NESG MACROECONOMIC OUTLOOK

2019

Steering Nigeria through the Inclusive Growth Pathway:

What Strategy Should the Government Adopt?

FOREWORD

The Nigerian economy has come a long way since the economic recession in 2016. Real GDP growth averaged 1.8% in the first three quarters of 2018; inflation averaged 12.2% in the year, exchange rate stabilised while external reserves improved due to a relatively high crude oil price. Despite these improvements, unemployment rate peaked at 23.1% as at the third quarter of 2018, poverty rate remained high at 49.1% with poor education and health outcomes. The disconnect or weak linkage between economic growth and socio-economic development, both in the pre and post 2016 recession era, suggests that Nigeria's approach to development has to change and needs to be more radical.

In our Macroeconomic Outlook for 2018, we proposed an inclusive growth framework for Nigeria that provided insights into how the country can address the problems of socio-economic exclusion. The framework highlighted the need for Nigeria to lay emphasis on achieving broad-based and sector-wide economic growth while implementing social inclusion and governance reforms.

Furthering the conversation on inclusive growth, the Macroeconomic Outlook for 2019 examines the critical role of government in delivering broad-based economic growth which is essential in opening up critical sectors for investments and enabling them to create jobs. The report identifies crucial social inclusion reforms that the Nigerian government, at different levels, must implement to guarantee improvement in social outcomes.

The year 2019, being an election year, will come with uncertainties, security concerns and new challenges for policy makers. But it also presents an opportunity for the Nigerian government to make the radical changes and reforms that will address the pertinent economic challenges facing the country. Experiences from countries show that economic progress or backwardness is not a coincidence but rather, it is as a result of consistent and deliberate actions or inactions of decision makers in the economy. In 2019 and beyond, the Government of Nigeria at all levels must exercise the political will to drive the country's development process.

I enjoin you to have a happy reading.

'Laoye Jaiyeola
CEO, NESG

In this report


NO
BUS STOP
NEW IMPROVED
Jesus is Lord
TOYOTA

Introduction and Context Setting

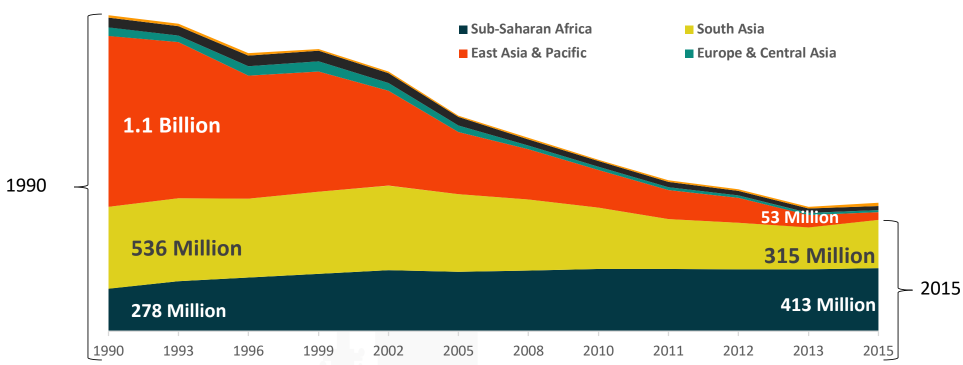
> *"When economic growth lacks inclusiveness, it exhibits lean economic opportunities, high unemployment rate and widespread poverty incidence."*

There is no overstating how the rise in poverty incidence has trailed economic growth in most developing economies where noticeable economic growth rates led to negligible improvements in the welfare of the masses. In essence, quite limited economic opportunities are created because the growth process eludes the larger portion of the population. When economic growth lacks inclusiveness, it exhibits lean economic opportunities, high unemployment rate and widespread poverty incidence. The resultant effects, thus, further reinforce socio-economic exclusion and widening poverty gap.

Since the growth process is not broad-based, the capacity to create economic opportunities, reduce poverty, improve welfare and engender social inclusion becomes limited. This adverse reality, which has become the new normal, has challenged the long-held conventional growth tenets and paradigm where mere growth rate in output is implied for the common welfare. Emphasis on the growth of economic output without proper articulation and underscoring of its process, scope and depth ultimately delivers a jobless growth as currently being experienced in most developing countries. Hence, inclusive growth model, anchored on answering the question of "growth for who?", has attracted considerable attention in the development space.

The World Bank, in its report "Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle" projected that "by 2030, under all but the most optimistic scenarios, poverty will remain in double digits in Sub-Saharan Africa." This submission is, indeed, indisputable especially when juxtaposed with the experience of most countries in the Sub-Saharan Africa, Nigeria inclusive. In recognition of the effects of growth that eludes collective welfare improvement, the Bank pushed forward a rethinking of economic growth priority, which fundamentally is based on the need to raise citizens' welfare by creating opportunities for greater economic participation. Two cardinal guiding principles of global developmental goal were identified, namely eliminating extreme poverty by 2030 and boosting shared prosperity. Accordingly, promoting shared prosperity is defined as "fostering income growth of the bottom 40 percent of the population in every country."

Figure 1: Number of People Living in Poverty



Source: World Bank and NESG Research

" When focusing on growth, policymakers must ask themselves: what kind of growth, growth for whom and what are the desired outcomes? "

Meanwhile, at the crux of inclusive growth targeting is the pivotal role of people-centred governance. In its recent report titled "Policy Shaping and Policy Making: The Governance of Inclusive Growth," the Organisation for Economic Co-operation and Development (OECD) identified the role of good governance in driving inclusive growth. The report established a strong correlation between attaining broad-based economic growth priority and people-centred governance. In explaining trends and policy drivers of inclusive growth, the organization succinctly described what matters when visioning growth strategy: "When focusing on growth, policymakers must ask themselves: what kind of growth, growth for whom and what are the desired outcomes?"

Therefore, mainstreaming governance in the inclusive growth agenda setting is key. Governance represents a vehicle upon which inclusive growth and sustainable development priorities are attained. Governance-enabled inclusive growth is a conscious growth strategy that emphasizes the role of good governance in the delivery of industrial and welfare-enhancing growth priority. It identifies an integrated approach to answering key questions that border on economic growth and development challenges. Evidences from countries such as China and Indonesia[1] suggest the importance of governance, whether in developing industries or driving social sector reforms, in attaining broad-based growth and welfare enhancement.

Hence, the need to factor in the role of good governance in articulating inclusive growth priority in Nigeria cannot be overemphasized. Why does governance matter in enabling shared prosperity agenda in Nigeria? Almost a year after recovery from the 2016 economic recession, Nigeria's output growth remains slow and highly unimpressive. This has further escalated the upward trending unemployment rate thereby widening the misery gap. In fact, according to the World Bank, an estimated 49.1% of Nigeria's population in 2017 lived below the international poverty line of US$1.9 per person per day[2] .

In our 2018 edition of Annual Macroeconomic Report, titled "Growing Beyond Numbers: Will Nigeria's Growth be Inclusive in 2018 and Beyond?", we set forth the concept and philosophy of inclusive growth as a viable growth model for Nigeria especially in the face of apparent dilapidating socio-economic fabrics. The report touched on the need for Nigeria to set a sustainable path in achieving inclusive growth with specific and actionable policy recommendations. This year's report (2019 edition) dives into a deeper exploration of the role of good governance as an enabler of inclusive growth. Can we establish a functional link between governance and inclusive growth in the case of Nigeria? This development philosophy not only represents the core of the report but also resonates with the strategic advocacy agenda of the Nigerian Economic Summit Group in its drive for a modern globally competitive economy.

If our collective aspiration as a nation is to have a globally competitive and prosperous economy, the task ahead remains huge. The challenge of ensuring broad-based inclusive growth in a way that guarantees efficient and equitable distribution of wealth and resources must be overcome. To lay a strong foundation for the attainment of these goals for the good of all, what must Nigeria do differently? If governance is key in the attainment of inclusive growth, what process of governance-imbedded inclusive growth is required? How can citizen-centred governance serve as an enabler of inclusive growth agenda? These concerns beg for a thoughtful reconsideration of the role of governance in enabling inclusive growth in Nigeria.

[1] See Indonesia Case Study On Page 37
[2] See Poverty and Equity Brief: Nigeria- https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_NGA.pdf

Now, why this report? The focus of the report is on the need to define a clear, broad and workable framework for implementing governance-integrated inclusive growth in Nigeria. The report seeks to set in motion a holistic and result-oriented debate on enabling broad-based inclusive growth in Nigeria rooted in the principle of shared prosperity. The following statements are strategic in guiding meaningful policy debate on governance-inclusive growth agenda in Nigeria:

- How can growth be inclusive in a way that it provides socio-economic opportunities for all sections of the society, thus, accruing growth benefits to all?

- How do we develop specific, measurable, actionable and time-bound government policy and institutional changes to increase the consumption thresholds/segments of the bottom 40 percent of the income distribution?

- How do we develop lasting approaches and strategies for service delivery and governance innovation that support broad-based growth and shared prosperity?

In setting out this agenda, this report is structured into two parts: In addition to the introductory section, Part I reviews the Nigerian economy in 2018 and examines the macroeconomic outlook for 2019, using the NESG Macroeconomic Model. Part II looks into how Nigeria can steer on the path of inclusive growth and the crucial reforms that are required to achieve this feat. It also, focuses on the link between the first pillar of inclusive growth and governance. In addition, the role of government, at all levels, in delivering broad-based growth via strategic agenda setting for industries, policy coordination and regulation for business growth was discussed. Furthermore, Part II discusses reforms that are needed in critical social sectors (education and health) and how government can deliver such reforms Finally, it also explores governance priorities and key policy recommendations for 2019 and beyond.


UAC
UAC

Part I

HOW NIGERIA FARED IN 2018 AND OUTLOOK FOR 2019

Nigerian Economy in 2018

> *"...the current recovery cycle requires that the idea of inclusive growth needs to be prioritised across-the-board."*

Introduction

Nigerian economy rode on market confidence in 2018. Not so much from policy circle came into a rescue operation for the economy in the year. A lot of the growth-boosting policy impulse envisaged at the end 2017 could not show sign of life in 2018. Considering the health of the economy in 2017, we argued in our 2018 edition of Macroeconomic Outlook report that Nigeria's race to achieving potential output growth may take a longer time. More importantly, the current recovery cycle requires that the idea of inclusive growth needs to be prioritised across-the-board. As at the end of the year 2018, this story remains broadly intact.

The Nigerian economy continued its slow recovery from the 2016 recession on the backdrop of the oil sector. However, policy coordination was not coherent and seemed to have dashed hope for Nigerians. On one side, the Central Bank of Nigeria (CBN) was consistent in its approach by focusing on foreign exchange (FX) stability, which it has essentially forestalled in 2017. As a rapid response for an economy trying to get its footing after a length of four quarters in recession, the gains of CBN policy stance outweighed its growth-inhibiting effect on the economy. The direct effect is reflected in the comeback of non-oil industrial and services sectors in 2018. The growth in Service sector output mirrored the growth in services import in the year. Such a difference between economic performance in 2016 and 2018 shows that CBN gauged right by placing FX stability at front burner of its policy objective. The CBN's role, perhaps, made confidence to ensue in the year 2018. That said, it should be noted that the monetary policy framework, tools and transmission mechanisms are set up at the expense of medium to long-term economic growth.

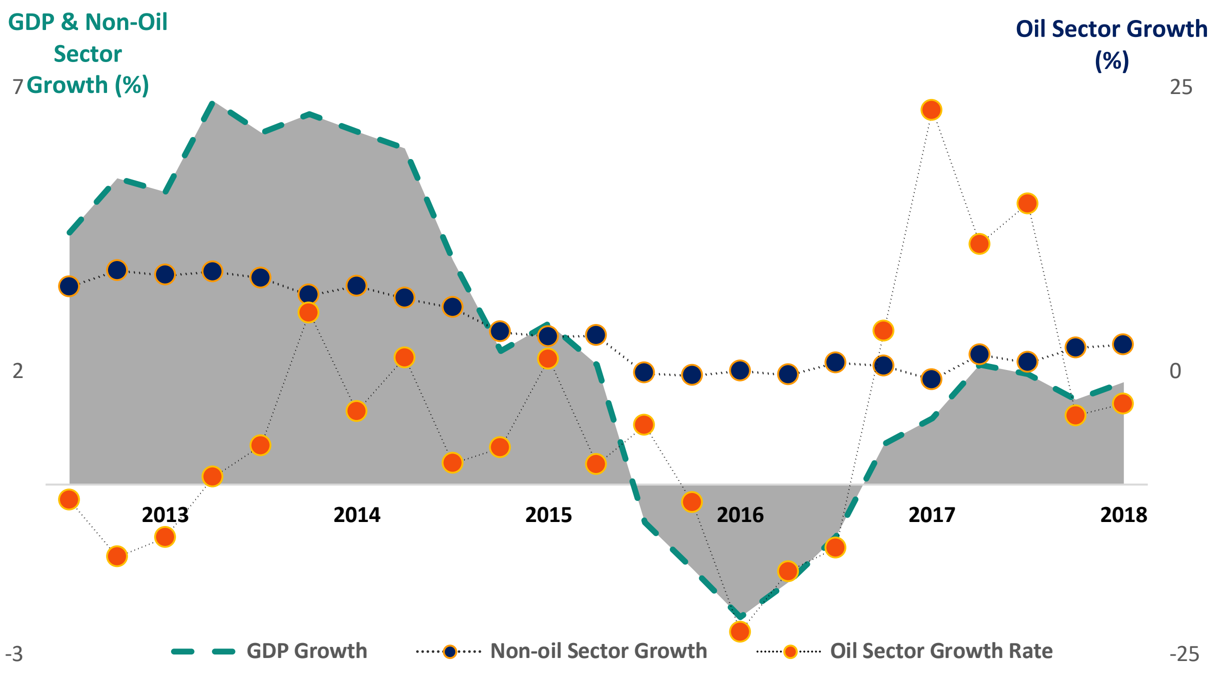
On the flip side, the lacklustre in the implementation of fiscal support interventions was pervasive in 2018. While the CBN keeps fine-tuning its operational framework to improve its transmission to the economy, fiscal stimulus from FGN and state governments, which should have kicked in aggressively to pull the economy along the recovery phase was found wanting. In our optimistic scenario in 2018, we had stated that the government would need to attain a high policy efficiency threshold to be able to implement a significant number of growth-induced intervention programmes. Despite an encouraging oil price movement; weak revenue mobilisation, rising debt service and counterproductive budget cycle worked collectively to inhibit any material shift in fiscal expansion in 2018.

Adding the pieces together, we take a stock of macroeconomic outcome vis-à-vis the key policy measures in 2018. In doing this, we view Nigeria as an economy suffering from anaemic growth recovery, in which nearly all economic sectors require FX for supplies needed to build up production level. Meanwhile, only the oil sector's activity, which constitutes 10% of the overall production, contributes 80% of FX inflow. The framework adopted in this section views the economy through the lens of policy priorities, their executions and how they influence state of play of economic outcome.

Economic recovery is on track, slow but not steady

The Q3-2018 GDP figures published by the NBS showed that Nigerian economy maintained its expansion mode in the year to Q3. Real GDP growth rate accelerated to 1.8% year-on-year (y/y) in the first three quarters, performing below our 2.3% forecast for the full year. Considering Nigeria's long-term growth average, the growth performance is low and the recovery remains slow. However, the 2018's growth presented a stronger breath of recovery compared to 2017's. In the same period in 2017, the economy was just 0.4% y/y, crawling its way out of recession. That said, quarterly movement exhibits mediocre recovery patterns as economic growth slowed consistently from 2.1% in Q4-2017 to 1.85% in Q3-2018 (see figure 2).

Figure 2: Nigeria's Real GDP Growth (%)



Source: NBS and NESG Research

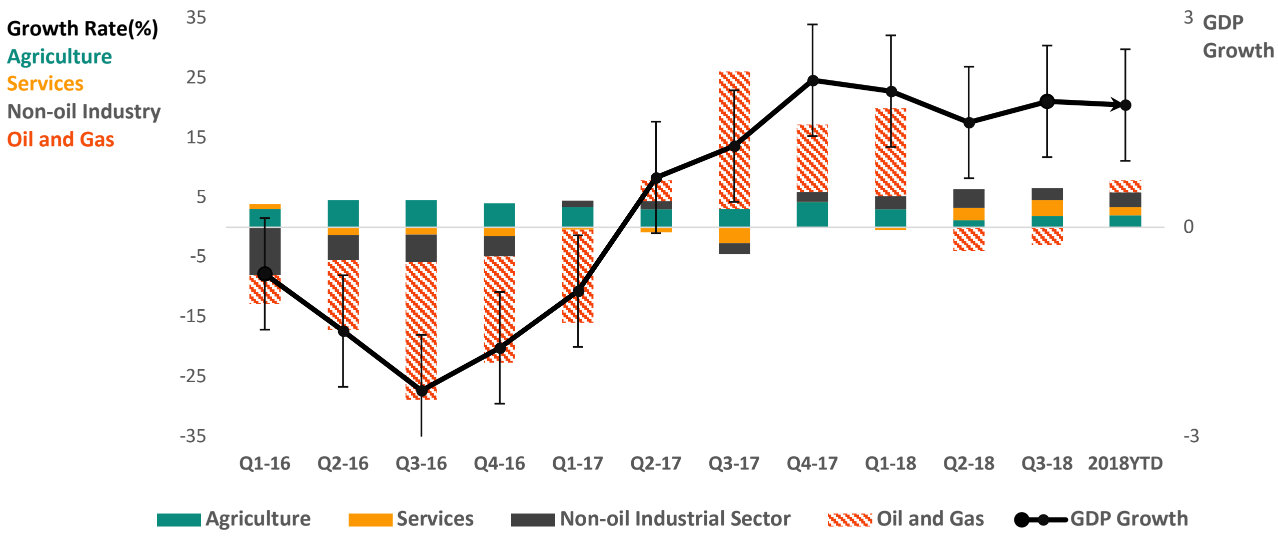
Momentum declined for some of the economic sectors.

" Oil output could not hit 2 million barrels per day (mbpd) throughout the year and most often fell below previous year's level."

While the non-oil industrial sector showed an applaudable upward growth, the oil sector's growth was inconsistent, and the Agricultural sector showed tepid growth pattern. The non-oil industrial sector (essentially consisting of Manufacturing, Construction, Mining, Electricity) grew by 2.5% till Q3. The growth of the sector has been consistent since Q4 2017, reflecting the improvement in foreign exchange liquidity. The effect of FX shortage of 2016 on investment and growth in the sectors appeared waned. More so, aggregate demand has improved as the effect of inflation on real income eased off.

The oil sector remained the driver of economic growth. However, the sector has been staggering along its trajectory since 2017. In the YTD till Q3-2018, the sector grew by 2.5% even as crude oil production has not returned to the pre-crisis era. The performance of the oil sector benefited from the increase in oil price and not from production activities in the sector. Oil output could not hit 2 million barrels per day (mbpd) throughout the year and most often fell below previous year's level. We have seen high swings in the trend of oil sector growth since the emergence of economic recovery in 2017, with Q2 and Q3-2018 growth at -3.9% y/y and -2.9 y/y respectively, after an impressive 14.2% growth in Q1.

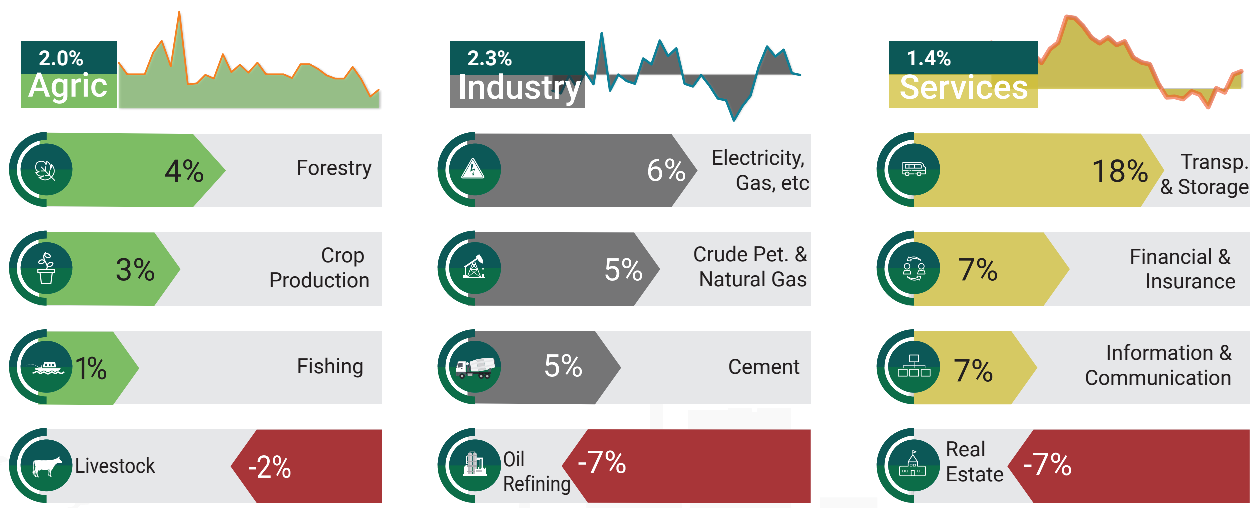
Figure 3: GDP Growth by Major Economic Sector (%)



Source: NBS and NESG Research

Supply side disruptions emanating from violent clashes between herdsmen and farmers put a damper on agriculture sector growth. The agriculture sector, which had maintained its relatively steady growth throughout the recession period, slowed down to 1.9% y/y growth in the year till Q3 2018. The sector's output dropped from 4.2% y/y in Q4-2017 to 1.9% y/y in Q3-2018. The sector's performance is not reflecting the Federal Government of Nigeria (FGN's) recent stride in the agriculture sector. The sector has garnered attention as a favoured route to economic diversification. The CBN's anchor borrowers programme (ABP) has been instrumental with the aim to transform the sector into the economy's new backbone. The Bank recently confirmed that about 850,000 farmers had benefited from N160 billion disbursed under the programme. Also, significant investment has been recorded in dairy farming. Despite these efforts, it appears the disruption created by conflicts in the north-east outweighs the impact of government intervention.

Figure 4: GDP Growth by Subsectors



Source: National Bureau of Statistics

Inflation fears have dissipated, but headline inflation remained above the CBN's target range

Inflation rate declined significantly in response to monetary tightening and exchange rate stability. The headline inflation continued its downward move, which started in 2017. Between January and October, headline inflation stepped down from 15.1% to 11.2%.

Figure 5: Nigeria's Inflation Rate (%)

HEADLINE INFLATION		
Year-on-Year	12-Month Average	
2018 Average	2018	2017
12.2	12.2	16.5

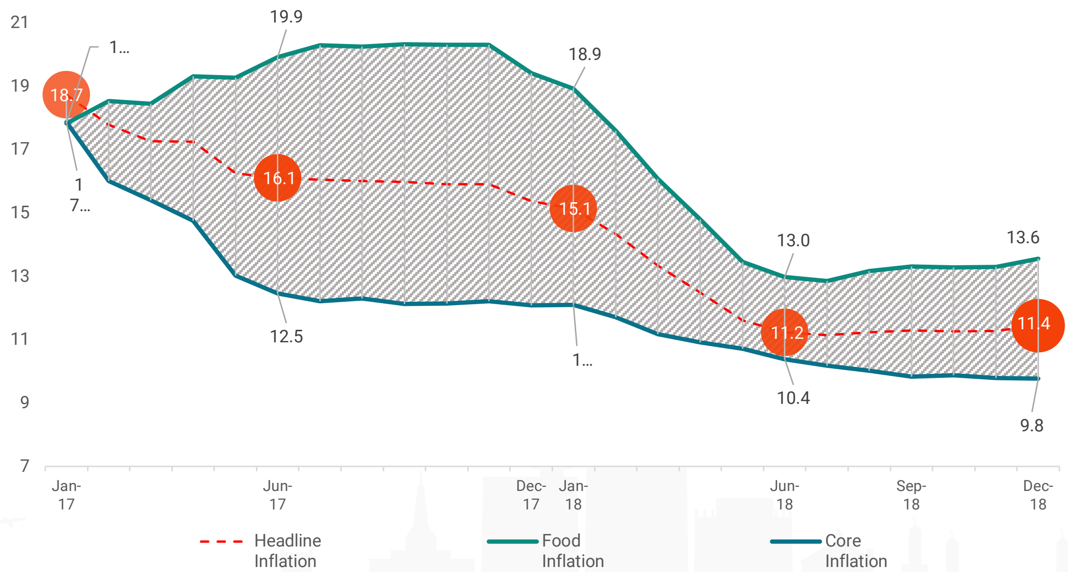
FOOD INFLATION	
2018 Average	2017 Average
14.4	19.5

CORE INFLATION	
2018 Average	2017 Average
10.5	13.5

Source: NBS and NESG Research

Since declining to 11.6% in May, headline inflation has remained stuck at the 11% range. In 2018, core inflation moderated from 12.1% to 9.9%, responding to tightened monetary system and relative stability in FX maintained by the CBN. Food inflation cooled off substantially in the year. Although food inflation is still high, closing the year at 13.2%. On the average, food price slowed to 14.6% in 2018, compared to 19.5% in 2017. The slowdown is triggered by base effects emanating from bad weather, which disrupted farmers harvest in mid-2017. Meanwhile, the recurring farmer-herdsmen conflicts and the displacement of farming communities in the North-East of the country are keeping food price elevated. Although upward inflationary pressure is scarce in the near term, the 2019 election spending and possibly, the implementation of the proposed 40-60% increase in minimum wages pose upside risks to headline inflation.

Figure 6: Nigeria's Inflation Rate (%)

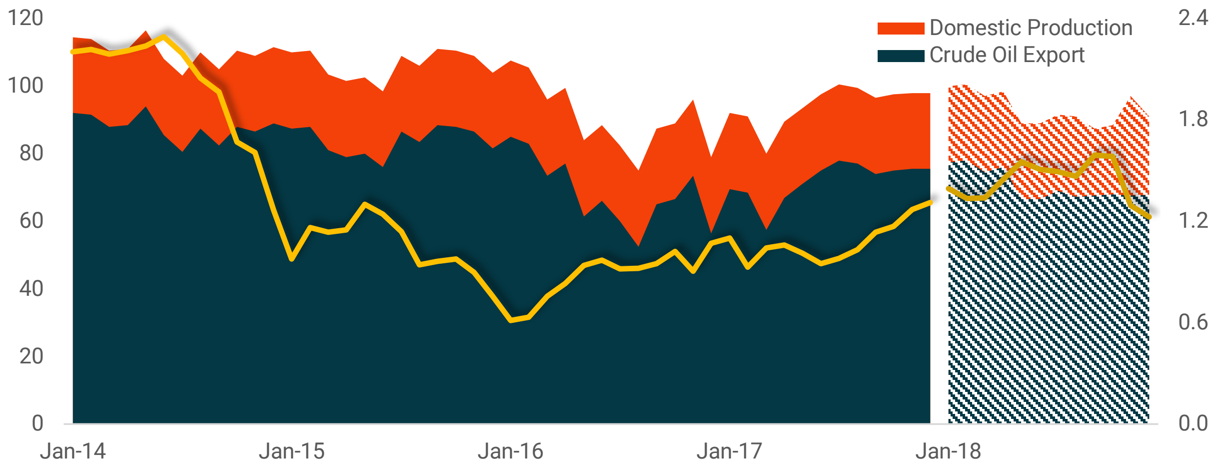


Source: NBS and NESG Research

Oil price continued to recover, but Nigeria's Crude Oil Export could not keep pace

While oil prices stayed below 2013's peak, it continued to recover in the year. Oil prices stayed above their long-term average in 2018, supported strongly by OPEC-induced supply control. Nigeria's Bonny Light crude price, for instance, was traded at an average price of $72 per barrel in the year, compared with $54 per barrel in 2017. Whereas oil production could not surpass the previous year's level. Crude oil output was maintained at 1.8 million barrels per day (mbpd), the same output level achieved in 2017. Also, Nigeria's oil export could not gain any noticeable margin at 1.4 mbpd on the average. Although the oil sector has been benefiting from the relative calm in the Niger Delta region, temporary disruptions for maintenance purposes affected production in 2018.

Figure 7: Crude Production (mbpd), Crude Oil Export (mbpd) and Oil Price (US$pb)



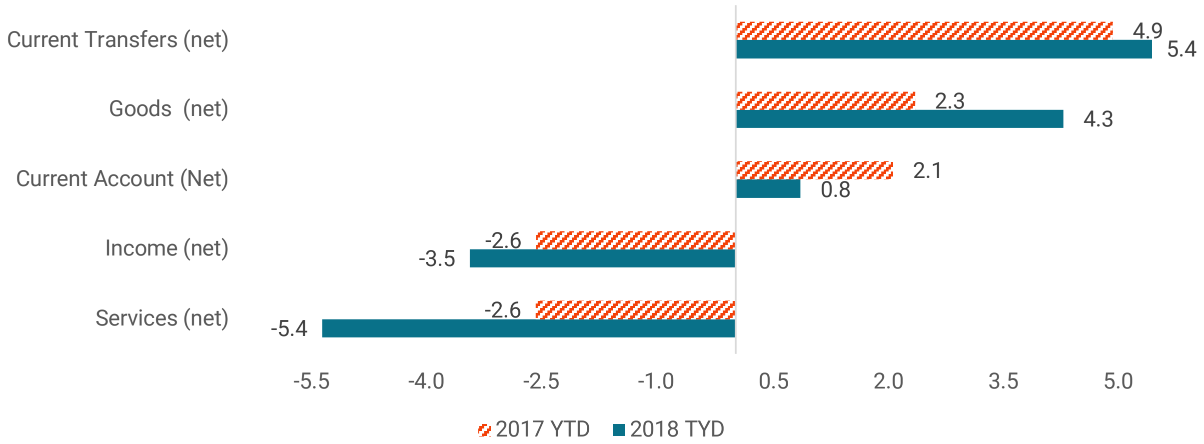
Source: CBN, EIA and NESG Research

"The increase in Services import largely contributed to the drawdown in C/A balance from N2 trillion in the first three quarters of 2017 to N848.3 billion in the same period of 2018."

Services Import soared, current account surplus narrowed substantially

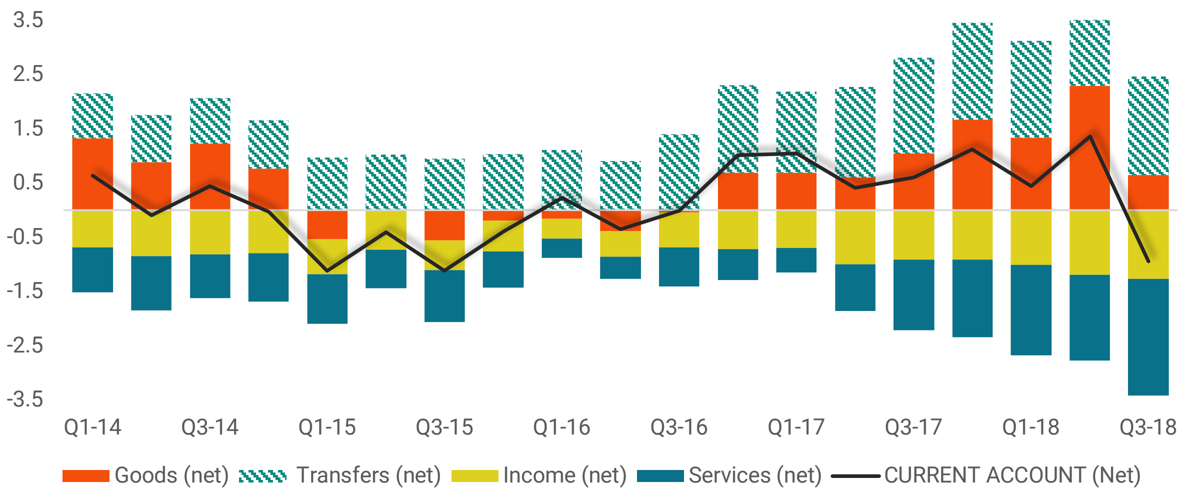
As at Q3-2018, Nigeria's current account (C/A) position remained in surplus, notwithstanding lacklustre performance in the crude oil export which contributed 81% of export trade. However, the C/A position narrowed in the year to Q3-2018, from 2.5% of GDP in 2017 to 0.9%. This was not due to trade in goods, rather due to services import and income payments. Trade data published by NBS showed that Nigeria's trade balance (goods) rose by 35% in the third quarter of 2018 mainly as a result of a 145% rise in exports. At 22% increase, goods import marginally improved in 2018 but was still largely subdued. Surprisingly, Services imports increased by 77% against 9% decline in services export. The Services import has risen sharply since 2017 when the backlog of payments, previously trapped due to FX shortages, were cleared by banks. The increase in Services import largely contributed to the drawdown in C/A balance from N2 trillion in the first three quarters of 2017 to N848.3 billion in the same period of 2018.

Figure 8: Nigeria's Current Account (N Trillion): 2017 vs 2018



Source: CBN and NESG Research

Figure 9: Breakdown of Nigeria's Current Account Position (N Trillion)



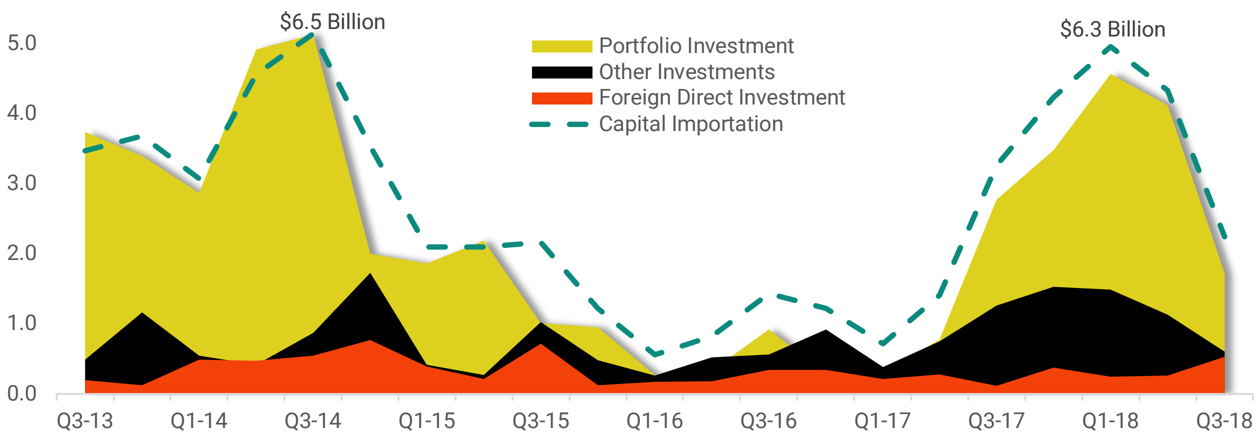
Source: CBN and NESG Research

Foreign inflows to bond and money markets changed the tide of financial account position from deficit to surplus.

Nigeria's financial account recovered significantly in 2018, bolstered by stronger inflows into bonds and money market instruments. Within the first three quarters, foreign portfolio investment (FPI) surged to $10.4 billion, which represents 170%y/y increase of $3.8 billion reported in a comparable period of 2017. Of this, inflows to money market instruments accounted for 72% of FPI and 26% of the total value of capital imported in the year to Q3. Foreign direct investment barely edged up by $435 million to $1 billion. Going into 2018, we had expected financial inflows to continue the climb they began in 2017 on the backdrop of high yields in domestic debt instruments and the establishment of Investors and Exporters' Foreign Exchange window (IEFX). In addition to stable oil price, which has remained supportive of the current account, IFEX operations have taped near-term FX convertibility risks at a bearable range for investors.

However, the quarter-on-quarter analysis showed a visible reversal of financial flows as the year comes to close. Data published by NBS revealed that the total value of capital imported in Q3-2018 was estimated at $2.9 billion, representing a decrease of 48% q/q on Q22018. In the same quarter, portfolio investment decreased significantly by 58% to $1.7 billion from $4.1 billion in Q2. The largest contributing factor to this reaction emanated from the US Fed's policy of monetary normalization which occasioned widespread risk aversion across frontier and emerging markets. Also, as Nigeria's next election cycle is near, investors seemed to be adopting a more conservative stance in their fixed income portfolios in the Nigerian market.

Figure 10: Capital Importation by Type of Investment (US$ Billion)



Source: NBS and NESG Research

Revenue Mobilisation Challenges stalled Fiscal Situation

...FGN Revenue Inflows has improved, putting the overall FGN budget deficit in comfort zone

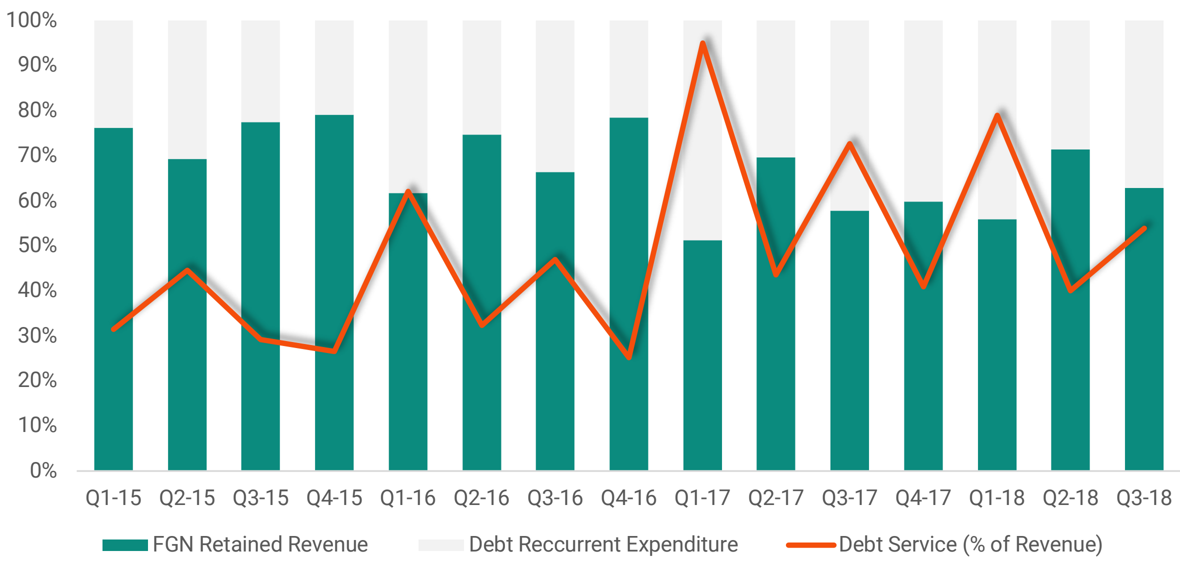
The provisional fiscal data between Q1 to Q3 2018 showed that the inflows to federation account outperformed 2017's figure by an increase of 40.3%, moving from N4.9 trillion to N6.9 trillion in corresponding period respectively. The increase reflects the performance of oil and non-oil receipts alike, which grew by 42.8% and 32.9% respectively over last year's figures. On that, the Federal Government (FGN) retained revenue recorded a boost of 40% improvement over the previous year's level to N2.8 trillion. Consequently, the fiscal deficit narrowed to 1.1% (ave.) of GDP within the period, comfortably below the 2018 budget target of 1.7% of GDP. However, we are cautious to make verdict over the budget deficit figure as most of the items in the 2018 budget will be rolled over to the first half of 2019. We still expect the fiscal deficit to hover around the recent historical average of 3% of GDP.

...While the fiscal deficit remained on track, the 2018 overambitious budget face major backslash from revenue shortfalls

The much-needed inflows required to finance 2018 budget could not materialise for the FGN. Matching retained revenue vis-à-vis the budgeted inflows, our analysis revealed that the FGN experienced a significant revenue shortfall in 2018, with only 51% of budgeted revenue realised in the review period. On the quarterly basis, FGN's retained revenue fell short of the proportionate quarterly budget estimate of N1.8 trillion by N875.8 billion (ave.).

The decline in federally-collected revenue (gross) relative to the proportionate quarterly budget estimate was attributed to the shortfall in budgeted inflows. However, unlike in recent years, when budget performance was hampered by low oil revenue, the 2018 revenue shortfall relative to budget targets was amplified by under-collection of non-oil revenues. The budget target for non-oil revenue was increased in 2018 budget by 32% y/y to N5.6 trillion, but the proportionate quarterly target between came short by N1.4 trillion between Q1 to Q3-2018.

Figure 11: FGN Retained Revenue vs Debt Service Expenditure (%)



Source: CBN and NESG Research

…and the debt service cost remained elevated

The debt service payments have risen sharply since 2016 and the 2018 level is no exception. Going by the international benchmarking framework, the debt-to-GDP ratio remained below the threshold at 18% as at H1 2018, but debt service-to-revenue ratio has not soft-pedalled at 58%. Debt service between Q1 and Q3 accounted for 48% of recurrent expenditure and 43% of total expenditure.

"Since 2016, the Bank has kept its conventional policy tools unchanged, maintaining monetary policy rate (MPR) at 14%, cash reserve requirement (CRR) at 22.5% and liquidity ratio at 30%."

State of Play of Monetary and Fiscal Policies in 2018

CBN Sacrificed Near Term Economic Growth to Prioritise FX Stability

CBN maintained a tight monetary policy in 2018, even when it is obvious that the economy is limping along the recovery path and would need policy support to nudge up growth. Since 2016, the Bank has kept its conventional policy tools unchanged, maintaining monetary policy rate (MPR) at 14%, cash reserve requirement (CRR) at 22.5% and liquidity ratio at 30%. There is no doubt that the primary policy objective of the CBN is to ensure price stability with an inflation target of 6% to 9%. For the Bank, however, managing an economy in a period of low growth - in which nearly all economic sectors operations are exposed to FX liquidity and household consumption is affected by the FX rate via elevated core inflation – policy choices had to be carefully refocused.

This development has also influenced the Bank's policy stance to veer more towards FX stability at the expense of near-term growth by providing incentives for short-term capital inflows to attain higher reserve levels. Some of such incentives included maintaining an attractive interest rate and heavy intervention in the FX market to resist free fall depreciation. Maintaining such a policy would achieve double effects of FX stability and ensure that inflation is kept at bay, which are key factors for CBN to deliver macroeconomic stability in Nigeria. On the other hand, the risk associated with a lower rate under the conditions of wavering foreign capital inflows and an unstable oil market is considered a worse-off policy decision and this should have served as a wake-call to all scepticisms that the CBN could ease monetary system in the year. This has been a conundrum for the CBN since 2015 and calls for careful navigation in 2018.

However, the events of tightened financial condition across developed and emerging markets and domestic pre-election spending made CBN to be more hawkish in its approach to monetary policy in 2018 than in 2017. These two events inclined CBN to contract the monetary system in order to keep rates high and tame election spending from overheating the money supply. But this was not achieved via MPR in 2018, rather through aggressive liquidity management of the banking system through the Open Market Operations.

The CBN sold a total of N17.2 trillion worth of instrument at the Open Market Operations (OMO) auction market across all maturities, effectively clearing out 86% of demand in 2018. This amounts to 118% growth over N7.9 trillion sold in 2017. In addition, special OMOs, which are usually not conducted via auctions, were issued at below market rates to add bite to the overall tight environment. The CBN's liquidity management operations of commercial banks, mainly via OMO bills, have kept money market rates most often anchored above MPR since 2016. As part of its stabilising operations in 2018, the Bank used Secondary Market Intervention Sales (SMIS) FX intervention window, where advanced funding is required one week ahead before USD sales to effectively mop-up excess liquidity. Such tool created funding pressure in the FX market and subsequently aggressive sell-off in the money markets.

Figure 12: Stock of OMO Bill (N Trillion)

Source: CBN and NESG Research

"...capital outflows may persist and even scale up after elections in 2019 on the backdrop of rising fiscal expansion in the US."

It is clear that the CBN policy stance in 2018 aimed at curtailing FX convertibility risks ahead of the 2019 general elections. CBN could achieve the liquidity management manoeuvring vis-à-vis exchange rate stability due to build up in the un-hedged component of foreign reserves. Movement in daily foreign reserves ranges between $40.6 billion and $47.4 billion in 2018, sufficient to maintain FX stability going into elections despite a pick-up in portfolio outflows towards the end of 2018. The reserves level coupled with the current account surplus should be supportive of CBN's short- term monetary policy management.

That said, it should be noted that capital outflows may persist and even scale up after elections in 2019 on the backdrop of rising fiscal expansion in the US. Amid tax cut, the US fiscal deficit leapfrogged in FY 2018, hitting US$833 billion and thereby forced the Fed to push rates higher throughout 2018. It has been projected that the FY 2019 budget deficit would hit US$ 1 trillion. Already, the first three months of the fiscal year has shown probable signs as the spending outpaced revenue by US$317 billion. This suggests that the Fed is unlikely to pause rate hikes and may even push up rates at a faster pace in 2019. By implication, global portfolio investment may likely route to the US market in 2019. The CBN's objective to maintain FX stability will, no doubt, be vulnerable to the extent to which capital outflow put on the reserves.

Overall, the CBN policy is that of "Carrot and Stick" approach. Beyond aggressive liquidity mop-up from the banking system, the Bank stepped into the spotlight of development role to stimulate the non-oil sector. Monetary Policy Committee (MPC) admitted to the fact MPR has a poor transmission to the real economy at its meeting in May 2018, owing to the structural bottlenecks that keep risk premium high and the more appealing risk-free government securities. For these, the reduction in the MPR may not necessarily transmit to lowering market lending rate to the real sectors. As such, the CBN continued to finetune operational framework to improve its transmission to the economy. The Bank delivered easing via unconventional means by:

- Announcing the introduction of differentiated dynamic cash reserve requirement (CRR) regime where it plans to refund commercial banks' CRR up to amounts equal to new loans issued to private companies at 9% and with a tenor of 7 years.

- It also plans on buying commercial paper issued by corporate companies with rates below 10% and tenors between 5-7 years.

Although the plans appear odd with the liquidity tightening stance, they were framed by the CBN with the intention of directing inexpensive liquidity to more productive sectors of the economy.

"The ERGP has been rolled out since 2017 and a lot of struggling economic sectors are still hoping on its promises."

Fiscal framework inhibits Nigeria's growth momentum

…the credibility of the ERGP depends on evidence of concrete progress in its implementation

Despite its current effectiveness, the CBN's policy stance cannot be anchored as the mainstay of growth and stability. Together with the unreliable performance of the oil sector, both present risks to Nigeria's growth outlook in the near term. Nigeria's medium-term growth outlook, therefore, hinges on the extent to which the non-oil sector economy come to fore and lead growth. This will depend on addressing the policy bottlenecks and infrastructural challenges via targeted sectoral interventions. Essentially, as the economic recovery is slowly taking its root, fiscal stimulus should gain importance and replace monetary policy as a driver of growth and market confidence. The ERGP has been rolled out since 2017 and a lot of struggling economic sectors are still hoping on its promises.

…But weak revenue mobilisation is one inhibiting factor

The FGN revenue has been underperforming since the on-set of recent low oil price, with non-oil revenue mostly affected. Such weak revenue mobilisation has implication for growth potential, including social services delivery outcome. There has been some improvement recently, with 2018 inflows to the federation account outperformed 2017 by the tune of 40% in the first three quarters. While target for revenues has been increased ambitiously in the 2018 budget, actual revenue collected have not kept up with the target. For instance, 77% of the budgeted amount of oil revenues and 67% of non-oil revenues were collected in the first three quarters. The slow pace of increase in revenues, especially the non-oil, suggests that the fiscal target of 1.72% of GDP remains ambitious because the projected 40% y/y growth in expected retained revenue may not be materialised.

…while Capital Spending has suffered

The striking implication from the foregoing is that capital spending - for which allocations in 2018 budget was increased by 32% y/y - will be significantly under executed. Separately, we notice FGN's retained revenue has not covered for its recurrent expenditure since 2017. While retained revenue fell short of recurrent spending by N1.9 trillion in 2017, it was less by N580 billion with Q1-Q3 2018. With the proposed increase in minimum wage ahead of 2019 general elections, we are not clear about the FGN's plan to rationalise recurrent expenditure. Essentially, this leaves capital spending to be financed primarily by borrowed funds to the detriment of social and infrastructural development.

" Given the delay in budget approval, only 28.6% of budgeted capital expenditure (N820.6 billion) was released as at December 2018."

…The shortfall of fiscal policy rest on poor governance and weak Institutions

The challenges with the execution of fiscal framework are not only traceable to weak revenue mobilisation, but also to institutional weakness. Every year, the disconnect between executive and legislative arms usually constitutes a major delay for the appropriation act which typically come mid-way through the fiscal year. For instance, the 2018 budget was approved in June 2018, seven months after the initial proposal was presented to the National Assembly. Given the delay in budget approval, only 28.6% of budgeted capital expenditure (N820.6 billion) [3] was released as at December 2018. Again, the 2019 general election is crucial in determining the path of these planned investments in the 2018 budget. We expect the executive and the National Assembly to focus on election campaign which will forestall disbursement to critical infrastructures and ERGP. These are issues that could be addressed if institutions are strong and governance focus is structured to drive inclusive growth.

[3] Retrieved from a public presentation of the 2019 Budget of Continuity by Minister of Budget and National Planning on 20th December 2018.

Policies and Events that shaped 2018 (as predicted in Macroeconomic Outlook for 2018)

01 Implementation of ease of doing business reforms

As a result of the implementation of ease of doing business reforms in the areas of "Starting a Business", "Trading Across Borders", etc., Nigeria improved in its score on ease of doing business in the World Bank Doing Business Rankings but declined by one position to 146th in ranking.

02 Favourable global crude oil market

Crude oil price remained above US$60 per barrel for the most part of the year, above the 2018 budget benchmark of US$51 per barrel. As a result, Nigeria recorded growth in external reserves and relative stability in exchange rate.

03 Delayed passage of the 2018 Budget

The budget was signed into law in June 2018, halfway into the budget year. As at December 2018, only N820.6 billion out of N2.9 trillion had been released for capital projects.

04 Rebalancing of government debt in favour of external debt

External debt grew by 281% from US$5.8 billion in December 2017 to US$22.1 billion in June 2018. This led to a relatively lower interest rate on government securities in the early part of the year.

05 Increased pressure to generate revenue from non-oil sources

Due to deliberate measures by the government, such as the implementation of VAIDS, the tax (non-oil) revenue grew during the year.

Nigerian Economic Outlook for 2019

This subsection examines key policies and happenings that will shape the Nigerian economy in 2019 as well as the NESG Macroeconomic Projection for 2019.

Policies and Events that will shape 2019

2019 General Elections

The outcome of the elections will likely shape Investment policies, debt management, public sector spending, security and governance reforms etc.

Delayed Passage of the 2019 budget

The proposed 2019 budget of ₦8.73trillion is a reduction from the ₦9.12trillion 2018 budget and an indication of fiscal tightening measures by the government. It is expected, however, that this budget would not be passed until the second or third quarter of the year, after the general elections.

Review of minimum wage

The review of the minimum wage from ₦18,000 to ₦30,000 will result in higher government spending at both federal and state level. Some state governments might experience difficulty in meeting salary obligations in the year.

Relatively lower crude oil price

Despite OPEC's projected growth in world oil demand by 1.36mbpd to reach 100.15mbpd in 2019, several projections show that crude oil price will likely hover around US$60 per barrel. This development, coupled with slow growth in Nigeria's oil output might trigger some fiscal challenges in the year.

The launch of Dangote Refinery in Lagos

The first privately-owned refinery of a 650,000-bpd capacity is expected to start operation in 2019. This would increase supply of refined petroleum products, possibly reduce imports bills and conserve foreign exchange for Nigeria.

Actions of the US Federal Reserve

There are indications that the Federal Reserve would hike the interest rate, which could cause further negative effects on Nigeria's foreign portfolio investment.

NESG Macroeconomic Projection for 2019

Our projection was done using the Nigerian Economic Summit Group Macro-Econometric Model (NESG–MACMOD). The model was constructed to simulate and analyse impacts of different policies on key macroeconomic indicators and sectors and forecast their future values. It is structured into six blocks, namely; demand, supply, fiscal, monetary, employment and external. These blocks are made up of a total of 53 equations; out of which 32 are behavioural equations, 13 are identities and the remaining 6 are theoretical definitions.

	Assumptions	Outcomes
Scenario 1: Best Case	• Crude oil price averages US$75 per barrel (pb) • Crude oil production averages 1.8 million barrels per day (mbpd) • Capital Expenditure at N1.4 trillion	• Real GDP grows by 3.2% • Inflation rate moderates at 9.8% • Government revenue increases by 20% • Official exchange rate stabilises at N302/US$1 • Parallel exchange rate at N350/US$1 • Unemployment rate at 21.5% • Underemployment rate at 20%
Scenario 2: Business as Usual	• Crude oil price averages US$60 pb • Crude oil production averages 1.7 mbpd • Capital Expenditure at N1.2 trillion	• Real GDP grows by 2.1% • Inflation rate moderates at 10.5% • Government revenue increases slightly by 5% • Official exchange rate stabilises at N310/US$1 • Parallel exchange rate at N360/US$1 • Unemployment rate at 22% • Underemployment rate at 23%
Scenario 3: Worst case	• Crude oil price averages US$45 pb • Crude oil production averages 1.4 mbpd • Capital Expenditure at N700 billion	• Real GDP grows by -1.1% • Inflation rate increases to 14% • Government revenue declines by 16% • Parallel exchange rate at N400/US$1 • Official exchange rate worsens at N350/US$1 • Unemployment rate at 24% • Underemployment rate at 24%

Scenario 1 is optimistic. It assumes that crude oil price will average US$75 per barrel in 2019, which is above the 2019 budget benchmark price of US$60 per barrel. On crude oil output, we assume a production volume of 1.8mbpd on the backdrop of continued peace in the Niger Delta and compliance with OPEC quota. Capital expenditure is projected to be N1.4 trillion in the year.

Scenario 2 is business as usual. This scenario acknowledges that crude oil price will average US$60 in 2019 while output will average 1.7mbpd. It assumes that actual capital expenditure will reach N1.2 trillion in the year.

Scenario 3 is pessimistic. It assumes a lower crude oil price and output of US$45 per barrel and 1.4 million barrels per day in 2018, respectively.

Rationale and Outcomes for each Scenario

Best Case Scenario

Under this scenario, the planned 1.2mbpd oil production cut by OPEC and its allies is implemented as scheduled. Oil producers maintain production cuts to keep oil price at US$75 per barrel, above Nigeria's US$60 2019 budget benchmark price. In addition, improved US-China trade negotiations as well as the slow and gradual pace of implementing the rate increase by the US Fed will have a favourable outlook on the global economy in the year.

In Nigeria, the expiration of the supply cut exemption means that the country will have to comply with the scheduled OPEC cuts in 2019. Crude oil production will, therefore, hover around 1.8mbpd. In terms of government spending, we assume actual disbursement of N1.4 trillion for capital projects in the calendar year, based on improved government revenue. This will imply a budget implementation rate of 70% in the year.

Outcome

The outcome of this scenario is largely positive. Real GDP grows by 3.2% in 2019, driven by Information, Communication and Technology and Agriculture sectors. Inflation moderates at 11% in the year, largely as a result of increased agriculture outputs and a stable official exchange rate at N302/US$. Unemployment and underemployment rates decline marginally to 21.5% and 20.5%, respectively. Government revenue improves by 20% in the year.

Business-as-usual Scenario

This scenario assumes the continuation of the US-China trade war and a lack of tangible progress in the negotiations between both countries. In addition, several estimates show that China's economy will record a slow growth in 2019, which could adversely affect global oil demand and weaken oil price in the year. However, agreements between OPEC and non-OPEC producers will likely intervene to keep oil price around US$60 per barrel.

On the domestic front, uncertainties persist in the oil and gas industry due to non-passage of the Petroleum Industry Bill (PIB). Domestic oil production averages 1.7 mbpd in the year. In addition, the government implements 60% of its proposed capital expenditure budget in 2019.

Outcome

Real GDP grows by 2.1% in 2019. Government revenue increases slightly by 5%. Exchange rate and external reserves face moderate pressure due to FX outflows arising from uncertainties from the 2019 general elections. Inflation rate hovers 10.5% while unemployment/underemployment rate rises to 22% and 23% respectively, in 2019.

Worst Case Scenario

Global GDP growth weakens in the year, occasioned by rising interest rates in developed markets and huge capital outflows in emerging and developing markets. China's GDP growth slows in the year as the US-China trade war worsens. These factors, along with increased production and supply on crude oil from North America in the second half of 2019 threaten crude oil price, which averages US$45 per barrel in the year. In Nigeria, post-election uncertainties and agitation in the Niger Delta forces production down to 1.4 mbpd in 2019. The federal government injects N700 billion into capital projects in the year.

Outcome

Nigerian economy falls into a recession as real GDP grows by -1.1%, triggered by fall in oil price and output. Inflation rate rises to 14% while government revenue declines by 16%. The Central Bank of Nigeria is forced to devalue the official exchange rate to N350/US$, while the parallel market experiences supply shortage and severe depreciation. Unemployment and underemployment rate increases to 24% each in the year.

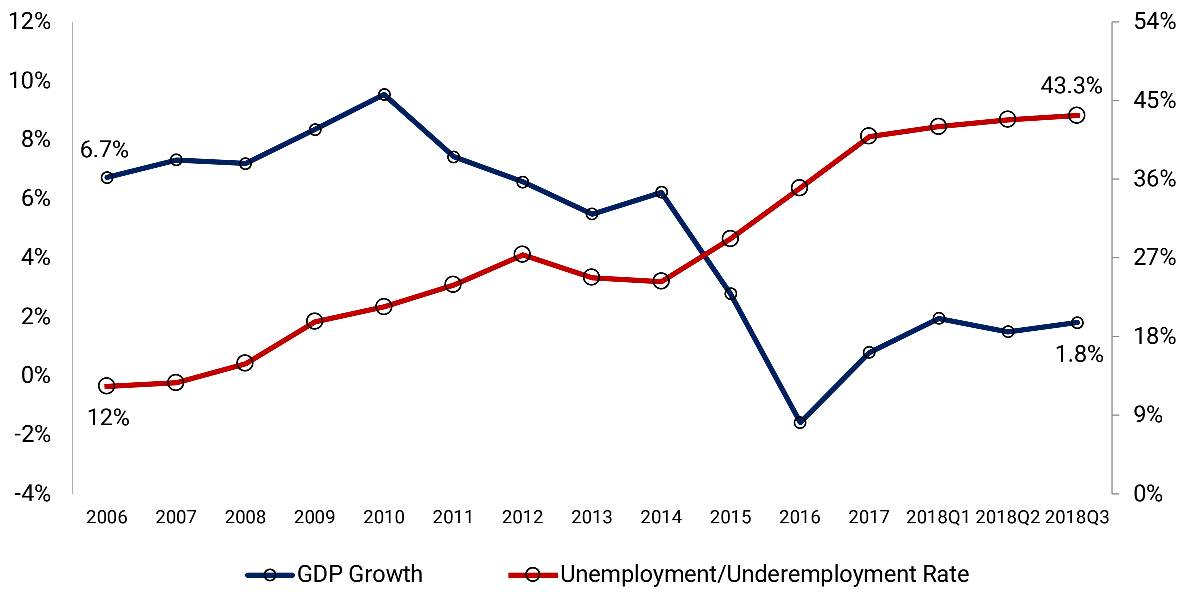
Part II

INDUSTRY GOVERNANCE AND SOCIAL SECTOR REFORMS FOR INCLUSIVE GROWTH

Rising Economic and Social Exclusion Remains a Major Concern in Nigeria

GDP growth, high poverty and unemployment rates continue to highlight the need for Nigeria to pay more attention to achieving inclusive growth. In the 2000s, Nigeria enjoyed a decade of high GDP growth averaging 7.6%. This period was also accompanied by high levels of unemployment and poverty, which could be largely attributed to the concentration of growth in just a few sectors; hence the country's growth was not broad-based. In essence, Nigeria's economic growth pattern did not facilitate the creation of economic opportunities for many, which is crucial in addressing the pertinent issues of poverty, unemployment and social exclusion.

Figure 13: GDP Growth vs. Unemployment/Underemployment Rate



Source: NBS and NESG Research

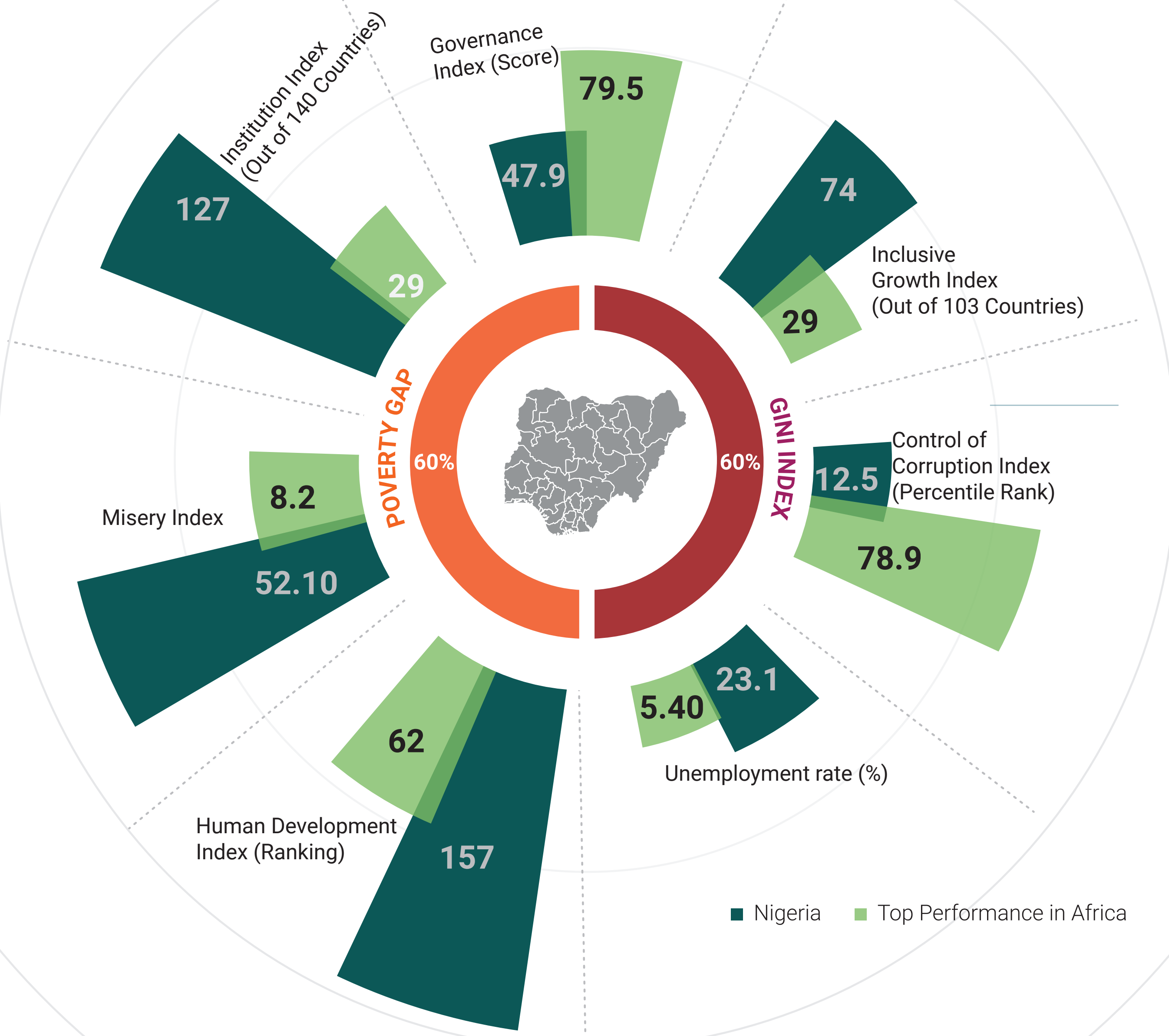
A decade later, and after the economic recession in 2016, GDP growth remains largely unimpressive and still exhibits the same pattern of the pre-crisis period, with growth driven by very few sectors. As a result, a combination of unemployment and underemployment rates continue to rise and has reached an all-time high of 43.3% as at the third quarter of 2018, while poverty still remains a major concern, with an estimated 49.1% of the country's population living below the poverty line in 2017, according to the World Bank[4].

"almost half of the children under 5 are stunted, implying they do not have the adequate brain development to learn in school."

On the social front, Nigeria is yet to implement the much-needed reforms that will significantly improve access and quality of healthcare and education across the country. As at 2018, close to 13.2 million children are out-of-school, the highest number in the world, according to UNICEF. In addition to the core challenge of access, the quality of learning across government-owned schools is significantly low across states. In terms of healthcare, the World Bank notes that almost half of the children under 5 are stunted, implying they do not have the adequate brain development to learn in school. This further exacerbates the problem of social exclusion in Nigeria. Furthermore, in the World Bank Human Development Report released in November 2018, Nigeria ranked 157 out of 189 countries. Nigeria's score of 0.532 was below the average score in Sub-Saharan Africa (SSA) (0.537) and the global average of 0.728. Life expectancy at birth remains at 54 years, below the SSA average of 60.7 years. Nigeria continues to rank within the category of countries with "Low Human Development".

[4] See Poverty and Equity Brief: Nigeria- https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_NGA.pdf

Selected Socio-Economic Indicators for Nigeria



NESG's Inclusive Growth Framework for Nigeria Emphasises Broad-Based Economic Growth That Delivers Improved Social Welfare

Government policies and intervention must aim at achieving "quality" economic growth that delivers a significant reduction in poverty and unemployment. Nigeria faces an enormous task of implementing crucial policies and reforms that will address the issues of poverty, unemployment and social exclusion. In its 2018 Macroeconomic Outlook, the NESG highlighted the need for policy makers to focus beyond GDP growth numbers but to concentrate on the quality of growth i.e. the sectors that contribute to the country's growth. In what was termed the "Inclusive growth framework for Nigeria", the NESG called for the implementation of crucial reforms that will alter the pattern of GDP growth by developing the productive sectors. As noted, "Nigeria needs to implement reforms that will open up and attract investments into key subsectors within the manufacturing and agro-processing sector, thus, creating opportunities across the value chain." The report also identified reforms in education and health sectors as well as improving the quality of governance and the institutions as critical elements in delivering inclusive growth in Nigeria.

Figure 14: Inclusive Growth Pillars

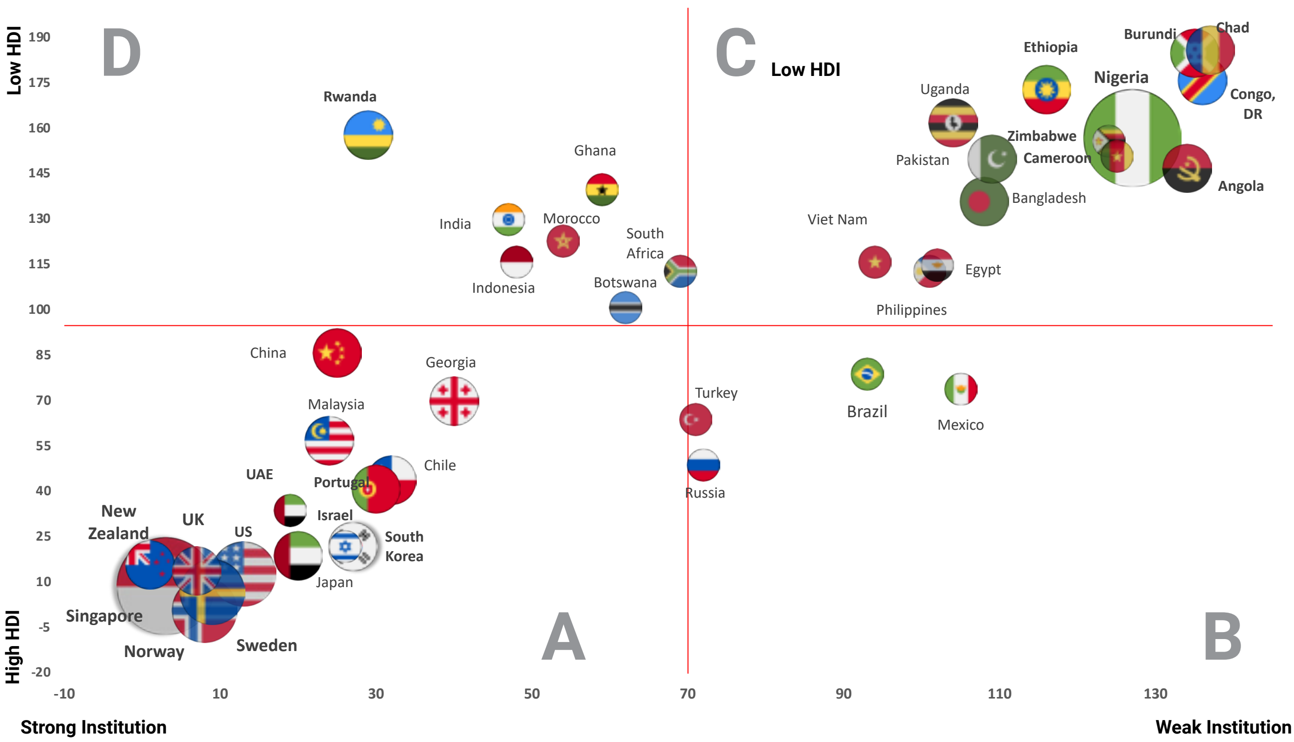
The Governance of Industry and the Social Sector Remains Central In Delivering Broad-Based Economic Growth And Improved Social Welfare.

In this section, we emphasise the role of governance in delivering the broad-based and inclusive economic growth (Pillar one) and in ensuring social inclusion (Pillar 2 and 3). The Organisation for Economic Co-operation and Development (OECD), in its 2015 report on Governance of Inclusive Growth, notes that achieving inclusive growth "requires capacity from governments to deal with complexity in policy making, assess policy impacts from broader viewpoints, and identify complementarities and trade-offs between and within policies and policy objectives." In essence, pursuing inclusive growth calls for a whole-of-government approach that leverages informed decision-making and aligns vision, incentives and delivery mechanisms across the policy-making cycle.

For the first pillar, better governance of industry has a strong link with economic diversification, value chain development and job creation. The central role of the Nigerian government in defining sectoral goals and plans; guiding the policy process; identifying key constraints within sectors; addressing these constraints while ensuring policy coordination across the board is crucial in opening up sectors to investments, enhancing value addition and creating jobs in the process. In addition, improving the regulatory environment for efficiency and simplification of processes is essential in both attracting and retaining investments into strategic sectors. Effective government regulation sets the tone for growth of small businesses, innovation of industries and global competitiveness of a nation. It is no doubt that countries with better regulations are found to be more competitive than those with a harsh regulatory environment. As shown by the World Bank and World Economic Forum's GCR data , the top 30 countries with the highest regulatory quality in the World Bank rankings are also the world's top 30 most competitive economies.

For the Social Inclusion pillar, better coordination of institutions is also essential in attaining social inclusion across countries. Evidence suggests that countries with better institutions have improved human development than those with weak institutions. For instance, using the WEF rankings of countries' "Institutions" alongside the UNDP's Human Development Index rankings, we found that the top 21 countries that ranked highest (better) in WEF's pillar on Institutions are also ranked as the top 21 countries with very high human development index (except UAE).

Figure 15: HDI Ranking vs Institutions Ranking



Source: NESG Research, WEF, UNDP

Quadrant A: Countries with high human development index and high institutional quality.
Quadrant B: Countries with high human development index and low institutional quality.
Quadrant C: Countries with low human development index and low institutional quality.
Quadrant D: Countries with low human development index and high institutional quality.

On a continental level, of the top twelve highest ranked African countries in the Ibrahim Index of African Governance, ten were categorised as countries with medium and high human development, according to the HDI rankings. While this evidence may not prove any causal effect between strong institutions/good governance and human development, it presents cases of correlations between both factors.

In subsequent sections, we will examine, in detail, the role of governance in delivering the pillars of inclusive growth in Nigeria as earlier identified. Year 2019, being an election year, presents an opportunity for the Nigerian government to set the inclusion agenda rolling through the implementation of hard reforms that will open up critical sectors, drive social inclusion and achieve a significant reduction in unemployment and poverty reduction.

Industry Governance: Delivering Broad-Based Economic Growth in Nigeria

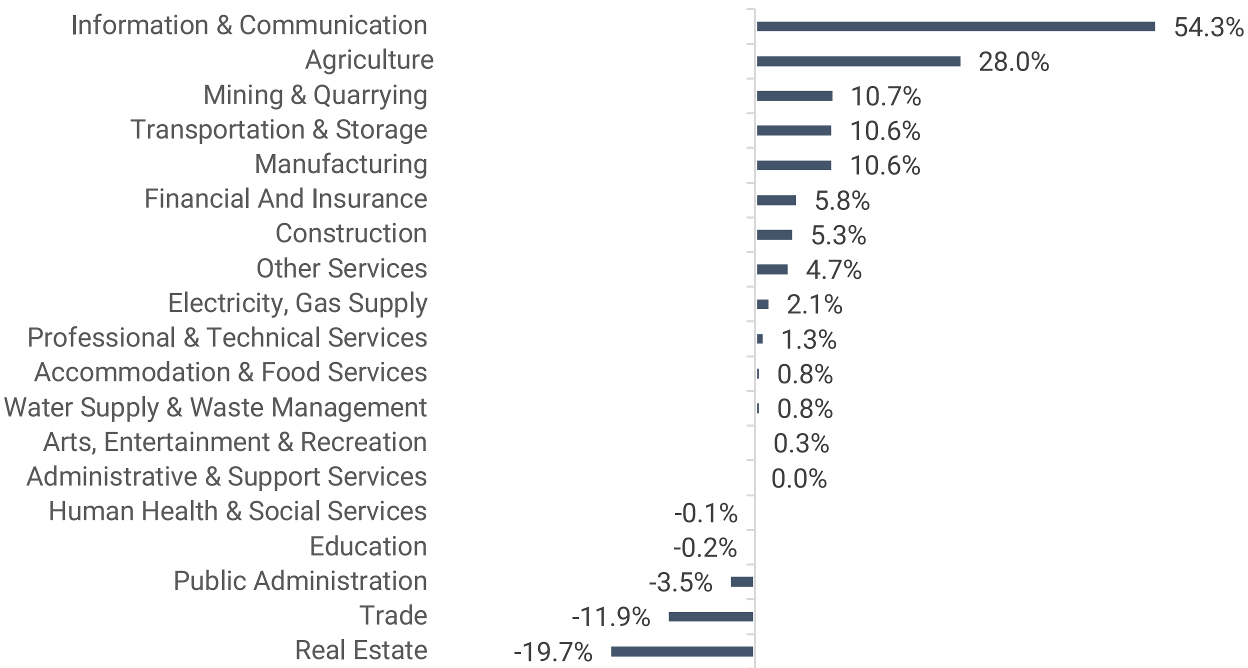
A critical pillar of inclusive growth is achieving broad-based economic growth that leads to a significant reduction in unemployment, poverty rates and improvement in other social and economic indicators. The idea behind the broad-based growth concept is to attain quality economic growth, which is driven by several critical sectors of the economy.

" Nigeria's post-recession growth pattern is still skewed towards few sectors, showing the limited capacity of the economy to create jobs and reduce poverty."

Nigeria's post-recession growth pattern is still skewed towards few sectors, showing the limited capacity of the economy to create jobs and reduce poverty. The first challenge relates to the country's growth structure. As revealed in NESG's Macroeconomic Outlook for 2018, Nigeria's failure to achieve inclusiveness in the last two decades is largely as a result of the fact that economic growth was not broad-based. The NESG noted that few sectors are accounting for a larger share of GDP growth, demonstrating the limited capacity of the economy to absorb individuals in the ever-growing labour market.

Recent GDP data show that Nigeria's economic growth is exhibiting the same pattern as in the pre-recession era, where growth was driven by few sectors. For instance, in the first three quarters of 2018, 13 out of the 19 major sectors contributed positively to GDP growth. Out of these 13 sectors, only 6 sectors accounted for 90% of the GDP growth in the period (See figure 16). Meanwhile, comparable data from Indonesia show that the top 6 sectors contributed 72% to the country's GDP growth in H1 2018, leaving room for the remaining 11 sectors. The GDP data for Nigeria show that there are other sub-sectors such as metal, iron and steel, and electrical and electronics, that contribute almost nothing to GDP growth, yet these sectors have the capacity to create jobs and meet the needs of consumers both in the local and export markets.

Figure 16: Sectoral Contribution to GDP Growth (Q1-Q3 2018)



Source: NBS and NESG Research

> "On a sectoral level, 12 out of the 46 activity sectors recorded negative growth in Q3, an increase from 10 sectors in Q1."

More challenging is the fact that Nigeria's post-recession economic growth remains sluggish. The narrative of inclusive growth will only be meaningful if necessary condition of achieving reasonable GDP growth is met. Although a high GDP growth does not guarantee a reduction in unemployment and poverty rates, it is a necessary condition in achieving inclusiveness, even if it does not assure it. Therefore, the first and important challenge that needs to be surmounted is sluggish GDP growth, which limits the likelihood of economic and social inclusion. Nigeria's economic recovery remains fragile as the GDP growth rate declined from 1.9% in the first quarter (Q1) of 2018 to 1.5% in the second quarter (Q2), according to data from the NBS. It improved to 1.8% in the third quarter. On a sectoral level, 12 out of the 46 activity sectors recorded negative growth in Q3, an increase from 10 sectors in Q1.

Strong industry governance is required to alter the skewed growth pattern and enable economic expansion and job creation.
By strong industry governance, we refer to developing and implementing industry/sectoral plans as well as business-friendly regulations and ensuring policy coordination. Over the years, the absence of these factors has resulted in the collapse of many businesses in Nigeria, particularly in the manufacturing sector, thereby constricting the sector's capacity to absorb a significant share of the labour force. This is in addition to general factors such as exchange rate scarcity, poor infrastructure, epileptic power supply, all of which raise business costs and reduce their competitiveness, especially as businesses have to face the challenge of the high influx of imported goods from other countries.

Revitalizing Nigeria's Cassava Industry for Value Addition

For many decades, Nigeria has been the largest producer of cassava in the world, surpassing Thailand, the second largest cassava-producer, by more than 80% production volume. The total cassava production of Nigeria alone is greater than that of 88 countries combined. The cassava industry which is worth over $4.1 billion has a 35% and 31% share in the nation's crop production and agriculture sector respectively. However, cassava processing for exports in Nigeria is very low as the country exports only 634 tonnes and 637 tonnes of dried cassava and starch, respectively, despite that Nigeria produces 57.1 million tonnes of cassava. On the other hand, Thailand exports 6.4 million tonnes and 3.2 million tonnes of dried cassava and starch, respectively. This situation indicates that Nigeria is not taking advantage of the opportunities of value addition, job creation, foreign exchange earnings that the cassava industry holds.

Cassava could be processed into starch, flour, ethanol, chips and pellets. Despite the numerous bye-products, most of Nigeria's cassava outputs end up in the traditional food segment -garri. Estimates show that only 0.3% of Nigeria's production was put to industrial use in 2014. However, industrial demand for cassava (HQCF, Starch and Ethanol) in Nigeria to be 1.8million MT by 2020. As noted by the Foundation for Partnership Initiatives in the Niger Delta (PIND) while traditional food market is fairly saturated, growth opportunity in the cassava value chain lies with the industrial usage if the right dynamics can be created on supply relationships, costs of production and demand by local end markets. The shortage of supply as well as the potential of the sector to create significant jobs present an opportunity for policymakers to develop a comprehensive sectoral plan that defines clear goals for the sector and outlines strategies to address the challenges in the sector.

Furthermore, there are many moribund industries, whose operations are largely informal but they have a huge potential to create jobs in the local economy. These industries have been either neglected by or received little attention of the government. Examples of such industries include leather, cocoa and cassava processing (for industrial starch), metals, etc. Addressing the deficiencies in Nigeria's GDP growth pattern would, therefore, require a more coordinated approach that defines long-term goals for such sectors, examines linkages across sectors and value chains and provides hands-on solutions in tackling both policy and regulatory challenges in these sectors.

Turning Nigeria's Informal Leather Industry into a Well-Structured and Competitive Industry

With about 61 million units, Nigeria has the largest resource of goatskin and kidskin in Africa representing 46% and 18% of the total in West Africa and Africa, respectively. Being a dominant producer in Africa, the country also contributes about 60% to the West African production of goatskin and kidskin. Domestically, the industry represents the second major earner of foreign exchange after oil with total export of tanned skins amounting to about $240 million in 2015. With over 50 million skins of animals being processed annually by tanneries together with other related activities, the leather industry contributes about 24% of the total Agriculture GDP in Nigeria.

In addition, the leather processing sector employs over 750,000 workers with about 500,000 workers in the finished leather goods sector. The leather value chain market is huge with an immense potential of unlocking value across the industry and reducing unemployment rate with a projected foreign exchange earnings of over $1billion by the year 2025. However, while Nigeria is a net exporter of raw hides and skins including semi-processed leather, it is also a net importer of finished leather products with total imports of about $500 million worth leather products annually. Moreso, the lingering challenges in the industry such as structural barriers, poor visibility and lack of government intervention have led to a revenue loss of about $300 million annually.

This narrative shows the need for value addition in Nigeria's leather value chain to upgrade its position in the regional and global trade of leather commodities. This will have huge implications on backward integration, employment generation, industrial deepening, increased productivity and competitiveness.

Another area where governance is paramount in delivering wider sectoral growth and job creation is through business regulations. The Nigerian government, both at federal and state levels, must constantly work to create an enabling environment through the implementation of business-friendly policies and incentives. While the NESG recognizes efforts of the Presidential Enabling Business Environment Council (PEBEC) in simplifying regulations and procedures in dealing with government agencies, we, however, note that more efforts are required across different sectors and states. To a large extent and in areas where business agents interface with government officials, demand for bribes, unclear government policies, inefficiencies and complex procedures are still prevalent among government agencies. To ensure expansion of the private sector, which is needed to create jobs, government's role to implement growth-enhancing regulations is critical in this process.

Actionable Recommendations for Achieving Broad-based Growth

In delivering broad-based economic growth, strong industry governance is much needed and this can be examined in the following dimensions:

Setting national and regional agendas:

Where will the Nigerian economy be by the year 2030? How will each region contribute to the national agenda? What sectors will deliver the required growth? What is the alignment between Nigeria's national priorities and its industrial/sectoral plans? What is the current state of Nigeria's Industrial Revolution Plan (NIRP)? Delivering inclusive growth should start with having a shared vision that captures the country's aspirations, values and desires. The Nigerian government needs to embrace the practice of creating long-term development plans and strategic sectoral framework that define outputs, employment and investment targets and policy direction for critical sectors. As with the case of Indonesia, the country started with a long-term 20-year national development plan and subsequently developed 5-year medium-term plans, detailing sectoral and regional plans, all aligned with the 20-year national development plan. Adopting such planning approach reduces, to a large extent, economic uncertainties and provides a sense of direction for the country, investors and policymakers. To ensure continuity of such long term plans irrespective of political affiliations, some countries have established laws that ensures every President must develop or align their political promises with existing development plans. The Indonesian Law on National Development Planning System clearly stipulates the purpose, processes, scope and types of development plans that must be put in place by the government of the country. Nigeria can imbibe such practise.

Develop new and review existing sectoral plans:

The government needs to develop sector plans and review every existing one (with stakeholders) to ensure they are up-to-date and take into consideration current and future national and global developments. Sectoral Plans must be drafted for critical sectors such as Cassava, Cocoa, among others, based on their potential to create jobs, reduce importation and generate export earnings. Effective communication of these plans to stakeholders as well as their implementation would go a long way in attracting investments into key sectors.

Regulation for Business Growth:

To deliver broad-based economic growth that addresses the priorities of the job creation and poverty reduction, there needs to be a fundamental shift in the thinking of the Nigerian government's role in the business environment. Government (at different levels) and its agencies must truly act as "enablers" in the business environment rather than creating hurdles for businesses through fierce regulations and numerous charges. The Nigeria Customs Service (NCS), for instance, whose function is to monitor goods along Nigeria's borders has been rather more focused with the responsibility of generating revenue for the government. This has resulted in unwarranted charges on businesses and individuals, which increases bottom-line costs and delays. The motivation and incentives for business and industry regulators such as NCS, NAFDAC, SON, and NCC among others, need to be re-engineered to focus on efficient and effective service delivery to their immediate stakeholders, in a simplified and easily accessible manner. This proposition is based on the premise that better and business-friendly regulations is key in removing business hurdles across sectors and is germane to the expansion of existing businesses as well as to the growth of new businesses across the country.

Policy Coordination for Efficiency:

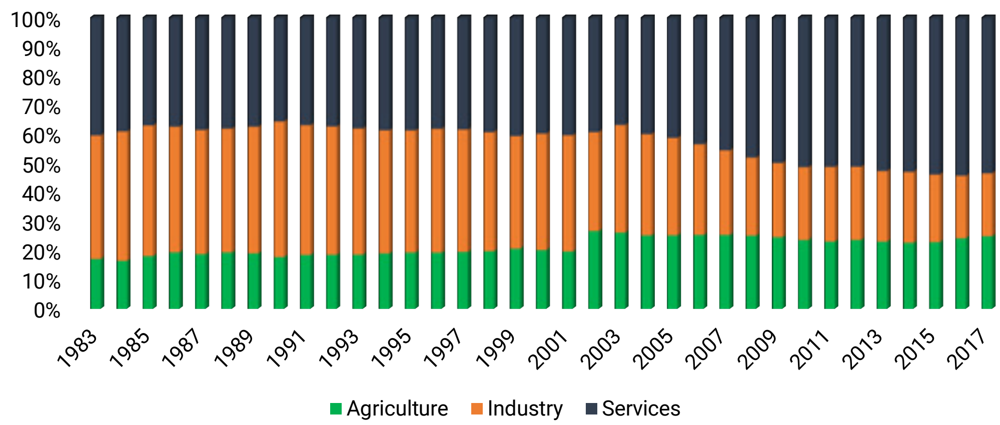
Once the sectoral or industrial vision has been defined, the policy design, implementation and evaluation process must be effectively coordinated to ensure alignment within and across sectors as well as across different levels of government to deliver planned outcomes. Engagement of stakeholders at each level of the policy process is crucial in attaining set goals.

INDONESIA CASE STUDY

When compared with Indonesia, there is a sharp contraction in Nigeria's industrial sector's contribution to GDP overtime- a sign of high economic vulnerability

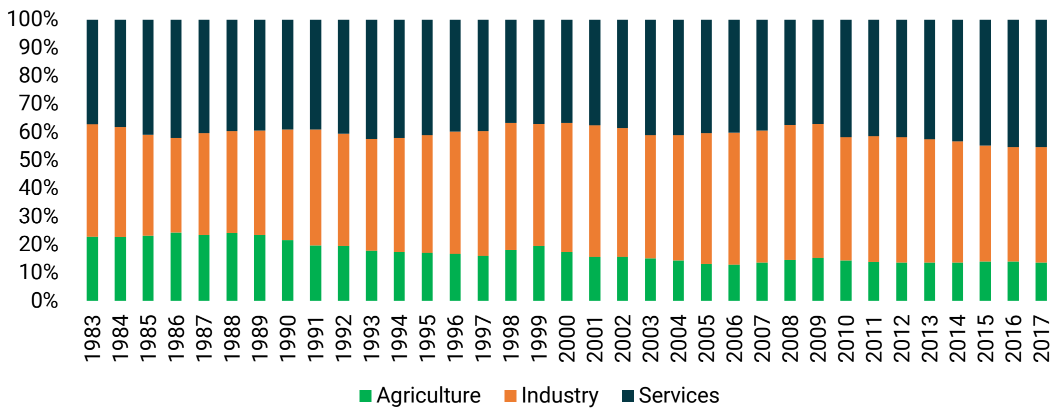
Even with a much higher population than Nigeria, Indonesia has been able to attain lower poverty rates and a more diversified economy, with more sectors contributing to its growth. Fig 17 & 18 compare the structure of the Nigerian economy from 1983 to 2017 with that of Indonesia in the same period and the difference is striking. Whilst the service sector contributes the most to GDP in both countries particularly from the early 2000s, the industrial sector in Indonesia, led by non-oil and processing subsectors, increased its share of GDP showing vividly the transition from Agriculture to Industry-led growth. However, in the case of Nigeria, the industrial sector's contribution to GDP (which is led by crude oil) contracted over time.

Figure 17: Nigeria's Economic Structure



Source: CBN and NESG Research

Figure 18: Indonesia's Economic Structure

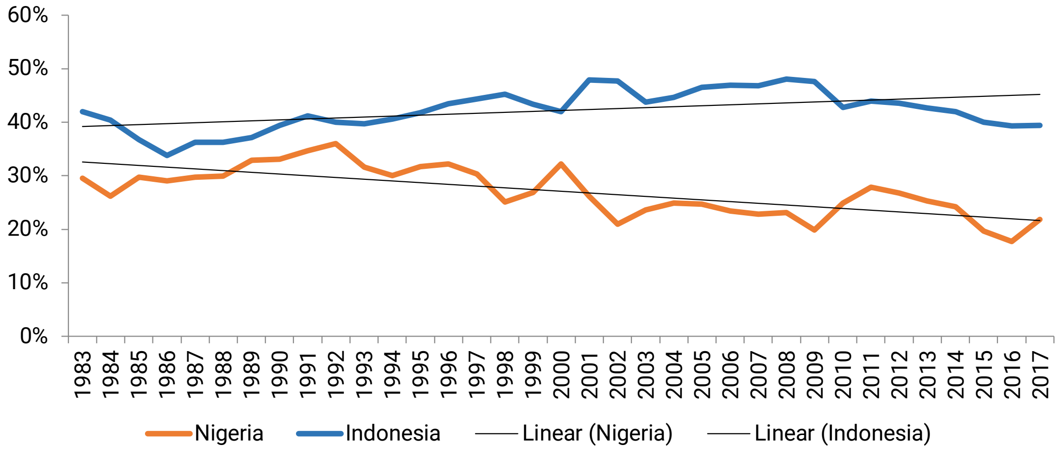


Source: WDI and NESG Research

Proper planning and execution; regulatory easing and incentivising businesses are some governance factors that worked for Indonesia

The expansion of Indonesia's industrial sector did not happen by coincidence; nor did the contraction of Nigeria's industrial sector. Indonesia adopts long and medium-term development planning at both national and regional levels, which are regulated by the Law on National Development Planning System. The current 20-year national plan covers the period 2005 to 2025 and within this period, the country has had 3 five-year medium-term plans (2005 to 2009 and 2009 to 2014) with the latest covering 2015 to 2019. These medium-term plans are structured in a way to align with the long-term plans. As noted by the National Graduate Institute for Policy Studies (GRIPS), the medium-term plan must be enacted by a Presidential Regulation no later than three months after the inauguration of a President which takes place in October. In addition to long-term planning, Indonesia recently concluded the development of a 20-year National Industrial Plan (2015-2035), which articulates visions, strategies and priorities for industrial development in the next 20 years. 10 priority sectors were identified and stakeholder consultations were held to drive the implementation of the plan.

Figure 19: Percentage Contribution of Industrial Sector to GDP



Source: WDI and NESG Research

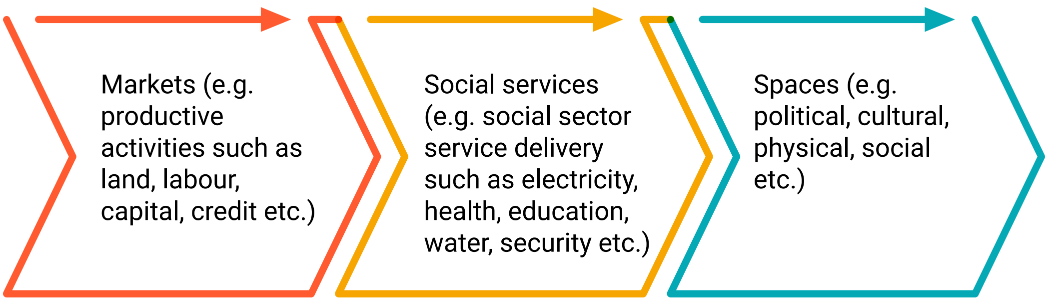
Although Indonesia lags behind Malaysia, Thailand and other countries in terms of social and economic inclusion, its economic progress exemplified by the massive reduction of poverty rates, stable and broad-based GDP growth and the economy's ability to withstand external shocks is not coincidental. Deliberate and concise actions were taken by the government in line with the provisions of national and sectoral plans, to create a friendly business environment and attract investments into priority sectors of the economy. Nigeria, of course, can learn from the successes of Indonesia.

Intensive
OCAD
Training
CONSULT
09050844148
HOTEL
TOP BOND

Social Inclusion and Good Governance

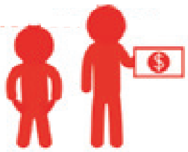
Introduction

Addressing the distributional bias of economic growth remains a strategic policy agenda in charting inclusive socio-economic pathway. The fundamental tenet of social inclusion is enshrined in the mantra of "leaving no one behind." It is a conscious and systematic socio-economic integration and calibration process that ensures wider socio-economic participation for everyone. According to the World Bank, social inclusion is the process of improving the terms for individuals and groups to take part in society (World Bank, 2013). Social inclusion is a deliberate policy stance that seeks to leverage opportunities for every facet of society. It addresses fundamental economic challenges the marginalized portion of the society are facing such as the lack of basic competencies and life-long learning opportunities, lack of job opportunities or other socio-economic factors. As one of the key pillars of inclusive growth, social inclusion as a policy strategy not only addresses the 'excluded' portion of the population, it also underscores and recognizes the processes of exclusion. Socio-economic participation and integration for every individual in the society manifest through three distinct and interrelated domains:

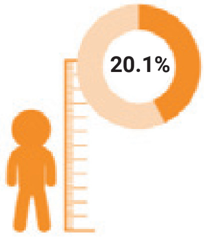


In recent times, the concept of Social Inclusion (SI) has gained increasing attention across the world. Many countries have identified the need to ensure economic growth translates into an improved living standard for the majority of their populace. The United Kingdom, Northern Ireland and the European Union, for instance, have developed a wider Social Inclusion framework that encompasses ethnic, racial, regional and religious differences to address key exclusion challenges facing the society. While the approach differs by countries given the differences in their experiences, structure and other realities of exclusion, the common features as reflected in these countries are based on result-oriented approach adopted vis-à-vis clear national philosophy of social inclusion, grass-root/holistic strategic approach, decentralized administrative methodology, among others.

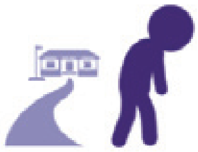
Fast Facts: Social Inclusion and Governance



The population out of school children in Nigeria has risen from 10.5 million to 13.2 million, the highest in the world-UNICEF 2018



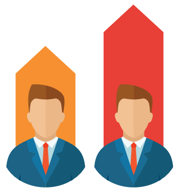
Education accessibility rate in Nigeria is 20.1% among the lowest in the world-UNICEF



Almost half of the children under 5 are stunted, implying they do not have the adequate brain development to learn in school - World Bank 2018

Nigeria ranks 187 out of 190 countries only ahead of Democratic Republic of the Congo, Central African Republic and Myanmar-WHO 2017

Nigeria ranks 152nd out of 157 countries in Human Development index-World Ban 2018



Nigeria ranks 151 out of 151 countries in the Commitment to Reducing Inequality index, CRI-IMF 2018

Does the Nigerian government need a rethink on what Social Inclusion is about?

Nigeria's approach to addressing social exclusion has largely involved the development of ad hoc social programmes and incentives. At the federal level, some of these programs include SURE-P, N-Power, YouWin, GEEP, School Feeding Program, among others. While these programs constitute a major component in the journey towards inclusion, a number of concerns have been raised with regard to their design and implementation.

- First, the inherent weakness of this program-led approach can be explained in its lack of interconnectedness of objectives, exemplified by the absence of a common goal for social inclusion. Even when the objectives of these programs are achieved, the linkage between the program outcomes and their impact on social inclusion indicators such as poverty and employment etc. are usually weak and, in most cases, immeasurable. As an example, despite several social programs of the Nigerian government in the past decades, poverty and unemployment continue to increase.

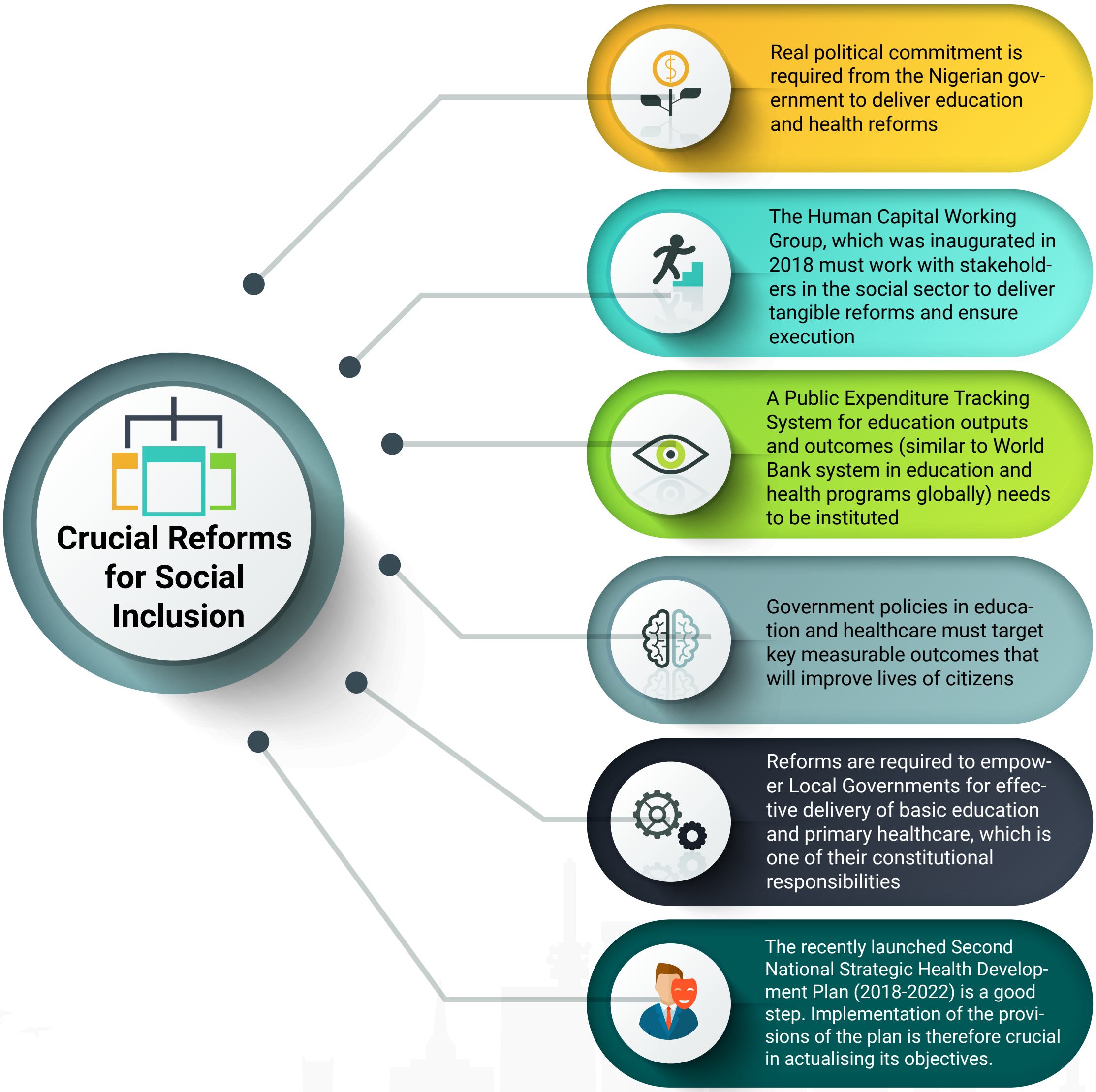
- Second, because government social programs usually have a limited coverage, the program-led approach leaves a large number of socially excluded citizens. Therefore, it safe to say that Nigeria does not have a comprehensive and coherent social inclusion strategy informed by a clear nationally framed social inclusion philosophy. The absence of such a strategy allows for a micro-approach to addressing social inclusion challenges, which leads to a situation in which several strata or groups within the society are left out of the development process.

- Lastly, there is absent of all-embracing social inclusion strategy and policy at all levels of governments. Lack of clear conceptualization of social inclusion problems and challenges serves as an impediment to the efficient implementation of social inclusion programmes.

The focus for Social Inclusion in Nigeria must go beyond government programs and interventions. For a social inclusion strategy to be effective, it must be defined with clear objectives, dimensions, deliverables and timelines. It should be viewed as an overarching multi-dimensional and cross-sectoral concept that needs to be embedded into every stream of government activities, including sectoral policies, strategies, programs and initiatives at national, regional and local levels. As noted by DESA (2009), "Each policy or strategy must be reviewed as to whether it is inclusive, and if participatory measures are installed in the policy formulation, implementation and monitoring processes."

As a way forward, it is evident that Nigeria needs to develop a holistic Social Inclusion strategy and policy document in the social sectors that emphasizes economic, social, cultural and regional inclusion. The essence of such strategy is to ensure government interventions are well-designed and coordinated within a broader social inclusion framework.

In addition, two sectors remain at the fore of social inclusion and they include Education and Health. Evidence suggests the significance of critical social sectors such as education and healthcare in the development of sustainable social inclusion and inclusive growth. Crucial reforms are required to improve relevance, service delivery, quality and access of Education and Healthcare.



REFERENCE

Budget Office of the Federation (2018). 2018 Second Quarter and Half Year Budget Implementation Report. Retrieved from http://budgetoffice.gov.ng/index.php/quarterly-budget-implementation-reports/2018-budget-implementation-reports

Central Bank of Nigeria (2018). CBN Economic Report for Third Quarter 2018. Retrieved from https://www.cbn.gov.ng/Documents/quarterlyecoreports.asp

Central Bank of Nigeria (2018). Statistical Bulletin 2017. Retrieved from https://www.cbn.gov.ng/documents/Statbulletin.asp

Debt Management Office (2018). Nigeria's Public Debt Stock as at September 30, 2018. Retrieved from https://www.dmo.gov.ng/debt-profile/total-public-debt

Ministry of National Development Planning (2004). Law of the Republic of Indonesia Number 25 of 2004 on The National Development Planning System. Retrieved from http://birohukum.bappenas.go.id/data/data_tematik/UU%2025%20Tahun%202004%20versi%20inggris.pdf

Mo Ibrahim Foundation (2018). 2018 Ibrahim Index of African Governance. Index Report. Retrieved from http://s.mo.ibrahim.foundation/u/2018/11/27173840/2018-Index-Report.pdf?_ga=2.160528061.1237090094.1548243613-2094095754.1548243613

National Bureau of Statistics (2019). Consumer Price Index December 2018. Retrieved from https://nigerianstat.gov.ng/elibrary

National Bureau of Statistics (2018). Foreign Trade in Goods Statistics 2018. Retrieved from https://nigerianstat.gov.ng/elibrary

National Bureau of Statistics (2019). Labour Force Statistics- Volume I: Unemployment and Underemployment Report, Q42017 – Q32018. Retrieved from https://nigerianstat.gov.ng/elibrary

National Bureau of Statistics (2019). Nigeria Capital Importation Report 2018. Retrieved from https://nigerianstat.gov.ng/elibrary

National Bureau of Statistics (2018). Nigeria Gross Domestic Report Q3 2018. Retrieved from https://nigerianstat.gov.ng/elibrary

National Graduate Institute for Policy Studies (2014). Report on the Indonesia Mission, GRIPS Development Forum. Retrieved from http://www.grips.ac.jp/teacher/oono/hp/docu02/Indonesia_E.pdf

Nigerian Economic Summit Group (2018). NESG Macroeconomic Outlook for 2018. Growing Beyond Numbers: Will Nigeria's Growth Be Inclusive in 2018 and Beyond? Retrieved from https://nesgroup.org/docs/macroeconomic-outlook-2018/

Organisation for Economic Co-operation and Development (2015). Policy Shaping and Policy Making: Governance of Inclusive Growth. Retrieved from http://www.oecd.org/gov/governance-for-inclusive-growth.htm

United Nations Development Programme (2018). Human Development Indices and Indicators

2018 Statistical Update. Retrieved from http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf

World Bank (2018). Poverty and Equity Brief: Nigeria. Retrieved from https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_NGA.pdf

World Bank (2018). Poverty and Shared Prosperity 2018: Piecing Together the Poverty Puzzle. Retrieved from https://www.worldbank.org/en/research/brief/poverty-and-shared-prosperity-2018-piecing-together-the-poverty-puzzle-frequently-asked-questions

World Bank Group (2018). Investing in Human Capital for Nigeria's Future. Nigeria Biannual Economic Update. Retrieved from http://documents.worldbank.org/curated/en/346771542864299850/pdf/132316-21-11-2018-17-31-9-NigeriaBEUAMF.pdf

World Economic Forum (2018). The Global Competitiveness Report, 2018. Retrieved from http://reports.weforum.org/global-competitiveness-report-2018/

About The NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development.
The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high level interactive public-private sessions and special presentations to the executive and legislative arms of government.

OUR VISION
"To become Nigeria's leading private sector think-tank committed to the development of a modern globally competitive economy"

OUR MISSION
"The NESG has a mandate to promote and champion the reform of the Nigerian economy into an open, globally competitive economy"

For additional information with respect to this Report, please contact the following:

NESG Research & Development
research@nesgroup.org

Dr Olusegun Omisakin
Head of Research & Development
olusegun.omisakin@nesgroup.org
+234 708 830 6162

Wilson Erumebor
Economist
wilson.erumebor@nesgroup.org
+234 806 773 8479

Olajiire Abati
Economist
olajire.abati@nesgroup.org
+234 803 330 6413

Noah Olatoye
Graphics
noah.olatoye@nesgroup.org
+234 706 366 8889

THE SUMMIT HOUSE
6 Oba Elegushi Street, Off Oba Adeyinka Oyekan Avenue, Ikoyi, Lagos. P.M.B 71347, Victorial Island, Lagos.
Tel: +234 1 2952849 Website: www.nesgroup.org Email: info@nesgroup.org

ABUJA LIAISON OFFICE:
3rd floor, right wing Unity Bank Tower, Beside Reinsurance building
Plot 785, Herbert Macaulay Way, Central Business District, Abuja +234 8144325846

NigerianEconomicSummitGroup @nesgnigeria The Nigerian Economic Summit Group @nes_group