GROWING NIGERIA’S REAL SECTOR FOR EMPLOYMENT AND ECONOMIC DEVELOPMENT: THE ROLE OF CENTRAL BANK OF NIGERIA

Sanusi Lamido Sanusi, CON
Governor
Central Bank of Nigeria

Being a paper delivered at the inaugural memorial lecture in honour of late Professor Okefie Uzoaga at the University of Nigeria, Nsukka, Enugu State on July 12, 2011.
GROWING NIGERIA’S REAL SECTOR FOR EMPLOYMENT AND ECONOMIC DEVELOPMENT: THE ROLE OF CENTRAL BANK OF NIGERIA

1. INTRODUCTION

The real sector is where goods and services are produced through the combined utilization of raw materials and other production factors such as labour, land and capital. It therefore forms the main driving force of any economy, and the engine of economic growth and development. The real sector comprises agriculture, industry, building and construction, and services. Agriculture can be further broken into crop production, livestock, forestry and fishing, while industry comprises crude petroleum & mineral gas, solid minerals and manufacturing. Services are made up of transportation, communication, utilities, real estate & business service, education and health.

Specifically, the sector is important for a lot of reasons. First, the sector produces and distributes the tangible goods and services required to satisfy aggregate demand in the economy. Its performance is a gauge or an indirect measure of the standard of living of the people. Second, the performance of the sector can be used to assess the effectiveness of macroeconomic policies. Government policies can only be adjudged successful if they impact positively on the production and distribution of goods and services and therefore raise the welfare of the citizenry. Third, a vibrant real sector, particularly the agricultural and manufacturing activities, create more linkages in the economy than any other sector and thus would reduce the economic pressures on the external sector. Fourth, the relevance of the real sector is also manifested in its capacity building role, as well as in its high employment and income generating potentials.

In order for the real sector of the economy to optimize these potentials, however, it has to be supported by an efficient financial system. There are ample theoretical and empirical evidence that well-developed financial systems play very crucial and indispensable role in promoting long-run economic growth. Basically, the essence of the financial system is to mobilize and channel financial resources via institutions or intermediaries from the surplus economic units to the deficits units. A well developed financial system enhances investment by identifying and
funding good business opportunities, mobilizing savings, enabling trading, hedging and diversifying risk, and facilitating the exchange of goods and services. These functions result in a more efficient allocation of resources, rapid accumulation of physical and human capital, as well as foster technological progress, which lead to economic growth. Therefore, an efficient financial system is one of the foundations for building sustained economic growth, which can spur employment generation and economic development.

Governments in any economy play a central role in shaping the operation of the financial system and the degree to which the range of financial services is expanded and made available to a broader set of households, firms and sectors in the economy (Demirguc-Kunt and Levine, 2008). Specifically, the degree of political and macroeconomic stability and the operation of legal, regulatory, and information systems, all influence the financial environment. The role of shaping the financial landscape of an economy to engender growth in the economy is vested with the central bank, in the case of Nigeria, the Central Bank of Nigeria (CBN). The CBN in doing this seeks to promote sustainable output and employment while maintaining price stability over time. The essence of pursuing this objective is to eliminate uncertainties and distortions associated with high and variable inflation, thereby providing an economic environment that is congenial for growth. In recent times, the CBN has pursued these goals by influencing financial conditions, i.e. the cost and availability of credit, as well as asset prices. Against this background, the paper seeks to examine the role that the monetary authority can play to foster growth of the real sector and create employment for Nigeria’s teeming population.

Following this introduction is section 2, which provides the linkages between finance and economic development and a brief empirical literature review of the finance-growth nexus. Section 3 provides an overview of the real sector of the Nigerian economy by discussing the nature and structure, growth performance and growth drivers and the employment situation in the country. In section 4, we shall examine the role that the CBN can play by x-raying the past efforts including incentivising and encouraging the banks through monetary and credit policies, the recent initiatives and other initiatives that could be implemented to boost real sector growth.
Further areas of focus to grow the real sector are examined in section 5, while section 6 provides the conclusion to the paper.

2. THE FINANCE AND ECONOMIC DEVELOPMENT NEXUS

Economic growth is about enhancing the productive capacity of an economy by employing available resources to reduce risks, remove impediments which otherwise could lower costs and hinder investment. The financial system plays an important role in promoting economic growth and development through the process of financial intermediation. The cost of acquiring information, enforcing contracts and making transactions create incentives for the emergence of particular types of financial contracts, market and intermediaries.

Theory suggests that when financial institutions and markets are effective, they assist to alleviate market frictions occasioned by information asymmetries and transaction costs and can therefore, foster economic growth through several channels. Generally, in the process of reducing market frictions, financial arrangements change the incentives and constraints facing economic agents. A well developed financial system eases the exchange of goods and services by providing payment services; and, helps to mobilize and pool savings from a large number of investors. Other functions include acquiring and processing information about enterprises and possible investment projects, thereby allocating society’s savings to their most productive use; monitor investments and exert corporate governance; and help diversify and reduce liquidity and intertemporal risk (Levine, 1997 and 2005). Therefore, financial systems may influence savings rates, investment decisions, technological innovation, and consequently long-run growth rates.

Why is the financial sector important for economic development and how does it contribute to economic growth? The role of finance in economic development is widely acknowledged in the literature. According to Schumpeter (1912), the financial sector plays a key role in economic development. He opined that financial intermediation plays a pivotal role in economic development by affecting the allocation of savings, consequently improving productivity, technical change and the rate with which the economy grows. He added that the efficient allocation of savings, through identification and funding of entrepreneurs that possess the best
chances of implementing innovative products and production processes, are tools to achieving this objective.

The financial sector is important because the financial intermediaries are responsible for resource allocation. Well-working financial intermediaries improve the efficiency of capital allocation, encourage savings, and lead to more capital formation. In the process of providing payments and intermediary services, the financial industry promotes the efficient allocation of resources. As documented by Levine (1997) and Watchel (2003), there are at least four ways in which the financial sector contributes to growth. First, the financial sector improves the screening of fund seekers and the monitoring of the recipients of funds, and these activities improve the allocation of resources. Second, the industry encourages the mobilization of savings by providing attractive instruments and saving vehicles. Such encouragement may also increase the savings rate. Third, economies of scale in financial institutions lower costs of project evaluation and origination and facilitate the monitoring of projects through corporate governance. Finally, financial intermediaries provide opportunities for risk management and liquidity. They promote the development of markets and instruments with attractive characteristics that enable risk sharing.

From the foregoing, the role of the financial sector in all economies is to channel resources from savers to investment projects. In planned economies, the process is conducted by administrative arrangements with few, if any, market-oriented elements of the financial sector. Emerging market economies will often rely on a single institution, the banking sector, to provide intermediary functions. In contrast, modern economies have a wide range of market-oriented institutions for facilitating intermediation. An efficient financial sector will have a broad continuum of financing techniques that channel resources to investment opportunities (Watchel, 2003). Financial sector development has also an important role in dampening the impact of external shocks on the domestic economy. The development of the financial sector is a decisive determinant of the structure of the trade balance, giving countries a comparative advantage in manufacturing and within manufacturing in those industries most dependent on external finance. Finance fosters economic development by widening access to external finance and helping those
industries and firms most reliant on external financial resources, as well as by allowing smaller firms to overcome financing constraints and grow faster.

The endogenous growth literature also supports the argument that financial sector development has a positive long-run impact on economic growth. Well functioning financial systems have positive impact on growth. They help to mobilize household savings, allocate resources efficiently, diversify risk, enhance the flow of liquidity, reduce information asymmetry and transactions cost, as well as provide alternative ways of raising funds through individual savings and retained earnings. Financial sector development helps economic growth through more efficient resource allocation and productivity growth rather than through the scale of investment or savings mobilization (Beck, Levine and Loayza, 2000).

Earlier works by Schumpeter (1912), Gurley and Shaw (1955), Goldsmith (1969) and Mckinnon (1973) provide evidence that the financial system exert a long-run impact on economic growth. Also, recent research works that employed different econometric methodologies and datasets had arrived at similar conclusions (Demirguc-Kunt and Levine, 2008). The findings were as follows: First, countries with better developed financial systems tend to grow faster. Specifically, countries with large, privately-owned banks that channel credit to private enterprises and liquid stock exchanges tend to grow faster than countries with corresponding lower levels of financial development. The level of banking development and stock market liquidity each exerts an independent, positive influence on economic growth. Second, better functioning financial systems ease the external financing constraints that impede firm and industrialization expansion. Therefore, one channel through which financial sector development matters for growth is by easing the ability of financially constrained firms to access external capital and expand.

3. NIGERIA’S REAL SECTOR IN PERSPECTIVE
3.1 Nature and structure
Structurally, Nigeria’s economy can be classified into three major sectors – primary, secondary and tertiary. The primary sector consists of the agriculture and natural resources, the secondary sector is mainly industry, which is made up of processing and manufacturing, while services
make up the tertiary sector. The agricultural sector comprises of subsistence and modern farming, while the industrial sector consists of few large scale industries and a great number of small and medium scale enterprises (SMEs) that co-exists with burgeoning microenterprises with less than 10 persons in their employee profile, which are largely informal.

The agricultural sector is expected to play its traditional role of meeting the food needs of the teeming population, provide the required raw material needs of the industrial sector and provide the envisaged surplus for exports and thereby generate foreign exchange to improve the balance of payments position. An analysis of the sectoral contributions to GDP showed that the share of agriculture in GDP had declined in the period 1960-2010. It fell from 55.8 per cent in the period 1960-1970 to as low as 28.4 per cent in the period 1971-1980 and rose thereafter to 40.6 per cent in the period 2001-2010 (table 1). The subsistence nature of farming characterized by low adoption of technology, inadequate use of fertilizers and improved seeds accounts for low productivity of the sector. Also, lack of access to adequate funds to invest in the sector has been identified as a major hindrance to improved productivity.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>55.8</td>
<td>28.4</td>
<td>32.3</td>
<td>34.2</td>
<td>40.6</td>
</tr>
<tr>
<td>Industry</td>
<td>11.3</td>
<td>29.1</td>
<td>41</td>
<td>38.6</td>
<td>24.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.6</td>
<td>7.3</td>
<td>6.1</td>
<td>4.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Building &amp; construction</td>
<td>4.8</td>
<td>8.3</td>
<td>2.3</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade</td>
<td>12.8</td>
<td>17.6</td>
<td>14.5</td>
<td>13.8</td>
<td>16.4</td>
</tr>
<tr>
<td>Services</td>
<td>15.3</td>
<td>16.5</td>
<td>9.8</td>
<td>11.5</td>
<td>16.8</td>
</tr>
<tr>
<td>Total Value Added</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics

The industrial sector consists of manufacturing, mining (including crude petroleum, gas and solid minerals) and electricity generation. The manufacturing sector in Nigeria consists of large, medium and small scale enterprises, as well as micro-enterprises. On attainment of independence, government embarked on transforming the country from its predominantly agrarian nature, into an industrialized economy through various policies and programmes as encapsulated in the development plans. The share of the industrial sector therefore, grew from
11.3 per cent of GDP in the period 1960-1970 to the peak of 41.0 per cent during the period 1981-1990. It however, plummeted to 24.4 per cent in the period 2001-2010, owing to various factors including policy inconsistencies and reversals, as well as infrastructural bottlenecks. Available evidence consequently showed that the contributions of the manufacturing sector to the GDP have declined over time from 6.6 per cent in the period 1960-1970 to 4.1 per cent in the period 2001-2010. The declining share of the industrial sector, especially the manufacturing sector is worrisome as this has exacerbated the unemployment situation in the country.

The mining sub-sector is made up of crude petroleum, gas and solid minerals. Solid minerals such as coal and tin used to be the main mining activity and export items for Nigeria prior to the discovery of crude oil. However, this had changed following the discovery of petroleum, which has dominated activity in the mining sector, and constituted the major source of government revenue and export earnings. The share of building and construction in the GDP declined from 4.8 per cent to 1.9 per cent in the periods 1960-1970 and 2001-2010, respectively. The shares of trade (wholesale and retail) and services in the GDP grew from 12.8 and 15.3 per cent in 1960-1970 to 16.4 and 16.8 per cent in 2001-2010, respectively.

3.2 Performance of the Real Sector and the Growth Drivers

Generally, the real sector had witnessed some fluctuations in fortune over the years. The initial progress made towards achieving repaid growth and development in the early 1970s gave way to deterioration in the 1980s through the 1990s. It however, resurfaced from the late 1990s. The growth of GDP during the period 1970-1970 averaged 5.9 per cent and rose to 8.0 per cent in the period 1971-1973. The rapid growth during the period was attributed to the expansion in oil production and exports. Thereafter, the average GDP growth plummeted to 3.2 per cent during the periods 1976-1980 and 1982-1990. The low growth rates experienced during the period 1976-1980 was as a result of the downturn in the world global output causing a drastic decline in the price of crude oil at the international market. The period 1982-1990 coincided with the Structural Adjustment Programme (SAP) during which austerity measures were introduced to remove all the bottlenecks impeding the growth of the economy. The growth in GDP responded favourably during the period when SAP and economic liberalization were embarked upon.
### Table 2. Average Growth Rate of GDP (Percentages)

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-1970</td>
<td>5.9</td>
</tr>
<tr>
<td>1971-1973</td>
<td>8.0</td>
</tr>
<tr>
<td>1976-1980</td>
<td>3.2</td>
</tr>
<tr>
<td>1982-1990</td>
<td>3.2</td>
</tr>
<tr>
<td>1991-1998</td>
<td>1.9</td>
</tr>
<tr>
<td>1999-2007</td>
<td>8.3</td>
</tr>
<tr>
<td>2008-2010</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics

The growth in GDP plummeted further to 1.9 per cent in the period 1991-1998, which was the period when the country experienced its worst economic performance despite the favourable developments recorded in the agricultural and services sub-sectors. However, during the period 1999-2007, output growth rebounded to 8.3 per cent, reflecting the improved macroeconomic reforms and policies embarked upon, especially the National Economic Empowerment and Developments Strategy (NEEDS). The economy maintained an impressive growth of 7.1 per cent following governments resolve and commitment to grow the economy.

The growth rates of Gross Domestic Product (GDP) over the period 2003 and 2010 has been attributed largely to the development in the non-oil sector, which grew from 5.17 per cent in 2003 to 9.5 per cent in 2007 and was 8.5 per cent by 2010. The non-oil (GDP) growth averaged 8.9 per cent in the period 2006 – 2010. The performance of the non-oil was driven by the agricultural sub-sector, given its contribution to the GDP, which is over 40 per cent, followed by the services sector. Sectoral analyses showed that agriculture grew marginally from 6.4 per cent in 2003 to 7.4 per cent in 2006 but was 5.7 per cent in 2010. Agriculture accounted on the average for over a quarter (2.8 percentage points) of the growth in non-oil sector GDP (8.9 percentage point) in the period 2006 – 2010. In agriculture, evidence suggests that yields have been falling and that productivity has declined for both cash and food crops over the past
decades. For the cash crops, production levels have also tumbled. However, production levels for foods crops have risen, and the development has been attributed largely to steady and considerable expansion in area under cultivation as productivity, measured by yields per hectare has declined. Other significant sub-sectoral drivers during this period include the services, building and construction and the wholesale and retail trade sectors, with recorded growth rates of 0.41 per cent to 11.9 per cent, 8.75 per cent to 12.2 per cent, and 5.76 per cent to 11.2 per cent in 2003 and 2010, respectively. In the services subsector, communications recorded the highest growth rate of about 31.97 per cent on the average over the period. The growth rate in this sector was buoyed by the sustained liberalization and expansion of telecommunications services

### Table 3. Sectoral Growth Rates of GDP at 1990 (2003 - 2010)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crop Production</td>
<td>6.64</td>
<td>6.5</td>
<td>7.06</td>
<td>7.4</td>
<td>7.1</td>
<td>6.3</td>
<td>5.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Livestock</td>
<td>4.19</td>
<td>6.5</td>
<td>6.76</td>
<td>6.9</td>
<td>6.9</td>
<td>6.9</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Forestry</td>
<td>1.5</td>
<td>6.5</td>
<td>5.92</td>
<td>6</td>
<td>6.1</td>
<td>6.1</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>2. Industry</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Petroleum</td>
<td>23.9</td>
<td>3.3</td>
<td>0.5</td>
<td>-4.5</td>
<td>-4.5</td>
<td>-6.2</td>
<td>0.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>5.44</td>
<td>10.85</td>
<td>9.53</td>
<td>10.3</td>
<td>12.8</td>
<td>12.1</td>
<td>12.3</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.66</td>
<td>10</td>
<td>9.61</td>
<td>9.4</td>
<td>8.9</td>
<td>7.9</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td><strong>3. Building and Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4. Wholesale &amp; Retail Trade</strong></td>
<td>5.76</td>
<td>9.7</td>
<td>13.51</td>
<td>15.3</td>
<td>15.2</td>
<td>14</td>
<td>11.5</td>
<td>11.2</td>
</tr>
<tr>
<td><strong>5. Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>0.41</td>
<td>8.83</td>
<td>7.96</td>
<td>9.2</td>
<td>9.9</td>
<td>10.4</td>
<td>10.8</td>
<td>11.9</td>
</tr>
<tr>
<td>Communications</td>
<td>35.87</td>
<td>27.77</td>
<td>28.38</td>
<td>32.5</td>
<td>28.5</td>
<td>34</td>
<td>34.2</td>
<td>34.5</td>
</tr>
<tr>
<td>Utilities</td>
<td>3.57</td>
<td>10.85</td>
<td>6.64</td>
<td>4.9</td>
<td>4.9</td>
<td>3.7</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Hotel &amp; Resturant</td>
<td>4.64</td>
<td>10.85</td>
<td>10.45</td>
<td>12.9</td>
<td>13</td>
<td>12.9</td>
<td>11.9</td>
<td>12</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>-9.56</td>
<td>2.73</td>
<td>2.85</td>
<td>5</td>
<td>5</td>
<td>4.8</td>
<td>4</td>
<td>3.9</td>
</tr>
<tr>
<td>Real Estate and Business Services</td>
<td>3.11</td>
<td>10.85</td>
<td>10.62</td>
<td>11.3</td>
<td>11.4</td>
<td>11.4</td>
<td>10.6</td>
<td>10.4</td>
</tr>
<tr>
<td>Producers of Govt. Services</td>
<td>1.24</td>
<td>10.85</td>
<td>5.38</td>
<td>5.9</td>
<td>5.9</td>
<td>6</td>
<td>5.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Comm., Social &amp; Pers. Services</td>
<td>1.3</td>
<td>10.85</td>
<td>10.5</td>
<td>10.6</td>
<td>10.6</td>
<td>10.7</td>
<td>9.8</td>
<td>9.9</td>
</tr>
<tr>
<td><strong>TOTAL (GDP)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NON-OIL (GDP)</strong></td>
<td>5.17</td>
<td>7.76</td>
<td>8.59</td>
<td>9.4</td>
<td>9.5</td>
<td>9</td>
<td>8.3</td>
<td>8.5</td>
</tr>
</tbody>
</table>

1/ Revised
2/ Provisional
Source: National Bureau of Statistics(NBS)
3.3 Real Sector Performance and Employment Situation

Despite the impressive average growth rates achieved since the return to democratic governance in 1999, it has not translated to reduction in unemployment in the economy. Available information from the 2009 Labour Force Survey by the National Bureau of Statistics (NBS) showed that during the period 2000-2009 the average national unemployment rate was 13.9 percent (table 3).

### Table 3. National Unemployment Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>13.1</td>
</tr>
<tr>
<td>2001</td>
<td>13.6</td>
</tr>
<tr>
<td>2002</td>
<td>12.6</td>
</tr>
<tr>
<td>2003</td>
<td>14.8</td>
</tr>
<tr>
<td>2004</td>
<td>13.4</td>
</tr>
<tr>
<td>2005</td>
<td>11.9</td>
</tr>
<tr>
<td>2006</td>
<td>12.3</td>
</tr>
<tr>
<td>2007</td>
<td>12.7</td>
</tr>
<tr>
<td>2008</td>
<td>14.9</td>
</tr>
<tr>
<td>2009</td>
<td>19.7</td>
</tr>
</tbody>
</table>


The unemployment situation appears worrisome as it deteriorated from 13.1 per cent in 2000 to 19.7 percent in 2009. An intriguing paradox is that there is high and rising unemployment rate despite the exciting recent GDP growth rates. For example in 2008 and 2009 when the GDP growth rates were 6.0 and 7.0 per cent, unemployment rate was 14.9 and 19.7 per cent, respectively. The ugly situation has revealed that Nigeria’s growth has neither been sufficiently equitable nor generates adequate employment. Analysis by states in 2009 showed that 22 states had unemployment rates of above 15 per cent with Ondo and Bayelsa experiencing the lowest and highest unemployment rates of 15 and 38.4 percent, respectively.
There are many factors that have contributed to the worsening trend in the unemployment rate. Inadequate infrastructure that manifests in high cost of doing business, high business failure rate as well as poor competitiveness of local production with foreign goods has been identified as a major factor. Others include the unattractive investment climate as well as inadequate access to finance, especially insufficient credit to the real sector. Shortage of skills and entrepreneurial abilities as well as the failure of the educational system to develop appropriate vocational skills relevant to industry and economy requirements are also major factors.

4. THE ROLE OF CENTRAL BANK OF NIGERIA

Traditionally, the role of a central bank in an economy is the conduct of monetary policy through the use of appropriate instruments. This is expected to influence the levels of monetary and credit aggregates and achieve moderate or low inflation, economic growth and balance of payments viability. In developing economies, central banks usually go beyond this traditional role to engage in developmental activities in order to accelerate economic development and create the environment for the attainment of its objectives.

The principal objects of the CBN as contained in the 2007 CBN Act are: to ensure monetary and price stability, issue legal tender currency in Nigeria, maintain external reserves to safeguard the international value of the legal tender currency, promote a sound financial system in Nigeria, and
act as banker and provide economic and financial advice to the Federal Government of Nigeria. Over the years CBN had made concerted efforts to revamp the real sector in view of its contribution to the GDP, employment and economic development. This is anchored on the structure of the economy that is dualistic, with the preponderance of informal and financially excluded sector, which hinders resource mobilization. Besides, the depth of the financial system is insufficient, interest rate spreads and transaction costs are large, and the capital market is relatively shallow.

As part of its developmental role and efforts to boost real sector activities, the CBN has undertaken various initiatives aimed at increasing output, generating employment, diversifying the revenue base of the economy, increasing foreign exchange earnings, and promoting value chain activities in the real sector. In this regard, the CBN through the banking system (Deposit Money Banks) have over the years evolved policies meant to advance credit to the core private sector of the economy, especially the real sector, at the right time and at affordable costs. For example, between 2003 and 2010 credit to sectors such as communications and mining & quarry grew from 2.43 to 10.7 per cent and from 7.9 to 15.3 per cent, respectively. Credit to the agricultural sector which contributes over 40 per cent to GDP have however, shown significant decline over the same period. The sector obtained 5.13 per cent of total credit in 2003, which declined to 3.2 and 1.7 per cent in 2007 and 2010, respectively. Similarly, the share of total credit to the manufacturing sector fell from 24.32 per cent in 2003 to 10.4 per cent in 2007 and 12.8 in 2010. Recognition of the inadequacy of credit flow to the real sector and the need to ameliorate the situation prompted the CBN to intervene at various times in channeling credit to the sector. Some of the financing initiatives include:

4.1 Initiatives to Grow the real Sector by the CBN

4.1.1 The Agricultural Credit Guarantee Scheme Fund

In order to assist banks to aggressively support agriculture, the Agricultural Credit Guarantee Scheme Fund (ACGSF) was introduced in 1978 to guarantee banks’ exposure and minimize lending risk. The Scheme is managed by Central Bank of Nigeria (CBN) which provides a guarantee cover to banks who give loans to the agricultural sector of the economy and has an
authorized share capital of N3 billion contributed by the Federal Government (60%) and the CBN (40%). Potential beneficiaries are requested to provide collateral for loan amounts above N20,000, while loans below the amount can be guaranteed without collateral. The collateral should be in a tangible form or in form of 25% cash security of the intended loan amount in the form of savings. As at May, 2011, the sum of N43.86 billion has been guaranteed with respect to 705,361 loans granted to farmers of various categories.

4.1.2 The Trust Fund Model (TFM)

The Trust Fund Model (TFM) was introduced as a credit guarantee product designed to facilitate and expand the channels of credit purveyance to farmers under the Agricultural Credit Guarantee Scheme (ACGS). The TFM was introduced in 1997 to reinforce the confidence of banks in granting facilities to farmers. Under the TFM, State/Local Governments, Oil Companies and Non-Governmental Organizations (NGOs) are encouraged to support the provision of credit resources by placing funds with banks as part-security to augment farmers’ cash savings/securities. When the State Governments and Organizations concede, a tri-partite arrangement comprising the CBN, State Government and the lending bank is put in place in favour of the farmers. Thus, the practicing groups of farmers are encouraged to continue and improve upon their regular savings with the banks.

The savings of the farmers would still secure 25 per cent of the loan amount they intend to raise with their partner bank. The Trust Fund is deposited by the bank in blocked investment account. It secures another 25 per cent of the farmers’ loans. The CBN through the ACGSF issues 75 per cent guarantee which effectively covers the remaining 50 per cent. Implicitly therefore, the lending bank’s exposure is lowered to 12.5 per cent from the original 25 per cent. Sometimes, a Trust Fund provider, because of the low capacity of its farmers, may decide to increase its stake beyond 25 per cent. The role each of the parties is expected to play in actualizing this intermediation are sealed and signed in a Memorandum of Understanding (MOU).

The benefits of the programme include: provision of opportunity for farmer to increase farm productivity, thereby enhancing poverty alleviation; enhancement of farmers’ access to loan
through group lending, which may not be feasible as an individual; enhancement of loan recovery; reduction in lending risk; enhancement of profitability, etc. Some of the lingering challenges towards the successful implementation of the model include: unwillingness on the part of the lending banks to disburse loans to farmers; the need for increased project monitoring and loan recovery drives in order to significantly improve repayment by Self-Help Groups, etc. As at end-June 2011, a total of 55 stakeholders made up of 18 state governments, 17 local governments, 3 government ministries, 1 federal government organization, 4 multinational oil companies, 13 individuals/organizations had collectively pledged N14.507 billion.

4.1.3 The Interest Drawback Programme (IDP)
The Interest Drawback Programme (IDP) was introduced in the year 2003 to assist borrowers under the ACGSF reduce their effective borrowing rates without introducing dual interest rate regime or contradicting the existing deregulation policy of the government. Under the IDP, farmers will borrow from lending banks at market-determined rates but the programme will provide interest rebate of a determined percentage to them if the loans are repaid as and when due. Currently, the interest rebate is 40% of the interest component of all loans fully repaid.

The Federal Government of Nigeria and the Central Bank of Nigeria funded the IDP in the ratio of 60:40 which is the same for their shareholding in the ACGSF. The Federal Government and the Management of the Central Bank of Nigeria estimated the fund required to effectively support the IDP to be about N2.0 billion which has been approved. The Central Bank had paid up N800.0 million being its own 40 per cent share, while that of the Federal Government was still being awaited. The IDP Fund is a dedicated fund for interest drawback on agricultural loans and is quite separate from the ACGSF. The Fund is invested in Nigerian Treasury Bills (NTBs). Investment income expected from this source will be utilized in settling interest drawback claims. Currently, eligible farmers are being paid under the programme. Under the IDP, a total of 3,852 claims valued N42.909 million has as at May, 2011 been paid to deserving farmers.
4.1.4 The Microfinance Scheme
The need to meet the credit needs of the large population of the poor but economically active who are not usually covered by the formal financial institutions, led to the introduction of the microfinance policy in 2005. The policy provided for the establishment of the microfinance banks (MFBs) which were placed under the supervisory and regulatory purview of the CBN. The objectives of the microfinance policy are to make financial services accessible to a large segment of the potentially productive Nigerian population, which otherwise would have had little or no access to financial services and empower them to contribute to rural transformation. It will also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs).

Specifically, the microfinance banks would provide diversified, affordable and dependable financial services to the active poor in a competitive manner that would enable them undertake and develop long-term sustainable entrepreneurial activities. They would also mobilize savings for intermediation, create employment opportunities and increase the productivity of the active poor, raise individual household income and enhance systematic and focused participation of the active poor in socio-economic development. In particular, the scheme advocated that state governments dedicate not less than 1 per cent of their annual budgets to support the on-lending activities of microfinance banks in favour of their residents.

4.1.5 The Agricultural Credit Support Scheme (ACSS)
The ACSS was introduced in 2006 to deepen access to loans for agricultural purposes. Under the Scheme, the beneficiary enjoys a 6.0 per cent rebate on the 14.0 per cent interest rate charged by banks. As at June, 2011, the sum of N19.43 billion has been disbursed by banks with respect to 103 agricultural projects while N844.28 million has been paid out by the CBN as 6.0 per cent interest rebate.
4.2 Recent Initiative to Boost Real Sector Growth

4.2.1 The N200 Billion Commercial Agricultural Credit Scheme (CACS)
The Scheme was established in 2009 by the CBN in collaboration with the Federal Ministry of Agriculture and Rural Development (FMA&RD). The essence of the scheme was to promote commercial agricultural enterprises in Nigeria. The scheme was funded through the issuance of FGN Bonds worth N200 billion with the first tranche of N100 billion raised and passed on to participating deposit money banks for on-lending to farmers/governments at single digit interest rate. All the 24 banks in the country were expected to participate in the administration of the scheme. Currently, only 12 banks are involved in the administration of the scheme. The scheme finances the development of large scale commercial agricultural value chain. Between January and May, 2011 the sum of N52.81 billion had been disbursed to 139 projects beneficiaries. Cumulatively from inception, the total sum of N133.11 billion has been disbursed to 144 beneficiaries made up of 119 private projects/promoters valued at N106.52 billion and 25 State Governments including the Federal Capital Territory (FCT) projects valued N25.0 billion.

4.2.2 The N200 Billion Small and Medium Scale Enterprises Guarantee Scheme (SMECGS)
The N200 Billion Small and Medium Scale Enterprises Guarantee Scheme (SMECGS) was established by the CBN in 2010 with the objectives to fast-track the development of the SME/manufacturing sector of the Nigerian economy, set the pace for industrialization of the economy and increase access to credit by promoters of SMEs and manufacturers. The scheme was established to provide guarantees on loans by banks to SMEs in order to absorb the risks that inhibited banks from lending to the real sector. The economic activities covered under the scheme included manufacturing and agricultural value chain, private educational institutions; and processing, packaging and distribution of primary products. The recipients of the scheme would be SMEs with assets not exceeding N300 million and number of employees between 11 to 300 staff. The maximum amount to be guaranteed was N100 million which could be in the form of working capital, term loans for refurbishment/equipment, upgrade/expansion and overdraft. The lending rate for the scheme would be the prime lending rate of deposit money banks. The guarantee covers 80 per cent of the accessed amount and valid up to the maturity date of the loan.
(with maximum tenor of 5 years). All deposit money and development banks were eligible to participate in the scheme. As at end of June, 2011, seventeen (17) projects valued N1.36 billion were at various stages of approval. All Deposit Money Banks and development finance institutions are eligible to participate in the scheme and the lending rate under the scheme should be the prime lending rate of the banks since the CBN is sharing the credit risk with the banks by providing guarantee.

4.2.3 The N200 Billion Restructuring/Refinancing to the Manufacturing Sector

As part of efforts toward unlocking the credit market and to ensure that credit flows to the real sector of the economy, the CBN established the N200 billion fund for re-financing/re-structuring of banks’ existing loan portfolios to the manufacturing sector and SMEs. The funding was from the investment of N500 billion debenture stock to be issued by the Bank of Industry (BOI). The main objective of the fund is to fast-track the development of the manufacturing sector by improving access to credit by manufacturers as well as improving the financial position of the DMBs. The types of facilities under the fund include long term loans for acquisition of plant and machinery, refinancing of existing loans, resuscitation of ailing industries, working capital and refinancing of existing lease. The loan amount for a single obligor is the maximum of N1 billion in respect of re-financing/re-structuring with an interest rate of 7 per cent payable on quarterly basis. The expected economic benefits of the scheme includes the creation of an additional 7,195 direct jobs and substantial indirect employment for suppliers of inputs, marketers/distributors of products; enhanced capacity utilization from 25 to 29 per cent; reduction in the cost of fund, as well as increased incomes of the beneficiaries. As at end-June 2011, 23 DMBs and one (1) development finance institution participated in the scheme. The sum of N199.671 billion had been released under the Scheme to the Bank of Industry (BOI) for disbursement to 539 projects.

4.2.4 The N300 Billion Power and Airline Intervention Fund (PAIF)

The CBN set aside N300 billion as credit to the domestic power and troubled airline industries to tackle the financing challenge militating against the power and aviation sectors. The main objectives of the fund were to refinance existing loans and leases and provide working capital for firms in these sectors. Accessing the fund attracts a concessionary interest rate of 7 per cent (1%
for BOI as management fee and 6% for participating banks) payable on a quarterly basis including all charges. The Fund is a 15-year debenture investment being managed by BOI with the Africa Finance Corporation as the technical adviser. All deposit money banks and development finance institutions (excluding BOI) had been enlisted to participate in the scheme. To participate in scheme, eligible companies must be duly registered and involved in the electricity power supply value chain, which included power generation, transmission and distribution, as well as associated services. Besides, such projects could be promoted by private or public or a combination of both, which must be structured either as a profit-oriented business concern or a public service on the condition that contracted cash flows or financing support existed to ensure repayment of principal and interest in addition to long term viability. With respect to aviation projects, any airline duly incorporated under the Companies and Allied Matters Act (CAMA) 1990 and operating in Nigeria was eligible to apply for the facility.

As at end-June 2011, a total of 23 applications valued N120.389 billion were received by the Bank of Industry (BOI) under the PAIF. Of these numbers, 14 projects valued N86.97 billion were for airline projects, while 9 applications valued N33.42 billion were in respect of power projects. So far 8 airline projects valued at N41.94 billion have benefited from the disbursement of the PAIF by the BOI.

4.2.5 The Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)

In 2010, the CBN engaged the Alliance for Green Revolution in Africa (AGRA) to develop the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL). NIRSAL is a new innovative mechanism targeted at de-risking lending to the agricultural sector. It is a demand driven credit scheme unlike others which are largely supply driven initiatives. The scheme was put in place given the need for an agricultural financing strategy that would boost output, increase farmer’ incomes create jobs and provide wealth opportunities across the value chain. The whole essence of the NIRSAL is to spark an agricultural industrialization process through increased production and processing of the greater part of the commodities produced in the country to boost economic earnings across the value chain.
The initiative would adopt a value chain approach to lending as banks would be free to choose which part of the value chain to patronise. It would build the capacity of the banks to engage and deliver loan; reduce counterpart risks facing banks through innovative crop insurance products; reward performance in agricultural lending; and would be managed with performance based incentives. NIRSAL’s primary goal is to increase agricultural lending by US$3 billion within 10 years. This will increase total lending to agriculture from 1.4 to 7 per cent of Nigeria’s total bank lending. The scheme would also pool current resources in CBN’s agricultural financing schemes and other investors’ funds and transfer these to the five components of the programme that would be managed outside of the CBN. The existing agricultural support frameworks like CACS, Agricultural Credit Guaranteed Scheme, Agricultural Credit Support Scheme (ACSS) and Nigerian Agricultural Insurance Corporation (NAIC), etc would be assessed, modified and integrated into five components viz: Risk Sharing Facility (RSF), Insurance Component (IC), Technical Assistance Facility (TAF), Bank Incentive Mechanism (BIM) and Agricultural Bank Rating System (ABRS).

The CBN has earmarked N75 billion to stimulate lending to agriculture, leveraging the Nigerian banking system under the scheme. The funds are allocated across NIRSAL’s five pillars:

- Risk sharing facility — N45 billion allocated for sharing lending risks with banks (e.g. of 50 per cent loss incurred);
- Insurance facility — N4.5 billion allocated to link insurance products to loans provided by banks to beneficiaries;
- Technical assistance facility — N9 billion to build capabilities of banks and MFIs, build agricultural value chains and expand financial inclusion;
- Holistic bank rating mechanism — N1.5 billion to rate banks according to how effective they are in lending to agriculture; and
- Bank incentive mechanism — N15 billion as offer incentives to move banks to make a strategic commitment to agricultural lending.
In order to have a greater buy-in on NIRSAL, a stakeholder’s conference was organized by the CBN on July 5-6, 2011, where it was also formally launched. At the conference, the following issues emerged and appropriate recommendations to tackle them were made:

- Lack of new and improved high yielding seed varieties. The suggested recommendations were complete liberalization of the seed sub-sector, Capacity building for plant breeders, adequate funding and support of the National Agricultural Seed Council (NASC), and restricting NASC to licensing, regulation and supervision.

- Ineffective and inefficient fertilizer procurement and distribution system. To address this issue, the following were recommended: complete deregulation/privatization of fertilizer procurement, fertilizer voucher scheme currently being utilized in some states (Taraba, Bauchi, Kano, and Kaduna) should be replicated in the remaining states of the country, transition from consumption to production subsidies, and establishment of an agency that would regulate the quality and usage of fertilizer.

- Uncoordinated agricultural marketing system. It was suggested that government should promote the formation of cooperative societies and aggregation units for coordination of procurement of inputs and market access. Also, there should be promotion of strong commodity associations to aggregate produce for marketing at the commodity exchange platform.

- Need for functional commodity exchange to facilitate access to finance by primary producers and guarantee steady supply to up takers.

- Near absence of agricultural extension services. The suggestions were strengthening of extension services, farmers’ education, advocacy, clear delineation of responsibilities between state ministries of agriculture and Agricultural Development Projects (ADPs) especially with respect to extension services, and a more effective use of Agricultural Universities, Agriculture faculties and fresh graduates.
Ineffective agricultural insurance system. There should be a review of the agricultural insurance law to allow private sector participation in agricultural insurance, introduction of weather-index agricultural insurance system, and funding for improved infrastructure such as weather stations and satellite imaging.

Others were:

- Lack of organized grading and standardization system that makes marketing of our commodities difficult in the world market. It was suggested that there should be the introduction of grading and standardization of agricultural commodities aligned with CODEX, and the establishment of product standardization centres.

- Improvement of Agricultural Statistics. The establishment of an Agricultural Data base project was suggested.

- Development of new generation of farmers to replace the ageing farmer population. Suggested recommendations were the need to revive and upgrade the farm settlement system/nucleus farm estates, and the introduction of small and affordable agricultural equipment/ Machinery to reduce the drudgery of farming and attract youths to the industry.

- Inadequate linkages in Research and Development (R&D). There should be proper funding of the various research institutes and commercialization of R&D products.

- Inadequate irrigation facilities. Suggested recommendations were the resuscitation of dams to reduce over-reliance on rain-fed agriculture, and the rehabilitation of irrigation channels and other facilities.

- Development of innovative Agricultural Finance Products. It was suggested that banks should introduce varied innovative products along the agricultural value chain.
5. Further Areas of Focus to Grow the Real Sector

5.1 Macroeconomic instability
The scope of the challenges facing the Nigerian economy is enormous. The economy is mono-product – oil, with output and prices depending on international economic conditions. This singular nature of the economy has far reaching implications for the stability of the economy. In the main, the revenue profile of the government is a direct function of the international price of the country’s reference crude, Bonny Light. As a consequence, fiscal performance of the government depends on how favourable prices turn. Therefore, the oscillations in the international economy disequilibrates demand and supply conditions in all the segments of the domestic economy – exchange rate of the naira, real activity, financial intermediation, the list is endless- bringing about persistent drifts from the trend lines of the Gross Domestic Product. There is need to minimize macroeconomic instability that emanates especially from fiscal operations of the government. This is particularly important in order to send appropriate signals to investors in the economy.

5.2 Weak Institutions
As in other developing economies, the institutional set up in Nigeria hardly leaves room for smooth development of the real sector. Primarily, the traditional organization of production and its processes impedes development. In the agricultural sub sector, the fragmented land ownership inhibits large scale mechanization of the sector. In the industrial sub sector, poor investment climate is a major source of concern. Several reasons account for the poor investment climate. First, the legal system contains entrenched bottlenecks which delay delivery of justice so that dishonoured business contracts are not timely addressed, eroding investment confidence. Second, the perception about the political environment affects the level of investment in the real sector. There is a positive correlation between thriving democracy and the stream of foreign direct investments. It has to be pointed out that the country has made great progress in the democratic process as seen in the success of the general elections of 2011. However, efforts must be made to ensure that the after-election violence and the current tensions in the polity are contained in order to consolidate on the gains made in growing the real sector. The various reforms in the economy present opportunities to tackle the institutional strains to the real sector development. Notably,
the land reforms, the judicial reforms and the attitudinal reorientation which the government is preaching and a host of others are a testament to the desire to position the real sector on a strong footing.

5.3 Poor Economic and Social Infrastructure
The development of adequate infrastructure is indispensable for the development of the real sector. The various sub-sectors of the real economy have been hampered one way or the other by the poor state of infrastructure in the economy. The agricultural sector is affected by the absence of storage and processing facilities, which renders output, and so farmers’ income largely seasonal and prone to waste. It also perpetuates the vicious cycle of ‘harvest and sell raw’ of produce. Transportation infrastructure is also one impediment to the delivery of produce from farm gates to consumption sites.

The industrial sector is impacted by poor infrastructure in several respects. First the cost per unit of production is exorbitant; capacity utilization is low, which implies losses in output, employment and productivity of installed equipment. Consequently, output prices are non-competitive when compared with imports and the market share of domestic manufactures has shrunk overtime, with the implication that real sector growth is slowed down.

On the positive side, let me mention that light is beginning to appear at the end of the tunnel. The road map for the development of the power sector including the initiatives by the CBN, the petroleum industries bill, the rail projects coming on stream and other isolated efforts of government present hope that in no long time the problem of infrastructure in the real sector would be addressed.

5.4 Corruption
The issue of corruption has been roundly adduced as one of the worst impediments for the development of the real sector. But how does it affect the development of the real sector. In the main, as public sector institutions should facilitate the growth of the real sector, it is expected that the bureaucracy in the relevant parastatals should be efficient. However, it is commonplace
to find round pegs in square holes in the public sector. This weakens the capacity for the bureaucracy to perform its function of supporting the real sector effectively. For investments, corruption de-develops the real sector by affecting the perception of potential investors. It presents a negative image of the environment and so scares would-have-been investors in the real sector. Corruption also fuels rent-seeking tendencies in over invoicing etc.

5.5 Poor Credit Delivery

Before the liberalization of the credit market, the various priority sectors of the economy were guaranteed direct credit allocations. These provisions were relaxed with the introduction of the Structural Adjustment Programme in 1986. The implication for this was that the real sector was exposed to source credit from the open market at the ruling interest rates. However, with the myriad of difficulties- infrastructure, inclement investment climates etc- the sector appears incapable to source the requisite fund from the open market. And this is obvious when we look at the sectoral allocation of credit to the real sector over the past few years. This has necessitated the various initiatives by the CBN towards channeling credit to the sector.

7. CONCLUSION

The real sector plays strategic roles in an economy, it is the driving force and engine of economic growth and development. The major ingredient for economic growth and development is capital accumulation. The financial system plays an indispensable role in the process of economic growth and development. In promoting growth and development, the financial system plays the traditional role of intermediation. Getting credit to fund productive activities has been the bane of the real sector because of the nature and depth of the financial sector in Nigeria. The dearth of longer tenored financial instruments has been a key constraint to real sector growth. Sustainable development can only be achieved if adequate financial resources are efficiently mobilized and transformed into productive activities that would engender growth and generate employment.

The CBN has played a key role in growing the real sector with its plethora of previous financing schemes and current initiatives. The latest initiative of the CBN, the NIRSAL is aimed at de-risking the agricultural sector for improved credit flow. This is because the sector is the largest
employer of labour and holds the key in both arresting unemployment and improving the quality of lives of the citizenry. The essence is to promote sustainable output and employment in the economy while maintaining price stability over time. The efforts of the CBN in growing the real sector for employment generation, however, can only be maximized and sustained if complementary effort is made by government as other stakeholders to address the debilitating challenges confronting the sector.
REFERENCES


