Dataphyte Advisory Note

# NIGERIA'S POST OIL ECONOMY

## GOING THE HOUSING CONSUMER CREDIT PATH

Dataphyte

Dataphyte Advisory Note

# NIGERIA'S POST OIL ECONOMY

## GOING THE HOUSING CONSUMER CREDIT PATH

# Contents

# Figures

# Key Points

*Aggressive deficit spending to sustain economic growth is not sustainable*

*The monetisation of Deficit has weakened macroeconomic variables and may not be desirable*

*Private sector will have to lead but government intervention needed*

*Previous attempts to stimulate the economy had focused on the production sector neglecting consumption.*

*The Pathway to boosting economic growth including directing intervention at Consumer Demand*

*The government should look at construction employment as the pathway to unlocking the difficulties.*

*Homeownership and housing construction may be a silver bullet*

*Directing interventions at the Mortgage origination sector could trigger huge housing construction and jobs*

*Investment in housing could potentially stimulate Nigeria's manufacturing sector*

*Construction and Manufacturing jobs creates more jobs in the economy*

# Executive Summary

As oil revenue becomes an unstable and unsustainable source of public finance in Nigeria, the government over the years has resorted to heavy borrowing, among other fiscal methods to raise the funds to fulfil its public sector obligations.

***However, aggressive deficit spending to sustain economic growth is not sustainable either.*** The fiscal policy response to the resulting economic downturn triggered by the COVID-19 pandemic requires careful planning by the government of Nigeria. Aggressive deficit spending to sustain the economic growth recording in Q2 2021 may not be desirable at this time given public debt numbers have entered uncharted territory.

Total public debt grew by 20.15 percent in the fiscal year 2020 to N32.92 trillion, up from the 2019 level of N27.40 percent. The cost of servicing those outstanding debts is also a pressure point. In 2020, the federal government spent 98percent of its revenue or N3.34 trillion[1] on debt servicing and without significantly growing its revenue in the near term, the cost of servicing debt may overtake federal government retained revenue by the end of the fiscal year 2021 making the policy choice of aggressive spending less desirable for long term sustainability.

Spending on Infrastructure development will be crucial if Nigeria's economic growth is to be sustained. ***Unfortunately, public revenue is grossly inadequate to inject the kind of funds needed to transform the economy.*** The government estimates the investments in the threshold of N41 trillion is needed annually to bridge the infrastructure deficit. Unfortunately, total government spending (State, Local and Federal) came in at N16.56 trillion[2] in fiscal year 2020.

***Hence, it suffices to assume that the Nigerian government is incapable of addressing the country's infrastructure needs on its own.***This has necessitated a shift towards private investment, but the monetary authority will need to set in motion systems and processes to facilitate that investment.

***Previous attempts to stimulate the economy had focused on the production sector, neglecting consumption.*** Focusing only on production without looking closely at the consumption pattern could trigger a bigger crisis of overproduction, which could cascade into a financial crisis, as businesses struggle to repay debts. Thus, when planning for an intervention, the supply and demand side of the economy must be equally considered.

***Thus, the pathway to boosting economic growth includes directing the government's intervention at consumer demand.*** Nigeria should not limit interventions aimed at boosting consumer demand to increases in the level of employment.

1 https://www.budgetoffice.gov.ng/index.php/2020-q4-budget-implementation-report?task=document.viewdoc&id=919

2 CBN 2020 Statistical Bulletin

***The willingness of consumers to buy a product or service is strongly linked to the level of income at hand.***

Globally, recent interventions also look beyond the employment level. Left-leaning economists argue that "trickle-down economics" does not work. They posit that the government should channel its interventions directly to boost household income and consumer spending. One way to do that includes making consumer credit available to purchase items that will create jobs.

***The employment-income potentials of the manufacturing-construction industry can boost consumer demand.*** In Nigeria, out of the 23.19 million unemployed people, about 18.6 million[3] or approximately 80 percent do not have post-secondary education. Nigerians without Post Secondary education may hold the key to finding the appropriate sector to target.

Unfortunately, the group also accounts for 86.11 percent of the under-employed (working less than 40 hours weekly) people in Nigeria. Despite the inherent lack of skills due to Nigeria's dysfunctional education system that pays little attention to technical skills, the over 39.1 million unemployed or underemployed demography hold significant promise if Nigeria hopes to turn the corner and upend the cycle of poverty. About 12.23 million out of the group have never attended school while another 12.3 million do have secondary school certificates - an interesting mix.

The Construction sector has potential to provide employment for those with little education or skill, many of them from the low-income sections of society[4]. Recent surveys of construction workers in a number of Nigerian cities have revealed that they are predominantly young and uneducated (Abdul, 2020).

***Homeownership and housing construction may answer the consumer demand question.*** Homeownership in Nigeria is lower overall than in most countries. Only 35.7 percent of Nigerians residing in urban areas own their homes down from the 2016 level of 48.1 percent The huge housing deficit also points to the housing sector. It is also indicative to say that Low homeownership rate is not the choice of consumers, rather, the challenges of homeownership centres around affordability and availability.

Nigerians typically rely on private savings to pay for their homes and that has contributed to the slow pace at which homes are built as the size of the mortgage market relative to the size of the economy is significantly small. Mortgage to GDP is approximately 0.6 percent and mortgages account for less than 1 percent of total banking assets. Total current housing production is estimated at about 100,000 units per year.

3 https://nigerianstat.gov.ng/download/1238

4 https://www.ilo.org/public/english/standards/relm/gb/docs/gb283/pdf/tmcitr.pdf

***Directing interventions at the Mortgage origination sector could trigger huge housing construction and jobs.*** Given that 60 percent of the investment in Housing[5] will potentially go directly in the purchase of construction input like aggregate, cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics and non-metallic products subsectors, such investment could potentially create millions of manufacturing, logistic and mining jobs in the short to medium term. ***Thus, investment in housing could potentially stimulate the Nigerian manufacturing sector.***

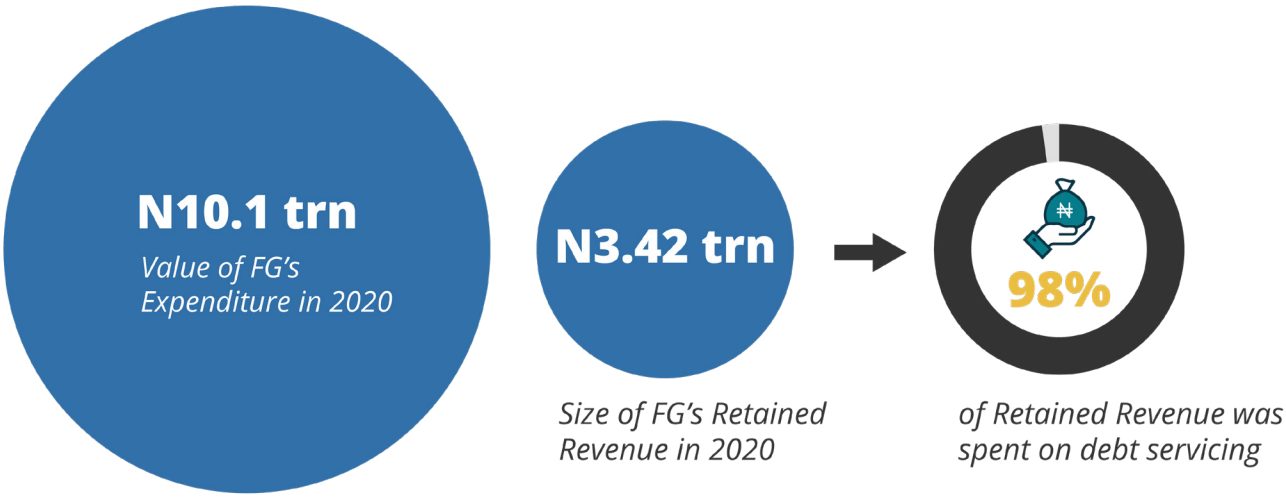
***Construction and Manufacturing jobs create more jobs in the economy.*** The congressional research service estimates that 1 job in the manufacturing, construction or agriculture sector (goods producing sector) has the potential to create 3 additional in the economy[6]. If that model was to apply in Nigeria, the indirect passthrough effect of creating 15 million goods producing jobs could lead to the creation of additional 45million jobs within the broader economy if the investment is sustained for two or more years.

Overall, an innovative and carefully implemented policy on the housing and mortgage sector would not just reduce the country's housing deficit, it would boost output in the manufacturing and construction sectors with a ready demand for housing, therefore resolving the problem of overproduction upfront.

Most importantly, subscribing to best practices in the local mortgage system, which allows people to rent and own, will naturally finance this economic growth from the private sector, without compelling the government to accumulate further debts in this regard.

5 Operations account of Julius Berger Plc between 2010 and 2018 shows that about 60 percent of its income goes purchase of construction input like aggregate, cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics and non-metallic products etc.

6 https://sgp.fas.org/crs/misc/R41898.pdf



# The State Of Nigeria's Economy

## 2016: First full-year of recession in 25 years

**In 2016, the Nigerian economy slid into a painful recession, its first full-year of recession in 25 years - a corollary impact of a sharp fall in the price of crude oil and failure of monetary and fiscal authority to act in a timely manner. Global oil prices reached a 13-year low in 2016 and oil production was severely constrained by vandalism and militant attacks in the Niger Delta. Nigeria's Gross Domestic Product (GDP) growth fell from 6.3 percent in 2014 to a negative rate of -1.6 percent in 2016.**

At the same time, the unemployment rate spiraled out of proportion, poverty escalated and asset prices took a bite. The decline in Foreign exchange earnings from oil exports, compounded by the Central Bank of Nigeria's (CBN) introduction of several Foreign exchange allocation/utilization rules that restricted access to Foreign exchange at the official market rate, had significant negative spillover effects on non-oil sectors dependent on Foreign exchange to import inputs and raw materials. The income of business and the working population started contracting - and with it government's revenue.

State governments, shackled by huge burdens to repay obligations on outstanding debts which were borrowed against hopes of revenue from higher oil prices, started struggling to meet basic obligations including paying salaries and/or pension benefits of the civilian population. That worsened the economic conditions, forcing many state and non-state actors to ask the federal government for a statewide bailout.

The monetary authority, mindful of the systemic risk the state debt crisis could have on the financial system and the entire economy, quickly put together a bailout package. The federal government working closely with development partners like the world bank forced states to commit to a certain fiscal accountability and transparency framework - a program that has now metamorphosed into States Fiscal Transparency, Accountability And Sustainability Program For Results (SFTAS).

In all, over N2 trillion was spent to bailout the government at the sub-national level alone. The Federal government equally followed through with an expansionary fiscal policy - borrowing massively to augment dwindling revenue. This aggressive deficit spending by governments which was aimed at replacing some of the demand lost, and preventing the waste of economic resources idled by a lack of demand, alongside a miraculous revision in the price of crude oil may have helped Africa's largest economy crawl out of recession.

The Nigerian economy emerged from recession with a GDP growth of 0.8 percent in 2017. The recovery was driven by increased revenue from higher oil prices and production. Questions

about the modalities, impact of the bailout and policy choice the government took between 2016 and 2017 remain a hotly debated topic and remain unresolved. However, the recent outbreak of the Covid-19 pandemic and its potential long term economic impact may have compounded the issues in that conversation.

## 2020: Covid-19 Induced Economic Recession

In 2020, countries including Nigeria adopted strict measures to curtail the spread of the Covid-19 virus. These measures included border closures, entry bans for certain at-risk groups, restrictions of gatherings, school closures, and even stay-at-home orders. While these proactive measures were aimed at preventing further strain on the already scarce capacities of the health system, the impact on the economy was significant and still been felt till date.

The resulting global economic downturn led to reduced demand for inputs from Africa, especially crude oil. Crude Oil, the tailwind pushing the Nigerian economy along for the greater part of the last 40 years thus lost traction. The price war started by Saudi Arabia and Russia also reduced the volume of crude oil in the market. Those pressure points alongside depressed consumer spending in Nigeria as many businesses laid off workers alongside other COVID-19 containment measures, forced Nigeria's economy back into recession in 2020.

Again, the fiscal policy response to the economic shock was aggressive deficit spending. The government's propensity to borrow and spend heavily on the two occasions, among others, is best explained by an economic theory - the Keynesian theory. Keynesian thought posits that borrowing to finance government expenditure (deficit spending) can replace some demand lost during an economic crisis, preventing further waste of economic resources idled by a lack of demand.

In 2020, the retained revenue of the federal government stood at **N3.42 trillion**, down from the 2019 level of **N4.12 trillion**. The Federal government however spent **N10.01 trillion**, with this huge deficit financed by borrowings, savings and sales of government assets. This habit is fraught with major challenges, as the country's savings seems to have dried up, meaning Nigeria has kept piling up debts. In 2020, the federal government spent **98 percent** of its revenue, a sum of **N3.34 trillion**,[7] on debt servicing without significantly growing its revenue. Consequently, the cost of servicing debt may overtake federal government retained revenue by the end of fiscal year 2021.

Total public debt rose from the 2019 level of **N27.40 trillion** by 15 percent, to **N32.92 trillion** in the fiscal year 2020 (see table 1 below). In terms of the composition of the debts, domestic debts rose from **N8.67 trillion** in 2013 to **N20.21 trillion** in 2020, a ***133 percent*** increase while external debt which was only **N1.37 trillion** in 2013 stood at **N12.7 trillion** in 2020.

7 https://www.budgetoffice.gov.ng/index.php/2020-q4-budget-implementation-report?task=document.viewdoc&id=919

### *Table 1: Nigeria's Total Public Debt*

| Year | Domestic Debt (N' Trn) | External Debt (N' Trn) | *Total Public Debt (N' Trn) | Growth in Public Debt (%) |
|---|---|---|---|---|
| 2013 | 8.67 | 1.37 | 10.04 | - |
| 2014 | 9.61 | 1.63 | 11.24 | 11.95 |
| 2015 | 10.49 | 2.11 | 12.60 | 12.10 |
| 2016 | 13.88 | 3.48 | 17.36 | 37.78 |
| 2017 | 15.94 | 5.79 | 21.73 | 25.17 |
| 2018 | 16.63 | 7.76 | 24.39 | 12.24 |
| 2019 | 18.38 | 9.02 | 27.40 | 12.34 |
| 2020 | 20.21 | 12.70 | 32.92 | 20.15 |

Source: DMO
**Public Debt figure for Nigeria excludes debts of Local government, Government owned enterprises, and overdraft from the central bank of Nigeria*

The widely-held view that Nigeria's debt to GDP ratio is low is gathering very few supporters at home. Public debt to GDP stood at approximately 21.34 percent at the end of fiscal year 2020 up from the pre-2014 crisis level of 12.62 percent (see table 2 below).

### *Table 2: Public Debt to GDP*

| Year | *Total Public debt (N' trillion) | **Nominal GDP (N' trillion) | Debt to GDP Ratio |
|---|---|---|---|
| 2013 | 10.04 | 80.09 | 12.54% |
| 2014 | 11.24 | 89.04 | 12.62% |
| 2015 | 12.60 | 94.14 | 13.38% |
| 2016 | 17.36 | 101.49 | 17.11% |
| 2017 | 21.73 | 113.71 | 19.11% |
| 2018 | 24.39 | 127.76 | 19.09% |
| 2019 | 27.40 | 144.21 | 19.00% |
| 2020 | 32.92 | 154.25 | 21.34% |

Source: NBS, CBN
**Public Debt figure for Nigeria excludes debts of Local government, Government owned enterprises, outstanding liabilities to government contractors & overdraft from the central bank of Nigeria*
***Nominal GDP = Gross Domestic Product At Current Basic Prices*

Debt to revenue ratio is however one of the worst globally, and the government's drive to draw in more revenue from its tax base is only just gathering momentum. In fiscal year 2014, before the Keynesian experiment that saw the overall debt of the federal government rise significantly, revenue to debt ratio was approximately 38.22 percent.

As at the end of fiscal year 2020, the revenue of the federal government comes to approximately 10.39 percent of its N32.92 trillion of outstanding debt (see table 3 below).

### *Table 3: Federal Government Revenue to Debt Ratio*

| Year | *FG's Public debt (N' billion) | FG's Actual Revenue (N' billion) | Revenue to Debt Ratio |
|---|---|---|---|
| 2013 | 8,051.66 | 3,077.23 | 38.22% |
| 2014 | 8,985.88 | 3,062.30 | 34.08% |
| 2015 | 10,283.60 | 2,387.49 | 23.22% |
| 2016 | 13,448.37 | 1,754.05 | 13.04% |
| 2017 | 17,116.76 | 2,377.01 | 13.89% |
| 2018 | 19,234.61 | 3,480.90 | 18.10% |
| 2019 | 27,401.38 | 4,120.09 | 15.04% |
| 2020 | 32,915.51 | 3,418.30 | 10.39% |

Source: Debt management office, Budget office of the Federation
**Public Debt figure for Nigeria excludes debts of Government owned enterprises, overdraft from the central bank of Nigeria and outstanding obligations to government contractors*

The cost of servicing the outstanding public debts now takes the major slice of government revenue. For instance, the Federal government in the fiscal year 2018, spent about 62.09 percent of its revenue servicing debt alone. In fiscal year 2016, as the economic recession took hold, despite cost of servicing debt standing at 44.41 percent in 2015, the indicator rose sharply to 81.30 percent partly due to the sharp drop in government revenue and government expansive fiscal policy. In fiscal year 2020, the federal

government spent 97.78 percent of its total revenue servicing outstanding debt (See table 4 below).

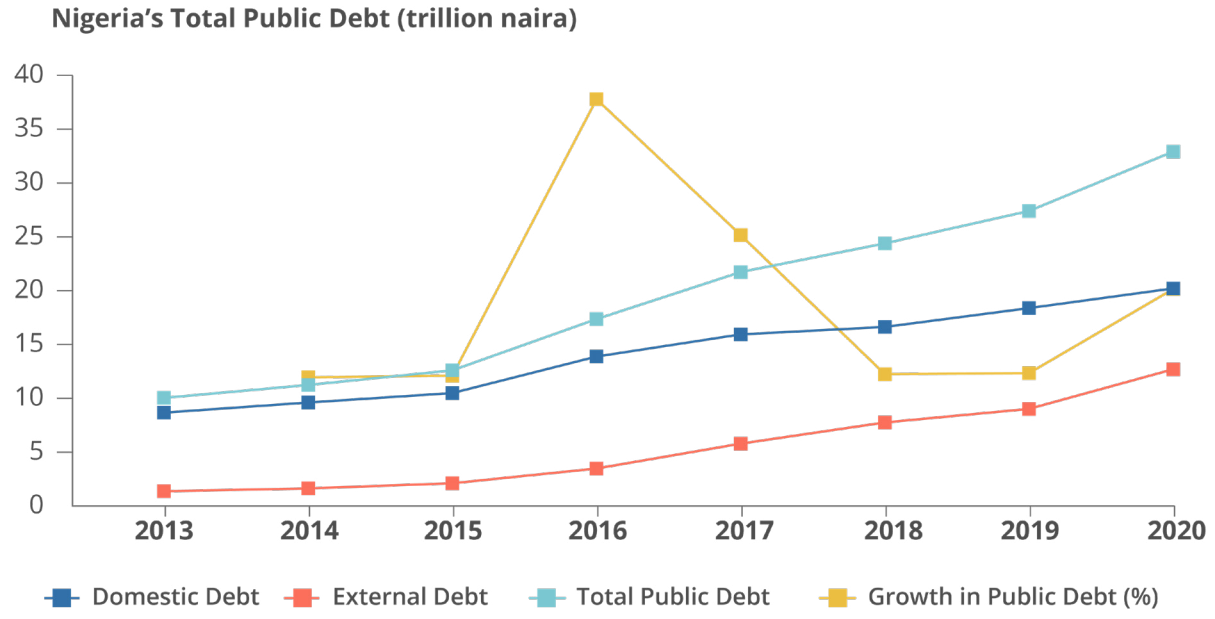
Some analysts are already projecting the cost of servicing debts will become higher than FG's actual revenue in the near term due to accelerating inflation, tighter external debt market, higher cost of debt in the domestic market and the potential sharp drop in government's revenue as a result of COVID-19.

Going forward, the continuous use of deficit spendings to mitigate revenue shortfall in response to the economic fallout caused by COVID-19 pandemic can be very hard to sell both to the public and investors due to an increasing negative perception around the government's continuing appetite for debt.

*Table 4: Federal Government Cost of Servicing Outstanding debt as a percentage of Revenue*

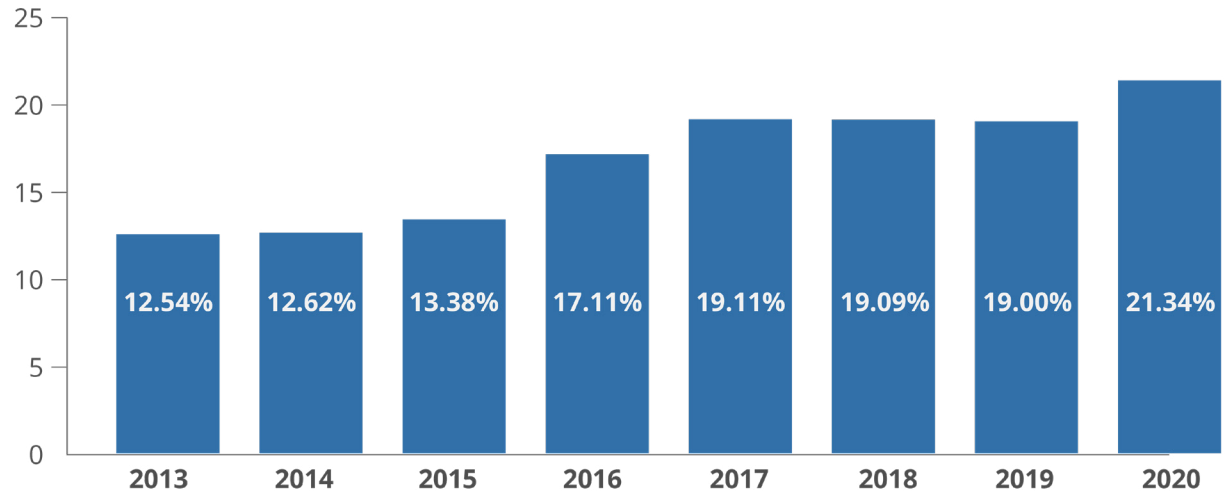
| Year | FG's Cost of servicing debt (N' billion) | FG's Actual Revenue (N' billion) | Debt Servicing as a percentage of Revenue |
|---|---|---|---|
| 2013 | 828.10 | 3,077.23 | 26.91% |
| 2014 | 941.70 | 3,062.30 | 30.75% |
| 2015 | 1,060.38 | 2,387.49 | 44.41% |
| 2016 | 1,426.00 | 1,754.05 | 81.30% |
| 2017 | 1,823.89 | 2,377.01 | 76.73% |
| 2018 | 2,161.37 | 3,480.90 | 62.09% |
| 2019 | 2,453.74 | 4,121.96 | 59.53% |
| 2020 | 3,342.26 | 3, 418.30 | 97.78% |

Source: Debt management office, Budget office of the Federation

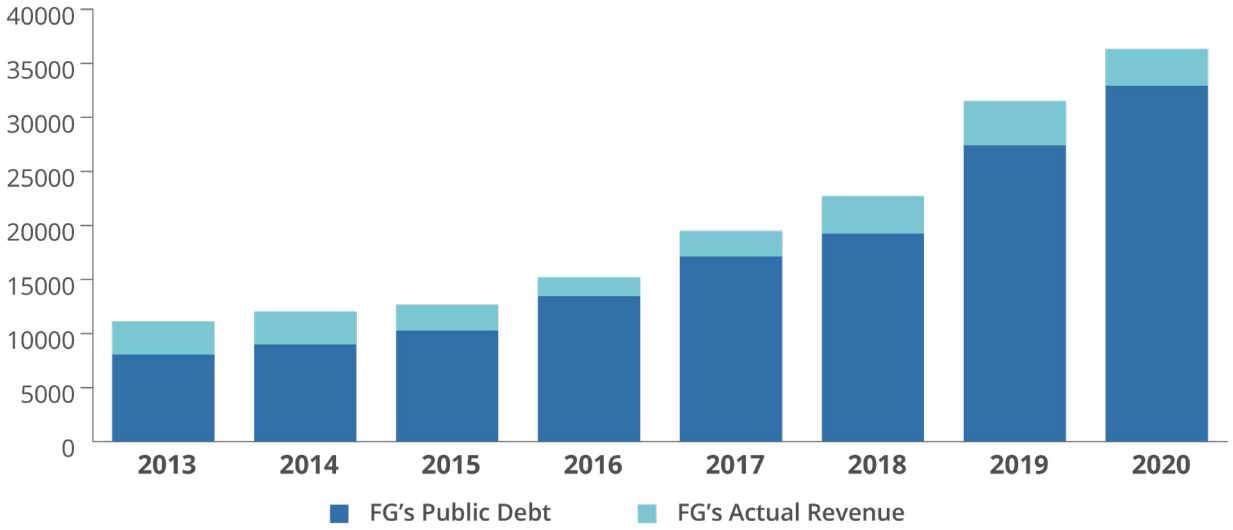



*In fiscal year 2020, the federal government spent 97.78 percent of its total revenue servicing outstanding debt.*

**Public Debt to GDP Ratio (percentage)**




**Governments Revenue to Debt Ratio (billion naira)**




*The cost of servicing the outstanding public debts now takes the major slice of government revenue.*

# When Oil Revenue Fails

## ALTERNATIVES TO DEBT FINANCING THAT HAVE BEEN EXPLORED BY THE FEDERAL GOVERNMENT

### Monetisation of Deficit

**Over the last 5 years, the Federal Government (FG) also explored other alternatives to deficit financing, including using monetisation (inflation tax). Overdraft advance to the federal government by monetary authorities has entered uncharted territory. And by the close of last year, overdrafts to the federal government by the Central Bank of Nigeria hit a new high of N13.11 trillion, in contrast to a much lower N239.15 billion as of December 2013 (see table 5 below).**

*Table 5: Indebtedness of the Federal Government to CBN*

| Year | Total indebtedness of FG to CBN (N'billion) | Overdrafts to Federal Government Ways and Means (N'billion) |
|---|---|---|
| 2013 | 678.13 | 239.15 |
| 2014 | 922.38 | 592.00 |
| 2015 | 2,513.98 | 1,759.73 |
| 2016 | 5,216.63 | 2,628.65 |
| 2017 | 441.69 | 326.13 |
| 2018 | 8,124.89 | 5,415.94 |
| 2019 | 11,654.29 | 9,042.49 |
| 2020 | 16,478.28 | 13,113.26 |

Source: CBN

### Selling Public Asset

The Federal government has also suggested in 2016, that it may sell off government properties and assets. That option may not be desirable at the moment, given that the valuation of assets is not favourable.

### Devaluation of the Naira to boost Exchange rate gains

Likewise, the option of an outright devaluation of the Naira to increase receipts from petrodollars may not be desirable now, unlike in 2009 and 2014 when the FG explored such a strategy. At the end of the 2020 fiscal year, oil revenue accounted for only 41 percent of the Federal government's total revenue of N3.42 trillion. Any attempts to inflate oil revenue receipt by artificially devaluing the Naira could have long-term implications on the government drive to grow its non-oil revenue.

Also, the medium-term outlook for crude oil continues to be bleak, and questions about how many petrodollars the government will need to effectively close the revenue gaps work strongly against adopting such an initiative.

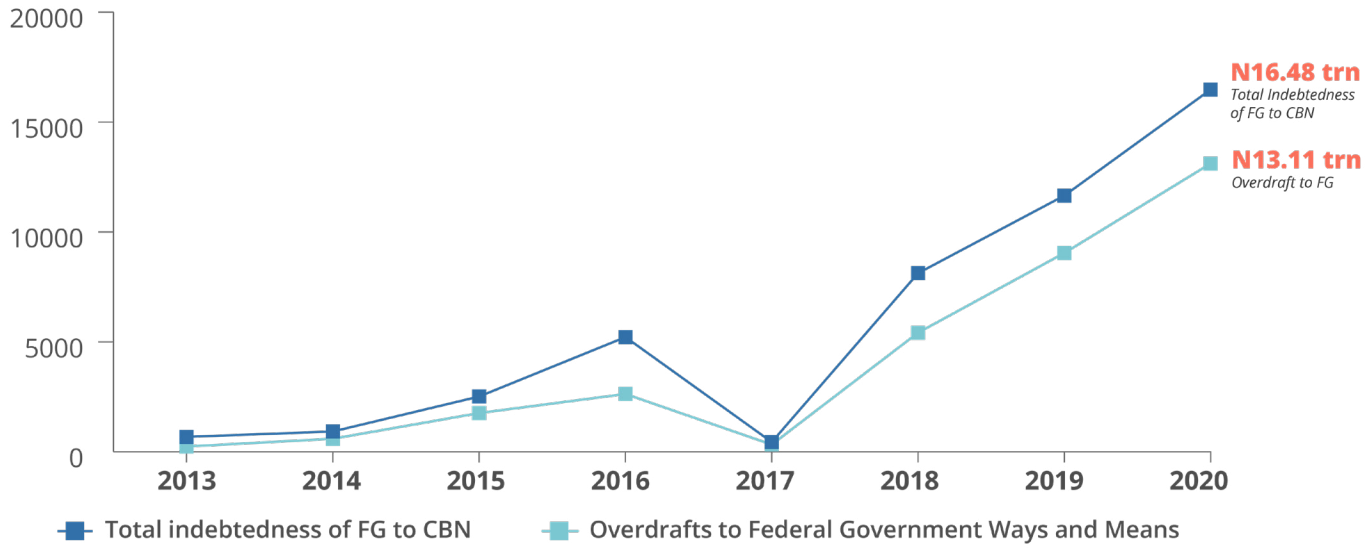
Other concerns about dwindling oil revenues include the push by climate activists and the government to cut greenhouse gas emissions from oil and gas production. This is besides policies pushing for alternative automobile technology like electric cars. Nigeria's Post-COVID policy will need to carefully balance short-term

fiscal support for the recovery stage with long-term debt sustainability.

Thus, it is instructive to state that any intervention planned by the government should not worsen the financial position of the government. Such interventions should seek to boost production and consumer demand so as to realign the economy towards a growth trajectory. Hopefully, as the economic condition improves and output from various sectors grows, the drive by the government to grow its revenue, through taxes on increased production and consumption, will yield the desired results.

***By the close of 2020, overdrafts to the federal government by the Central Bank of Nigeria hit a new high of N13.11 trillion***

**Indebtedness of the Federal Government to CBN (billion naira)**



# Advisory Notes On Future Policy Choices

## Intervention should not focus on increasing Production alone, but also on Consumer demand

**Some supply-side economists are already marketing programs that align with economic theories that Nineteenth-century French economist Jean-Baptiste posits - for the FG to direct stimulus and key interventions of fiscal and monetary authorities at businesses. They argue that as production picks and supply increases, consumer demand will naturally follow.**

Lessons from the previous economic crisis of similar proportions in Nigeria tell a different story. Focusing only on production without looking closely at the consumption pattern could trigger a bigger crisis of overproduction, which could cascade into a financial crisis, as businesses struggle to repay debts. Thus, when planning for an intervention, the supply and demand side of the economy must be equally considered.

## First Indicator of Consumer Demand: Changes in Inventories

Consumer demand in Nigeria is already flattening out. In the year 2019, changes in inventories, a measure of economic confidence (as firms stock up on products if they expect higher future demand) declined from N615.86 billion when Nigeria exited recession to N499.9 billion at the end of 2020 (see table 6 below).

These declines mirror the situation in the year 2015 when inventory fell from 2014 level of N548.62 billion, which later cascaded into a full-blown economic recession.

*Table 6: Changes in inventories (Inflation Adjusted)*

| Year | Changes In Inventories (Amount in N' Billion) |
|---|---|
| 2010 | 408.00 |
| 2011 | 406.17 |
| 2012 | 487.90 |
| 2013 | 521.87 |
| 2014 | 548.62 |
| 2015 | 517.50 |
| 2016 | 511.28 |
| 2017 | 615.86 |
| 2018 | 639.61 |
| 2019 | 471.87 |
| 2020 | 499.90 |

Source: NBS, CBN

## Hopes of increased Consumer Demand: Trade sector Q2 2021 performance

Also, retail activities, another measure of consumer demand, was depressed throughout 2020. The Nigeria Trade's sector declined by 0.58 percent, 16.59 percent and -2.43 percent in Q4 2019, Q2 2020 and Q1 2021 . Clearly, demand for goods and services in Africa's largest economy started flattening out even before the pandemic and things remain in their worst possible position

despite sharp growth in Q2, 2021.

For the first half of 2021, growth in the trade sector stood at 8.97 percent compared to -9.64 percent for 2020. Quarter on quarter growth stood at 5.85 percent, higher than the quarter on quarter growth recorded in the second quarter of 2020 at -15.68 percent. Trade's contribution to GDP was 16.66 percent, which was also higher than the 14.28 percent it represented the previous year, and the 15.61 percent recorded in the first quarter of 2021. Given the importance of the trade sector which thrives when consumer spending improves, boosting consumer demand may be pivotal if the little gain seen in Q2, 2021 is to be sustained.

For instance, In response to the financial crisis of 1975, the then military government's policy response focused on infrastructure. Government's intervention program was aimed at investing approximately $100 billion in new public buildings, army barracks and 19,300 kilometers of roads[8]. Government was hoping the massive investment in infrastructure will help reduce unemployment and accelerate economic growth. Unfortunately, the intervention did not yield the desired outcomes partly because consumer demand did not respond as intended. Demand for cement remained at 5 million tons despite oversupply of 20 million tons.

Also, the economy did experience overproduction in the threshold of 17 percent while unemployment rate remain uncomfortably at 9.3 percent[9]. In Fiscal year 2012, Nigeria equally witnessed overproduction of cement with inventory level hitting new highs - triggering the cement producers to shut down plants[10]. The glut in the cement industry was triggered by overinvestment in the High-end property market.

The Creative Industry Financing Initiative (CIFI) aimed at boosting output of the Fashion, Information Technology, Movie Production, Movie Distribution, Music and Software subsector achieved nothing tangible as sales of output from the sector remained flat. Issues around piracy and intellectual property protection remain a big concern and attempts to strengthen law and order in the sector have not yielded the desired outcome.

*Table 7: Trade sector Real GDP growth rate*

| Year | Quarter | Real GDP Growth Rate |
|---|---|---|
| 2019 | Q4 | -0.58 |
| 2020 | Q1 | -2.82 |
| 2020 | Q2 | -16.59 |
| 2020 | Q3 | -12.12 |
| 2020 | Q4 | -3.2 |
| 2021 | Q1 | -2.43 |
| 2021 | Q2 | 22.49 |

Source: CBN

## How to Boost Consumer Demand: Target the sector with employment potentials

In Nigeria, interventions aimed at boosting consumer demand are linked to increases in the level of employment. The willingness of consumers to buy a product or service is strongly linked to the level of income at hand, and the level of aggregate income at hand is tied to the level of aggregate employed people. Thus, Government interventions during an economic crisis usually follow the logic that the more the

8 https://www.nytimes.com/1975/12/04/archives/nigerias-glut-of-cement-epitomizes-growing-pains-of-an-undeveloped.html

9 https://196.27.128.74/handle/123456789/3557

10 http://venturesafrica.com/kobo360s-wamunyu-calls-for-improved-covid-19-testing-at-east-africa-borders/

people there are receiving a steady income and expecting to continue receiving one, the more people there are to make discretionary spending purchases.

As was the case during the economic crisis of 2009 and 2016, the government's interventions tend to mean borrowing heavily and investing the same in infrastructure. Infrastructure companies in turn employ and procure materials - and the cascading effect will trickle down to the whole economy as the funds circulate. Other pathways that the government has used to a lesser extent include giving tax breaks and waivers to businesses. These, among other incentives, will potentially encourage businesses to hire and in the long run, the trickle-down effect impacts consumer demand positively.

However, the Nigerian government must ensure that any of its programmes aimed at boosting consumer demand directly induces businesses to hire or expand capacity. Economic historians like Robert Higgs who pioneered the literature on the Great Depression have shown empirically that increased uncertainty can depress job growth even in the face of booming consumption. It is thus instructive that any intervention government designs ought to prevent such complications.

Globally, recent interventions also look beyond the employment level. Left-leaning economists argue that "trickle-down economics" does not work. They posit that the government should channel its interventions directly to boost household income and consumer spending. Programs like universal basic income, conditional cash transfers, unemployment benefits are seen as more effective short-term interventions which have a long-term impact if the overarching goal is to boost consumer demand. However, if such policy interventions do not directly target a production sector, it could be interpreted as mere welfarism.

One of the recent interventions that draw from that principle is the "cash for clunkers" program. The conditional cash transfer scheme which the US government instituted in 2009 offered incentives of between $2,500 and $4,500 to US residents to trade in older vehicles for cash, the cash was then used to buy a new, more fuel-efficient car. The Keynesian experiment did yield positive outcomes as car sales surged because of the program. Arguments about the long-term impact and implementation processes are still being debated but one of the lessons is that, to see an immediate impact, interventions aimed at boosting consumer demand must be targeted at the goods-production subsector that holds significant job creation potentials.

It is thus critical that we consider the structure of Nigeria's Labour force while determining the production sector to best direct government's financial interventions.

## The Structure of Nigeria's Labour Force

Nigerians without Post Secondary education may hold the key to finding the appropriate sector to target. In Nigeria, out of the 23.19 million unemployed people, about 18.6 million[11] or approximately 80 percent do not have post-secondary education.

Unfortunately, the group also accounts for 86.11 percent of the under-employed (working less than 40 hours weekly) people in Nigeria. Despite the inherent lack of skills due to Nigeria's dysfunctional education system that

11 https://nigerianstat.gov.ng/download/1238

pays little attention to technical skills, the over 39.1 million unemployed or underemployed demography hold significant promise if Nigeria hopes to turn the corner and upend the cycle of poverty. About 12.23 million out of the group have never attended school while another 12.3 million do have secondary school certificates - an interesting mix.

Designing an intervention that will drastically reduce unemployment and under-employment among that demographic will significantly improve Nigeria's economic output. The sector with the biggest job creation potential for semi skilled and unskilled labour points is the Agriculture, manufacturing and construction sector. The Agric, Manufacturing and construction sector account for 85 percent of jobs in emerging markets.

Hence, Post COVID-19 Interventions should aim at boosting consumer demands for products coming out of the agriculture, manufacturing, construction Sector if Nigeria hopes to create millions of jobs in the semi-skilled and unskilled labour segment.

# Employment-Income Potentials Of The Manufacturing Sector

**The manufacturing sector seems to be a sector that may absorb the majority demography of the unemployed. Nigeria's manufacturing sector has arguably not reached its potential in driving the reallocation of output and employment from agriculture. Prior to the oil boom of the 1970s, manufacturing contributed approximately 10 percent to Nigeria's economic output. Today, the share of manufacturing in GDP and employment are both lower than what would be expected. For the 2019 full year, the real contribution of the manufacturing sector to economic activities in Nigeria was 9.06 percent in 2019 against 9.20 percent it contributed in 2018. In contrast, manufacturing activities as a percentage of GDP in South Africa, Egypt and Tunisia is 11.76 percent, 16.28 percent, and 14.28 percent respectively.**

In terms of employment, the number of those engaged in employment in the Nigerian Manufacturing Sector in 2010 totaled 2.8 million (2,880,973). This increased by 148,912 persons or 5.17 percent to 3 million (3,029,884) in 2011. However, in 2012, there was a marginal decline in employment in the sector, by 48,803 persons or 1.61 percent to 2,981,081 employed in that year. The change in the minimum wage and heightened political risks may have contributed to the decline in the numbers of engaged people in the sector.

Total employee compensation from the manufacturing sector stood at N1.88 trillion in 2012, up from 2010 and 2011 levels of N1.2 trillion and N1.5 trillion respectively. Average annual wage of workers in the manufacturing sector stood at N630,643 (or N52,544 per month) as at 2012 up from 2010 level of N416,526 (or N34,710 per month).

Using 2019 figures, if the Nigerian manufacturing sector had the same percentage of the total employed persons as Tunisia does (that is, the 2019 employment rate of Tunisia), we would have 5 million more high-quality, long-term, well-paying jobs with the spending power of workers topping N7.3trillion. Also, each manufacturing job supports almost three other jobs in the economy, according to the Economic Policy Institute.

Hence, if Nigeria can create upward of 5 million manufacturing jobs, the potential impact on household income will be massive, as the sector might sustain an additional 15 million jobs in the economy. If we were equal with Egypt, we would have 8 million more jobs in the manufacturing sector alone. Clearly, the pathway for Nigeria is to build a robust manufacturing sector.

Export fluctuation and over-capacity in the global manufacturing industry will be a major problem if Nigeria's pathway to growing the manufacturing sector is the export market. It is thus important that in the short and medium-

term, Nigeria focuses its attention on boosting domestic consumption of Nigerian-made manufacturing products before seeking the export market.

## Manufacturing Activities are skewed around essential goods

In Africa's largest economy, about 70 percent of manufacturing output centres around essential goods. The Food, Beverage and Tobacco sub-sector accounts for approximately 38 percent of Nigeria's manufacturing output while 23 percent of manufacturing output are generated around the Textile, Apparel and Footwear industry. Tailoring interventions around these sub-sector will have limited impact on other sectors as demand for the underlying manufacturing output can not be boosted with consumer credit.

Direct cash transfer towards the Food, Beverage and Tobacco sectors and massively funding programs like the school feeding program have serious fiscal implications, and given the condition of Nigeria's treasury, that fiscal stimulus channel may not be desirable in the short to medium term.

## A better deal: The non-essential Manufacturing activities

The cement, wood & wood products, basic metal, Iron & Steel, Electrical & Electronics and Non-Metallic Products subsector of manufacturing activities hold significant promise. The sub-sector accounts for over 24 percent of manufacturing activities in Nigeria in 2019. In Q1, 2020, these manufacturing subsectors accounted for 27 percent (26.72%) of manufacturing activities (see Table 8 below).

Boosting demand for the products from these sectors could indeed rub off on other economic activities and improve Nigeria's manufacturing output. It is thus instructive to look closely at the market for the products.

Globally, the biggest takers of products coming from the cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics and mon-metallic is the construction industry. Hence, government intervention could seek to boost construction-related spending in the short to medium term as a passthrough to boost demand for products coming out of the subsectors.

### *Table 8: Composition of Manufacturing Activities*

| | Percentage contribution to manufacturing output | |
|---|---|---|
| Manufacturing sub-sector | *FY 2019 | **Q1, 2020 |
| Cement | 13.36% | 16.36% |
| Wood and Wood Products | 2.58% | 2.48% |
| Electrical and Electronics | 0.09% | 0.06% |
| Basic metal, Iron and Steel | 2.70% | 1.94% |
| Motor vehicles & assembly | 1.19% | 2.41% |
| Other Manufacturing | 4.43% | 3.11% |
| Food, Beverage and Tobacco | 38.03% | 37.48% |
| Textile, Apparel and Footwear | 23.37% | 23.70% |
| Pulp, Paper and Paper Products | 1.23% | 1.34% |
| Chemical and Pharmaceutical Products | 2.74% | 2.10% |
| Non-Metallic Products | 5.53% | 5.88% |
| Plastic and Rubber products | 3.86% | 2.91% |
| Oil Refining | 0.89% | 0.23% |

Source: NBS
**FY=full year, **Q1- first quarter*

# Considering The Construction Sector

**Since the construction sector is the biggest market for products coming from the cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics, and non-metallic products' subset of non-essential manufacturing products, a target investment in construction is expected to increase demand for this special set of non-essential manufacturing products**

Historically, Nigeria's construction industry had depended primarily on the rapid expansion of the transport infrastructure and support from private investments. In the fiscal year 2018, the federal government budgeted about N2.72 trillion for construction-related activities. The FG, however, spent N744 billion of the sum, with about 42 percent concentrated around the construction of roads and railways. We observe a similar trend in the following year. While the FG budgeted N2.99 trillion on the Built Environment, they spent less than a third of the sum- N887.3 billion. Overall, the FG spent about 12.35% and 9.86% of the Built Environment's GDP in the fiscal year 2018 and 2019 (See Table 9).

*Table 9: FG's Contribution to Construction activities*

| | 2018 (N'billion) | 2019 (N'billion) |
|---|---|---|
| GDP Construction Sector | 6,031 | 8,997 |
| FG's Budget for Construction Related Activities | 2,716 | 2,992 |
| FG's Public Spending on Construction related activities | 745 | 887 |
| FG's Public Spending on construction related activities against total construction activities | 12.35% | 9.86% |

Source: NBS, OAGF

When compared with the overall economy, from a percentage share of 3.8 percent in 1960, the construction sector contribution to GDP output peaked at 20 percent in 1980 before declining to a low of 1.69 percent in fiscal year 1996. Construction contribution to GDP was 3.77 percent and 4.72 percent in fiscal year 2017 and 2018 respectively. As of 2020, the sector contributed 7.94 percent to the overall GDP up from the 2019 level of 6.24 percent (see table 10).

*Table 10: Contribution of construction to GDP*

| Year | Percentage Contribution of Construction to GDP |
|---|---|
| 2013 | 3.34% |
| 2014 | 3.58% |
| 2015 | 3.69% |
| 2016 | 3.55% |
| 2017 | 3.77% |
| 2018 | 4.72% |
| 2019 | 6.24% |
| 2020 | 7.94% |

Source: CBN

## Job Creation Potentials of the Construction Sector

In terms of employment, the total number of persons engaged in construction's formal sector in 2012 was 6,913,536 up from 2010 and 2011 levels of 6,415,082 and 6,620,842 respectively (See table 11 below). The Nigerian male employee constitutes a very large portion of the total number of persons employed in the sector with a percentage share of 91.52 percent in 2012 down from 2011 level of 91.61 percent[12].

*Table 11: Employment in the construction Sector*

| No. Of Persons Engaged | 2010 | 2011 | 2012 |
|---|---|---|---|
| Male (Nigerian) | 5,861,845 | 6,065,033 | 6,327,377 |
| Female (Nigerian) | 398,403 | 396,602 | 420,779 |
| Foreigners | 154,834 | 159,207 | 165,380 |
| **Total** | **6,415,082** | **6,620,842** | **6,913,536** |

Source: NBS

## The role of construction employment and characteristics of the workforce

The Construction sector has potential to provide employment for those with little education or skill, many of them from the very low-income sections of society[13]. Recent surveys of construction workers in a number of Nigerian cities have revealed that they are predominantly young and uneducated (Abdul, 2020). 58 percent of the construction workforce in Lagos have no formal education while 24 percent have only primary school leaving certificates. The sector can provide much needed employment opportunities for those in the community with few academic qualifications.

## Analysis of investment needs for creating Construction related Jobs

The scale of Nigeria's infrastructure underfunding is immense. The vice President in a public forum once estimates that Nigeria will need to invest approximately $3 trillion over 30 years in infrastructure investment to resolve the infrastructure deficit[14]. Essentially, Nigeria will need investment in the threshold of $100 billion annually or N41 trillion to bridge the infrastructure deficit. About 60 percent of the investment needs may have to come from the government directly while the balance will most likely come from the private sector if Nigeria can put the enabling environment and frameworks critical to attracting the needed investment.

Investment in the threshold of N41 trillion annually (i.e. 25 percent of Nigeria's GDP) will be needed in construction's heavy activities like roads, rail, residential buildings, hospitals, sidewalks, and school buildings if the country

12 https://www.proshareng.com/admin/upload/report/nbsNigerianConstructionreport20102012.pdf

13 https://www.ilo.org/public/english/standards/relm/gb/docs/gb283/pdf/tmcitr.pdf

14 https://borgenproject.org/nigerian-infrastructure/

hopes to close the infrastructure gap in the next 30 years. Investment in that threshold could potentially create approximately  millions of full time construction sector jobs.

Given that 60 percent of the investment[15] in construction heavy industry could  potentially go directly into the purchase of construction input like aggregate, cement, wood & wood products, basic metal, iron & Steel, electrical & electronics and non-metallic products subsectors, such investment could potentially create millions of indirect jobs in the manufacturing, logistic and mining  sub-sector in the short to medium term.

The congressional research service estimates that 1 job in the manufacturing, construction or agriculture sector (goods producing sector) have a potential of creating additional 3 jobs in the economy[16]. If that model was to apply in Nigeria, the indirect passthrough effect of creating just 1 million goods-producing jobs could lead to the creation of additional 3 million jobs within the broader economy if the investment is sustained for two or more years.

## Public Investment in infrastructure at the magnitude of N25 trillion improbable and risky.

The low revenue profile of the federal and state government will make public investment in infrastructure at the magnitude of N25 trillion improbable and risky. Nigeria's infrastructure deficit is estimated at $100 billion annually (N41.1 trillion)[17].

Nigeria may have to turn to the residential construction sub-sector which is the biggest sub-sector in countries like China. Housing deficit in Nigeria is estimated at 22 million units; and the bulk of that is in urban areas —Lagos, Port Harcourt and Abuja. In China, residential construction was the largest market in the Chinese construction industry during the review period, accounting for 48.4 percent of total construction activities. Residential construction is expected to account for 43.3 percent of the industry's total value in 2023. Infrastructure construction accounted for 15.6 percent of the industry's total output in 2018, followed by energy and utilities construction with 14.1 percent, commercial construction with 10.9 percent, industrial construction with 6.5 percent and institutional construction with 4.6 percent.

In view of the tight fiscal condition and inability of the government at national and sub-national level to borrow massively, economic planners may have to turn to the housing sector. Demand for homes can be stimulated by consumer credit (mortgage) to boost construction activities. Clearly, with Nigeria's housing deficit estimated to be in the region of 25 million housing, and majority of urban dwellers residing in slums, the sector holds significant promise if government homes turn the corner, boost construction activities, create millions of jobs and upend the cycle of poverty.

15 Operations account of Julius Berger Plc between 2010 and 2018 shows that about 60 percent of its income goes to the purchase of construction input like aggregates, cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics and non-metallic products etc.

16 https://sgp.fas.org/crs/misc/R41898.pdf

17 https://www.proshareng.com/news/Nigeria%20Economy/Infrastructure-Development-in-Nigeria–The-PPP-Approach/54712

# The Real Deal: The Housing Sector

**Housing markets and housing construction in various economies have been used to stimulate economic growth. Scholars have documented the leading role of housing in economic transformation. In Japan[18], annual investment in house construction averaged 8 percent of GDP in the mid-1950s and that was responsible for the rapid economic growth experienced in the mid-1950s[19]. Japan continues to use public housing activities and housing loans to stimulate consumer demand and create employment during periods of economic recessions. Expansion of home-ownership has been a core element of Japan's housing policy mainly because it stimulates consumer demand, and encourages savings and investment.**

A similar policy approach has been pursued in Asian newly industrialized countries NICs, notably Singapore, Hong Kong, South Korea and Taiwan. In the development plans of these countries, housing has consistently retained a high-profile status, mainly because the governments of these NICs recognized housing as a foundation of economic growth. Consequently, housing enjoyed a high-priority, supported by policies with strong economic logic: housing generates economic growth, creates wealth, creates employment and income, redistributes income and serves as a macro-economic stabilizer during periods of recession[20].

In Hong Kong, the property sector contributed about 24 percent to GDP in the 1980s and 1990s. Construction and real estate employed 7 percent of the labour force in the mid-1990s, provided substantial revenues for government and wealth for individuals, and was a vital element of the stock markets[21].

The Singapore experience is particularly worth elaboration. As a newly independent state in 1959, Singapore faced economic and urban problems, including severe housing shortages that some commentators described as one of the worst in the world[22]. The Singapore government recognized that an effective housing policy was needed to solve the housing shortage and to promote economic development. Public housing programmes were operated as a part of an economic development package and supported with deep financial commitment. Expenditures averaged between about 8.9 percent of GDP in the 1970s, and about 15 percent in the 1980s and 1990s . Not surprisingly, the sector's

18 Hirayama (2003)

19 Wasco(2002)

20 see Doling, 1999; Mera & Heikkila, 1999; Tu, 1999; Phang, 2001; Agus et al., 2002

21 see Walker (1990) and Tang (1998)

22 see Kaye (1960)

contributions to the economy have been staggering. By the mid-1980s, 70 percent of the total population had access to the Housing and Development Board's (HBD) flat, rising close to 90 percent in the 1990s. This high-rate can be attributed to the implementation of the "Home Ownership for the People Scheme" introduced in 1964. The aim of this scheme was "to encourage a property-owning democracy in Singapore, and to enable Singapore citizens in the lower middle-income group to own their own homes".

Deliberate efforts were made to sell most government flats built since the 1970s. Through the introduction in 1968 of the "Central Provident Fund", a public housing finance instrument, citizens were able to buy their own homes. The scheme also allowed for effective mobilization of financial resources and creation of a direct link between the housing system and broader financial markets[23].

In the 1960s and 1970s, housing contributions to the GDP averaged almost 10.5, rising to 15.5percent in the 1980s and 1990s. When coupled with substantial contributions to capital formation, housing contributions usually accounted for 20–30 percent of all contributions to the GDP. Construction of mass housing regulated labour supply and generated a substantial amount of new jobs, especially for women whose participation rates increased from 29.5 to 44.5 percent between 1970 and 1980[24].

## History of Nigerian Housing policy

Historically, Nigeria's development plans recognised the role the housing sector could play to stimulate the economy, create jobs and upend the cycle of poverty. However, the government approach did differ significantly. For instance, the First National Development Plan (1962-1968) did focus on housing for government staff in the regional capitals and Lagos. In the Second National Development Plan (1970-1974), the government economic plan revolved around building 60,000 housing units (15,000 units in Lagos and 400 units in each of the remaining capitals).

The Third National Development Plan (1975-1984) called for the direct construction of 202,000 units (50,000 units for Lagos and 8,000 units for each of the existing19 states then) of low-cost housing units by both the federal and state governments. Strategies to see through the plan include aggressive expansion of credit facilities to enhance private housing construction and increased investment in domestic production of cement. To stimulate domestic mortgage credit, the Federal Government bought over the shares held by the Commonwealth Development Corporation in the Nigeria Building Society and converted the entity to the Federal Mortgage Bank of Nigeria (FMBN) with an enlarged capital base of N150 million[25]. The mandate of FMBN was expanded to include the provision of mortgage loans to individuals, state housing corporations, and private estate development firms.

The Fourth National Development Plan (1984-1985) called for the Federal Housing Authority to lead on housing construction. FHA was to build about 143,000 low-cost housing units across the country.

The rolling plan of 1990-1992, the National Housing Fund Decree No. 3 of 1992 was promulgated, and Primary Mortgage Institutions

23 See Tu (1999) and Phang (2001)

24 See Yuen (2002)

25 Ademiluyi (2010)

(PMIs) were licensed. The Housing Policy Council was also set up to monitor development in the housing sector.

During the 1994-1996 rolling plan, the national housing program was launched with the target of constructing 121,000 housing units of various models all over the country by the end of 1996.

In response to the economic crisis of 2016, the federal government's economic recovery and growth plan ERGP called for improved access to mortgages by households. The government proposed the establishment of a Family Homes Fund that will fast-track the building of 2 million housing units by 2020. Despite these interventions and efforts by the governments, implementation was suboptimal as information on the open treasury portal suggests. For instance in fiscal year 2018, the federal government allocated N68.57 billion[26] for construction of housing across the country, unfortunately, only N25.89 billion was spent. The trend continued in 2019 where only N16.02 billion was spent on the construction of housing notwithstanding the budgetary allocation of N54.02billion[27]. Figures for 2020 remains outstanding but budgetary allocation was slashed to N41.84billion[28]. The status of federal government housing projects reflects the budget credibility challenges. It is thus instructive to say The housing plans, programmes and policies has not translate to positive outcomes

## Mortgage Loans

Nigerians typically rely on private savings to pay for their homes and that has contributed to the slow pace at which homes are built as the size of the mortgage market relative to the size of the economy is significantly small. Mortgage to GDP is approximately 0.6 percent and mortgages account for less than 1 percent of total banking assets. Total current housing production is estimated at about 100,000 units per year.

The size of the mortgage issued by the primary mortgage institution has grown from N54 billion (US$342 million) in 2006, to about N224 billion (US$1.42 billion) in 2011. Yet, this is still considerably inadequate given the huge size of Nigeria's housing deficit.

### *Table 12: Mortgage loans issued by Primary Mortgage Institutions PMIs*

| Year | Mortgage loans issued by PMIs Amount in N'billion |
|---|---|
| 2014 | 47.68 |
| 2015 | 74.23 |
| 2016 | 81.89 |
| 2017 | 107.95 |
| 2018 | 105.78 |

Source: CBN

For our commercial banks, mortgage loans accounted for less than 1 percent of their total assets. Nigeria's Federal Mortgage Bank also manages a National Housing Fund financed mostly by contributions from public sector workers. But results from this Fund have been disappointing: as at August 2012, only about 12,000 mortgages had been provided for a total of 3.8 million eligible contributors. Various State Governments also have housing development agencies, but these institutions have had very limited impact.

The lack of a proper mortgage finance market also creates frustration for many honest

26 https://opentreasury.gov.ng/images/QUATBUDPERF/FGN/FORTH-QUARTER.pdf

27 https://opentreasury.gov.ng/images/2019/QuarterlyBudgetPerformance/FGN/ECONOMIC/4Q.pdf

28 https://opentreasury.gov.ng/images/2020/QUARTERLYBUDPERF/FGN/ECONOMIC/1Q.pdf

Nigerians with stable jobs who want to own a home but do not have large upfront funds to purchase a house outright. It leads to a situation where only the wealthy or those with access to illicit resources have enough funds to make upfront payments for new homes. Government admit as much in its Economic Recovery & Growth Plan[29], Nigeria Economic Sustainability Plan[30] and more recently the Medium Term National Development Plan (MTNDP)[31].

## Housing Characteristics: Ownership & Structure

### Homeownership

Homeownership in Nigeria is lower overall than in most countries. Only 35.7 percent of Nigerians residing in urban areas own their homes down from the 2016 level of 48.1 percent (see table 13 below). Overall, in the rural and urban areas combined, over 64 percent of households own their own homes with a wide margin between homeowners and renters; only 17.9 percent of households rent their homes.

*Table 13: Homeownership rate in Nigeria*

| Year | Urban Area | Rural Area | Homeownerhsip |
|---|---|---|---|
| 2019 | 35.7% | 73.9% | 62.0% |
| 2016 | 48.1% | 82.4% | 68.5% |
| 2013 | 42.9% | 80.3% | 64.8% |
| 2011 | 43.6% | 81.2% | 66.3% |

Source: NBS

The problem is more prevalent in the South-West and South-South region of Nigeria where the homeownership rate is just 25.5percent and 46.2 percent respectively. Home ownership in the North-Central, North-East and NorthWest is 69.4 percent, 78.7 percent and 88.1 percent respectively (see table 14). In all, about 26million households do not own their homes.

If the trend of the rising number of young adults still living with parents is accounted for, and we count them as renters rather than being in a home-owning household, then the ownership rate in Nigeria would be even lower. With Nigeria's demographic structure, the problem could become even bigger and the implication on the social sector could be telling.

*Table 14: Homeownership rate by region*

| Year | North Central | North East | North West | South East | South South | South West |
|---|---|---|---|---|---|---|
| 2019 | 69.4% | 78.7% | 88.1% | 63.2% | 46.2% | 25.5% |
| 2016 | 77.5% | 90.4% | 89.2% | 78.2% | 59.3% | 38.8% |
| 2013 | 72.8% | 91.9% | 89.3% | 71.4% | 56.1% | 36.0% |
| 2011 | 74.1% | 91.1% | 87.5% | 74.1% | 51.4% | 37.4% |

Source: NBS

However, the low homeownership rate is not the choice of consumers, rather, the challenges of homeownership centres around affordability and availability. In 2019, there were higher occurrences of home rentals in both the South West (35 percent) and South-South (24 percent) than in the North East, North West, and North Central. Rented homes are also significantly more common in urban areas (36 percent) than in rural (5 percent). Authorized use of homes without charge is also a relatively common occurrence in the South with 26.2 and 16 percent of the sample occupying free authorized homes in the South West and the South-South, respectively. This phenomenon is also more common in the urban areas (17.4 percent) than

29 https://www.budgetoffice.gov.ng/index.php/economic-recovery-growth-plan/economic-recovery-growth-plan-2017-2020/download

30 https://www.budgetoffice.gov.ng/index.php/nigeria-economic-sustainability-plan/nigeria-economic-sustainability-plan/download

31 https://nationalplanning.gov.ng/wp-content/uploads/2021/03/Nigeria-MTNP-2021-2025-Overview-of-Draft-Plan.1.pdf

in the rural areas (12.6 percent).

## Structure

### Roofing materials

The most common roofing materials are corrugated iron sheets and Thatch/grass. About 76.6 percent of houses in Nigeria have corrugated iron sheet roofs. While 8.6percent of households reside in homes with Thatch/grass roofs (see Table 15).

*Table 15: Structure of Houses in Nigeria: Roofing Material*

| Year | Corrugated Iron Sheet | Asbestos Sheet | Long/ short span sheet | Wood/ Mud | Thatch/ grass |
|---|---|---|---|---|---|
| 2019 | 76.6% | 2.9% | 5.2% | 2.8% | 8.6% |
| 2016 | 77.7% | 7.4% | N/A | N/A | 11.0% |
| 2013 | 77.0% | 7.3% | N/A | N/A | 10.6% |
| 2011 | 81.9% | 2.5% | N/A | 1.3% | 12.0% |

Source: NBS

### Floor Materials

Smooth cement floors are very popular with about 69.8percent of households in Nigeria residing in homes with cement/concrete floors (see table 16 below). The second most popular floor material is sand/dirt/straw. Only 7 percent of households reside in homes with floors made with ceramic tiles.

*Table 16: Structure of Houses in Nigeria: Floor Material*

| Year | Cement/ Concrete floor | Ceramic tiles | Wood | Smoothed Mud | Sand/ Dirt/ Straw |
|---|---|---|---|---|---|
| 2019 | 69.8% | 7% | 0.5% | 2.8% | 9.5% |
| 2016 | 72.3% | 5.5% | 0.8% | 18.1% | 6.5% |
| 2013 | 70.6% | 3.1% | 1.0% | 17.9% | 7.2% |
| 2011 | 69.7% | 1.4% | 1.1% | 18.6% | 8.9% |

Source: NBS

### Wall Material

Table 17 shows that about 40.9 percent of residents live in mud houses. 54.2 percent and 2 percent of households in Nigeria live in buildings built with concrete/cement blocks and burnt bricks, respectively.

*Table 17: Structure of Houses in Nigeria: Wall Material*

| Year | Concrete or cement blocks | Mud | Burnt Bricks |
|---|---|---|---|
| 2019 | 54.2% | 40.9% | 2.0% |
| 2016 | 43.3% | 31.4% | 0.9% |
| 2013 | 15.2% | 30.4% | 1.1% |
| 2011 | 49.0% | 32.5% | 2.6% |

Source: NBS

## The Federal Government's Public Expenditure on the provision of Housing

Public Expenditure and private investment in the Nigerian housing sector is grossly inadequate. Despite the lack of detailed and relevant data on the nation's housing stock, scholars and associations put the National Housing deficit at the end of 2019 was estimated to be at the threshold of 25 million up from 2010 levels of 14 million. In 2006, the Minister of Housing and Urban Development declared that the country needed about ten million housing units before all Nigerians could be sheltered. Another estimate in 2007 by the Ministry of Housing and Urban development put the national housing deficit at between 8 and 10 million. Despite this confusion as to the number of new additions, it has been quite obvious that a critical gap exists between the housing supply and demand.

### *Table 18: Housing Deficit*

| Year | Estimated Housing Deficit |
|---|---|
| 1991 | 7 million |
| 2007 | 12 million |
| 2010 | 14 million |
| 2012 | 17 million |
| 2019 | 25 million |

Source: Ademiluyi (2010), Ministry of housing[32], Association of Housing Corporation of Nigeria (AHCN)

To bridge the housing deficit alone, Nigeria needs investment of approximately N125 trillion. If household growth rate, increasing divorce rate, characteristics of Nigeria's housing stock, the age distribution of the adult population and the average price of constructing a housing unit[33] is factored in, then the investment needs in the sectors is in the threshold of N180 trillion[34].

Also, the ERGP did spell out the needs of the sector; about 53 percent of old housing stock or about 5million will need to be reconstructed altogether. Approximately 32 percent of existing housing stocks need significant improvement. In all, Nigeria will need an annual investment of N35 trillion over the next six years to position its housing sector if information from the government's own plans is to be taken.

In fiscal year 2018 and 2019, total federal government expenditure on housing construction compared with the needs in the sector was grossly inadequate. Budgetary allocation for the construction and provision of housing in fiscal year 2020 was N41.84 billion down from 2019 and 2018 level of N54.02billion and N68.57 billion respectively. Actual expenditure for the construction and provision of housing was N42.67 billion and N16.02 billion in fiscal year 2018 and 2019 respectively (see table 19).

### *Table 19: FG's Public Expenditure on the Provision of Housing*

| | Budgetary Allocation for Provision of housing (N'billion) | Actual Spending on the Provision of Housing (N'billion) | Budget Performance (%) |
|---|---|---|---|
| 2018[35] | 68.57 | 42.67 | 62.23 |
| 2019[36] | 54.02 | 16.02 | 29.66 |
| 2020[37] | 41.84 | N/A | N/A |

Source: OAFG

32 Ministry of housing estimate put the figure at N10.6 million per housing unit

33 https://www.cbn.gov.ng/fss/tue/BSP/Mortgage%20&%20Credit/FSS%202020%20-%20Mortgage%20Presentation.pdf

34 Ministry of Housing estimates

35 https://opentreasury.gov.ng/images/QUATBUDPERF/FGN/FORTH-QUARTER.pdf

36 https://opentreasury.gov.ng/images/2019/QuarterlyBudgetPerformance/FGN/ECONOMIC/4Q.pdf

37 https://opentreasury.gov.ng/images/2020/QUARTERLYBUDPERF/FGN/ECONOMIC/1Q.pdf

# Recommendations On Repositioning The Housing Sector

**Deepening Secondary Market for Mortgage-backed securities**

**Nigeria worked to establish the Nigeria Mortgage Refinance Company (NMRC), which is a public-private sector led initiative aimed at improving access to finance for Nigeria's housing market. The NMRC is essentially a re-financing institution which provides mortgage lending banks with increased access to liquidity and long term funds. By deepening the available liquidity in the housing finance market, the NMRC will help to bridge the funding costs for residential mortgages in the country.**

To finance the NMRC, Nigeria successfully negotiated a US$300 million financing agreement between the Federal Government and the International Development Association (IDA) on very concessionary terms.

**Standardizing mortgage and foreclosure laws**

Standardizing mortgage origination documents will be critical going forward. Monetary authorities have suggested that Nigeria will have to accelerate the introduction of uniform underwriting guidelines for mortgage loans. A common, uniform, underwriting guideline will clearly reduce transaction costs in our mortgage industry.

Strict Regulatory oversight of the mortgage-real estate industry

There are growing concerns about the duplicity and corruption of real estate companies attached to mortgage companies. Consumer demand for mortgages will dwindle if these trends persist. Over-production then could lead to a waste of invested resources and give rise to other macroeconomic complications.

**Simplifying mortgage payment structures**

Since consumer demand is so crucial to this model of funding infrastructure, there must be a departure from the old ways of providing mortgages only for the elite and middle class. Thus an inclusive mortgage policy should see to it that housing is provided for all income classes, and anyone who can afford rent can buy a decent mortgage. Without this, we will continue to have heavy investments in high-cost housing and without commensurate demand.

**Simplifying land titling procedures**

Simplifying land titling is another task that some State governments have started implementing. Houses must be built on land, and people invest in their homes only if they can be assured of the security of tenure. Families also want assurance that their real estate investments will serve as a secure asset for themselves and their loved ones. Due to Nigeria's Federal structure, ownership rights for land are vested in the office of the Governors of various State Governments. And the delays in obtaining the so-called "Governor's

consent" for land titles creates frustration and uncertainty for many housing developers and homeowners. The World Bank estimated that this registration process can take between 6 months and 2 years, and costs about 21 percent of the value of the property. In South Africa, similar land registration costs only 6 percent of the property value and is completed in a much shorter time. Nigeria will need to cut through this red tape and fasten turnover of the critical document.

**Reviewing the Cost of Building Materials**

Building a house in Nigeria is expensive. The construction costs for a simple three-bedroom house in Nigeria is about N20 million (or US$50,000); compared to US$36,000 in South Africa and US$26,000 in India. The costs are high for three reasons: high costs of building materials, high costs of skilled labour, and the costs of associated public infrastructure (such as sewers, roads, etc.). Given that about 75 percent of households in Nigeria's urban areas live in dwellings constructed with concrete. Cement prices in Nigeria are also reportedly about 30-40 percent higher compared to neighbouring countries or to the world market prices. Nigeria is presently exploring the use of local alternative building materials that are cheaper, of good quality, and also environmentally friendly given that burnt brick, laminated wooden tiles and asphalt shingles can be manufactured locally.

**Training for local craftsmen**

Nigeria will also have to establish training schools for our local artisans – including the plumbers, painters, electricians, welders, carpenters, interior decorators among others. A presidential task force was set up to see to its actualisation

## Key points

**Aggressive deficit spending to sustain economic growth is not sustainable**

The fiscal policy response to the resulting economic downturn triggered by the COVID-19 pandemic requires careful planning by the government of Nigeria. Aggressive deficit spending to sustain the economic growth recording in Q2 2021 may not be desirable at this time given public debt numbers have entered uncharted territory. Total public debt grew by 20.15percent in the fiscal year 2020 to N32.92 trillion, up from the 2019 level of N27.40 percent. The cost of servicing those outstanding debts is also a pressure point. In 2020, the federal government spent 98percent of its revenue or N3.34 trillion[38] on debt servicing and without significantly growing its revenue in the near term, the cost of servicing debt may overtake federal government retained revenue by the end of the fiscal year 2021 making the policy choice of aggressive spending less desirable for long term sustainability.

**The monetisation of Deficit has weakened macroeconomic variables and may not be desirable**

Also, the Federal Government's continuous use of alternatives to deficit financing, including using monetisation in the form of ways and means (inflation tax) is putting pressure on macroeconomic variables. The inflation rate and the continuous pressure on the Naira raise sustainability questions. Overdraft advance to the federal government by monetary authorities has entered uncharted territory. And by the close of last year, overdrafts to the federal government by the Central Bank of Nigeria hit a new high

38 https://www.budgetoffice.gov.ng/index.php/2020-q4-budget-implementation-report?task=document.viewdoc&id=919

of N13.11 trillion, in contrast to a much lower N239.15 billion as of December 2013. Attempts to continue in that trajectory may errade the government's plan to stabilise the exchange rate and reduce inflation to a single digit. Equally, the option of an outright devaluation of the Naira to increase receipts from petrodollars may not be desirable now, unlike in 2009 and 2014 when the FG explored such a strategy as the new economic plan suggested the government is looking to diversify its revenue receipt away from petrodollars.

**Private sector will have to lead but government intervention needed**

Spending on Infrastructure development will be crucial if Nigeria's economic growth is to be sustained. Unfortunately, public revenue is grossly inadequate to inject the kind of funds needed to revolutionise the economy. The government estimates the investments in the threshold of N41 trillion is needed annually to bridge the infrastructure deficit. Unfortunately, total government spending (State, local and Federal) comes in at N16.56 trillion[39] in fiscal year 2020. It is indicative to mention that a substantial amount of public spending was drawn from new debts uptake. Hence, it is conclusive to assume that the Nigerian government is incapable of addressing the country's infrastructure needs on its own. This has necessitated a shift towards private investment but monetary authority will need to set in motion systems and processes to facilitate investment.

**Previous attempts to stimulate the economy had focused on the production sector neglecting consumption**

FG has direct stimulus and key interventions in the past at businesses. The perceptions and academic papers have documented gaps in the trickle down model across different economies including Nigeria. While it is true that economic production did pick up when government direct interventions at business in 2017 and supply increases, consumer demand did not follow as such economic growth narrowed. Focusing only on production without looking closely at the consumption pattern could trigger a bigger crisis of overproduction, which could cascade into a financial crisis, as businesses struggle to repay debts. Thus, when planning for an intervention, the supply and demand side of the economy must be equally considered.

**The Pathway to boosting economic growth including directing intervention at Consumer Demand**

Nigeria should not limit interventions aimed at boosting consumer demand to increases in the level of employment. The willingness of consumers to buy a product or service is strongly linked to the level of income at hand. Globally, recent interventions also look beyond the employment level. Left-leaning economists argue that "trickle-down economics" does not work. They posit that the government should channel its interventions directly to boost household income and consumer spending. One way to do that includes making consumer credit available to purchase items that will create jobs.

**The government should look at construction employment as the pathway to unlocking the difficulties**

Nigerians without Post Secondary education may hold the key to finding the appropriate sector to target. In Nigeria, out of the 23.19million

39 CBN 2020 Statistical Bulletin

unemployed people, about 18.6million[40] or approximately 80 percent do not have post-secondary education.

Unfortunately, the group also accounts for 86.11 percent of the under-employed (working less than 40 hours weekly) people in Nigeria. Despite the inherent lack of skills due to Nigeria's dysfunctional education system that pays little attention to technical skills, the over 39.1million unemployed or underemployed demography hold significant promise if Nigeria hopes to turn the corner and upend the cycle of poverty. About 12.23 million out of the group have never attended school while another 12.3 million do have secondary school certificates-an interesting mix.

The Construction sector has potential to provide employment for those with little education or skill, many of them from the poorer sections of society[41]. Recent surveys of construction workers in a number of Nigerian cities have revealed that they are predominantly young and uneducated (Abdul, 2020).

**Homeownership and housing construction may be a silver bullet**

Homeownership in Nigeria is lower overall than in most countries. Only 35.7 percent of Nigerians residing in urban areas own their homes down from the 2016 level of 48.1 percent (see table 12 below). The huge housing deficit also points to the housing sector. It is also indicative to say that Low homeownership rate is not the choice of consumers, rather, the challenges of homeownership centres around affordability and availability.

Nigerians typically rely on private savings to pay for their homes and that has contributed to the slow pace at which homes are built as the size of the mortgage market relative to the size of the economy is significantly small. Mortgage to GDP is approximately 0.6percent and mortgages account for less than 1percent of total banking assets. Total current housing production is estimated at about 100,000 units per year.

**Directing interventions at the Mortgage origination sector could trigger huge housing construction and jobs**

Public Expenditure and private investment in the Nigerian housing sector is grossly inadequate. Budgetary allocation for the construction and provision of housing in fiscal year 2020 was N41.84 billion down from 2019 and 2018 level of N54.02 billion and N68.57 billion respectively. Actual expenditure for the construction and provision of housing was N42.67 billion and N16.02 billion in fiscal year 2018 and 2019 respectively. To bridge the housing deficit alone, Nigeria needs investment of approximately N125 trillion. If household growth rate, increasing divorce rate, characteristics of Nigeria's housing stock, the age distribution of the adult population and the average price of constructing a housing unit[42] is factored in, then the investment needs in the sectors is in the threshold of N180 trillion[43].

The size of the mortgage issued by the primary mortgage institution has grown from N54 billion (US$342 million) in 2006, to about N224 billion (US$1.42 billion) in 2011. Yet, this is still considerably inadequate given the huge size of Nigeria's housing deficit.

40 https://nigerianstat.gov.ng/download/1238

41 https://www.ilo.org/public/english/standards/relm/gb/docs/gb283/pdf/tmcitr.pdf

42 https://www.cbn.gov.ng/fss/tue/BSP/Mortgage%20&%20Credit/FSS%202020%20-%20Mortgage%20Presentation.pdf

43 Ministry of Housing estimates

If Monetary authority directs interventions at boosting mortgage to stimulate consumer demand for housing, the potential is limitless. A similar policy approach has been pursued in Asian newly industrialized countries NICs, notably Singapore, Hong Kong, South Korea and Taiwan. In Hong Kong, the property sector contributed about 24 percent to GDP in the 1980s and 1990s. Construction and real estate employed 7 percent of the labour force in the mid-1990s, provided substantial revenues for government and wealth for individuals, and was a vital element of the stock markets[44].

**Investment in housing could potentially stimulate Nigeria manufacturing sector**

Given that 60 percent of the investment in Housing[45] will potentially go directly in the purchase of construction input like aggregate, cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics and non-metallic products subsectors, such investment could potentially create millions of manufacturing, logistic and mining jobs in the short to medium term.

**Construction and Manufacturing jobs creates more jobs in the economy**

The congressional research service estimates that 1 jobs in the manufacturing, construction or agriculture sector (goods producing sector) have a potential of creating addition 3 jobs in the economy[46]. If that model was to apply in Nigeria, the indirect passthrough effect of creating 15million goods producing jobs could lead to the creation of additional 45million jobs within the broader economy if the investment is sustained for two or more years.

44 See Walker (1990) and Tang (1998)

45 Operations account of Julius Berger Plc between 2010 and 2018 shows that about 60 percent of its income goes purchase of construction input like aggregate, cement, wood & wood products, basic metal, Iron & Steel, electrical & electronics and non-metallic products etc.

46 https://sgp.fas.org/crs/misc/R41898.pdf

# Dataphyte Products

**Dataplex** is a data access platform for consumer, market and development data on Nigeria. Over 1000 datasets curated across industries including health, energy, transportation, finance, education, oil and gas.

Experience

**Dataphyte Academy** offers (both) physical and virtual classes in data science and data journalism, tailored to help individuals and organisations learn to use data analytics skills for insights, storytelling and smart decisions. The Academy is for journalists, researchers, public servants, business and investment analysts.

Sign up

**Data Dive**: Subscribe to our weekly newsletter where we dive deep into the social, political and economic issues from the week's events and reports to pull out the trends and tides.

Subscribe



Credits

Photos and Illustrations
Unsplash, Pexels and Freepik

# Dataphyte and Interactive

Dataphyte Nigeria Limited, publishers of Dataphyte, is a media research and data analytics organisation with the mission to deploy data tools and technology for socio-economic development of Nigeria. Dataphyte is the for-profit research and development program of The Interactive Initiative for Social Impact (The Interactive).

The Interactive is a civic technology organisation using interactive media, research and technological tools to influence practices and policies that empower vulnerable and underserved groups.

Address: 34, Okotie Eboh Street, Utako, Abuja, FCT 900108

Phone: +234 811 666 5321

Email: partners@dataphyte.com

Website: *www.dataphyte.com*

Facebook, Twitter and LinkedIn: @dataphyte

Instagram: @dataphyteNG

Dataphyte interactive