

I. COUNTRY REFORM PROGRESS

Over the last decade, limited reforms, security challenges, weak growth, and, more recently, high inflation have worsened poverty and food insecurity. Inflation reached 32 percent year-on-year in February 2024, driven mainly by food price inflation (38 percent) and loose financial conditions. Despite improved oil production and financial services, real GDP growth slowed to 2.9 percent in 2023, with weak agriculture and trade. Growth is projected at 3.3 percent for 2024 as oil and agriculture outputs are expected to improve with better security. The financial sector has remained stable despite heightened risks. With continued monetary tightening, inflation is projected to gradually decline to 24 percent year-on-year at end-2024.

The new government (May 2023) has set out on an ambitious reform path to restore macroeconomic stability and support inclusive growth. The authorities reformed the fuel price subsidies, unified official foreign exchange windows, and are focused on revenue mobilization, governance, and enhancing the monetary and exchange rate policy frameworks, as well as strengthening social safety nets. The fiscal position strengthened in 2023. Revenues benefited from Naira depreciation and enhanced revenue administration, while expenditure rationalization and restraint allowed for a one-off wage increase to mitigate the impact of high inflation for public officials.

The IMF's Fiscal Affairs Department (FAD) has been supporting the modernization of Nigeria's tax and customs administration. Since 2022, Nigeria has benefited from a resident advisor in the revenue administration area. In 2023, a repeat Tax Administration Diagnostic Assessment Tool (TADAT) evaluation mission assessed a remarkable improvement in the tax administration processes since the 2018 assessment and identified areas for further improvement. A post-TADAT mission supported the strategy for medium-term reforms based on the broader systemic issues identified by the TADAT assessment and the policy decisions adopted by the new government. Modernizing value added tax (VAT) and deepening work processes based on a risk management strategy are key. GPFP supported a VAT gap analysis to identify the main gaps in the weak VAT performance.

In customs, the Nigeria Customs Service (NCS) requested capacity development (CD) in several areas, with a focus on the control and verification of the origin of goods imported and exported under the African Continental Free Trade Area (AfCFTA), customs compliance, and trade facilitation. As a direct result of FAD's assistance, a dedicated "origin of goods" unit was established within the NCS, the NCS was designated as the competent authority for certification and verification of origin under the AfCFTA as recommended by FAD in the region, and the country began exporting and importing under this agreement.

II. PROJECT DELIVERY HIGHLIGHTS

RM II : Revenue Module II – Revenue Administration

Key Progress in FY25: A post-TADAT mission identified areas where GPFP support is necessary and areas where the authorities can make advancements by themselves. Immediate CD started to strengthen compliance risk management (CRM), including the review of the CRM policy documents. As VAT revenue is critical in the government agenda, a pilot of a compliance improvement plan for VAT has been designed and the GPFP is supporting a VAT gap analysis study. No activity in the customs area in the first half of FY25.

Regarding the customs component of the project, the NCS has been provided with CD under the JSA project until October 2024. Only from calendar year 2025 will CD be provided under this GPFP project.

Next Steps: Tax administration – a follow-up CD activity in CRM and a peer-to-peer engagement with the Zambian tax administration will provide knowledge building at the Federal Inland Revenue Service (FIRS) following the government decision to transition the administration of excises to FIRS. In response to the needs of the NCS and the Ministry of Finance, support is planned to the NCS in the re-engineering of customs processes with a view to developing a single window for foreign trade, and for the proper management and control of the origin of imported and exported goods.

III. LOGICAL FRAMEWORK

Country – Nigeria		
RM II: Objective - Strengthened revenue administration management and governance arrangements (SDG 17.1) – RAM		Rating - 2
Outcome	Rating	Narrative
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	2 Partially Achieved	AFW2 is supporting the review of the strategic management framework and CD was provided in FY25 (November 2024).
Corporate priorities are better managed through effective risk management	2 Partially Achieved	An HQ mission and a follow-up STX visit have been supporting the strengthening of risk management at FIRS. Due to the relevance of VAT, a pilot of a compliance improvement plan (CIP) for VAT has been designed and supported by GPFP (November 2024).
Organizational arrangements enable more effective delivery of strategy and reforms	1 Not Achieved	Planned for April / May 2025 (November 2024).
Support functions enable more effective delivery of strategy and reforms	1 Not Achieved	This is in the pipeline for the upcoming fiscal year (November 2024).
Digital technologies are better aligned with strategic objectives	1 Not Achieved	Not started yet (November 2024).
RM II: Objective - Strengthened core tax administration functions (SDG 17.1) - TAD		Rating - 1
Outcome	Rating	Narrative
A larger proportion of taxpayers meet their payment obligations as required by law	1 Not Achieved	The modernization of both services and enforcement activities will require strong CD support, which are in the pipeline (November 2024).
A larger proportion of taxpayers meet their filing obligations as required by law	2 Partially Achieved	The new IT system is the backbone of reforms in tax administration and the scope has been expanded to enhance taxpayer filing (November 2024).
Audit and other verification programs more effectively ensure accuracy of reporting	1 Not Achieved	This was agreed to be a priority but has not started because there are limited resources available in the first semester of FY25 (November 2024).

Taxpayer services initiatives to support voluntary compliance are strengthened	2 Partially Achieved	Authorities are structuring the framework to strengthen initiatives focused on increased support for voluntary compliance (November 2024).
The integrity of the taxpayer base and ledger is strengthened	1 Not Achieved	The authorities are still discussing how to implement the solution without risking the registration database (November 2024).
RM II: Objective - Improved customs administration functions (SDG 17.1) – CAD		Rating - 2
Outcome	Rating	Narrative
Customs control during the clearance process more effectively ensures accuracy of declarations	2 Partially Achieved	Customs has already taken over the management and control of origin under the AfCFTA, as recommended by FAD missions. A follow-up mission is planned for April 2025. An FAD mission in November 2023 provided guidance on the re-engineering of import and export processes. Awaiting implementation. During the 2024 Annual Meetings, continued support in this area was requested.
Foreign trade operators better comply with their reporting and payment obligations	1 Not Achieved	An FAD mission in November 2023 provided guidance on the re-engineering of import and export processes. Awaiting implementation. During the 2024 Annual Meetings, continued support in this area was requested. A follow-up mission is planned for February 2025.
Trade facilitation and service initiatives better support voluntary compliance	2 Partially Achieved	Lack of engagement from local authorities and internal disputes over the control of the single window hinder the project's progress. Following the express request for support in this area during the annual meetings in 2024, progress in the next FY may be possible.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External climate/conditions		
External shocks (social, political, economic, etc.) impact government revenue and expenditures.	Very High	Work with the IMF country teams and other IMF departments to analyze emerging fiscal risks and propose potential fiscal policies to minimize fiscal risks.
Government revenue measures adversely impact the tax ratio.	High	Work with country team and authorities to monitor revenue measures and their impact on the tax ratio and propose reforms to boost the tax ratio.
Management and Technical Staff Support and Commitment		
Patronage and cronyism in senior staff appointments.	High	Develop and implement a robust succession plan.
Tax administration executive management changes affecting reform implementation	Medium	Regular engagement, encouragement, and monitoring. Close collaboration and communication with FAD team and other partners.
Political Support		

Description	Rating	Mitigation Measures
Political instability and/or lack of political support may slow down and even stop reforms.	Very High	Close consultation with the country team to assist authorities in recognizing the relevance of reforms. Strategic advice and hands-on capacity building to have a more permanent impact.
Resource Adequacy		
Deficient transparency and accountability in tax and customs administrations.	Medium	Maintain an effective alignment between organizational structure, people and business/internal processes. Implement a comprehensive framework for performance management to cover all functional areas of FIRS and NCS
Cronyism and nepotism in hiring low-capacity and unskilled staff.	High	Provide staff with the necessary tools, technology, and skills towards high performance. Reposition FIRS Training School to ensure development of required skills.
Other Risks <i>[risk]</i>		
Slow implementation of reforms	Medium	Aligning reforms timeline with conditions in the field - low capacity and lack of resources. Close monitoring and readiness to adopt necessary changes.

V. PROJECT MANAGERS CONTACT INFORMATION

Project Manager	Module PM	E-mail
Paulo Paz (FADR2)	Paulo Paz (FADR2) Marco Siqueira (FADR2)	PSilvadaPaz@imf.org MSiqueira@imf.org