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Nigerian Delegation Discusses Solutions To Climate Change, Global Trade, Big Data

Spring Meetings Edition

- Advocates Moderation, Need To Monitor Financial Stability Risks
- Calls For Speedy Implementation Of G20 Common Framework On Debts
- Highlights Macro-Economic Development In Nigeria >>PG 3

R-L: **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), and **Mr. Ben Akabueze,** Director-General, Budget Office of the Federation at the IMF/World Bank Spring Meetings 2023.

Funding Squeeze In Sub-Saharan Africa

- Four Policy Priorities That Can Help Address Macroeconomic Imbalances In The Region PG 10

Challenges/ Solutions With Credit Rating Agencies, Sovereign Debt PG 29

...it pays to pay your TAX

FACILITATING EXPORT DIVERSIFICATION PROMOTING TRADE CONNECTIVITY

NEXIM's mandate is to provide credit and risk-bearing facilities to support the export of Nigerian products and services. Also, the Bank, as part of its developmental roles is involved in trade-related infrastructure facilities with its regional Sealink project promotion to enhance Nigeria's trade connectivity. Our intervention covers manufactuiring, agro processing, solid minerals, and services sectors.

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SPRING MEETINGS 2023 | WASHINGTON DC

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Nigerian Delegation Discusses Solutions To Climate Change, Global Trade, Big Data

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning, in a chat with **Mr. Shubham Chaudhuri,** World Bank Director for Nigeria, as **Nabila Aguele,** SA Performance Management and Development Cooperation, looks on at IMF/World Bank Spring Meetings 2023.

The Honourable Minister of Finance, Budget & National Planning, Mrs. Zainab Shamsuna Ahmed, with a delegation of financial experts from Nigeria were in Washington DC, US, for the International Monetary Fund (IMF)/World Bank Spring Meetings, to discuss innovative solutions to climate change, global trade, big data, among others.

At the event which took place between April 10 and16, this year, Mrs. Ahmed attended a high-level working group meeting on global financial architecture with African Ministers of Finance, Planning and Economic Development.

An open discussion was also held on 'An IMF for the 21st century – Lending, Governance and Future Direction'.

The Spring Meetings of the Boards of Governors of the World Bank Group (WBG) and the International Monetary Fund (IMF), brought together central bankers, ministers of finance and development, parliamentarians, private sector executives, representatives from civil society organisations and academics to discuss issues of global concern which included the world economic outlook, poverty eradication, economic development, and aid effectiveness.

The Nigerian delegation comprised the Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, the Governor of CBN, The PSF and some CEOs of the parastatals under the Federal Ministry of Finance. The uniqueness of the delegation was that there also were some members of the Transition Team. Beginning with the overview of economic developments, Mrs. Ahmed said: "We met at a time of high global uncertainty with successive shocks of the war in Ukraine, rising inflation, fragmentation and monetary policy tightening and most recently the financial market stress in the Silicon Valley Bank, Signatures Bank and Credit Suisse Bank. She noted the over 345 million people in developing countries facing acute food insecurity and 700million people living in extreme poverty most of who are in Africa.

> We met at a time of high global uncertainty with successive shocks of the war in Ukraine, rising inflation, fragmentation and monetary policy tightening...

The delegation attended a couple of statutory, bilateral and side meetings, some of which were statutory meetings. "At the IMFC where I represented 22 countries, I spoke on the need to monitor financial stability risks and the need for moderation, open and rule-based trading system to allow for the free flow of essential supplies. "I also called for the speedy implementation of the G20 Common framework on debts. While raising concerns on delays in debt restructuring for some countries; I encouraged cooperation between creditors and the affected countries to ensue completion of the programs. I also used the opportunity to highlight macro-economic development in Nigeria including ongoing engagements with all critical stakeholders on the need to mobilise additional resources for remove the fuel subsidies and free up resources for investment in the social sector. I am happy with the retention of the IMF growth forecast for Nigeria at three percent which is consistent with our internal projections even though our desire is to have higher GDP growth. At the Development Committee of the WB, "we discussed the on-going WBG evolution agenda which is in response to the G20 Independent Panel on Capital Adequacy Framework. We encouraged the bank to remain focused on the twin goals while enhancing its operating and financing models to enable it cope with increasing transborder

CONT'D ON THE NEXT PAGE

Nigerian Delegation Discusses Solutions To Climate Change, Global Trade, Big Data

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning (m), **Dr. Oyebode Oyetunde,** Executive Director, African Development Bank (l), **Senator Solomon Adeola,** Chairman of the Senate Committee on Finance, at IMF/World Bank Spring Meetings 2023.

CONT'D FROM THE PREVIOUS PAGE

and global challenges. We encouraged the WB to consider access to energy as one of the global challenges for SSA At the G24 meeting, Mrs. Ahmed commended members for their support that led to election of Dr. Iyabo Masha of Nigeria as the first African Director. She also had bilateral meetings with MIGA to consider how best Nigeria can leverage MIGA resources in infrastructure investment and discussed some pipelines. At the meeting, she also was with senior management of IFC Vice President for Africa, "where we agreed to grow Nigeria's portfolio in the real sector. We also had preliminary conversations on the possibility of IFC's visibility in the aviation and maritime sectors, especially in the newly modernised airports and some of the seaports in Nigeria.

She also facilitated the dialogue between MOFI and IFC. "I also had preliminary discussions with Shelter Afrique on the need to explore an innovative housing program for the IDPs and support the affordable housing scheme At the FAD of the IMF, "we discussed the need to scale up Technical Assistance for FIRS and NCS in growing the revenue potentials of the country. On Nigeria -in – Transition, in collaboration with the WBG, development partners and some members of the international community, "we held an event to showcase the massive investment potentials of the country, the current challenges and how we are tackling them.

We also had conversation with them including members of the Transition Team on potential priorities of government and requested for the understanding and strong support of the developments and business community for the in – coming government. Conclusively, Mrs. Ahmed echoed the key takeaways from the 2023 Spring Meetings; that "global environment is still very vulnerable and the need to build buffers, measured policy stance to ensure that there are no tradeoffs between monetary policy and fiscal policies - corporation is more than necessary now, and prudence in undertaking fiscal consolidation with an eye on the most vulnerable, including potential scale up of the social safety program.

Also featured were seminars, regional briefings, press conferences, and many other events focused on the global economy, international development, and the world's financial system.

Likely to be overshadowed by concerns over high inflation, rising geopolitical tension and financial stability were an ambitious reform and fundraising agenda.

"Growth remains historically weak — now and in the medium term," IMF Managing Director, Kristalina Georgieva, said during a speech prior the event.

we held an event to showcase the massive investment potentials of the country, the current challenges and how we are tackling them

Mr. Wale Edun's Comments on 2023 World Bank and IMF Spring Meetings

It was an honour to have been selected to lead the team representing the President-elect, His Excellency Bola Ahmed Tinubu at the 2023 Spring Meetings of the World Bank Group and the IMF in Washington DC early April. It was invaluable to have had the opportunity to sit alongside the Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Shamsuna Ahmed, and her team to gain a more in-depth understanding of the relevant key issues and the current status of engagements with the multilateral agencies and other partners. The President-elect has been fully debriefed and is pleased with the seamless nature of the transition.

He was glad to hear the willingness of the multilaterals to continue to support Nigeria; especially as it pushes to implement the reforms necessary to reposition its economy. The offer from multilaterals of technical assistance, capacity building, and ad hoc advice (of equal importance to funding) was also well noted. He was also heartened by the consensus opinion that Nigeria continues to be a strategically important nation in political, economic and cultural terms and the fact that its success is deemed to be important not only in Africa but the world at large.

As he moves forward, the President-elect remains committed to building upon the progress made by the current administration and ensuring that Nigeria continues to move in a positive direction. He is aware of the challenges that lie ahead and is prepared to work diligently with his team to address them. He believes that by focusing on key priorities such as security, good governance, and economic growth, the administration can create an environment that is conducive to sustainable development and the realisation of the potential that Nigeria possesses.

He looks forward to collaborating with partners, both within Nigeria and abroad, to achieve our shared objectives. He is committed to open and transparent communication, and to working in a spirit of cooperation and mutual respect. Together, a stronger and more prosperous Nigeria can be built; one that serves as a beacon of hope and inspiration for the continent and the world.

Nigerian Delegation Mulls What To Do With Additional Resources From Subsidy Removal

SPRING MEETINGS 2023 | WASHINGTON DC
WORLD BANK GROUP INTERNATIONAL MONETARY FUND

• $800 million Palliative

The federal government may be compelled to spend far more than the $800 million (N371.2 billion) it budgeted due to an expansion in the range of stakeholders' negotiations currently on-going.

This hint was dropped by the Finance Minister, Mrs. Zainab Ahmed, while briefing the Nigerian media contingent at the just concluded World Bank and International Monetary Fund (IMF) 2023 Spring meetings in Washington DC, USA.

The Federal Executive Council (FEC) had earlier this month concluded the budget with an estimate of N371 billion to be raised as loan from the World Bank for palliatives in respect of cushioning the effect of fuel subsidy removal on the low income households totalling about 10 million with a headcount estimate of 50 million people.

The budget which has now been tabled before the National Assembly for approval, also estimated N5,000 per month, per household.

However, speaking at the media briefing, Ahmed said, "The initial design is to disburse cash transfers of N5,000 per month per household for a period of six months. So, whether this is enough is an assessment that we are undertaking with the transition team.

"If it's not enough, the country has to raise additional resources to be able to cover more people, extend the period or increase the amount; whichever is finally negotiated upon.

"When the subsidy is removed, there would be additional revenue that would now accrue to the Federation Account. One of the things we are working on is how this incremental revenue would be used. The money belongs to the Federal, State, and local governments. So, we need another decision of how to use this.

"We hope that we'll be able to still fence this incremental revenue and apply it to measures that will help to ensure that the fuel subsidy removal is actually sustained so that it won't be another start-and-stop program.

''But this has to be a collective decision. The current administration and the incoming administration are working on a plan to make sure that we have a consensus on how to use that incremental revenue".

Reinforcing the inconclusive state of the palliative funding, she also stated: "On the issue of other palliatives beyond the transport sector, again it would be part of the consensus; so, depending on what the various stakeholders' positions would be, we'll be engaging with, including what the organised labour will be asking for, we will reach the final decision.

"So, there will be a consideration of whether some of the support to the transport sector will be directly or indirectly; but again it's not a decision that has been taken yet on how to deploy the incremental palliative because it has to be a consensus between the various stakeholders and these stakeholders include the states, different unions, the incoming administration as well as the outgoing administration".

On the loan acquisition and administration process, Ahmed stated: "The $800 million has been negotiated and approved by the Federal Executive Council and we now have a request before the parliament for approval. And once the parliament approves it, we roll.

''We've also been doing preparatory work side by side along the approval process, and that includes the building of the social register which will be used for the electronic transfers of the funds.

"We needed to have this ready because when the government eventually removes the fuel subsidy, there will be an immediate transport palliative that will be provided to the most vulnerable members of our society who have been identified, registered, and now contained in our national social register.

''This effort is led by the Ministry of Humanitarian Affairs, Disaster Management, and Social Development. They developed that register with the support of the World Bank. The register has about 10 million households and that's an equivalent of 50 million Nigerians".

Rising Debt Servicing Cost

Meanwhile, the Honourable Minister explained why the cost of servicing Nigeria's foreign debt has maintained a steady rise in recent times, attributing it to global economic conditions.

She stated: "Debt was one of the main things that were discussed throughout the sessions at the World Bank. It is an issue for most developing countries. Today as we speak because of high inflation globally and the continuous quantitative easing the central banks globally are undertaking, interest rates continue to rise. So, if you have taken a foreign loan, your cost of debt just rises without you doing anything.

''So, we all have these challenges such that what you have planned in budget and provided for just keeps changing because interest rates keep changing; So, it is a global problem".

Debt Burden

On the sustainability of the debt profile given the additional borrowings, Mrs. Ahmed said; "There has not been a specific landing but it is a lot of considerations that globally there must be some initiatives that would improve the fiscal space of countries that have high debt burden including things like debt standstill or the freezing interest rate at some certain point and several options that are being discussed but there has to be an agreement on what to do.

"During COVID-19, there was a Debt Service Suspension Initiative (DSSI) as a global initiative and after that, there was a common framework. So, it is something similar that is being worked on.

"So, this discussion includes the debtor nation, creditor nation, credit rating agencies and the multi latria development banks."

Tinubu's Team at World Bank/IMF Spring Meetings

The Honourable Minister revealed that the political transition team was part of Nigeria's various meetings at the World Bank.

Giving some details, she said; "We also understand they had meetings, they also joined some of our meetings but they did not join all of our meetings.

"The good thing in Nigeria today is that this transition process is guided by executive order. The executive order requires that there is a joint transition team.

"So, the transition team is both the incoming as well as the outgoing administration. And when we were preparing for this meeting, they sent a formal request that they want to participate and we welcomed it, and because of that, we organised some of the meetings to have them involved in. They were all part of the bilateral meetings we had today.

"They also joined the deep dives that we did on Monday. So, we are working collaboratively".

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EDITORIAL

Government Should Not Retain Fuel Subsidy Longer Than This Year

As in many other resource-rich countries, the Nigerian government introduced a fuel subsidy regime as part of strategies for cushioning the macroeconomic impacts of oil price shocks on the Nigerian economy. Under this arrangement, the government regulates the domestic price of fuel and pays domestic marketers the difference between the regulated domestic price and the expected open Market price (EOMP).

Ever since, several studies have investigated the macroeconomic impacts of oil price shocks on the Nigerian economy. Amongst other effects, it has been shown that oil price shocks generate significant implications for output, prices, exchange rate, government revenues, interest rates and external reserves. Some have gone as far as studying the role of fuel subsides and the macroeconomic implications of its being retained or removed.

About 91 percent of Nigeria's fuel requirement is imported from the rest of the world due to poor domestic refining capacity.

Notably, Nigeria's subsidy regime distorts fiscal planning, encourages inefficient consumption, and increases inequality as richer households benefit more. Although subsidy removal has been a difficult political and economic decision for the government to take, almost everyone has agreed now that subsidy was not serving the people it was supposed to serve and its high cost was adding to government's deficit.

We note that the subsidy cost per litre of petrol ranged between N350 to N400, maintaining that Nigeria spends about N250 billion monthly on subsidy. Between 2006-2018 Nigeria spent about 10 trillion Naira (or US$24.5 billion at the current official exchange rate of 411 Naira = US$1) on petroleum subsidies. In 2019 and 2020 about 3 trillion Naira ($7 billion) was spent on subsidies. The number is expected to go up this year and next. It means that Nigeria has spent over $30 billion on fuel subsidies over the past 16 years or so. In 2018, it spent 722 billion ($2.4 billion at that year's official exchange rate of $1 = 306 Naira), but spent only $1.5 billion on health. Nigeria's growing fuel subsidy may have contributed to the country's health-financing gap.

The Petroleum Industry Act (PIA) signed into law on August 16, 2021 by President Mohammadu Buhari provides for total deregulation of the downstream sector, which implies the removal of subsidy and enthronement of a free market regime for the sector.

But in January 2022, the federal government kicked that section of the PIA aside and postponed subsidy removal to end of June 2023. The government cited the pains subsidy removal would bring on the poor and vulnerable masses as the reason for the postponement.

Based on the fact that the present subsidy regime in the country is really not serving the people it is supposed to serve and the cost of it has become so high that it is adding to our deficit, the government should no longer retain the regime beyond this year.

The government should stick to the approval within the Appropriation Act to exit subsidy by June 2023. Or at least, abide by the provision of the Appropriation Act that only allows subsidies up to June 2023.

It is our position that to remove the subsidy, is to allow the market to flourish, because when you remove the subsidy, then you have marketers that would be able to invest and bring the fuel product and sell it at market prices. Right now, the Nigerian National Petroleum Company (NNPC) Limited is the sole importer; the fuel product is imported and it is limited to an official price.

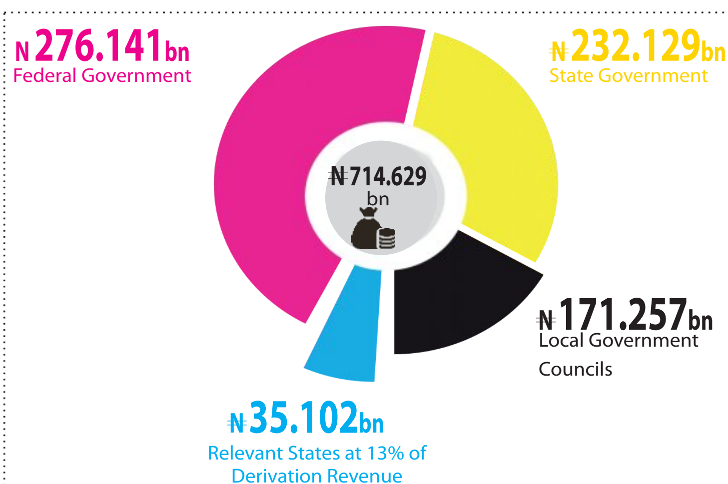
Apparently, the subsidy per litre now ranges from N350 to N400 per litre. We note that the government can do so much with N250 billion per month, because that is the average cost per month to the nation. That is even the cost to NNPC; there is an implicit subsidy of forex. We also do note that such amount could be invested in building more hospitals, schools, improving infrastructure and other critical sectors that would have visible positive impacts on Nigerians.

We can build more hospitals, more schools, provide more social services, improve infrastructure that will enhance the quality of life of the people, instead of just using it on a consumption item.

Though we caution that a successful exit strategy must necessarily accommodate the deployment of well-targeted safety nets as well as the evolution of sustainable adjustment mechanisms, we call on everyone in the country to work with the government to get rid of the subsidy to save us from continuously expending limited resources on a consumption item.

FAAC Shares N714.629 bn March 2023 Revenue To FG, States, LGCs

Federation Accounts Allocation Committee (FAAC) Share:



Statutory Revenue

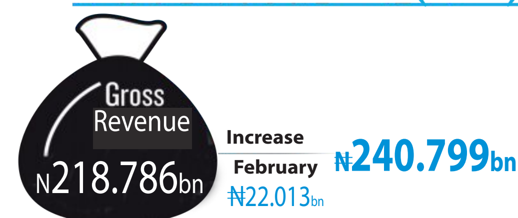
Value Added Tax (VAT)

Electronic Money Transfer Levy (EMTL)

Balance in the Excess Crude Account
$473,754.57

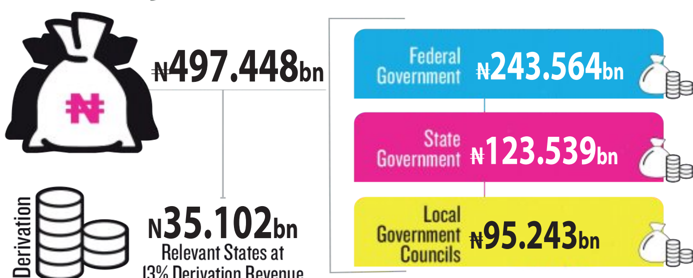
Total Deductions for Transfers, Refunds and Consultancy Fees
N126.567 bn

Value Added Tax (VAT)



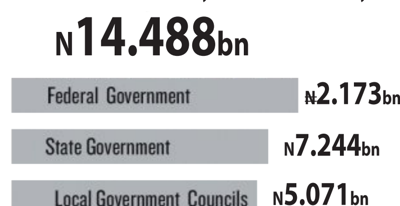
₦31.355bn Cost Of Revenue Collection

Statutory Revenue Distribution

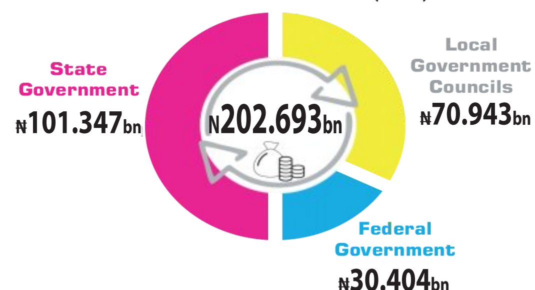


Electronic Money Transfer Levy (EMTL)

₦14.488bn



Distributable Value Added Tax (VAT) Revenue



According to the communiqué, in the month of March 2023, Petroleum Profit Tax (PPT), Companies Income Tax (CIT), Oil and Gas Royalties, Import and Excise Duties, Electronic Money Transfer Levy (EMTL) increased remarkably while Value Added Tax (VAT) decreased considerably.

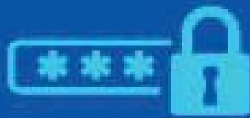
Fraudsters are becoming more creative - Here are tips to safeguarding your bank details.

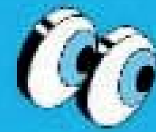
NDIC

4 TIPS TO SAFEGUARD YOUR ACCOUNT

1

Ensure your phone has a password and do not share your bank mobile app password with anyone.





2

Ensure no one is watching when you enter your PIN to perform transactions

NDIC

3

Ensure your token is secure and other parties do not have access to it.

4

Ensure your debit card number and CVV are not exposed to people

FG Determined To Tackle Nigeria's Food Deficit – *Minister*

• Says NG-CARES Impacted 2mn People In 36 States

The federal government has commenced an integrated approach to remedy the challenges of food ecosystems in the country in order to reduce the huge food deficit caused by the neglect of agriculture.

This was disclosed in Abuja by the Honourable Minister of State for Budget and National Planning, Prince Clem Agba recently.

The Honourable Minister who spoke while addressing a meeting of the donors/development partners on the implementation of the food systems transformation pathways in Nigeria noted that food security is the indispensable prerequisite for the survival of mankind.

He lamented that the incidence of food insecurity has been on a steady increase over the past four decades, adding that the Food and Agriculture Organisation (FAO) has projected that about 25.3 million people in Nigeria would face acute food insecurity during the June to August 2023 lean season.

Prince Agba disclosed that a quarterly report released by the global organisation shows that the figure projected is higher than the 19.45 million forecasts in 2022, which is attributed to the huge food deficit due to the neglect of agricultural production as well as other areas of the food ecosystem for many decades.

He said: "Since the Initiative on food systems transformation started, the Government has garnered a lot of support from donors and development partners. I wish to take this opportunity to thank you all for your generous support to the country in your different fields.

"We recognised your collaboration with the Government of Nigeria (GoN) on a series of exploratory dialogues that took place in the 36 States and the FCT and some communities in 2021 and to the consolidation of the reports, collation of the 78 recommended priorities from the dialogues, prioritisation of recommendations, and the commencement of implementation in 2022.

"I also acknowledge your membership of the 2023 Implementation Task Team that is currently working on the development of a costed implementation strategy for transforming the food systems. Your support, both technical and financial, are very well appreciated.

"The government is aware that donors have specific states and areas of intervention in all the States in the country as shown by the mapping exercise done by the implementation task team. Our evaluation of the report of the mapping exercise points to the fact that there is an urgent need for better coordination of our efforts as stakeholders to ensure balance support by all donors and development partners to enable Nigeria to achieve the transformation pathways."

Prince Clem Agba, Minister of State for Budget and National Planning

The Honourable Minister added that the federal government understood that achieving universal access to safe, nutritious, affordable and sustainable diets is critical to addressing the complexities of malnutrition and food insecurity in Nigeria.

According to him, this is particularly critical to attaining approach towards ensuring that successive governments in Nigeria continue to prioritise food and nutrition interventions in the nation's development agenda.

"Consequently, the Ministry has been championing the implementation of the presidential directive on the establishment of nutrition departments and the creation of budget line for nutrition in all line Ministries, Departments and Agencies", in funding the implementation of the food systems.

Meanwhile, Prince Agba also stated that the federal government has disclosed that the Nigeria COVID-19 Action Recovery and Economic Stimulus (NG CARES) Programme had impacted over 2million poor and vulnerable beneficiaries in the 36 States and the Federal Capital Territory (FCT).

He said that the impact was

> The purpose of the support is to mitigate the economic and social shocks faced by poor and vulnerable Nigerians as a result of the lockdown during the COVID-19 crisis

both economic and human capital development and thus requires breaking down silos among different actors in the food and nutrition sphere while adopting a well-coordinated multi-sectoral approach.

The Honourable Minister who noted that both the technical and financial support for the implementation of the food systems pathway has become a great challenge to the government said the needed funds for this will require the pooling of public and private sector resources, including development partners and donors.

According to him, the present administration in its determination to ensure improvement in the food and nutrition situation in the country has adopted a strategic Prince Agba added.

He stated that the government appreciates the commitment of every organisation represented at the meeting to implement the strategy being developed for the implementation of the food systems transformation pathways in the country.

Prince Agba said: "the enormous amount of money needed to assure the food security of Nigerians calls for a fundamental review of past approaches and achievements to see what lessons can be learned to re-strategize and develop an approach that will ensure that better progress is made toward achieving better results."

He called for the continuous support of all partners, especially part of efforts to achieve the core objectives of the Economic Sustainability Plan created by the President Muhammadu Buhari's administration in the wake of the COVID-19 pandemic.

Prince Agba also stated that the results of the first round of assessment of NG-CARES implementation showed that the states and the FCT were improving on their strides to alleviating poverty.

"This is a testament to the success of the programme so far.

"You will recall that to ensure a seamless implementation of the programme and noting the challenge of paucity of funds by the states and the FCT, the federal government provided an initial advance of N35.3 billion to all the 36 states and the FCT in March 2022. This was with a plan to recover the one-off advance during reimbursement.

"Within one year of giving out the advance, many states were able to achieve appreciable results. This informed the federal government's approval to release earned reimbursement to the states and the FCT, based on their outstanding performance," he said.

Prince Agba assured that the Buhari's administration would strive to deliver development to the poor, vulnerable and the underserved before handing over to the next administration.

"As you may be aware, the federal government sought and obtained a 750 million USD credit facility from the World Bank to support the 36 states and the FCT in the implementation of the NG-CARES Programme.

"The purpose of the support is to mitigate the economic and social shocks faced by poor and vulnerable Nigerians as a result of the lockdown during the COVID-19 crisis. The credit is on-lent to the 36 states and the FCT with each state allocated 20 million dollars ex-ante and the FCT 15 million dollars.

"It is a multi-sectoral programme designed to provide immediate emergency relief across various sectors to vulnerable and poor Nigerians, smallholder farmers and Small and Medium Enterprises that were adversely affected by the pandemic," the Honourable Minister said.

Prince Agba further said that based on results earned by the 36 states and the FCT, the federal government on April 13, disbursed N45.3 billion to 29 states and the FCT.

He said that Zamfara emerged the best performing state after the round of assessment and therefore, received the highest amount of N5.2 billion from the total disbursed sum of N45.3 billion.

Prince Agba, however, said that out of the 36 states and the FCT that were participating in the NG-CARES programme, seven states were unable to repay the advance, while only Imo did not earn any result in the first round.

"For the purpose of clarification, let it be noted that if a state does not receive a reimbursement during the current round, it is still eligible for reimbursement during subsequent rounds.

"In order to qualify, states must adhere to set guidelines outlined in the programmes' Financing Agreement, Funds Release Policy and Independent Verification Agent Protocol," Prince Agba said.

The Honourable Minister added that going forward, there would be more assessments, and any eligible state or the FCT that met the criteria would be reimbursed, accordingly.

NAICOM Sets June Deadline For IFRS 17 Implementation

• Partners Operators To End Sale of Fake Insurance Policies

By Musa Ibrahim

The National Insurance Commission (NAICOM) has urged underwriting firms to prepare for the adoption of the International Financial Reporting Standard (IFRS 17) as the transition date is set for June 2023.

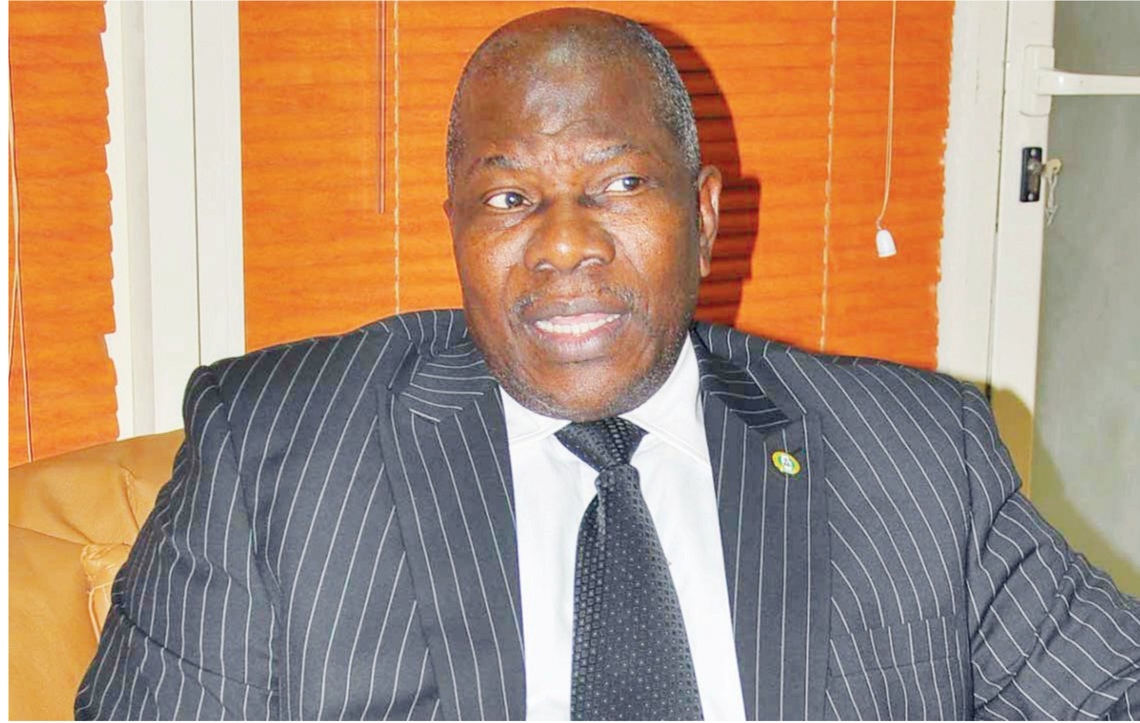
Members of the Publicity and Communications Sub-Committee revealed this while briefing news media on the outcome of the 14th Insurers Committee Meeting held in Lagos recently.

According to the members, IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standards.

Speaking on the IFRS 17, the Head of Corporate Communications and Market Development, NAICOM, 'Rasaaq Salami, said the commission would ensure that operators comply.

Salami said the commission, in its efforts to get underwriting firms ready for the new financial reporting model, had set up sub-working groups to facilitate the migration in the industry.

The Commissioner for Insurance, Sunday Thomas, at the meeting urged board members of each insurance firm to get prepared for the IFRS 17 implementation, pointing out that the deadline for migration was already at hand.



Mr. Sunday Thomas, Commissioner for Insurance/CEO, NAICOM

"You are, therefore, required to ensure that your entities are in full compliance and ready for the dateline," the commissioner charged. He also tasked directors of all insurance companies to take the issue of industry development seriously and work with their management teams to achieve set targets.

"The commission is working assiduously to open up the market particularly the retail end, conducting engagements with various agencies and state governments on the need to increase insurance culture in Nigeria," he said.

Also, NAICOM and underwriting firms have joined forces with state licensing offices to ensure only genuine insurance policies are sold across the country.

Before now, operators have been working with the Federal Roads Safety Corps (FRSC) to recover N45 billion lost to fake insurance practitioners nationwide, especially in the area of third-party motor insurance.

Speaking on the plan to address some of the challenges in the sector at the just-concluded 14th Meeting of Insurers' Committee held in Lagos, the Head of Corporate Communications and Market Development, NAICOM, 'Rasaaq, Salami, said the Commission along with insurance companies, will be visiting state governments to sensitise them on the need for genuine insurance policies.

Salami explained that underwriting companions in the meeting agreed to also advertise outstanding claims. He said operators believe that would help to build confidence and aid development.

He said the commission promised not to endorse the recapitalisation plan of any firm that does not clear outstanding claims of its clients.

The Commissioner for Insurance/Chief Executive of NAICOM, Mr. Sunday Thomas, warned that such firms would not be certified to have crossed the recapitalisation huddle. He, therefore, advised insurance companies to settle outstanding claims in their books.

Silicon Valley Bank: **NDIC Charges Regulators On Risk Management**

By Anita Dennis

The Nigeria Deposit Insurance Corporation (NDIC) has urged regulators in the banking industry to draw supervisory lessons from the failure of Silicon Valley Bank and Credit Suisse by ensuring proper risk management.

Mr. Mustapha Ibrahim, the Executive Director (Operations), NDIC, gave the advice at the Chartered Institute of Bankers of Nigeria (CIBN) advocacy dialogue series 7.0, held in Lagos.

The discussions were under the theme: `Failure of Silicon Valley Bank in USA: Global Impact and Lessons for the Nigerian Financial System.'

The CIBN Advocacy Dialogue Series is a thought-leading programme created to empower various stakeholders with knowledge on emerging issues affecting the banking industry and the economy.

The series typically features subject matter experts and operators with the aim to generate ideas that can help individuals and organisations make better and informed decisions amid challenges in matters relating to banking, finance, and the economy, at large.

Giving illustrations from the insights provided by Clive Briualt, Chairman of the Toronto Centre, Mr. Ibrahim drew up 10 lessons that financial supervisors in Nigeria should leverage.

According to him, there is a need for financial sector managers and regulators to, first and foremost, understand the business that they are involved in.

He explained that knowing the nature of the business would help in structuring and regulatory approach as well as aid supervisors' understanding of the business on both sides of the balance sheet — liabilities and asset sides.

Mr. Ibrahim urged supervisors to bear in mind the dangers involved in rapid growth expansion and treat it as a warning sign of higher risk. He called on supervisors to understand the nature of deposit risks.

"It is not just enough to mobilise deposits, but there is a need to know the behavioural pattern and nature of the depositors," Mr. Ibrahim said.

According to him, supervisors have to understand the nature of the markets to be involved, the need for stress testing, consideration of the issue of recovery planning, crisis preparedness, among others.

He, therefore, charged Nigerian banks to prioritise risk management, responsible lending practices, market awareness and collaboration with regulators.

This, he said, would help in ensuring that they were operating in a sustainable and responsible manner while supporting the growth of the local tech and startup industries.

Ibrahim also explained that effective regulation and supervision of banks had the potential to make banks less likely to fail and also contribute to the stability and robustness of the financial systems.

Earlier, Dr Ken Opara, President/Chairman of CIBN, noted that Silicon Valley Bank was one of the most prominent lenders in the world of technology start-ups.

Dr. Opara said that it had grown extraordinarily fast, with total assets almost doubling from $116 billion at the end of 2021 to $216 billion at the end of 2022, making it the 16th largest bank in the U.S.

He, who was represented by Prof. Pius Olanrewaju, First Vice-President, CIBN, noted that the bank, however, collapsed for multiple reasons which sent shockwaves through the financial system, reviving memories of the global crisis in 2008.

"This occurrence has sparked a chain reaction of similar failures, including Credit Suisse, First Republic Bank, Signature Bank and Silvergate Bank while amplifying the need for experts across the globe to discuss the systemic issues plaguing the U.S. banking system, the regulatory gaps as well as its global impact.

"Additionally, policymakers and regulators are sifting through the rubble to consider what steps must be taken to prevent a similar crisis from occurring again.

"It is important to state that this event, of course, happened in the United States, however, because the world is inextricably linked by globalisation, could greatly destabilise markets and economies around the globe.

"So, it is pertinent to discuss the global impacts to extract insights to strengthen the banking system and ways to further improve the operational efficiency of Nigerian banks, in particular," Dr. Opara said.

Funding Squeeze In Sub-Saharan Africa

Four Policy Priorities That Can Help Address Macroeconomic Imbalances In The Region

A funding squeeze has hit the region hard. Persistent global inflation and tighter monetary policies have led to higher borrowing costs for sub-Saharan African countries and have placed greater pressure on exchange rates. Indeed, no country has been able to issue a Eurobond since spring 2022.

The funding squeeze aggravates a protracted trend that has been years in the making. The interest burden on public debt is rising, because of a greater reliance on expensive market-based funding combined with a long-term decline in aid budgets.

The lack of financing affects a region that is already struggling with elevated macroeconomic imbalances. Public debt and inflation are at levels not seen in decades, with double-digit inflation present in half of countries — eroding household purchasing power, striking at the most vulnerable, and adding to social pressures. Estimates suggest that 132 million people were acutely food-insecure in 2022.

In this context, the economic recovery has been interrupted. Growth in sub-Saharan Africa would decline to 3.6 percent in 2023. Amid a global slowdown, activity is expected to decelerate for a second year in a row. Still, this headline figure masks significant variation across the region. Many countries would register a small pickup in growth this year, especially non-resource-intensive economies, but the regional average would be weighed down by sluggish growth in some key economies, such as South Africa.

The funding squeeze would also impact the region's longer-term outlook. A shortage of funding may force countries to reduce resources for critical development sectors like health, education, and infrastructure, weakening the region's growth potential.

The confluence of higher global interest rates, elevated sovereign debt spreads, and exchange rate depreciations, among other factors, has created a funding squeeze for many countries in sub-Saharan Africa. This challenge comes on top of policy struggles from the ramifications of the COVID-19 pandemic and the cost-of-living crisis. Reflecting these considerations, economic activity in the region would remain subdued in 2023, with growth at 3.6 percent before rebounding to 4.2 percent in 2024 predicated on a global recovery, subsiding inflation, and the winding down of monetary policy tightening.

L-R: **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), **Mr. Adedoyin Salami,** Chief Economic Adviser to President Muhammadu Buhari, and **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, at the IMF/World Bank Spring Meetings 2023.

> The lack of financing affects a region that is already struggling with elevated macroeconomic imbalances

Recent Developments: The Makings of a Funding Crisis

Conjunctural factors have aggravated sub-Saharan Africa's already difficult financing situation.

The region's financing options have deteriorated significantly over the past year. The acceleration in the tightening of global monetary policy, prompted by the rapid pickup in global inflation after the onset of Russia's war in Ukraine, has led to higher interest rates worldwide and raised borrowing costs for sub-Saharan African countries, both on domestic and international markets.

Sovereign spreads for sub-Saharan Africa have soared to three times the emerging market average since the start of the global tightening cycle. Higher interest rates on US treasury bonds and the search for safe assets amid global uncertainty pushed the US dollar effective exchange rate to a 20-year high in 2022, increasing the value of dollar-denominated debt and dollar-denominated interest payments. Together, these factors have added to the region's external borrowing costs.

Higher uncertainty amid the pandemic and the war in Ukraine has also led to risk repricing, disproportionately affecting sub-Saharan African countries because of lower credit ratings, and cutting off virtually all frontier markets from international market access since spring 2022.2 More specifically, Eurobond issuances for the region declined from $14 billion in 2021 to $6 billion in the first quarter of 2022.

The effect has been a drastic and pro-cyclical tightening of financing conditions, which has aggravated underlying vulnerabilities. Borrowing costs have increased significantly over the past decade, with interest payments as a share of revenue doubling over the same period. At 11 percent of revenues (excluding grants) for the median sub-Saharan African country in 2022, interest payments are about triple those of the median advanced economy. Structural shifts behind this increase in borrowing costs include a decline in aid budgets to the region that led some countries to turn to market-based finance, which is more expensive. Increased integration in international debt markets and deepening of domestic financial markets also made it easier to contract more private domestic and external debt on non-concessional terms. Finally, inflows from China, for a while a significant source of financing, have declined markedly more recently.

...on top of the fallout from multi-year shocks...

The financing squeeze comes at a most unfortunate time, as the region is facing elevated economic imbalances. In the wake of the COVID-19 pandemic and the war in Ukraine, macroeconomic imbalances have returned as a first order challenge for most African countries, and they are pushing countries close to the edge.

Inflation remains elevated and volatile. The median inflation rate in the region was about 10 percent in February 2023 — more than double since the beginning of the pandemic. Besides registering double-digit headline inflation in roughly half of the countries in the region, about 80 percent are also experiencing double-digit food inflation in February. However, fuel price pressures have decelerated recently because international prices fell from their peak in mid-2022 by up to 30 percent as of the end of 2022, providing some reprieve for the region.

About half of the countries have now reported a deceleration in inflation in recent months, but there were also resurgences; and because subsidies on fuel and food prices are being phased out this year (Cameroon, Central African Republic, Ethiopia, and Senegal), inflation would likely remain volatile throughout 2023. A few countries also faced pressures to raise public wages in the second half of 2022 because of increases in the cost of living, triggered by higher food and fuel prices (Cameroon, Mali, Rwanda, and The Gambia).

Public debt as a share of gross domestic product (GDP) is relatively high. Sub-Saharan Africa's public debt ratio is at 56 percent of GDP in 2022 and has reached levels lastly seen in the early 2000s. Since the pandemic, the debt increase has been driven by widening fiscal deficits because of overlapping crises, slower growth, and exchange rate depreciations.

Elevated public debt levels have raised concerns about debt sustainability, with 19 of the region's 35 low-income countries already in debt distress or facing high risk of debt distress in 2022 — the same situation reported in the October 2022 Regional Economic Outlook: Sub-Saharan Africa.

Most currencies in the region depreciated against the US dollar in 2022. For those already grappling with high inflation, the weakening of the currency relative to the dollar made matters even worse because the region is highly dependent on imports with a significant share of them invoiced in dollars. Currency depreciations also contributed to higher general government debt because about 40 percent of sub-Saharan Africa's debt is external as of 2021. Although exchange rate pressures have eased since November 2022, in some cases because of significant depreciations which have already taken place — they remain elevated and volatile.

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WORLD BANK GROUP
INTERNATIONAL MONETARY FUND

Funding Squeeze In Sub-Saharan Africa

L-R: **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), **Mr. Ben Akabueze,** Director-General, Budget Office of the Federation, **Senator Solomon Adeola,** Chairman of the Senate Committee on Finance, and **Senator Ekpenyong Asuquo,** at IMF/World Bank Spring Meetings 2023.

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...resulting in another year of disrupted recovery...

Given this challenging environment, the region's growth would decline to 3.6 percent in 2023 from 3.9 percent in 2022 following the strong rebound of 2021. This subdued outlook in sub-Saharan Africa marks a growth slowdown, the second year in a row. Some common factors explain the growth underperformance, including the rise in central bank rates to fight inflation and the war in Ukraine dampening global economic activity and thus, export demand for the region. Nonetheless there are large variations across the region. Niger, the Democratic Republic of the Congo, and Senegal are on the higher end of the region's growth distribution, with this year's coming online of oil and gas in those countries expected to contribute significantly to higher GDP growth.

On the opposite end, the significant economic contraction in Equatorial Guinea is a result of a decline in oil production. Meanwhile, South Africa's growth is projected to decelerate sharply to 0.1 percent in 2023, weighed down by an intensification of power outages, a weaker external environment, and a negative carry-over effect from the growth slowdown at the end of 2022.

The region's financial sector has held up relatively well. The share of non-performing loans has improved slightly — down to about seven and half percent in 2022 from nearly nine percent of total loans for the median country in 2021. After a temporary decline during the pandemic, bank profitability has bounced back to the pre-COVID-19 trend as of mid-2022. However, the capital adequacy of banks in the region has dipped slightly in the last two years relative to its pre-pandemic peak in 2019.

> The region's financial sector has held up relatively well. The share of non-performing loans has improved slightly...

...and undermining economic and development prospects

Unlike many major advanced economies, countries in sub-Saharan Africa had limited fiscal space entering the pandemic recession, hampering policymakers' ability to mount an effective response. This has resulted in larger scarring effects on the economy, including from disruptions to education. The current funding squeeze is constraining many countries' ability to address these scars, contributing to the muted recovery. Moreover, authorities are forced to reduce resources for critical development sectors such as health, education, and infrastructure, weakening the region's medium-term growth prospects. Partly for these reasons, the catch-up in growth has remained elusive, with GDP per capita remaining stubbornly below pre-pandemic trend.

The lack of fiscal space has also made it challenging for countries to address the vast social needs, especially those in the most vulnerable segments of the population. Insufficient funding meant that the authorities struggled to scale up targeted support when the region faced record-high food, fuel, and fertilizer prices in 2022. In fact, the cost-of-living crisis remains a major concern for sub-Saharan Africa given the high incidence of poverty — 35 percent of the population in sub-Saharan Africa was estimated to live under $2.15 a day as of 2019 (latest available data from the World Bank Low-Income Dataset). About 132 million people were estimated to be acutely food-insecure in 2022, an upward revision from the estimate of 123 million in the October 2022 Regional Economic Outlook: Sub-Saharan Africa.

The Outlook for a Two-speed Recovery in 2024

Consistent with the global rebound, regional growth will pick up from 3.6 percent to 4.2 percent in 2024...

Sub-Saharan Africa is poised to grow at 4.2 percent in 2024 from 3.6 percent in 2023. Almost four-fifths of the countries are projected to register a growth pickup in 2024, driven by higher private consumption and investment. Importantly, the recovery for sub-Saharan Africa is linked intricately to global developments that are conditional on the realisation of three key global factors:

Global economic activity is assumed to continue to recover from the effects of the war in Ukraine. This would translate into tailwinds for exporters in the region, while the dissipation of supply chain bottlenecks will ease import prices.

Global inflation is projected to recede further in 2024. Thus, it is assumed that major central banks may slow the pace of monetary policy tightening in the second half of 2023 as inflation (excluding volatile food and energy prices) has been declining at a three-month rate — although at a slower pace than headline inflation — in most (though not all) major economies since mid-2022. Subsequently, a slower pace of tightening implies less pressure on exchange rates and spreads for the region. However, global interest rates are expected to remain elevated and well above pre-pandemic levels.

Crude oil prices are expected to continue to fall by about six percent in 2024 relative to the previous year as demand pressures subside. Because net fuel importers represent two-thirds of the region's GDP, lower prices should affect sub-Saharan Africa's growth positively. Non-fuel commodity prices are projected to remain broadly unchanged.

Of course, there is large heterogeneity in growth across sub-groups. The growth rebound is expected to be primarily driven by the non-resource-intensive and other resource-intensive countries. The former are projected to grow by 6.2 percent in 2024, following 5.7 percent in 2023, reflecting more dynamic and resilient economies — including those in the Eastern African Community — and aided by the recovery in non-mining activities including agriculture. Other (non-oil) resource-intensive countries are also projected to post strong rebounds, in some cases boosted by new mining projects (iron ore in Liberia and Sierra Leone; renewable energy commodities in the Democratic Republic of the Congo and Mali). In South Africa, activity is expected to recover in 2024 as the energy crisis abates and the external environment improves.

However, growth among oil exporters is projected to decelerate in 2024 to 3.1 percent from 3.3 percent in 2023, mostly because of the continued decline in crude oil prices and production slowdowns. Nigeria's growth is forecast to decline to 3.0 percent next year.

Consistent with the expected receding of global inflation, the median inflation for the region is projected to be down at five percent by the end of 2024 (year-over-year), still above pre-pandemic levels but half that at the end of 2022. Sub-Saharan Africa is a large importer of food and energy items, which average 50 percent of the region's consumption basket. Thus, the recent onset in the decline in global food and fuel prices that is projected to continue throughout this year and next, is expected to contribute much to the slowdown in regional headline inflation.

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Funding Squeeze In Sub-Saharan Africa

L-R: **Ms. Patience Oniha,** Director-General, Debt Management Office, **Mr. Adedoyin Salami,** Chief Economic Adviser to President Muhammadu Buhari, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Aisha Augie-Kuta,** SA Digital Communications, **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Nabila Aguele,** SA Performance Management and Development Cooperation, and other delegates at the IMF/World Bank Spring Meetings 2023.

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...but faces significant downside risks.

The outlook for the global economy is clouded by sizable uncertainty because of the multiple shocks in recent years and ongoing financial sector turmoil. Compared to the January 2023 World Economic Outlook Update, global recession risks have increased, while concerns about stubbornly high inflation persist. Thus, global risks are squarely to the downside (April 2023 World Economic Outlook).

The ongoing banking sector turbulence in major economies could impact the region through several channels. A deterioration of business and consumer confidence could depress activity in the key advanced economies and spill over to African countries through lower demand for imports and lower commodity prices. In addition, while financial conditions in sub-Saharan African countries are not closely correlated with those in the United States or Europe, banking sector stress in the latter economies could nonetheless increase global risk aversion, which would aggravate the funding squeeze even further for the region. As in past episodes of global financial stress, a broad-based outflow of capital from emerging market and developing economies could occur, causing further dollar appreciation, which would worsen vulnerabilities in countries with large dollar-denominated external debt. The dollar appreciation would further depress global trade due to many products being invoiced in dollars.

Apart from risks in the banking sector, three additional types of global downside risks are worth highlighting. First, stickier-than-expected inflation could prompt further monetary policy tightening. This could lower net financial inflows to sub-Saharan Africa and aggravate balance of payment pressures, which would lead to domestic currency depreciations and squeeze already tight financing conditions even further. Another global risk is an escalation of the war in Ukraine, which could perpetuate already elevated global uncertainty and raise food and energy prices, making the financing environment even more difficult. Finally, a worsening in geo-economic fragmentation could have negative spillovers into sub-Saharan Africa, including rising trade barriers and higher food prices, because the region relies highly on commodity exports and is sensitive to global demand and price shocks (Analytical Note 'Geo-economic Fragmentation: Sub-Saharan Africa Caught Between the Fault Lines').

Under a global downside scenario that considers severe financial sector stress, global real GDP growth in 2023 could be 1.8 percentage points below baseline and 2024 growth could be lower by 1.4 percentage points (April 2023 World Economic Outlook). The overall effect on global output is about one fourth the size of the impact of the 2008–09 global financial crisis. The slowdown would be accompanied by a disinflationary impulse, including lower oil and gas prices. Global trade would decrease because of depressed global demand, increased uncertainty, and the rising value of the dollar. The cumulative cost to sub-Saharan Africa would amount to a loss of –1.9 percent of GDP over 2023–24, with oil exporters experiencing more losses (–2.5 percent) relative to other resource-intensive countries (–1.8 percent) and non-resource-intensive countries (–1.4 percent).

> The global slowdown, higher interest rates, and a dramatic pickup in global inflation have pushed many countries closer to the edge

Four Main Policy Priorities

The global slowdown, higher interest rates, and a dramatic pickup in global inflation have pushed many countries closer to the edge. The following four priorities are centred on policy strategies that aim to help policymakers address macroeconomic imbalances in the context of severe financing constraints.

Fiscal Policy Amid Tighter Financial Conditions

Policymakers in sub-Saharan Africa have to adapt to an environment with tighter financing conditions, which has two important implications for the conduct of fiscal policy. First, debt vulnerabilities (already elevated) are likely to worsen. With rising borrowing costs, countries may find it challenging to refinance their existing liabilities and rollover longer maturities. This could create liquidity problems, which may, over time, raise solvency questions in some cases. Second, policymakers would struggle to cover even the most essential expenses for basic services let alone securing financing for further progress toward the Sustainable Development Goals (SDGs).

Looking ahead, the difficult funding environment for the region is likely to remain and become a key feature of the new normal. Over the next few years, the region's countries are projected to have some of the world's highest interest bills relative to revenues, exceeding 50 percent in a few cases. In the next two years alone, a sizable share of outstanding Eurobond debt would come due — about $6 billion in 2024 and another $7 billion in 2025. If countries struggle to make repayments or rollover debt, it could have potential repercussions on the region's economic growth and social development.

In this context, consolidating public finances in the context of a credible and transparent medium-term fiscal policy framework remains a priority for the region. As highlighted in the October 2022 Regional Economic Outlook: Sub-Saharan Africa, there is nonetheless heterogeneity among countries. Those that still have some fiscal space can use it to continue making much needed investments in human and physical capital to address development needs. But most countries with elevated debt vulnerabilities need to consolidate their public finances to preserve fiscal sustainability. For some, adjustment needs are moderate, but for others, adjustment needs are very large, and it is unlikely that fiscal consolidation alone will be enough to ensure fiscal sustainability. In this case, the necessary adjustment could be accompanied by debt reproofing or restructuring.

Countries have already started fiscal adjustment. After a significant deterioration in 2020, the median fiscal deficit ratio in sub-Saharan Africa started to decline in 2021, with a consolidation of almost one percentage point of GDP projected for 2023. Fiscal consolidation, which is expected to continue into the medium term, can be pursued in a way that minimises possible negative impacts on growth and poverty. This will require increased efforts to boost revenue mobilisation, but also prioritising and increasing the efficiency of spending where possible including the phasing out of untargeted fuel subsidies. Crucially, fiscal adjustment should make allowances for continuing social spending and protecting the most vulnerable populations amid the ongoing cost-of-living crisis. This can be done through targeted transfers to those particularly exposed to higher energy and food prices or an expansion of existing

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Funding Squeeze In Sub-Saharan Africa

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social safety nets. Saving part of the windfalls from higher commodity prices would be especially helpful for commodity exporters with elevated fiscal vulnerabilities.

Beyond fiscal consolidation, authorities can take additional steps to adapt to a world of tighter financing constraints: Managing fiscal risks resulting from the funding squeeze would be critical to improve fiscal sustainability. Given tighter budgets, the risk of fiscal slippage rises along with the temptation for governments to accumulate arrears, increase off-budget spending, extend guarantees and contingent liabilities.

Note: Fiscal adjustment needs are computed as of 2023 in order to reduce debt ratio to 70 percent of GDP for countries above threshold within six years or stabilise at latest level for countries below threshold. Negative fiscal adjustment needs imply available fiscal space.

Translated into so-called 'stock-flow adjustments', which have contributed significantly to the debt increase in the past decade. Containing these flows through better public financial management practices and better risk management is essential to improve debt dynamics, including by strengthening fiscal transparency and oversight of state-owned enterprises.

By reinvigorating efforts to boost domestic revenue mobilisation, countries can generate more resources for development spending, and attract more financing because a country's revenue stream is a main metric for its debt repayment capacity. Sub-Saharan African countries lag significantly in revenue collections, with a median tax ratio of only 13 percent of GDP in 2022, compared with 18 percent in other emerging economies and developing countries and 27 percent in advanced economies. Successful revenue mobilisation efforts often require pursuing revenue administration reforms and improving the design of tax policies, including by expanding the base for value added tax and leveraging digitalisation in tax collection (Togo, Guinea-Bissau).

Effective and proactive debt management is critical to lowering debt risks. Debt management can help strike the balance between funding the government's needs and ensuring that debt levels remain sustainable. This includes enhancing debt reporting, lengthening maturities, and avoiding bunching of repayments to mitigate refinancing risks.

For some countries that are likely to experience aggravated debt vulnerabilities and require debt reproofing or restructuring, a well-functioning debt-resolution framework is vital to creating fiscal space. As the variety of debt instruments has widened, the creditor base has also become more diversified and negotiations more complex. Four countries in sub-Saharan Africa are currently seeking or are in the process of restructuring their debt under the Common Framework — Ghana is the latest in the group (others are Chad, Ethiopia, and Zambia). The Common Framework constitutes a step toward finding an effective and consistent way for the Group of Twenty and Paris Club official creditors to provide debt treatment for low-income countries, in case of need. Thus far, coordination among creditors has been challenging and the process has been slower than anticipated. Potential reforms include defining processes that are more predictable and timelier, earlier sharing of information between creditors and the international financial institutions, and introducing a standstill on debt service during the debt treatment process after staff-level agreement on an International Monetary Fund (IMF) program has been reached.

Finally, international assistance remains critical to alleviating governments' financing constraints. Donor nations should ensure that official development assistance continues to go to those countries in greatest need. Many fragile and conflict-affected states, for instance, still rely primarily on official development assistance for financing their development needs. Donors can work with recipient countries towards setting a more modest and well-defined set of objectives, such as public health initiatives or targeted capacity building, where smaller, more focused interventions can make a difference. In addition, higher volumes of countercyclical financing, particularly from International Financial Institutions (IFIs), are necessary to offset the highly pro-cyclical nature of private capital flows. Countercyclical financing helps countries that have lost market access or are subject to capital outflows to smooth the adjustment, and, for instance, avoid abrupt and disruptive spending cuts.

Monetary Policy Amid High Inflation

By the beginning of 2023, inflation had started to fall in about half of countries in sub-Saharan Africa, while inflation is still rising or very volatile for the rest. Regardless of the trajectory, inflation remains high, with at least 20 out of 45 countries still facing double-digit inflation, and a median inflation of about 10 percent as of February 2023, more than twice the level at the end of 201. Median core inflation, which excludes energy and basic food prices, was more than six percent as of the end of February (where data were available) but remains volatile, showing no clear signs of decline. Projections point to inflation staying above pre-pandemic levels throughout 2027. Thus, policymakers have to continue this delicate dance between keeping inflation in check while being mindful of the still-fragile recovery. The good news is that external factors (such as imported food and energy or swings in the exchange rate) rather than domestic demand pressures have driven much of the inflation in the region. Many of these external factors have subsided in recent months, and thus inflation is likely to follow suit, but because the transmission of lower international prices into domestic markets will take time, inflation is expected to remain above pre-pandemic levels

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning (r), with **Ms. Patience Oniha,** Director-General, Debt Management Office, with other delegates, at IMF/World Bank Spring Meetings 2023.

in the near term.

Almost all central banks in the region have hiked policy rates since December 2021, with cumulative rate hikes larger in countries with higher inflation. However, the median interest rate hike was only about 270 basis points in sub-Saharan Africa between end-2021 and February 2023 — lower by almost 130 basis points compared with the median in emerging market and developing economies outside the region. For most countries, current policy rates remain well below average policy rates over the past decade, while short-term real rates in the region are also still broadly in negative territory. In some countries, growth in reserve money continues to exceed nominal GDP growth (Nigeria, Malawi). Angola is the only country to have cut the policy rate in early 2023, given the sharp decline in headline inflation.

> Almost all central banks in the region have hiked policy rates since December 2021, with cumulative rate hikes larger in countries with higher inflation

What is needed to move ahead? Policymakers need to adjust the pace of monetary policy tightening to both the level and trajectory of inflation, in close coordination with fiscal policy, which can also tame domestic demand pressures where they exist and contain money growth:

In cases where countries are still experiencing very high inflation, continued acceleration, or significant volatility, authorities need to continue to tighten policy rates decisively because these countries are susceptible to second-round effects and de-anchoring of inflation expectations. Tackling both after they become entrenched will be very difficult.

In countries that have signs of inflation peaking, but where inflation is still relatively elevated, authorities need to steer monetary policy cautiously until inflation is firmly on a downward trajectory, and inflation projections return within the target band of the central bank in the medium term.

More generally, given the uncertainty in predicting turning points in the inflation trajectories, monetary policy needs to be data-dependent based on country-specific economic developments, including paying particular attention to wage growth in the coming months, but also international food and energy price developments because food and energy make up 50 percent of the region's consumption basket on average.

Countries with pegs or heavily managed floats have generally experienced lower inflation than those without pegs, but their currency arrangement constrains their ability to control the pace of monetary policy tightening. Anchor currencies in the region include the euro (West African Economic and Monetary Union and Central African Economic and Monetary Community), the South African rand, and the US dollar — all subject to a different pace of monetary policy tightening by their respective central banks. Thus, currency peggers would not only have to keep a close watch on elevated inflation and its trajectory but also keep policy rates in lock with the anchor policy rate to preserve external stability and foreign exchange reserves.

Exchange Rate Management Amid Large Depreciation Pressures

Sub-Saharan African countries experienced significant exchange rate depreciations in 2022, exacerbating the financing crisis by increasing the external debt service burden. These pressures were predominantly brought on by shifts in global fundamentals, including increases in interest rates in advanced economies and adverse terms of trade. Currency depreciations contributed to a rise in inflation and public debt while deteriorating the trade balance in the near-term. Exchange rate pressures also manifested in the depletion of reserve assets — about a quarter of countries had reserves below three months of imports at the end of 2022 — because foreign exchange inflows slowed down and central banks used their reserves to finance imports (Analytical Note 'Managing Exchange Rate Pressures — Adapting to New Realities').

Many countries acted to contain these pressures in 2022. The tightening of monetary policy helped to support their currencies, and some countries also intervened in foreign exchange markets to resist exchange rate pressures. As reserves dwindled over the course of 2022, the degree of intervention also slowed down. Many countries also applied administrative measures

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Funding Squeeze In Sub-Saharan Africa

L-R: **Mr. Godwin Emefiele,** Governor, Central Bank of Nigeria, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Senator Solomon Adeola,** Chairman of the Senate Committee on Finance, **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, and **Mr. Adedoyin Salami,** Chief Economic Adviser to President Muhammadu Buhari, in a session at IMF/World Bank Spring Meetings 2023.

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to control foreign exchange flows in 2022, including multiple currency practices (Nigeria), price control through moral suasion, and banning foreign currency transactions for local businesses. Some countries also resorted to unconventional measures such as buying oil with gold (Ghana), and foreign exchange rationing became even more acute in 2022 (Ethiopia, Nigeria).

Nonetheless, some adjustment of currencies seems unavoidable in many cases. There are certainly some reasons for sub-Saharan African countries to resist exchange rate pressures, including an elevated share of foreign-currency debt and weakly anchored inflation. But countries have to adjust to new fundamentals of higher global interest rates and tighter financing conditions that are expected to last into the foreseeable future.

For most countries, the low levels of reserves limit the scope for interventions. Policymakers can take several steps to mitigate possible adverse impacts on the economy as a result of the necessary currency adjustments. In countries where inflation is aggravated by the exchange rate pass through, tighter monetary policy will help alleviate the pressure by keeping inflation expectations in check and stem capital outflows while attracting inflows. Where fiscal imbalances are key drivers of exchange rate pressures, fiscal consolidation can help to rein in external imbalances and contain the increase in debt related to currency depreciation.

In some cases, for countries that have sufficient reserve buffers, the use of foreign exchange intervention can reduce the volatility of exchange rate. For instance, for those with shallow foreign exchange markets, weak monetary policy credibility, and large foreign exchange mismatches, foreign exchange intervention can temporarily reduce some of the costs associated with excessive exchange rate movements. However, countries can easily run out of reserves if exchange rate pressures persist because of fundamental forces.

Responding To Climate Change Without Sacrificing Basic Needs

Critical development needs, like schooling, health, and infrastructure services, are in danger of not being adequately filled under the funding squeeze. Most governments have limited fiscal space, hampering their ability to protect the most vulnerable and allocate sufficient funds to essential development sectors. Limited financing makes it particularly challenging to address the ongoing food security crisis that is affecting the region.

If the difficulties in addressing basic needs were not enough already, climate change is presenting additional spending pressures on shrinking fiscal budgets. For instance, cyclone Freddy — one of the latest in a series of climate shocks to the region — has battered vulnerable families and communities in southern Africa, but countries have limited means for climate adaptation. For the African continent alone, adaptation costs could reach $50 billion per year by 2050, in a 2-degree Celsius scenario (GCA 2021), and mitigation costs for a clean energy transition in Africa have been estimated at around $190 billion per year until 2030 (IEA 2022). However, climate funding to the region remains well below these needs, with private and public sources estimated at about $22 billion in 2020 (Analytical Note 'Closing the Gap: Concessional Climate Finance and Sub-Saharan Africa'). Advanced economies have also fallen far short of a 2009 pledge to mobilise $100 billion a year for climate actions in developing countries.

> It is important that resources allocated towards climate change do not crowd out those devoted to basic needs and other development goals

It is important that resources allocated towards climate change do not crowd out those devoted to basic needs and other development goals. Official development assistance, for instance, has been declining over the last two decades, and despite a temporary surge during the COVID-19 pandemic, aid flows are likely to shrink further over the near term. More support from advanced economies is needed to ensure that the essential development needs of African countries are adequately financed, with the objective of fostering strong, resilient, and inclusive growth. Furthermore, climate finance must come on top of current aid flows rather than replacing them.

Therefore, what can be done to mobilise the additional climate financing to the region?

Unlock more concessional finance. Sub-Saharan African countries encounter challenges in accessing concessional climate finance, in part because requirements vary greatly across financing providers. For example, climate funds — a key channel for concessional financing — have the potential to be scaled up significantly to help meet the region's climate adaptation and mitigation needs. However, the numerous access requirements and project selection criteria for these funds present serious hurdles for countries in the region seeking to access this financing. To help unlock concessional financing, development partners — including the IMF — can support countries in building and strengthening capacity. Priority areas include governance and public financial management, development of adequate data and climate strategies, formulation of legal and regulatory frameworks, and financial system reforms.

Increase private climate finance. The private sector has the potential to mobilise significant climate finance in the region as it does in the rest of the world. This can be done by developing the use of financing instruments like green bonds or sustainability-linked bonds and attracting private institutional investors. Increasing the attractiveness of private climate finance will require better data to support financial risk monitoring and analysis on performance indicators, but also more transparency and disclosure.

Join forces: leverage concessional finance to catalyse private finance. In many cases, the risk-adjusted returns of climate projects in the region are insufficiently attractive to international or domestic investors. Concessional finance in the form of guarantees, loan tenure extension, below market pricing and subordinated loans can help reduce the risks associated with climate projects and raise their attractiveness to private investors. This 'crowding in' of private sector finance could increase the scale of climate infrastructure projects, although private funding is a difficult and complex issue, where options and best practices are still being developed.

The IMF's new Resilience and Sustainability Facility is an important new financing instrument that will help sub-Saharan Africa address longer-term structural challenges, including those posed by climate change. It was launched in 2022, and five countries are already benefiting from the facility, including one from sub-Saharan Africa (Rwanda). The resilience and sustainability facility provides financing to support both adaptation and mitigation efforts, while also providing a framework of transparency, credibility, and stability that are essential in incentivising private sector investments in climate resilient infrastructure and renewable energy projects.

Conclusion

Policymakers in sub-Saharan Africa are looking at yet at another difficult year, facing tighter financing conditions on top of the ongoing repercussions from a recent cascading series of shocks. Despite serious financing constraints, there are still a few policy levers available to alleviate the situation. For instance, domestic revenue mobilisation offers a potential source of financing. Moreover, improving domestic legal and regulatory frameworks and undertaking financial systems reforms would not only attract much needed climate finance but also other types of private finance to the region that can help address basic needs and development goals in addition to those arising from climate change. Above all, sub-Saharan Africa will require international assistance in addressing the funding squeeze. The IMF also stands ready to support the region. As of March 2023, the IMF has lending arrangements with 21 countries in the region and has received many program requests. The disbursements associated with IMF programs, emergency financing facilities, and the special drawing rights allocation represented $50 billion between 2020 and 2022.

More Objective Credit Ratings Could Save Billions For African Countries' Development -UNDP

UNDP Criticises The Big Three Credit Rating Agencies

A report by the United Nations Development Programme (UNDP) shows that African countries could save up to $74.5 billion if credit ratings were based on less subjective assessments.

This, in turn, would enable the African countries to repay the principal of their domestic and foreign debt and free up funds for investments in human capital and infrastructure development.

The report reveals that the rankings are costing 21 African countries a combined $74.5 billion annually in excess interest payments and lost financing opportunities. This significant financial burden underscores the urgent need for reform in the credit rating industry to ensure a more equitable and accurate assessment of these countries' creditworthiness.

This report was the centre of the 2023 World Bank/International Monetary Fund (WB/IMF) Spring Meetings, to discuss the impact of credit ratings on the cost of development finance in Africa.

At the meeting, organised by the UNDP, the Africa Growth Initiative at the Brookings Institution and AfriCatalyst, they raised the need to review international financing systems and particularly the determination of sovereign credit ratings for African countries, where data is often missing or of poor quality.

"If we want to bring about change, we need to change the game," emphasised His Excellency (H.E) Oulimata Sarr, Minister of Economy, Planning and Cooperation, Republic of Senegal. "This week, all Finance and Economy ministers have been highlighting that they are looking for reform. The current qualitative assessment is not a true reflection of our economies."

Borrowing from capital markets to finance economic development is a necessity, not a choice, especially as official development assistance (ODA) flows have been shrinking in recent years. Subjective credit ratings increase the cost of servicing debt, and put cash-strapped countries in a difficult position, having to choose between repaying debt and feeding their population.

Furthermore, non-objective credit ratings also reduce the amount of investment that countries receive, as they are perceived to be riskier than they really are. These negative impacts can occur even if the inaccurate credit ratings are not due to conscious bias, but rather to inadequate data and/or methodologies that are too subjective.

R-L: **Senator Solomon Adeola, Mr. Adedoyin Salami,** Chief Economic Adviser to President Muhammadu Buhari, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), **Senator Ekpenyong Asuquo,** with others at IMF/World Bank Spring Meetings 2023.

Speaking also at the event on this was H.E Ken Ofori-Atta, Minister of Finance and Economic Planning, Republic of Ghana, said: "African countries rely on international capital markets and credit ratings become crucial for crowding in the required development finance".

"It is time for Africa to have its own credit rating agency. However, major challenges, such as systemic bias and limited data are still a hindrance."

"We are at the heart of polycrisis and African governments are struggling with a drought in development financing," stressed Ahunna Eziakonwa, UN Assistant-Secretary General and UNDP Regional Director for Africa.

"We urgently need more fairness and justice in the way we conceptualise multilateral agencies. We need to foster agency for African people to meet development aspirations and a system where risk can be fairly priced."

"African countries need to engage with credit rating agencies to understand their methodologies and make sure the assessments are in line with macroeconomic fundamentals," said Daouda Sembene, Managing Director of the Dakar-based think tank AfriCatalyst.

"The attempt to quantify future uncertainty is indeed a difficult task. Often though we observe that the credit rating agencies provide counter intuitive opinions because they employ inexperienced staff who are good in mathematics but lack an appreciation of the complexity of the real world, especially the complex operating environment in Africa," explained Aloysius Uche Ordu, Director of the Africa Growth Initiative at the Brookings Institution.

At the event, the UNDP, the Africa Growth Initiative at the Brookings Institution and AfriCatalyst announced the creation of a bespoke database of key macroeconomic indicators and a new Concilium of high-level advisors to support African countries during the credit rating process.

Apart from the above, UNDP, the UN's international development agency, has sharply criticised the methodology employed by the big three credit rating agencies.

The UNDP is supporting the increasing demand for reforms in the industry, which has been blamed for exacerbating Africa's debt issues.

The UNDP, in collaboration with the Brookings Institution and Senegalese development advisory firm, Africatalyst, called for changes at this event.

The UNDP's support for reform comes as part of a broader push to address the growing debt crisis in Africa and improve access to much-needed financing for sustainable development. By shedding light on the flaws in the current credit rating system, the UNDP hopes to encourage stakeholders to reconsider the methodologies used by the big three credit rating agencies and to implement more objective, transparent, and fair practices.

> We are at the heart of polycrisis and African governments are struggling with a drought in development financing...

Regional Economic Outlook For SSA: 'Big Funding Squeeze' In Perspectives

At the launch of the International Monetary Fund's (IMF's) Regional Economic Outlook for Sub-Saharan Africa (SSA), on the back of the just concluded Spring Meetings '23, 'Big Funding Squeeze', the SSA's report, was right in perspectives. At the event, anchored by ***Tatiana Mossot,*** *of the IMF Communications Department, IMF African Department Director,* ***Abebe Selassie,*** *made the interviewee. Writes* ***Enam Obiosio***

Delegates during Regional Economic Outlook for SSA at IMF/World Bank Springs Meetings 2023.

On where the African region is standing from the IMF team's work perspectives, given the Big Funding Squeeze, Selassie said: "The region's resilience is being severely tested. We project growth to decelerate to 2.6 percent, down from 3.9 percent last year; and an important factor influencing this outcome is the big funding squeeze their countries are facing. External market access has been sharply curtailed. Oversees development assistance continues to trend downward, and the region has seen a recent reduction in other investments also.

According to him, SSA is not alone, of course. There is a global slowdown. The region, as elsewhere, is feeling the effects of tighter monetary policy, the increased cost of living, and the strength of the dollar which has appreciated relative to many other currencies.

"Our latest regional outlook finds that this big funding squeeze is hitting countries hard, and many countries are facing tough decisions when it comes to investing in crucial areas like health, education, infrastructure. This will not only impact them now but also in the years to come. As by 2040 or so, a third of new entrance, a new labour market entrance will be from Sub-Saharan Africa. Skilled educated workers will be vital to the health and stability of the global economy, but today's funding squeeze may impact the region's ability to provide them.

On the need to address the funding squeeze, Selassie said: "I have always said that this is the African century, but if measures are not taken to address this funding squeeze now, the region may be held back from developing its potential. Here at the IMF, we are playing our part. As of last month, we had 21 lending arrangements with countries in the region, and we've still more programs under request and under discussion; and between 2020 and 2022, we provided more than $50 billion dollars through programs, emergency financing, and special drawing rights allocation. We also, of course, continue to provide capacity development, and technical assistant, and training to our members, and will continue to do so in the coming months.

In terms of policy priorities, we are flagging that there's a need to first consolidate public finances and strengthen public finance management. This needs to rely on continued revenue mobilisation that are management of fiscal risks and more proactive debt management.

In countries where debt levels are elevated and debt is clearly unsustainable, restructuring, according to him, is going to be unavoidable, and a well-functioning debt resolution framework will be vital to create the required fiscal space.

In his view, a second priority is to contain inflation. The inflation rates are varied across the region but remains elevated much more so than we have seen it for many years now; and monetary policy needs to focus on keeping inflation firmly on a downward trajectory and make sure that it pertains to central bank's target range.

Third, I think, is a need to allow, in those countries where exchange rates are flexible, the exchange rates to adjust while mitigating adverse effects on the economy. "And then, finally, climate change is, of course, increasingly, something that is weighing on policy makers in the region, on our people; and tackling this, including with support from the international community will be very, very important. The region is not a source of emissions, as you know but, rather, is at the receiving end of a lot of the climatic changes that have taken place and pursuing policies to help with climate adaptation and mitigation in a few cases where that is a challenge will be important going forward.

> In terms of policy priorities, we are flagging that there's a need to first consolidate public finances and strengthen public finance management

Concerning petrol subsidy removal in Nigeria as well as whether the recent $800 million World Bank palliative is sustainable, and the IMF concerned about Nigeria's and SSA's indebtedness to China; and, also if IMF has any recommended limits for debt-to-GDP ratio for African countries, Mr. Selassie said: "On fuel subsidies, as I said earlier, how and whether to subsidise and to what extent, honestly, is a varied, deeply domestic and deeply political question. If governments want to do that, that is fine; but, we think, it is suboptimal, as I said, for reasons.

"I explained earlier that the benefits of subsidies tend to accrue to richer households. But if that is what government is deciding, that is fine. Removing them also, I think, is, of course, part of this political and domestic debate that needs to be had. We know, of course, in Nigeria, that food subsidies eat up tremendous amount of resources, at the same time that the government does not have resources to address the huge investment needs, from health to education, to infrastructure; but this is a choice for Nigerian government, Nigerian civil society to make.

"We have also heard the discussion that is going on, the debate that is going on, whether that is ideal. We try and inform that debate with numbers, with best practices elsewhere, and I think that is our role; and look forward to whatever decision the government takes.

On whether debt is sustainable or not, Selassie said that it is not dependent on just one number, one threshold but, rather, really a lot of factors. "You have to look at a lot of indicators to assess the trajectory, whether debt will be sustainable in the coming years or not. And, I think it is really when we make an assessment and we classify countries as being a moderate risk or a high risk, or we talk about vulnerabilities being elevated, it takes into account, what we think out of the kind of policies that the government is going to pursue; and, of course, certain assumptions about the global environment.

"The last several years has been full of shocks. So, it has made countries' ability to bring debt under a sustainable trajectory more difficult. But they have been compensating for that, also with stronger economic policies. For a country like Nigeria also, the future trajectory of its economy is going to depend on a whole host of variables - the reforms that the government pursues, how effectively it uses the resources it has, and the oil price trajectory. It is a combination of those factors that will determine the sustainability of Nigeria's debt. Right now, it looks manageable, but it is really also important, of course, and contingent on what policies will be pursued in the coming months and years.

On inflation, monetary policies, the impact of OPEC oil production cut in Africa in the short term, and on the economic revenues of the SSA countries, Mr. Selassie said: "On the inflation challenge, again, this tends to be, of course, unless you are part of a monetary union, there is a lot of variation in inflation, and also a country-specific assessment that has to be done on the causes of inflation. So, yes, to a significant degree, we have seen as imported, the pressure on inflation has been imported. So, if you are an oil importing country, you are facing higher international oil prices right now. And depending on the extent to which it is being passed on, that is a source of inflation. Similarly, food prices having been elevated after Russia's invasion of Ukraine, that also is a channel through which inflation has risen. But, as we look across the region, there are also countries where clearly, it is domestic demand pressure or monetary policy having been loose in the recent past that is causing inflation. I think you have to look at the totality of those factors.

In his words: "But increasingly, I think what we cannot say is, things like interest rates do not work –- raising interest rates do not work. Of course, they do because that is the standard monetary policy response and our economies are now, more so than in the past. I would say a lot more influenced by the normal way in which monetary policy transmission works. I think

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Regional Economic Outlook For SSA: 'Big Funding Squeeze' In Perspectives

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raising interest rates is part of the answer to addressing inflation, but again, how you calibrate that depends on country-specific circumstances.

"OPEC oil price increase as always in sub-Saharan Africa, it will be asymmetric. In general, it will be negative because I think out of the 45 countries, only about eight are net-oil exporters. So those other things being equal – whether you have subsidy or not, et cetera – should benefit from higher oil prices. But for most other countries, it will be a source of negative shock. So, it will amplify imports, foreign exchange demand, and the marginals of inflation.

Apart from the thought process in the Big Funding Squeeze and the mechanism that went into it, talking about debt; some of the positive parts on the continent for private sector investors that are looking to invest in Africa, Mr. Selassie: "This, of course, again, as I say all the time, is a very heterogenous region. So, really, the circumstances differ incredibly across the region. From growth to fiscal outcomes, to the debt picture. And a lot of the conversation about Africa, the narrative, has been about debt. And indeed, the debt vulnerabilities are the most elevated. They have been in many years. I would say maybe even since the turn of the century. But one thing which we felt was – not enough attention had been paid to - was the role that the scarcity of financing from external sources was playing. So, we titled it Big Funding Squeeze because that right now strikes us as one of the big cross-cutting challenges that many countries in the region are facing.

"So, debt levels go up as a result of what fiscal policies governments pursue, first and foremost, but also whether countries have access to favourable terms of financing. And over the years, official development assistance - which was a major source of financing for sub-Saharan Africa - has been declining; countries have instead been relying on more costly forms of market borrowing, of course, and these are also factors that have contributed to debt levels rising in the region.

"Last but not least, right now we are at a moment when countries do not have access to funding markets from outside. So, this exacerbates the situation, and there are countries that are not facing fundamentally a solvency problem, but rather a liquidity problem. And because of exogenous circumstances, even these countries facing liquidity problems may fall afoul of that sustainability consideration. So, we wanted to highlight the complexity of the story, and also identify and draw attention to the fact that we need to support the region, including through significant counter-cyclical financing of the type that international institutions like this provide.

> I think it is appropriate that you look at policies in terms of their effectiveness

"Again, I also want to stress we are a resilient region, and I see resources of resilience, particularly in the private sector, even in countries where the public sector is facing balance sheet problems. We see quite a lot of resilience in the private sector across the region really, and in terms of countries, we also see very inspiring projects being discussed. So, in meeting with delegations yesterday, for example, I was hearing about the green hydro project that Namibia is launching. So, there are a lot of bright spots in the region also.

On Nigeria's response to some of the trade protections that the President put in place in the past few years, whether at the IMF the opinion is that some of the trade protections that were put in place should be dismantled by the incoming administration, Mr. Selassie noted: "There is a lot of speculation about what is going to happen, and what is not. I think it is really difficult to respond on hypotheticals.

"I think a source of frustration for the government itself, policymakers, businesses, over the last several years has been that the trade regime, the foreign exchange regime, have all been very challenging and have not allowed Nigeria to robust the very strong rates of growth that the country needs desperately. I think it is appropriate that you look at policies in terms of their effectiveness. So the question that we have is whether the policies that have been pursued over the last three, four years, have indeed helped to achieve the diversification that was intended.

"The new administration will see what to do. We will be supportive of measures, policies that respond and are effective, in terms of addressing the diversification objective Nigeria has, but also addressing the near-term challenges that macroeconomically the country is facing, from revenue mobilisation to ensuring that there are sufficient resources to spend on health, education, infrastructure. I think that is all I can tell.

There is a question bordering on the fact that the World Bank's April 2023 update suggests a lower GDP growth outlook for sub-Saharan Africa of 3.1 percent in 2023, down from 3.6 percent in 2022. However, these figures are still high compared to the global growth forecast for 2023, estimated at 2.6 percent by the OECD in March. Therefore, whether the sub-Saharan Africa is an investment-friendly region was then to be clarified. And there also were questions: "How can African countries achieve growth driven by private investment and not public spending which has an impact on debt growth as is currently the case? How can governments also better capture financing opportunities such as those available through climate finance?

To the questions Mr. Selassie owned up being a bit partial, also saying, "Of course, I am biased, of course. I am going to answer that in the affirmative. The potential of the region is perhaps the least tapped globally. I think investment opportunities are galore. Why are not these investment opportunities being taken up, partly on account of policy, partly information asymmetry? There is a range of factors that must be addressed. Sometimes it is a lack of infrastructure. But, I have absolutely no doubt about the potential of the region.

"I think something that we have been flagging over many years precisely being what we saw in the last 10 or 15 years is indeed growth that has been influenced more so by government spending; the investment in infrastructure, in health and education. And we need a handover of growth from the public sector to the private sector. And the policies that are going to be required will vary from country to country.

On monetary policy transmission, in Africa. Taking Nigeria, for example, where consumption accounts for around 80 percent of GDP, and credit is very low. What about monetary policy and rising interest rate that invokes confidence in the tackle of inflation? Or the thinking more about anchoring expectations or that higher rates would attract investors into the country for higher returns and then the exchange rate goes up? Mr. Selassie would say: "As always, the extent to which monetary policy will help address inflation is going to be dependent on a whole range of factors. I think if you have largely negative real interest rates, I am not sure that that is conducive to the kind of signalling effect that you want to have, either in terms of supporting the exchange rate or the credits channel. "When you have multiple exchange rates, that also becomes a lot more complicated, right? So, all those things must be factored in. Again, we are not dogmatic that it always must be about interest rates increases. So that will work through the credits channel, as you said, for a large sum, thereby mobilising a bit more savings.

"But there are cases also where we support managing liquidity, even other cases where the financial markets are even more rudimentary. So outright monetary targeting, explicit money targeting is what will work. I think it depends on a combination of those factors. I think you have very nuanced policymakers in Nigeria.

L-R: **Mr. Godwin Emefiele,** Governor, Central Bank of Nigeria, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Senator Solomon Adeola,** Chairman of the Senate Committee on Finance, and **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, in a session at IMF/World Bank Spring Meetings 2023.

Credit Scoring Is Pseudoscience–And It Perpetuates The Consequences Of Slavery And Segregation

R-L: **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Senator Solomon Adeola,** Chairman of the Senate Committee on Finance, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Mr. Godwin Emefiele,** Governor, Central Bank of Nigeria, **Dr. Kingsley Obiora,** Deputy Governor, Central Bank of Nigeria, **Ms. Patience Oniha,** Director-General, Debt Management Office, **Dr. Oyebode Oyetunde,** Executive Director, African Development Bank, and other dignitaries in a meeting at IMF/ World Bank Spring Meetings 2023.

Instead of removing race from lending, credit scores have become a direct proxy for it, write Rev. Dr. Bernice King and Ashley Bell.

A broken credit scoring system is perpetuating historic inequities, write ***Dr. Bernice A. King*** *and* ***Ashley Bell.***

After decades of unchecked influence creep, credit scores–a pseudoscientific amalgam of risk factors calculated by a handful of private companies–now impact virtually every aspect of modern life, often for the worst.

This opaque, three-digit scale was conceived as a race-neutral, data-driven measurement of a person's creditworthiness. Today, it is the financial fingerprint used by lenders to assess the risk of default, by employers to evaluate the reliability of job applicants, by landlords to screen tenants, and by insurers and utilities to set rates. Your credit score is the shadow you never asked for and can't outrun.

However, the algorithms (and the underlying data that feed them) have been corrupted by generations of systemic oppression and financial exclusion of people of colour. Instead of removing race from lending, credit scores have become a direct proxy for it.

Sixty years after federal law barred lenders from denying credit based on a person's race or where they live, America's homeownership gap remains virtually untouched. Why? Our broken credit scoring system excludes and punishes people of colour.

Credit scores range from 300 (poor) to 850 (excellent), with 54 percent of Black consumers reporting having a poor or fair credit score of 620 points or less. In contrast, only 37 percent of white Americans reported the same suboptimal scoring in a 2021 survey. At the same time, an additional 21 million Americans have no credit history with any national reporting agencies. According to a recent Consumer Financial Protection Bureau report, these 'credit invisibles' are predominantly Black and Hispanic consumers living in low-income neighbourhoods where mainstream financial services are few and far between.

The cost of poor or non-existent credit has far-reaching implications. Beyond the obvious denial of credit for home, auto, and small business loans, consumers with poor credit say their score has affected everything from their mental health and personal relationships to the ability to communicate well.

In a 2020 consumer survey, roughly a quarter of respondents with poor credit said their score hurt them in life either a little or a lot. Of those with poor credit, an overwhelming 79 percent said it has negatively affected their mental health, with 46 percent reporting feelings of shame and another 30 percent reporting anger.

Incumbent commercial lenders have no reason to change the status quo because it serves their bottom line. Owing to the enormous knock-on consequences of historical racism, Black consumers are at once underserved and overcharged by mainstream financial services. In 2022, Black mortgage applicants were denied at a rate 84 percent higher than white borrowers. And when they are approved, they often pay higher rates and fees even when adjusted for creditworthiness.

A 2019 study of nearly 7 million 30-year mortgages by the University of California at Berkeley found that Black and brown borrowers were charged higher rates, at an average of almost 0.08 percent, and steeper refinancing fees than whites. The study found that borrowers of colour were offered higher rates when applying in-person and online. Despite the law, government regulators in 2013 caught one now-dissolved Maryland bank charging Black and Latino mortgage applicants millions of dollars in higher rates for no other reason than race.

Credit scoring just does not add up. These three digits–and our continued endorsement of the status quo–are all that stand between tens of millions of Black and brown families from participating in the American dream.

There is no reason to believe a home mortgage applicant with a demonstrated record of paying their rent on time would not exercise the same diligence when paying down a mortgage at the same price point.

As the country erupted in protests and anger in the wake of George Floyd's murder, corporate America acknowledged it could no longer stay quiet in the fight for true racial justice. Many pledged millions of dollars to economic equity initiatives while others started banking Black. One of the easiest and most potent levers corporate America can pull is to abandon the junk science of credit scoring. This critical action would be a powerful step in untangling and dismantling what Dr. Martin Luther King, Jr. described as the inseparable twins of racial injustice and economic injustice.

The Reverend Doctor Bernice A. King is a lawyer, a certified mediator in the state of Georgia, an ordained minister, and the youngest child of civil and human rights leaders Dr. Martin Luther King Jr. and Coretta Scott King. She serves as CEO of The King Center and chairs Ready Life's Advisory Council.

Ashley Bell is a corporate lawyer, former Small Business Administration executive, and the CEO of Black-owned fintech platform Ready Life.

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Dr. Bernice A. King

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Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning, in a handshake with **Abebe Selassie,** IMF African Department Director, while **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Mr. Ben Akabueze,** Director-General, Budget Office of the Federation, and **Mrs. Aisha Omar**, Director, IER, look on at IMF/World Bank Spring Meetings 2023.

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning, with **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, at IMF/World Bank Spring Meetings 2023.

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Mr. Aliyu Ahmed, Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), in a chat while going for a meeting at IMF/World Bank Spring Meetings 2023.

Senator Ekpenyong Asuquo, Member, Presidential Transition Council, with participants at IMF/World Bank Spring Meetings 2023.

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Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning, **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, and members of the Presidential Transition Council at IMF/World Bank Spring Meetings 2023.

Ms. Patience Oniha, Director-General, Debt Management Office, and a participant at IMF/World Bank Spring Meetings 2023.

NEWS IN PICTURES

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning, in a handshake with a participant, as **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, and **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), watch in amazement at IMF/World Bank Spring Meetings 2023.

R-L: **Mr. Ben Akabueze,** Director-General, Budget Office of the Federation, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), in a chat with a participant at IMF/World Bank Spring Meetings 2023.

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Fostering Financial Inclusion Through Digital Financial Services In Nigeria, Policy Options

L-R: **Ms. Patience Oniha,** Director-General, Debt Management Office, **Mr. Ben Akabueze,** Director-General, Budget Office of the Federation, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning and other dignitaries at IMF/World Bank Spring Meetings 2023.

Financial inclusion in Nigeria has had undeniable successes, with the onboarding of residents to the banking sector consistently progressing. But the overall exclusion rates continue to exceed official targets, not least due to low financial literacy. Going forward, Nigeria's financial inclusion strategy should be more systematically leverage rapidly developing digital instruments. Uptake of digital financial services, notably mobile money, is still lower than in peer countries, and overcoming this would require improving digital financial literacy, upgrading digital infrastructure, and promoting incubation and sound practices of fintech firms. Nigeria's Central bank digital currencies (CBDCs) also has an enabling potential if accompanied by a comprehensive package of supportive policies.

Financial inclusion rates have gradually improved but still fall short of the targets adopted in Nigeria's 2012 financial inclusion strategy (revised in 2018, see Central Bank of Nigeria (CBN), 2018). The share of the adult population with a bank account has consistently increased and now accounts for more than two-thirds of financially-included individuals. However, this balkanisation has been sourced in large part by integrating those having used the non-bank and informal financial sector.

Overall, the share of the financially-excluded population is only slightly lower than in 2012. Nigeria is also falling short in access to credit and particularly non-bank financial services (insurance, and pensions).

Many East African countries have lower shares of adult population with bank accounts but boast substantially higher inclusion rates—beyond 80 percent—through proliferation of non-bank accounts, particularly mobile money, which is still relatively scant in Nigeria.

Financial inclusion in Nigeria is not only relatively low but also uneven. While the gender gap in financial inclusion is relatively low, the gaps for the youth, people with low educational attainment or income as well as the urban-rural divide (only 56 percent are included in rural areas) are higher than in peer countries and sub-Saharan Africa (SSA). As elsewhere in the region, the largest gap is found in educational attainment, which is likely owed to financial illiteracy.

The reasons for not having an account are broadly the same as elsewhere in the region. In surveys, lack of resources or steady income is frequently cited as the main reason for not having an account, which in Nigeria is somewhat less binding than elsewhere. Other main reasons include the cost of financial services, the lack of required documentation (such as identification) and lack of trust in financial service providers. A critical obstacle relatively more pronounced in Nigeria is the onerous distance to financial access points.

Financial illiteracy is also associated with low educational attainment. One reason is that financial topics tend to be taught toward the end of secondary education and therefore does not reach those dropping out earlier.

> Financial inclusion in Nigeria is not only relatively low but also uneven

Financial inclusion policies have focused on networks and agent banking. In 2018, the CBN created a license for a payment service bank (PSB) that offers digital payments but no loans, and in 2022 it granted PSB licenses to two large telecommunication firms functioning as mobile money operators (MMOs), which has propelled inclusion. In 2019, the CBN created Shared Agent Network Expansion Facilities (SANEF) in cooperation with commercial banks, the national payments system (NIBSS) and MMOs to promote financial access points, provide a platform for account opening at any agent location, propel enrolment for bank verification numbers (BVN) and deepen financial literacy.

The CBN has worked on curriculum development and deployed trainers to all localities. A development partner (GIZ) has specifically focused on training of entrepreneurs. The two institutions also partnered to create literacy modules that explain less-understood conditions of loan contracts, including for agriculture, and payments, fraud protection, consumer rights and financial decision-making.

In addition to training, there has been emphasis on developing inclusive products that are better adapted to the circumstances of would-be borrowers (e.g., less rigid loan conditions), while also educating lenders about the specifics of their clients' value chain (e.g., seasonality in cash flows).

There is a notable push for improving women's access to financial services. The authorities have launched several initiatives in recent years to increase women's financial inclusion, previously held back by their lower income, education, and trust in financial service providers.

This effort is complemented by international development organisations and non-governmental organisations that, among other things, have supported the use of agent networks for financial inclusion of women and for establishing and training of women's groups, including savings groups that in recent studies have been found to increase resilience to shocks like COVID-19 pandemic and food insecurity. Private sector representatives-notably banks and fintech companies—have launched tailor-made products (e.g., for goal saving, and loans for personal development) and training programs aimed at meeting the specific financial needs of women, including female entrepreneurs.

Part of the gender gap in financial inclusion can be explained by Nigerian women's lower levels of income, education, and trust in financial service providers. At the same time, these commercial providers often do not see the business case for servicing financially excluded women.

Against this background, the Nigerian authorities have been fostering women's access to finance for years. Since the establishment of an inter-agency financial inclusion working group in 2015 and the Denarau Accord for Women's Financial Inclusion in 2016 include, the authorities have launched a framework for advancing women's financial inclusion to close the gender gap (2020) and created a 'community of practice'- a knowledge hub for mainstreaming gender issues into financial inclusion policies - and a digital financial inclusion drive for account opening by women, (2021).

The CBN has focused on gender equality in its policies and interventions for development, as reflected in a 65 percent share of female beneficiaries under its development fund for micro, small and medium enterprises (MSMEs) launched in 2012.

Donor partners (or philanthropic partners) such as the Bill & Melinda Gates Foundation have contributed through technical assistance and financing to an associated multi donor trust fund of the WB helping to design, institutionalise and evaluate the WAG model and foster innovations through it.

CONTINUES ON THE NEXT PAGE

Fostering Financial Inclusion Through Digital Financial Services In Nigeria, Policy Options

CONT'D FROM THE PREVIOUS PAGE

Recent empirical studies conclude that Nigerian households with a female savings group member were more likely to have savings and to have obtained a loan during the pandemic. Also, savings group membership has been associated with food security and not being out of business, indicating that savings groups in Nigeria may contribute to resilience.

Of late, private sector stakeholders have also begun to contribute to the effort by developing financial products designed to meet the specific needs of women. Some banks have directed their business focus to access to finance for women, offering a suite of tailor-made financial instruments and entrepreneurial training. Non-bank players like fintech companies have launched projects facilitating goal savings and obtaining loans for personal development or directly support female smallholder farmers through lending and training.

Digital financial services could have a tangible impact on financial inclusion and the economy at large. Digital technology fosters the provision of financial services to rural communities and underserved segments of the population, leveraging high mobile phone availability in Nigeria (about 80 percent of adults). It also extends coverage in financial services through enabling lower-cost solutions (e.g., mobile transfers are less costly than traditional forms of money transfer). Lastly, it fosters economic growth by enabling new business models, investment in digital infrastructure, and e-commerce.

Digital finance in Nigeria has been fostered by a vibrant fintech sector. In the early stage of fintech in Nigeria (the early 2000s), the focus was on business-to-business (B2B) and later business-to-consumer (B2C) services, including replacing cash payments by mobile money in the context of the CBN's Payment System Vision 2020.

In some ways, Kaduna State in the north of Nigeria could be considered a socio-economic miniature copy of the country. The state's financial inclusion journey started in 2015 when the administration decided to digitise all government-to-person payments- a central step in helping citizens avoid lengthy journeys to banks to collect salaries and use cash-in-cash-out (CICO) service.

Despite the digitisation, however, associated absenteeism and the lack of associated payment infrastructure remained high as workers still relied on cash withdrawn from financial access points.

The state subsequently decided to gather empirical evidence, commissioning a feasibility study on the introduction of a state-wide digital payments system in 2020.

Given limited resources for implementation, the state then resolved to prioritise the promotion of digital ID and financial inclusion of women, found the gender gap to be 13 percent, though smaller than the national one.

Enabled by close cooperation between the federal government (National Identity Management Commission) and the state through an Memorandum of understanding (MoU) enabling an interface to the national identity management database, 5.2 million of the nine million residents of the state (about 60 percent) are now enrolled in the digital ID database, and the state has commenced the issuance of a readable multi-functional digital residency card that can be used for CICO transactions.

Close to half of the enrolled residents are now financially included. To narrow the gender gap, the state created a women empowerment fund in 2019, with two-thirds being new to banking services, and a pilot to promote sound spending decisions among female vendors for the school feeding program is being planned.

Kaduna State's inclusion strategy that has successfully relied on a multi-pronged approach in addressing physical access gaps could be considered a blueprint for Nigeria as a whole.

R-L: **Mr. Adedoyin Salami,** Chief Economic Adviser to President Muhammadu Buhari, **Ms. Patience Oniha,** Director-General, Debt Management Office, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, Mr. Aliyu Ahmed, Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Chief Olawale Edun,** Member, Presidential Transition Council (PTC), with AfDB Team, at IMF/World Bank Spring Meetings 2023.

The peer review program of the Nigeria Governors' forum is known to be intent on implementing ideas from individual states at the federal level.

Nigeria's CBDC, the second CBDC after The Bahamas, is envisaged to bring benefits for financial inclusion and remittances over time. Key benefits may of the new eNaira include: Increase in financial inclusion. For now, the eNaira wallet is provided only to people with bank accounts. However, allowing those without bank account but with a mobile phone to access eNaira would increase financial inclusion; facilitation of remittances. Nigeria is a key remittance destination in SSA. Remittances are typically made through international money transfer operators (IMTOs), with fees ranging from one to five percent of the transaction value. The use of eNaira for remittances is expected to lower that transfer cost

> Specifically, key supply side measures should focus on increasing financial access points and leveraging digital identification

Developments since the launch in October 2021 have been mixed. Despite some initial technical glitches, no major risk factors (e.g., a large-scale cybersecurity event) have materialised.

However, the adoption of eNaira by households and merchants has been rather slow. After a strong initial uptake, wallet downloads have slowed, reaching 0.8 percent of bank accounts, and merchant wallet downloads amount to about 10 percent of merchants with point-of-sale terminals. Similarly, wallet activity is low, with most wallets appearing inactive. The average number of weekly eNaira transactions since the launch amounts to only eight percent of wallets, with an average transaction value of N53,000 (about US$120).

Policy Options for Fostering Financial Inclusion

To make progress with their ambitious inclusion agenda, the Nigerian authorities would need to refocus policies along several dimensions. The set of policies should preferably be aimed at meeting realistic intermediate inclusion targets still to be formulated, especially in the use of specific financial products, and they should more explicitly address the significant age, education, income, and geographical inclusion gaps. The operational, capacity building and regulatory measures would need to focus on remedying physical barriers to financial access, improving financial literacy, promoting digital and data infrastructure, devising a well-balanced framework for fintech operations, and further enhancing the eNaira technology.

The effective cost of remittances through IMTOs is generally higher because of exchange rate margins. However, as Nigeria only allows remittances executed in the currency of the country of origin, only direct fees are considered here.

According to WB's remittance prices worldwide database, the average cost of sending 200 dollars' worth of cash (excluding other means of payment such as bank deposits) from various surveyed countries to Nigeria was 10.4 percent in 2020, Q2, of which 47 percent (4.8 percentage points) was attributed to the exchange rate spread.

The eNaira uses blockchain technology like crypto assets or stable coins do and is stored in digital wallets and can be used for payment transactions.

Specifically, key supply side measures should focus on increasing financial access points and leveraging digital identification. Notwithstanding the achievements in agent banking, the authorities should deepen efforts to establish a 'last mile' distribution network to reach remote and vulnerable populations that still depend on cash-in-cash-out operations and to address the issue of viability of agents in those underserved areas. The CBN and SANEF have put policies in place, but efforts need to be intensified to address the remaining agent shortage in rural areas sustainably and to enhance the supply of basic mobile money products through agents. Second, use of the digital financial infrastructure could be further improved by, inter alia, intensified ID onboarding and allowing digital ID for client verification in opening basic (Tier 1) bank accounts. Also, the authorities could consider encouraging digital ID registration for receiving social transfers from government, especially for those without an ID.

At the same time, demand side measures are critical. The authorities, primarily the CBN, should make capacity building in financial literacy, including digital literacy, more attuned to the needs of the underserved population by emphasising use cases to clients (particularly with little-used products like credit, insurance, and pensions) and providing practical instruction in applying those instruments confidently. It will also be important to make operating interfaces and documentation available in major local languages (e.g., Hausa, Kanuri) to remedy comprehension issues. And to promote use of mobile money and lessen the preference for cash, targeted education of the public to anchor the notion that mobile money is safe and more cost-efficient than traditional cash-in-cash out operations would be key.

NEWS IN PICTURES

L-R: Honourable Minister of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** with Prime Minister of Barbados, **Mia Mottley,** and Egypt's Minister of International Cooperation, **Dr. Rania Al Mashat** at the Spring Meetings 2023.

Honourable Minister of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** hugging Deputy Secretary-General of the United Nations, **Ms. Amina Mohammed** at the Spring Meetings 2023.

Honourable Minister of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** with Executive Director, Angola, Nigeria, and South Africa Constituency of the World Bank Group Board of Executive Directors, **Ms. Ayanda Dlodlo** at the Spring Meetings 2023.

Osinbajo Hints At Africa's First Green Civilisation

• Directs NSIA To Develop Nigeria Carbon Market Activation Plan
• As Authority, Vitol Sign $50m Carbon Avoidance, Removal Initiative In Nigeria

By Majeed Salaam

The Vice President, Prof. Yemi Osinbajo, has declared that with Africa's status as the lowest emitters of carbon coupled with its young and vibrant population which is capable of effectively deploying green manufacturing on a large scale, the continent could become the first truly green civilisation.

Prof. Osinbajo made the disclosure recently, at the Banquet Hall of the State House, Abuja, at the official signing ceremony of the Carbon Vista Agreement – an initiative that aims to support Nigeria in meeting its net-zero targets by investing in carbon avoidance and removal projects.

Carbon Vista is a joint venture investment company established by the Nigeria Sovereign Investment Authority (NSIA) and Vitol (a multinational energy and commodities company) – committing an initial sum of $50 million for projects such as climate-smart agriculture, green industrial technologies, waste management, etc., cutting across several sectors, including agriculture, energy, and manufacturing.

The vice president stressed that Africa could become the first truly green civilisation – the first civilisation on earth to use renewable fuel for purposes of a transformative economic journey.

Pondering over how that could be realised, Prof. Osinbajo said: "First of all, we are the lowest emitters today, and if we are going to develop our industry for the rest of the world, we can start from where we are today, we do not have to start from where the rest of the world is, especially the global north.

"If we are the least emitters and able to use green energy effectively, we are able to use the young population that we have, we are able to effectively deploy green manufacturing on a scale that would be required to become the global green factory and power of the world, we can indeed do something revolutionary and different.

"This is why what we are seeing today, this sort of collaboration between NSIA and Vitol is an important one because the pipeline of projects they are talking about are the sorts of projects that will make us a truly green economy and can cause us to realise that dream we are talking about."

The vice president further stated that Africa's ambitions were also closely related to the talk about climate justice in the energy transition debate, stressing that the transition must be a fair one, and fossil fuel was still required for several purposes.

"We must also agree that there is a new way by which Nigeria and Africa can benefit immensely from what is coming to the continent," he added.

He also commended the partnership between NSIA, Vitol and other partners, noting that, "this sort of collaboration is only the beginning, we have to do a lot more and demonstrate that we are capable of being not just a victim in the climate change story, but an important catalyst and innovator for making our world greener and introducing to our own people, a prosperous economy based on the green initiatives that we have."

Vice President, **Prof. Yemi Osinbajo,** during a presentation at the Nigeria Carbon Market Activation in Abuja.

Determined that Nigeria plays a global role in the voluntary carbon markets, Prof. Osinbajo who is co-chair of the African Carbon Markets Initiative (ACMI) steering committee directed the NSIA to play an active role building the voluntary carbon market.

According to him, "the importance of an enabling environment is crucial for Nigeria to play a global role in voluntary carbon markets. This is why I would like NSIA to take the lead in developing the first Nigeria Carbon Market Activation plan and look forward to engagement on the plan."

He expressed hope that the Carbon Vista Fund would be bigger adding that more investments are expected from other stakeholders.

According to him, "this is such an incredible opportunity and we must not leave it to just be a $50 million fund."

Also speaking, the Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, commended the initiative, noting that Carbon Vista aligns with the several key priorities of the federal government including the quest to grow the country's foreign direct investment stock, develop a new market that enhances the economy and maximise the country's abundant natural resources.

"These priorities are crucial to driving sustainable growth and development and also Carbon Vista's commitment to these goals is commendable," she added.

On his part, the Managing Director (MD) and Chief Executive Officer (CEO) of NSIA, Mr. Aminu Umar-Sadiq, thanked the vice president for his exceptional leadership in spearheading Nigeria's energy transition ambitions and for hosting the ceremony which officially launched the agency's newest investment vehicle in the environmental sector.

Commenting on the Carbon Vista initiative, Mr. Umar-Sadiq said: "It aims to support Nigeria in meeting its net-zero targets by investing in carbon avoidance and removal projects in Nigeria, which deliver significant socioeconomic benefits to Nigerians and promote the United Nations (UN) Sustainable Development Goals."

On the partnership with Vitol, the NSIA MD said that both organisations, "have committed an initial sum of US$50 million to Carbon Vista for projects such as climate-smart agriculture, green industrial technologies, waste management, etc., cutting across several sectors, including agriculture, energy, and manufacturing.

"Over the next few months, we will roll out projects to set the standard for Environmental, Social, and Governance (ESG) investment in Nigeria. These projects will be carefully selected, partnering with local institutions that have proven track records of successfully delivering high-quality projects."

Making reference to other partnerships for a smoother energy transition in Nigeria, Mr. Umar-Sadiq noted that, "beyond Carbon Vista, NSIA is working closely with the National Council on climate change, as well as the ACMI, to support in developing the carbon market both on a national and continental level thus promoting sustainable investments by incentivising projects that reduce Green House Gas (GHG), GHG emissions.

"These collaborations will facilitate the development and integration of Nigeria's carbon market with the broader African carbon market, thus creating efficient carbon trading systems and unlocking the economic potential of sustainable development in Africa."

In his remarks, Vitol's Global Head of Carbon and Environmental Products, Mr. Michael Curran, spoke about the uniqueness of the Carbon Vista initiative, noting that, "if you step outside the norm, people can criticise. The easiest thing to do is to stay within your tracks and not do anything new or any initiatives which are bold.

"We are prepared to do both things, the importance of doing this is simultaneously linked with climate change, the objectives of Nigeria for 2060 and the realisation of the reality that commercial growth that benefits the population also has to take into consideration the transition, the desire to make sure that we can still grow, the people can have benefits but done in a sustainable manner."

We must also agree that there is a new way by which Nigeria and Africa can benefit immensely from what is coming to the continent

Emefiele Says CBN Focused On Fixing Inflation, Stabilising Banking System

IMF's 3.2% Growth Forecast For Nigeria Impressive, According To Him

By Kingsley Benson

The Governor of Nigeria's Central Bank (CBN), Mr. Godwin Emefiele, has reaffirmed that the CBN would continue to keep strong focus on price and banking system stability, especially as global concerns heighten on inflation and possible spillovers from some failed banks in the United States.

Mr. Emefiele gave the affirmation at the just concluded Spring Meetings jointly convened by the International Monetary Fund (IMF)/World Bank in Washington DC, USA.

The meetings were at a time of high global uncertainty with successive shocks of the war in Ukraine, rising inflation, fragmentation and monetary policy tightening and most recently the financial market stress on the Silicon Valley Bank, Signatures Bank and Credit Suisse Bank.

Top of the concerns at the meetings were the huge poverty levels, with some 345 million people in developing countries facing acute food insecurity.

"We all know that the global economy still faces a lot of challenges. We are not going to remove our eyes on monetary policy, which is to focus extensively on how to moderate inflation, but at the same time, ensure that banking system stability remains resilient and then strong as it is right now," the CBN governor told newsmen covering the meetings.

According to him, the issues bothering global challenges were consistently highlighted, both at the statutory meetings and some of the private meetings that were held.

He recalled how post-COVID 19 pandemic, the global economy was beginning to recover quite aggressively. Interest rates were low for a sustained period of time, including inflation particularly in the Euro and the developed economies which has also been low.

Unfortunately, as a result of challenges that came up in 2022, Russia- Ukraine war, high-interest rates and inflation in the US, and the need to continue to raise interest rates and its impact on other economies, the world has got to where it is today, he added.

"The forecast at the meeting remains that a lot of work has been done in 2022, and growth is gradually returning again, but it is still at the sub-optimal level. Inflationary pressures continue, and even though it is coming down as a result of measures being taken by monetary authorities, it still remains at very high levels to the extent that global inflation is projected at seven percent which is very high," Mr. Emefiele said.

"So the high point of all the consequences of what we have seen in 2022 is that poverty which was very well discussed here has risen quite astronomically and over 700 million people are being struck.

"Food insecurity has also risen quite tremendously to the point that over 350 million people globally are hit by extreme food crises all over the world."

L-R: **Mr. Godwin Emefiele,** Governor, Central Bank of Nigeria, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Senator Solomon Adeola,** Chairman of the Senate Committee on Finance, in a discussion at IMF/World Bank Spring Meetings 2023.

> ...the issues bothering global challenges were consistently highlighted, both at the statutory meetings and some of the private meetings...

Mr. Emefiele also re-echoed the IMF concerns about debt and lending portfolios reaching all-time highs.

In two decades, the IMF has seen in the highest level of debt portfolio in its books and is now warning that it may not be in a position to do much for countries that really require more debt to be able to restructure their balance sheet and then keep going on.

"So, the focus remains that monetary policy and authorities must continue to focus on inflation so as to bring it down. While monetary authorities are doing their work to bring down inflation, they must also keep their eyes on banking systems' stability, through monitoring, supervision, and regulatory frameworks and the rest," he noted.

Speaking on the fiscal aspect, Mr. Emefiele stated that though the IMF insists that countries need to reduce their spending because of the limited space, he would rather recommend raising revenues.

"In my opinion, I will say well if you want to spend, then raise revenue to be able to spend. I think it is important that you must raise revenue and not get yourself constrained in an environment where there is no debt, where financial market conditions are very tight and limited, and where interest rates are high and could create a lot of burden for economies and the only option for fiscal in this case is to expand the revenue base so as to be able to spend."

Mr. Emefiele was, however, elated by the fact that despite the global turmoil, the IMF had retained its 3.2 percent growth forecast for Nigeria as he assured that authorities would sustain recent policy directions.

The IMF in its latest World Economic Outlook (WEO), retained earlier 3.2 percent forecast for Nigeria in 2023 – though it dropped the 2024 projection from 3.1 percent to 3.0 percent. The World Bank on the other hand, dropped its forecast to 2.8 percent from 3.0 percent.

According to Mr. Emefiele, retaining its 3.2 percent forecast for 2023 means that the IMF is endorsing the policies the monetary and fiscal authorities have put in place in recent times to contain series of shocks from the global economic space on the back of the war in Ukraine and the global financial crises.

"We are delighted that even in Sub-Saharan Africa, the growth levels in Nigeria, even though by our assessment is still sub-optimal, the IMF would among all the countries in Africa retain forecast for Nigeria at 3.2 percent.

"This gladdens our heart, it means we are doing certain things that are correct, and we will continue to do those things that are right. But it also means that we are not going to remove our eyes on monetary policy, which is to focus extensively on how to moderate inflation, but at the same time, ensure that banking system stability remains resilient and then strong as it is right now."

Challenges/ Solutions With Credit Rating Agencies, Sovereign Debt

The COVID-19 pandemic has inflicted significant damage on global economic activity, exacerbated fiscal challenges worldwide, and impeded countries' ability to respond to the pandemic and achieve the Sustainable Development Goals (SDGs). Many countries have experienced downgrades of their sovereign credit ratings, higher borrowing costs and intensified risks of debt distress.

Developing countries have borne the brunt (over 95 percent) of credit rating downgrades, despite experiencing relatively milder economic contractions. The fear of downgrades also hindered some countries' participation in official debt relief programs, including the G20's Debt Service Suspension Initiative (DSSI) and Common Framework for Debt Treatments beyond the DSSI (Common Framework).

Three challenges related to developing country sovereign credit ratings stand out: The impact of credit ratings on the cost of borrowing and market volatility.

To understand the impact of credit rating, it is important, to the extent possible, to distinguish the effects of ratings from other factors that affect market pricing – irrespective of ratings announcements made by the credit rating agencies (CRAs). Several studies show that sovereign ratings lag market prices, meaning that much of the changes in the cost of borrowing are due to market perceptions of risk, not the rating changes per se. Nonetheless, CRAs still can have significant impacts. Negative warning announcements by CRAs (i.e. 'reviews,' 'watches,' and 'outlooks') have been linked to increases in the cost of borrowing, particularly for developing countries, at 160 basis points vs. 100 basis points for advanced economies.

R-L: **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Mr. Godwin Emefiele,** Governor, Central Bank of Nigeria, **Dr. Kingsley Obiora,** Deputy Governor, Central Bank of Nigeria, **Ms. Patience Oniha,** Director-General, Debt Management Office, and other dignitaries in a meeting at IMF/World Bank Spring Meetings 2023.

To the extent that sovereign credit rating announcements transmit information to the market, they should be expected to impact the cost of borrowing for countries. Valid criticisms of CRAs are not so much that they impact market prices, but whether ratings transmit inaccurate information, have biases against developing countries, or are linked to forced selling above what would be warranted by market fundamentals (i.e. due to so-called 'cliff effects').

Another question is whether CRAs augment the volatility and pro-cyclicality that is already prevalent in capital markets (with ratings rising in boom periods and falling during slowdowns or crises when countries need financing the most). On the other hand, if ratings are relatively stable, they could help moderate volatility, thus playing an important dampening role.

In addition, ratings can affect macroeconomic policy-making – in both positive and negative ways, (similar to so-called 'market discipline'). Because ratings measure the ability of governments to repay borrowers, the magnitude of a country's fiscal deficit is an important factor in ratings analysis. Countries that get ratings are often under pressure to maintain tight fiscal policy to avoid a ratings downgrade.

However, this might result in austerity or tighter fiscal policy than would otherwise be warranted, which could impact investment in sustainable development and growth. This is an argument to why countries that are not issuing sovereign bonds should not prematurely get sovereign ratings.

> **Developing countries have borne the brunt (over 95 percent) of credit rating downgrades, despite experiencing relatively milder economic contractions**

Bias in ratings against a country or group of countries is difficult to substantiate, in part because judgment is an important element in sovereign ratings. There are long-standing questions of whether CRAs incentives are tilted towards advanced economies (AEs). CRAs are domiciled in AEs, have most of their business in AEs, have a longer history of issuing ratings in AEs, and are overseen by regulators of the AE sovereigns being rated. Cultural and linguistic factors also contribute to a potential home bias.

Ratings actions during the Covid-19 pandemic revived questions of potential bias.23 Economic output of the AEs contracted by more than twice the pace of contraction in emerging market and developing economies (EMDEs), at -4.7percent vs. -2.2percent in 2020. The average government debt ratio of AE's increased by 16 percentage points to 120 percent of GDP, compared to a nine-percentage point's increase, to 63 percent, in EMDEs.

Yet, AEs, which account for 29 percent of all issuer ratings of the big three, received less than five percent of all downgrades during the pandemic. A detailed analysis showed that 61 out of 154 rated sovereigns were downgraded by at least one of the big three CRAs during the COVID pandemic, with middle income countries (MICs) representing 60 percent of the downgraded sovereigns. 11 of the 21 small-island developing States (SIDS) with ratings by any one of the three CRAs were downgraded, in part linked to declines in tourism. Seven of the 19 least developed and other low-income countries that were rated before the pandemic were downgraded. Greece and Lithuania were the two exceptional sovereigns that were upgraded during this period.

There can be many reasons for the discrepancy in downgrades. For example, AEs' higher income and more diversified economies may make them more resilient to shocks. However, the risk of a perception of bias underlines the importance of transparent methodologies, so as not to undermine confidence in ratings.

CRAs use rating scales that range from AAA (the highest) to D (the lowest). Despite the number of points on the scale, market practice has resulted in the division of securities into being considered 'investment grade' and 'speculative grade'. Ratings from AAA to BBB- are considered investment grade, and ratings BB+ and below are considered speculative. This artificial division, which is not promulgated by the CRAs, can create risks for financial stability. This is because many investors have mandates that restrict them from making speculative investments. When issuers loses investment grade status (so-called fallen angels), they may face a wave of forced selling of its debt, raising the cost of borrowing beyond what would be implied by economic and financial fundamentals.

Such 'cliff effects' are due to the way ratings are used, rather than the ratings themselves. CRAs are cognizant of the cliff effects, which influences their decision-making. A credit committee will be more inclined to give the benefit of doubt before downgrading an issuer to non-investment grade than at any other point of the rating scale. The resulting stickiness is pronounced for corporate ratings but is also visible for sovereign ratings in S&P data. Such hesitancy to cross the investment grade divide blunts the ratings signal and can dilute the quality and objectivity of ratings. In addition, CRAs sometimes overreact with a lag to economic conditions and business cycles, which can paradoxically lead to greater volatility and pro-cyclicality when ratings are ultimately adjusted.

During the pandemic, five sovereigns were downgraded from investment grade to non-investment grade by at least one of the big three CRAs. Yet, during this time, it is unclear how much the downgrades affected market pricing, compared to other (e.g. COVID-19 related) factors. A certain graph shows the 10-year government bond yields for the largest sovereign issuers that could be considered a fallen angel. In this case, yields appear to have moved (temporarily) before the announcements rather than respond to the downgrades.

Despite efforts to reduce the reliance on credit ratings in investment decision-making, the use of credit ratings by mutual funds has increased since the global financial crisis. The Financial Stability Board (FSB) has noted that, "credit ratings are widely used throughout the financial system; including for defining the investment universe of a given investor, defining

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mandates given to asset managers, and for constructing indices against which asset managers benchmark their performance."

Between 2010 and 2018, only one in 14 fund mandates did not refer to credit ratings. According to the FSB "59 percent of mandates refer to a particular credit rating agency or to a specific alphanumeric rating, 88 percent refer to 'high yield', 'investment grade', 'speculative grade', or other terms which reference ratings indirectly, and 93 percent refer to ratings in at least one way."

Distinction should be made between active and passive investment funds. Active funds are usually managed by a fund or portfolio manager who identifies viable investments with the aim of exceeding the set market benchmark. Frequently those fund managers have flexibility to determine their investment strategies. On the other hand, passive funds, such as mutual funds and exchange-traded funds (ETFs), usually invest in and track their performance against the performance of assets in a benchmark index through an automated process.

Mechanistic reliance on credit ratings is persistent in passive investing strategies, which have risen from three percent in 1995 to 41percent of combined U.S. mutual funds and ETFs in 2020.

Studies have shown that benchmark-driven investors are often likely to sell when investments are downgraded from investment grade to high yield. This is a risk faced by emerging markets under global bond benchmarks, which tend to rely on ratings to make index inclusion or exclusion decisions.

Further, a credit downgrade may result in the lowering of a country's weights in an index, resulting into capital outflows.

The current CRA 'long-term' credit rating is meant to cover three to five years for noninvestment grade issuers and up to ten years for investment grade issuers. In practice sovereign ratings generally use financial and economic forecasts up to only three years, which may not sufficiently incorporate sustainability considerations, and which may over-emphasise near-term economic business cycle expectations.

CRAs aim to provide analysis of countries' medium to long-term solvency and set ratings 'through a cycle' (i.e. through cyclical economic slowdowns), meaning that ratings are not meant to fluctuate based on short term factors. There is evidence that in practice, however, ratings tend to be pro-cyclical.

More recently, a study that examined 27 African countries between 2007 and 2014 found that there was an increased probability that Fitch and Moody's upgraded ratings during boom periods and downgraded them during recessions.

Similar to pro-cyclicality in capital markets, credit ratings pro-cyclicality is likely in part linked to the time horizon. Sudden developments, for instance a change in global risk aversion, might affect a country's external accounts and public finances in the near term, impacting its rating. Longer timeframes might recognise that the fundamentals largely remain intact and therefore be less prone to pro-cyclical downgrades.

There is also evidence that rating agencies are driven to be more conservative during crises to protect their reputation capital, and that qualitative aspects of their risk evaluation seem to be particularly pro-cyclical. As laid out, long-term ratings, as well as greater transparency can help address some pro-cyclicality.

Another challenge related to developing country sovereign credit ratings is accurately incorporating the impact of international cooperation on debt sustainability into ratings.

Official sector debt relief can help strengthen countries' balance sheets and ability to repay all debt in the medium term. Despite no countries ultimately being downgraded for participation in the DSSI, some developing countries, including those with elevated debt distress risks, were deterred from joining the programme due to the fear that participation would trigger rating downgrades. Greater dialogue could have helped avert such misunderstandings, on the part of both countries and CRAs. A standing, formal structure or framework to facilitate continued dialogue could be considered.

Additional research and transparency on the impact of past debt restructurings on a country's future ability to repay would also help countries have a more accurate picture of the implications of restructuring. The official sector should also work with countries to enable quick access to capital markets following a restructuring.

The last of the challenges is the incorporating long-term risk factors such as climate risk. The increasing frequency and magnitude of climate shocks has highlighted the impact of longer-term factors on a country's debt sustainability. Researchers at The University of Cambridge's Bennett Institute for Public Policy estimated that 63 developed and developing countries will experience rating downgrades of more than one notch by 2030 due to climate change.

Amid a growing recognition of the physical and transition risks arising from climate change, CRAs are increasingly integrating climate into their ratings. In 2019, 36 percent of Moody's rating adjustments of emerging market issuers were informed by sustainability risks, particularly climate.

As sustainability indicators are further incorporated into sovereign ratings, on average it will likely lower the credit ratings of developing countries, leading to an increase in already high cost of financing for many. At the same time, a country's efforts to invest in the SDGs could conversely be viewed favourably in ratings.

This is especially true with respect to investments in resilience and climate adaptation, but investments in many priority areas of sustainable development, including sustainable infrastructure, can also materially enhance a country's future economic growth, sovereign creditworthiness, and debt carrying capacity. While these investments may increase levels of public debt in the short term, in the long term, they should stimulate growth and countries' ability to repay their debt obligations.

R-L: **Kristalina Georgieva,** Managing Director, International Monetary Fund, **David Malpass,** President of the World Bank, and other delegates during a discussion, at IMF/World Bank Spring Meetings 2023.

As sustainability indicators are further incorporated into sovereign ratings, on average it will likely lower the credit ratings of developing countries, leading to an increase in already high cost of financing...

The Possible Areas of Action And Policy Solutions

Growing systemic risks, along with fast-paced technological change call for an update to sovereign credit analyses and methodologies to reflect the changing world. While structural challenges to CRAs are well known, solutions have been slow to be implemented, and updates to the market for credit ratings have often been in the form of ad hoc changes in response to recent or past crises. At the same time, some proposed solutions might create new or unseen problems. For example, calls to halt ratings downgrades during crises altogether could lead to greater uncertainty in markets, and raise risk premiums for all emerging market debt.

Solutions should consider a forward-looking, dynamic, and coherent approach adjusted to the current economic environment, and that will support the sustainable development agenda. Below are potential measures that can contribute to this new approach. They are laid out starting with voluntary measures to structural reforms that may be considered.

Update ratings methodologies and enhance transparency the growth of technology brings into question the use of static models to assess a country's credit quality, particularly regarding elements of the rating process involving models of economic growth, resilience, public finances, and external accounts. This is particularly salient in a world of growing and interrelated systemic risks, and high uncertainty.

Incorporate scenarios for both economic and non-economic (e.g. climate) risks: Predicting the future is subject to enormous uncertainty, and no analyst gets it right all the time. Ranking default probabilities should be less about predicting the future, than about understanding how well countries respond to risks that are largely unknown. CRAs should be encouraged to publish scenario analysis and simulations on debt dynamics under different economic and non-economic assumptions as a central part of analysis of a country's ability to repay its debt. This includes scenario analysis of

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climate transition pathways, similar to climate risk scenarios in regulatory financial stress tests. Scenario analyses would help address the high degree of uncertainty in forecasts, including in longer-term time horizons. Such analysis would also help CRAs avoid criticism when each new crisis highlights new risks and leads to pro-cyclical downgrades.

This work can potentially be enhanced with Artificial Intelligence (AI) credit models, which in some cases appear to outperform current rating models.

Nonetheless, AI also has the potential to introduce algorithmic biases into credit assessments. It thus needs to be used transparently, with judgment remaining an important complement to a mechanistic model-driven approach, highlighting the role for CRAs.

Transparently separate quantitative models from value-added judgment: A clear distinction between the model-based and the discretionary components of ratings can help investors better assess the quality and objectivity of ratings.

CRAs could publish the model-based assessments and then superimpose the "qualitative overlay" of analytical judgment. This two-step process would be important to also understand and moderate any biases introduced by heavier use of AI in credit models.

Transparent publication of this process could help address concerns over biased ratings, shine a light on CRA decisions about model design, and increase confidence in rating accuracy. Over time, it could also highlight the quality and value-added of the analytical evaluations done by the different CRAs.

Alternatively, model-based approaches or debt assessments already done by the official sector can be make public and comparable, to again highlight the value added of CRAs, as discussed below.

To the extent that capital markets are short-term oriented, bond investors are often less concerned with a countries' long-term growth prospects than with its near-term fiscal accounts. 'Market discipline' can thus, at times, put pressure on policymakers to focus on short-term indicators rather than long-term sustainable development. This bias can be reflected in ratings. However long-term investors should be interested in both near-term solvency and long-term sustainability.

Pension funds and insurance companies which have long-term liabilities, should especially be interested on how well a country preforms over a longer time-horizon. Indeed, when measured over a longer time horizon, emerging market debt has been one of the best performing asset classes, with persistent (but time varying) excess returns relative to market risk.

This indicates a mismatch between the short-term ratings of sovereign debt and their real returns in the long-run. Long-term investors could advocate for longer-term ratings.

On the issuer side, a growing number of countries are issuing, or would like to issue, sovereign bonds with longer maturities of up to 50 or even 100 years. The introduction of longer-term ratings can be seen as an important mechanism to support this lengthening of investment horizons, which has been highlighted as an important contributor to improving the environment for financing for sustainable development.

Ideally, rating methodologies could incorporate more long-term factors, such as environmental and social risks and improvements, which could be published in new long-term assessments that complement existing assessments. The use of scenarios for both economic and non-economic risks could make long-term assessments more manageable to produce. Such scenarios can be derived from stress tests for various adverse shocks and their impacts on debt dynamics, or through probabilistic approaches that develop many scenarios and allow to assign likelihoods to different debt paths, including adverse scenarios. Long-term ratings could help reduce pro-cyclicality and, if well implemented, capture the positive effects of investments in climate and environmental resilience.

Incorporating sustainability-related risks and the positive effects of sustainable investment on a country's growth prospects and fiscal revenues could also encourage governments to pursue less myopic policies, given that prioritising SDG investments, including in climate change adaptation, would improve a country's long-term rating. Indeed, a favourable long-term rating could both create incentives for countries to invest more effectively in sustainable development and help them raise long-term capital for that purpose.

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning in a discussion with representative of Tunisian Finance Minister, at IMF/World Bank Spring Meetings 2023.

> Pension funds and insurance companies which have long-term liabilities, should especially be interested on how well a country preforms over a longer time-horizon

Going forward, it would also be helpful for the CRAs to engage more in dialogue with the public sector in the rating processes. This would enable a deeper understanding of government policies and international official programs. These engagements would not be meant to influence rating decisions, but instead to close any informational gaps the CRAs may have about the scope and terms of new initiatives or facilities, which will in turn improve the quality of ratings. This is particularly important when debt relief, debt suspension, or other debt sustainability initiatives, such as the DSSI and the Common Framework, are launched at a global level. They can also cover initiatives or reforms taken by international financial institutions, or other important financial actors such as regional financial arrangements. Currently, ad hoc arrangements may mean important information is not conveyed in a timely fashion to the right people in the credit rating marketplace. A standing, formal structure or framework to facilitate continued dialogue would also help level the playing field, as compared to current approaches, which may prioritise discussions with larger jurisdictions.

Regulators, standard setters, investors and CRAs need to work together to soften the cliff-edge dichotomy between investment-grade and below-investment-grade, which can create unwarranted volatility in the market. This can be accomplished by having a graduated categorisation of debt ratings and taking a portfolio approach to ratings requirements:

Create overlapping categories of ratings;

CRAs themselves do not promulgate the investment grade cliff, which has been an artifact of the regulatory approach, originating in banking supervision in the 1930s. However, CRAs can more explicitly create overlapping tiers of ratings.

For example, a rating such a Baa, might be included in the 'top-tier' as well as in the 'medium tier', providing a transitional time, when a country's debt will not necessarily fall out of investment mandates. This can enable a smoother entry and exit of investor classes with different risk appetites, reducing the risk of sharp selloffs after a rating downgrade.

A portfolio approach to investment mandates; many portfolio managers, including bond and pension fund managers, seek to diversify their credit risks, but have a cliff based on their established investment mandates, which often prohibit the holding of instruments below a certain credit assessment. Instead of investment triggers based on the rating of individual instruments, managers could focus on the average rating of a portfolio. In the case of a downgrade, this would allow investment managers to either rebalance their portfolio with a higher portion of highly rated instruments, or more gradually reduce exposure to a certain country's debt rather than having a sudden rush to the exits by a number of managers at once. This would allow portfolio managers to diversify credit risks, while still maintaining a sufficiently high average credit quality on their assets.

Adjust regulatory regimes for a graduated approach; Risk weighted asset regulations, including those from securities and insurance regulators, could also adopt a more dynamic approach to risk weighting to correspond to the more graduated categorization of credit ratings. Each type of regulation – banking, insurance, investment fund, and pension – has different ways of incorporating ratings into both rules and supervision. This also varies by jurisdictions as some jurisdictions have entirely removed ratings from regulatory rules. Rules can be softened with allowance for a balanced portfolio approach. Another option is to provide a temporal graduation so that risk weights are not instantly increased when a downgrade occurs, but gradually applied over a longer time frame (e.g., six months) to allow smoother adjustment. Further regulatory reforms can incentivize investors to pursue their own internal credit risk assessment and to undertake proper due diligence.

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Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning in a handshake with **Dahlia Khalifa,** Regional Director for Central Africa, Liberia, Nigeria and Sierra Leone, International Finance Corporation (IFC), while others look on at IMF/World Bank Spring Meetings 2023.

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Additional Structural Changes

Several structural reforms (e.g., in regulations or through new institutions) were proposed following the 2009 financial crisis. However, to date very few of the reforms were implemented.

CRAs fall under the supervision of national regulators, such as the European Securities and Market Authority (ESMA), which respond to the international standards set out by IOSCO and those included in the Basel Framework. While many of the above reforms can be undertaken voluntarily by the CRAs and their users, international norm-setting bodies could include some of them into the standards for CRA operation and supervision.

Efforts, undertaken since the 2009 financial crisis, to reduce the mechanical reliance of regulations on ratings by CRAs have proved challenging, in part because there are no easy options. Nonetheless, some alternatives are already being used; Basel Framework rule CRE 20.6 allows risk weighting based on export credit agency risk scores, though this is limited to export credit agencies participating in OECD methodologies.

There are also several proposals to introduce more competition into the credit rating marketplace. The creation of national, regional or international publicly owned CRAs could encourage competition and avoid the conflict of interest faced by private CRAs. Public CRAs would, however, face their own set of conflicts of interest, which would require clear governance structures to enable them to operate at arms-length from government's influence. Other alternatives put forward include a non-profit institution, which could specialise for example, in issuing long-term credit ratings. Another alternative is for the financial sector to create cooperative institutions to provide credit assessment services on a non-profit basis. Governance could be modelled on SWIFT, a cooperative banking-sector-owned utility for providing secure payments messaging. This would be a return to an investor-pays model of CRA, but without the potential conflicts of interest from having to sell services, with ratings provided to all members equitably. Nonetheless, this structure would likely also have its own conflicts of interest. A key, open question is whether markets would trust ratings by any of these new agencies with different governance models and whether analysts working in them could maintain their independence.

If a public or other entity developed and publish pure clear, timely, transparent, and comparable model-based ratings of debt dynamics for all countries, it could serve a benchmark for comparison with CRAs.

Indeed, the International Monetary Fund (IMF) already publishes economic assessments and projections for every country through both its Article IV reports and its regular global economic research publications. They are not intended as credit assessments, but markets do react to IMF pronouncements, reprising instruments based on the information delivered, much as expected for a credit rating assessment.

Recent crises have shown that credit ratings can have a significant impact on financing for sustainable development and a country's recovery prospects. At the same time, fast-evolving changes in technology will likely change the nature of the CRA industry going forward. It is in the international community's interest to ensure that this develops in a way that strengthens the quality of ratings and encourages investment in sustainable development. The current economic situation brought about by COVID-19 creates an opportunity to re-evaluate the system of credit ratings with a forward-looking approach that reflects a changing world.

While institutional reforms to CRAs would require political will and strong commitment from the international community, a number of proposals are ripe for voluntary action by market participants. However, these ideas may not spontaneously manifest. Long-term investors, such as pension funds and insurance companies, can encourage the development of long-term ratings. International organisations can also play a role if needed, such as in providing a benchmark to distinguish between model-based ratings and value-added judgment. Political leadership will also be needed to see changes through to conclusion.

NDIC Lauds Judiciary, Solicitors On Diligent Prosecution Of Failed Bank Cases

The Managing Director/ Chief Executive Officer MD/CEO), Nigeria Deposit Insurance Corporation (NDIC), Mr. Bello Hassan, has commended the Judiciary and the Nigerian Bar for collaboration with the corporation in the diligent and timely prosecution of failed bank cases over the years.

Mr. Hassan gave the commendation in Abuja at the sensitisation seminar for external solicitors of the corporation with the theme: 'The role of NDIC external solicitors in the execution of the mandate of the Corporation'.

The NDIC boss noted that the support from its external solicitors and the judiciary was evidenced by heightened diligence in the handling of the corporation's cases, better informed judgments from the court, the bar and the bench, resulting in increased awareness on the benefits of deposit insurance scheme in the public domain.

The MD/CE of the corporation also noted that the 2023 seminar was a continued attempt to consolidate on the gains recorded through previous exercises which fostered better understanding of the Deposit Insurance Scheme thereby aiding external solicitors in prosecuting its cases in the interest of bank depositors and the Nigerian financial system.

L-R: NDIC MD/CEO, **Mr Bello Hassan,** exchanging pleasantries with NDIC Head Legal Department, **Mr. Henry Fomah,** and **Mr. Emeka Ngige,** SAN at the 2023 NDIC Sensitisation Seminar for External Solicitors of the corporation recently in Abuja.

While noting that recovery of debts and realisation of assets of closed banks were critical to the achievement of the corporation's mandate as a liquidator, Mr. Hassan stressed that the corporation needed to continue collaborating with the judiciary and external solicitors in handling parties' suits against the corporation, as well as the corporation's cases against debtors towards recovering the debts owed to banks under liquidation.

In a release by Bashir A. Nuhu, Director, Communication & Public Affairs Department, NDIC, Mr. Hassan, therefore, called on the external solicitors to continue to put in their best in prosecuting the corporation's cases, notwithstanding the challenges confronting them.

How Negative Ratings Are Impacting Nigeria, Africa's Economy

● Finance Minister Says Unfair Negative Rating Hampering Economic Growth

Nigeria overtime has been downgraded unfairly by top credit rating agencies without considering the peculiarities being faced by the country. The resultant effect is that the country loses potential investors which in turn hurts the nation's economy. ***Musa Ibrahim*** *writes.*

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning at IMF/World Bank Spring Meetings 2023.

For more than a decade, Eurobonds are gradually becoming a source of financing for development in various countries across the African continent. In fact, analysts have argued that the growing activity of Eurobonds is attributed to the ease in accessing credit information.

Subsequently, due to the increased activity in the Eurobond market, the frequency of assigning sovereign credit ratings in Africa has risen exponentially since the 2008 financial crisis.

Compared to the first sovereign credit ratings, most African countries' credit ratings have gone bad, with serious implications on the cost of servicing debt as a result of the increased number of African governments' issued Eurobonds for debt restructuring and infrastructure financing.

The quest for Eurobonds is attributed to the desire of African governments to depend less on aid resources to support development financing needs and the increased inclusion of African countries in global capital markets.

What is Eurobond

Eurobonds are debt instruments denominated in a currency different from the home currency. Over the past 10 years, the tenures of the Eurobonds issued by African countries have ranged from 5 to 40 years. Since Eurobonds are issued on international financial markets, global investors require credit assessments of the issuer country. Therefore, sovereign credit ratings are a core requirement for issuing a Eurobond.

Unfair credit ratings on Nigeria, Africa

Sovereign credit ratings aim to assess a sovereign's willingness to meet its financial obligations fully and on time. Thus, credit ratings have an impact on issuers as they determine the conditions under which governments can access debt markets.

The growing activity in Eurobond issuance is said to be as result of more readily available credit information. The number of African countries rated by the three major rating agencies, Moody's, Fitch, and Standard & Poor (S&P), increased to 31 in 2021 from only 10 in 2003. Meanwhile, the average number of annual credit ratings issued for countries across Africa rose from 7 between 1994 and 2007 to 37 between 2008 and 2020, available information has shown.

However, when it comes to credit ratings in the African context, common concerns include potential conflicts of interest, unreliable methodologies, and a lack of understanding of African economies. Furthermore, there are concerns surrounding the oligopolistic nature of the 'big three' rating agencies.

Various calls have emerged for a reform of the credit rating system. The United Nations (UN) Human Rights Office, for example, has criticised the 'big three' rating agencies for their lack of accountability when issuing credit ratings, which in times of crisis can leave economies worse off. This issue became salient at the onset of COVID-19 pandemic, when some countries were reluctant to sign up to debt restructuring initiatives for fear that they might be downgraded by credit ratings agencies.

The appeal of Eurobonds to finance development

African governments have used Eurobonds for deficit financing (and for increasing public infrastructure spending, mainly in energy and transport), benchmarking (including for expanding international market access for firms), and public debt management (including debt restructuring).

The benefits of Eurobonds as a means to meet national financial demands have been promoted, among others, by credit rating agencies. Also, African governments themselves have also looked towards relying less on aid resources to support development financing needs. Moreover, with the participation of African countries in debt relief initiatives such as the Heavily Indebted Poor Country (HIPC) debt relief program, general national debt outlooks have improved across the continent, facilitating access to international capital markets.

Furthermore, following the 2008 financial crisis which led to record-low interest rates in developed markets and meager returns in more established emerging markets, Eurobonds from African countries started to attract foreign investors. Eurobonds issued by countries formerly considered too risky to invest in became interesting for international investors. Investors' appetites for yield thus allowed several African countries to issue US-Dollar denominated sovereign debt on a large scale.

> ...African Eurobonds were attractive to international investors as they were perceived as stable due to the positive growth trends of African economies

In addition, African Eurobonds were attractive to international investors as they were perceived as stable due to the positive growth trends of African economies. The positive macroeconomic outlook in particular was built on the high commodity prices in that period. The continued growth in African exports was expected to contribute towards increased foreign currency reserves, which would enable African governments to pay back their debt.

Why do sovereign credit ratings matter?

The government aiming to raise funds (issuer) through the Eurobond chooses underwriting syndicates to manage the bond issue. The underwriting syndicates usually consist of investment and merchant banks. Underwriting syndicates agree to pay their own money for the Eurobond, and then sell the bond to other merchant banks. Thus, when a country has a favorable sovereign credit rating and positive outlook, investment banks are more likely to issue Eurobonds on their behalf as the countries are more likely to attract investment.

Sovereign credit ratings are based on various economic, social, and political factors. Eight variables are relatively significant in determining sovereign ratings because they are repeatedly cited in the three international credit rating agencies' reports: per capita income, gross domestic product growth, inflation, fiscal balance, external balance, external debt, economic development, and default history. An unfavourable change in these factors can lead to credit downgrading, which affects the price at which countries can borrow from international capital markets. As such, countries across the world prioritise maintaining and/or improving their sovereign credit ratings. Rating agencies' environmental, social, and governance (ESG) scores are also becoming increasingly popular.

Collectively, the three major rating agencies hold more than 95 percent of the global credit rating business, and their reach continues to grow; on the 2nd Feb. 2022, Moody's announced it would acquire a majority shareholding in Global Credit Rating (GCR), a leading credit rating agency in Africa.

By September 2021, 32 African countries had received sovereign credit ratings from the 'big three', with countries such as Tanzania and Togo having only received a total of two ratings. Meanwhile, Eurobond heavyweights, South Africa and Egypt, had received 57 and 64 credit ratings, respectively.

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How Negative Ratings Are Impacting Nigeria, Africa's Economy

L-R: **Ms. Patience Oniha,** Director-General, Debt Management Office, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, and other dignitaries at IMF/World Bank Spring Meetings 2023.

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Twenty African countries have received credit ratings from all 'big three' credit rating agencies, while six have received at least one credit rating from two of the 'big three' credit rating agencies. A trend visible from the sovereign credit ratings of most African countries, particularly those who have issued Eurobonds (as can be seen below), is that those countries' current sovereign credit ratings are worse than their first credit ratings.

In the last decade, the 'big three' rating agencies were accused of assigning unsolicited credit ratings for various African governments, including Ghana, Zambia, Namibia, Nigeria, and Tanzania. Unsolicited sovereign credit ratings are assigned without the issuer requesting the ratings. Thus, there is no formal contractual relationship between the rating country and rating agencies. In addition, these ratings also tend to not be paid for and are based on publicly available information. Of the three agencies, Moody's has assigned the highest number of unsolicited ratings. Over the years, several African countries have contested these unsolicited ratings. At the beginning of this year, the Ghanaian government issued statements against its downgrade by Moody's and Fitch.

Impact of downgrades

Over the last decade, several African countries have witnessed credit rating downgrades. Even as they responded to COVID-19 challenges, countries such as Botswana, Mauritius, Nigeria, and South Africa were downgraded, causing a rise in bond interest. This rise meant that governments were required to pay more on the same amount of debt they owed. In addition, participation in relief programs, such as the Debt Service Suspension Initiative initiated at the onset of the pandemic, led to fears of credit ratings downgrades. Instead of doing what may have been best for the health of their populations or economic recovery from COVID-19 pandemic, some governments prioritised debt repayments out of fear of being downgraded.

This priority was achieved through tight macroeconomic policies, which tend to be counterproductive for long-term investment and growth, and this has a negative effect on debt crisis prevention and resolution. When governments are downgraded or fear being downgraded, their capacity to respect, protect, and fulfill human rights obligations can be enormously impacted.

Rating Agencies Not Considering Nigeria's Peculiar Challenges – Ahmed

> In the last decade, the 'big three' rating agencies were accused of assigning unsolicited credit ratings for various African governments, including Ghana, Zambia, Namibia, Nigeria, and Tanzania

The federal government has lamented the impact of the recent downgrade of Nigeria by global credit rating agencies, saying the ratings were posing some difficulties for the country in terms of cost of funds at the international market.

The Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, had during a visit to her ministry by the Deputy Director-General of the United Nations (UN), Mrs. Amina Mohammed, also called for the international bodies to reverse a situation where African countries borrow at higher cost than their European counterparts.

In quick succession in November 2022, briefing the visiting UN deputy scribe on the strides and challenges of the Buhari's administration, Mrs. Ahmed noted that the challenges of COVID-19 pandemic, the war in Ukraine and Climate Change were not caused by Nigeria.

Fitch Ratings also downgraded Nigeria's long-term foreign currency Issuer Default Rating (IDR) to 'B-' from 'B', pegging Africa's biggest oil producer, six notches above default, and at par with Ecuador and Angola.

According to Mrs. Ahmed, the cost of quantitative easing, high inflation and high interest rates, among others, across the world were global challenges, regretting that despite this reality, the rating agencies went ahead to downgrade Nigeria.

"We are coping with a lot, and we are doing the best we can under very difficult circumstances. But to have to cope with credit rating agencies working as if nothing has changed, not realising the kind of shocks we are facing, and assessing us and downgrading us for factors external to us, even when we are putting our best efforts.

"We think it is a situation we realise we cannot change. In this ministry, we engage every credit rating agency, and provide everything they ask for. But it seems as if it is not enough. There has to be some support that we need to get. They themselves need to do things differently.

"You cannot be making the same kind of assessments you were making some time ago. Things are different. Things are not going well. We have seen some of our sister countries really hurt.

"This year only, we have had Nigeria being downgraded, and unless these interventions are done at a very high international level, countries that are developing will be the ones that would carry the brunt of this attitude of the credit rating agencies," she further explained.

SPRING MEETINGS 2023 | WASHINGTON DC WORLD BANK GROUP INTERNATIONAL MONETARY FUND

Open, Rule-Based Trading System To Allow For Free Flow Essential Supplies

– Finance Minister

Following the highlights of the media gathering at the events, particularly at the IMFC where the Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, represented 22 countries, she spoke on monitoring financial stability risks and the need for moderation, open and rule-based trading system to allow for the free flow of essential supplies.

The delegation attended a couple of statutory, bilateral and side meetings. "I also called for the speedy implementation of the G20 Common framework on debts. While raising concerns on delays in debt restructuring for some countries; I encouraged cooperation between creditors and the affected countries to ensue completion of the programs.

"I also used the opportunity to highlight macro-economic development in Nigeria including ongoing engagements with all critical stakeholders on the need to mobilise additional resources for remove the fuel subsidies and free up resources for investment in the social sector. I am happy with the retention of the IMF growth forecast for Nigeria at three percent which is consistent with our internal projections even though our desire is to have higher GDP growth.

She noted the over 345 million people in developing countries facing acute food insecurity and 700million people living in extreme poverty most of who are in Africa.

At the Development Committee of the WB, "we discussed the on-going WBG evolution agenda which is in response to the G20 Independent Panel on Capital Adequacy Framework. We encouraged the bank to remain focused on the twin goals while enhancing its operating and financing models to enable it cope with increasing transborder and global challenges. We encouraged the WB to consider access to energy as one of the global challenges for SSA

At the G24 meeting, Mrs. Ahmed commended members for their support that led to election of Dr. Iyabo Masha of Nigeria as the first African Director.

She also had bilateral meetings with MIGA to consider how best Nigeria can leverage MIGA resources in infrastructure investment and discussed some pipelines. At the meeting, she also was with senior management of IFC Vice President for Africa, "where we agreed to grow Nigeria's portfolio in the real sector. We also had preliminary conversations on the possibility of IFC's visibility in the aviation and maritime sectors, especially in the newly modernised airports and some of the seaports in Nigeria. She also facilitated the dialogue between MOFI and IFC.

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning, **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, and other dignitaries at IMF/World Bank Spring Meetings 2023.

"I also had preliminary discussions with Shelter Afrique on the need to explore an innovative housing program for the IDPs and support the affordable housing scheme

At the FAD of the IMF, "we discussed the need to scale up Technical Assistance for FIRS and NCS in growing the revenue potentials of the country.

On Nigeria -in – Transition, in collaboration with the WBG, development partners and some members of the international community, "we held an event to showcase the massive investment potentials of the country, the current challenges and how we are tackling them. We also had conversation with them including members of the Transition Team on potential priorities of government and requested for the understanding and strong support of the developments and business community for the in – coming government.

> I am happy with the retention of the IMF growth forecast for Nigeria at three percent which is consistent with our internal projections even though our desire is to have higher GDP growth

Conclusively, Mrs. Ahmed echoed the key takeaways from the 2023 Spring Meetings; that "global environment is still very vulnerable and the need to build buffers, measured policy stance to ensure that there are no tradeoffs between monetary policy and fiscal policies - corporation is more than necessary now, and prudence in undertaking fiscal consolidation with an eye on the most vulnerable, including potential scale up of the social safety program.

The Impact of Credit Ratings On The Costs Of Development Finance In Africa

The role of credit rating agencies has been taken as critical in determining sovereign creditworthiness and, consequently, the cost of debt for both sovereign and corporate borrowers.

Questions have been raised about the determination of these ratings in Africa, where there is a dearth of relevant data and where ratings agencies may not have a presence in the countries. This dynamic could have dire implications for much-needed development finance across the continent.

Against this background, on April 14, the Brookings Africa Growth Initiative (AGI), Africatalyst, and United Nations Development Programme (UNDP)'s Africa Bureau hosted a high-level panel of African finance ministers and central bank governors for a conversation on the impact of credit ratings on the costs of development finance in Africa.

The event, which took place on the margins of the 2023 World Bank (WB)/International Monetary Fund (IMF) Annual Spring Meetings in Washington DC, featured findings from a new UNDP report that analyses credit ratings methodologies in Africa, discusses financial and development ramifications, and proposes alternative approaches for countries where relevant data is scarce.

The event sought to raise awareness about the significant development costs that subjective credit ratings have, especially in Africa; discuss various policy options and identify concrete steps forward; create a new stand-by facility (comprising a conciliar of high-level advisors and a bespoke database of key macroeconomic indicators) ready to help African countries in the credit process.

The event was opened for in-person attendance or was to be watched online in English and French interpretations made available.

$800m World Bank Subsidy Removal Facility Awaiting NASS Approval For Disbursement - *Finance Minister*

● Assures Of Govt's Commitment In Improving Growth

*The Honourable Minister of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** at the just concluded IMF/World Bank '23 Spring Meetings in Washington DC addressed the media on key issues in the economy as well as overview of the meetings, as the current administration winds down. **Musa Ibrahim** highlights major issues.*

The Nigerian delegation in a meeting with World Bank officials on fuel subsidy removal and the $800m World Bank Subsidy Removal Facility at the IMF/World Bank Spring Meetings 2023

The Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Ahmed, a few weeks ago clarified that the $800 million facility the country recently got from the World Bank for post-petrol subsidy removal palliative was awaiting parliamentary approval for the federal government to commence disbursement.

Mrs. Ahmed said this during an interview with the media on the sidelines of the just concluded International Monetary Fund/ World Bank (IMF/WB) Spring Meetings in Washington DC, United States.

According to her, the facility would be deployed to provide succour to 10 million households, who are expected to get N5,000 each for a period of six months.

The Honourable Minister explained that the initial duration of the palliatives meant to cushion the effects of the planned subsidy removal on vulnerable Nigerians was for six months, but would be reviewed upon extensive consultation with stakeholders.

Mrs. Ahmed explained: "The $800 million has been negotiated and approved by the Federal Executive Council (FEC) and we now have a request before the parliament for approval. And once the parliament approves it, we will roll it out.

"We have also been doing preparatory work side by side along the approval process. And that includes the building of the social register which will be used for the electronic transfers of the funds.

"We needed to have this ready because when the government eventually removes fuel subsidy, there will be an immediate transport palliative that will be provided to the most vulnerable members of our society who have been identified, registered and now contained in our national social register.

"This effort is led by the Ministry of Humanitarian Affairs, Disaster Management, and Social Development. They developed that register with the support of the World Bank. The register has about 10 million households and that's an equivalent of 50 million Nigerians."

Speaking further, Ahmed said the initial design was to disburse cash transfers of N5,000 per month per household for a period of six months.

> The current administration and the incoming administration are working on a plan to make sure that we have a consensus...

She noted that there would be an assessment with the transition team and If the initiative or relief was not enough, the country may need to raise additional resources to be able to cover more people, extend the period or increase the amount.

"When the subsidy is removed, there would be additional revenue that would now accrue to the federation account. One of the things we are working on is how this incremental revenue would be used. The money belongs to the federal, state, and local governments.

"We hope that we'll be able to still ring- fence this incremental revenue and apply it to measures that will help to ensure that the fuel subsidy removal is actually sustained so that It won't be another start-and-stop program.

"But this has to be a collective decision. The current administration and the incoming administration are working on a plan to make sure that we have a consensus on how to use that incremental revenue."

She added: "The $800 million was raised by discussing with the Debt Management Office, the Ministry of Finance, and the World Bank Country Office for Nigeria. We don't need consultants to help us raise any kind of finance. We have internal expertise that has worked well over time, so we do not need consultants for that."

Shedding more light on the likely impact of fuel subsidy removal on the economy, she acknowledged that it was expected to cause some increase in the prices of goods and services. This may further elevate inflationary pressure in the country.

The Consumer Price Index which measures inflation in Nigeria rose to 22 per cent in March, according to figures released by the National Bureau of Statistics at the weekend.

"Fuel subsidy removal would always come with some challenges like increased inflation, which would naturally happen. It would spike initially and then it would moderate and normalise. Anywhere in the world where you remove any kind of subsidy, it has that effect.

"That is why that initial fund is necessary so that you are deploying it quickly and reducing the impact on the lives of the most vulnerable people in our society.

"So yes, inflation may go up, but our assessment is that it would not go up much because as it is, price of fuel in Nigeria or the cost Nigerians are already paying for fuel reflects the high cost of what would be attained when the fuel subsidy is removed," Mrs. Ahmed declared.

She pointed out, "people are buying fuel at very high rates, it is not the pump price. So, we think that inflation is already built into it. There might be some increase, but it would not be a huge spike and even if there is, it would be transient and it would quickly come down and moderate."

Giving an overview of the performance of the country's delegation to the 2023 Spring Meetings which was led by her, she said: "We met at a time of high global uncertainty with successive shocks of the war in Ukraine, rising inflation, fragmentation and monetary policy tightening and most recently the financial market stress in the Silicon Valley Bank, Signatures Bank and Credit Suisse Bank.

"With over 345 million people in Developing countries facing acute food insecurity and 700million people living in extreme poverty most of who are in Africa. The delegation attended a couple of statutory, bilateral and side meetings."

On the statutory meetings, she said: "At the International Monetary and Financial Committee where I represented 22 countries, I spoke on the need to monitor financial stability risks and the need for moderation, open and rule-based trading system to allow for the free flow of essential supplies.

"I also called for the speedy implementation of the G20 Common framework on debts. While raising concerns on delays in debt restructuring for some countries., I encouraged cooperation between creditors and the affected countries to ensue completion of the programs. I also used the opportunity to highlight macro-economic development in Nigeria including ongoing engagements with all critical stakeholders on the need to mobilise additional resources for remove the fuel subsidies and free up resources for investment in the social sector.

"I am happy with the retention of the IMF growth forecast for Nigeria at three percent which is consistent with our internal projections even though our desire is to have higher GDP growth.

"At the Development Committee of the World Bank, we discussed the on-going World Bank Group evolution agenda which is in response to the G20 Independent Panel on Capital Adequacy Framework.

"We encouraged the Bank to remain focused on the twin goals while enhancing its operating and financing models to enable it cope with increasing trans-border and

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Lowering The Cost Of Borrowing In Africa - UNDP

• The Role Of Sovereign Credit Ratings

At the just ended April 2023 Spring Meetings at Washington DC, the Regional Bureau for Africa talked on how African countries could lower the cost of borrowing.

It stated that the importance of credit ratings that are more accurately reflecting economic fundamentals for Africa cannot be overstated, as it directly affects the cost of borrowing and has significant implications for both financial and developmental outcomes.

The bureau was of the opinion that African countries, and their development partners, could take immediate steps to address the credit ratings idiosyncrasies, in partnership with global rating agencies.

As the credit rating idiosyncrasies have a negative effect on the African countries. Adjusting credit ratings that are inconsistent with countries' macroeconomic reality could also improve risk perception and lead to increased foreign direct investment (FDI) flows.

This is because credit ratings often indirectly influence FDI by affecting the perception of a country's investment climate and its ability to repay its debts.

By improving their credit ratings, African countries could attract more FDI, which is crucial for long-term economic growth and development.

A recent study by the United Nations Development Programme (UNDP) utilises an approach that goes beyond the traditional assessments of credit ratings and uses a more conservative methodology to assess credit ratings by comparing the ratings of the three major agencies to an algorithm based mostly on macroeconomic fundamentals, thus minimising subjective inputs.

The analysis reveals significant, but non-systematic 'idiosyncrasies,' which are deviations from macroeconomic fundamentals that are not necessarily driven by bias, economic cycles, or conflict of interest. These deviations may be attributable to varying levels of subjectivity.

The random nature of these deviations from the underlying economic data is evident in the fact that some African countries are under-rated by one agency but overrated by another. Moreover, there are very different ratings by one or more agencies for countries in similar situations. The discrepancies highlight the importance of including the most comprehensive and accurate information in credit ratings. These differences do not necessarily reflect any systematic credit agency issue, but may be due to data limitations and subjectivity differentials.

Based on the idiosyncrasies, the UNDP study was able to estimate the opportunity costs for each country. The study provides results for sovereign bonds in domestic currencies for 13 African countries, with the sample size being limited by data availability in the primary source on sovereign bonds data, namely the S&P Bond Index dataset.

The main conclusion drawn from the analysis is that African nations could access an additional

Mrs. Zainab Ahmed, Honourable Minister of Finance, Budget and National Planning in a handshake with **Abebe Aemro Selassie,** Director, African Department, International Monetary Fund, at IMF/World Bank Spring Meetings 2023.

US$31 billion in new financing for sovereign credit if credit ratings were based more closely on economic fundamentals and less on subjective assessments. Additionally, the 13 African countries studied could save nearly US$14.2 billion in total interest costs (equivalent to US$2.2 billion annually).

While these sums may be negligible for large investment firms, they are considerable for African countries. If the ratings were more in line with economic fundamentals, the 13 countries analysed could have an additional US$45 billion in funds available, considering both the savings in interest costs and the additional financing. To put this figure in perspective, the total net Official Development Assistance (ODA) received by Sub-Saharan Africa in 2021 was US$59 billion.

In addition to domestically-denominated sovereign bonds, African countries also issue debt in foreign currency, commonly known as Eurobonds, although they can be denominated in US dollars or other currencies. A similar analysis of African Eurobond ratings also found inconsistent deviations from economic fundamentals, that is, subjective idiosyncrasies.

These deviations indicate that African countries have the potential to raise an additional US$15.5 billion in new funding from international investors through Eurobonds.

Furthermore, these 16 economies could save nearly US$14 billion in total interest costs, equivalent to US$933 million per year. In total, adjusting the credit ratings for Eurobonds could result in potential savings of US$29.3 billion for these African countries.

Combining the numbers from both tables, the full cost of credit rating idiosyncrasies in Africa is estimated to be US$74.5 billion in excess interest and foregone funding for the countries. This amount is nearly 12 percent more than all of Africa's net official development assistance in 2020.

The cost of financing for any borrower is determined by its credit risk, whether real or perceived (as well as the probability of default).

For sovereign borrowers, this is determined by three global agencies - Standard and Poor's (S&P), Moody's, and Fitch. These ratings serve to inform investors about the risk profile of sovereign borrowers. These ratings bridge information asymmetries, so lenders have fuller information about potential risks.

> The cost of financing for any borrower is determined by its credit risk, whether real or perceived (as well as the probability of default)

In most cases, institutional investors such as mutual and pension funds, teachers' unions, and others are required by law to hold securities with an investment-grade credit rating. Additionally, a country's credit rating indirectly serves as a signal to potential investors. Sovereign credit ratings also serve as the highest benchmark for the ratings of the country's corporate and public sector entities, such as regional or municipal bodies.

In 1994, only South Africa had a sovereign credit rating in Africa. Starting in 2003, UNDP partnered with S&P and funded the agency's rating activities of African sovereign borrowers. UNDP also provided technical assistance to African countries, in an initiative that facilitated market access for many countries. By 2004, 13 African countries had been rated, and 32 are rated as of 2023. However, with two exceptions (Botswana and Mauritius), the ratings of African economies are of speculative (non-investment) grade. This is a much lower proportion of countries compared to other regions.

However, in Africa, it remains challenging for risk assessments and credit ratings to accurately reflect reality. This is largely due to a dearth of timely data, and partly a function of the frontier nature of many African markets. Also, rating agencies struggle to find experts with sufficient depth and regional knowledge. Consequently, many have questioned the veracity of some ratings. The research literature on credit ratings highlights several issues: a bias in favour of the home country of the ratings agencies or its economic allies, a bias against most

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Lowering The Cost Of Borrowing In Africa - UNDP

R-L: **Mr. Aliyu Ahmed,** Permanent Secretary, Finance, Federal Ministry of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** Honourable Minister of Finance, Budget and National Planning, **Mr. Ben Akabueze,** Director-General, Budget Office of the Federation, **Dr. Oyebode Oyetunde,** Executive Director, African Development Bank, in an interface with World Bank/IMF officials, at the IMF/World Bank Spring Meetings 2023

CONT'D FROM THE PREVIOUS PAGE

forms of government intervention, a tendency for ratings to fluctuate with the business-cycle, and a conflict of interest (since the bond issuer pays the rating agency).

As such these have implications on the developmental growth of the economies.

Development cannot be solely measured in dollars and euros. It is important to contextualise the development costs of observed idiosyncrasies in relation to Africa's development financing gaps.

The estimated cost of US$74.5 billion is: Six times the cost of vaccinating 70 percent of Africans (US$12.5 billion) to achieve herd immunity to COVID-198; 80 percent of Africa's annual infrastructure investment needs (estimated at US$93 billion); and more than twice the cost of reducing malaria by 90 percent (US$34 billion).

Reducing interest rates paid by African countries on both domestic and foreign debt could greatly decrease the debt service burden they face. This, in turn, would enable the countries to repay the principal faster and free up funds for more investments in development. This is especially important for African countries that allocate significant proportions of their national income to debt service.

The bureau proposed that there should be a greater transparency for credit ratings

There is a pressing need for greater transparency in the methodologies adopted by the big three credit rating agencies

methodologies. There is a pressing need for greater transparency in the methodologies adopted by the big three credit rating agencies, which extends beyond the requirements of African nations. This could be achieved through engagement and cooperation with the agencies, and UNDP can play a key role in providing and analysing relevant country-focused data for African countries. This would be an essential first step in assisting African borrowers in presenting a more objective view of their macroeconomic positions.

Although the big three credit rating agencies attempt to provide general information on their credit rating methodologies, much about the underlying assumptions remains ambiguous. This analysis suggests the existence of idiosyncratic decisions, and discretionary actions that could have dire financial and development implications.

Africa-based credit rating agencies could play a greater role in this context, since they may have access to more granular data. This issue underpins calls for concerted efforts to reduce credit rating agencies's home bias and pro-cyclical ratings.

Apart from the above, the adoption and standardisation (for financial markets participants) of alternative ratings was another proposal for improving credit ratings for African Nations.

This proposal is a more complex measure that involves a range of local and multinational actors, along with leading international investor groups and the big three credit rating agencies. The aim is to accelerate ongoing efforts in peer reviews of the existing credit ratings systems, methodologies, and their relevance across different country groups. For African nations, this step would require the big three credit rating agencies to collaborate with a future pan-African agency and develop effective communication channels with each country's relevant government agencies.

The main objective is to augment the established approach of credit ratings with a more country-specific modality that prioritises medium-term development over formal compliance with threshold fiscal indicators.

For instance, a country's appeal for debt relief assistance in response to a crisis, such as during the COVID-19 pandemic, should not lead to rating downgrades.

In a similar vein, a proposal for a pan-African rating agency aims to address the observed idiosyncrasies. The African Union (AU), working with national rating and regulatory agencies, as well as ministries of economics and finance, would be best placed to lead this effort. As of the time of writing, efforts are already underway to implement such a strategy. It is important to maintain direct lines of information exchange and regulatory consistency among the involved national stakeholders, as well as to engage with the rating agencies currently operating in Africa, as discussed above.

$800m World Bank Subsidy Removal Facility Awaiting NASS Approval For Disbursement - *Finance Minister*

Honourable Minister of Finance, Budget and National Planning, **Mrs. Zainab Ahmed,** in the midst of others at the Spring Meetings 2023.

CONTINUED FROM PAGE 35

global challenges. We encouraged the World Bank to consider access to energy as one of the global challenges for Africa.

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"I also had preliminary discussions with Shelter Afrique on the need to explore an innovative housing program for the IDPs and support the affordable housing scheme

"At the FAD of the IMF, we discussed the need to scale up Technical Assistance for FIRS and NCS in growing the revenue potentials of the country."

Furthermore, Ahmed disclosed that in collaboration with the World Bank Group, development partners and some members of the international community, "we held an event to showcase the massive investment potentials of the country, the current challenges and how we are tackling them."

"We also had conversation with them including members of the Transition Team on potential priorities of government and requested for the understanding and strong support of the developments and business community for the in - coming government," she added.

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Economy & Investment

ADVERT RATE

COLOUR

PRODUCT

Size	Rate	Vat (7.5%)
F/P	557,916.68	41,843.76
H/P	316,462.50	23,734.68
Q/P	152,770.00	11,457.76
14.5x5	452,218.76	33,916.40
14.5x3	271,293.26	20,347.00
10x6	374,250.00	28,068.76
10x5	311,875.00	23,390.62
10x4	249,500.00	18,712.50
9x6	336,825.00	25,261.88
9x5	280,687.50	21,051.56
9x4	224,550.00	16,841.26
9x3	168,412.50	12,630.94
8x6	299,400.00	22,455.00
8x5	249,500.00	18,712.50
8x4	199,600.00	14,970.00
7x6	251,975.00	18,898.12
7x5	218,312.50	16,373.44
7x4	174,650.00	13,098.76
7x2	172,150.00	6,549.38
6x4	149,700.00	11,227.50
6x3	112,275.00	8,420.62
6x2	74,850.00	5,613.75
5x6	187,125.00	14,034.38
5x5	155,937.50	11,695.32
5x4	124,750.00	9,356.26
5x3	93,562.50	7,017.18
5x2	62,375.00	4,678.12
4x4	99,800.00	7,485.00
4x3	74,850.00	5,613.76
4x2	49,900.00	3,742.50
3x2	37,425.00	2,806.88
2x2	24,950.00	1,871.26
2x1	12,475.00	935.62
1x1	6,237.50	467.82

PUBLIC NOTICE POLITICAL

Size	Rate	Vat (7.5%)
F/P	578,838.55	43,412.90
H/P	328,329.84	24,624.74
Q/P	158,498.88	11,887.42
14.5x5	234,558.65	35,183.80
14.5x3	284,858.44	21,364.38
10x6	388,303.80	29,122.78
10x5	323,586.50	24,268.98
10x4	258,869.20	19,415.20
9x6	349,473.42	26,210.50
9x5	291,227.85	21,842.08
9x4	232,982.28	17,473.68
9x3	174,736.70	13,105.26
8x6	310,643.04	23,298.22
8x5	258,869.20	19,415.20
8x4	207,095.36	15,532.16
7x6	271,812.66	20,385.94
7x5	226,510.55	16,988.30
7x4	181,208.44	13,590.64
7x2	90,604.22	6,795.32
6x4	155,321.52	11,649.12
6x3	116,491.14	8,736.84
6x2	77,660.76	5,824.56
5x6	194,151.90	14,561.40
5x5	161,793.24	12,134.50
5x4	129,434.60	9,707.60
5x3	97,075.95	7,280.70
5x2	64,717.30	4,853.80
4x4	103,547.66	7,766.08
4x3	77,660.74	5,824.56
4x2	51,773.84	3,883.04
3x2	38,830.38	2,912.28
2x2	25,886.92	1,941.52
2x1	12,943.46	970.76
1x1	6,471.72	485.38

BLACK AND WHITE

PRODUCT

Size	Rate	Vat (7.5%)
F/P	366,792.56	27,509.44
H/P	198,423.18	14,881.74
Q/P	95,782.00	7,183.66
14.5x5	283,950.60	21,296.30
14.5x3	190,000.00	14,250.00
9x6	234,993.60	17,624.52
9x5	176,245.20	13,218.4
9x4	140,996.16	10,574.72
9x3	105,747.12	7,931.04
8x6	187,994.88	14,099.62
8x5	156,662.40	11,749.68
8x4	126,329.92	9,474.74
7x6	164,495.52	12,337.16
7x5	137,079.60	10,280.98
7x4	109,663.68	8,224.78
7x2	54,831.84	4,112.38
6x4	93,997.44	7,049.80
6x3	70,498.08	5,287.36
6x2	70,498.08	5,287.36
5x6	117,496.80	8,812.26
5x5	97,914.00	7,343.56
5x4	78,331.20	5,874.84
5x3	58,748.40	4,406.14
5x2	39,165.60	2,937.42
4x4	62,664.96	4,699.88
4x3	46,998.72	3,524.90
4x2	31,322.48	2,349.18
3x2	23,499.38	1,762.46
2x2	15,666.24	1,174.96
2x1	7,833.12	587.48
1x1	3,916.56	293.74

PUBLIC NOTICE POLITICAL

Size	Rate	Vat (7.5%)
F/P	435,178.08	32,638.36
H/P	254,538.96	19,090.42
Q/P	131,226.90	9,842.02
14.5x5	38,040.56	2,853.04
14.5x3	232,825.87	17,461.94
10x6	319,512.00	23,963.40
10x5	266,260.00	19,969.50
10x4	213,006.00	15,975.46
9x6	287,560.80	21,567.06
9x5	239,634.00	17,972.56
9x4	191,707.20	14,378.04
9x3	143,780.40	10,783.54
8x6	255,609.60	19,170.72
8x5	213,008.00	15,975.60
8x4	170,406.40	12,780.48
7x6	223,658.00	16,774.36
7x5	186,382.00	13,978.66
7x4	149,105.60	11,182.92
7x2	74,552.80	5,591.46
6x4	127,804.80	9,585.36
6x3	95,853.60	7,189.02
6x2	63,902.40	4,792.68
5x6	159,756.00	11,981.70
5x5	133,130.00	9,984.76
5x4	106,504.00	7,987.80
5x3	79,878.00	5,990.86
5x2	53,252.00	3,993.90
4x4	85,203.20	6,390.24
4x3	83,902.40	6,292.68
4x2	42,601.60	3,195.12
3x2	31,951.20	2,396.34
2x2	21,300.80	1,597.56
2x1	10,650.40	798.78
1x1	5,325.20	399.40

SPECIAL POSITION	Rate	Vat (7.5%)
FPS 6x2	1,291,193.44	96,839.50
BPS 6x2	923,375.00	69,253.12
STRIP (FRONT) 2X6	1,322,912.50	99,218.44
STRIP (BACK) 2X6	1,037,500.00	77,812.50
STRIP (INSIDE) 2X6	218,460.38	16,384.52
EARPIECE (FRONT) 2X2	517,094.30	38,782.08
EARPIECE (BACK) 2X2	405,145.10	30,385.88
EARPIECE (INSIDE) 2X2	240,000.00	18,000.00
CENTERSPREAD (FULL)	3,320,000.00	249,000.00
CENTERSPREAD (HALF)	1,992,000.00	149,400.00
CENTERSPREAD (STRIP)	594,300.00	44,572.50
DOUBLESPREAD	2,982,952.00	223,721.40

WRAP	Rate	Vat (7.5%)
FULL WRAP	41,500,000.00	3,112,500.00
10 X 6	28,620,690.00	2,146,551.76
HALF PAGE (FRONT)	20,800,000.00	1,560,000.00
5X6 (FRONT)	14,312,344.00	1,073,425.80
4X6 (FRONT)	11,448,274.00	858,620.56
2X6 (UNDER MASTHEAD	7,262,500.00	544,687.50
2X6 (FRONT POLITICAL)	1,560,000.00	117,000.00

LOOSE INSERT	
RATE PER 1,000 SHEETS	60,000.00
HANDLING CHARGE (SINGLE)	1,000,000.00
HANDLING CHARGE (SINGLE)	1,000,000.00

GENERAL INFORMATION

DEADLINE
WITHIN ABUJA
5 Days of Publication

SUR-CHARGE
SPECIAL POSITION
100% : Pages 2, 3 and 4
50% : Pages 5, 6 and 7

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Revenue Shortfall Challenges, High Interest Rates, Debt Burden Against Inclusive Growth

Of course, a robust recovery of the global economy is likely to remain elusive as a rapid transition to higher interest rates exposes financial vulnerabilities, as the global economy's slow pace of projected growth over the next five years posed particular challenges for the world's poorest countries.

There is a 'dangerous divergence' in growth prospects which means that average per-capita incomes in low-income countries would not grow fast enough to converge with those of middle-income countries. While the outlook for developing economies is weaker, the emerging-market economies are expected to see relatively strong growth, according to experts.

The World Bank President, Mr. David Malpass, would note that the capital was flowing away from developing economies and that small businesses in the countries could not access the investment they needed to expand. In saying that it is gravely concerning, he also notes that this, along with high food and fertilizer prices, was fuelling income divergence and adding to the global inequality and fragility.

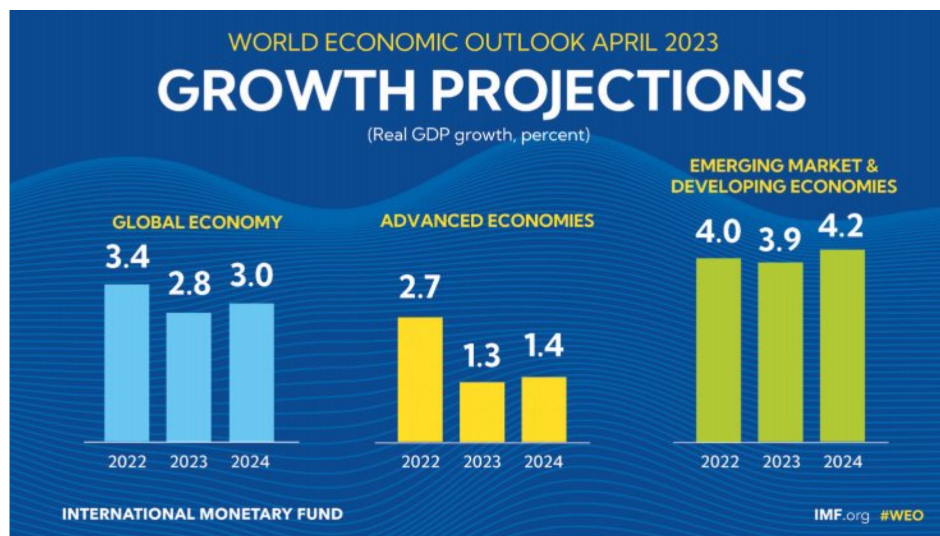
The expectation is that as inflation is brought back under control, advanced economies' central banks are likely to reverse recent rises in interest rates, but how far all this will go depends on the persistence of public debt and the extent of financial fragmentation, the International Monetary Fund (IMF's) Jean-Marc Natal and Philip Barrett state.

Notably, since the mid-1980s, real interest rates across advanced economies have been steadily declining, most likely reflecting a decline in the natural rate, or the real interest rate that would keep inflation at target and the economy operating at full employment—neither expansionary nor contractionary.

An analytical chapter of the latest world economic outlook explores the forces that have driven the natural rate in the past and the most likely future path for real interest rates in advanced and emerging market economies.

In large emerging markets, demographic and productivity trends suggest a gradual convergence towards advanced economies' real interest rates, the authors say. The analysis overall suggests that recent increases in real interest rates are likely to be temporary.

Therefore, there is the question bordering on how governments can



tackle soaring public debt: Governments can reduce debt with well-timed and well-designed adjustments to fiscal policy, but countries in distress need a more comprehensive approach, IMF economists, Adrian Peralta-Alva and Prachi Mishra say.

In some developed economies, a sharp rise in interest rates and the strong currency are adding to the costs of servicing public debt, which soared to record highs during the COVID-19 pandemic, topping global gross domestic product. An analytical highlight of the world economic outlook explores what policies work best to durably reduce debt relative to gross domestic product (GDP).

The authors find that a fiscal contraction of about 0.4 percentage point of GDP—the average size in their sample—lowers the debt ratio by 0.7 percentage point in the first year and up to 2.1 percentage points after five years.

But the probability of success depends on timing and design. And fiscal consolidation alone may not be sufficient for countries in debt distress or facing increased risks, the authors say. "In such cases, debt restructuring—a renegotiation of the terms of a loan—may be necessary."

Specifically in Nigeria, the position of Debt Management Office (DMO) is that if the country has the highest GDP in Africa, then it should also have the highest revenue, but that is not the situation.

The office would note that public debt may rise to N77 trillion only if Ways and Means are securitised, revealing that Nigeria has one of the lowest government revenue to GDP ratios in Africa. DMO understands that this could be sorted by increasing government tax revenues and harsher punishment for tax evaders.

Nigeria's debt service to revenue ratio is reported as 80.7 percent, according to the information contained in the 2023 Budget presentation made by the Honourable Minister of Finance, Budget and National Planning, Mrs. Zainab Shamsuna Ahmed. Nigeria could close its debt deficit by being deliberate with revenue generation, says DMO.

Nigeria's debt service to revenue ratio is highlighted as 80.7 percent, according to the information contained in the 2023 Budget presentation made by the Honourable Minister of Finance, Budget and National Planning, stating a total debt service of N5.2 trillion in the first 11 months of 2022 out of a total revenue of N6.49 trillion.

The debt service to revenue ratio underscores the ability of a country's revenue to cover its debt service obligations. The ratio has been on the rise recently as Nigeria faces a nosedive in its government's revenues while government expenditures have increased.

On revenue challenges, between 2016 and 2022, the Nigerian government could not meet its revenue targets due to falling oil prices and rampant oil theft that has been decimating the federal resources.

For example, in 2021, the government targeted revenue of N8.1 trillion but could only generate N6.1 trillion, leaving a revenue shortfall of N2 trillion. However, its total debt service incurred for that year was N4.2 trillion. Nigeria's government and private sector debt rose to an all-time high of N70 trillion representing a 38 percent increase year on year, according to data from the central bank of Nigeria for February 2023.

In the first 11 months of 2022, it only generated N6.4 trillion in revenues compared to the prorated target of N7.4 trillion. Then the government also incurred about N5 trillion in non-debt expenditures.

The expectation is that as inflation is brought back under control, advanced economies' central banks are likely to reverse recent rises in interest rates

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