Enterprise Development Agency of Nigeria;
- National Directorate of Employment.

### Spending trends

Spending on the social sectors overall, consisting of health, education and social assistance (i.e. social protection less civil servant schemes), amounted to 5.8% of gross domestic product (GDP) and close to 20% of consolidated government expenditure on average in 2005-2010. More specifically,

- Social protection was on average 0.6% of GDP and 3.4% of consolidated government spending;
- Social assistance was 0.4% of GDP and 0.8% of consolidated government spending.

Our analysis shows that civil servant schemes make up a large proportion of social protection spending (in 2009 it was 50%). Social protection and social assistance as a proportion of government spending have been on a downward trend between 2007-2009. This mirrors the downward trend for social expenditure more generally between 2005 and 2010. Spending on social sectors is lower than required in international agreements (see Hagen-Zanker and McCord, 2011 for details on the agreements).

Official development assistance (ODA) is one way to fund social protection, but in 2006-2009 ODA represented on average only around 3% of total government expenditure. ODA spent on social protection has been increasing, although this may owe to debt relief gains having been reallocated to pro-poor projects and programmes, including in the health, education and social protection sectors, e.g. through the Conditional Grants Scheme (CGS) and the Maternal and Child Community-based Health Insurance Scheme. ODA remains an important source of

funding within the social sectors at the lower tiers of government, which are responsible for the implementation and delivery of social services and development programmes (Ajakaiye and Fakiyesi, 2009).

In terms of absolute expenditure on social protection, Nigeria spends more than six other countries in the sub-Saharan African region.<sup>1</sup> However, this is largely due the fact thatto Nigeria is the richest and most populous of the seven countries: in terms of the share of government expenditure on social protection, Nigeria records the second-lowest level for the two years examined (2006/07 and 2007/08).

### The cost of increased social protection

Unsurprisingly, with expenditure as a share of GDP low in Nigeria, current coverage is limited, with programming reaching only a very small proportion of Nigeria's poor (Holmes and Akinrimisi, 2012).

In order to calculate how much greater social protection coverage would cost, an International Labour Organization (ILO) study was used to simulate the cost of a basic social protection package (ILO, 2008)<sup>2</sup>. For seven comparator countries,<sup>3</sup> the cost of a basic social protection package (excluding health) ranged from 2.9% to 5.2% of GDP in 2008, with an average cost of 4.5%. For West African countries, the average cost was 3.9% of GDP. In the same year, Nigeria's social protection budget was less than 1% of GDP. Therefore, there is significant potential to increase spending in this area to match the cost of a basic package of provision. Given the large population size in Nigeria, universal provision has considerable financial implications, and so a means-tested approach may be more viable.

### Analysis of fiscal space

This report draws heavily on Handley (2009) in examining the following ways to generate fiscal space:

- Raising domestic revenues as well as international aid flows;
- Reducing/cancelling debt or increasing borrowing;
- Reallocating expenditure across sectors;
- Increasing the efficiency of and reducing wastage in public expenditure.

In addition, the report examines the political commitment of the government of Nigeria to supporting the expansion of social protection. The table below summarises this analysis.

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<sup>1</sup> Ethiopia, Kenya, Mozambique, Malawi, Senegal and Uganda. These countries were selected on the basis of data availability.

<sup>2</sup> There was no specific simulation study available for Nigeria

<sup>3</sup> Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal and Tanzania.



## Scope for fiscal space for social protection in Nigeria

| Mechanism/measure   | Recommendations   |
|---|---|
| Mobilisation of domestic revenues   | There is scope for fiscal space through strong expected future growth, as well as through robust and more stable revenues. This comes from the expected results of the sovereign wealth fund and improvements in the tax system, e.g. improving tax administration and compliance. The sovereign wealth fund is currently earmarked for non-recurrent expenditure, but if innovative approaches to public works programmes are pursued, this may be a potential source of funding for social protection activities.   |
| Reallocation between sectors (cut lower priority expenditures to make room for more desirable ones) | There may be scope to reallocate funding from monies previously earmarked for the oil subsidy to new social protection activities. In addition, there may be scope for reallocation from regressive civil servant schemes to more progressive provision, although this may be politically difficult to achieve. However, analysis of discretionary and non-discretionary expenditure suggests there may be increasingly less scope for funding to be directed to social protection activities, as discretionary expenditure is falling as a percentage of total expenditure. It is hard to make a judgement on the potential to reallocate funding across sectors and activities without having a detailed understanding of the government's priorities, programmes and activities. It is recommended that a public expenditure review be carried out for this purpose. |
| Increase discretionary expenditure through debt cancellation and/or increased borrowing             | Debt cancellation is not an option. Given Nigeria's history of high debt levels (as a percentage of GDP), borrowing to fund future recurrent liabilities and long-term social protection investments should be pursued with care.   |
| Increase aid  | It is difficult to judge whether ODA will increase over the next few years. Beyond debt relief, ODA support to Nigeria has historically been quite stable. Nigeria's ownership of significant natural resources and its human development improvements (albeit slow) suggest that increases in ODA levels may be unlikely. In addition, ODA to social protection in Nigeria has historically been very low. However, the CCT pilots, development partner meetings/interest in social protection and global trends towards social protection programming suggest the potential for more ODA for social protection (even if overall ODA is unchanged). Therefore, there is some potential for fiscal space from ODA.  |
| Improve financial management of expenditure   | There is scope to increase fiscal space by improving the efficiency of government expenditure. This will take time to achieve, and the exact savings from such improvements will be difficult to quantify and hence to translate into exact measures of increases in social protection funding. Support to an ongoing effort to strengthen the efficiency and effectiveness of spending is important not only for social protection allocations but also for outcomes.  |
| Political commitment to support an expansion in social protection provision                         | Social protection is slowly emerging as a policy instrument in Nigeria, but is currently not a key priority for the federal government, as reflected by the limited funding available for it. There is significant variation in the commitment to social protection at the state level, with some states demonstrating interest in and channelling financial resources towards pro-poor social spending in general and, increasingly, social protection in particular. In terms of future development, social protection needs to build on these successes and utilise the political will at a state level. Development partners should improve engagement with the Nigerian government on the rationale for expanding social protection and the costs and benefits of doing so.  |

The greatest scope for increasing fiscal space for pro-poor social protection is via i) mobilisation of domestic resources, ii) possible increases in ODA targeted specifically at social protection and iii) improving the public financial management of public expenditure.

There is scope for fiscal space through strong expected future growth and also through robust and more stable revenues, although reserves are on the decline (IMF, 2010). This comes from expected results of the sovereign wealth fund and improvements in the tax system, e.g. improving tax administration and compliance.

One particular avenue that should be explored is whether the sovereign wealth fund can be used to fund public works programmes which have a social protection component and fit the infrastructure investment requirement. This would be quite a turnaround in Nigerian policy, since most current infrastructure investments are implemented through private contractors and since government expenditure is generally not pro-poor.

There is scope to increase fiscal space by improving the efficiency of government expenditure. This will take time to achieve, and the exact savings created from such improvements will be difficult to quantify and hence to translate into exact measures of increases in social protection funding. Support to an ongoing effort to strengthen the efficiency and effectiveness of spending is important not only for social protection allocations but also for pro-poor outcomes.

However, ensuring fiscal space is used to expand social protection programmes will depend on the Nigerian government's political commitment. At present, it is not clear if social protection is a key priority for the federal government, although a number of state governments have demonstrated political and financial commitment to cash transfers. Creating fiscal space for social protection should not come at the cost of other social sectors, if its impacts are to be maximised. As such, donors need to strengthen their engagement with the Nigerian government to support the argument for increased pro-poor expenditure in general and for expanded social protection in particular, including the costs and benefits of doing so.

# 1 Introduction

This report analyses the potential availability of fiscal space for social protection in Nigeria, as part of a wider study examining social protection provision in Nigeria. It is intended to support the government of Nigeria in its commitment to strengthening social security and social assistance benefits and services, and to assist the government's development partners in advancing an agenda for social protection in the country.

Government-led social protection programmes for the poor in Nigeria remain small in scale and are concentrated in a few states. Cash transfers, health insurance and, to some extent, public works programmes are the main social protection instruments operating in the country.

Nigeria is a relatively rich sub-Saharan African country, with gross domestic product (GDP) per capita of \$1,118 in 2009 (World Development Indicators): it is ranked as a lower-middle-income country. Total government expenditure was 33.8% of GDP in 2010. Nigeria operates under a federal system, with revenues split between the three tiers of government as follows: 52.68% to the federal government; 26.72% to the 36 state governments; and 20.6% to the 774 local government authorities (LGAs) (Eboh, 2009). Aid contributed to approximately 1.1% of government expenditure in 2009. The main areas of expenditure, according to functional classification, include general public services i.e. Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs, General Public Services, etc. (28.56 % in 2009) and Economic Affairs (24.44% in 2009) (OSSAP-MDGs, 2010). The small scale of social protection reflects a broader trend of low expenditure priority in the social sectors in Nigeria (approximately 20.1% of government revenue in 2010, with social protection at about 1.4% of government expenditure).

This report is organised as follows. Section 2 includes a detailed explanation of the data sources used (and their limitations), the main indicators used and the methodology. While we attempt to present a consolidated picture of expenditure at the federal, state and local levels, this is not a straightforward task for Nigeria, given inadequate data coverage. Section 3 then goes on to analyse current expenditure directed towards social protection provision in Nigeria. It examines how much the government and donors are spending on different social protection activities and compares this with spend on other sectors in Nigeria and with social protection expenditure in other sub-Saharan African countries.

Section 4 analyses how much it would cost to implement a greater number of social protection programmes, in doing so increasing social protection coverage in Nigeria. Calculations are based on a 2008 simulation study of the cost of a basic social protection package in sub-Saharan African countries by the International Labour Organization (ILO). We compare the simulated cost of a basic package to what the Nigerian government is currently spending on social protection.

Section 5 presents an assessment of fiscal space in Nigeria and discusses the options for using this to expand social protection provision. It is based on a framework developed by Handley (2009) and examines the scope for fiscal space through the following mechanisms/measures: mobilisation of domestic revenues; reallocation of expenditure between sectors; increased discretionary expenditure through debt cancellation and/or increased borrowing; larger aid flows; and improvements in the financial management of expenditure and the level of political commitment to support an expansion in social protection provision. Analysing each mechanism in turn, the section then presents a set of recommendations, suggesting which type of mechanism for fiscal space would be most feasible to support the expansion of social protection in Nigeria.

The final section concludes.

## 2 Data, definitions and methodology

Before we go on to discuss consolidated government expenditure on social protection and other key sectors, this section explains the data sources, the key indicators and the methodology used for the analysis in this report.

### 2.1 Data

Nigeria's federal structure and the absence of a computerised budget system mean it is extremely difficult to obtain comprehensive budget data (both budgeted and actual) for the country (see Box 1). The Open Budget Index classifies Nigeria as a state that provides 'scant or no information'.<sup>4</sup>

Identifying consolidated expenditure requires data from federal, state and local levels. The latter two account for about 50% of total expenditure and are therefore an important part of the overall picture. However, state and local budgeted expenditure data are in many cases not publicly available, and actual expenditure data are not available at all. Rather than using underestimates, we used estimation techniques to present a complete picture.

#### Box 1: Nigerian budget data

'Fiscal data are opaque and complicated not only by the federal structure but also by a multiplicity of off-budget funds. The most pressing shortcomings are related to inadequate data coverage, particularly of the sub-national governments which comprise almost one-half of total government expenditure. The federal government has limited information on the sub-national fiscal accounts [...]. To facilitate the timely preparation of a consolidated set of fiscal accounts, governments at all levels need to use consistent budget classification, chart of accounts, and accounting systems. There is also a need to formalize the publication of government accounts on a monthly or quarterly basis and to report on the operations of parastatals.'

Source: IMF (2011).

We had to use a number of data sources, but employed the principle of using i) as few overall sources as possible and ii) only one source per indicator. Table 1 lists the data sources for the most important indicators, with explanations below.

**Table 1: List of data sources**

| Indicator   | Source                                  |
|---|---|
| Total government expenditure  | IMF World Economic Outlook database     |
| GDP   | IMF World Economic Outlook database     |
| Education expenditure   | MDG files                               |
| Health expenditure  | MDG files                               |
| Agriculture expenditure   | MDG files                               |
| Social protection expenditure   | MDG files                               |
| Civil servant schemes   | Budget Office website                   |
| Military expenditure  | MDG files; Budget Office website (2010) |
| Donor expenditure   | OECD-DAC CRS database                   |
| Social protection expenditure for other sub-Saharan African countries | Country budgets                         |

<sup>4</sup> See <http://internationalbudget.org/what-we-do/open-budget-survey/>.

Total government expenditure and GDP were taken from the International Monetary Fund's (IMFs) World Economic Outlook. This database provides consistent and longitudinal data.

Our main source on sector expenditure are data files received from the Office of the Senior Special Assistant to the President on the Millennium Development Goals (MDGs) (OSSAP-MDGs, also referred to as the MDG Office), which the office prepared as part of its 2010 'Analysis of MDGs Expenditure in Nigeria's Federal, State and Local Government Budgets'. The main advantage of this report and accompanying data files is that similar sectors are analysed, the data are available for a number of years and, most importantly, the data include some state and local data and thus provide us with a methodology to estimate missing data.

Data on official development assistance (ODA) comes from the Development Assistance Committee's (DAC's) Creditor Reporting System (CRS) database. This was developed and is hosted by the Organisation for Economic Co-operation and Development (OECD) and captures information about ODA from the 24 members of the OECD-DAC, from the European Commission (EC) and from a number of other multilateral institutions. The CRS is designed to provide comparable data for public analysis on the volume, purpose and direction of aid flows. It intends to capture a broad set of aid data, including some off-budget data, but does not offer detailed information on aid activity, and instead often aggregates many smaller activities.

## 2.2 Definitions

Before discussing our methodology, we need to state how we defined the most important indicators.

### Government expenditure

Total government expenditure, as well as sectoral expenditure, includes federal, state and local expenditure. Given poor data availability, we used a combination of budget and actual expenditure data. For total government expenditure we used actual expenditure data, whereas for sectoral expenditure only budgeted expenditure data were available. This means the results have to be treated with caution and should be seen only as a broad indication of any trends.

### Social protection

Social protection encompasses a range of publicly mandated actions activities to address risk and vulnerability among poor and near-poor households, as well as programmes to maintain income standards. In Nigeria, there is no clear distinction between social protection and poverty alleviation policies (Olaniyan et al., 2004), so it is difficult to measure social protection expenditure (see Box 2).

In this report, we differentiate between social insurance (contributory social protection such as civil servant pensions and other benefits) and social assistance (non-contributory social protection targeted at poor and vulnerable households) (Box 2). The OSSAP-MDGs' definition of social assistance comprises expenditure on the following ministries/agencies (with

#### Box 2: Definition of social protection

Social protection is generally said to include social insurance (contributory pensions, unemployment benefits, etc.), in which benefits depend on previous contributions, and social assistance (social pensions, conditional cash transfers (CCTs), etc.), in which benefits are non-contributory. However, definitions vary considerably by country and institution, and policies which are 'socially protecting' but do not employ conventional social protection instruments are likely to appear in other sectors, such as rural development or agriculture.

In this report, social protection comprises social insurance and social assistance. Social insurance includes all civil service pensions and other benefits, at all levels of government. Civil servant pensions and associated benefits comprise a significant proportion of expenditure on social protection in many low- and middle-income countries.

Social assistance includes all expenditure on women, poverty and social development. This definition (by OSSAP-MDGs) is broader than conventional ones, which means this report somewhat overestimates social assistance. Still, it is a better measure of social assistance in Nigeria than the sum of expenditure on known social assistance programmes, as general and budget information on these is scant, in particular at sub-federal level.

the entire budget of the ministry/ agency included):

- Women Affairs;
- OSSAP-MDGs;
- National Poverty Eradication Programme (NAPEP);
- Small and Medium Enterprise Development Agency of Nigeria;
- National Directorate of Employment.

We were not able to collect expenditure data on the National Social Insurance Trust Fund (NSITF) and the Pension Commission (although pension expenditure is included). Any health expenditure is purposely excluded in order to avoid overlap with the health sector. At state level, we include expenditure on ministries such as Women Affairs, Social Development and Poverty Alleviation.

### Relevant social and economic sectors

Social insurance (civil servant schemes) includes expenditure on allowances, pensions and social contributions in all federal and state ministries. There is no local-level expenditure on civil service schemes, according to our data.

Education includes all education expenditure at federal, state and local levels, and excludes science and technology.

Total health expenditure also includes federal, state and local expenditure. At the federal level, this includes the Ministry of Health and the National Action Committee on AIDS. This means that some health parastatals, for example the National Agency for the Control of AIDS and the National Health Insurance Fund at the federal level, are not accounted for.

Military expenditure is at the federal level only and consists of the Ministry of Defence and the National Security Advisor.

Before 2008, agricultural expenditure consisted of expenditure on the Ministry of Agriculture. The Ministry of Agriculture then merged with the Ministry of Water Resources, which means that in 2008 total expenditure on agriculture increased artificially. It was not possible to obtain disaggregated data on water resources to remove this bias.

### Donor expenditure

Donor expenditure refers to disbursed ODA that is reported by donors in the CRS database. On average, between 2006 and 2009, the proportion of committed ODA that was actually disbursed was 80%. We only include ODA that is channelled to the public sector, which was at approximately 40% of total aid between 2006 and 2009. ODA expenditure on social protection is derived from the following expenditure categories:

- Development Food Aid/Food Security Assistance (e.g. project food aid);
- Social/welfare services (e.g. special programmes for the elderly, orphans or disabled);
- Employment policy and administrative management (e.g. support programmes for the unemployed).

Nigeria's financial year coincides with the calendar year. In many other sub-Saharan African countries, the financial year starts in June/July, and their budget data thus run across calendar years. We compared Nigerian expenditure data for 2007 and 2008 with other sub-Saharan African countries' data for 2006/07 and 2007/08.

## 2.3 Methodology

Nigeria has 37 states<sup>5</sup> and 774 LGAs. Together, these account for about 50% of total government expenditure. However, state and local expenditure data are extremely difficult to

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<sup>5</sup> To simplify the analysis, we consider Abuja a state.

obtain, and in many cases are not publicly available. For example, OSSAP-MDGs has managed to collect expenditure data on only 24 of the 37 states and 23 of the 774 LGAs.

Using only the data that are available would result in a serious underestimation of total expenditure. In order to enable a more complete picture, we estimated expenditure for the missing states and LGAs using a two-step methodology also employed by OSSAP-MDGs. First of all, we inflated 2009 expenditure data for the states with unknown expenditure data using an inflator calculated in the following way.

Expenditure data are available for 24 states. These states received 58.24% on average of the Federation Account revenue for a period of eight years (2002-2009). The lower tiers of government rely heavily on these allocations, given poorly developed capacity for internal revenue generation, although some states have additional sources of revenue (e.g. state taxes or a share of domestic value-added tax; the oil-producing states receive a share of oil revenues).<sup>6</sup> Taking expenditure for the 24 states and assuming that states spend in the same proportion as they receive, we then added another 41.76% to the known expenditure of the 24 states to obtain total state expenditure.

### Box 3: How the state expenditure inflator is calculated

Known state revenues for 24 states: 58.24%

Total revenues for other 13 states: 100% - 58.24% = 41.76%

Assuming that expenditures are the same proportionally as the revenues states receive, expenditure for the missing 13 states is calculated as 41.76% of total state expenditure

For local expenditure, no revenue data are available, and expenditure data are available only for 23 states. The inflator was calculated by dividing 23 by 774, which is 2.97%. We thus assumed that all LGAs spent the same amount.<sup>7</sup> Using these inflators, we calculated inflated state and local expenditure in 2009 (see Table 2).

In the second step, we calculated federal, state and local expenditure by sector in 2009 (also in Table 2). We used these proportions to estimate total expenditure in other years. We therefore made the assumption that shares were constant over the years. For example, we knew that federal expenditure on education was approximately 25% of total expenditure. Using data on federal expenditure and the inflator described above, we then calculated total expenditure for the other years.

<sup>6</sup> The additional revenues oil-producing states receive are significant. For example, in 2005, just four states received an extra \$2 billion between them for oil payments (Freinkman, 2007).

<sup>7</sup> Local expenditure fluctuates and is likely to differ greatly between different LGAs (Moustapha Doukoure, personal communications). However, since we were not attempting to estimate local expenditure of individual LGAs, but rather total LGA expenditure, we assumed that the low and high spending LGAs cancelled each other out on average.

**Table 2: Federal, state and local expenditure, by sector, 2009**

| Sector                 | Social assistance | Civil service schemes | Education | Health | Agriculture | Military |
|------------------------|-------------------|-----------------------|-----------|--------|-------------|----------|
| Federal                |                   |                       |           |        |             |          |
| Million naira          | 14.85             | 50.77                 | 224.68    | 154.57 | 166.92      | 223.02   |
| % of total expenditure | 16.68%            | 97.31%                | 24.97%    | 27.11% | 39.33%      | 100.00%  |
| State (inflated)       |                   |                       |           |        |             |          |
| Million naira          | 67.66             | 1.40                  | 585.49    | 287.63 | 186.01      | 0        |
| % of total expenditure | 75.98%            | 2.69%                 | 65.08%    | 50.45% | 43.83%      | 0.00%    |
| Local (inflated)       |                   |                       |           |        |             |          |
| Million naira          | 6.54              | 0.00                  | 89.53     | 127.91 | 71.48       | 0        |
| % of total expenditure | 7.34%             | 0.00%                 | 9.95%     | 22.44% | 16.84%      | 0.00%    |
| Total                  |                   |                       |           |        |             |          |
| Million naira          | 89.05             | 52.17                 | 899.70    | 570.11 | 424.41      | 223.02   |
| % of total expenditure | 100%              | 100%                  | 100%      | 100%   | 100%        | 100%     |

Note: Table 3 gives further details on share of government expenditure and share of GDP.

Source: OSSAP-MDGs and Budget Office.

Table 2 gives an approximate estimate of total federal, state and local expenditure in 2009 (with the latter two being inflated using the above methodology), as well as the shares of each tier of government in total expenditure. It shows that, for the social sectors, higher shares are spent at lower levels of government.<sup>8</sup> Social protection, education, health and, to some extent, agriculture all have the highest expenditure shares at the state level. The federal share for these sectors is much lower, because federal ministries mainly play a coordinating and policy role, not an implementation role. Health takes a relatively high share at the local level, as providing basic health care is the responsibility of local governments. The military's role is to guarantee national security and therefore its entire budget share is spent at the federal level. Civil service schemes are also mainly funded at the federal level, but this could owe to lack of data on state civil service schemes.

## 2.4 Limitations

In the estimation of state and local expenditure, two sets of assumptions are made. The first concerns constant budget shares: we assume i) that states have the same budget share over time and that they spend in the same proportion as they receive revenues from the Federation Account; and ii) that LGAs all have the same level of expenditure. Second, we assume that, within a sector, the proportion taken up by federal, state and local expenditure stays constant over time. These assumptions are strong and are likely not to be fully valid in many cases. However, an *estimation* of consolidated expenditure is much more useful for this analysis than

<sup>8</sup> Social expenditure shares are higher for the lower tiers because responsibility for paying the primary health care and primary education bill lies at the LGA level and for the secondary education bill at the state level. The money for these salaries is ring-fenced, even though it is sent through and eventually paid by the states (Shalini Bahuguna, personal communication).



a serious underestimation of expenditure. We therefore conclude that these limitations are outweighed by the benefits of having a more complete picture of expenditure.

Social protection expenditure is fragmented across different ministries, agencies and departments. We were not able to account for all spending on social assistance and insurance, as we were missing expenditure data on NSITF and the Pension Commission (although we accounted for pension expenditure). These are not big institutions, so the absence of these data should not greatly affect total social protection expenditure.

This study is based mostly on budget data, not actual spending data, with the exception of data on total government expenditure. The discrepancy between total actual expenditure and sectoral budget expenditure means we are making an imperfect comparison when calculating sector shares of total government expenditure. The Ministry of Finance does not have data on actual expenditure in the same level of detail as in the approved budget, as ministries do not report back. In general, based on key informant interviews, we might expect actual spending on the intended programme to be less. One key informant from the State Accountability and Voice Initiative (SAVI) claimed that a very high share of the budget was diverted, but this cannot be corroborated, given an absence of reporting and long delays in auditing (interview with the IMF).

A related problem is that corruption and leakage are very high. Leakages are hard to quantify. According to an unpublished report from the Economic and Financial Crimes Commission (EFCC), in 2009, N252,481,011,090 (1% of GDP) was recovered from public officials, among other sources. Unreported, undetected and unmeasured leakage is much higher (interview with Justice For All). Transparency International (2010) rates Nigeria as a very corrupt country, with a ranking of 134 out of 178 countries.<sup>9</sup> This means that budget data in this report in all likelihood do not entirely reflect actual spending.

Most aid in Nigeria is off-budget, primarily because it is spent outside the government's treasury system. This means that actual spending on sectors (including government- and donor-funded activities) is underestimated. There is also no aid management platform for Nigeria, to provide more complete data on development assistance. In government expenditure data, we cannot differentiate between domestically financed and aid-financed expenditure. In any case, aid is a relatively small component of funding in Nigeria in comparison with the government budget, so this will not affect estimates of total expenditure much, including those of social protection.

In conclusion, as we have data on budgeted expenditure only, and as leakage and corruption are endemic, we can only estimate sectoral spending levels in Nigeria. Lack of data on off-budget aid means donor expenditure is underestimated. This means that our results have to be treated with caution and should be seen merely as a broad indication of the trends.

<sup>9</sup> With 1 being the least corrupt country.

## 3 Government expenditure

This section presents domestic and donor expenditure on social protection and other sectors. It also compares Nigerian social protection expenditure with that of other sub-Saharan African countries.

### 3.1 Government expenditure

Appendix 2 shows federal government expenditure according to the Classification of the Functions of Government (COFOG) definition. It shows that general public services take the highest share of federal government expenditure, reaching close to 30% in 2009. The second-most important sector in terms of expenditure levels is economic affairs, followed by public affairs and safety. Federal expenditure on social protection, as defined by COFOG, was less than 0.5% on average in 2005-2009.

Table 3 below shows consolidated government expenditure on social protection (both with and without civil servant schemes), education, health and agriculture, using OSSAP-MDGs sectoral definitions, as a share of GDP, as a share of government expenditure and in per capita terms. While it is important and interesting also to look at per capita expenditure, these levels are influenced by how fast the population has grown. Expenditure as a share of total government expenditure, on the other hand, tells us to what extent the government prioritises this sector.

**Table 3: Consolidated sectoral expenditure, 2005-2010**

|   | 2005  | 2006  | 2007  | 2008  | 2009  | 2010   |
|---|-------|-------|-------|-------|-------|--------|
| <b>% of GDP</b>                                 |       |       |       |       |       |        |
| Total social protection                         |       |       | 0.8%  | 0.6%  | 0.4%  |        |
| Social assistance (excl. civil servant schemes) | 0.2%  | 0.4%  | 0.3%  | 0.2%  | 0.2%  | 0.6%   |
| Civil servant schemes                           |       |       | 0.6%  | 0.4%  | 0.2%  |        |
| Education                                       | 3.3%  | 3.5%  | 3.6%  | 3.6%  | 3.6%  | 3.2%   |
| Health  | 1.8%  | 2.1%  | 2.2%  | 2.2%  | 2.3%  | 1.9%   |
| Agriculture                                     | 0.4%  | 0.4%  | 0.5%  | 1.4%  | 1.7%  | 1.2%   |
| Military  |       |       | 0.7%  | 0.7%  | 0.9%  | 0.9%   |
| Social sectors                                  | 5.30% | 6.00% | 6.10% | 6.00% | 6.10% | 5.70%  |
| <b>% of government expenditure</b>              |       |       |       |       |       |        |
| Total social protection                         |       |       | 2.8%  | 2.0%  | 1.4%  |        |
| Social assistance (excl. civil servant schemes) | 0.7%  | 1.5%  | 0.9%  | 0.7%  | 0.7%  | 1.7%   |
| Civil servant schemes                           |       |       | 1.9%  | 1.3%  | 0.7%  |        |
| Education                                       | 11.4% | 13.1% | 12.0% | 12.3% | 11.8% | 9.5%   |
| Health  | 6.3%  | 7.7%  | 7.3%  | 7.4%  | 7.5%  | 5.7%   |
| Agriculture                                     | 1.2%  | 1.5%  | 1.6%  | 4.8%  | 5.6%  | 3.6%   |
| Military  |       |       | 2.2%  | 2.5%  | 2.9%  | 2.5%   |
| Social sectors                                  | 18.3% | 22.4% | 20.1% | 20.4% | 20.1% | 16.9%  |
| <b>Per capita naira</b>                         |       |       |       |       |       |        |
| Total social protection                         |       |       | 937   | 1,179 | 1,441 | 1,669  |
| Social assistance (excl. civil servant schemes) | 370   | 527   | 659   | 2,268 | 2,743 | 2,389  |
| Civil servant schemes                           |       |       | 1,173 | 946   | 685   |        |
| Education                                       | 3,412 | 4,586 | 5,036 | 5,852 | 5,815 | 6,303  |
| Health  | 1,877 | 2,699 | 3,056 | 3,529 | 3,685 | 3,772  |
| Agriculture                                     |       |       | 937   | 1,179 | 1,441 | 1,669  |
| Military  | 370   | 527   | 659   | 2,268 | 2,743 | 2,389  |
| Social sectors                                  | 5,497 | 7,810 | 8,461 | 9,715 | 9,847 | 11,170 |

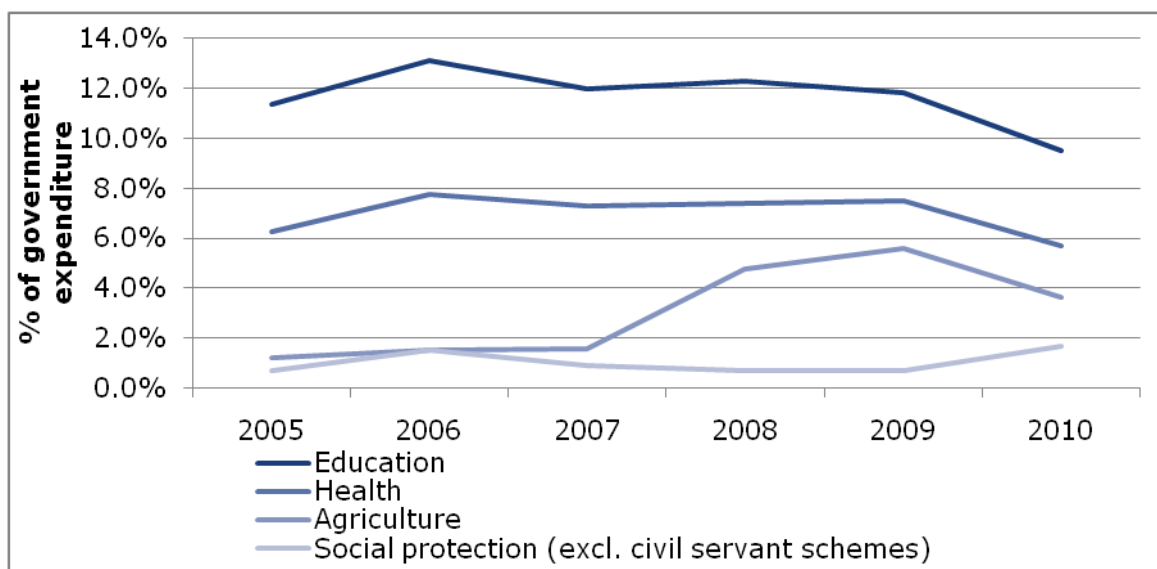
Note: Social sectors' consist of health, education and social assistance. Sectoral expenditure is budgeted expenditure, whereas total government expenditure (not shown here) is actual expenditure.

Source: OSSAP-MDGs, Budget Office and IMF. Population data from the World Development Indicators.

The social sectors, consisting of health, education and social protection without civil servant schemes, amounted to 5.8% of GDP and close to 20% of consolidated government expenditure on average in 2005-2010. In per capita terms, expenditure on social sectors has almost doubled since 2005. Education has the highest budget share out of all social sectors, with average expenditure of close to 12% of government expenditure. In per capita terms, this has been rising since 2005. Health expenditure is around 7% of government expenditure on average, and has also been increasing since 2005, but less than education.

Agriculture (pre-merge with the Ministry of Water Resources) and social protection take up a much smaller share of expenditure than education and health. Total social protection is higher than pre-merge agriculture, but about 50-75% of this is accounted for by civil servant schemes. Social assistance (social protection excluding civil servant schemes) is only about 1% of government expenditure, although this has increased greatly in per capita terms since 2005. Civil servant schemes, on the other hand, have decreased in per capita terms. **Error! eference source not found.** shows sectoral shares in 2005-2008.

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



Source: OSSAP-MDGs, Budget Office and IMF.

**Error! Reference source not found.** clearly shows that education and health expenditure has decreased significantly in 2009, with shares dropping to levels lower than in 2005. Agriculture also decreased, with the big rise in 2008 accounted for by the merger with the Ministry of Water Resources. Social protection, on the other hand, has shown a threefold increase since 2009,<sup>10</sup> but is still at a much lower level than the other social sectors.

It is clear that, relative to spending on general public services, economic and public affairs and safety, pro-poor expenditure or spending on social sectors is not a priority for the Nigerian government. Not only did social expenditure decline between 2005 and 2010, but also it was lower than required by international agreements. In 2001, African Union (AU) governments signed the Abuja Declaration, according to which 15% of government expenditure should be spent on the health sector (Hagen-Zanker and McCord, 2011). Nigeria does not even spend half of the required expenditure level. According to the Education For All initiative, signed in 2000, governments should be spending 20% of expenditure on education (ibid.). Nigeria again does not meet this international target, and the same holds for agriculture. According to the 2003 Maputo Agreement, another AU initiative, 10% of government expenditure should go on this sector, but Nigeria spends less than half of this.

<sup>10</sup> This seems to come mainly from higher state expenditure, but it is not clear why states increased funding in 2010.

## 3.2 Aid expenditure

In many sub-Saharan African countries, ODA is a significant share of total government expenditure. In Ghana, for instance, ODA accounted for 17% of government expenditure in 2005 (Handley, 2009). Nigeria has high poverty level but, being a lower-middle-income and oil-producing country, ODA is lower than for other countries in the region. As Table 4 shows, ODA represented only around 3% of total government expenditure in 2006-2009 on average, with a big drop after 2006. This is because ODA levels were exceptionally high in 2005 and 2006, because of a \$18 billion debt relief package negotiated with the Paris Club.

**Table 4: Aid expenditure, 2006-2009**

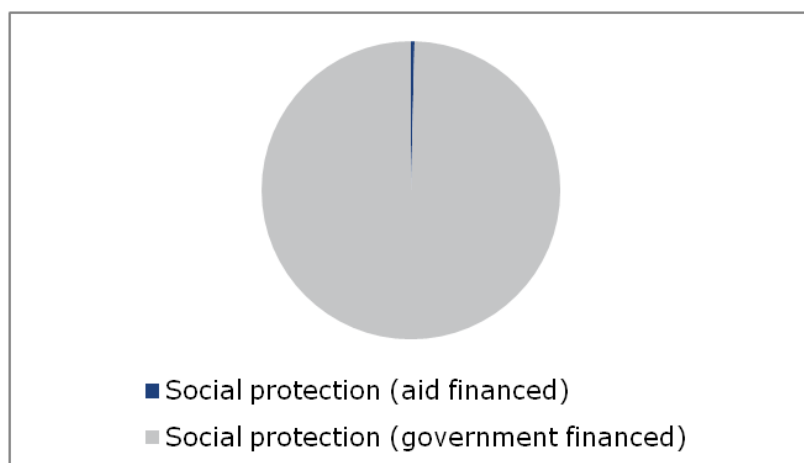
|  | 2006    | 2007    | 2008   | 2009   |
|--|---------|---------|--------|--------|
| ODA to the public sector (million naira) | 384,987 | 149,258 | 97,737 | 84,666 |
| ODA (% of total government expenditure)  | 7.65%   | 2.41%   | 1.36%  | 1.11%  |
| Social protection ODA (million naira)    | 46      | 506     | 161    | 196    |
| Social protection ODA (% of total ODA)   | 0.01%   | 0.34%   | 0.16%  | 0.23%  |

Note: It has not been possible to deduct on-budget ODA from total government expenditure. This means ODA is double-counted in the ODA share of total government expenditure, and the total share should be slightly higher. ODA refers to aid given to the public sector only, in order to be able to calculate the share of aid in the government's budget.

Source: OECD-CRS database and IMF.

ODA spent on the social protection sector is a small share of total ODA, amounting to less than half a percent of total ODA. Aid-financed spending on social protection is therefore very small compared with government expenditure on social protection (see Figure 2).

**Figure 2: Social protection expenditure, 2009**



Note: Social protection expenditure does not include civil servant schemes.

Source: OECD-CRS database and IMF.

Aid-financed social protection includes on- and off-budget ODA. It has not been possible to deduct on-budget ODA from total government expenditure. This means that on-budget ODA may also be included in government-financed social protection expenditure. However, as this is not the case for off-budget ODA, and ODA is generally low, we expect this to not skew the data.

Figure 2 shows that government-financed social protection expenditure outweighs ODA on social protection by far. Since a high proportion of ODA is spent off-budget, and the CRS

database captures only some off-budget data, this is an incomplete picture. The lack of consolidated information on off-budget aid means that the Nigerian government must make budgetary decisions based on partial and unreliable information, thus risks undermining good budget practices.

Even though ODA spent on social protection is small compared with government expenditure, it has been increasing since 2006. This may be because savings from debt relief gains have been allocated to pro-poor projects and programmes, including those in the health, education and social protection sectors, e.g. through the Conditional Grants Scheme (CGS) and the Maternal and Child Community-based Health Insurance Scheme. Furthermore, as Ajakaiye and Fakiyesi (2009) point out, it remains an important source of funding within the social sectors at the lower tiers of government, which are responsible for the implementation and delivery of social services and development programmes.

### 3.3 Comparison with other sub-Saharan African countries

In this section, Nigeria's expenditure on social protection in 2007 and 2008 is compared with that of six other sub-Saharan African countries: Ethiopia, Kenya, Malawi, Mozambique, Senegal and Uganda (in 2006/07 and 2007/08 for all but Senegal (2004)). These countries were selected based on data availability. Table 5 shows total expenditure in US\$ millions, share of government expenditure and share of GDP, both for total social protection expenditure and for social protection excluding civil servant schemes.

**Table 5: Government expenditure on social protection in six sub-Saharan African countries**

|   | Ethiopia | Kenya | Malawi | Mozambique | Nigeria | Senegal | Uganda |
|---|----------|-------|--------|------------|---------|---------|--------|
| 2006/07   |          |       |        |            |         |         |        |
| US\$ millions   | 176      | 485   | 42     | 54         | 1352    |         | 52     |
| % of government expenditure                           | 4.20%    | 6.70% | 4.60%  | 3.20%      | 2.79%   |         | 2.10%  |
| % GDP   | 0.90%    | 2.00% | 1.20%  | 0.80%      | 0.83%   | 1%      | 0.40%  |
| US\$ billions (excl. civil servant scheme)            | 147      | 85    | 14     | 8          | 425     |         | 7      |
| % government expenditure (excl. civil servant scheme) | 3.50%    | 1.20% | 1.50%  | 0.50%      | 0.88%   |         | 0.30%  |
| % GDP (excl. civil servant scheme)                    | 0.70%    | 0.30% | 0.40%  | 0.10%      | 0.26%   | 0.2%    | 0.10%  |
| 2007/08   |          |       |        |            |         |         |        |
| US\$ millions   |          | 517   | 53     | 64         | 1187    |         | 58     |
| % of government expenditure                           |          | 6.20% | 4.50%  | 3.00%      | 1.99%   |         | 1.90%  |
| % GDP   |          | 1.70% | 1.30%  | 0.80%      | 0.58%   |         | 0.40%  |
| US\$ billions (excl. civil servant scheme)            |          | 121   | 17     | 10         | 420     |         | 11     |
| % government expenditure (excl. civil servant scheme) |          | 1.50% | 1.50%  | 0.50%      | 0.70%   |         | 0.40%  |
| % GDP (excl. civil servant scheme)                    |          | 0.40% | 0.40%  | 0.10%      | 0.21%   |         | 0.10%  |

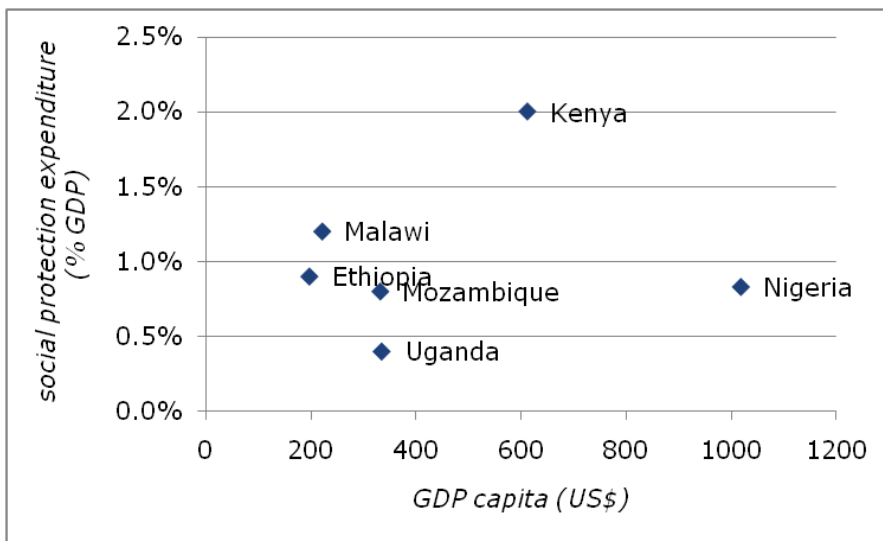
Note: For definitions see Section 2; Senegal is for year 2004.

Source: OSSAP-MDGs for Nigeria data, Senegal in Weigand and Grosh (2008) and other countries in Hagen-Zanker and McCord (2011). The data for the five countries taken from the latter study are comparable. The other studies use similar definitions. Therefore the comparison, while imperfect, is informative and shows general trends.

As Nigeria is a more populous country and has a much greater GDP than the other African countries included here, absolute expenditure on social protection is much higher than in the other countries. However, when one looks at share of government expenditure, Nigeria has the second-lowest share in both years. This is also the case for its share of GDP (Nigeria shared second-lowest place with Mozambique in 2007 (2006/07)). Nigeria's share of GDP spent on social protection is lower than that of Senegal, also situated in West Africa. When civil servant schemes are excluded from the analysis, Nigeria has the third-lowest expenditure in terms of share of government expenditure and share of GDP. Nigeria's GDP share is about a quarter of the social protection share of the country with the highest expenditure share (Ethiopia).

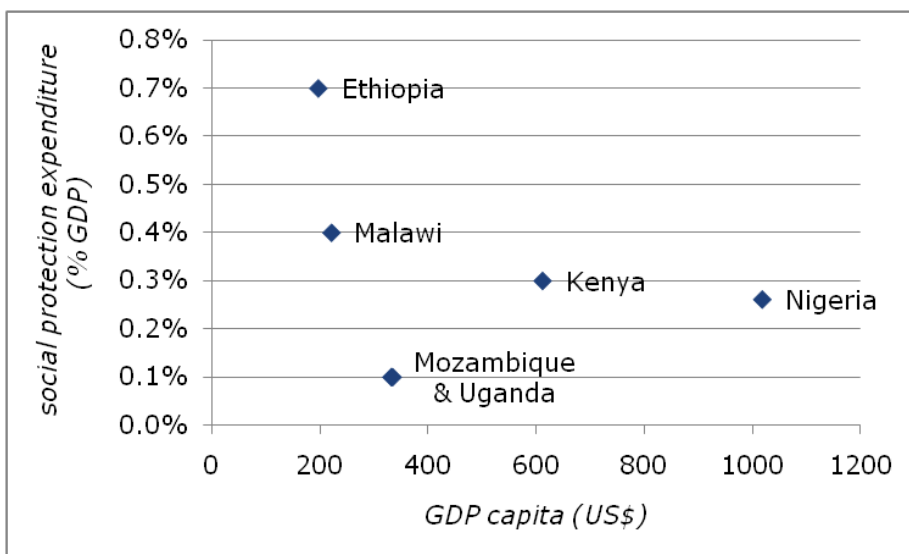
When comparing social protection expenditure with GDP per capita, it is even more evident how low Nigeria's expenditure on social protection is (see Figures 3 and 4).

**Figure 3: Social protection expenditure share (including civil servant schemes) vs. GDP per capita, 2006/07**



Source: Government budgets and World Development Indicators.

**Figure 4: Social protection expenditure share (excluding civil servant schemes) vs. GDP per capita, 2006/07**



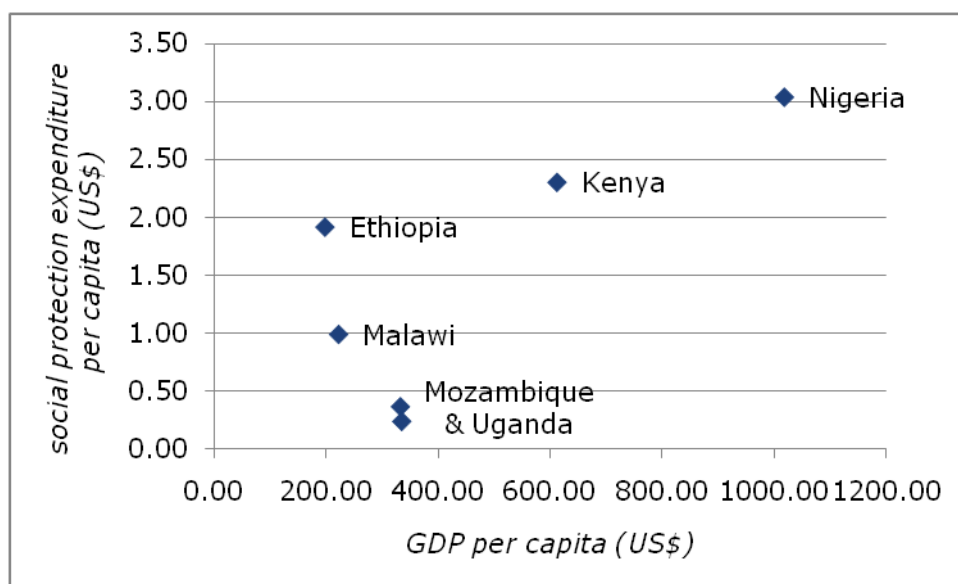
Source: Government budgets and World Development Indicators.



Nigeria is clearly the richest country of the six sub-Saharan African countries included in Figures 3 and 4. Nevertheless, it spends a lower share of GDP on social protection expenditure compared with countries that have a quarter of its GDP per capita. Nigeria spends less than half of the share spent by Kenya, the country closest to Nigeria in terms of wealth. When looking at social protection expenditure spent on social assistance, that is, expenditure geared mainly towards reducing poverty and vulnerability, this becomes even more evident (see **Error! Reference source not found.**). Nigeria has clearly not spent on social protection proportionally to its GDP.

However, when looking at per capita social protection expenditure (excluding civil servant schemes), there is a slightly different picture (see Figure 5).

**Figure 5: Social protection expenditure per capita (excluding civil servant schemes) vs. GDP per capita, 2006/07**



Source: Government budgets and World Development Indicators.

Even given its high population, Nigeria spends a higher share of per capita GDP on social protection expenditure than other countries. However, this analysis does not tell us whether this level of spending is appropriate given Nigeria's high poverty and vulnerability levels.

## 4 Analysis of the cost of increasing social protection expenditure

This section analyses how much it would cost to implement a greater number of social protection programmes and to increase social protection coverage in Nigeria. Current programming reaches only a very small proportion of Nigeria's poor (Holmes and Akinrimisi, 2012) and – as we saw in Section 3 – expenditure as a proportion of GDP is low compared with that in other countries. Our analysis is not based on the specific needs for Nigeria, as a simulation study specifically for Nigeria was beyond the realms of this research project. Instead we used an ILO study from 2008, which simulated the cost of a basic social protection package in seven sub-Saharan African countries. Section 4.1 outlines the methodology of the ILO study and Section 4.2 the results.

### 4.1 Methodology

ILO (2008) simulated the cost of a basic social protection package<sup>11</sup> and its sub-components for 12 developing countries. The basic package consisted of universal old age and disability pensions, universal access to essential health care, basic child benefits for up to two children and assistance for the unemployed by means of a 100-day employment guarantee scheme. In this analysis, we exclude health, as we are considering health expenditures separately.

Within this simulation were seven countries in sub-Saharan Africa. The simulation was based on demographic data and the costs of social protection programmes in countries that had already implemented them. Nigeria was not included, but a number of other West African countries were – we use the average for these countries as an estimate for Nigeria.<sup>12</sup> Costs of the basic package were predicted for a number of years into the future. Here, we use 2008.

### 4.2 Cost of basic social protection package

Table 6 shows the cost of the basic social protection package, and its sub-components, in seven sub-Saharan African countries.

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<sup>11</sup> Note that the basic social protection package is not identical to the UN social protection floor concept, which includes a range of social services together with a package of basic social transfers (i.e. the basic social protection package).

<sup>12</sup> A simulation study for Nigeria more specifically, looking at poverty rates, needs, the demographic situation, existing infrastructure and programmes, would be more suitable and give a more precise estimate. However, such a study is not available for Nigeria and is beyond the scope of the current study.

**Table 6: Simulated cost of social protection in seven sub-Saharan African countries as a percentage of GDP, 2008**

|                       | Pensions | Health care | Child benefit | Employment scheme | Admin costs | Total excl. health | Total |
|-----------------------|----------|-------------|---------------|-------------------|-------------|--------------------|-------|
| Burkina Faso          | 1.1%     | 5.5%        | 2.8%          | 0.6%              | 0.7%        | 5.1%               | 10.6% |
| Cameroon              | 0.8%     | 2.6%        | 1.8%          | 0.4%              | 0.4%        | 3.4%               | 6.0%  |
| Ethiopia              | 1.0%     | 3.6%        | 2.8%          | 0.6%              | 0.7%        | 5.2%               | 8.8%  |
| Guinea                | 0.6%     | 1.5%        | 1.5%          | 0.3%              | 0.4%        | 2.9%               | 4.4%  |
| Kenya                 | 0.9%     | 3.0%        | 3.0%          | 0.6%              | 0.7%        | 5.2%               | 8.2%  |
| Senegal               | 1.1%     | 2.5%        | 2.0%          | 0.5%              | 0.5%        | 4.1%               | 6.6%  |
| Tanzania              | 1.1%     | 2.4%        | 3.1%          | 0.6%              | 0.7%        | 5.5%               | 7.9%  |
| Average (all)         | 0.9%     | 3.0%        | 2.4%          | 0.5%              | 0.6%        | 4.5%               | 7.5%  |
| Average (West Africa) | 0.9%     | 3.0%        | 2.0%          | 0.5%              | 0.5%        | 3.9%               | 6.9%  |

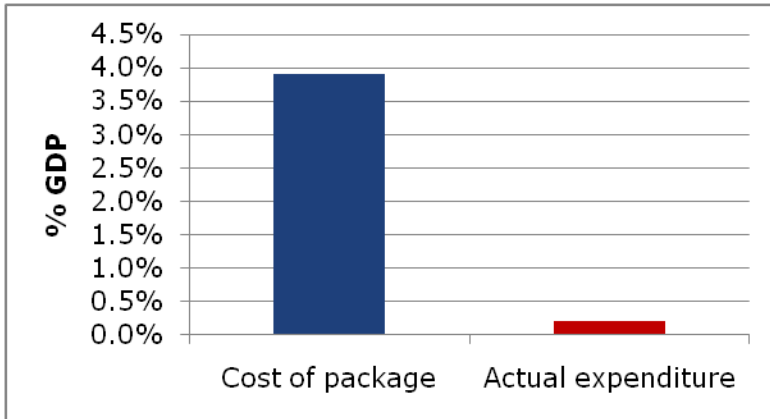
Source: ILO (2008).

For all seven countries, the costs of the basic social protection package (excluding health) ranged from 2.9-5.2% of GDP in 2008, with an average cost of 4.5%.<sup>13</sup> For West African countries, the average cost is 3.9% of GDP.

**Error! Reference source not found.** compares the cost of this basic social protection package in West Africa with actual social protection expenditure in Nigeria. With the estimated cost of 3.9% GDP for a basic social protection package and Nigeria's actual social protection expenditure in 2008 being 0.2%, Nigeria is far from spending enough on social protection to finance a basic social protection package. The shortfall of funding required to finance the basic social protection package is almost 95% of the cost of the package.

<sup>13</sup> The ILO made the following assumptions in its study: real GDP growth is working-age population growth+1%; universal pension benefit of 30% of GDP per capita (capped at \$1 (purchasing power parity (PPP)) a day indexed in line with inflation) provided to all individuals <65 years and the disabled (i.e. 1% of working-age population); child benefit of 15% of GDP per capita (capped at \$0.50 (PPP) a day indexed in line with inflation) provided to two children 0-14 years per woman; unemployment benefit for poor and unemployed in active working-age population at 30% of GDP per capita (capped at \$1 (PPP) a day indexed in line with inflation). Benefit provided to 10% of working-age population for 100 days per year and available only to households not benefiting from any other form of cash transfer (i.e. child benefit, pensions); administration costs for delivering cash benefits 15% of cash benefit expenditure.

**Figure 6: Cost of basic social protection packages vs. social protection expenditure, 2008**



Note: Social protection expenditure excludes civil servant schemes. Cost of the package excludes health.

Source: ILO (2008), OSSAP-MDGs and IMF.

Considering that Nigeria's population size is so much greater than that in other West African countries, the cost of providing such a package at the same coverage levels (all elderly, two children per household and so on) would be even greater in Nigeria. South Africa provided a means-tested universal pension, child benefit and disability benefit at a cost of 3.2% GDP in 2008/09, with 28% of the population covered (Hagen-Zanker and Morgan, 2011). Indonesia, a country with a similarly large population, spent about 1.9% GDP in 2005 (Baulch et al., 2008). In conclusion, given how much other countries are spending on more comprehensive social protection coverage and how much a basic social protection package, as costed by ILO, would cost, Nigeria is spending very little.

## 5 Analysis of fiscal space for social protection

This section lays out a framework for the assessment of fiscal space in Nigeria and discusses the potential to use any such fiscal space to expand social protection provision in the country.

In general terms, fiscal space refers to the availability of additional resources to increase the government's expenditure or, as Heller (2005) puts it, 'budgetary room that allows a government to provide resources for a desired purpose', without prejudicing the sustainability of its financial position.<sup>14</sup> In line with Handley (2009), our analysis of whether Nigeria has the fiscal space for increasing expenditure on social protection is based on a positive assessment of resources already available.

Fiscal space can be generated and sustained in many ways. This section draws heavily on the indicative framework outlined in Handley (2009), examining the following ways to generate fiscal space: raising domestic revenues as well as international aid flows; reducing/cancelling debt<sup>15</sup> or increasing borrowing; reallocating expenditure across sectors; and increasing the efficiency of and reducing wastage in public expenditure.

Table 7 summarises potential mechanisms/measures to create, sustain and use fiscal space. It also lays out a number of recognised indicators covering different dimensions of macroeconomic and fiscal sustainability, which this report uses to assess these mechanisms.

**Table 7: Creating, sustaining and using fiscal space - an indicative framework**

| Mechanism/measure   | Indicator   |
|---|---|
| Mobilisation of domestic revenues   | <ul style="list-style-type: none"> <li>• GDP and real GDP growth (% p.a.)</li> <li>• Oil revenue (% of GDP)</li> <li>• Oil revenue (growth p.a.)</li> <li>• Non-oil revenue growth (% of GDP)</li> </ul>  |
| Reallocation between sectors (cut lower priority expenditures to make room for more desirable ones) <sup>16</sup> | <ul style="list-style-type: none"> <li>• General government expenditure (% of GDP)</li> <li>• Public education expenditure (% of GDP)</li> <li>• Public health expenditure (% of GDP)</li> <li>• Military expenditure (% of GDP)</li> <li>• Agriculture expenditure (% of GDP)</li> <li>• Social protection expenditure (% of GDP)</li> <li>• Civil servant schemes (% of GDP)</li> </ul> |
| Increase discretionary expenditure through debt cancellation and/or increased borrowing                           | <ul style="list-style-type: none"> <li>• Total public sector debt (% GDP), domestic and external</li> <li>• Debt service-to-revenue-ratio (as %)</li> </ul>   |
| Increase aid  | <ul style="list-style-type: none"> <li>• Total net ODA</li> <li>• Total ODA, excluding debt relief</li> </ul>   |
| Improve financial management of expenditure   | <ul style="list-style-type: none"> <li>• PEM and governance analysis/assessments</li> </ul>   |
| Political commitment to support an expansion in social protection provision                                       | <ul style="list-style-type: none"> <li>• Political economy analysis of government support to social protection</li> </ul>   |

Source: Adapted from Handley (2009).

<sup>14</sup> Handley (2009) lays out the different definitions of fiscal space in the available literature, noting that different authors emphasise different objectives depending on their respective agenda.

<sup>15</sup> Assuming the opportunity to do so.

<sup>16</sup> This mechanism should also account for prioritisation of spending, return on investment and efficiency of spending. However, given resource restrictions, the analysis is limited to the comparison of the functional classification of expenditure.

Section 5.1 examines the ‘affordability’ of allocating additional resources to social protection, i.e. whether fiscal space exists and is likely to be sustainable. This analysis explores the first four mechanisms in Table 7. Section 5.2 analyses the institutional framework for government public finance and service delivery (including social protection) in Nigeria. In doing so, it explores the potential to improve the efficiency of public expenditure and reduce wastage. Section 5.3 examines the political commitment of the government of Nigeria to support the expansion of social protection. This is particularly important because ‘fiscal space should be used to free up policy space for nationally determined policy priorities’ (Handley, 2009). With this in mind, the analysis aims to provide an overview of the fiscal space opportunities to increase social protection provision. Section 5.4 lays out recommendations.

## 5.1 Affordability

This section examines the potential affordability of increasing support to the social protection sector in Nigeria. Note again that it is difficult to present a precise picture of such affordability, given weaknesses in data quality which limit the ability to present an accurate analysis of macroeconomic and fiscal performance.

### Mobilisation of domestic revenues

First, we analyse the potential to increase domestic revenue through two principal channels: i) increased economic activity (real GDP) for a given tax system and structure and ii) via increases in revenue yield (average tax burden as a proportion of GDP). The latter may involve the creation of new taxes, higher tax rates and/or improved administration or the broadening of the tax base. Although both channels are important, the former is a necessary condition for a medium- to long-term increase of domestic revenues (Handley, 2009).

Nigeria has experienced robust, high levels of economic growth since 2005. Growth rates remained strong over the economic crisis, in part because of the buffer provided by Nigeria’s large level of international reserves as well as its low debt (IMF, 2010).<sup>17</sup> This positive growth trajectory looks set to continue over the next four to five years, with projected growth remaining at 6-7%, albeit slowing down slightly at the end of the period (see Table 8).

**Table 8: GDP and real GDP growth, 2005-2015**

| Indicator                | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP (billion naira)      | 14,735 | 18,710 | 20,874 | 24,553 | 25,102 | 30,981 | 36,123 | 42,365 | 49,486 | 56,876 | 65,250 |
| Real GDP growth (% p.a.) | 5.4%   | 6.2%   | 7.0%   | 6.0%   | 7.0%   | 7.4%   | 7.4%   | 7.2%   | 7.1%   | 6.1%   | 6.0%   |

Source: IMF World Economic Outlook.

In addition to strong levels of growth, oil revenues have now rebounded, following a large drop in 2009, so total revenue as a percentage of GDP is expected to remain strong in the immediate future. Table 9 illustrates the fundamental reliance of the Nigerian economy in terms of oil revenue.

<sup>17</sup> Although the IMF report stated that reserves had fallen recently (IMF, 2010).

**Table 9: Revenue as a percentage of GDP, 2007-2013**

| Revenue  | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|------|------|------|------|------|------|------|
| Total revenue                                  | 28%  | 33%  | 20%  | 25%  | 27%  | 26%  | 25%  |
| Oil revenue                                    | 22%  | 27%  | 13%  | 19%  | 20%  | 19%  | 18%  |
| Non-oil revenue                                | 7%   | 6%   | 7%   | 6%   | 6%   | 7%   | 7%   |
| Import and excise duties                       | 1%   | 1%   | 1%   | 1%   | 1%   | 1%   | 1%   |
| Companies' income tax                          | 2%   | 2%   | 2%   | 2%   | 2%   | 2%   | 2%   |
| Value-added tax                                | 1%   | 2%   | 2%   | 2%   | 2%   | 2%   | 2%   |
| Other (education tax and customs levies)       | 0%   | 1%   | 1%   | 0%   | 0%   | 0%   | 0%   |
| Federal government independent revenue         | 1%   | 0%   | 0%   | 0%   | 0%   | 0%   | 0%   |
| State and local government independent revenue | 1%   | 1%   | 1%   | 1%   | 1%   | 1%   | 1%   |

Note: Actual expenditure 2007-2009 and projected expenditure 2010 onwards.

Source: IMF (2010).

In 2007, oil revenue as a percentage of GDP equalled 22%. However, following a huge drop in oil prices, this fell to 13% in 2009, which led to an 8 percentage point fall in total revenue as a percentage of GDP in the same time period. Since the recovery of oil revenues, it is expected that oil revenue as a percentage of GDP will remain between 20% and 18% over 2011-2013.

One of the main challenges Nigeria faces in sustaining a certain amount of fiscal space is the volatility of its oil revenue. Table 10 clearly illustrates this, by showing the high variation of oil revenue growth rates. Attempts are being made to limit the impact of this volatility on macroeconomic and fiscal management, by addressing weaknesses in the current stabilisation mechanism. This will be achieved through the establishment of a sovereign wealth fund, which should provide more appropriate safeguards (IMF, 2010) (see Box 4).

**Table 10: Growth in oil revenue, 2008-2013**

|                                | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------------|------|------|------|------|------|------|
| Growth in oil revenue (% p.a.) | 43%  | -51% | 93%  | 26%  | 8%   | 5%   |

Note: Actual expenditure 2007-2009 and projected expenditure 2010 onwards.

Source: IMF (2010).

In addition to oil revenue, non-oil revenue continues to provide a stable, albeit smaller, contribution to total revenue. Table 9 shows that most sources of non-oil revenue have remained relatively constant, as a percentage of GDP, over the past few years and are anticipated to remain the same until 2013. There have been improvements recently in the tax system, but anecdotal evidence suggests that the tax base should be further diversified. In addition, there are palpable ways to improve the current tax administration system, for instance strengthening compliance management – the government currently holds limited information on the compliance of existing tax codes – and cleaning up the taxpayer register. If implemented, such procedures are likely to increase tax coverage and its sustainability, both important factors for long-term fiscal space.

It is worth noting that, despite robust growth rates and recovery of its oil revenue, Nigeria has continued to face high inflation rates (over 10%) – which have a disproportionate impact on

the poor – as well as negative interest rates. This undermines not only people’s purchasing power but also their incentives to save.

As mentioned above, the Nigerian authorities are proposing establishing a sovereign wealth fund, known as the National Sovereign Investment Authority (NSIA), which will replace the current oil savings mechanism. It is unclear whether the NSIA can be used as a vehicle to fund greater social protection projects. On the surface, it seems unlikely, as the fund is targeted towards capital and investment expenditure only, and not towards supporting an increase in Nigeria’s recurrent budget – which normally funds social protection provision. That

#### **Box 4: The National Sovereign Investment Authority**

In its current proposed form, there will be three components to the NSIA: a stabilisation fund (to offset shortfalls in hydrocarbon revenues), a savings fund (for future generations) and a domestic infrastructure fund (to develop infrastructure). Each of these funds will be ring-fenced, so there will be no cross-financing from one fund to another. The spending from the infrastructure fund will be guided by the Authority’s rolling five-year investment plan and will initially focus on power generation and distribution, water services and transport networks (roads, ports, rail and airport facilities). In terms of its management, the NSIA will be owned by all three tiers of the government, and a governing council of owners – made up of members from academia, civil society and youth organisations, and other private sector representatives – will supervise the Authority. This is laid out in the proposed NSIA bill. In terms of funding the NSIA, the Excess Crude Account will initially provide funds equivalent to \$1 billion and thereafter, in years with excess hydrocarbon revenue. the total excess amount will be distributed to the NSIA.

Source: IMF (2010).

said, one avenue to explore would be the establishment of public works schemes to support the development of investment programmes. Channelling the funds in such a way would allow for the expansion of social protection provision, while also achieving the investment objectives of the fund. It is worth noting that, at present, the proposed channel for the NSIA’s support to infrastructure is via private equity investments in reputable firms engaged in infrastructure activities, co-investment directly in infrastructure projects and participation in infrastructure funds with multiple outside investors.

#### **Debt and borrowing**

Increasing fiscal space through this mechanism can be achieved in two ways: i) writing off all or part of Nigeria’s debt stock with a view to freeing up fiscal space for development spending that would otherwise have been spent on servicing government debt; and ii) increasing borrowing from either domestic or external sources. Although the latter option would free up additional fiscal space in the short run, future fiscal space would be limited, as the government would need to meet its future debt service obligations. In addition, there is a risk that it would crowd out private sector borrowing and therefore lower growth. In order to minimise the negative effects of increased borrowing on fiscal space, countries have often increased primarily borrowing for investment, rather than for recurrent expenditure (Handley, 2009).

Nigeria has historically been plagued by very high levels of total debt. In 1980, foreign debts amounted to approximately \$9 billion, and by 2002 debt equalled approximately 93% of gross national product (GNP). Nigeria was initially excluded from the Heavily Indebted Poor Countries (HIPC) Initiative, despite having debt-to-GDP and per capita income ratios comparable with those of many HIPC countries. By 2005, total foreign debt had swelled to \$34 billion (Netherlands Ministry of Foreign Affairs, 2011). Under an agreement with the Paris Club in 2005-2006, Nigeria agreed to repay \$12 billion from its higher oil revenues while its creditors cancelled the remaining debt of \$18 billion (ibid.). This was the largest debt deal secured by an African nation.



### Box 5: Debt relief for poverty reduction and progress against the MDG targets

The debt service saved through the cancellation and buy-back of the debt, amounting to \$1 billion annually, was earmarked for poverty reduction in the form of a Virtual Poverty Fund – to provide additional resources to such activities and to boost progress towards the MDG targets. This became effective as of 2006, and there has been marked progress in the fields of education, health care and water supply. However, in practice, only half this amount has actually been spent, with improvements in infrastructure, agriculture, microcredit and social security have been less apparent.

Of the many new initiatives set up, CCTs are often considered to have been the best. The Virtual Poverty Fund has also increased national planning, implementation, budgeting and monitoring and evaluation skills. OSSAP-MDGs, reporting to the President, was set up to coordinate the fund.

Source: National Planning Commission (2010); Netherlands Ministry of Foreign Affairs (2011).

Since then, Nigeria has maintained low risk total debt levels. For example, between 2007 and 2009, federal public sector debt as a percentage of GDP averaged 13.3%, and the debt service-to-revenue ratio averaged 4.4%. The results of a recent IMF Article IV consultation indicate that Nigeria currently remains at low risk of debt distress, and that Nigeria's debt outlook remains robust (IMF, 2010). In addition, recent progress made in achieving macroeconomic and debt sustainability will be undermined only by a prolonged oil price shock or deterioration in the current account balance that is not addressed with compensatory policy measures (ibid.).

That said, there are some caveats, which mean that public debt is underestimated in the data in Table 11. First, it is important to note that the data apply to debt contracted at the federal level only. Data on sub-national borrowing are currently not available and there is scope, albeit currently limited and tightly regulated, for the states to expand their exposure to domestic creditors. Second, public debt may be further underestimated because there is no data on the debts contracted by public enterprises and public debt analysis is complicated by an array of off-budget funds (IMF, 2010).

**Table 11: Federal public sector debt and servicing as a percentage of GDP 2007-2030**

|                               | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2020 | 2030 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| Public sector debt (% of GDP) | 12.7% | 11.9% | 15.2% | 16.3% | 17.3% | 19.8% | 22.2% | 19.6% | 17.4% | 9.1% | 2.3% |
| of which external debt (%)    | 2.3%  | 2.4%  | 2.4%  | 2.2%  | 2.3%  | 2.3%  | 2.3%  | 2%    | 1.8%  | 0.9% | 0.2% |
| Debt service-to-revenue (%)   | 4%    | 5.5%  | 3.6%  | 6.7%  | 6.4%  | 6.4%  | 7.5%  | 9.2%  | 8.2%  | 7.5% | 4.9% |

Note: Actual expenditure 2007-2009 and projected expenditure 2010-2030.

Source: IMF (2010).

Nigeria has already benefited from having its external debt written off, and therefore there is no scope to improve fiscal space using this channel. In addition, because of Nigeria's experience of extremely onerous debt servicing arrangements,<sup>18</sup> it would be inadvisable to promote increasing domestic or external borrowing to fund social protection payments, which are inherently recurrent in their nature. Given the very nature of social protection schemes, it is crucial they are funded in a sustainable way, which is not achievable through increased borrowing. This is because social protection schemes – particularly insurance schemes – once

<sup>18</sup> Large service payments assumed, given the significant size of the debt.

introduced may result in future financial commitments and liabilities which can be politically very difficult to draw back. If funded via borrowing, this could create significant forward fiscal risks for the budget.

### Reallocation of spending between sectors

The idea here is to reallocate spending from lesser to higher priorities and from less effective to more productive programmes. This mechanism also allows for an opportunity to increase both operational and allocative efficiency. The former could be improved by funding more effective programmes, whereas the latter could be strengthened by supporting the strategic prioritisation of expenditure across policies, programmes and projects in line with government priorities (Handley, 2009).

One set of views from the interviews indicated that there is increasing international and national pressure on the government of Nigeria to reduce the absolute amount of public expenditure. If this is the case, creating fiscal space for social protection by reallocating spending towards the sector, rather than just increasing total government expenditure, is possibly a more feasible option. That said, whether this is a realistic direction of progress will depend very much on the political commitment to expanding social protection and the political risks associated with doing so (explored in Section 5.3).

As indicated in Table 3 in Section 3.1, social assistance schemes made up between 0.7% and 1.5% of total government expenditure between 2005 and 2010, whereas civil servant schemes made up between 0.7% and 1.9% over the same time period. Total social protection equalled less than 1% of GDP in 2009 and is much lower than the 3.9% of GDP<sup>19</sup> estimated by ILO for the provision of a basic social protection package (Table 6). As already discussed, spending on civil servant schemes (covering a small share of the population, mainly public formal sector workers) is about three times as much as spending on social assistance. Civil servant pensions, while having an important function in terms of maintaining income standards, are often regressive. If the priority of the Nigerian government is to increase spending on *social assistance*, there may be some potential for reconfiguring the civil servant schemes and their funding mechanisms.

Table 3 also showed that other social sectors, such as health, education and agriculture, have seen their allocations fall as a proportion of total government expenditure. Here, it is difficult to suggest what would be the most appropriate, efficient and effective allocation of resources without having a better sense of the sectors the Nigerian government wants to prioritise; the cost of these programmes and the size of the funding gap; and how well the programmes are functioning. Otherwise, suggestions to reallocate resources may not reflect current priorities and funding levels necessary to implement programmes efficiently and effectively.

At the least, Table 3 implies that the scope to move money from the social sectors to social protection is less likely given the current downsizing of the budget. As discussed earlier, expenditure on health and expenditure is also lower than international agreements demand. Moreover, there are strong links between social protection and other social services: increasing social protection coverage raises demand for other social services, such as education or health. This is particularly the case for CCTs, which are currently being implemented by the World Bank, the UK Department for International Development (DFID) and the UN Children's Fund (UNICEF) with plans for greater coverage in future years. It is therefore unadvisable to decrease the supply of other social services.

The data indicate that the military budget increased over the period (as a proportion of total expenditure) – but reallocating military expenditure often fails to get political traction.

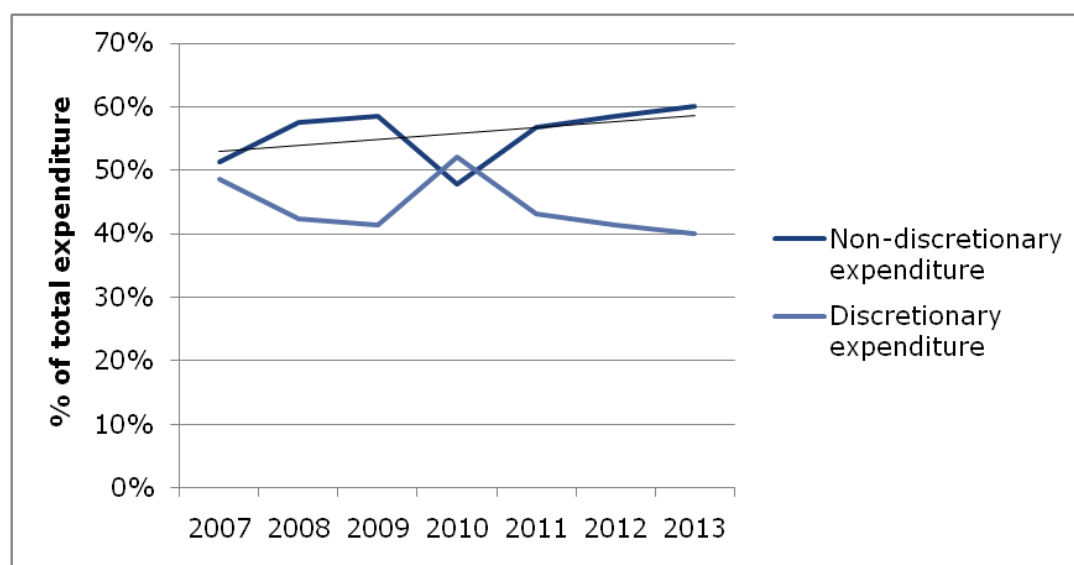
To explore this area further, it would be useful to have more reliable data on current spending patterns across sectors as well as a better understanding of the priorities, programmes and costs at the sector level, for which a detailed public expenditure review would be necessary.

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<sup>19</sup> Average for West Africa.

Another way to approach this is to assess the scope to increase expenditure on social protection given the government's ongoing financial commitments. Such commitments can be measured using data for non-discretionary expenditure. Figure 7 shows the trend of federal discretionary and non-discretionary expenditure as a percentage of total expenditure between 2007 and 2013.<sup>20</sup> Funding for most social protection programmes falls within discretionary expenditure (except those that are mandatory, such as pensions). Therefore, one would assume that, as discretionary expenditure grows, there is greater scope for additional funding for social protection programmes. However, the figure shows that discretionary expenditure as a percentage of total expenditure falls over the time period (accounting for an increase in 2010), and that there has instead been a positive trend in non-discretionary expenditure over time. This paints a rather negative picture, as it implies increasingly smaller scope for funding for non-discretionary items, including social protection. Put another way, a larger proportion of government expenditure is tied to activities that are essentially mandatory, and therefore less funding is available for all other spending. That said, it is worth noting that Figure 7 is based on federal expenditure: the picture may be quite different when examining consolidated data.<sup>21</sup>

**Figure 7: Federal discretionary and non-discretionary expenditure, 2007-2013**



Note: Actual expenditure 2007-2009 and projected expenditure 2010 onwards. Non-discretionary expenditure is assumed to equal the sum of personnel, interest and transfers expenditure.

Source: IMF (2010).

Finally, another potential source of funding for social protection programmes relates to the expensive oil subsidy, which is to stop at the end of 2011. It is not clear if the resources previously earmarked for the subsidy have been targeted to other activities or can be used to fund social protection programmes. The expected cost of the subsidy in 2010 was \$3.4 billion – a significant amount.<sup>22</sup> Note that World Bank analysis of the effect of higher petroleum prices on the poor – defined as the bottom four deciles of the population by income – suggests that this would be limited. However, middle-income segments of the population may be affected as a result of higher prices of generator-produced electricity as well as transport.<sup>23</sup>

<sup>20</sup> Non-discretionary expenditure is considered to be mandatory expenditure. It is often loosely referred to as funding for activities that the government is required to fund each year. This includes personnel payments (including salaries), debt serving and mandatory government transfers. All other spending is considered to be discretionary and therefore, put crudely, the government can allocate it according to its priorities.

<sup>21</sup> Consolidated data were not available for this analysis.

<sup>22</sup> [www.bloomberg.com/news/2010-09-03/nigeria-aims-to-end-oil-subsidies-within-6-months-finance-minister-says.html](http://www.bloomberg.com/news/2010-09-03/nigeria-aims-to-end-oil-subsidies-within-6-months-finance-minister-says.html).

<sup>23</sup> World Bank Nigeria team.

### Increased aid

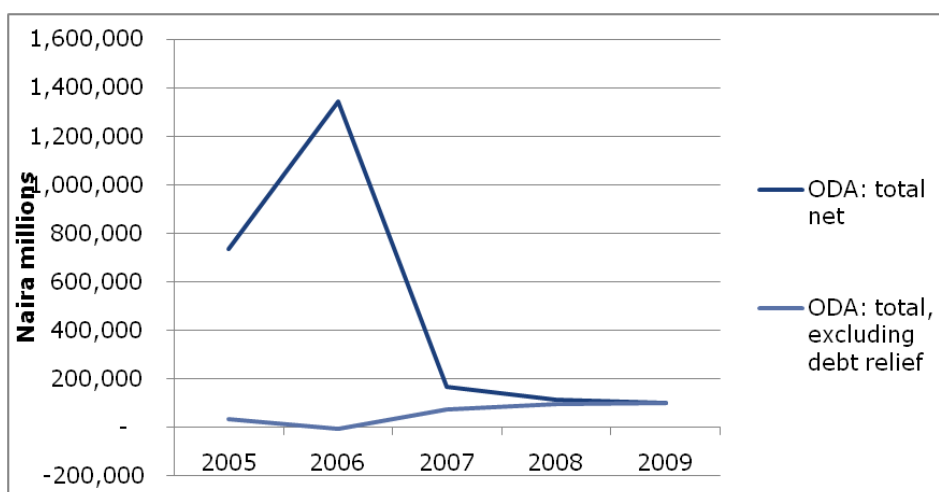
It is difficult to present a comprehensive picture of international aid to Nigeria. This is because the government of Nigeria does not operate an aid management platform. In addition, like information on public expenditure, aid data are very fragmented and are not presented in a consolidated form.

Nevertheless, using this mechanism we assess the potential for greater fiscal space through increased aid in the form of grants or concessional loans.<sup>24</sup> The extent of any improvement here will depend on the level, duration and predictability of donor spending as well as the 'fiscal rule' used by ministries of finance – that is, common behaviour implemented to manage the risk associated with unpredictable donor funds, whereby aid is used to finance capital instead of recurrent expenditure. This is because the former is politically less costly to defer, as compared with paying salaries and wages and debt servicing, which are often considered non-discretionary, given their nature (Handley, 2009).

It is difficult to assess whether Nigeria will benefit from large increases in ODA in the short to medium term. From **Error! Reference source not found.**, it is clear that a huge proportion of ODA to Nigeria over the second half of the past decade was debt relief only. Beyond this, the amount remained relatively constant between 2007 and 2009, with only a marginal upward trend. Yet, because the data in the figure are in naira, this does not capture the decrease in US dollars of ODA to Nigeria between 2007 and 2008, which perhaps reflected a fall in donors' prioritisation of Nigeria.<sup>25</sup> This may be because it is a lower-middle-income country and because, although it sits just above the sub-Saharan average on the Human Development Index, its performance has edged upwards year on year since 2005. In addition, macroeconomic and fiscal improvements have been achieved and look likely to continue in the short to medium term.

Although certain donors and development partners, such as the World Bank, DFID and UNICEF, have demonstrated increasing commitment to social protection, the levelling-out of aid (excluding debt) to Nigeria and improvements in socioeconomic indicators mean that significant increases in aid for social protection purposes, unless targeted specifically to such provision, are unlikely. As Table 4 showed, expenditure on social protection has historically been less than 0.5% of total ODA, so a significant increase in social protection ODA would be a marked change in donor policy.

**Figure 8: Total ODA disbursements to Nigeria, 2005-2009**



Note: ODA refers to total ODA, therefore is larger than the public sector ODA mentioned earlier. It attempts to present a more comprehensive picture of the potential fiscal space created by aid flows.

<sup>24</sup> Nigeria is a middle-income country, but still has access to concessional lending from the International Development Association (IDA).

<sup>25</sup> This fall in absolute US dollars of aid to Nigeria was reversed in 2009.

Source: OECD-DAC.

One issue is the level of on- and off-budget aid. As indicated above, it has not been possible to get an exact figure for off-budget ODA. Beyond the World Bank's recent Development Policy Credit, there have not been many attempts to channel aid through the Nigerian government's treasury system. Anecdotal evidence suggests that this is because of concerns around fiduciary risk and leakage. Without this, the government's ability to provide for sustainable and effective social protection programmes is undermined, as donor support remains largely the outside government's systems. This is a particularly significant challenge for Nigeria going forward and affects service delivery across all sectors.

In order to establish a comprehensive and integrated social protection programme across Nigeria, one which can be implemented sustainably, the first step will be to obtain better data on all government and international development assistance supporting the sector. From this, a programme can be established to assess how aid can be better aligned with government systems across the different stages of the policy and budget cycle so that government processes and systems can be strengthened through international development assistance.

## 5.2 Institutional analysis: public expenditure management

This section provides an overview of public expenditure management (PEM) performance in Nigeria. In doing so, it assesses the scope to improve efficiency of and reduce wastage in public expenditure. Given the limited availability of sources, we focus on PEM performance primarily at the Ministry of Finance, rather than at ministries and agencies directly responsible for administering social protection programmes.<sup>26</sup> We also concentrate on the federal level, although more work is now being done on the quality of PEM at the state level, including through two state public expenditure and financial accountability assessments.

In Nigeria, there have recently been some significant successes in governance related to PEM. These include Nigeria being the first African country to exit the Paris Club and the London Club,<sup>27</sup> and the publication by the Nigeria Extractive Industries Transparency Initiative (NEITI) of the financial, physical and process audits of the oil sector (AfDB, 2009).

Since 1999, the government has attempted to address governance issues through a series of reforms and by establishing anti-corruption bodies. A PEM assessment in 2006 showed that both performance and underlying systems had improved noticeably since that time. Yet, because the initial pre-reform level was extremely low, even after several years of reforms significant challenges remain (World Bank, 2006).

The broad conclusion of the 2006 World Bank 'Public Expenditure Management and Financial Accountability Review' was that 'the core problem within Nigeria's budget system, which is common to all levels of the government, is more one of low efficiency of budget spending, than of inadequate amount of funding'. This suggests there is considerable scope to expand fiscal space by improving PEM. Improvements will also strengthen service delivery and eventually development outcomes, through the better utilisation of existing sector allocations (ibid.).

Strengthened transparency and accountability arrangements for the utilisation of public funds are critical to achieving the desired improvements in expenditure efficiency. Areas where there have been some improvements (but performance is still weak) relate to budget classification (the government at all levels does not currently use consistent budget classifications, a chart of accounts and accounting systems); the comprehensiveness of budget documentation (related to the multiplicity of off-budget funds); the legal and regulatory framework for PEM (e.g. enactment of the fiscal responsibility and procurement laws); public access to budget information; the management of cash balances and debts; and the quality of in-year budget reporting (AfDB, 2009; IMF, 2010; World Bank, 2006).

<sup>26</sup> See ministries and agencies mentioned in Section 2.2.

<sup>27</sup> And hence to pay off its debt owed to these organisations.

Areas where performance remains weak and there has been little progress include the incidence of government spending that remains off-budget; the consolidation of fiscal data for enlarged government (e.g. consolidated figures, especially of actual expenditure); oversight of and reporting on the performance of parastatals; the predictability of government funding; the availability of information on funds received by service providers; the timeliness and quality of annual accounts; and quality/depth of legislative scrutiny of the budget (IMF, 2010; World Bank, 2006). However, anecdotal evidence suggests Parliament can have a significant influence on budget allocations and at the moment is trying to push up the benchmark price of oil (interview with DFID).

One of the major challenges Nigeria has faced over the years is that of corruption and money laundering: 'corruption has become so entrenched that it has stunted growth in all sectors and has been one of the major challenges to development in the country' (AfDB, 2009). Attempts have been made to address and reduce corruption, including enactment of the Independent Corrupt Practices and Other Related Offences Act (2000), the Economic and Financial Crimes Commission Act (2004) and the Money Laundering Acts (1995 and 2004). In addition, the last administration was elected in 2007 on a platform of zero tolerance to corruption, and continued its anti-corruption efforts on entering office, illustrated by its immediate enactment of the Public Procurement Act. Since then, e-payments (2009) and e-procurement (2008) have been introduced, and the federal government has given significant freedom to the judiciary to perform its functions according to the rule of law. However, results from public perception surveys suggest that corruption levels are still high (ibid.).

One of the most significant challenges is that states are still lagging behind the federal government in almost every area of PEM reform, in particular in budget formulation, procurement, debt management and computerisation (World Bank, 2006). Moreover, there is significant variation in the performance of states and, as such, in the scope for them to improve efficiency of expenditure and hence increase fiscal space. So, although the reform effort has had some impact at the federal level, its transfer to sub-national level has been more limited. This is a particular concern because, first, almost half the consolidated budget is administered at this level and second, it has been suggested that inter-governmental transfers – both federal to state and state to local – are a major source of corruption (Norad, 2010). Furthermore, the majority of the social protection budget is executed at the state level, as Table 2 illustrated.

Another issue related to PEM performance concerns weak human capacity. This has been well documented and it continues to be a challenge, particularly at sub-national level, where capacity has been described as 'under-skilled and under-qualified' (Omar, 2009).

To address some of these challenges, the government is planning to implement measures to strengthen PEM. These include performance-based budgeting, which will help in assessing the effectiveness of spending and facilitating the prioritisation of expenditure. This should build on the introduction of medium-term expenditure frameworks at federal level and for five states, as well as a Single Treasury Account, which will improve cash management and limit the scope for leakage. Several donors are supporting such activities, including the IMF, DFID and the UN Development Programme (UNDP). For example, DFID is running several governance and public sector reform projects, and the IMF is working on performance-based reporting reforms. Donors continue to provide project support, given concerns about fiduciary risk, and are hence not providing the opportunity to strengthen the PEM system through its use.

Overall, there is scope to increase fiscal space by improving the efficiency of government expenditure and reducing wastage. This will take time to achieve, though, and any savings will be difficult to quantify and hence to translate into accurate measures of increases in social protection funding. However, support for an ongoing effort to strengthen spending efficiency and effectiveness is important not only for social protection allocations but also for outcomes.

### 5.3 Political analysis

This section analyses whether social protection is a key priority for the Nigerian government and whether it seems committed to maintaining or increasing spending on this area. This analysis is informed mainly by a small number of key informant interviews.

It is difficult to assess whether the government considers social protection a key priority. It is slowly emerging as a policy instrument, but does not seem to be a key priority at the federal level, as reflected by the limited funding available for it. Aggregate spending across the country on social protection is proportionally lower than in some neighbouring countries, as implied by the analysis above. In addition, there is no single ministry in charge of social protection and as such no champion of social protection causes and no agency to drive social protection policy (interview with the World Bank). A draft social security proposal was submitted to Congress in 2009 and is awaiting approval from the Council of Ministers, but this process has been slow – perhaps another example of weak prioritisation. A number of key informants claimed that the government had a preference for visible projects (e.g. infrastructure) and not less tangible ones like health, social protection, etc.<sup>28</sup> Several key informants suggested that, if the government were to increase expenditure significantly on a sector in the coming years, this would probably be related to expanding electricity infrastructure rather than social protection (interview with NSITF, UNDP and DFID).

There is significant variation in the commitment to social protection at the state level, with some states demonstrating interest in and committing financial resources towards pro-poor social spending in general and, increasingly, towards social protection in particular. Ways to ensure the sustainability of social protection have so far concentrated on devolving responsibility to the state level. This has led to some states taking up social protection initiatives through the CGS and others not. For instance, the governor of Jigawa has implemented a universal disability grant (interview with SAVI), and a number of states have matched funds within the CGS to the third phase of the In Care of the Poor (COPE) programme.<sup>29</sup> Future development of social protection needs to build on these successes and utilise the political will at state level. However, broad-based political commitment needs to be built at both federal and state level, given the relationship between the two in terms of designing, funding and implementing social protection programmes.

### 5.4 Fiscal space for social protection

Having analysed each mechanism for fiscal space in turn, Table 12 shows that the greatest scope for fiscal space for social protection is via i) mobilisation of domestic resources, ii) improving the public financial management of public expenditure and iii) benefiting from the increasing interest of donors in social protection. However, ensuring such fiscal space is used to expand social protection programmes will depend on the Nigerian government's commitment to social protection.

<sup>28</sup> UNICEF also indicated that there appeared to be a preference for investments that have more immediate returns to economic growth.

<sup>29</sup> Katsina, Kebbi, Bauchi, Adamawa, Kogi, Niger, Bayelsa, Cross River, Anambra, Abia, Osun and Lagos.

**Table 12: Scope for fiscal space for social protection in Nigeria**

| Mechanism/measure   | Recommendations   |
|---|---|
| Mobilisation of domestic revenues   | There is scope for fiscal space through strong expected future growth, as well as through robust and more stable revenues. This comes from the expected results of the sovereign wealth fund and improvements in the tax system, e.g. improving tax administration and compliance. The sovereign wealth fund is currently earmarked for non-recurrent expenditure, but if innovative approaches to public works programmes are pursued, this may be a potential source of funding for social protection activities.   |
| Reallocation between sectors (cut lower priority expenditures to make room for more desirable ones) | There may be scope to reallocate funding from monies previously earmarked for the oil subsidy to new social protection activities. In addition, there may be scope for reallocation from regressive civil servant schemes to more progressive provision, although this may be politically difficult to achieve. However, analysis of discretionary and non-discretionary expenditure suggests there may be increasingly less scope for funding to be directed to social protection activities, as discretionary expenditure is falling as a percentage of total expenditure. It is hard to make a judgement on the potential to reallocate funding across sectors and activities without having a detailed understanding of the government's priorities, programmes and activities. It is recommended that a public expenditure review be carried out for this purpose. |
| Increase discretionary expenditure through debt cancellation and/or increased borrowing             | Debt cancellation is not an option. Given Nigeria's history of high debt levels (as a percentage of GDP), borrowing to fund future recurrent liabilities and long-term social protection investments should be pursued with care.   |
| Increase aid  | It is difficult to judge whether ODA will increase over the next few years. Beyond debt relief, ODA support to Nigeria has historically been quite stable. Nigeria's ownership of significant natural resources and its human development improvements (albeit slow) suggest that increases in ODA levels may be unlikely. In addition, ODA to social protection in Nigeria has historically been very low. However, the CCT pilots, development partner meetings/interest in social protection and global trends towards social protection programming suggest the potential for more ODA for social protection (even if overall ODA is unchanged). Therefore, there is some potential for fiscal space from ODA.  |
| Improve financial management of expenditure   | There is scope to increase fiscal space by improving the efficiency of government expenditure. This will take time to achieve, and the exact savings from such improvements will be difficult to quantify and hence to translate into exact measures of increases in social protection funding. Support to an ongoing effort to strengthen the efficiency and effectiveness of spending is important not only for social protection allocations but also for outcomes.  |
| Political commitment to support an expansion in social protection provision                         | Social protection is slowly emerging as a policy instrument in Nigeria, but is currently not a key priority for the federal government, as reflected by the limited funding available for it. There is significant variation in the commitment to social protection at the state level, with some states demonstrating interest in and channelling financial resources towards pro-poor social spending in general and, increasingly, social protection in particular. In terms of future development, social protection needs to build on these successes and utilise the political will at a state level. Development partners should improve engagement with the Nigerian government on the rationale for expanding social protection and the costs and benefits of doing so.  |



## 6 Conclusion

Nigeria currently spends about 1.7% of total government expenditure (0.6% of GDP) on social protection. This is less than other sub-Saharan African countries and much less than the cost of a basic social protection package (3.9% of GDP on average for West Africa, as costed by the ILO in 2008). Approximately two-thirds of social protection expenditure is spent on civil servant schemes. More resources need to be mobilised if the government of Nigeria wants to expand coverage to tackle the high rates of poverty and vulnerability in the country.

The greatest scope for increasing fiscal space for pro-poor social protection is via i) mobilisation of domestic resources, ii) possible increases in aid targeted specifically at social protection and iii) improving the public financial management of public expenditure.

There is scope for fiscal space through strong expected future growth and also through robust and more stable revenues, although reserves are on the decline (IMF, 2010). This comes from expected results of the sovereign wealth fund and improvements in the tax system, e.g. improving tax administration and compliance.

The sovereign wealth fund might be used to increase social protection coverage and expenditure if it is spent on labour-intensive public works programmes. This would be quite a turnaround in Nigerian policy, since most current infrastructure investments are implemented through private contractors and since government expenditure is generally not pro-poor.

There is scope to increase fiscal space by improving the efficiency of government expenditure. This will take time to achieve, and the exact savings created from such improvements will be difficult to quantify and hence to translate into exact measures of increases in social protection funding. Support to an ongoing effort to strengthen the efficiency and effectiveness of spending is important not only for social protection allocations but also for pro-poor outcomes.

Ensuring fiscal space is used to expand programmes and coverage will depend on the Nigerian government's political commitment to social protection. At present, it is not clear if social protection is a key priority for the federal government, although a number of state governments have demonstrated political and financial commitment to cash transfers. Creating fiscal space for social protection should not come at the cost of other social sectors, if its impacts are to be maximised, in particular in the case of Conditional Cash Transfers (CCTs). As such, donors need to strengthen their engagement with the Nigerian government to support the argument for increased pro-poor expenditure in general and for expanded social protection in particular, including the costs and benefits of doing so.

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## Appendix 1: List of key informant interviews

| Date       | Name of institution                 | Name of key informant   | Interview conducted by               |
|------------|-------------------------------------|---|--------------------------------------|
| 21/02/2011 | NSITF                               | Ismail Agaka, Head, Special Duties<br>Funke Aleshinloye, Head, HR and Admin   | Lesley Adams<br>Jessica Hagen-Zanker |
| 21/02/2011 | World Bank                          | Foluso Okunmadewa,<br>Social Protection Sector Leader   | Lesley Adams<br>Jessica Hagen-Zanker |
| 22/02/2011 | DFID                                | Katja Jobes,<br>Senior Social Development Advisor   | Lesley Adams<br>Jessica Hagen-Zanker |
| 22/02/2011 | SAVI                                | Kevin Gager   | Lesley Adams<br>Jessica Hagen-Zanker |
| 23/02/2011 | UNDP                                | Jan Thomas Hiemstra,<br>Country Representative<br>Robert Asogwa, Economist  | Jessica Hagen-Zanker                 |
| 23/02/2011 | NHIS                                | Hamza Aliyu,<br>Assistant General Manager   | Jessica Hagen-Zanker                 |
| 23/02/2011 | IMF                                 | Scott Roger, Resident Representative<br>Friday Ohuche, Economist  | Jessica Hagen-Zanker                 |
| 24/02/2011 | UNICEF                              | Naawa Sipilanyambe,<br>Head, Health   | Jessica Hagen-Zanker                 |
| 24/02/2011 | Justice For All                     | Bob Arnot   | Jessica Hagen-Zanker                 |
| 24/02/2011 | Federal Budget Office               | Moustapha Doukoure,<br>Technical Assistant  | Jessica Hagen-Zanker                 |
| 25/02/2011 | Ministry of Labour and Productivity | Paul Okwulehie,<br>Director, Labour Inspectorate<br>B Ogunmuko,<br>Director, Factory Inspectorate<br>Okereke Charity,<br>Labour Office Inspectorate | Jessica Hagen-Zanker                 |
| 25/02/2011 | Pension Commission                  | Tunde Alayande,<br>Head, Research and Policy Unit   | Jessica Hagen-Zanker                 |
| 08/03/2011 | DFID                                | Scott Caldwell,<br>Public Sector Reform Advisor   | Jessica Hagen-Zanker                 |

## Appendix 2: Budget allocations by functional classification, 2005-2009

| Functions                     | Budget 2005   |       | Budget 2006   |       | Budget 2007   |       | Budget 2008   |       | Budget 2009   |       |
|-------------------------------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|
|                               | Million naira | %     | Million naira | %     | Million naira | %     | Million naira | %     | Million naira | %     |
| General Public Services       | 303,485       | 19.36 | 558,245       | 28.82 | 539,060       | 23.34 | 605,586       | 24.75 | 879,163       | 28.56 |
| Defence                       | 116,524       | 7.43  | 101,452       | 5.24  | 138,407       | 5.99  | 151,941       | 6.21  | 223,022       | 7.25  |
| Public Order & Safety         | 165,022       | 10.53 | 191,417       | 9.88  | 202,703       | 8.78  | 390,780       | 15.97 | 431,516       | 14.02 |
| Economic Affairs              | 274,148       | 17.49 | 408,632       | 21.09 | 471,343       | 20.41 | 397,649       | 16.25 | 752,083       | 24.44 |
| Environmental Protection      | 3,696         | 0.24  | 6,055         | 0.31  | 5,693         | 0.25  | 4,242         | 0.17  | 15,341        | 0.50  |
| Housing & Community Amenities | 122,160       | 7.79  | 32,928        | 1.70  | 228,847       | 9.91  | 81,573        | 3.33  | 8,057         | 0.26  |
| Health                        | 61,544        | 3.93  | 106,924       | 5.52  | 126,219       | 5.47  | 138,180       | 5.65  | 154,567       | 5.02  |
| Recreation Culture & Religion | 22,549        | 1.44  | 28,909        | 1.49  | 37,287        | 1.61  | 30,005        | 1.23  | 33,216        | 1.08  |
| Education                     | 137,509       | 8.77  | 200,555       | 10.35 | 224,500       | 9.72  | 266,451       | 10.89 | 282,862       | 9.19  |
| Social Protection             | 4,889         | 0.31  | 12,626        | 0.65  | 9,096         | 0.39  | 8,432         | 0.34  | 14,346        | 0.47  |
| Others (Debt Repayments)      | 355,723       | 22.70 | 289,500       | 14.94 | 326,000       | 14.12 | 372,200       | 15.21 | 283,650       | 9.22  |

Note: COFOG is the functional classification used. Table shows federal expenditures only.

Source: OSSAP-MDGs.