

Nigeria: What It Takes

A keynote presentation at the 13th CIBN Annual Banking and Finance Conference on the 15th of September 2020

Dr. Okechukwu E. Enelamah

Outline

- The Nigerian Context
- What it Takes
- The Role of Banking
- Concluding Thoughts

“The World’s Next Superpower”?



What will it take?

There are four significant but not insurmountable obstacles to Nigeria's greatness:

1. Robust Infrastructure

A robust Infrastructure program will address several key issues:

- Attract massive investment
- Competitiveness – Create lots of jobs
- Improve productivity and spur economic growth
- Provide enabling environment

Infrastructure is like the prayer that answers other prayers!

2. The Agency Problem

- We have to face up to the fundamental agency problem that diverts resources and effort away from our collective good.
- Corruption is biggest manifestation of agency problem.
- Agency problem can be addressed adequately with well thought out incentives and penalties (carrot and stick approach!)

3. Implementation Gap

Implementation deficit has at least 3 root causes:

- Competence gap (let's put round pegs in round holes!)
- Corruption and agency problems divert resources away from implementation
- Lack of continuity means we don't get results in things that need time!

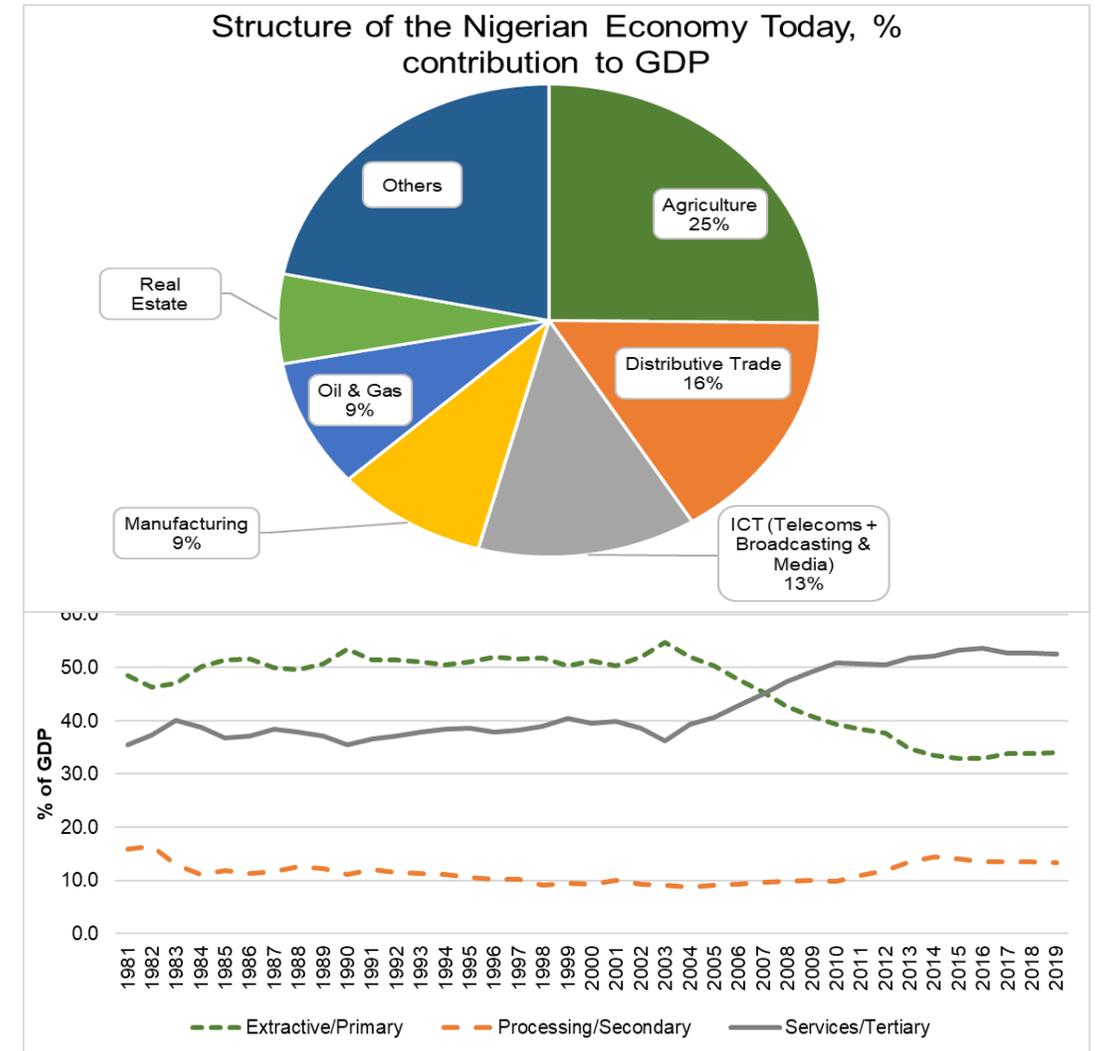
4. Enabling Environment

- If we create the right enabling environment most of our problems will be addressed by our people and players in a market economy.

The Nigerian Context

Where is Nigeria today?

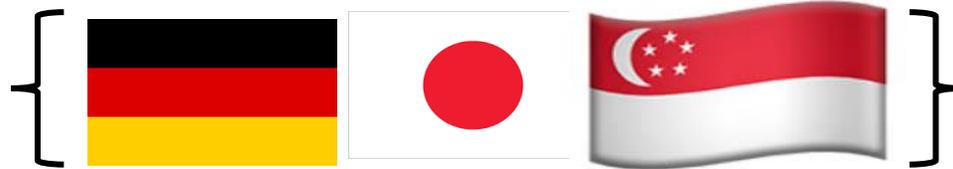
1. Despite having evolved from a subsistence Agriculture-based economy to one dominated by Services, the Nigerian economy is still largely characterized by subsistence and survival rather than flourishing!
2. Industrial capacity remains low and has never taken off: Manufacturing is about **9%** of output;
3. Economy is reliant on a volatile export commodity, Oil, for public revenues & foreign exchange
4. Much more is needed to create and sustain jobs for our teeming population.



Nigeria: Can we be propelled by Adversity?

- We are dealing with a perfect storm:
 - Once in a century pandemic and global lockdown!
 - 2nd oil price downturn in 5 years
 - Another recession looms!
- History is replete with countries that were propelled by adversity to greatness

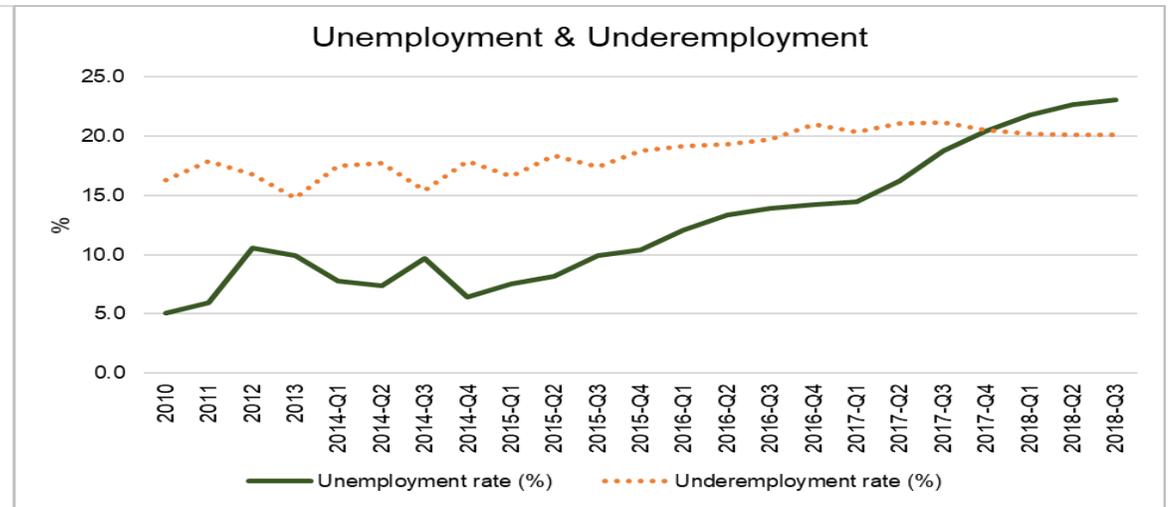
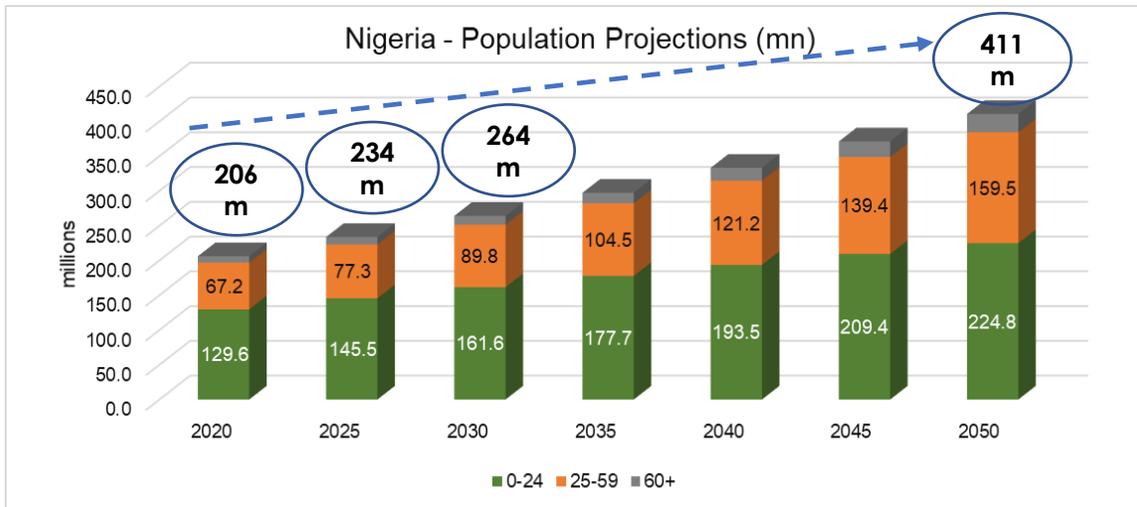
Emergence from Adversity



- And there are Rays of Hope: Nigeria is already moving in the direction of investment-stimulating reforms!
 - Ease of Doing Business reforms and legislation – CAMA
 - Downstream Petroleum sector deregulation
 - Petroleum Industry Bill
 - Electricity tariff regime reform and Presidential Power Initiative

**Another chance to create enabling environment for growth and breakthrough?
What role can banks play?**

Demographic Outlook underscores the need for Jobs!



Labour Force Indicator conditions today – Departure point

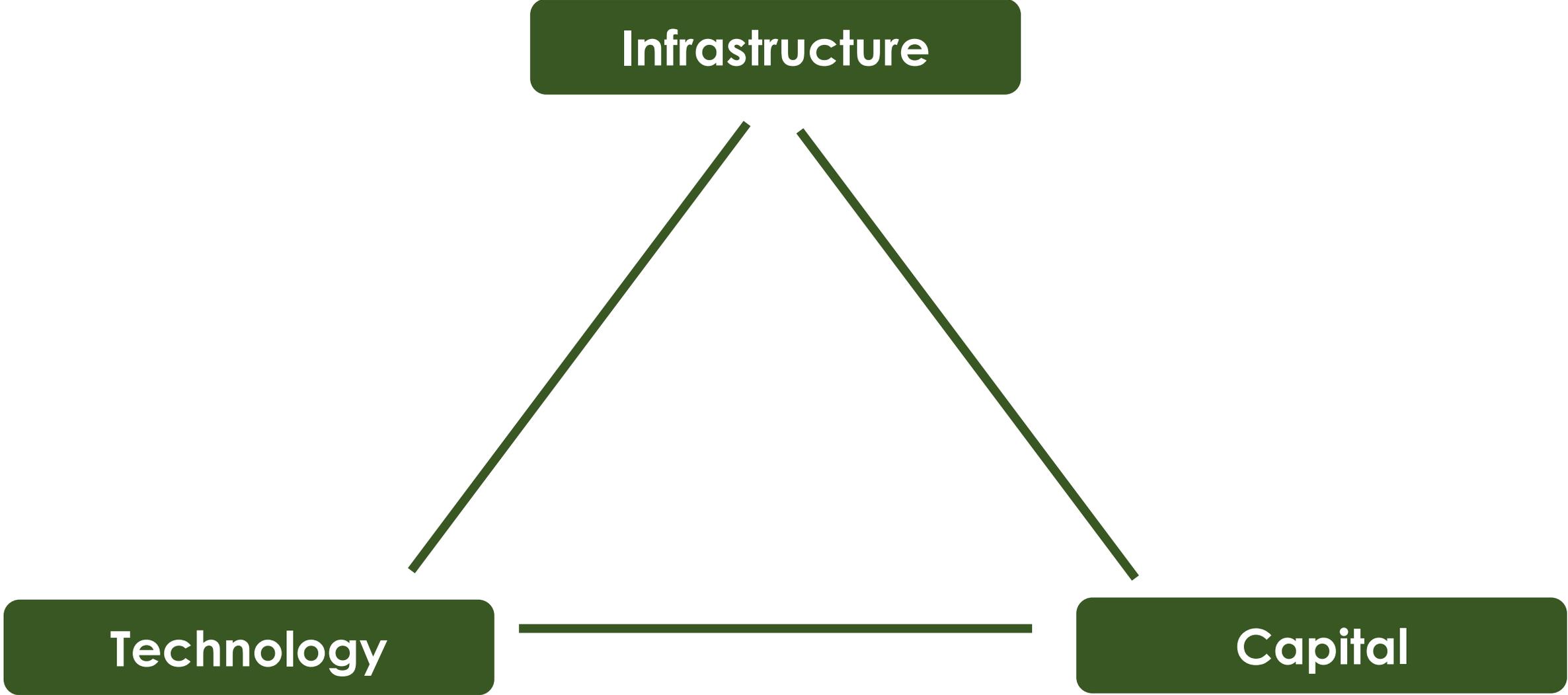
Q2-2020

Unemployment rate (%)	27.1
Underemployment rate (%)	28.6
Combined Unemployment rate (%)	55.7
Youth Unemployment (%)	34.9
Youth Underemployment (%)	28.2
Combined Youth Unemployment (%)	63.1
Jobs gap (mn)	19.4

Source: NBS

- As of today, with 206m people, if we allow for a 3% unemployment rate, Nigeria needs to create nearly **20mn** jobs to be at full employment
- This is a moving target: As population grows, this number will grow bigger, if we don't begin to close the gap now!

Three levers to drive Growth & Job Creation:



Infrastructure & Capital – are mutually reinforcing!

The Problem: Capital Deficiency

- Nigeria's savings rate – **12%** of GDP – is low
- Domestic Investment rate – about **23%** of GDP – is lower than it needs to be!
- Foreign Investment (FDI) inflow in 2019 – **\$3.3bn (2.3%** of GDP) – is also low

**Nigerian Integrated Infrastructure Master Plan*

The Opportunity: Infrastructure

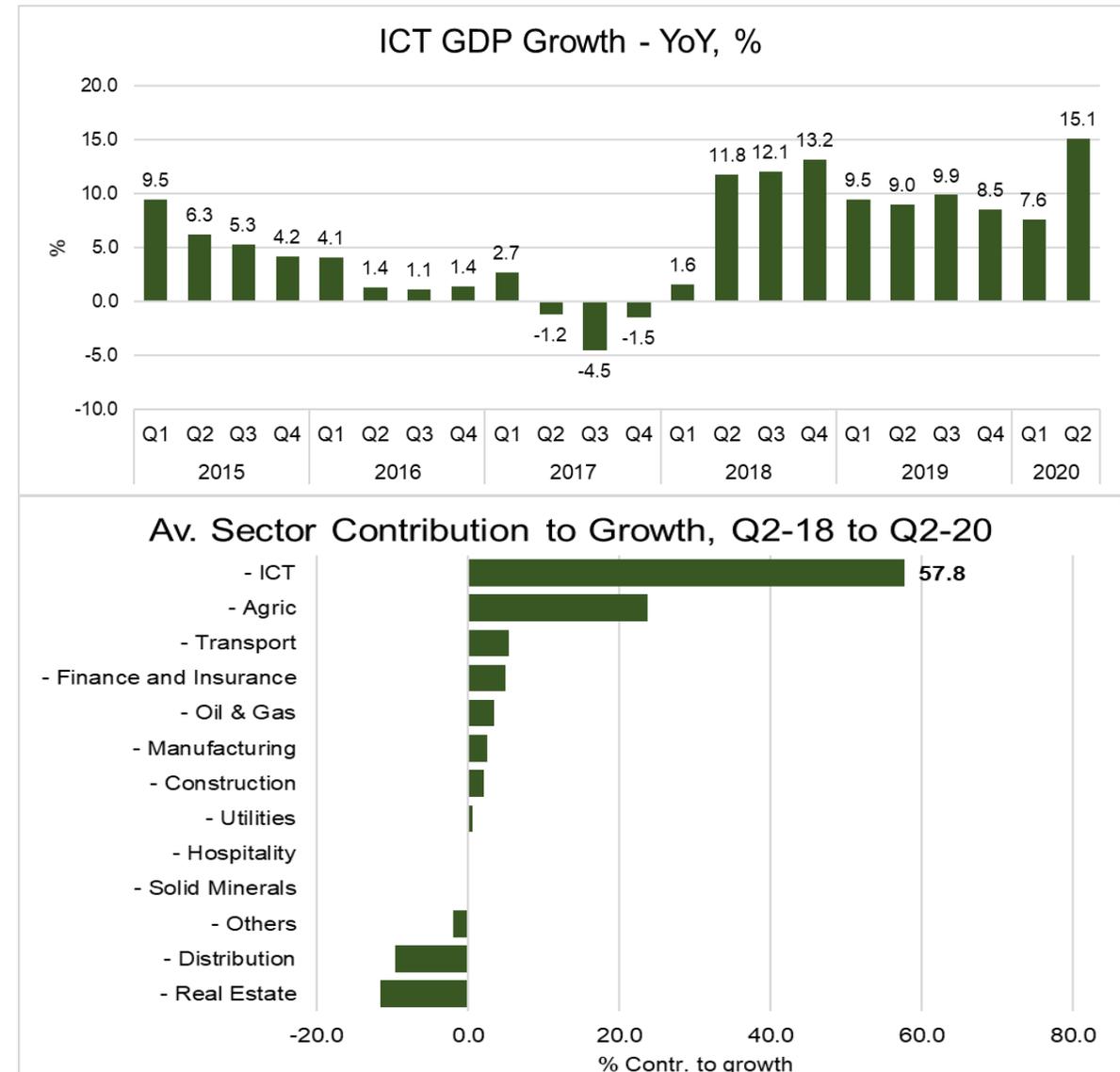
- According to NIIMP* Nigeria needs **\$100bn** p.a. in **INFRASTRUCTURE** investment.
- Mobilizing even a quarter of this annually from domestic and international capital providers would be a game-changer!

Technology is defining the 21st Century!

- Technology can be a key enabler and catalyst for growth
- It is the one lever that helps economies to “**leapfrog**” stages of development
- Today’s largest global corporations lie at the intersection of technology, data and commerce
- Apple Inc’s market capitalization rivals the entire FTSE 100, the London Stock Exchange!
- Financial Services is being disrupted by **Fintech** – the emergence of **alternative payment systems & digital currencies**

...And could be Nigeria's growth catalyst

- ICT – due to its size & rapid growth rate – has become the largest contributor to Nigeria's GDP growth over the last 2 years (**58%** of growth btw Q2-18 and Q2-20)
- This is not accounting for its contribution (as an enabler) to the growth of other sectors
- Although limited, ICT infrastructure underlies Nigeria's vibrant Technology start-up, knowledge & innovation ecosystem
- Adjustment to a post-COVID reality will further underscore the importance of Technology
- Nigeria needs to embrace Technology!



What it takes

Focus on jobs and Inclusive growth

- Leverage **Infrastructure-Technology-Capital** to create lots and lots of **jobs** across the economy.
- 5 opportunity areas to realize this strategy:
 - (i) Agro-allied Industrialization
 - (ii) Creating an Education-Industry-Govt collaboration on job creation
 - (iii) The Digital Economy
 - (iv) Opening up New Growth Poles
 - (v) Embracing Public-Private Partnerships & Collaborations

Five Recommended Priority Areas



AGRO-ALLIED INDUSTRIALIZATION



**EDUCATION-INDUSTRY-GOVERNMENT
COLLABORATION**



DIGITAL ECONOMY

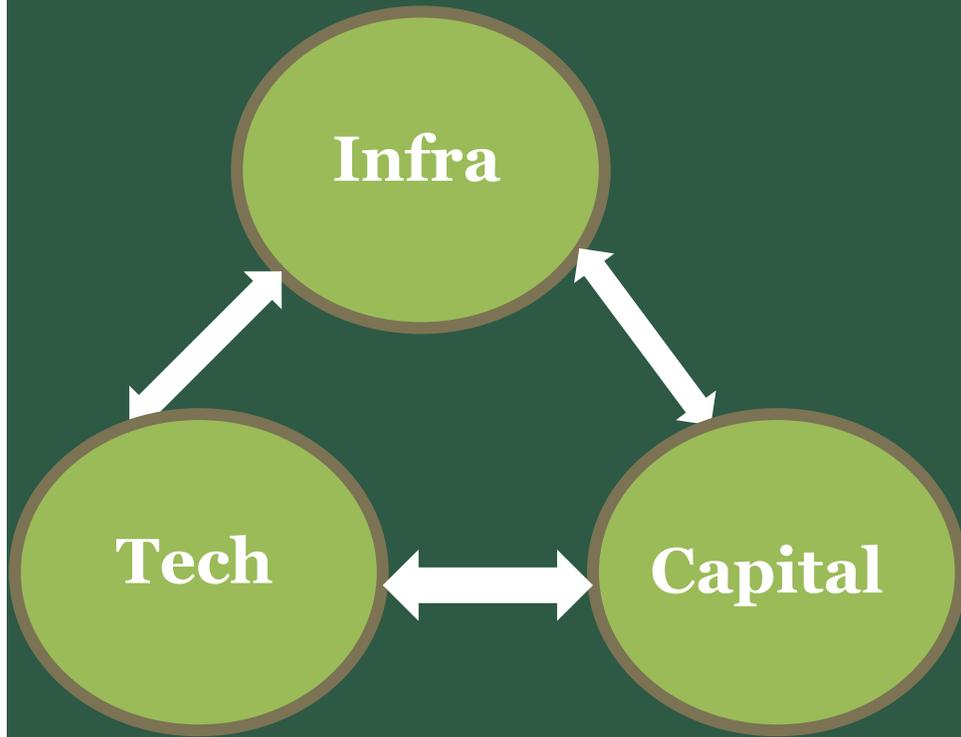


OPEN NEW GROWTH POLES



EMBRACE PUBLIC – PRIVATE PARTNERSHIPS AND COLLABORATIONS

Plus Three Levers: Infrastructure, Technology and Capital

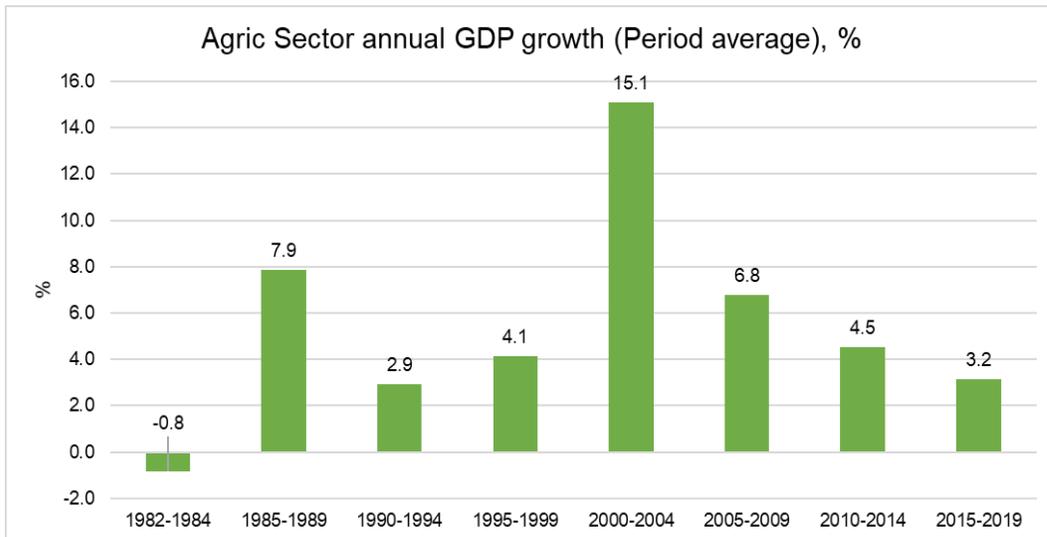


These **THREE** levers apply to all five opportunity areas

Infrastructure is a bedrock for industrialization, trade & job creation;
Technology is key to productivity and innovation; and unimpeded
Capital Flows facilitate diversified, sustainable growth.

1. Agro-allied Led Industrialisation

- Clearly a priority for government
- Has been slow to gain traction though!
- Question is – how can we deliver on this high priority area?



SOLUTION LIES IN:

Infrastructure

- Industrial Infrastructure
- Special Agro-processing Zones
- Rural roads – facilitate farm-to-market; reduce post-harvest losses

Technology

Tech-led Extension services; building efficiencies

- Input & output Logistics
- Climate
- Farm-to-market – Commodities Exchange

Capital

Inflow of private capital to:

- Supplement govt & CBN-led interventions to the sector
- Incentivize multiple, large-scale agro-processing investments by world class operators

2. Education: Create A Robust Education-Industry-Government Collaboration

- Massive investment in Education is essential:
 - (I) Up-skilling our labour force
 - (II) Slowing down population growth – Nigeria's out-of-school children problem contributes to early childbirth & accelerated pop. growth
- Specifically, we need robust Education-Industry-Government collaboration to unlock jobs on a massive scale
 - Study Germany and Switzerland models
 - Govt can facilitate collaboration between Training institutions, industry and trade associations to prepare people for work, **make this a major thrust of industrial policy**
 - Collaborative capital investment in Vocational & Technical Education
- Whilst private investment in education is welcome, even more investment in the sector by govt, essential to building 21st Century **educational infrastructure**
- COVID-19 has compelled a focus on ed-tech, but the challenge is **inclusion** (are we shortchanging those less tech-savvy?)

3. A 21st Century Compliant Digital Economy

Infrastructure

- Broadband – How do we build a robust infrastructural backbone to support our digital economy aspirations?
- Regulatory bottlenecks – resolve right of way issues
- Science parks and tech-industry parks – we have been canvassing this for a long time. Time to move is now!

Technology

- What specialization(s) can we build around Technology within the global digital ecosystem?

Capital

- Tech ecosystem has been impressive in luring foreign capital. Next to industrial infrastructure, tech may present our second strongest FDI draw

4. Geographic Economic Diversity

Multi-Polarism... We must diversify the economy across all geopolitical zones



**Commerce &
Finance Services**

New York, East Coast

ICT

California, West Coast

Agriculture

Iowa, Mid West



**Technology &
Manufacturing**

Guangdong Province

**Finance,
Education and
Tourism**

Jiangsu Province

**Industry &
Manufacturing**

Shandong Province



Agriculture Hub

?

**Commerce &
Finance**

?

**Industry &
Manufacturing**

?

ICT

?

Geographic Economic Diversity (Cont'd)

FOR NIGERIA, SOME IMPORTANT CONSIDERATIONS....

Infrastructure

- Conclude ongoing projects linking various regions
- Mobilize capital for planned projects that haven't commenced or been concluded

Technology

- How can we leverage technology to make all regions of Nigeria attractive?

Capital

- How best to attract capital to regional industrial/commercial hubs/ axis across the country?

5. Establish a Model of Collaboration

Public – Private Sector Collaboration is Urgently Needed!

In the area of **Infrastructure**, for instance:

- To mobilize \$100bn in annual infrastructure investments, genuine public-private collaboration is critical!
- The CBN's InfraCo is welcome, however the scale of our needs requires even many other interventions!

Incentives needed to attract investment and infrastructure

- *Private sector players/investors* – domestic wealth holders and international capital providers
- *Role of banks and insurance companies* – in mobilizing lots of capital
- *Policymakers and Regulators* – make policies and regulate in ways that attract investment

.....without resort to micromanagement

5. Establish a Model of Collaboration cont'd

Public – Private Sector Collaboration is Urgently Needed!

Proven models require one partner (the Public Sector) to Set **conducive conditions** and **Motivate** the other (the Private Sector) to engage.

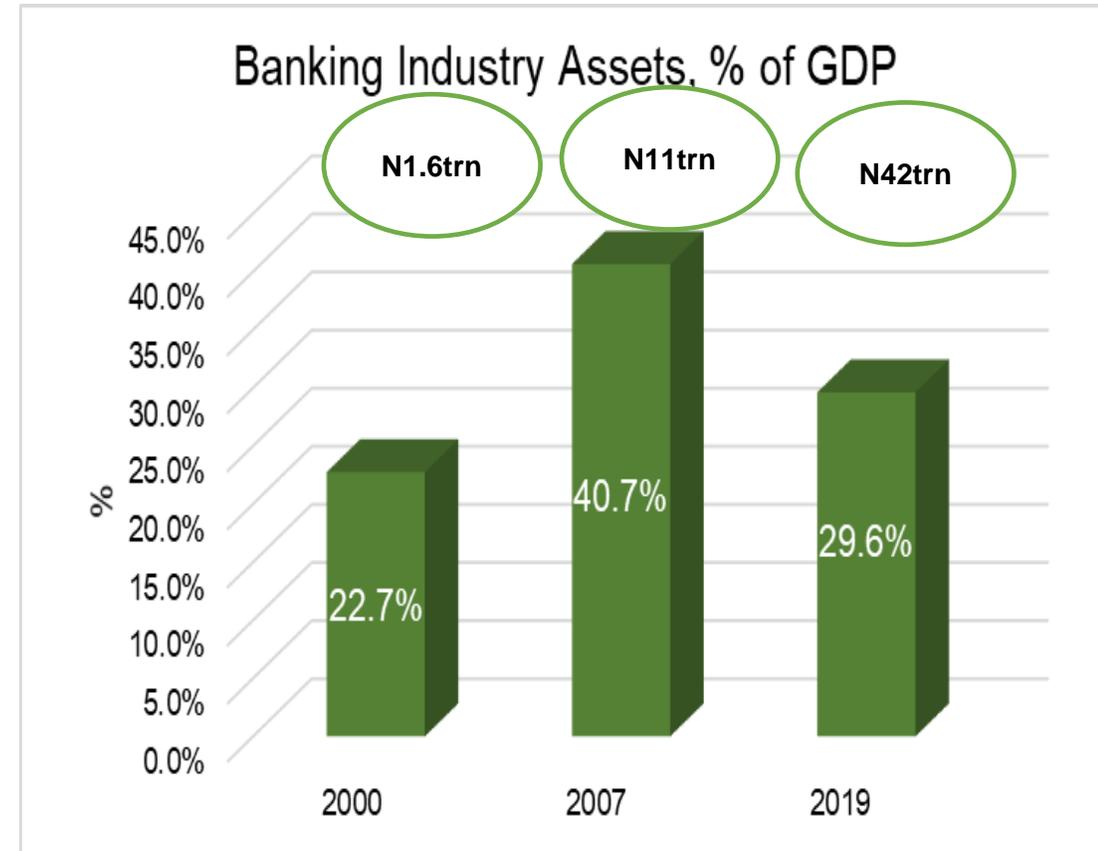
Key questions, therefore, include:

- *What should government do exclusively, because we have clearly established that the market cannot deliver it?*
- *What is the model of the handshake/collaboration between the Federal and subnational governments that works?*
- *What should Government do in collaboration with the Private Sector?*
- *What should the private sector undertake in order to unburden the government?*

The Role of Banking

Where is Banking in Nigeria today?

- Finance is an enabler of the wider economy
 - Not necessarily required to be a very large sector in itself
- The combined Financial Services (Banking, Asset Management and Insurance) Industry accounts for about **3%** of GDP
- Banking sector assets – **30%** of GDP
- However, Banks/financial services need to recognize that the industry's sustainability depends on beneficial value-creation
- ***Can the Banking system support Nigeria's massive investment needs? Is it deep enough? Should it be positioned to do more?***



The Role of the Banks

- As intermediators, banks have to play in the mobilization of both domestic & international project-finance capital
- If we must evolve – and go beyond “plain vanilla” debt to project finance for infrastructure, how can we reposition our banks to lead this charge?
- Opportunities in the AfCFTA – How can banks support implementation of this ambitious game-changing continental agreement?

Can banks support the stimulation of large, sustained, non-debt, non-recourse (project finance) capital for infrastructure?

Concluding Thoughts

- The overarching theme is Collaboration and the Power of Partnership – a willingness of govt and the organized private sector to work together
- Where better to look for a possible case study than the relationship between CBN and banks/financial services industry players (Bankers' Committee)?
- Our overarching objective is to unlock the power in public-private collaboration and partnerships
- As I close, permit me to borrow from that famous Bill Clinton quote ***“THERE IS NOTHING WRONG WITH NIGERIA THAT CANNOT BE CURED BY WHAT IS RIGHT WITH NIGERIA”***

Envision the Possibility that Nigeria could be Africa's China?

Characterized by:

- A booming market economy.
- A solid industrial base.
- A massive marketplace for products & services.
- A well educated and enterprising youth population.
- Excellent infrastructure.
- High standards of living across regions and demographics.
- A thriving democracy, progressive policies and good governance.



***We have What It Takes...
And
Can do What it Will Take***

All Hands Must be On-Deck!

THANK YOU