NIGERIAN ECONOMY (2015-2019)
The macroeconomic situation in Nigeria has remained challenging since President Buhari assumed office in 2015. President Buhari’s campaign promise focused on three ailments of the society: economy, corruption and security. This assessment focuses on the economic situation of the country in the past five years since 2015. In the first year of President Buhari’s administration, he inherited an economy experiencing a declining growth rate of the GDP, with high rate of insecurity, poverty and unemployment. The inherited reliance on crude oil export as a major source of government revenue and foreign exchange earnings, as well as ineptitude and weak policy response from the new government to the challenges it faced, contributed significantly to the 2016 economic recession. Nigeria emerged from the recession with an annual growth of 0.8 percent in 2017. Since the recovery, the growth of the economy has remained sluggish, leaving the economy with lower per-capita income and higher poverty rate. The global oil glut combined with the lockdown effect of the COVID-19 are expected to not only slow the economic growth in the first quarter of 2020, but a possible contraction of the annual real GDP growth in 2020. The economy is thus under the real threat of running from one economic recession to another in the life of the Buhari administration. With the recent plunge in international crude oil prices, government policies should aim at diversifying the country’s revenue base and export earnings a lot more from the non-oil activities, as well as create an enabling environment to attract both domestic and foreign investments to thrive in both the oil and non-oil sectors of the economy.

On assumption of office in May 2015, President Muhammadu Buhari inherited an economy experiencing a declining growth rate of the GDP. Between 2013 and 2014, the economy grew above 6 percent which was more than double the annual estimated population growth of 2.6 percent. The high growth rate was largely attributed to the oil boom during the period. With the global oil shock in late 2014 and its spill-over effects on domestic economic activities, economic growth declined from about 6.0 percent in Q4 2014 to 4.0 percent in Q1 2015 and further to 2.4 percent in Q2 2015.

Fig 1: Economic growth remained below the population growth since 2015

Source: National Bureau of Statistics
The inherited high poverty and unemployment rates increased further beyond 2015. About 4.04 million persons lost their jobs in 2015, as unemployment and underemployment rate increased from 6.4 percent and 17.9 percent in Q42014 to 10.4 percent and 18.7 percent in Q42015, respectively. Unemployment rate was high among youths, as about 5.3 million youths within the age bracket of 15-24 could not get a job in 2015. The high rate of unemployment and increased poverty partly triggered the security challenges in the country, which was a key campaign promise of the President. These challenges set a slow start for President Buhari’s administration.

Source: NBS
The fiscal situation of the federal and state governments deteriorated. Federal government oil-revenue, which accounted for about half of total revenue, declined by 22 percent in 2015 following the crash in international crude oil prices and increased vandalism of oil-related facilities in the Niger Delta, which lowered domestic crude oil production. The shortfall in oil revenue also affected the fiscal operations of states. About twenty-seven (27) state governments could not cover their personnel expenses as their lower Internally Generated Revenue (IGR) could not compensate for the declining FAAC allocations. Following the fiscal crisis in most states, President Buhari approved bail-out loans of $2.1bn for states to defray backlog of workers' salaries.

The macroeconomic situation worsened in 2016. The weak policy responses and actions combined with the oil shock resulted to significant contraction in growth. Thus, Nigeria experienced its first full year of recession in 25 years, from two consecutive quarters of negative growth in 2016. The recession was partly driven by the collapse of both international crude oil prices and domestic production. Crude oil prices crashed to a 13-year low, while crude oil production was significantly disrupted due to vandalism and militant attacks in the Niger Delta. This had a negative impact on both government revenue and expenditure; and there was little to no fiscal buffer to the rescue. The tussle between the executive and legislature that delayed the passage of the budget, the lower than expected execution of the capital budget, the challenge posed by the heterodox monetary policy, especially with the discretionary restrictions on foreign exchange and exchange rate pegging and lingering security challenges, further compounded the deterioration in the economy.

The inability of the federal government to implement robust policies to salvage the fiscal situation paved the way for an economic crisis in 2016. Amid inherited challenges, the six months delay in deciding the cabinet constrained federal government capital expenditure releases; created an atmosphere of uncertainty that slowed down private sector investment decisions, increased outflow of foreign investments, all with negative consequences on economic activities.

About twenty-seven (27) state governments could not cover their personnel expenses as their lower Internally Generated Revenue (IGR) could not compensate for the declining FAAC allocations.
The economy emerged from recession in 2017, as oil prices and production recovered. The economy recovered from the recession in 2017, with a sluggish debt growth rate of 0.8 percent. Improvements in both the oil and non-oil sectors, relative calm in the oil-rich Niger Delta region and improved growth in some priority sectors, including agriculture and solid minerals, contributed to the recovery. However, with the population growth (2.6 percent) exceeding the growth of recovery (0.8 percent) (see Figure 1), the economy was faced with lower per capita income and higher poverty rate.

Economic growth picked-up in 2018 and 2019, but with lower per capita income and increased unemployment. These marked the highest growth rates since the 2016 recession. The growth rate which stood at average of 1.9% in 2018 and 2% in the first half of 2019 continued to remain below the estimated population growth rate, thus lowering per capita income and increasing both unemployment and poverty rates.

Although, the decision to close the borders in August 2019 was an attempt to boost local production, border closures has partly contributed negatively to activities in trade sub-sector as well as food inflation. Food inflation increased from 11 percent in August 2019 to 15.03 percent in April 2020; while trade, which is a major component in the services sector and the second-largest employer of labour, contracted by 1 percent in the second half of 2019.

The COVID-19 pandemic and its resultant effects on international crude oil prices are expected to slow economic growth in the first quarter of 2020, while annual real GDP growth is projected to contract in full year 2020. Though Q1 2020 GDP numbers are yet to be published, the Purchasing Managers’ Index which tracks economic activities in both manufacturing and non-manufacturing sectors, slowed in the first 3 months of 2020.

Food inflation

11% in August 2019

15.03% in April 2020
With the recent decline in global crude oil prices, much below the pre-COVID-19 levels, the Nigerian economy looks set for another recession. Though the oil sector accounts for less than 10 percent of the economy, it contributes more than half to government revenue and accounts for over 80 percent of foreign export earnings in Nigeria. Therefore, the country’s revenue base and export earnings are susceptible to oil price shocks as they remain undiversified.

Fig 4: Share of oil, GDP, revenue and exports

Source CBN, NBS
On the aggregate demand side, the COVID-19 pandemic and its effect on crude oil prices has constrained household consumption to items essential to immediate survival. Private investment will decline as investment outlooks will be distorted by the uncertainties resulting from the COVID-19 pandemic. Government will increase expenditure, especially on healthcare and other essential sectors to cushions the shock of the anticipated recession, while net export will contract due to fall in global demand for goods.

Lower government revenue resulting from the “twin shocks” (COVID and Oil) will increase the federal government’s debt burden. The federal government borrowing has grown by more than 100 percent since 2015. Although federal government’s current debt stock of about N22 billion is less than 20 percent of GDP, the continuous accumulation of debt appears unsustainable as servicing of the debts is already accounting for more than 60 percent of government revenue. With the recent downgrade in Nigeria’s credit rating by key international credit agencies (S&P and Fitch) in the first half of 2020 and the twin shocks resulting from global oil glut and the COVID-19 pandemic, the country’s debt burden is expected to further increase in 2020, without aggressive policy actions.

Fig 5: Total Public Debt (US$ million), 2015-2019
The CBN introduced a 1-year moratorium extension on their facilities.

Reduced interest rate from 9 percent to 5 percent on CBN interventions.

Strengthened the existing loan-to-deposit ratio.

Provided N1 trillion loans to the manufacturing sector to improve local manufacturing, especially among essential products.

Created N100 billion healthcare loan intervention for pharmaceutical companies and healthcare practitioners.

Introduced N50 billion credit facility for Small and Medium enterprises affected by the pandemic.

Adjusted the official exchange rate from N306/US$ to N360/US$ and unified exchange rate across the investors and exporters (I&E) and Bureau de Change windows.

Abolished fuel subsidy which was a major cause of fiscal burden of the federal government.

Suspended the new electricity tariff which was scheduled to comment in April 2020.

Monetary and fiscal policy efforts to cushion the effect of the COVID-19 on the domestic economy
Since the beginning of President Buhari’s administration, several economic policies, which cut across key policy areas including job creation, social welfare, agriculture, and infrastructure, have been implemented. While these policies apply to most of the areas highlighted in the government’s campaign agenda, a few areas such as education and health remain unaddressed.

Economic reforms
A key policy reform being implemented by the Presidential Enabling Business Environment Council (PEBEC) is in the area of ease of doing business, a set of reforms targeted at developing the private sector and improving its participation in the economy. Since 2016, about 140 ease of doing business reforms have been implemented including the ability to reserve a business name within four hours; complete the registration of a company within 24 hours online; apply for and receive approval of a visa-on-arrival electronically within 48 hours; and file and pay taxes online (NIPC, 2019). Owing to these reforms, Nigeria was named as one of the top-ten economies across the world with the most notable improvements in doing business in both 2019 and 2020 (World Bank, 2020).

The Finance Act 2019 is another policy game changer implemented by the President Buhari administration. The Act provides Companies Income Tax (CIT) and Value Added Tax (VAT) exemptions for small businesses (those with a gross turnover of ₦25 million annually); reduces the tax rate for medium-sized businesses (those with a gross turnover of between ₦25 million to ₦100 million annually) from 30% to 20%; exempts the profits of small businesses earned from dividends within their first five years of operation from being taxed; and provides a five-year initial tax exemption period for businesses engaged in agricultural production which may be renewed for additional three years.

Furthermore, targeted and sector-specific policies aimed at diversifying the economy away from the oil sector have been implemented in the agriculture, mining and creative industries. For agriculture, the Anchor Borrowers’ Programme was established in 2015 by the CBN to provide loans and farm inputs to small-holder farmers and link these farmers to an anchor (large-scale agro-processor or the state government) that will continually uptake
their agricultural produce in return for cash. Farmers are required to repay loans with either cash or their farm produce of the same value. Meanwhile, the mining sector has benefitted from the formalization of informal mining and provision of funds through the Natural Resources Development Fund and directly to the Ministry of Mines and Steel Development. On the creative industry, under the directive of the federal government, the Bank of Industry developed the BOI NollyFund in 2015 which has an initial program limit of ₦1 billion and a single obligor limit of ₦50 million to be provided to indigenous movie producers.

While the PEBEC-led reforms have eased the way for beginner entrepreneurs to formalize their business, the Finance Act has reduced the tax burden particularly for small- and medium-sized enterprises (SMEs), providing them with ample room for growth. These reforms have the potential to increase private sector participation in the economy and scale-up businesses which could in turn create jobs. Despite these improvements, the existing reforms fail to include critical elements that continue to hinder the economy’s regulatory environment from being business friendly.

These include limited access to electricity and credit as well as inadequate measures towards resolving insolvency. Power cuts remain relatively frequent as substantial progress, particularly in the distribution network, has not been made towards providing better power supply to customers. As a result, businesses continue to provide their own electricity supply through generators with some businesses going completely off-grid, thus increasing the cost of production and reducing their profit margin. In addition, the limited access to finance at affordable rates particularly for SMEs limits their expansion, and in some cases may threaten their existence. As discussed in more detail later in the report, the implementation of the existing credit facilities for SMEs is inefficient and inequitable as the process by which the loans can be accessed and are being disbursed is not transparent, objective and egalitarian.

Relatedly, the absence of a comprehensive policy or law on bankruptcy, which stipulates transparent and enforceable rules on the decisions creditors can influence during bankruptcy proceedings, makes it difficult for commercial lenders to provide credit as well as offer the appropriate interest rates and maturity terms for loans. This is because in cases where businesses become insolvent, the absence of an insolvency framework acts as an impediment towards resolving any non-performing loans.

For the sector-specific policies, the Anchor Borrowers’ Programme has recorded improvements in food availability across the country, with the programme supporting over 1.5 million farmers in cultivating 16 agricultural commodities in its four-year existence. However, the programme’s delivery mechanism has been less than efficient as reports of non-repayment of loans
and diversion of input have been made by the programme coordinators. In Kebbi state, the chairman of the state chapter of the Rice Farmers Association of Nigeria (RIFAN) stated that only 200 out of the 70,000 farmers that benefitted from the programme in 2015 have been able to repay their loans (All Africa, 2020). Such large-scale loan default could affect the sustainability of the programme and lead to its termination.

While significant milestones have not yet been recorded in the mining sector, the government’s policy stance has stimulated private sector investment into the sector. In 2018, Nigeria's first gold refining license was issued to an indigenous firm - Kian Smith Trade & Co. With the country having large deposits of gold and 43 other minerals, the formalization of artisanal refining will also ensure that value is added to the supply chain and the sector contributes significantly to the nation’s economic output. Meanwhile, the BOI NollyFund, valued at ₦2 billion (BOI, 2015), has recorded successes as it has financed a number of indigenous movies by leading movie producers including Kunle Afolayan (October 1), Opa Williams (Three Wise Men), and Jadesola Osiberu (Isoken). Initiatives such as the BOI NollyFund can be linked to the stable growth being recorded by the arts and entertainment sector during President Buhari’s administration. While the growth rate of sectors such as agriculture, mining, and manufacturing have declined and that of education and health remain stagnant, the arts and entertainment sector has experienced an increase in its real growth rate from 0.20% to 4.12% between 2015 and 2019 (see table 2).

### Table 1. Real growth rate of key sectors; 2015 - 2019 (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>3.72</td>
<td>4.11</td>
<td>3.45</td>
<td>2.12</td>
<td>2.36</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>N/A</td>
<td>14.45</td>
<td>4.62</td>
<td>1.11</td>
<td>4.43</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>N/A</td>
<td>4.32</td>
<td>-0.21</td>
<td>2.09</td>
<td>0.77</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>0.95</td>
<td>0.39</td>
<td>3.86</td>
<td>13.91</td>
<td>10.73</td>
</tr>
<tr>
<td>Arts and entertainment</td>
<td>0.20</td>
<td>3.72</td>
<td>4.13</td>
<td>2.53</td>
<td>4.12</td>
</tr>
<tr>
<td>Education</td>
<td>0.70</td>
<td>1.35</td>
<td>-0.72</td>
<td>-0.03</td>
<td>0.80</td>
</tr>
<tr>
<td>Health and social services</td>
<td>2.17</td>
<td>1.79</td>
<td>-0.31</td>
<td>-0.32</td>
<td>0.31</td>
</tr>
</tbody>
</table>
In addition to the existing ₦220 billion MSMEs Development Fund, the CBN launched the ₦300 billion Real Sector Support Fund in 2016 with the objective of improving access to finance for the agricultural value chain, manufacturing, mining, solid minerals activities and other strategic sub-sectors of the economy. The facility provides loans at single interest rate to companies through deposit money banks that require collateral. Although, businesses have been able to access these loans, the collateralization does not allow for equitable access.

**Job creation and social welfare reforms**

In 2016, the federal government launched the National Social Investment Programme (N-SIP), a four-pronged programme aimed at providing a social safety net to the poor and vulnerable population (Conditional Cash Transfer), cost-effective meals to students in public primary schools (Home Grown School Feeding Programme), jobs and skills to young Nigerians (N-Power), and loans to petty traders and micro, small and medium sized businesses (Enterprise and Empowerment Programme). These reforms have been far reaching considering that there are about 1.64 million households in the national register and the number of beneficiaries of each programme are: Conditional Cash Transfer (394,430), Home Grown School Feeding Programme (9,817,568), N-Power (526,000), and Enterprise and Empowerment Programme (2,136,911) (see table 3).

The overall aim of the N-SIP programmes is to graduate Nigerians from poverty through direct support, capacity building and investment. For the Conditional Cash Transfer programme which provides ₦10,000 to the poor and vulnerable, beneficiaries are also encouraged to be members of savings groups and are trained on life skills and basic financial knowledge in order to build their capacity to improve their livelihood in the medium- to long-term. While the programme relies on a state-level database of poor and vulnerable households to select the beneficiaries, the process through which the database is developed is subjective and less than efficient.

The database is developed by first identifying the poorest local government areas (LGA), then identifying the poorest households in each LGA based on the opinion of community leaders and finally ranking the households according to their income to identify the poorest within the cohort. The method for selecting beneficiaries is sub-optimal considering that the beneficiaries are identified based on opinion as opposed to having an income threshold where every earner below the threshold is sure to benefit from the cash transfer programme. The current method limits the number of eligible people who are supposed to be beneficiaries and also provides opportunity for biasness in the selection process. Furthermore, the National Assembly has stated that the implementation process appears to be...
opaque and marred with corruption as the process through which beneficiaries are selected and funds disbursed is not transparent and fails to meet the approved standard.

Meanwhile, the Home-Grown School Feeding Programme has created a value chain where pupils are not only fed but cooks and smallholder farmers are provided with a sustainable income. However, issues regarding racketeering around farmers-caterers food purchase process have been raised by the programme officials (NSIP, 2019). Similarly, the Enterprise and Empowerment Programme which provides loans to traders and businesses and N-Power which provides employment to graduates in teaching, health and agriculture spheres as well as technical training for non-graduates have been relatively successful except that there have been delays in payments and insufficient funds released (N-SIP, 2019). In general, there are also fiscal discrepancies between the N-SIP budget and the amount utilized with ₦12 billion being paid without verification and another ₦100 million paid to an unknown consultant (Agbedo, 2020). As a result, the National Assembly seeks to reform the N-SIP programmes by legislation in order to plug the loopholes in the system and procedures.

Table 2. Target, Beneficiaries and Coverage of N-SIP Programmes

<table>
<thead>
<tr>
<th></th>
<th>National Home Grown School Feeding Programme</th>
<th>Government Enterprise and Empowerment Programme</th>
<th>N-Power</th>
<th>Conditional Cash Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target</strong></td>
<td>12 million pupils</td>
<td>2.5 million small trade and businesses</td>
<td>500,000 graduates; 100,000 non-graduates</td>
<td>1 million poorest households</td>
</tr>
<tr>
<td><strong>Direct beneficiaries</strong></td>
<td>9,817,568 pupils</td>
<td>2,136,911 petty traders and artisans</td>
<td>500,000 graduates; 26,000 non-graduates</td>
<td>394,430 poor and vulnerable households</td>
</tr>
<tr>
<td><strong>Indirect beneficiaries</strong></td>
<td>106,074 cooks</td>
<td></td>
<td></td>
<td>4,324 cash transfer facilitators</td>
</tr>
<tr>
<td><strong>Coverage</strong></td>
<td>53,629 schools in 32 states</td>
<td></td>
<td></td>
<td>25 states</td>
</tr>
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</table>

Despite the privatization of the power sector, the CBN has established credit facilities for operators in the power sector. In addition to the already existing Power and Airline Intervention Fund, the CBN established the ₦213 billion Nigeria Electricity Stabilization Facility (NEMSF) in 2015 to provide credit facilities to Distribution companies and Generation Companies in order to allow the private operators access bail out funds during critical times. In addition, the CBN established the ₦701 billion Payment Assurance Guarantee (PAG) in 2017 specifically to the Generation Companies generating power to the grid to allow them to finance their liabilities to gas suppliers in the absence of investment returns.

On transport infrastructure, reforms have mainly focused on the rail system with the construction of Lagos to Kano railway route, and the planned construction of the Lagos to Calabar and Port Harcourt to Maiduguri railway routes.

As evident in the continuous power cuts, the extent to which reforms in the power sector have been successful is debatable. Even though electricity remains a public utility, the bail out funds being provided to private operators several years after the privatization of the power sector only creates a moral hazard problem that induces bad corporate behavior. In a worse-case scenario, operators in the power sector may become zombie companies that require bailouts in order to operate. In addition, the interest payments on these loans are likely to be passed on to consumers in the form of higher tariff.

Meanwhile the education and health sectors, the core human capital sectors, have not experienced worthwhile reforms. The government has failed to follow through on campaign commitments to provide free tertiary education to students pursuing STEM degrees, restructure education curricula from primary to tertiary levels, provide free quality comprehensive health care based on a national health insurance scheme, and double the number of practicing physicians and health care professionals. Failure to prioritize human capital development not only limits the productivity of the country’s work force but also hinders economic growth and development.
Conclusion

Nigeria experienced its first full year of recession in 2016, which resulted from weak policy responses and actions combined with a significant decline in global oil price and domestic production. Although the economy had a “V-shaped” recovery in 2017, economic growth remained sluggish thereafter, below the estimated population growth rate, with lower per capita income and higher unemployment rate.

With the COVID-19 pandemic and the plunge in international crude oil prices, the economy appears set for a deeper contraction in 2020. The government’s reliance on oil as a major source of revenue and export earnings will continue to be a major challenge on the economy as the price of oil declines, much below the pre-2016 crises level of about US$100 in 2014.

Although some monetary and fiscal stimulus measures have been introduced by the federal government to cushion the effect of the COVID-19 pandemic, there is need for a more critical policy response to salvage the economy by diversifying the country’s non-oil revenue base to ultimately dominate revenue from oil sector. Tackling insecurity and creating an enabling environment to attract both domestic and foreign investments will boost the chances of increased employment and revenue diversification.
Reducing the CBN's quasi-fiscal role and improving credit information and sharing is key to enhancing the effectiveness of existing credit facilities. While the development finance operations by the CBN has improved the flow of credit to targeted sectors at single digit interest rate, it is crucial for the apex bank to reduce its involvement in quasi-fiscal operations. The involvement of the CBN not only reduces the transparency of these expenses but also creates an inappropriate attitude from beneficiaries with some viewing the credit facilities as grants. This not only affects the effectiveness of the facilities but also threatens their sustainability. Although commercial banks play an active role in managing and disbursing these credit facilities, under the supervision of the CBN, the collateralization requirement for the loans should be withdrawn. To achieve this, more has to be done to ensure that information on potential borrowers exist. Presently, the Nigeria's largest credit bureau, CRC Credit Bureau Limited, only provides credit scoring services covering 14% of the adult population which hinders access to finance to the majority of the population.

**Recommendations**

1. Open government is crucial and can be achieved by leveraging on new digital technologies in formulating programme strategies as well as during implementation. Examples such as the use of application programming interfaces (API) with government databases can be utilized to improve access to information. This will not only improve accountability and transparency but will also ensure that citizens participate in the process, and as such bring about more efficient and equitable outcomes. Meanwhile, peer learning from countries that have been successful in e-governance such as Rwanda can prove useful.
3. Reforms in the human capital sectors are important in achieving success in other sectors as well as overall economic development. While the government has laid down its plans to reform the sectors such as introducing a new skills-based curriculum in secondary schools focused on coding and robotics as well as doubling the number of practicing physicians, not much has been done to achieve them. It is important to note that the quality of the labour force influences the productivity of both private and public sectors and in turn the level of economic growth. The private sector can play more a more active role in both the education and health sectors as they bring on innovation, technology and financing that can boost the productivity of these sectors and achieve significant returns.

4. Open government is crucial and can be achieved by leveraging on new digital technologies in formulating programme strategies as well as during implementation. Examples such as the use of application programming interfaces (API) with government databases can be utilized to improve access to information. This will not only improve accountability and transparency but will also ensure that citizens participate in the process, and as such bring about more efficient and equitable outcomes. Meanwhile, peer learning from countries that have been successful in e-governance such as Rwanda can prove useful.

5. Other regulatory and structural issues such as bureaucratic bottlenecks, corruption, and lack of enforcement of laws/contracts must be addressed. While finance remains a key issue that hinders the growth of the private sector particularly small businesses, and is vigorously being addressed by the government, these structural issues also pose a barrier to their growth. Additional finance without addressing these issues will not bring about the gains envisaged by the government. Legislative reforms as well as a more business-friendly attitude has to be put up not only for local businesses but also to attract foreign investment.

6. Lasting solutions to the age-long infrastructure challenges must be implemented. While the nation’s telecom and water infrastructure can be said to be internationally competitive and affordable, the transport and electricity infrastructure continue to pose problems. This increases the cost of doing business and affects their bottom line, with some having to shut down. If not within Nigeria, enormous capital exists outside the country which can be deployed to deliver the much-needed infrastructure. However, projects will need to be bankable with clear and agreed-upon means of obtaining the returns on investment.