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THE NIGERIAN ECONOMIC RECOVERY & GROWTH PLAN - A RENEWED HOPE FOR REVIVAL?

Introduction

Successive Nigerian governments have over the past decade-plus launched various renewals or recovery plans aimed at boosting or reforming the economy. We have witnessed numerous plans or programmes ranging from the 7-point agenda (2007) of Umar Musa Yar'Adua administration, through the Vision 20-20 (2010), National Industrial Revolution Plan (2014) and the Nigeria Integrated Infrastructure Master Plan (2014) of the Goodluck Jonathan administration, all the way to the Muhammadu Buhari government's Strategic Implementation Plan for the Budget for Change (2016).

Whilst these initiatives have achieved varying degrees of success, implementation across board has always been challenging.

In keeping with the above tradition of rolling out economic plans, the Buhari administration has published yet another plan, this time a comprehensive economic intervention plan tagged the **Economic Recovery and Growth Plan** ("**ERGP**" or the "**Plan**"). The ERGP, which comes on the heels of Nigeria's slump into recession for the first time in 25 years and the sharp fall in oil prices from highs of about $112 a barrel in 2014 to below $50 in 2016, is targeted at propelling Nigeria back to sustainable, accelerated development and restoring economic growth in the medium term (2017 to 2020).

Despite robust provisions of the Plan, there is significant uncertainty in many circles over the prospects of a successful implementation of the Plan, particularly in the absence of clear strategies for the faithful implementation of the initiatives contained in the Plan.

This briefing highlights the key objectives of the Plan and then goes ahead to analyse the priority areas and challenges presented by the Plan.

Objectives and Key Points from the ERGP

The objectives of the Plan are largely three-fold.

Firstly, the ERGP aims to restore growth, macroeconomic stability and engender economic diversification. In achieving this objective, the Plan intends to drive fiscal stimulus (through increased government spending), ensure monetary stability, improve the balance of trade and focus on key sectors driving and enabling growth (such as agriculture, energy, Micro, Small and Medium Enterprises (MSMEs), manufacturing and services). The Plan also seeks to achieve the above by, inter alia, leveraging on information technology.

Secondly, the Plan aims to invest in the Nigerian people by continuing to provide support for the economically-disadvantaged, create jobs, improve accessibility, affordability and quality of healthcare across the country and guarantee improved human capital (through access to basic quality education for all).

Finally, the ERGP aims to significantly increase investment in infrastructure through robust Public Private Partnership arrangements, simplify and improve the legal and regulatory framework for doing business in Nigeria and promote digital-led growth through the expansion of broad band coverage.

Priority Areas of Focus and Key Challenges

Recognizing that (from a purely practical perspective) not all the segments of the economy can be revitalized within the timeline set by the Plan, the ERGP identifies macroeconomic stability, agriculture and food security, ensuring energy (power and petroleum product sufficiency), improving transportation infrastructure and driving industrialization (particularly in relation to MSMEs) as its priority execution areas.

i. **Stabilizing the macro-economic environment:**

The Plan proposes to align all macroeconomic policies (real sector, fiscal, monetary and external) to ensure coherence, effective coordination and consistency. In practical terms, the Plan seeks to attain macro-economic stability through a number of ways. As a starting point, the Central Bank of Nigeria (CBN), proposes to work towards improving the operations of the foreign exchange market to enhance liquidity through improved market-determined exchange rate regime and the provision of adequate credit to the private sector at low lending costs. It is important to mention, with respect to the foreign exchange market, that the CBN recently recorded some success in trying to increase market liquidity, mitigate FX availability risks (at least to retail users) and foster a more efficient and competitive FX market. Whilst it is unclear if similar efforts can be sustained throughout the lifespan of the Plan, the assumption is that there might be renewed optimism and increased likelihood of success if the CBN continues with its recent measures. In addition, the ERGP contemplates the privatization of selected public enterprises/assets (especially in the oil and gas sector) in order to optimize their operational efficiency and reduce the fiscal burden on the government. Nigeria is no stranger to privatization of publicly-owned assets. In 2013, several power assets were privatized with significant stakes purchased by private investors. Whilst there were several concerns around the privatization process in the power sector, it may not be reasonable to index the likelihood of success or otherwise of the proposed privatization of selected oil and gas assets, under the ERGP, based on the power sector experience. The electricity sector in Nigeria has historically been run by the government unlike the oil and gas sector which, for a very long time, has had significant private sector involvement. That said, there is some uncertainty as to whether the privatization would involve a total divestment (for example, upon the sale of oil depots) or if the government would retain a significant stake in the assets (as with the power sector privatization). As a result of this uncertainty, investors may be concerned as to the degree of government support they would receive during the privatization process. Inevitably, we can expect the Bureau of Public Enterprise ("BPE") and the Nigerian National Petroleum Corporation (NNPC) to play significant roles in the privatization process and the experience of the BPE should lend itself to a smooth process. With the coming into effect of the ERGP, market operators and investors (local and foreign) will continue to reflect on some of the issues highlighted above and potentially look to tap into the huge investment opportunities they present.

ii. **Achieving Agriculture and Food Security:**

The Plan proposes to prioritize food security as a fundamental national objective with the goal of achieving self-sufficiency in rice and wheat by 2018 and 2019/2020 respectively. With Agriculture leading the way as the highest contributor to the country's GDP in 2016, the ERGP proposes to build on the SIP and similar former initiatives encouraging private sector investment in agriculture. Whilst agriculture is an area with potential for increased revenue generation, there is some scepticism around the ability of the Plan to deliver significant success on this given the outcome of similar agricultural initiatives in the past (such as "Operation Feed the Nation", "Green Revolution", "National Accelerated Food Production Programme", etc). These initiatives were largely weighed down by improper implementation and monitoring regimes. More so, whilst the Plan outlines ambitious initiatives such as funding through agri-bonds, improving access to finance for agricultural investments and advancing the PPP Presidential initiative on improvements in crop production, the fundamental plans for action have not been clearly laid out. Another sector that would benefit from similar initiatives include the mining industry. For this sector, the Plan proposes to establish a N200billion solid minerals seed fund. The establishment of this Fund undoubtedly offer renewed hope for improved access to finance for participants in this industry but the terms, structure, implementation and administration of this Fund may not entirely dispel the concerns of industry participants in light of previous experiences for example the CBN's-Nigerian Electricity Market Stabilization Facility (CBN-NEMSF) and the Power and Airline Intervention Fund (PAIF). This raises an important question that is yet to be answered, which is: what mechanics can the Plan adopt, different to predecessor initiatives to achieve success?

iii. **Energy (power and petroleum product sufficiency):**

Bearing in mind the recent challenges in the energy space particularly in the electric power sector, the Plan proposes to devote renewed effort to overcoming many, if not all, of the challenges across the three main segments of generation, transmission and distribution. As part of its action plan for the power sector, the ERGP proposes, amongst other things, to optimize the delivery of at least 10GW of operational power capacity by 2020, encourage new embedded and small-scale generation projects and financial closure of about 15 PPP-led solar projects, reduction in transmission/distribution losses and energy theft, etc. Whilst the goals of the Plan relating to the power sector appear laudable, challenges across the value chain in the last couple of years have ranged from funding (liquidity concerns due to legacy debts), pricing (non-reflective electricity tariffs), regulatory (trigger-happy regulator) and legal (lack of clear and simple legal regime). Even with the Federal Government's best intentions, addressing these issues within the Plan's projected time-frame might be a tall order.

iv. Transportation Infrastructure:

In general, the Plan focuses on PPPs and partnerships with foreign investors to deliver much-needed sophisticated transportation infrastructure. More specifically, the Plan proposes the establishment of a Road Fund and leveraging an alternative mix of funding through the issuance of infrastructure and diaspora bonds. As with the CBN-NEMSF and the PAIF, the industry could have concerns around the effective administration of the Road Fund (if and when implemented). For nearly six decades, infrastructure deficit has been a perennial problem in Nigeria and still remains a recurring theme amidst talks of potential investments through PPPs. There is hardly an administration that does not prioritize transportation infrastructure, yet for all the ambitious initiatives that have been proposed (e.g the railway privatization initiative), the infrastructure deficit remains. In our view, if the renewed drive of the government is sustained and there is a clear action, implementation and monitoring plan, there is a likelihood of success this time around.

Industrialization focusing on MSMEs:

The Plan, proposes to generate about 1.5million jobs by 2020, promote exports, boost growth and upgrade skills of MSMEs through unique innovations whilst focusing on modern ICT products and services. What appears to be lacking however are clearly-defined job creation initiatives, steps and an implementation and monitoring plan to put into effect the ERGP. It may be that there is an underlying assumption that an economy renewed through other initiatives under the Plan will lead to increased job creation, however, this would make job creation a tangential benefit, and not as a direct result, of the Plan.

Conclusion

Unlike previous government policies and plans, this Plan outlines a proposed delivery strategy which, amongst other things, establishes clear accountability, sets targets, allocates resources to established priority areas, creates enabling policy and regulatory environments, monitors and drives progress and ensures effective communication. Whilst the market continues to wait on the implementation of the Plan, it remains to be seen if the ERGP can deliver on its promise given its relatively ambitious timeline, delay in passage of the 2017 budget and the many other challenges to overcome. What appears to be clear however, is that the ERGP, if successfully implemented, would have tremendous effect in almost every sector of the Nigerian economy while leveraging on science, technology and innovation. Although the timeline for achieving most of its priority objectives appear ambitious, the Plan undoubtedly presents significant trade and investment opportunities for both local and international investors and businesses at a time when this is sorely needed.

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