

THE NIGERIAN NEW MINIMUM WAGE:

IMPLICATIONS FOR STATE GOVERNMENTS' BUDGET PERFORMANCE

Presented by

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NIGERIAN NEW MINIMUM WAGE: IMPLICATIONS FOR STATE GOVERNMENTS' BUDGET PERFORMANCE



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Thursday

27th June, 2024

5PM

Zoom (link to be circulated)

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Ability of States to Pay and Finance New Minimum Wage

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A background image showing four people standing on tall stacks of coins, symbolizing wealth or economic stability. The scene is set against a dark purple background.

INTRODUCTION

- The effects of policy reforms by the current administration are far-reaching.
 - Removal of fuel subsidies has caused households and businesses to face high energy costs.
 - Following the unification and depreciation of the currency, the prices of many items have also increased significantly.
 - These reforms have therefore increased the pressure on workers and households in the form of reduced purchasing power and welfare
- In light of these current economic conditions, the renewed demand for higher wages is a natural response.
 - Therefore, the Nigeria Labor Congress (NLC) and the Trade Union Congress (TUC) have, in recent times, clamored for an upward review of wages,
 - as the current minimum wage has not kept pace with the cost of living in the country.

INTRODUCTION Minimum Wage Adjustments in Nigeria

- A new minimum wage of ₦125 was signed into law in 1981, which was equivalent to about US\$205 at the time.
- This was later revised to ₦250 per month in 1991, and further increased to ₦5,500 in 2000.
- In 2011, a new national minimum wage of ₦18,000 was set.
- The current ₦30,000 minimum wage took effect in 2018. At the exchange rate of 306.08/US\$1, this amounted to US\$98 at the period.
- But at today's exchange rate, it is less than US\$20, indicating a rate below what was paid in 1991.
- Assume the current negotiation finally leads to, say, ₦62,000 or ₦70,000; using the prevailing exchange rate, this will amount to an equivalent of US\$41.13 or US\$46.44 respectively, .

Year	Minimum Wage (₦)	1\$/₦ Rate	Minimum Wage (\$)
1981	125	0.61	204.92
1991	250	9.91	25.23
2000	5,500	102.11	53.86
2011	18,000	153.86	116.99
2018	30,000	306.08	98.01
2024	30,000	1,507.45	19.90
2024e	62,000	1,507.45	41.13
2024e	70,000	1,507.45	46.44

Source: StatiSense, ADSR Research

INTRODUCTION Recent Development

- In April 2024, the Organised Labor proposed ₦615,000 as the new minimum wage for workers to cope with the many economic realities and high cost of living in Nigeria.
- This demand is premised on the fact that the Minimum Wage Act is to be reviewed every five years.
 - The Minimum Wage Act of 2019, which made ₦30,000 the minimum wage, expired in April 2024

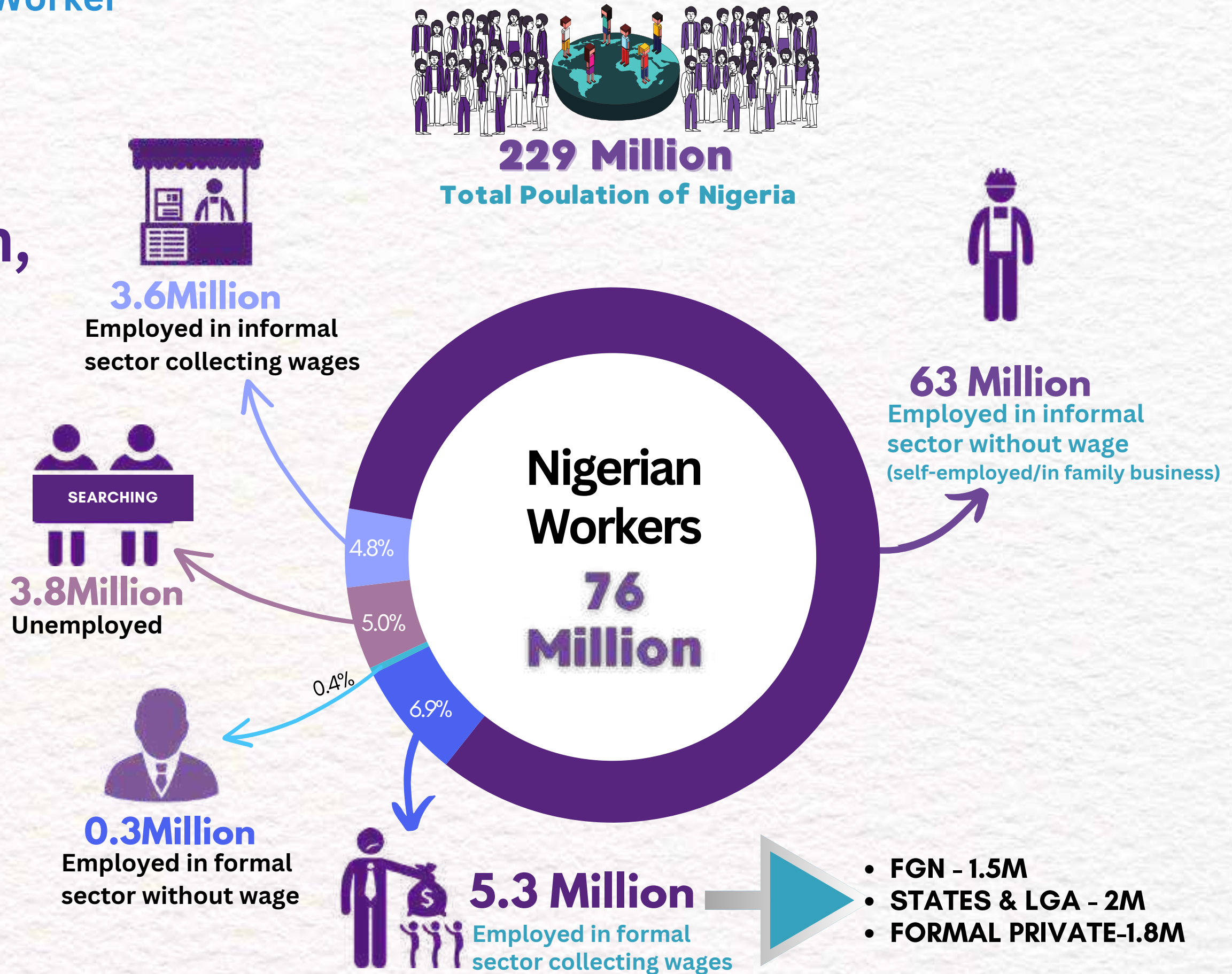
- Negotiations between the two sides (labor and the government) have been ongoing, and the proposed amount has decreased to ₦250,000 as of June 7, 2024.
- The Tripartite Committee on New National Minimum Wage recommended ₦62,000 to the Federal government on 10th June 2024, while the National Assembly made known its willingness to approve an increase to ₦70,000.

- Meanwhile, the President is consulting with States and the private sector before submitting a bill to the National Assembly on the new national minimum wage.
- In its meeting held on, 26th June 2024 at the Nigerian Governors Forum (NGF), State Governors promised to remain dedicated to the process and assured that better wages would result from the ongoing negotiations.

INTRODUCTION The Nigerian Worker

• Out of Nigeria's total population of 229 million, **76 million (33.2%)** are in the workers' category

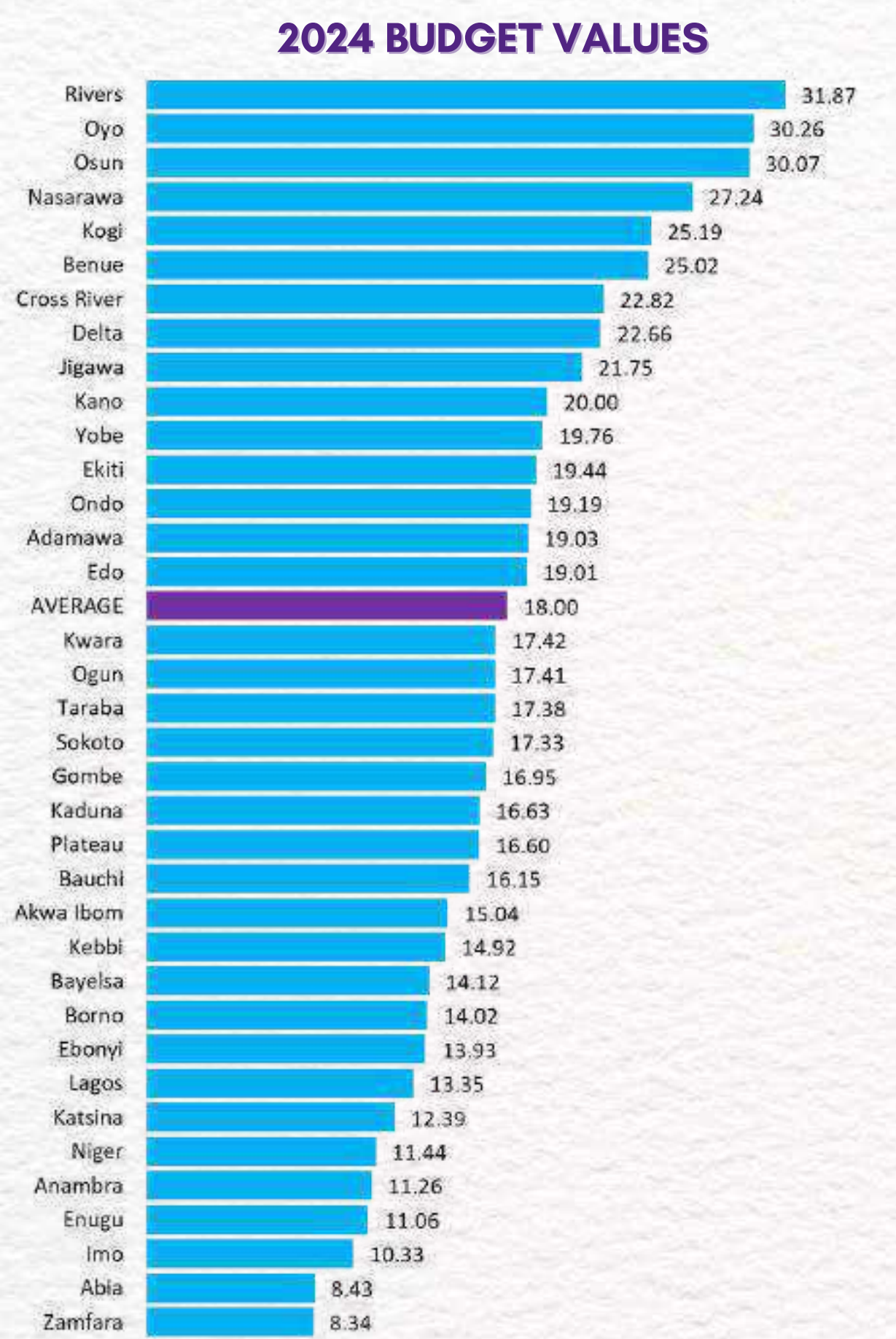
- Whatever these 33.2% earned will have to be shared with the others
- Out of the 76 million workers, only 5.3 million (6.9%) are estimated to work in formal sector and collecting wages
 - this is the group that will directly benefit from the new minimum wage
- There are about 2 million workers employed by all the States, LGAs and their Agencies



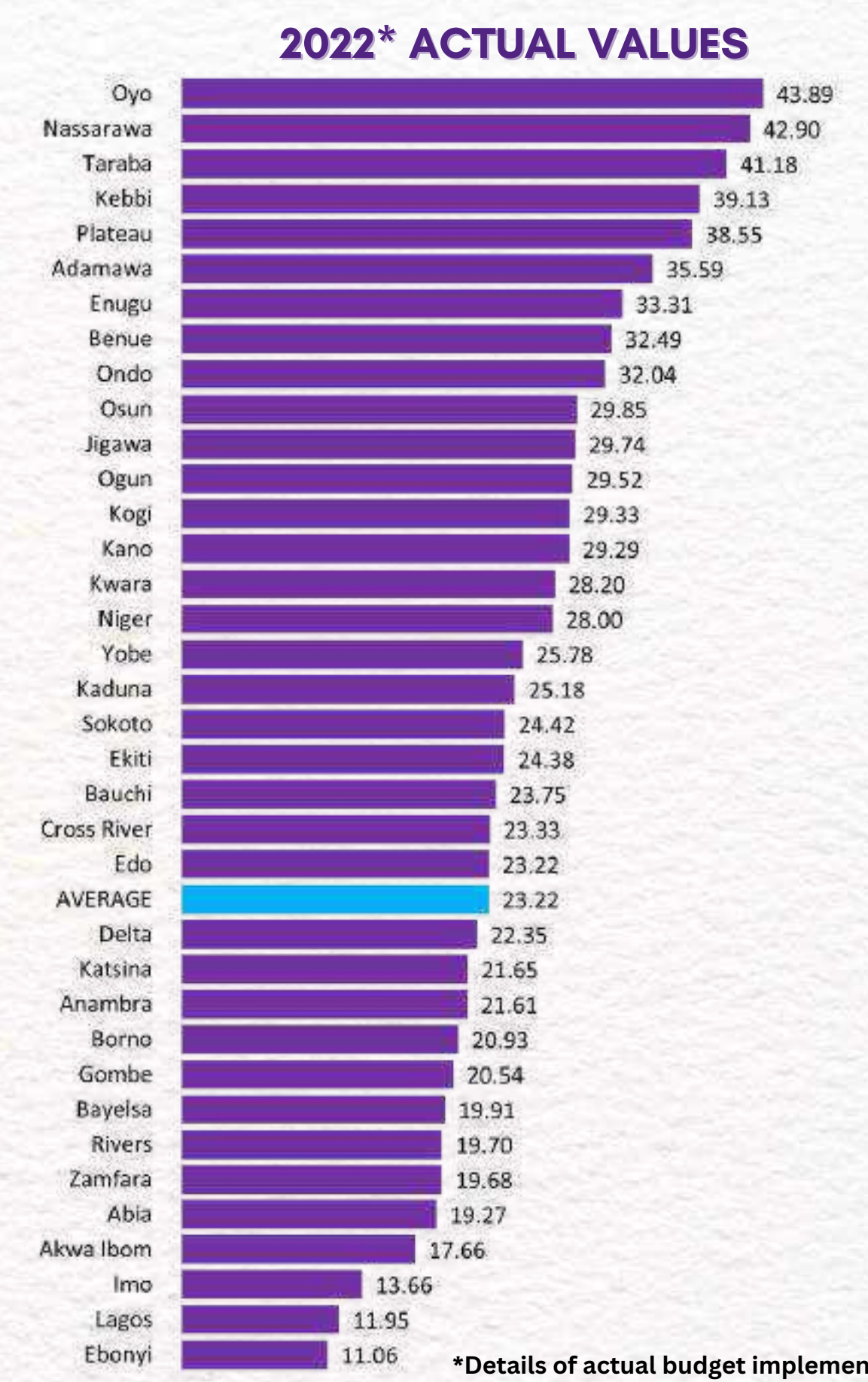
STATE GOVERNMENTS' FISCAL CONDITIONS

RATIO OF PERSONNEL EXPENDITURE TO KEY BUDGET ITEMS

RATIO OF PERSONNEL EXPENDITURE TO TOTAL EXPENDITURE (%)



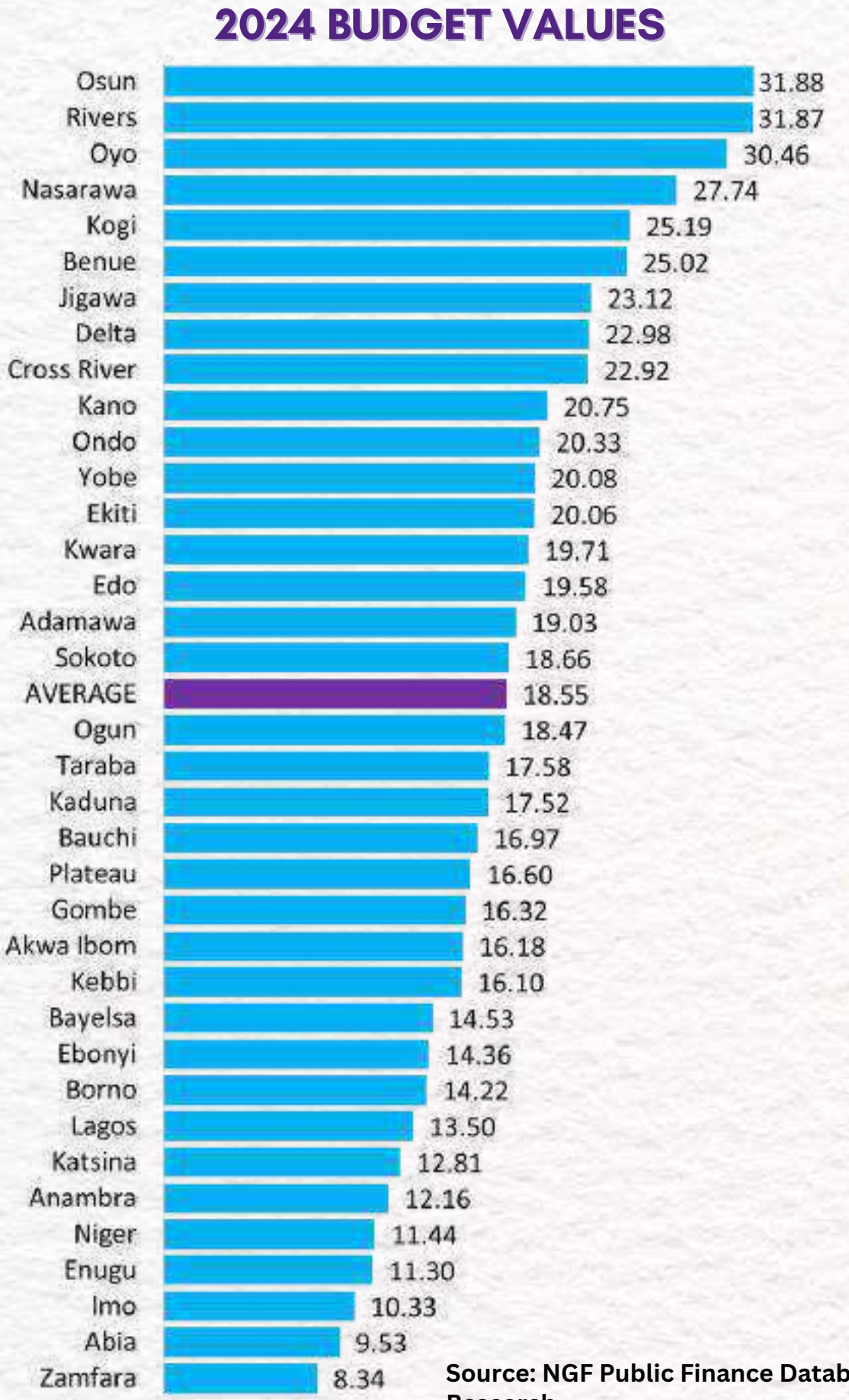
Source: NGF Public Finance Database, and ADSR Research



*Details of actual budget implementation for all the States are available up till 2022.

- The ratio of personnel expenditure to total expenditure in the 2024 proposed budget shows Rivers (31.87%), Oyo (30.26%) and Osun (30.07%) as the top 3 states.
- With Zamfara (8.34%), Abia (8.43%) and Imo states (10.33%) having relatively low ratios
- Using the available actual figures for 2022, States with the highest ratios are Oyo (43.69%), Nassarawa (42.90%) and Taraba (41.18%)
- While Ebonyi (11.06%), Lagos (11.95%) and Imo (13.66) rank lowest.
- A lower than average ratio for a State depicts that its personnel expenditure is currently low relative to its total budget.
- Suggesting that such a state has more space to increase minimum wage, and vice versa.

RATIO OF PERSONNEL EXPENDITURE TO TOTAL REVENUE (%)



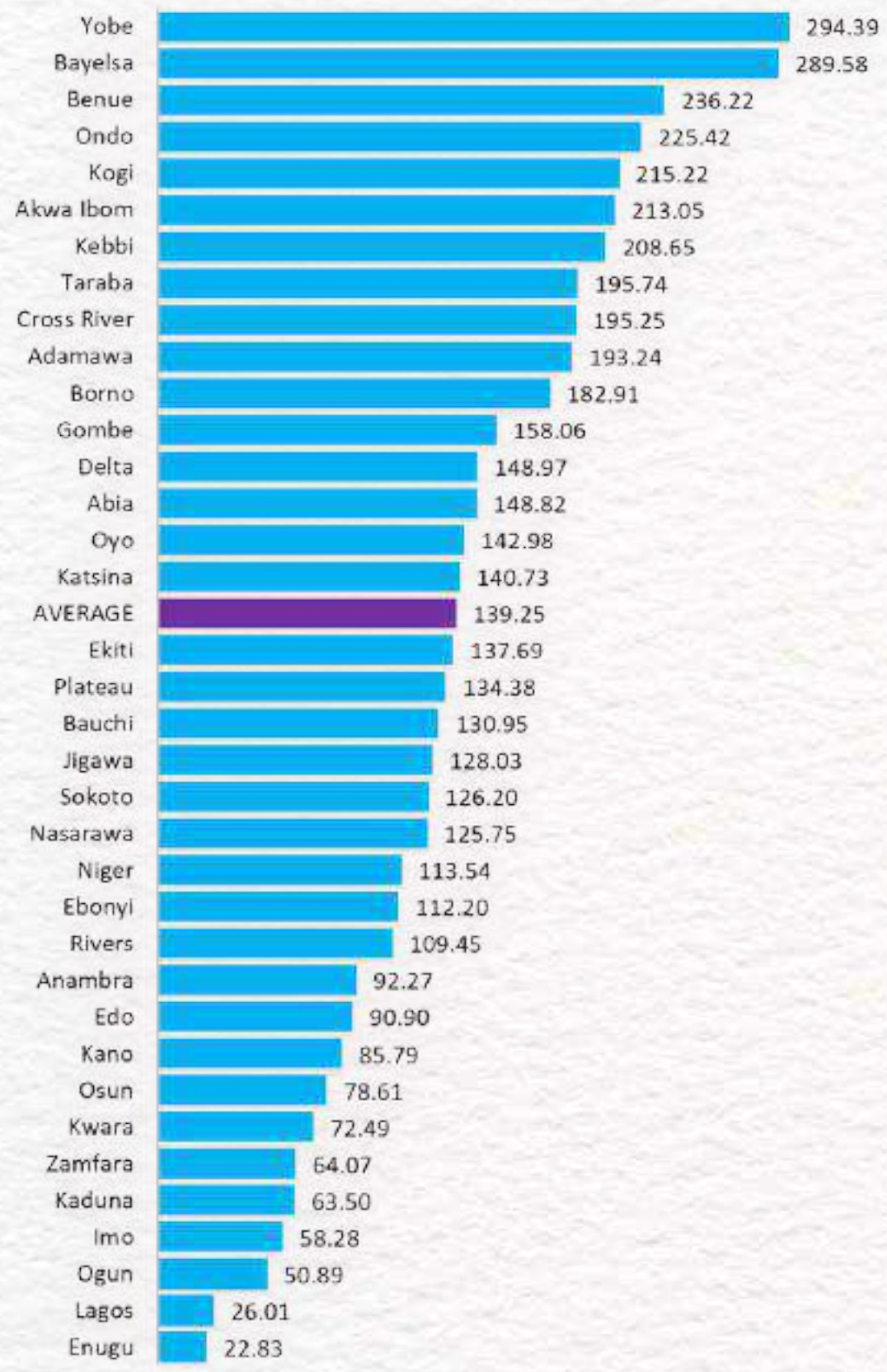
Source: NGF Public Finance Database, and ADSR Research

*Details of actual budget implementation for all the States are available up till 2022.

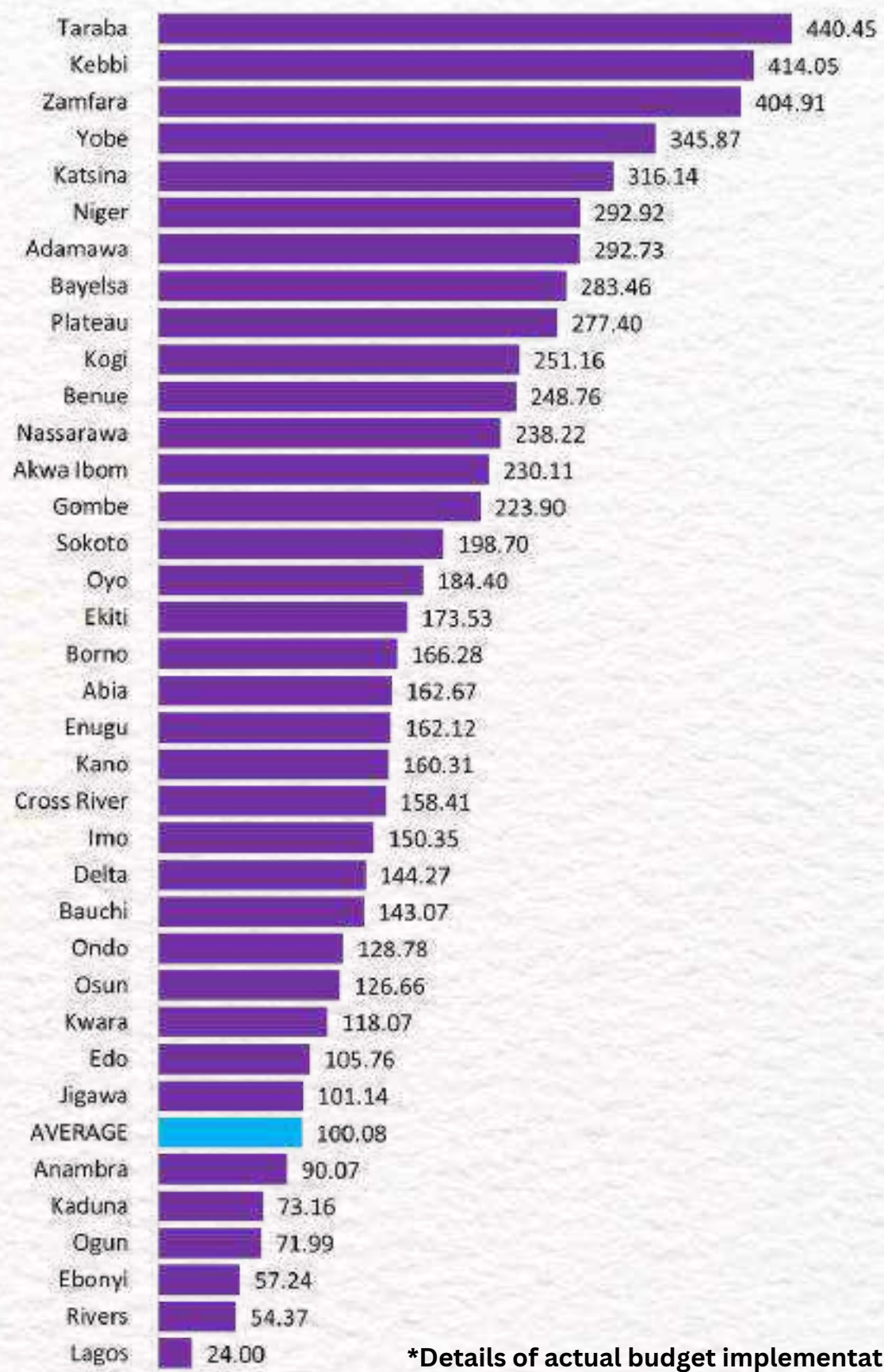
- From the 2024 proposed budget, the ratio of personnel expenditure to total revenue is highest in Osun (31.88%), Rivers (31.87%) and Oyo (30.46%)
- With Zamfara (8.34%), Abio (9.53%) and Imo (10.33%) recording the lowest ratios.
- For 2022 actual data, the top 3 states are Taraba (42.42%), Nasarawa (41.83%) and Kebbi (38.79%)
- While Ebonyi (9.17%), Imo (11.23%) and Lagos (12.26) rank lowest
- A lower than average value for a State implies that its total revenue is high relative to the current wage bill.
- Hence, such a state should have more space to increase minimum wage, and vice versa.

RATIO OF PERSONNEL EXPENDITURE TO INTERNAL REVENUE - IGR (%)

2024 BUDGET VALUES



2022* ACTUAL VALUES

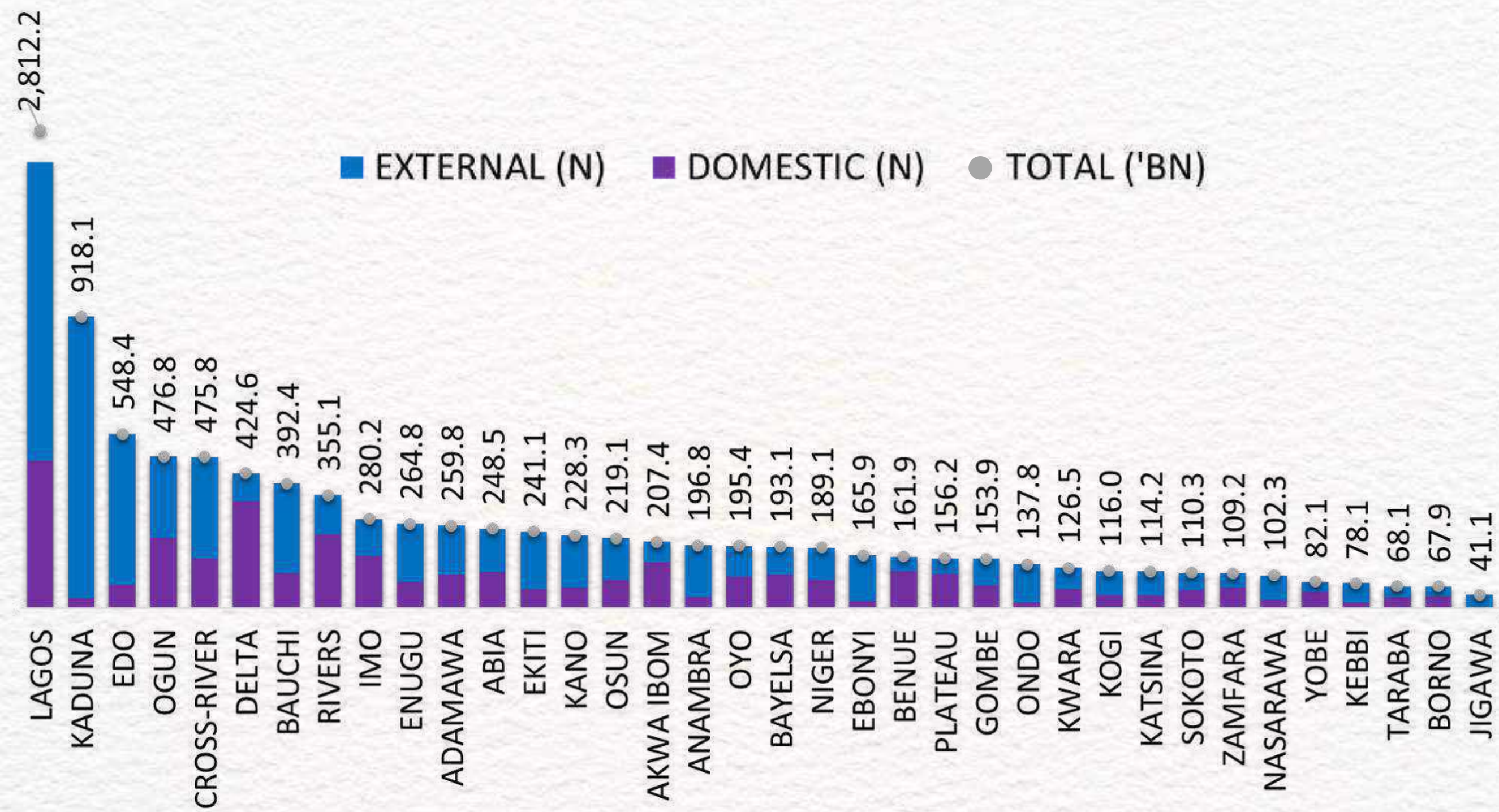


Source: NGF Public Finance Database, and ADSR Research

*Details of actual budget implementation for all the States are available up till 2022.

- Regarding the ratio of personnel expenditure to IGR, Yobe (294.39%), Bayelsa (289.58%), and Benue (236.22%) are the top 3 states, based on the 2024 proposed budget.
- While Enugu (22.83%), Lagos (26.01%) and Ogun states (50.89%) rank lowest.
- In the 2022 actual budget implementation, Taraba (440.45%), Kebbi (414.05%), and Zamfara (404.91%) are the top 3 states
- With Lagos (24.00%), Rivers (54.37%) and Ebonyi (57.24%) having the lowest ratios
- Very few States can finance their current wage bill with revenue generated within their States.
- However, the few States with relatively low ratios should be able to accommodate higher increase in the minimum wage.

STATES' TOTAL DEBT STOCK (MARCH 2024*)



- As of March 2024, the state with the highest total debt is Lagos,
 - with over ₦2.81 trillion in total debt, of which around ₦1.88 trillion is external debt.
- Other states with high total debt include Kaduna (₦918.1 billion), Edo (₦548.4 billion), and Ogun (₦476.8 billion).
- The state with the lowest total debt is Jigawa, with only ₦41.1 billion in total debt, of which about ₦39 billion is external debt.
- Other states with low total debt include Kebbi (₦78 billion), Taraba (₦68.1 billion), and Borno (₦67.9 billion).
- States with high debt stocks will have less room to borrow and are most likely facing high interest payment, given the current high interest rate and currency depreciation.
- This may limit their ability to consider high wage adjustment.

Source: DMO and ADSR Research

Domestic debt figures are as at March 31, 2024, except Rivers State which is March 31, 2023

External debt figures are as at December 31, 2023

IMPACT ANALYSIS OF MINIMUM WAGE INCREASE ON STATES' BUDGET

SIMULATED PERCENT CHANGE IN KEY BUDGET ITEMS

APPROACHES TO IMPLEMENTING MINIMUM WAGE INCREASE

- Increasing the wages of workers who are earning the current minimum wage of ₦30,000 to, say, ₦70,000 is not as complicated as the consequential adjustment to be performed on those already earning above the minimum wage.
- This category of workers can be made worse off if their wages are not equally adjusted upward as the gap between them and their subordinates get narrowed, if not totally eliminated.
- Besides, they also face the same cost of living challenge as their juniors.



THERE ARE MANY OPTIONS TO FOLLOW; THREE OF WHICH ARE DISCUSSED BELOW:

1 CONSTANT PERCENT ADJUSTMENT ACROSS ALL GRADE LEVELS

- Assume the new minimum wage is ₦62,000, representing a 106.7% increase on ₦30,000.
- This percent can be applied to all grade levels; leading to a hypothetical increase of 106.7% in each State's personnel expenses.
- Similarly a new minimum wage of ₦70,000 will lead to a 133.3% in States' personnel expenses.
- This will favour the workers, and maintain the relative wage gap but will be at a very huge cost to the government.

2 GRADUATED PERCENT ADJUSTMENT ACROSS HIGHER GRADE LEVELS

- For instance, a new minimum wage of ₦70,000 implies that a 133.3% increase will be applied to the salary of those currently earning ₦30,000.
- But the salaries of those already earning above ₦30,000 will be increased by some percents less than 133.3%
- Such that the percent applied will decline as we move towards the highest grade level.
- Main challenge is how to arrive at the graduated percent

3 ADDITION OF A FIXED AMOUNT TO ALL GRADE LEVELS

- If the new minimum wage is ₦70,000, those currently collecting ₦30,000 will have to be paid an additional ₦40,000.
- This same ₦40,000, or a fraction of it, can also be added to every other worker's salary up to the highest level
- This will be cost effective to implement and will close income gap across grades.

A Case Study

- Following the 2018 minimum wage increase, the issue of consequential adjustment was addressed at the Federal level in October, 2019 as follows:
 - The new minimum wage (i.e. 66.67%) was applied to only junior-level workers (GL01-06)
 - While Officers on GL07 got 23.2%; GL08, 20%; GL09, 19%; GL10–14, 16%, and GL15–17 got 14%.
 - This was the arrangement agreed upon for workers under the CONPSS wage structure.
 - Those under the CONHES, CONRRISE, CONTISS also got something similar, with little variations.

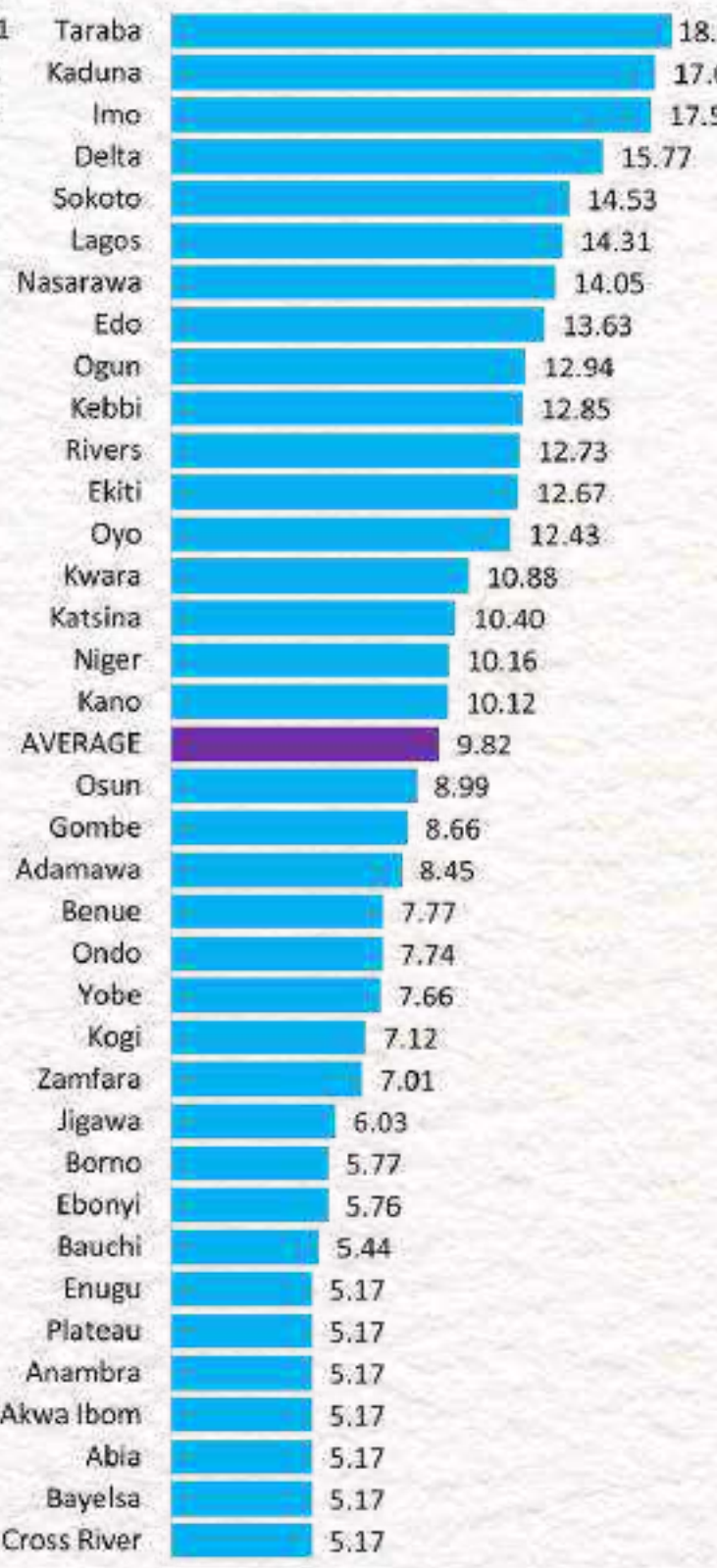
ESTIMATED IMPACT OF MINIMUM WAGE INCREASE ON STATES' INTERNAL REVENUE (IGR), %

*PERCENTAGE INCREASE (%)

₦62,000 MINIMUM WITH ADJUSTMENT GRADUATED ACROSS HIGHER GRADES



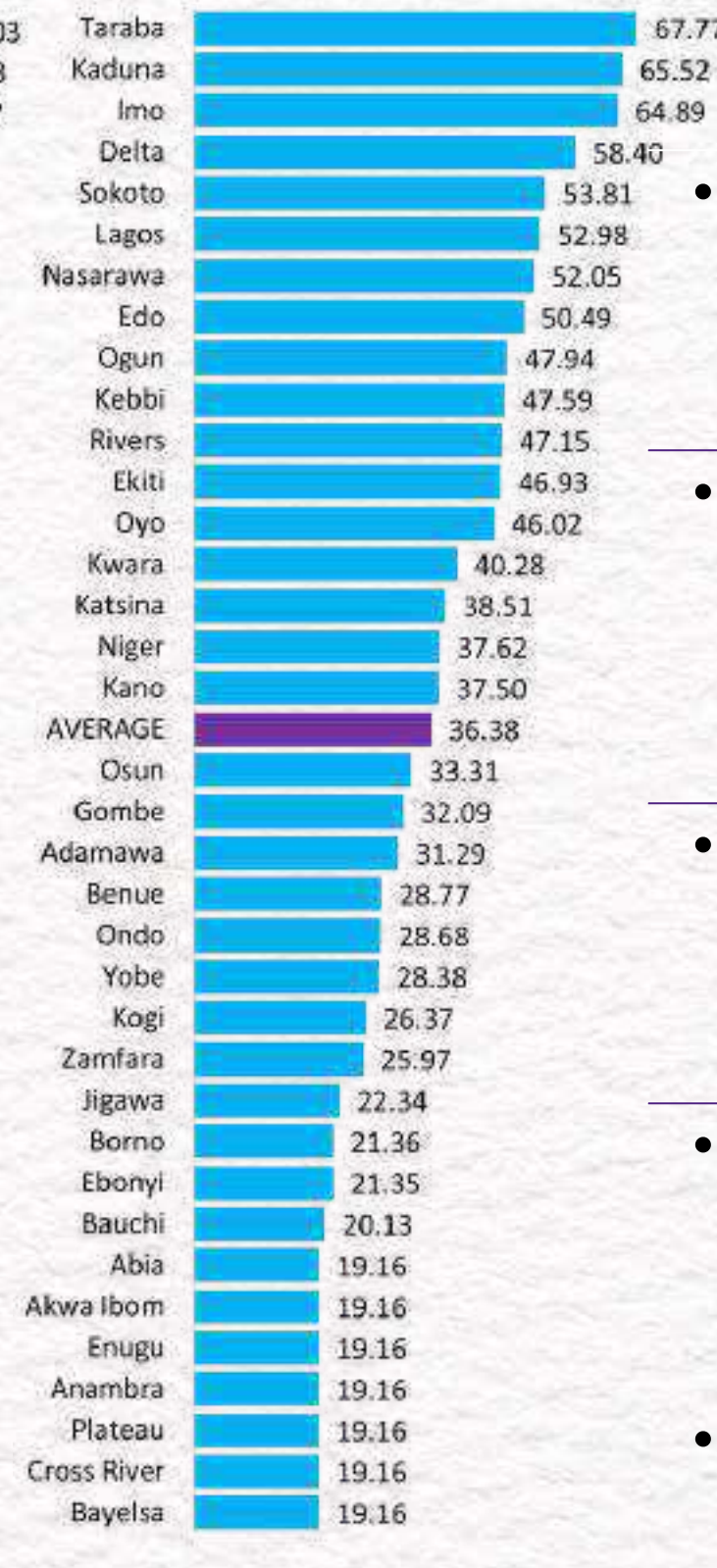
₦70,000 MINIMUM WITH ADJUSTMENT GRADUATED ACROSS HIGHER GRADES



₦62,000 MINIMUM WITH CONSTANT PERCENT ADJUSTMENT ACROSS HIGHER GRADES



₦70,000 MINIMUM WITH CONSTANT PERCENT ADJUSTMENT ACROSS HIGHER GRADES

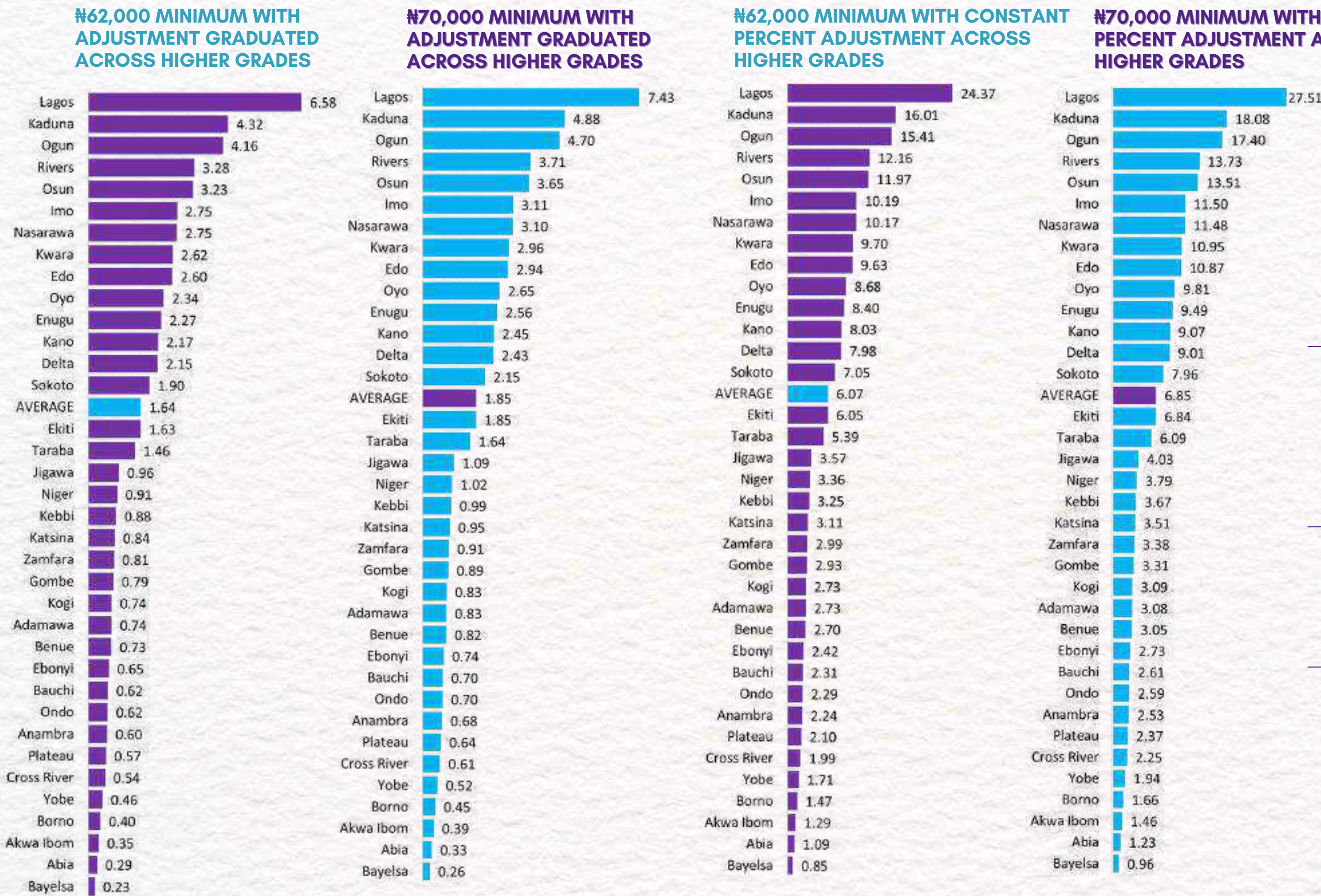


- When the minimum wage is increased, it is expected to have a positive impact on States' IGR
 - Higher Personal Income Tax (PAYE and Direct Assessment)
- Charts show the estimated impact of each of ₦62,000 (106.7% increase in personnel expenditure) and ₦70,000 (133.3% increase in personnel expenditure) on the IGR of each of the Nigerian States.
- Scenarios are also created to compare the impact of two approaches to consequential adjustment; namely, graduated and constant percent adjustments.
- It is shown that increase in minimum wage will have the highest impact on the IGR of states like Taraba, Kaduna and Imo and least impact in Enugu, Anambra and Akwa-Ibom.
- These impacts are also observed to rise as the size of minimum wage adjustment rise.

Source: NGF Public Finance Database, and ADSR Research using elasticities computed from simple regression analysis of historical data*

ESTIMATED IMPACT OF MINIMUM WAGE INCREASE ON STATES' TOTAL REVENUE (%)

*PERCENTAGE INCREASE (%)

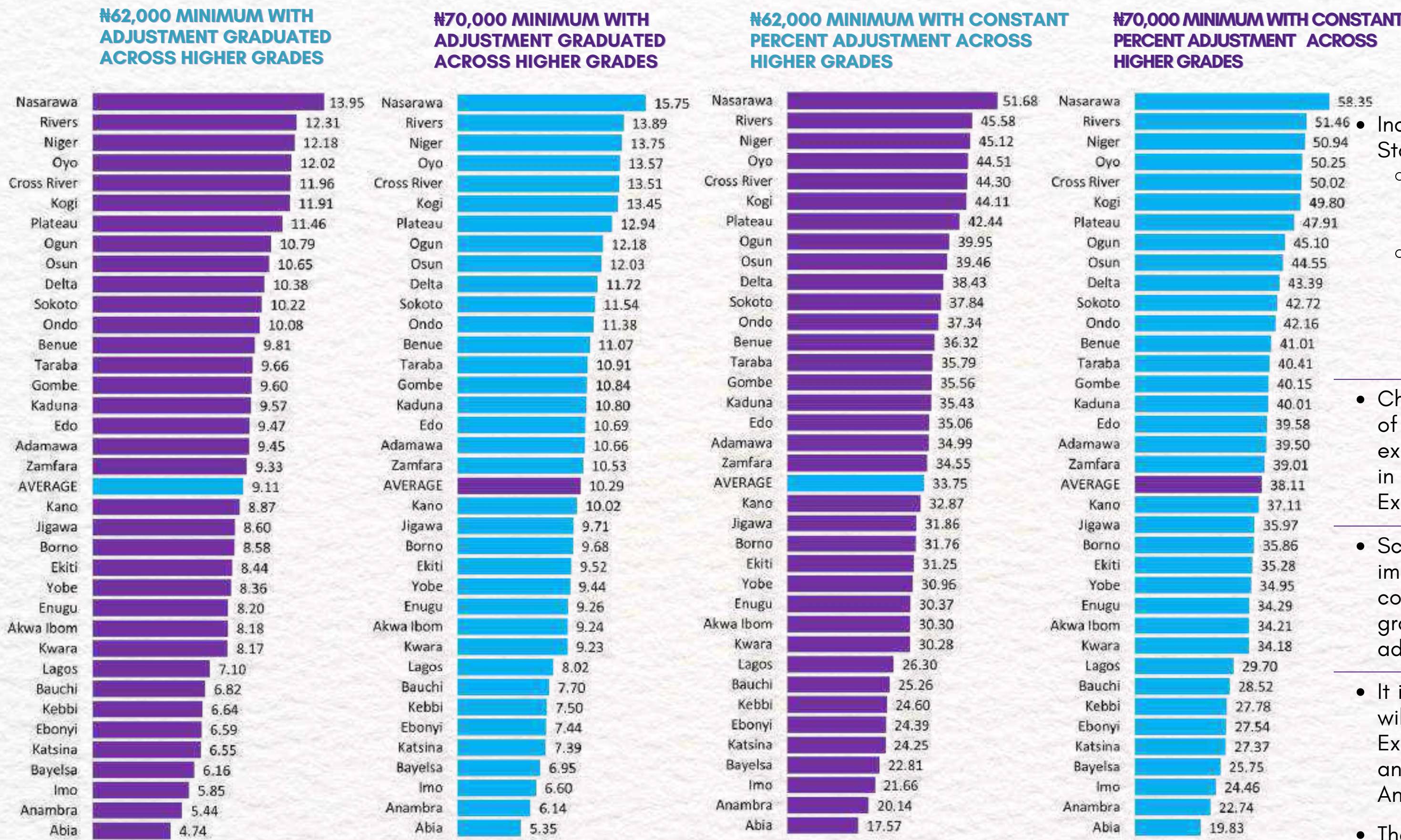


- When the minimum wage is increased, it is expected to have a positive impact on States' Total Revenue
 - Via its impact on the increased IGR
 - But such impact will be less than that on the IGR and will depend on the extent to which IGR contributes to a State's total revenue
- Charts show the estimated impact of each of ₦62,000 (106.7% increase in personnel expenditure) and ₦70,000 (133.3% increase in personnel expenditure) on the Total Revenue of each of the Nigerian States.
- Scenarios are also created to compare the impact of two approaches to consequential adjustment; namely, graduated and constant percent adjustments.
- It is shown that increase in minimum wage will have the highest impact on the Total Revenue of states like Lagos, Kaduna and Ogun, and least impact in Bayelsa, Abia and Akwa-Ibom.
- These impacts are also observed to rise as the size of minimum wage adjustment rise.

Source: NGF Public Finance Database, and ADSR Research using elasticities computed from simple regression analysis of historical data*

ESTIMATED IMPACT OF MINIMUM WAGE INCREASE ON STATES' TOTAL EXPENDITURE (%)

*PERCENTAGE INCREASE (%)



- Increase in minimum wage will raise States' total expenditure
 - Largely coming from increased personnel costs, allowances, benefits, and overheads
 - Government will also need to invest in some capital projects to align with workers' new pay and show the public the need to raise taxes needed to fund increased spending
- Charts show the estimated impact of each of #62,000 (106.7% increase in personnel expenditure) and #70,000 (133.3% increase in personnel expenditure) on the Total Expenditure of the Nigerian States.
- Scenarios are also created to compare the impact of two approaches to consequential adjustment; graduated and constant percent adjustments.
- It is shown that increase in minimum wage will have the highest impact on the Total Expenditure of states like Nasarawa, Rivers and Niger and least impact in Abia, Anambra and Imo.
- These impacts are also observed to rise as the size of minimum wage adjustment rise.

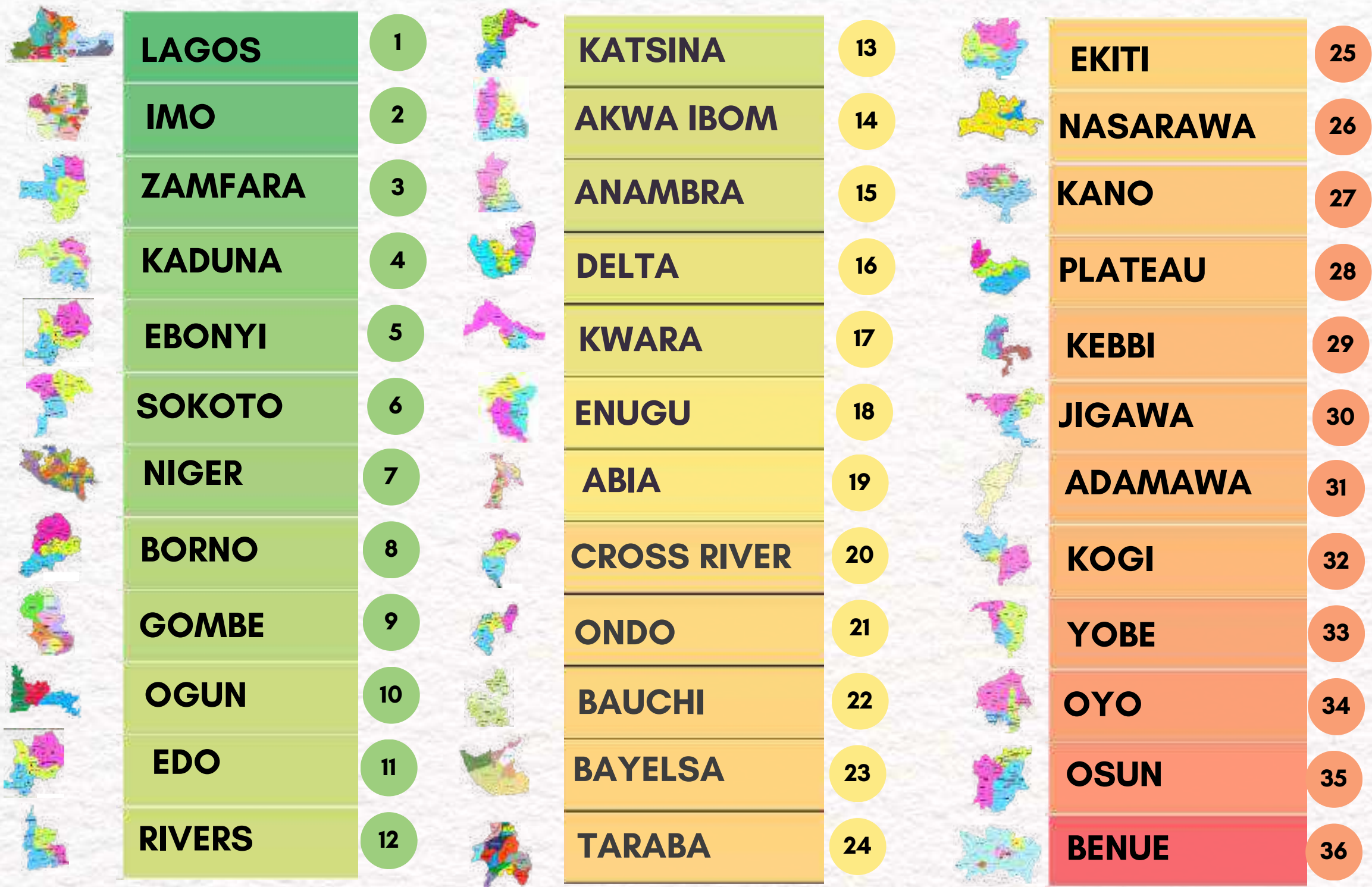
Source: NGF Public Finance Database, and ADSR Research using elasticities computed from simple regression analysis of historical data*

ABILITY OF STATES TO PAY AND FINANCE NEW MINIMUM WAGE

STATES' ABILITY RANKING AND FINANCING METHODS

ABILITY TO PAY HIGHER MINIMUM WAGES ACROSS STATES

DECREASING ORDER OF POTENTIALS



Source: ADSR Research

- States' ability to pay higher minimum wages is computed and ranked as a combination of the previous ranking.
- This analysis shows that states with relatively high ability to pay are those currently having:
 - low personnel expenses to total expenditure ratio
 - low personnel expenses to revenue ratio, especially, IGR,
 - low debt profile, and
 - relatively high elasticity of personnel costs contribution to future revenue and expenditure
- It is observed that Lagos, Imo, Zamfara, Kaduna, Ebonyi are the top states
- While Benue, Osun, Oyo, Yobe and Kogi rank lowest in computed ability to pay.
- States, therefore, need to improve their fiscal conditions to increase their abilities to pay a higher minimum wage going forward.

HOW STATES CAN FINANCE THE NEW MINIMUM WAGE

1



Raise taxes, but:

- consider the current economic situation in which companies operate,
- many companies will also be struggling to increase wages
- avoid over-taxing those already paying (raise tax base not rate)
- avoid multiple taxes to improve the business environment
- invest in an efficient tax collection system

2



Borrow funds, but:

- consider the state's current level of indebtedness
- note that interest rates are currently high
- borrowing to pay salary is not a sustainable strategy

3



Seek aids, and grants from FGN and development partners, but:

- will need to use such assistance for development purposes to free resources for workers

4



Reduce 'ghost' and redundant staff, but:

- avoid political colouration and exploitation by related parties
- be mindful of the impact of downsizing on workers and families
- employ additional staff only when very necessary
- charge and equip workers to become more productive
- avoid resorting to the use of non-pensionable staff
- guide against job lobby because higher minimum wage will increase incentive to work in government establishments

5



Commercialise relevant State projects and facilities, but

- to be professionally managed
- use relevant PPP arrangement
- reduce political and government bureaucratic interference
- target sustainable investment income from agric, solid minerals, etc

6



Reduce corruption

- corruption needs to be significantly minimised with wastes and leakages avoided for States to be able to find resources to finance higher minimum wage sustainably.

THANK YOU

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