

Financing Nigeria's Growth after the Global Economic Crisis within the Perspective of Vision 20:2020 and The Transformation Agenda

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Abstract

The paper adopts content analysis method to investigate the underlying assumptions of the Pillar of Growth within the framework of Nigeria Vision 20:2020 (NV20:2020) and the Transformation Agenda. The aim is to show how realistic are the underlying assumptions and whether or not the available structure/measures of the financial system would be sufficient to finance the Vision. The conclusion is that the present Transformation Agenda and indeed the Medium-Term Implementation Plans adequately provide for the financing of NV20:2020 if the provisions of the documents are strictly adhered to.

I. Introduction

I.1 General Background.

The tradition of *capital accumulation* through investment has long, before the economics of Adam Smith, been identified as the engine of economic growth (Hayami and Godo; 2005). However, the major debate is associated with the extent to which the State is allowed to provide the needed capital required to leapfrog the economy to the desired growth trajectory (Todaro and Smith; 2010). While some analysts argue that the State be allowed to only ensure that the market works and not be a player in the market system, others opined that the market in some under-developed economies (like Nigeria) do fail and so the State should be allowed to be the main player. Even where the extent to which the State is to be allowed to interfere is quantified, there could still be some challenges, especially, with regard to the capacity of the financial market to mobilise the complementary funds required to meet up with the investment needs of a particular development plan. The relative prospect of financing Nigeria's Vision 20:2020 is a typical instance of this situation.

In its effort to reposition the Nigeria's economy on a growth trajectory required to be among the 20 largest economies of the world in 2020, the total investment

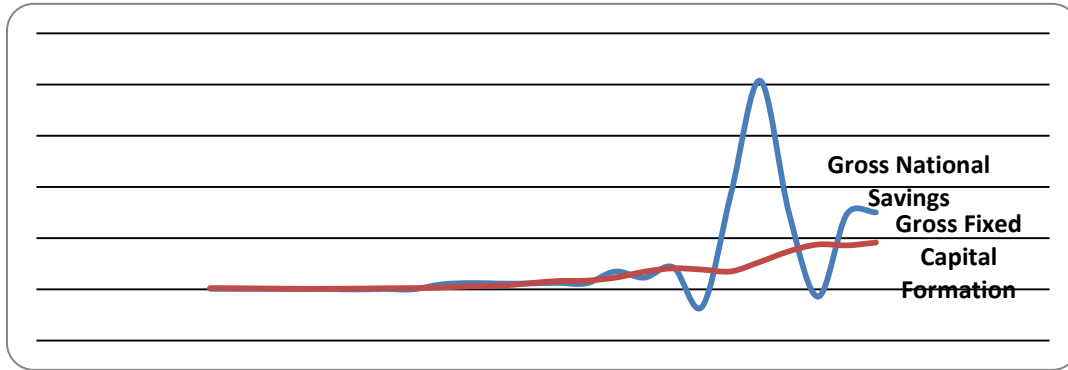
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outlay of ₦32 trillion is required, out of which the Federal Government and sub-nationals would provide ₦19 trillion for investment in some designated projects in the First National Implementation Plan (1st NIP 2010 – 2013), while the private sector would invest ₦13 trillion to complement public sector investment. This is the first of the three streams of medium-term investment framework (2010 – 2013, 2014 – 2017 and 2018 – 2020) under the NV20:2020. The challenge is whether Nigeria's financial markets (formal and informal) could really mobilise such funds on a sustainable basis.

While the Government (Federal and State) can source its needed funds for the investment through taxes, sale of natural resources and State Owned Enterprises (SOE), borrowings from domestic and international sources (through money and capital markets) and reserves, the sources available to the private sector are limited. Basically, the private sector can only source its needed funds through foreign direct investment, money and capital markets or from its reserves.

The challenges inhibiting the private sector from getting enough funds for investment are quite enormous. The world is just recovering from a recession and so there is paucity of capital globally even the cost of acquiring capital is quite high. Besides the propensity to save from disposable income, most countries of the world experienced a slowdown in economic growth, thereby making it difficult to mobilise enough savings from surplus spenders. In addition, while the formal sub-sector of the Nigerian financial system has the potential to mobilise funds from surplus spenders, the informal sub-sector is highly fragmented and could at best do little. More challenging is the under-developed nature of the Nigerian financial market. The Government also competes with the private sector for funds available in the financial market, thereby crowding out the private sector investment.

Available evidence showed that savings rate was low and investment rate was even lower as the savings-investment gap was wide in Nigeria. Figure 1 below shows the trend of savings and investment in Nigeria from 1981 to 2005. It is clear from the figure that the savings trend was higher than investment all through the period.

Figure 1: Gross National Savings and Gross Fixed Capital Formation (1981-2005)

Source: 2008 CBN Statistical Bulletin.

I.2 Relevance of Financial Sector to Growth and Development

The financial sector is very critical to the development and growth of a nation's basic industry such as the manufacturing. Economic activities are facilitated by credit availability. Therefore, the financial sector has to be properly positioned to provide the required credit for the nation's economic activities by creating an appropriate and conducive environment and infrastructure. Economic development usually requires huge investments that are often not readily available to a single economic entity. Hence, financial capital is one of the fundamental requirements for economic development. It is also important for effective build-up of both physical and human capital.

Investible funds are usually scarcely and sparsely available, because of the information asymmetry between excess savers and borrowers and the increase in transaction cost of funding as well as risk of default for all parties. The financial sector needs to provide resources for funding long-term low-profit projects like education, agriculture and health through financial intermediation. However, these projects would not receive adequate attention because it requires long-term and low interest rates to be profitable. Hence, this critical sector would suffer without adequate attention given to them by the financial sector.

I.3 Objectives and Research Question

Having mentioned some of the challenges facing the private sector in the acquisition of funds needed to play its part in the NV20:2020, the objective of this

paper is to analyse the feasibility of generating ₦32 trillion to finance the Vision and Transformation Agenda of the Government given that the world is just recovering from a recession. It is also to evaluate the consequences of the scramble for the available loanable /investable funds by the Government and the private sector.

Thus, the question this paper attempts to answer is whether or not the financial system is robust enough to mobilise the huge financial resources required to fund the projected investment outlay in the Vision and Transformation Agenda of the Government without compromising some compelling needs of the economy.

The paper is divided into six sections. Section one is introduction. Section 2 highlights the assumptions underlying NV20:2020 and the 1st NIP with the aim of analysing the possible challenges likely to be faced in implementing the Vision. Section 3 discusses the theory underpinning the objective of the paper. Some pertinent issues, arguments and challenges associated with the assumptions of both NV20:2020 and 1st NIP is highlighted in Section 4. Section 5 gives indication of the financing strategy of the Vision as discussed in the Transformation Agenda of the present Administration. Section 6 draws up conclusions and makes some policy recommendations.

II. Nigerian Economy and NV20:2020: The Underlying Assumptions about the Financial System/ Macroeconomic Variables

In an attempt to attain the growth trajectory required to obtain a minimum GDP of US\$900 billion and a per capita income of at-least US\$4,000 per annum by 2020 (the growth pillar of the NV20:2020), the economy would need to grow at an average of 13.8 per cent from 2010 to 2020. These targets are based on some assumptions about the fundamentals of the economy. Also, to achieve an average growth rate of 12.4 per cent per annum from 2010 to 2013 and a GDP at current prices of ₦50.9 trillion in 2013, the 1st NIP, further specified some assumptions about the fundamentals of the economy. A review of the assumptions underlying the Vision document is needed to show how feasible it is to mobilise and channel ₦13 trillion from surplus spending unit of the economy to the deficit spending unit for investment in the private sector of the economy from 2010 to 2013.

The Vision document has three basic pillars: the pillar of productivity and wellbeing; economic growth; and social and economic development. There are also a number of assumptions underlying the projections of each of these pillars. This paper focuses on the pillar of economic growth with the following strategic objectives:

- stimulate primary production to enhance the competitiveness of Nigeria's real sector;
- significantly increase production of processed and manufactured goods for export;
- stimulate domestic and foreign trade in value-added goods and services; and
- strengthen linkages among the key sectors of the economy.

II.2 Assumptions Underlying the Pillar of Growth in the NV20:2020

A brief review of the assumptions underlying the *Growth Pillar* in the NV20:2020 document is required towards having a better appreciation of the targets of the growth of the economy. The following are some of the basic assumptions:

- a. private sector credit as a percentage of GDP would grow from 17.0 per cent in 2009 to 30.0 per cent by 2015 and 45.0 per cent in 2020;
- b. manufacturing sector contribution to GDP would grow from less than 4.0 per cent in 2009 to 10 per cent and 25 per cent in 2015 and 2020, respectively;
- c. average local content value (materials and human resources) across the key industries would increase by 50.0 per cent and 70.0 per cent in 2015 and 2020, respectively; and
- d. Steel consumption per capita would grow from less than 10.0 per cent in 2009 to 40.0 per cent and 100.0 per cent by 2015 and 2020, respectively.

Another set of important assumptions underlying the targets of the 1st NIP Investment Framework (2010 – 2013) are as follows:

- a. the Nigerian economy will be partly influenced by developments in the international economy, which is expected to show strong recovery at a projected 4.0 per cent global growth rate;
- b. the naira exchange rate to the US Dollar in 2010, 2011, 2012 and 2013 would be ₦147.00, ₦146.50, ₦146.00 and ₦145.00, respectively;
- c. fiscal deficit as a percentage of GDP is 3.5 per cent in 2011 and 3.0 per cent in each of the years between 2011 – 2013; and
- d. inflation rate would be single digit from 2010 to 2013 (i.e. 9.5, 9.0, , 8.5 and 8.0%, in 2010, 2011, 2012 and 2013, respectively).

II.3 Extent to which Financial Sector has funded Development Initiatives in Nigeria

The Central Bank has been pivotal, through its role as Banker to the Government. The capital market has also assisted in raising development bonds from the public to fund development plans in Nigeria. For instance, the Federal Government traded bonds to the tune of ₦2.75 billion in the capital market during December 2011. Corporate bonds and debentures traded in the market during the same period stood at ₦1.34 billion. It is also noteworthy that the financial sector has been instrumental in mobilising funds for some public private partnership (PPP) arrangements, such as the Muritala Mohammed Airport II and the Lekki Concession Company. The CBN has also played critical roles in this direction by giving attention to priority sectors in the development plan. For example, the Bank recently earmarked ₦200 billion for Agriculture. Deposit money banks and microfinance institutions have also played similar roles by mobilising funds for the private sector as well as government. International capital flows, in the form of foreign direct investment (FDI) and international remittances by Nigerians in diaspora, are also playing increasing role in the economic transformation of Nigeria. This has been made possible through the various reforms embarked upon by the Government; among which were the empowerment of Nigerian Investment Promotion Commission to boost FDI inflows to the country, the fundamental restructuring of key institutions, regulations and processes in order to attract foreign capital into the country.

Government is also currently taking steps to strengthen and energise the financial sector for effective and efficient intermediation to enhance access to credit by the investors. In addition, Government is deepening and diversifying the financial products and enhancing integration with other international financial markets. In this regard, Government established an integrated and consolidated regulating system, while putting in place a central information sharing mechanisms for all financial institutions to enhance efficiency and effectiveness in credit allocation.

III. Framework of Analysis

This section examines the underlying nexus between economic growth and financial development. In theory, the general thinking is that there exist a relationship between interest rate and economic growth; a decrease in lending rate would lead to an increase in investment rate. Among other factors, interest rate itself is a function of the demand and supply of loanable/investable funds. An increase in the supply of credit tends to bring about a decrease in lending rate and vice versa. Liberalisation of the financial market is a policy framework required for an efficient equilibration of the demand and supply of credit (McKinnon and Shaw, 1973) with the attendant effect of reduction in interest rate. The financial sector of the Nigerian economy has since 1986 been liberalised. So what are the empirical implications of this to NV20:2020?

IV. Issues, Arguments and Challenges

Given that credit to the private sector as a percentage of GDP rose from 17.0 per cent in 2009 to 30.0 per cent in 2015 and 45.0 per cent in 2020 as assumed in the NV20:2020 document, it follows that interest rate will decrease to a level that would bring about an increase in private investment. However, the question of whether or not the expected increase in private investment due to such decrease in interest rate would be ₦13 trillion (projections of 1st NIP) depends on the level of effectiveness and efficiency of the transmission mechanism in the financial system. Meanwhile, the debate concerning the relative effectiveness of the transmission mechanism of Nigeria's financial system is yet to be settled.

Given also that the projected amount of credit as a percentage of GDP would get to the private sector, it is not a sufficient reason to conclude that the private sector would ultimately invest them in the economy. There are reports of Nigerian companies producing in the neighbouring countries (Ghana and Benin Republic) due to poor state of electricity supply in Nigeria. These are unwarranted leakages

that may stunt the pace of growth of the economy. Besides, private foreign investors would need to be convinced about the stability of the regulatory regimes before re-investing their net operating surplus in the economy.

The assumption about the contribution of manufacturing activities as a percentage of GDP is a derived assumption with several other composite functions. It should not be taken for granted on its own. It is linked to the assumptions of electricity power generation, local content value, per capita steel consumption and a host of others. The challenge of getting governance right is a common denominator to all these factors. It is not enough for the government to have the funds to increase power generation or put in place legislation on local content value. The political will to ensure that there's value for money and that legislations are dully enforced is critical.

Of the ₦19 trillion investment outlay expected to come from the Government in the 1st NIP (2010 – 2013), the state governments are to expend ₦9 trillion and the Federal Government ₦10 trillion. This is not enough to assume that because each of the state governments receive monthly allocation from the Federation Account then they would be able to commit up to ₦9 trillion to infrastructure development within the medium-term period (2010 – 2013) of the 1st NIP.

The fiscal federalism nature of the Nigerian economy does not mandate the state governments to commit their resources in any particular manner and they are not under any legal obligation to buy-in to the investment outlay of the Federal Government. It is, however, taken for granted that the state government will all fully buy-in to the investment plan of the NV20:2020. If some of the state governments fail to commit much of their resources towards the implementing of the 1st NIP, the Federal Government would either fill the short-fall or allow that part of the Vision to suffer. To fill such short-fall, the Federal Government may need to source funds from international sources or the domestic financial market and the implication of this is that private investment would be crowded out in the process.

V. The NV20:2020 and the Transformation Agenda

V.1 The NV20:2020

The Nigeria's Vision 20:2020 is the foundation for other medium-term plan aimed at repositioning Nigeria among the top 20 largest economies measured by GDP

size of not less than US\$900 billion and per capita income of not less than US\$4000 by year 2020. The First National Implementation Plan (1st NIP 2010-2013), MDGs and the Government's Transformation Agenda are all medium-term implementation plans for NV20:2020. However, this Vision cannot be attained without sustained delivery of energy and other relevant forms of infrastructure in the country. The NV20:2020 also aimed at significant improvement in the quality of life of Nigerians by making people as the fundamental reason for economic growth through the achievement of inclusiveness, equity and balanced development.

The key policy thrust of its first Implementation Plan includes among the following:

- bridging the infrastructure gap to unleash economic growth and wealth creation;
- optimising the sources of economic growth to increase productivity and competitiveness;
- building a productive, competitive and functional human resource base for economic growth and social advancement; and
- improving governance, security, law and order and, engendering more efficient and effective use of resources.

V.2 Government Transformation Agenda (2011 – 2015): A Prospect for the Future

An actionable medium-term (2011 – 2015) economic blueprint known as the Government Transformation Agenda has been drafted by the present Administration to provide solutions to most of the challenges envisaged in Section IV above. The following key elements in the Transformation Agenda are to address the inhibiting factors to resource mobilisation and proper use of available funds for the projected investment outlay in the NV20:2020:

(a) Governance

The need to improve the quality of governance is the common denominator to most of the assumptions underlying the NV20:2020. It is core to most of the challenges likely to be faced by the various efforts to finance the NV20:2020.

With respect to political governance, the first amendments to the 1999 Constitution took place in 2010 and there has been reform of the electoral process, and democratic principles are also gaining ground in the resolution of political issues in the country. While there is still room for further reform, the gains of the recent electoral reforms as exemplified by the 2011 general elections are some of the instances of improved political governance.

With respect to economic and financial governance, the present Administration hopes to seek the option of cooperative fiscal federalism rather than competitive federalism to solve the challenges associated with fiscal federalism. The National Sovereign Wealth Fund is one of the cooperative fiscal federalism tools to be deployed to solve the challenges of fiscal federalism.

Among other measures to be used to strengthen governance are the following:

- i. institutionalisation of an accountability framework to enable government to track its expenditure and allow the citizens to monitor government performance in the area of financial management. The various on-going Public Service Reforms and introduction of performance management are the direct measures to strengthen accountability framework;
- ii. adherence to the principles of separation of powers among all tiers of government in relation to functions, responsibilities and resource allocation such that they operate harmoniously and independently of one another; and
- iii. embark on value re-orientation to engender improvement in civil behaviour and social order.

(b) Funding

The need to adequately fund the Key Projects, Programmes and Policies (KPPP's) identified for a successful completion of the 1st NIP and ultimately the Vision is germane to most of the underlying assumptions of NV20:2020. The traditional sources of funding capital projects, i.e. Statutory Allocation, cannot be relied upon for the funding requirement of the government for the NV20:2020 because of its volatility as it is based on oil price that is susceptible to external shocks.

Besides, there is need to also concretise the funding sources of the projected investment outlay of private sector.

The sources of funding available to the government, on one hand, and the private sector on the other, have been clearly spelt out in the Transformation Agenda and are as follows:

i. National Sovereign Wealth Fund (NSWF)

Unlike the challenges often associated with the use of the Excess Crude Account (ECA) to fund special programmes and projects, NSWF has the buy-in of all stakeholders for its deployment to fund KPPPs under the 1st NIP and Transformation Agenda. The Fund will be adequately invested and returns from investment would also serve as a ready source of funding for NV20:2020. At a discount rate of say 5.0 per cent per annum, NSWF of say ₦1 trillion would turn in ₦50 billion. It should be noted that if the country had maintained and invested NSWF from 2007, when the ECA was as high as \$20 billion, there would have been an investment income of US\$4 billion.

ii. Special Intervention Funds

A number of revolving special funds for intervention in some priority sectors have been provided to the private sector by the Federal Government. The aim is to ensure that investment in the priority areas is accelerated. In line with this, the CBN has invested N500 billion in debentures issued by the Bank of Industry (BOI) under the Real Sector Intervention Fund. Proceeds from the Fund are for on-lending through deposit money banks to qualified borrowers on concessional interest rate of not more than 7.0 per cent for tenor of 10 – 15 years. Borrowers from power, small-scale manufacturing and airline sectors are the major targets for the loans. There is also the ₦200 billion Agricultural Fund established for promoting commercial agriculture enterprises. In line with such intervention measures, the Federal Government could set up special intervention fund for major capital development programmes, especially in the area of infrastructure.

iii. Pension Fund

Owing to long-term maturity of the Pension funds, the National Pension Commission (PenCom) is reviewing its regulation with a view to making capital projects in the area of infrastructure development a separate asset class that

could be invested in. If this is done, it would be a potential source of funding for some of the projected investment outlay under the NV20:2020.

iv. Long-term Corporate/Commercial Bonds

Usually, loanable funds available in the money market are short-term funds that are not easily suited to the need of infrastructure development of corporate entity. To surmount this challenge, commercial banking groups have expressed desire to raise long-term (10 – 15 years) commercial bonds in the domestic or foreign markets on commercial term. In support of this initiative, commercial banks would require the CBN to provide credit guarantees that would permit the banks to issue long-term infrastructure bonds on competitive interest rates for the benefit of Federal Government.

v. Financial Intermediary Loan Scheme

The World Bank has agreed to provide a seed money of US\$200 billion to set up a Financial Intermediary Loan Scheme for the purpose of providing long-term funding for capital projects development in priority areas. It is the Bank's support for the Public Private Partnership programme of the Nigerian Government. Some priority public investment/projects which accord with the 1st NIP have been slated to be funded through these sources.

VI. Key Reforms Agenda for NV20:2020

Focus of Reform toward Creating the Enabling Environment for the Private Sector to Thrive

It is not enough to strategise toward obtaining the finance required to achieve NV20:2020. There is a more important need of creating appropriate policies required to facilitate the enabling environment for generating the needed funds. The following policy directions are required for effective execution of NV20:2020:

– **Macroeconomic Stability and Sustainable Growth**

To ensure that Nigeria's Vision 20:2020 becomes a reality, there is need to maintain sound macroeconomic stability for sustainable economic growth. To achieve this, the Government is committed to a number of macroeconomic policies required to ensure internal and external balances. In line with this, the following are the key policy prescriptions for achieving a sound macroeconomic stability going forward:

- a. budgetary allocation to be based on oil price of US\$70 per barrel for 2012;
- b. fiscal deficit to be kept at below 3.0 per cent of GDP;
- c. recurrent expenditure to be reduced from 74.4 per cent of total expenditure to below 70.0 per cent by 2015;
- d. capital expenditure to be increased by 1.5 per cent per year to at least 5.0 per cent by 2015;
- e. domestic debt to be kept at 16.4 per cent of GDP;
- f. fertilizer, petroleum and other inefficient subsidies are to be reformed; and
- g. increased focus on completing existing ongoing projects.

– **Structural Reforms**

Privatisation, Liberalisation and Deregulation

Structural reforms of privatisation, liberalisation and deregulation are required to cut down on rent seeking activities and inefficiencies in government. This is required to save more funds for capital expenditure on infrastructure development and make the market system work appropriately.

– **Investment in Priority Sectors Creating Jobs**

Public sector investment would be directed towards a number of job creating priority sectors to reduce the challenge of unemployment in the country.

- **Other Reform Areas include:**

- accelerating investment in critical infrastructure;
- increased investment in human capacity development;
- deepening reforms in the public sector and delivery of social services;
- fostering private sector, powered non-oil growth and economic diversification;
- fight against corruption;
- curbing the threats to national security;
- fiscal discipline and decentralization;
- reducing the cost of governance;
- reducing red tape and bureaucracy; and
- ensuring policy consistency, coherence and effective stakeholder consultation and coordination.

VII. Key Emerging Issues and the Strategies for Addressing them

VII.1 Key Emerging Issues and Challenges

Given that a huge amount of resources are required to finance growth under the NV20:2020 and Transformation Agenda, the delivery of critical infrastructure and other development initiatives remain a major challenge in Nigeria:

- contribution of manufacturing sector to GDP is less than 5.0 per cent ;
 - absence of long-term loanable funds; and
 - when the credit exists interest rates are often so high.
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- most of the projects requiring financing are usually very lumpy;
 - limited investible resources due to the global economic and financial crisis;
 - propensity to save globally slowed down due to low income growth making it difficult to mobilise savings for investment purposes;
 - the fragmented nature of the informal financial sub-sector in Nigeria - a large percentage of surplus spenders in Nigeria are excluded from the formal sector,
 - the public sector competes with the private sector for funds in the financial market, especially in the capital market;
 - how to mobilise foreign investors to invest in Nigeria in the face of security concerns; and
 - too many projects and programmes taken together at the same time in the face of limited resources.

VII.2 Strategies for Enhancing Finance for Growth and Development in Nigeria

Some of the key strategies for enhancing finance for growth and development in Nigeria include:

- (i) Need to prioritise the projects in accordance with the aspirations of the NV20:2020 and Transformation Agenda;
- (ii) Budgetary submission of relevant Ministries, Departments and Agencies (MDAs) to be aligned with the priorities of NV20:2020 and Transformation Agenda;
- (iii) Need to provide political will - Government has demonstrated political will to sustain on-going reforms in the country;
- (iv) Renew fight against corruption in the public and private sectors;

- (v) Policy consistency and long-term strategic planning framework - NV20:2020, First NIP and the Transformation Agenda;
- (vi) Strengthening regulatory framework of the financial sector;
- (vii) Avoid a plethora of projects by prioritising in line with the available resources to avoid abandoned projects; and
- (viii) Need to institutionalise the national monitoring and evaluation (M and E) system at all levels - to facilitate effective implementation of the NV20:2020 and Transformation Agenda

IX. Conclusion and Recommendations

The government as well as the private sector have financing roles to play in Nigeria's on-going perspective plan known as the NV20:2020. The aim is to make the country to be among the top 20 largest economies of the world by the year 2020. There are underlying assumptions, which are fundamental to the actualisation of the Vision. The core of them is associated with good governance while funding is also critical. Meanwhile, through the Transformation Agenda, the present Administration has drafted strategies to combat some of the envisaged emerging challenges in the course of implementing the 1st NIP and ultimately the NV20:2020. Also, the reforms required to creating enabling environment for mobilising the needed resources for NV20:2020 are clearly mapped out.

What more? It is now time for the Administration and all other stakeholders to commit themselves to the transformation of the Nigerian economy. It is also time for the relevant stakeholders to be allowed to take ownership of the strategy for the sake of synergy and appropriate linkages of the various sectors of the economy.

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