

HOW WOULD THE NAIRA FLOAT AFFECT SUBNATIONALS' IGR PROSPECTS?

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OUTLINE

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- Naira Float & Implications
- Likely impact on Sub Nationals IGR Prospects
- How Sub Nationals can leverage Naira Float to boost IGR
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..Context: Sub National's Tax Jurisdiction

- Sub National governments in Nigeria comprise States and Local governments.
- They have powers under the Constitution to collect certain types of taxes.

State Government	Local Government
Personal Income Tax (on residents of the State)	Tenement rate
Capital Gains Tax (on individuals only)	Shop and Kiosks Rates
Stamp Duties (on individuals) only	Liquor Licence Fees
Road taxes, e.g., Vehicle Licences	Slaughter slab fees
Betting and Gaming Taxes	Marriage, Birth and Death Registration Fees
Business Premises and Registration Levies	Street name, Registration Fees (excluding state capital)

..Context: Sub Nationals' Tax Jurisdiction

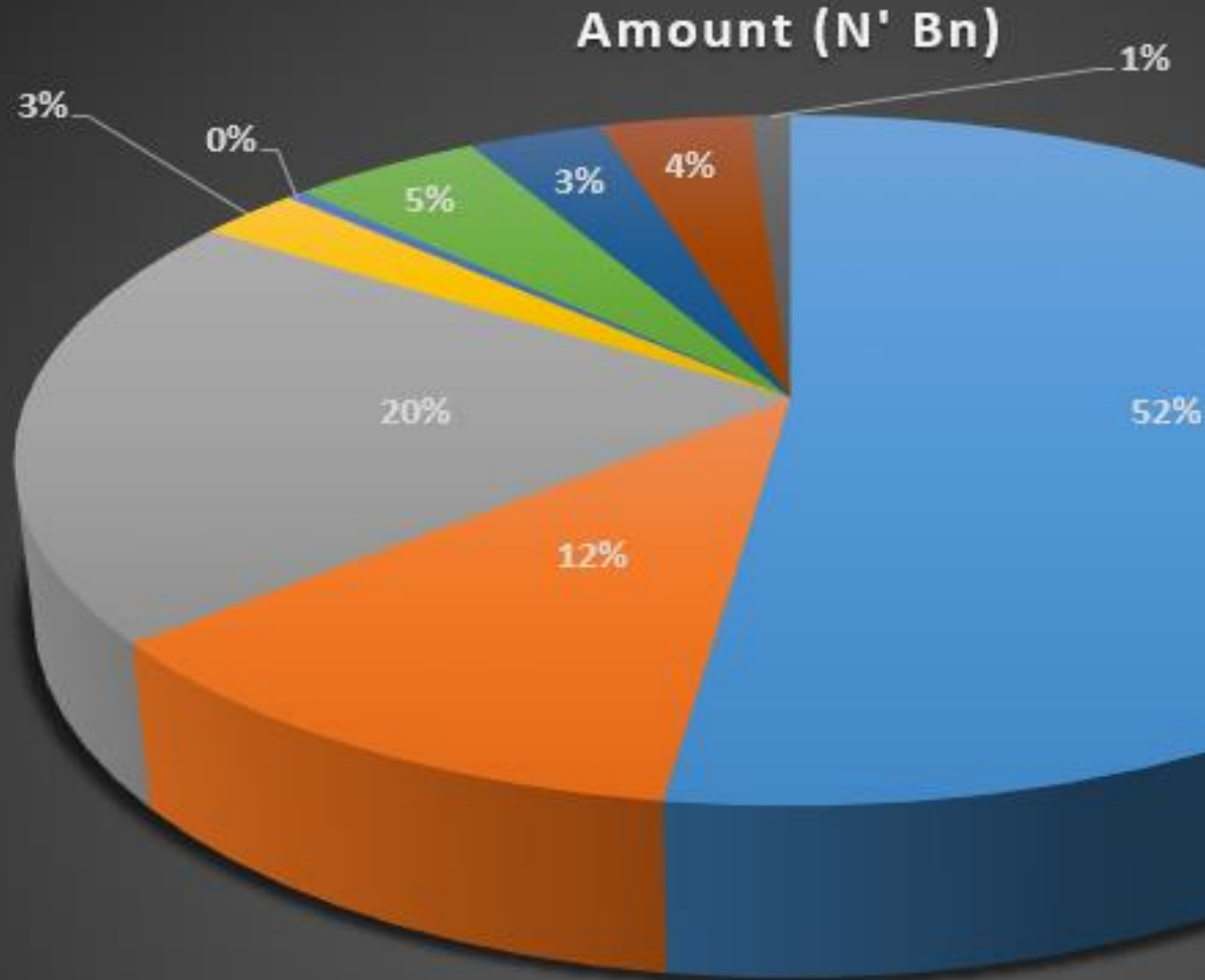
Development levy (Max of #100 per annum on taxable individuals only)	Market/Motor Park Fees (excluding State owned markets)
Street Name Registration Fees (State Capital Only)	Domestic Animal Licence Fees
Right of Occupancy Fees (State Capital Only)	Bicycle, Trucks, Canoe, Wheelbarrow, Carts and Canoe Fees
Market fees (where market is financed by State Government)	Right of Occupancy fees (excluding State Capital)
Miscellaneous revenues (e.g., rents on property)	Cattle Tax

Sources: 1999 Constitution, FMOF

..Context- Other IGR Sources

- For the purpose of this presentation, Internally Generated Revenue (IGR) for Sub Nationals goes beyond taxes and covers all revenue sources outside the federation account allocation and VAT distribution including:
 - 1) Income from Investments via Ministry of Finance Incorporated and State-owned Investment Companies
 - 2) Interests on Deposits
 - 3) Grants
- Regrettably, most Sub Nationals in Nigeria have not been able to generate IGR sufficient to cater for recurrent spending let alone capital expenditure.

Context: State Governments' and FCT's Revenue (2019)



- IGR constituted only 20% of States revenue in 2019
- The rest came from various Federation allocations

Federation Account

Grants

Exchange Gain/NNPC Refund/SURE_P

Value Added Tax

Stabilization Funds Receipts

Budget Augmentation

Internal Revenue

Share of Excess Oil Revenue

Others

Sources: NBS, CBN

Context- Challenges

- Inadequate data on taxable persons in the State
- Poorly funded State Internal Revenue Service
- Inadequate application of technology in revenue collection-Ineffective/crude ways of revenue collection.
- Inadequate skilled staff in IRS office
- Corruption on the part of Tax authorities/collectors.
- Poor taxpayer education.
- Poor infrastructure eg power and roads which stifle business growth.
- Low tax compliance
- Insecurity in many States of the federation
- High rate of jobless youths

KEY QUESTIONS

- How would the recent naira float impact the IGR prospects of Sub Nationals?
- How can State governments take advantage of the naira float to enhance their IGR?

Naira Float & Implications for Sub Nationals

- Floating the naira means allowing demand and supply forces to determine the value in the FX market.
- The collapse of all the FX windows into the Investors & Exporters Window is designed to enthrone market forces in the determination of exchange rates.



..Implications for Sub Nationals

Upsides

- Increase in FAAC Allocation for Sub Nationals. FAR shared for May was N786 billion (FMFBNP)
- Likely reduction in Sub Nationals' budget deficits
- Increase in naira terms of dollar-denominated assets held by State governments

Downsides

- Higher Rates of Inflation (esp. in Kogi, Ondo states etc)
- Likely reduction in share of VAT
- Rise in Sub Nationals share of external debt stock in naira terms.
- A corresponding increase in debt service cost with respect to foreign debt service
- Increase in personnel costs (minimum wage)

..Implications for Sub Nationals- Nigeria's External Debt Stock as at December 31 2022

	US\$ million	N million	N million
Total External Debt	41,694.91	18,702,251.88	29,785,175.91
FGN Only	37,238.54	16,703,347.12	26,601,723.44
States & FCT	4,456.37	1,998,904.76	3,183,452.47

Sources: DMO, CBN

- Sub Nationals' external debt in naira terms will jump from about N2 trillion to over N3 trillion- an increase of nearly 60%.
- CBN Official Exchange Rate of US\$1 to **N448.08** as at December 31, 2022 was used in converting the conversion (DMO)
- The Weighted Average Rate I & E of US\$1 to **N714.36** as at Wednesday June 21 2023 (on CBN website) was used in converting the external debt to domestic debt.

Likely Impact on Sub Nationals IGR Prospects

- Increase in Foreign Investments (esp. Lagos, Ogun and the FCT)
- Increase in Diaspora Remittances. States with more Diaspora presence stand to benefit
- Increase in naira terms of foreign grants to States such as World Bank SFTAS programme, RAMP, NEWMAP etc.
- Sub Nationals to earn more dividend/interest income from state-owned companies engaged in exports or from dollar-denominated assets held.
- Increase in minimum wage would mean high PAYE collections.

Leveraging Naira Float to boost IGR

- Determine the additional FAAC revenue arising from naira devaluation
- Ring fence the additional FAAC revenue in a special fund account for transparency and accountability.
- Use a part of the special fund for PPP arrangements in financing Agriculture and Infrastructure (power, roads, housing) to enhance business activities and revenue generation.
- Set aside a percentage of money from the special fund (FAAC) account for investment purposes via the State Investment agency. Recapitalize the MOFI where necessary.

.. Leveraging Naira Float to boost IGR

- Track PAYE of staff of fed govt, Banks and other companies residing in the state to ensure they are remitted to the State especially following increase in minimum wage.
- Establish a Diaspora Commission for the purpose of bringing investments to the State by indigenes of the State in the Diaspora.
- Make the State attractive to international donors such as the World Bank by implementing SFTAS programme and addressing insecurity.
- Work on Ease of Doing Business pillars and make attracting FDIs to the State a priority

Conclusion

- The naira float has a lot of prospects for Sub Nationals' IGR growth depending on the way the additional revenue from FAAC is utilized.
- If mismanaged, it could result in high inflation, weak aggregate demand, business failures and low revenue collection by the Sub Nationals
- If well utilized in a way that addresses the challenges of revenue generation and collection, the upside risks of forex earnings/higher capital importation as well as higher tax compliance rate leading to increased IGR will most likely crystallize.

*Thank
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