In the Name of Allah, The Beneficent, The Merciful

PULLING NIGERIA OUT OF THE ECONOMIC RECESSION

TEXT OF THE KEYNOTE ADDRESS DELIVERED BY MR. AHMED 'TUNDE POPOOLA, FCA AT THE 10TH ANNUAL CONFERENCE OF THE MUSLIM LAWYERS' ASSOCIATION OF NIGERIA (MULAN) HELD AT THE LAGOS STATE OLD SECRETARIAT MOSQUE, GRA, IKEJA, LAGOS STATE ON FRIDAY MAY 19, 2017.

Protocols and Introduction

As-Salam alaikun waharamatullah, wabarakatuh.

It gives me a great pleasure and a rare opportunity to be amongst you, my Muslim brothers and sisters, learned practitioners of the legal profession. I will like to start by appreciating the entire membership of the Muslim Lawyers' Association of Nigeria (MULAN) for giving me the platform to deliver the Keynote Address at this year's Conference, thereby enabling me to share my thought on a topical issue of our time.

I congratulate all of you, for putting together another fantastic conference and the 10th in the series, attracting your members from all over the country. Professionals benefit from this kind of conference in many ways including networking and making new friends, connecting with old colleagues, classmates and friends, learning new things and pushing new frontiers in the profession. I do hope you will internalize and take advantage of all that this conference offers.

A significant part of a conference of this nature by professionals is also to analyse topical issues in the environment where they ply their trade. This is because, most times, professionals cannot do better than what the environment offers. It is therefore apt that we are looking at the challenge of economic difficulties that Nigeria has faced in the last few years. Consequently, I have been asked to speak on the theme of the conference: Pulling Nigeria Out of the Economic Recession. And your invitation requested me to examine the roles that Islamic finance can play as one of the options to grow the economy as we search for solutions out of the recession.

Characteristics of an economy in a recession: The Nigerian experience

A country is said to have slipped into recession when the economy experiences contractions significantly for at least six consecutive months or two consecutive quarters. This implies a decline in some economic indicators such as the real GDP, income, employment, manufacturing and retail sales. A recession is bad because asset values shrink during the period.

Before this current experience, the last time Nigeria was in recession was about 25 years ago. That was in 1987 when the Gross Domestic Product (GDP) recorded consecutive negative growth of -0.51 per cent in the first quarter and -0.82 per cent in the second quarter. In 2016, Nigerian economy witnessed negative growth in four consecutive quarters, namely: -0.36% in quarter one,

-2.06% in the second quarter, -2.24% in quarter three and -1.30% in the fourth quarter, averaging a negative growth of -1.5% for the year.

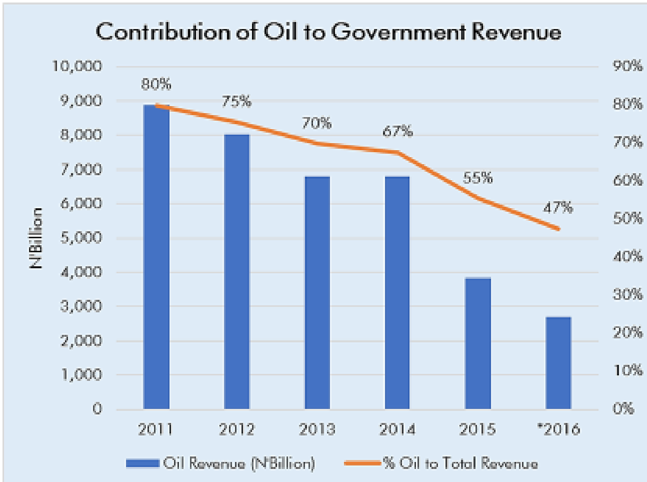
Recessions do not happen overnight. The ominous signs are always there. During the recession of the 1980s, the signs of things to come were apparent since the early 1980s when the then federal government declared 'Austerity Measures'. The policy responses were the enactment of the Economic Stabilization (Temporary Provisional) Act, 1982 and the introduction of the Structural Adjustment Programme (SAP) in 1986. I was among the young graduates of that time and I remember that for the first time, Nigeria started talking about graduate unemployment. As the Editor of **'The Economic Insight'**, the Journal of Department of Economics students of the University of Ife (now Obafemi Awolowo University), Ile-Ife in 1983/84 session, in my final year, my editorial was on tackling the scourge of graduate unemployment in Nigeria. Since then, the challenge of graduate unemployment has been with us, and growing worse by the day.

The signs of the 2016 recession were also manifested in the preceding years. Real GDP growth slided from 6.3% in 2014 to 2.7% in 2015 and finally to a negative of -1.5% in 2016. Inflation rates almost doubled within two years, moving from a single digit of 8.06% in 2014 to 8.97% in 2015 and significantly to 15.6% in 2016.

Just as it was in the 1980s, Nigeria again, this time, found itself in recession because of the challenge of earnings from oil. It is important to bring this picture out as it is the principal factor responsible for going into a recession. In the last three years, we have experienced significant shock in our economy. Oil revenue was USD$8.9 billion in 2011, representing 80% of total revenue. But it started declining since then with the most significant impacts in 2015 and 2016. Oil revenue was only USD$3.8 billion in 2015 and USD$2.69 billion in 2016. Oil production output was at its peak at 2.2 mbd in 2014, but plummeted to 1.6 mbd in 2015 and under one million barrel per day in 2016. At the same time, price of crude oil per barrel declined from $63.8 per barrel in 2014 to $38.2 per barrel in 2015 before it rose marginally to $44.80 per barrel in 2016. The combination of decline in oil production per day and its price precipitated a fall in our foreign reserves from $31.5 billion in 2014 to $25.84 billion in 2016. The significant simultaneous decline in daily crude oil output and price, robbed Nigeria of the growth rates we have witnessed since 1999. And since we were unable to raise non-oil revenues during the period, the country faced huge budget financing constraints and foreign exchange volatility.

GOVERNMENT REVENUE (2011–2016)

- Contribution of Oil to Total Revenue

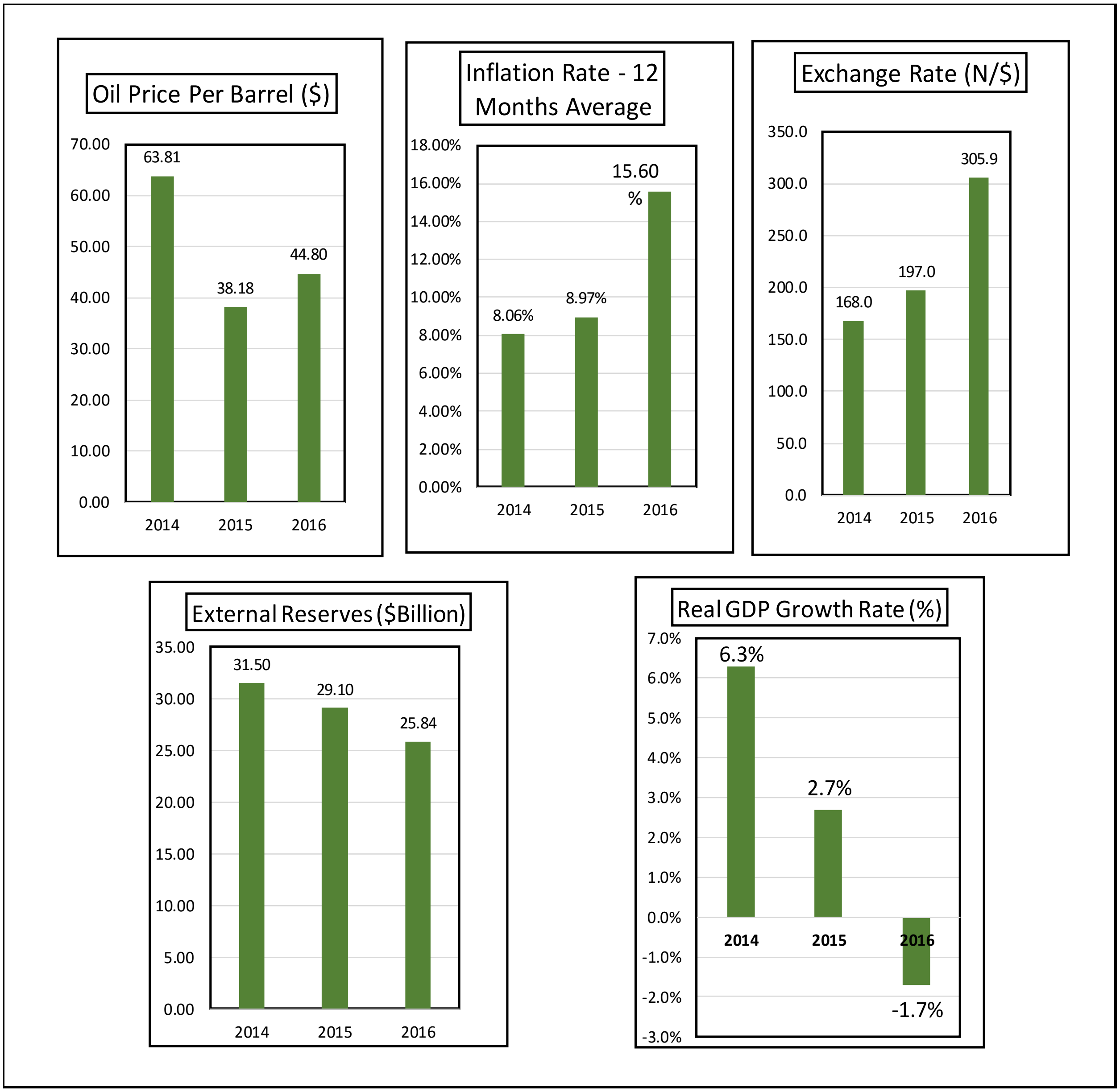


YEAR	Oil Revenue (N'Billion)	Non-Oil Revenue (N'Billion)	Total	% Oil
2011	8,879.0	2,237.9	11,116.90	80%
2012	8,026.0	2,628.8	10,654.80	75%
2013	6,809.2	2,950.6	9,759.80	70%
2014	6,793.8	3,275.0	10,068.80	67%
2015	3,830.1	3,082.4	6,912.50	55%
*2016	2,693.9	2,984.0	5,677.93	47%

Data Source: 2015 Annual Report, Central Bank of Nigeria (CBN) – page 109
*Economic Report Fourth Quarter 2016, CBN – page 15

Also, the effect of our high dependence on oil as the main source of foreign exchange earnings began to show immediately with a lot of pressure on our foreign exchange rate. Official foreign exchange rate moved from N168.00:$1.00 to N197:$1 in 2015 and N305:$1.00 in 2016.

The pressure forced the CBN to adopt many tactics in managing the foreign exchange market including allowing market-driven interbank foreign-exchange trading, putting transactions related to some 41 items ineligible for FOREX at the official rates, special allocation to some priority sectors and thus leading to the adoption of multiple foreign exchange rates. Presently, we have the official rate, parallel rate, retail rate, interbank rate and new investor rate. It is not sustainable to manage our foreign exchange market with multiplicity of rates as it is bound to create confusion, arbitraging and corruption. I doubt if anyone obtains foreign exchange at the official rate of N305/$1.00.



Just like any other recession, the effects soon became pervasive, spreading like wild fire. A recession will typically be characterized by high unemployment, falling average incomes, increased inequality and high government borrowing. Apart from the apparent declines in foreign reserves and negative GDP growth, rising inflation and depreciation of the national currency, other issues manifest in forms of loss of jobs, closure of factories, and erosion of purchasing power, etc. Nigeria's situation has not been an exception to these. The recession manifested in stagflation (inflation accompanied with lack of economic growth), rising unemployment, foreign exchange scarcity, decline in purchasing power and rise in misery index.

To pull Nigeria out of recession, we need to get people out of poverty; we need to get people to work again by creating jobs. We need to increase and improve productivity. There is the need to mitigate foreign exchange shortfalls. We need to provide the required infrastructure and close the gap in infrastructure deficiency. Businesses need to get back to production. The economy requires to be stimulated.

Even though diversification has almost become a slogan by government after government, most governments have not demonstrated the political will to implement the very fantastic and laudable plans they always put together and unveil. Since my days as an undergraduate in Economics, we as a nation have always been talking about structural imbalance, heavy dependence on oil, need to promote exports, import substitution strategy, export-led growth, etc. However, a review of our earnings and the composition of the sectoral contributions to the economy/national budget by revenues, reveals that the contribution fromoil remain as high as ever.

Tackling recession requires taking bold and coherent fiscal and monetary measures. In the realization of this, and looking beyond the recession to fulfil their campaign promises, the Nigerian government launched the Economic Recovery and Growth Plan (ERGP) in April 2017, with a vision of sustained inclusive growth. The Plan's broad objectives are to restore growth, invest in people and build a globally competitive economy. The Plan identified five core principles upon which it is based, namely: focus on tackling constraints to growth; leverage on the power of the private sector; promote national cohesion and social inclusion; allow markets to function; and uphold core values. To give measurable meaning to the Plan, five key execution priorities were identified, namely: stabilizing the macroeconomic environment; achieving agriculture and food security; ensuring energy sufficiency (power and petroleum products); improving transportation infrastructure and driving industrialization through focus on small and medium scale enterprises.

It is clear that the ERGP identifies the challenges we face and articulated clear strategies and milestones to put Nigeria on the path of sustained and inclusive growth. It is as beautiful as the various other past plans, with different names. The achievement of its vision and objectives will depend on the political will put behind its execution. I acknowledge that the implementation has started well. I can provide some insight from my own engagement with an aspect that concerns my industry, that is, access to credit. The setting up of the Presidential Enabling Business Environment Council (PEBEC) with clear deliverables and timelines is commendable. PEBEC has responsibility to achieve significant improvement in the ease of doing business in Nigeria. The Council has designed measurable quick wins and is laying the foundation for improving Nigeria's ease of doing business ranking to under 100 by 2020 from the present 169th position out of the 189 economies surveyed. And significant results are being achieved.

Financing Options Out of Recession

Economic literature has identified reflation through government spending and restoring production capacity to the private sector as the way out of recession. Governments at the federal and regional levels have thus adopted two approaches, namely: raising funds for and investing in socio-economic infrastructural development and supporting private enterprises, especially to stimulate the SMEs sector.

Governments have resorted to borrowing from the local and international financial institutions and multilateral agencies and governments. In the last three years, total government borrowings have increased from N8.5 trillion in 2013 to N10.9 trillion in 2015. This is expected in time of recession as government needs to spend to stimulate and reflate the economy. However, servicing the debt becomes a challenge especially when they are foreign currency denominated. With the current exchange rate regime, funds required to service the debt currently represents about 23% of 2017 national budget, translating to spending about N23 out every N100 earned in debt servicing. If not carefully managed, we may find the country in another debt trap, which we exited in the past through debt forgiveness and write-off.

Islamic finance is an alternative option worth exploring to raise funds for public works and to support the private sector access to finance. Worldwide, Islamic finance is no more peripheral to conventional finance as it is being operated in over 75 countries, including the western nations. People think that the Islamic financial system is based on faith; but it is based on justice for the two parties. Rather than Islamic banking dealing with borrowers and lenders, the system is based on buyers and sellers. Conventional banking is biased in favour of the seller, whereas Islamic finance attempts to level the ethics between the two parties. Besides, Islamic finance system does not allow investment that harm people or the environment, thereby promoting sustainable finance. The fantastic options that Islamic finance offer for funding both public infrastructure and empowering small businesses should be explored to bail us out of recession and also lead us to sustainable development.

As we raise funds from international markets to invest in public works and infrastructure to get out of recession, Sukuk comes highly recommended to various governments. Sukuk is like bonds but its benefits outweigh those of bonds. Sukuk are backed by tangible assets rather than debt. While bond indicates a debt obligation, Sukuk holders are asset owners. The country will benefit from application of funds to specific projects rather than the situations where we have debts piling up on assets that may not be substantiated.. Sukuk can be used to finance projects such as road, rail, housing, power and energy, agriculture irrigation systems, etc. without falling into interest-based debt.

I have also observed that the federal government and most states established various initiatives and schemes to support access to finance for SMEs and those who would like to go into business. There are special intervention funds with considerable generous reduced interest rates either directly by governments or through special vehicles or agencies created for that purpose, such as the Bank of Industry, and Bank of Agriculture at the federal level and the Lagos State Employment Trust Fund by Lagos State. In all of these, there have been no role or consideration for non-interest finance.

Governments can support SMEs by encouraging the special vehicles created to introduce non-interest products such as Murabaha (trade with mark-up or cost-plus sale), Ijarah (operational and financial leasing contracts), Mudaraba (trustee financing contracts), Musharaka (equity participation contract) and deferred payment and deferred delivery sales. Banks such as the Bank of Industry, Bank of Agriculture and the newly established Development Bank of Nigeria should be encouraged to develop Islamic or interest-free finance products to increase access to finance and help wealth creation, especially among those who do not believe in interest-based loans, no matter the level of concessions. It is thus a veritable strategy of enhancing financial inclusion and equitable availability of funds. Interestingly, the Nigerian banking system especially the commercial and microfinance banks have seen the beauty of non-interest banking. About eight out of the 22 commercial banks have non-interest banking windows, while one is a full-fledged Islamic bank.

The Central Bank has also released the guidelines for Islamic microfinance banking which private sector operators are keying into. The development banks also need to follow in this direction, if they are to achieve their objectives and goals. I believe an association like yours should make a case for this.

Overcoming the recession and getting set for real growth and development

Nigeria has started exiting the recession. Economic rebound has commenced and the IMF and the Central Bank of Nigeria have forecasted growth rates of about 0.8% in 2017and 2.6% in 2018. But we are leaving recession not absolutely because of specific fantastic short term measures, but because oil production is improving as well as oil prices, the two major items that dragged us into recession in the first place. The stability in the Niger Delta region has enabled uninterrupted production of oil, while the international oil market is witnessing gradual increase in oil prices.

Nigeria needs to look beyond just overcoming the recession. Nigeria has to grow from its appellation as a nation with potentials; we need to realise the potentials. We have no choice than to take the path of sustainable growth considering the enormity of the resources at our disposal and the calamity that could befall us if we do not act with dispatch. A single indicative example is the time-bomb of youth restiveness if we are unable to provide jobs. Ours is a very young population with over 50% of our 190 million people under 30 years of age. We need to develop a strong economy that is diversified, inclusive and sustainable.

When my generation left the university in the 1980s, we experienced and felt the impact of availability of some basic socio-economic infrastructure and institutions. At that time, we could point to the Nigerian Railways, the Nigerian Airways, the Nigerian National Shipping Line, the few national stadia we had were fine, travelling on Lagos-Ibadan expressway was just within an hour, the universities had foreign students and were producing future leaders with a lot of hope. Even Lagos then was like you were in London with the efficient transportation/bus system. Today, most of the social and economic infrastructure have collapsed, at a time when we should have maintained what we had and added more. We simply halted investing in socio-economic infrastructure for about three decades. We need to commend the past two governments and the present government of Lagos State for the aggressive development that we see everywhere, every day. We would not have been in this predicament if all governments in Nigeria have followed the Lagos example, by taking governance as an enterprise. It is the way to go. The countries we started together like South Korea and Malaysia have left us behind.

We need to think beyond recession. We need to think long-term and sustainable development. Addressing the challenges posed by recession and poor state of economic development requires focusing on certain imperatives. I will therefore, like to reiterate the following points:

1. Aggressive implementation of the ERGP is non-negotiable. Diversification of the economy and massive investment in infrastructure have been given a pride of place in the ERGP document. However, the political will is important and getting the best people to assist in the implementation across all strata cannot be over-emphasized. This will be what will make the difference between the past governments and the present government, and not the Plan itself.

2. A re-orientation of Nigeria towards appreciating our products is imperative. Heavy dependent on imported items drains our foreign exchange earnings. You can imagine the growth in productivity along the value chain of fashion and textiles, if we have a day of wearing national dress in our local fabrics to work in a week. I therefore recommend a day in a week to encourage all Nigerians to wear all 'Made-in-Nigeria' attire. In addition, boosting non-oil exports has become an imperative to assure of stable foreign exchange rate regime.
3. Restoring peace and stability to all parts of the country is crucial and a pre-requisite for any economic development. Most parts of Nigeria today face the challenge of terrorism and insurgency, herdsmen attacks, kidnapping and nationalistic agitation. These phenomena hampers the exploitation of economic opportunities and tourism. If they are not speedily addressed, investments will be curtailed.
4. Enhancing foreign direct investment. Direct foreign investment and portfolio inflows have declined in the last two years. The challenge of oil revenues, unstable and unpredictable foreign exchange and uncertainty about the direction of policies of government conspired to create withholding of inflows into our country. We need to restore the confidence. The improvement in oil revenues will boost the return. But foreign exchange rates need to be streamlined and made more market-driven. Also, the convergence of fiscal and monetary policies is imperative for confidence building for foreign investors.
5. The promotion of SMEs is receiving attention. However, a lot of state governments are paying lip service to the development of SMEs, as their actions and projects are mere propaganda and political slogans. There is the need to separate SMEs development from poverty alleviation programmes. They look similar but they are not the same. Most of the SMEs support programmes of state governments are towards poverty alleviation. SMEs development requires helping start-ups to commence and overcome the challenges of early death; the focus should be to help build sustainable businesses. The business environment, access to market, capacity development and friendly regulations are all important to achieve this. While I do not discourage the idea of giving grants and subsidized loans to SMEs, a re-evaluation of the effectiveness of the various schemes is important. Besides, an important aspect of such programmes must be how to mainstream such beneficiary businesses into main line access to finance in loans and equity. Nigeria should give special attention to innovation-driven SMEs in agriculture, ICT, tourism and fashion. These sectors are capable of absorbing SMEs, reward innovation, provide employment and promote necessary linkages. And this will also address poverty.
6. Nigeria cannot afford to neglect industrialization and our promotion of SMEs should not make us close our eyes to the need for serious industrialization. Large scale companies promote more jobs but more importantly, they enhance new SMEs due to active value chain. Some of the sectors that are strategic to our development and inward-looking growth will include petrol-chemicals, agro-processing and textiles. My proposal for supporting big businesses also stem from the postulations that SMEs do not necessarily create jobs nor foster poverty reduction.
7. A country without socio-economic infrastructure cannot make claim to being on the path of economic growth and sustainable development. The basic infrastructure for sustainable growth remain transportation, housing, power and energy. But by far, the most important ones are those that directly influence our productivity. A country that goes to sleep at 5pm

cannot lay claim to high productivity. A country of 190 million people powered by less than 5,000MW of electricity cannot boost production, efficiency, competitiveness and good quality of life. There are also issues of health and education. Though Nigeria is the largest economy in Africa and the 21st in the world, our productivity is among the lowest in the world. Skills and capacity are drivers of productivity and they are greatly influenced by quality of education and healthcare. We therefore must fix our educational system and access to healthcare, as we pull out of recession. The school curricular, education policy and infrastructure that limit the number of our youths who get university education (the 2017 JAMB examinations had 1.74 million candidates, vying for less than 850,000 available spaces) and produce half-baked professionals and semi-illiterates cannot galvanize us to sustainable growth and development.

8. Access to finance for consumers, businesses and for government is one of the fundamentals that impact productivity. The Nigerian banking system has not been supportive of small businesses. As at December 2016, only eight million Nigerians and one million businesses have access to credit from the commercial and microfinance banks and enjoyed one form of credit or the other. As at April 2017, total loans to the private sector by the banking system was about N16 trillion. Hence, credit penetration in Nigeria is one of the lowest in the world. For those who have access to credit, the cost is very high. Presently, the government borrows from the banking system through the issuance of Treasury Bills and Treasury Bonds at about 15%. This creates disincentive for banks to lend to the private sector and incentive to lend to government as a risk free investment opportunity. In addition, the present high cost of funds and limited access to credit cannot encourage enterprise development. Conscious efforts at bringing down interest rates must be pursued. Most economies that have grown sustainably have done so with strong credit culture and system, and not as cash-based economy. Credit culture must be promoted. The window of Islamic finance and interest-free funding should be encouraged as options, as we have seen in most parts of the world.
9. Despite the promise made by the present government to address the inherent flaws in our budgeting system and resource allocation, the 2016 and 2017 federal budgets did not live up to expectation and are not capable of taking us out of recession. We still could not see enough focus and priority to very important sectors and the allocation of 70 percent of 2017 budget to recurrent expenditure is not inspiring. In addition, appropriation of N125 billion to the National Assembly in the 2017 budget is unfair. For emphasis, the allocation to the National Assembly is greater than the budget of twelve out of the thirty five states that have passed their 2017 budgets.
10. The promotion of fiscal federalism also requires urgent review. The continuous reliance of the states on monthly allocation from the Federal Allocation Accounts Committee (FAAC) encourages parasitic tendencies. Today, there are many states with internally generated revenues less than ten percent of their annual budget. This present practice needs a review if we truly want to promote sustainable development.

Conclusion

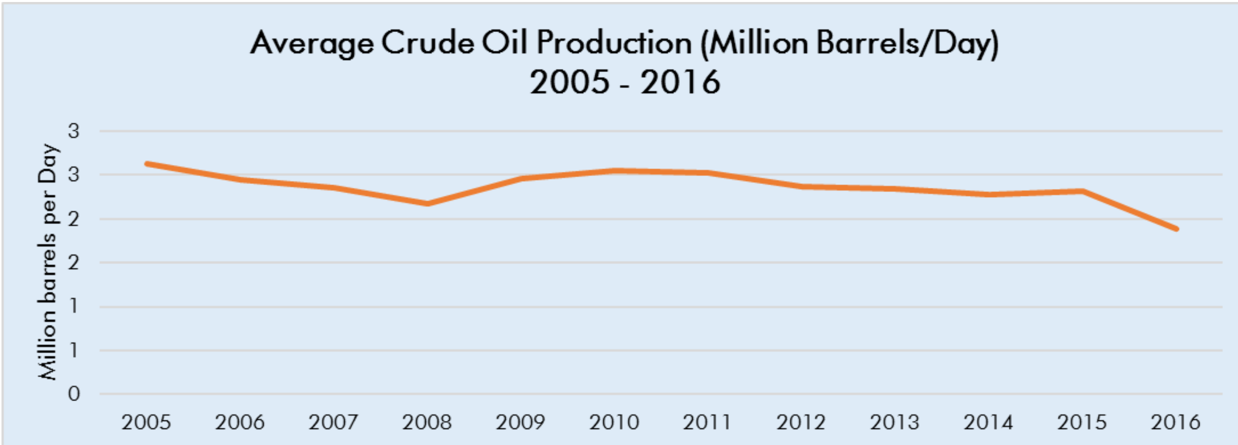
Even though the economy is showing signs of exiting the recession, it is important to realize that the recession is abating because oil output is increasing to the pre-recession level as the price is also going up. We are thus seeing some stability in the foreign exchange rate and inflation rates are dropping. Government has developed some monetary, fiscal and trade policies which we need to pursue aggressively, notwithstanding that revenues from oil is increasing. The initiatives on agriculture should be sustained, the series of actions in blocking most sources of government spending wastages, leakages and frauds should be institutionalized, the focus on capital expenditure on power, transportation and other infrastructure are necessary to be sustained while capital expenditure should consciously be addressed to move to not less than 50% of budgets by all tiers of government should be pursued as a national goal. Security, stability and a corruption-free nation is desirable for sustainable growth. Improving the quality of life and productivity of Nigerians through provision of basic infrastucture, quality education and healthcare cannot be compromised to achieve growth and development. Overall, the political will at the top is very critical.

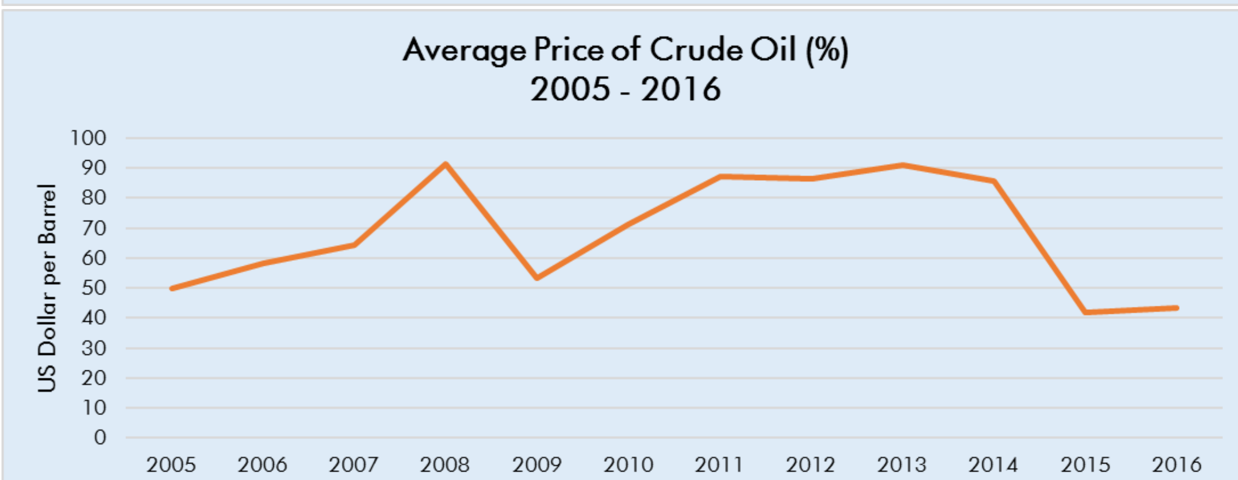
May Allah grant us His pleasure, devoid of defect, Amin.

Thank you for your attention.

As-salam alaikun waharamatullah wabarakatuh.

AHMED 'TUNDE POPOOLA, FCA
MAY 19, 2017





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