UNDERSTANDING MONETARY POLICY SERIES
NO 33

THE REAL SECTOR

Adebayo O. Oduyemi

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Aims and Scope
Understanding Monetary Policy Series are designed to improve monetary policy communication as well as economic literacy. The series attempt to bring the technical aspects of monetary policy closer to the critical stakeholders who may not have had formal training in Monetary Management. The contents of the publication are therefore, intended for general information only. While necessary care was taken to ensure the inclusion of information in the publication to aid proper understanding of the monetary policy process and concepts, the Bank would not be liable for the interpretation or application of any piece of information contained herein.

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Central Bank of Nigeria

Mandate

- Ensure monetary and price stability
- Issue legal tender currency in Nigeria
- Maintain external reserves to safeguard the international value of the legal tender currency
- Promote a sound financial system in Nigeria
- Act as banker and provide economic and financial advice to the Federal Government

Vision

“By 2015, be the model Central Bank delivering Price and Financial System Stability and promoting Sustainable Economic Development”

Mission Statement

“To be proactive in providing a stable framework for the economic development of Nigeria through the effective, efficient and transparent implementation of monetary and exchange rate policy and management of the financial sector”

Core Values

- Meritocracy
- Leadership
- Learning
- Customer-Focus
MONETARY POLICY DEPARTMENT

Mandate
To Facilitate the Conceptualization and Design of Monetary Policy of the Central Bank of Nigeria

Vision
To be Efficient and Effective in Promoting the Attainment and Sustenance of Monetary and Price Stability Objective of the Central Bank of Nigeria

Mission
To Provide a Dynamic Evidence-based Analytical Framework for the Formulation and Implementation of Monetary Policy for Optimal Economic Growth
The understanding monetary policy series is designed to support the communication of monetary policy by the Central Bank of Nigeria (CBN). The series therefore, provides a platform for explaining the basic concepts/operations, required to effectively understand the monetary policy of the Bank.

Monetary policy remains a very vague subject area to the vast majority of people; in spite of the abundance of literature available on the subject matter, most of which tend to adopt a formal and rigorous professional approach, typical of macroeconomic analysis. However, most public analysts tend to pontificate on what direction monetary policy should be, and are quick to identify when in their opinion, the Central Bank has taken a wrong turn in its monetary policy, often however, wrongly because they do not have the data for such back of the envelope analysis.

In this series, public policy makers, policy analysts, businessmen, politicians, public sector administrators and other professionals, who are keen to learn the basic concepts of monetary policy and some technical aspects of central banking and their applications, would be treated to a menu of key monetary policy subject areas and may also have an opportunity to enrich their knowledge base of the key issues. In order to achieve the primary objective of the series therefore, our target audience include people with little or no knowledge of macroeconomics and the science of central banking and yet are keen to follow the debate on monetary policy issues, and have a vision to extract beneficial information from the process, and the audience for whom decisions of the central bank makes them crucial stakeholders. The series will therefore, be useful not only to policy makers, businessmen, academicians and investors, but to a wide range of people from all walks of life.

As a central bank, we hope that this series will help improve the level of literacy in monetary policy as well as demystify the general idea surrounding monetary policy formulation. We welcome insights from the public as we look forward to delivering content that directly address the requirements of our readers and to ensure that the series are constantly updated as well as being widely and readily available to the stakeholders.

Moses K. Tule  
Director, Monetary Policy Department  
Central Bank of Nigeria
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THE REAL SECTOR

Adebayo O. Oduyemi

SECTION ONE

Introduction
The economy of a nation comprises four interrelated sectors, operating to ensure that resources are best utilised in the production of goods and services to maximise the welfare of its citizenry. The sectors are the financial, fiscal/government, external and real. While all four sectors have important roles in the welfare of the citizenry, the role of the real sector is particularly significant and strategic. It is the sector responsible for the production and distribution of goods and services (from a combination of factor resources), necessary to meet the consumption demand of an economy. It drives economic growth and development, and provides an indication on the living standard of the citizens of an economy and the effectiveness of government’s macroeconomic policies. Furthermore, it facilitates the creation of economic linkages with other sectors and helps in capacity building, employment and income generation. In view of this, a discussion of the real sector is topical as it is the pillar upon which the government’s objective of inclusive growth and poverty alleviation hinges, since it contributes the most to employment generation and growth (Anyanwu, 2010).

The paper is an attempt to shed light on the real sector of the Nigerian economy in four sections. Section 1 identifies and discusses the different sectors of the economy, section 2 discusses the linkages between the real sector and other sectors of the economy (i.e. circular flow of income), section 3 discusses developments in the real sector of the Nigerian economy between 1981 – 2013, while section 4 focuses on the challenges faced by the Nigerian real economy and efforts to address the challenges of finance.

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1This publication is not a product of vigorous empirical research. It is designed specifically as an educational material for enlightenment on the monetary policy of the Bank. Consequently, the Central Bank of Nigeria (CBN) does not take responsibility for the accuracy of the contents of this publication as it does not represent the official views or position of the Bank on the subject matter.

2Adebayo O. Oduyemi is a Deputy Manager in the Monetary Policy Department, Central Bank of Nigeria
1.1 Sectors of the Economy

1.1.1 Government Sector
This comprises federal, state and local government, Ministries Departments and Agencies (MDAs) and non-profit organisations financed and run by government. It is defined by the fiscal relations (i.e. funding, revenue generation, budgeting) between the different arms of government as well as interactions between tiers of government and other economic units within its jurisdiction as enshrined in their respective constitutions.

1.1.2 Real Sector
This comprises households\(^3\), nonfinancial organisations\(^4\) and Non-Profit Institutions Serving Households (NPISH)\(^5\) involved in the production and distribution of goods and services (from a combination of factor resources), necessary to meet the consumption demand of an economy. The signals on what to produce and its distribution emanates from two key markets in the sector, namely: (1) the production factor market [i.e. raw material market, labour market, land and capital market] and (2) the output market [i.e. production of agricultural and manufactured goods and general services by business units from factors of production]. The key output sectors that make up the real sector are the primary sector (Agriculture & Mining), the secondary sector (manufacturing and building & construction) and the tertiary sector (services and commerce). The historical performances of the components of the Nigerian real sector are discussed in section 3.

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\(^3\) It consists of an individual or collection of individuals who engage in individual or collective production, distribution, sale and consumption of goods, services and accommodation.

\(^4\) These are economic units involved in the production, distribution, sale and consumption of market goods and nonfinancial services. It also comprises non-profit institutions engaged in the production of marketable goods and services. It is subdivided into private and state/public controlled (owned) and managed organisations. The subdivisions are private nonfinancial sector (individual(s)/household owned or controlled organisations involved in the production, distribution, and sale of marketable good and nonfinancial service) and public nonfinancial sector (state/government owned or controlled organisations involved in the production, distribution, and sale of marketable good and nonfinancial service).

\(^5\) This consists of organisations engaged in the production, distribution and sale of goods and services on a non-commercial basis (i.e. at zero or token cost to the consumer, as the organisations are not profit oriented).
1.1.3 Financial Sector
This comprises organisations providing financial goods and services, which includes financial intermediation\(^6\) (comprised of depository corporations\(^7\), non-depository corporations\(^8\) and insurance corporations\(^9\)) and other supporting activities\(^{10}\) that facilitate and add to financial intermediation. Included in this sector are non-profit financial institutions that facilitate the workings of the financial market.

1.1.4 External sector
This is the segment of the economy that carries out international transactions involving the exchange of goods (i.e. imports and exports) and services (i.e. capital flows for financial market) with individuals, business units and government of other countries. These transactions are methodically recorded under an accounting framework that captures unique economic activities of the external sector. The key areas covered include:

- Balance of payment
- Current account
- Capital account
- Foreign Direct Investment
- External Debt
- Exchange rate
- Foreign exchange reserves
- International investment position

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\(^6\) This covers organizations that effect transactions in the financial markets that result in the creation of assets and uptake of liabilities on the books of a financial organization.

\(^7\) These include bank and non-bank depository corporations like monetary authority, deposit money banks, microfinance banks, mortgage banks, merchant banks, non-interest banks, development banks, non-bank depository corporations and Discount Houses in Nigeria. Deposit liabilities of bank depository corporations are transferrable while those of non-bank depository corporations are not legally defined as deposits and non-transferable. The liabilities of both are typically included in the definition of money.

\(^8\) These includes finance houses, hire purchase and finance leasing companies, fund managers, venture capitalist corporations, import export banks, credit and savings union etc. Their liabilities are less liquid than those of depository corporations and excluded in computation of monetary aggregates by the monetary authorities.

\(^9\) These include insurance companies, pension fund managers and administrators.

\(^{10}\) This covers organizations involved supporting role for financial intermediation are those that do not take up liabilities on for taking up liabilities their records. They include Nigerian Stock Exchange, stock broking houses, primary dealers, commodities market, issuing houses, underwriters etc.
SECTION TWO

Linkages between the Real Sector and other Sectors of the Economy

2.1 Overview of Sectoral Interaction in the Economy
As previously mentioned, economic units interact with one another in the production of goods and services, in an effort to improve their individual and collective welfare. These interactions involve the utilisation, consumption and transformation of resources to goods and services, in return for economic rewards (factor incomes) to economic units for their role in the economic activities. The aggregate value of all the goods and services produced or the collective reward for economic units involved in economic activities is referred to as the Gross Domestic Product (GDP). The combined units of goods and services produced from the interaction of economic units in economic activities is referred to as the Real GDP. Based on the discussion, we can depict the interaction of economic units in economic activities by figure 1.

Households supply their resources (i.e. labour and or capital) in economic activities to produce goods and services. They do so as entrepreneurs or as employees in private & public non-financial corporations, financial corporations or government (civil, voluntary, armed and defence service). In return for entrepreneurship role, household is rewarded with both wages and share of profit (i.e. dividend), while it receives wages and other benefits as rewards for supply of labour.

The real sector (non-financial and non-government sector) produces goods and services, which are sold in exchange for a share of total wages and government revenues. The reward for engaging in the production of good and services is profit, which can be saved and/or reinvested in the business. The economic activities of the non-financial sector are financed from entrepreneur(s) capital and/or retained profit and/or loans and/or transfers/grants from the Government.

Government employs labour resources from households and rewards them with wages and other benefits from tax and non-tax revenues as well as loans from financial sector. Total government operations is financed from taxes on income, expenditure & sales, profits and capital gains, non-tax incomes like royalties, rents, privatisation proceeds and loans and grants from domestic and international financial markets, multilateral institutions and foreign governments. The government is also involved in the production of goods and services, some of
which are social/public goods and services (i.e. provided for general public consumption at zero or minimal cost to the public consumer), while others are marketable goods which are sold at market or near market prices for general consumption.

Invariably, some households, non-financial corporations and government would have surpluses, while others may be in deficit. The financial sector provides an avenue to transfer the surpluses as required at a cost (i.e. interest and fees) to the deficit units. Like the other sectors, the financial sector also employs labour and rewards it with wages and benefits. The financial sector also facilitates the transfer of domestic surpluses to fund foreign deficits and vice versa as the case may be. In essence, the financial sector is critical in facilitating and supporting economic growth.

If the different economic units produce more good and services than can be consumed in the domestic economy, the surpluses could be exchanged on the international market with countries with deficit outputs. This would be exchanged for foreign currency and/or goods not produced in sufficient quantities in the domestic economy (i.e. international trade). This is captured as the external sector.

**Figure 1: Linkages between the different sectors of the economy**
From figure 1, it is apparent that activities within the real sector cut across both the aggregate demand and supply in an economy, as such, national statistics on the sector includes expenditure, savings, capital formation and gross and national output. Furthermore, the efficient and smooth functioning of the sector is dependent on its interaction with the other three sectors of the economy.

2.2 Finance and the Real Sector
The financial sector is critical to the growth of the real sector, it provides an appropriate avenue for funds to be pooled together and risks diversified to fund economic activities, which would otherwise not have been funded. Furthermore, it provides an efficient avenue for selecting, funding and monitoring risky projects, which stimulate and sustain economic growth. Efficient financial market helps to moderate costs of transaction and information asymmetries modify the constraints and incentives of financial agents, as well as foster efficient allocation of resources by ensuring allocation of same to their most productive use.

In the absence of the financial sector, the cost of operations and funding risky ventures by the real sector may be prohibitive and may discourage participation in such activities. Financial market development fosters the generation of information, which is leveraged upon for the efficient allocation of capital, efficient monitoring of firms (i.e. engenders corporate governance) and in risk reduction (i.e. cross-sectional risk diversification, inter-temporal risk sharing, and liquidity risk). Furthermore, it pools savings as sources of loanable and investible funds and facilitates exchange (i.e. financial arrangements help lower transaction costs, which can promote specialization, technological innovation and growth) [King, R and Levine, R (1993), Levine (2004)]. Financial institutions foster innovation and economic growth by ensuring that the sector allocates resources to entrepreneurs that are best capable of developing innovative products and production techniques, which would improve the welfare of economic agents as well as propel the economy to a higher growth path (Shumpeter, 1912).

Consequently, policies as well as domestic and international shocks, which affect financial markets and financial market development are bound to have repercussions on the growth of the real sector. In concluding, a significant

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11 Pagano, M. (1993), highlighted the relationship between the financial sector and the real economy, in particular how the financial sector facilitated the growth of the real sector.
12 Beck, Levine and Loayza (2000) suggest that financial market development has a greater impact on growth as a result of efficient resource allocation rather than through deposit mobilisation and economies of scale in investment.
numbers of studies have shown the positive impact on long-run economic growth rates\textsuperscript{13} of financial systems and financial systems development, in particular, helping to secure investable external funding for financially constrained small and medium firms to facilitate the actualisation of their expansion plans.

2.3 Government and the Real Sector
The real sector is also heavily dependent on the government sector to provide the appropriate growth enabling environment, consisting of the appropriate institutions (i.e. legal, security, monitoring and regulatory, health, education, tax, benefits and grants), policy consistency, as well as infrastructures and amenities, amongst others. Available evidence has shown that investment in the quality of factors of production (i.e. human capital and technological advances) is a major factor contributing to growth rates\textsuperscript{14}. This is because the development of human capital in the form of better education and on the job training increases the efficiency, and thus output of labour. Likewise, investing in technological advances improves the production process, which manifests in increased production output. Furthermore, institutions play crucial roles in fostering innovation, which is a major driver of economic growth and development\textsuperscript{15}. For instance, research and development contributes to the creation of intellectual property rights and its associated rents for pioneering entrepreneurs. This serves as a reward for undertaking innovative research in the development of new product or techniques that helps to reduce the cost of economic activities, thereby enhancing the welfare of the consuming economic units as well as propel the economy to a higher growth trajectory. It is the role of institutions to protect the rights of agents, to engender growth enhancing but risky and complex economic transactions and activities, necessary to sustain economic growth and development. In essence, conducive government policy environment is important for economic growth and development.

\textsuperscript{13} Shumpeter (1912), McKinnon (1973) and Demirguc-Kunt and Levine (2008) are examples of studies which show the positive impact of financial system and financial system development on long-term growth rates.


\textsuperscript{15} Schumpeter, J. A. (1912), and Grossman, G.M, and Helpman, E. (1990) provide examples of growth models in which innovation is a determinant of economic growth, while King, R, G., and Rebelo, S (1990) provide an example of a model in which policy regimes impact economic growths across countries.
SECTION THREE

The Structure and Developments in the Nigerian Real Economy (1981 – 2013)

The production/output structure of the Nigerian economy comprises three sectors (a) Primary Sector, (b) Secondary Sector and (c) tertiary Sector.

3.1 The Primary Sector

The primary sector is engaged in the production and extraction of natural resources (i.e. mining as well as agriculture). It is involved in the production of raw materials, which are either consumed directly or used as input in the manufacturing of other finished goods. The primary sector is a major contributor to Nigeria's total GDP, accounting for about 52 per cent of total GDP in 2013. Of the total GDP, the mining sector, consisting of solid minerals and crude oil and gas, accounted for about 13 per cent, while the agricultural sector accounted for approximately 39 per cent. Agriculture has consistently been a major contributor to Nigeria's GDP. Its output helps feed the nation, forms part of input in the manufacturing process and are exported to generate foreign exchange income. The Nigerian agricultural sector, is however, characterised by the predominance of subsistence small scale farming and low productivity.

The performance of the primary sector, namely agriculture and mining between 1986 and 2013 is graphically illustrated in figure 2 below. The figure clearly shows a steady decline in the contribution of the primary sector to total GDP from 67.80 per cent in 2003 to 51.67 per cent in 2013. From Table 1, it can be seen that the average contribution of the primary sector to GDP declined from 67.75 per cent in the period 1986 and 2002 to 60.16 per cent between 2003 and 2013. The major driver of the decline in primary sector contribution to GDP was the mining sector (petroleum oil and Gas). The average contribution of the mining sector to total GDP between 1986 and 2002 was 26.77 per cent, but declined by 7.47 per cent to 19.30 per cent between 2003 and 2013.
Figure 2: Developments in the Contribution of Primary Sector and its components to total GDP (1981 - 2013)

Figure 3: Developments in the Contribution of Mining Sector and its components to total GDP (1981 - 2013)

Table 1: Average contribution of the primary sector and its components to total GDP 1986 – 2002 and 2003 - 2013

<table>
<thead>
<tr>
<th>Sector</th>
<th>Average contribution to GDP (1986-2002) (a)</th>
<th>Average contribution to GDP (2003-2013) (b)</th>
<th>Decline in contribution to GDP between (a) and (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Sector</td>
<td>67.75%</td>
<td>60.16%</td>
<td>7.59%</td>
</tr>
<tr>
<td>Agricultural Sector</td>
<td>40.98%</td>
<td>40.86%</td>
<td>0.12%</td>
</tr>
<tr>
<td>Mining Sector</td>
<td>26.77%</td>
<td>19.30%</td>
<td>7.47%</td>
</tr>
</tbody>
</table>

The drop in the contribution of the mining sector, in particular the contribution of the oil and gas industry to total GDP was mainly due to security challenges,
vandalism of oil and gas infrastructures, crude oil theft and disinvestment in onshore fields, which were the consequence of the Niger Delta crisis.

3.2 The Secondary Sector
This comprises manufacturing and industries that processes products of the primary sector into either semi-finished or finished items (i.e. transformation of raw materials into new goods or its components for consumption), as well as construction and building. For the purpose of the paper, the extraction of hydrocarbons (i.e. crude oil and natural gas) is included in the primary sector; however, activities that involve further processing of hydrocarbons to its constituent parts like diesel, petroleum, kerosene, methane, propane etc. belongs to the secondary sector. The rationale being that there has been value added in transforming/refining the crude oil and gas to its components for consumption, or as input into production process. The contribution of the secondary sector to total GDP has been relatively weak when compared to the other sectors of the Nigerian economy. Its average contribution to GDP between 1981 and 2013 was 5.85 per cent, with a minimum and maximum contribution to GDP of 4.72 and 8.74 per cent in 1998 and 1982, respectively.

Figure 4 illustrates the performance of the secondary sector of the economy between 1981 and 2013. Its contribution to GDP declined from 8.74 to 5.65 per cent between 1982 and 1986, it averaged about 6.10 per cent between 1987 and 1991, experienced a steady decline\(^\text{16}\) from 6.14 per cent in 1991 to 4.97 per cent in 2003. Economic reforms following the Structural Adjustment Programme (SAP) introduced tight exchange rate regime, which resulted in shortage of raw materials and high manufacturing costs. This made domestically produced manufactured goods generally uncompetitive, inducing smuggling of cheap imports from abroad.

The trend however reversed after 1999, as the contribution of the secondary sector to Nigeria’s GDP increased from 4.83 per cent in 1999 to 6.59 per cent in 2013. The development was primarily explained by a steady increase in the contribution of manufacturing sector and building and construction to GDP from 3.49 and 1.33 per cent in 1999 to 4.23 and 2.35 per cent in 2013, respectively. Reasons for the marginal improvements\(^\text{17}\) include more focused efforts at solving the infrastructural problems, improved business environment inducing more investment and stable exchange rate amongst others. The historically poor performance of the sector is a major contributor to the socio-economic

\(^{16}\) With the exception of 2011 and 2012 when its contribution to GDP increased marginally

\(^{17}\) This includes amongst others, bank consolidation, E-payment initiatives, development of the commodities market, reform of the insurance and pension industry.
challenges being faced in the country. This is because from the 1970s to 1990s, successive governments pursued an import substitution strategy to stimulate economic growth, premised on the transformation of the economy from agrarian to manufacturing based. Despite being a favoured sector, the inability of the manufacturing sector to propel growth and generate substantial employment opportunity was a manifestation of the ineffectiveness of the policy. Furthermore, it meant the diversion of valuable resources to a sector that added marginally to growth at the expense of high value adding sectors like agriculture. The inability of the industrial sector, particularly manufacturing sector, to generate sufficient employment opportunities to accommodate the migrant rural workforce previously engaged in agriculture but seeking employment in manufacturing firms in the urban areas led to a significant increase in unemployment rate in the country.

3.3 The Tertiary Sector

This comprises all service activities (i.e. utilities, transport, communication, distributive trade, hotel and restaurant, finance and insurance, real estate and other business services, housing, community, social and personal services as well as government services (Ajakaiye, 2012). The contribution of the tertiary sector to Nigeria’s GDP declined from 29.45 per cent in 1983 to 25.30 per cent in 1986. Its GDP contribution then stabilised between 1987 and 2001, and averaged approximately 26.74 per cent annually. However, its GDP contribution rapidly increased from 27.23 per cent in 2003 to 41.75 per cent in 2013.

Figure 5 shows that both the service and wholesale and retail trade have contributed almost in equal measure to the recent rapid increase in the tertiary sectors’ contribution to the GDP. In particular, a significant driver of the increased contribution of the tertiary sector to national GDP has been the telecommunication sector. The reform (liberalisation and privatisation) of the
The telecommunication sector in the late 1990s, and rapid service expansion, has helped to grow its contribution to Nigeria’s GDP by 7.69 per cent, from about 0.41 per cent in 2000 to 8.10 per cent in 2013.

Significantly, reforms in the financial sector including the modernisation of the payments system infrastructure, bank consolidation and upward review of banks’ capital base to N25 billion provided the appropriate environment to foster growth in the real sector. The increased capital base enabled local banks to finance large ticket transactions, and provide the necessary funds for large scale investments, particularly in the telecommunications, manufacturing and oil and gas sector. Likewise, the reforms of the capital market facilitated the listing of shares on the stock market, thus providing an alternative source of long-term capital for firms. The implication of which was the steady growth in the market capitalisation of the Nigerian Stock exchange from 2000 to 2014, with the exception of late 2008 till 2010, occasioned by the global financial crisis. The reforms of key sectors (telecommunication, finance, power, oil and gas and agriculture) of the Nigerian economy illustrate how government efforts and policies, create the appropriate environment that stimulates investment across all facets of the economy, which consequently propels economic growth. The manifestation of the benefits of the reforms is reflected in an average growth rate of 6.51 per cent between 2000 and 2013, more than double the growth rate of 2.62 per cent witnessed between 1981 and 1999. Likewise it was above the growth rate of 5.16 per cent witnessed during the active Structural Adjustment Programme (SAP) period of 1985-1992.
Figure 7 and table 2 both provide a summary of the developments in the contribution of each of the sectors to Nigeria’s GDP. Some observations from the examination of figure 7 include:

1. The contribution of the secondary sector to national GDP has been relatively low vis-à-vis the other sectors, and averaged 5.67 per cent annually between 1982 and 2013. This is particularly worrisome, because the bulk of manufactured goods consumed in the economy are imported. This translates to huge import bills and exerts significant pressure on the Naira, which is defended by the monetary authorities through foreign reserves depletion. Consequently, there needs to be a fundamental reorientation of the economy, to facilitate greater production of manufactured goods for domestic consumption and exports, to help improve the balance of trade position, ease the depreciation pressure on the Naira and facilitate the reversal of foreign reserves depletion;

2. The contributions of the primary and tertiary sectors to national GDP were relatively stable between 1987 and 2001, but has been on a steep decline since; and

3. Developments in the tertiary sector are in the opposite directions to that in the primary sector. Significantly, the recent decline in primary sector contribution to GDP is being absorbed by the tertiary sector, which has shown a rapid increase in its recent contribution to GDP.
Table 2: Sectoral Contributions to GDP (1981 – 2013)

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Primary (Agric+Oil &amp; Gas+Solid Minerals)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>63.88</td>
<td>67.67</td>
<td>67.47</td>
<td>68.54</td>
<td>67.30</td>
<td>62.82</td>
<td>55.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining (oil &amp; Gas+Solid Minerals)</td>
<td>35.33</td>
<td>40.25</td>
<td>39.80</td>
<td>40.28</td>
<td>42.29</td>
<td>41.76</td>
<td>40.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>28.54</td>
<td>27.42</td>
<td>27.67</td>
<td>27.15</td>
<td>26.70</td>
<td>21.05</td>
<td>15.07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solid Minerals</td>
<td>0.84</td>
<td>0.26</td>
<td>0.23</td>
<td>0.23</td>
<td>0.25</td>
<td>0.29</td>
<td>0.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary (Manufacturing+building and construction)</td>
<td>5.74</td>
<td>6.01</td>
<td>5.37</td>
<td>4.84</td>
<td>5.04</td>
<td>5.64</td>
<td>6.29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.54</td>
<td>6.01</td>
<td>5.37</td>
<td>4.84</td>
<td>5.04</td>
<td>5.64</td>
<td>6.29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building and Construction</td>
<td>2.27</td>
<td>1.15</td>
<td>1.18</td>
<td>1.24</td>
<td>1.30</td>
<td>1.42</td>
<td>1.67</td>
<td>2.11</td>
<td></td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade</td>
<td>14.91</td>
<td>14.43</td>
<td>14.28</td>
<td>13.95</td>
<td>13.26</td>
<td>12.80</td>
<td>15.57</td>
<td>19.29</td>
<td></td>
</tr>
<tr>
<td>Telecommunication</td>
<td>0.35</td>
<td>0.41</td>
<td>0.36</td>
<td>0.36</td>
<td>0.40</td>
<td>0.83</td>
<td>2.07</td>
<td>5.76</td>
<td></td>
</tr>
<tr>
<td>Total Value Added</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

0% 0% 0% 0% 0% 0% 0%
### 3.4 GDP Growth Rate Performance

The Nigerian economy witnessed considerable changes in fortune during the review period, and for ease of discussion, the section considers average growth rate over four year periods, with the exception of the last period which is 5 years. Figure 8 and table 3 summarise the developments in the sample period, while table 4 summarise the sectoral growth developments for the period 2003 – 2013.

![Figure 8: Average Growth Rate (1981 - 2013)](image)

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-1984</td>
<td>-3.24%</td>
</tr>
<tr>
<td>1985-1988</td>
<td>5.03%</td>
</tr>
<tr>
<td>1989-1992</td>
<td>5.29%</td>
</tr>
<tr>
<td>1993-1996</td>
<td>2.16%</td>
</tr>
<tr>
<td>1997-2000</td>
<td>2.95%</td>
</tr>
<tr>
<td>2001-2004</td>
<td>6.37%</td>
</tr>
<tr>
<td>2005-2008</td>
<td>6.24%</td>
</tr>
<tr>
<td>2009-2013</td>
<td>7.17%</td>
</tr>
</tbody>
</table>

Source: CBN Database

The economy was under severe strain in the period 1981 – 1984, occasioned by a significant drop in international crude oil price. The problem was compounded by the heavy import dependence of the economy and increasing pressure on the domestic currency as the balance of payment condition worsened. Furthermore,
the prominent role of the government in market activities and fiscal indiscipline resulted in growing fiscal deficit, which was occasionally monetised, resulting in rising inflation. This led to approximately 3.24 per cent contraction of the Nigerian economy.

Faced with worsening economic situation, the Nigerian government implemented some aspects of the IMF-backed Structural Adjustment Programme (SAP), to reverse the situation. Some of the policies included the liberalisation of the financial, money and exchange rate markets, cut back in government participation in market activities and the privatisation of government parastatals as well as labour market reforms. The effort led to a rebound in economic fortunes, as the Nigerian economy grew by 5.03 and 5.29 per cent for the periods 1985 – 1988 and 1989 – 1992, respectively.

The improved economic performance was however, not sustained between 1993 and 2000. The annulment of the presidential elections in 1992, prompted significant civil unrests and labour strikes. It also strained international relations between Nigeria and its key trading partners, all of which constituted operational bottlenecks that hindered economic activities. This resulted in the decline in average annual growth rate from 5.29 per cent for the period 1989-1992 to 2.16 per cent for the period 1993 – 1996, and an average growth rate of 2.95 per cent for the period 1997 – 2000.

The return to democratic rule and implementation of sound economic policies including the National Economic Empowerment and Development Strategy (NEEDS), economic reforms (Telecoms, Banking, Power, etc.) and high crude oil price propelled the economy to a higher growth path. Consequently, the economy achieved an average growth rate of 6.37 per cent in the period 2001 – 2004.

The average annual growth rate for the period 2005 – 2008 however, declined marginally to 6.24 per cent. This was partly due to escalation of the Niger Delta crisis, resulting in the vandalism of oil and gas installations and a sharp drop in oil prices towards the end of 2008. The combined effect of these was a cut back in oil sector activities as multinationals divested some onshore hydrocarbon field assets. Furthermore, the period coincided with the onset of the global financial crisis and the Nigerian Banking crisis, which manifested in the reduction in the creation of loanable risky assets to the real sector and a contraction in output. The situation was also compounded by the reversal of funds from the local financial market as foreign investors tried to shore up their positions at home. This invariably led to restrictions on foreign denominated investible capital and credit.
lines with foreign investors and correspondence banks. However, the rapid response and intervention from both the monetary and fiscal authorities with appropriate policies, helped to mitigate the adverse economic impact of the aforementioned shocks.

The continued sustenance of sound monetary and fiscal policies including fiscal consolidation, reforms of the power, aviation and agriculture sector, seven point agenda, transformation agenda, tight monetary policy etc., resulted in robust economic growth for the period 2009 – 2013. Within this period, inflation rate trended downwards and was in single digits throughout 2013 (see figure 8), while average annual GDP growth rate was approximately 7.17 per cent.

The major growth drivers of the Nigerian economy from 2003 to 2013 are the agricultural sector\textsuperscript{18}, building and construction and telecommunications. They contributed significantly to Nigeria’s GDP and with the exception of agriculture, had double digit growth rates. The telecommunication and building and construction recorded an annual average growth rate of 33.47 and 12.10 per cent, respectively in the period.

\textsuperscript{18} Though the growth rate was single digit, its massive share of national GDP of about 40 per cent translates to a significant growth impact on the economy.
### Table 4: Sectoral GDP Growth Rates (%) (2003 – 2013)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Sector</td>
<td>12.79</td>
<td>5.26</td>
<td>4.55</td>
<td>3.02</td>
<td>3.20</td>
<td>2.36</td>
<td>4.34</td>
<td>5.70</td>
<td>4.15</td>
<td>2.72</td>
<td>3.52</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6.64</td>
<td>6.50</td>
<td>7.06</td>
<td>7.40</td>
<td>7.19</td>
<td>6.27</td>
<td>5.88</td>
<td>5.82</td>
<td>5.64</td>
<td>3.97</td>
<td>4.82</td>
</tr>
<tr>
<td>Mining</td>
<td>23.96</td>
<td>3.40</td>
<td>0.59</td>
<td>-4.40</td>
<td>-4.38</td>
<td>-5.99</td>
<td>0.67</td>
<td>5.49</td>
<td>0.41</td>
<td>-0.61</td>
<td>-0.06</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>23.90</td>
<td>3.30</td>
<td>0.50</td>
<td>-4.51</td>
<td>-4.54</td>
<td>-6.19</td>
<td>0.45</td>
<td>5.25</td>
<td>0.14</td>
<td>-0.91</td>
<td>-0.41</td>
</tr>
<tr>
<td>Solid Minerals</td>
<td>5.44</td>
<td>10.85</td>
<td>9.53</td>
<td>10.28</td>
<td>12.64</td>
<td>12.87</td>
<td>12.08</td>
<td>12.08</td>
<td>12.50</td>
<td>12.52</td>
<td>12.65</td>
</tr>
<tr>
<td>Manufacturing Sector</td>
<td>5.66</td>
<td>10.00</td>
<td>9.61</td>
<td>9.39</td>
<td>9.58</td>
<td>8.89</td>
<td>7.85</td>
<td>7.57</td>
<td>7.50</td>
<td>7.55</td>
<td>7.80</td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade Sector</td>
<td>5.76</td>
<td>9.70</td>
<td>13.51</td>
<td>15.26</td>
<td>15.20</td>
<td>14.02</td>
<td>11.48</td>
<td>11.22</td>
<td>11.34</td>
<td>9.61</td>
<td>9.09</td>
</tr>
<tr>
<td>Total Services Sector</td>
<td>0.41</td>
<td>8.83</td>
<td>7.96</td>
<td>9.18</td>
<td>9.86</td>
<td>10.38</td>
<td>10.82</td>
<td>11.90</td>
<td>13.20</td>
<td>13.85</td>
<td>12.52</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>43.00</td>
<td>30.00</td>
<td>30.51</td>
<td>34.59</td>
<td>34.61</td>
<td>34.68</td>
<td>34.73</td>
<td>34.83</td>
<td>34.96</td>
<td>32.09</td>
<td>24.11</td>
</tr>
<tr>
<td>Total GDP</td>
<td>9.57</td>
<td>6.58</td>
<td>6.51</td>
<td>6.03</td>
<td>6.45</td>
<td>5.99</td>
<td>6.96</td>
<td>7.98</td>
<td>7.43</td>
<td>6.58</td>
<td>6.89%</td>
</tr>
<tr>
<td>Non-oil GDP</td>
<td>5.17</td>
<td>7.76</td>
<td>8.59</td>
<td>9.41</td>
<td>9.52%</td>
<td>8.95</td>
<td>8.32</td>
<td>8.51</td>
<td>8.80</td>
<td>7.88</td>
<td>8.05%</td>
</tr>
</tbody>
</table>
SECTION FOUR

Challenges and Implemented Policies

Despite its significance to the Nigerian economy, the real sector faces severe challenges, which constraint its growth and development. This section examines these challenges and recent efforts by the Nigerian economic management team to overcome them.

4.1 Challenges

The challenges to the sustained growth of the real sector include:

i. Mono-product Export Economy and Susceptibility to oil Price Shocks

The discovery and production of oil and gas in the economy effectively veered the economy from multiple sources of export proceeds to excessive reliance on hydrocarbon export proceeds and condemn the economy to the Dutch disease problem. Consequently, fiscal expenditure was closely linked to oil revenue receipts and thus, susceptible to shocks in oil prices. Invariably, this excessive reliance on oil sector impacts all aspects of the Nigerian economy often resulting in a departure from the long term growth path. It causes significant distortions in prices; the international value of the Naira vis-à-vis other trading partner currencies, availability of loanable funds and pricing of financial assets. The distortions arising from movements in oil prices impact economic signals and thus, alter incentives of economic agents and units.

ii. Weak Institutional Capacity

The inherent inefficiency in the capacity of existing institutions has continually hindered effective real sector development. Weak institutions, vague delineation of rights, weak enforcement of regulations and bureaucratic bottlenecks in the legal system adversely impact the incentives of economic agents. These factors invariably add to transaction costs, as agents must engage in complex agreements to secure their positions, and in the event of disputes, these factors would prolong dispute resolution and add to the cost of economic activities. The weak institutional capacity erodes investment and business confidence, which impact on overall level of economic activity.

iii. Inadequate Supporting Infrastructural Facilities

Economic infrastructure drives international business competitiveness and supports economic growth by increasing private and public sector productivity, reducing business costs, diversifying means of production and creating jobs
The grossly inadequate and weakly integrated stock\(^{19}\) of Nigeria’s infrastructure, despite huge oil revenue earnings for over four decades, remains a major hindrance to sustainable socio-economic development (Usman, 2013). Figure 9 illustrates the stock of capital infrastructure relative to national GDP for selected countries. It clearly shows that the stock of Nigeria’s infrastructure is lower than those of its peers, and substantially below the international benchmark of 70 per cent. The infrastructure gap in the Nigerian economy in 2011 was estimated at US$140 billion, and the government would need to spend US$14 billion annually for 10 years to achieve its Vision 2020:20\(^{20}\) development aspirations (CBN, 2013) and (Sanusi, L.S, 2012).

Figure 9: Stock of Infrastructure as a percentage of National GDP of some Selected Countries


\(^{19}\) The current stock of infrastructure capital is between 35 – 40 per cent of GDP, far below the international benchmark of 70 per cent of national GDP (Usman, 2013).

\(^{20}\) The country requires the following investments in order to actualise the vision 2020:20 objective of being amongst the top 20 global economies, with a minimum GDP of N144 billion (US$900 billion) and GDP per capita income of N640,000 ($4,000):

(a) Transformation agenda will require N25.7 trillion;
(b) Phase one of the master plan (2014 to 2018) will require N20.32 trillion;
(c) Vision 2020 will require total investment of N32 trillion; and
Recent research suggests that access to portable water is limited to approximately 59 per cent of the population (Usman, 2013); approximately 58,000km of the 193,000km of roads in the country is in good condition and about 38,600km of roads is paved. The majority of the population (60 per cent) lack electricity, as such, approximately US$13billion is expended on fuelling power generators and the economy loses 320 days annually to power outages (ICRC, 2012). Table 5 below is a cross country comparison of infrastructure by sector, which shows that Nigeria lags behind her peers in the stock of capital across the selected sectors.

Table 5: cross country comparison of infrastructure by sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Roads per sq. km</th>
<th>Quality of port infrastructure</th>
<th>Power Consumption kWh/capita</th>
<th>Access to water (% of population)</th>
<th>Access to sanitation (% of population)</th>
<th>Mobile subscriptions per 100 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>3.31</td>
<td>5.2</td>
<td>8,394</td>
<td>100</td>
<td>100</td>
<td>105</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.21</td>
<td>2.7</td>
<td>2,384</td>
<td>98</td>
<td>79</td>
<td>124</td>
</tr>
<tr>
<td>Russia</td>
<td>0.06</td>
<td>3.7</td>
<td>6,452</td>
<td>97</td>
<td>70</td>
<td>179</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.19</td>
<td>4.0</td>
<td>1,990</td>
<td>96</td>
<td>85</td>
<td>82</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.29</td>
<td>3.6</td>
<td>641</td>
<td>82</td>
<td>54</td>
<td>103</td>
</tr>
<tr>
<td>S/Africa</td>
<td>0.30</td>
<td>4.7</td>
<td>4,803</td>
<td>91</td>
<td>79</td>
<td>127</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.21</td>
<td>3.3</td>
<td>136</td>
<td>59</td>
<td>31</td>
<td>56</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.34</td>
<td>4.1</td>
<td>457</td>
<td>92</td>
<td>48</td>
<td>62</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1.66</td>
<td>3.4</td>
<td>279</td>
<td>81</td>
<td>56</td>
<td>56</td>
</tr>
</tbody>
</table>


The dearth of infrastructure affects all facets of the Nigerian economy, and hampers productivity levels across different sub-sectors of the economy. Inadequate storage and processing facilities often results in agricultural output.

In 2008, the annual demand - supply gap was estimated at 6,000 MW of electricity primarily due to ageing and poorly maintained, stocked and staffed plants. This was further compounded by weak generation, transmission and distribution infrastructure implying a low Per capita electricity generation of only 50W (Ahmad, 2008).

A survey by the World Banks estimates that infrastructure deficiency and infrastructure related issues account for approximately 53 per cent of the challenges faced by the manufacturing sector (Usman, 2013).
wastages, while poor transportation infrastructure hinders delivery of farm produce to end users and occasionally results in wastages. The epileptic and poor power supply reduces capacity utilisation leading to lost output and high overheads. The poor transportation network increases delivery time on manufactured goods and thus, general overheads. The opportunity cost of the time and resources used to overcome the infrastructure inadequacies often manifest in the following: (a) high cost and non-competitiveness of domestically produced goods relative to imported goods and (b) the high import dependence of the economy for manufactured goods. Table 6 summarises the country’s infrastructure and overall competitiveness vis-à-vis the rest of the world and selected peer countries. It is apparent from the table that Nigeria ranks substantially lower than her peers in terms of her international competitiveness and has only seen marginal improvement in its ranking between 2009 and 2013.

Table 6: World Economic Forum Competitiveness ranking of selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>2009/2010 (Out of 133 countries)</th>
<th>2010/2011 (Out of 139 countries)</th>
<th>2011/2012 (Out of 142 Countries)</th>
<th>2012/2013 (Out of 144 Countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Overall Infrastructure</td>
<td>Overall Infrastructure</td>
<td>Overall Infrastructure</td>
<td>Overall Infrastructure</td>
</tr>
<tr>
<td>India</td>
<td>49</td>
<td>51</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>Malaysia</td>
<td>24</td>
<td>26</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>Nigeria</td>
<td>99</td>
<td>127</td>
<td>127</td>
<td>115</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>South Africa</td>
<td>45</td>
<td>54</td>
<td>50</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: WEF 2012

iv. Funding Constraints

Despite the strong theoretical links between financial system development and real sector growth, and the significance of the sector to Nigeria’s economy, access to funds from the financial system remains relatively poor. The root causes of the shortage of credit to the sector includes amongst others:

(1) Inadequate stock of social infrastructure to support real sector activities and guarantee profitable returns on credit financed economic activities. As earlier discussed, this adds to operation cost as firms must provide some of these amenities (power, water and paved roads) by themselves, thus making them uncompetitive domestically and internationally as they are unable to offer customers affordable goods and services relative to cheap imports (Radwan, 2010).
Unfavourable investment climate as a result of past policy inconsistency and weak institutions. Consequently, financial intermediaries may be reluctant to extend credits to the sector, due to uncertainty about policy stance and how this may impact on the ability of borrowers in the real sector to meet their obligations as at when due. Furthermore, weak institutions could add to the cost of obtaining settlements and monetising such settlements in the event of defaults. Some of the key contributing factors include:

a. Weak creditor rights regime – inefficiently run collateral registry, which may result in many competing interests on an asset pledged as collateral to several lenders. Thus, lenders are compelled to prepare complex security structures with weak certainty in enforcement;

b. Weak credit rating and credit information – due to limited coverage of operation of credit bureaux and an inefficient national identity system. This makes monitoring of assets and enforcement of judgement on disputed transactions costly and difficult.

c. Inefficiency and bureaucratic bottlenecks in the legal and judicial system – this imposes a significant cost on creditors that may have to rely on the court system to secure debt enforcement judgments on borrowers. Furthermore, this hampers the process of securing titles to real estate assets, making registration and provision of same as bankable collateral difficult;

All these factors create an unfavourable lending climate, characterised by low risk-adjusted marginal profitability for the borrower, thus making it less attractive vis-à-vis lending to other sectors. It also imposes high cost and risks for the lender.

4.2 Recent Interventions to address Real Sector Finance Challenges

The following are some of the interventions that have been adopted in an effort to address the funding challenges facing the real sector:

i. The Agricultural Credit Guarantee Scheme Fund (ACGSF)

The ACGSF was introduced in 1978 to help minimize the risks associated with lending to agricultural sector, in order to encourage DMB lending to the sector. By May 2011, a total of 705,361 loans granted to farmers worth N43.86 billion have been guaranteed under the scheme (Sanusi, 2011).
ii. **Agricultural Credit Support Scheme (ACSS)**

The ACSS was introduced in 2006 to increase credit availability to farmers, by providing 6 per cent rebate on the 14 per cent rate on loans created by DMBs under the scheme. Total credit funds disbursed to 103 agricultural projects under the scheme was N19.43 billion as at June 2011, while the CBN made N844.28 million in interest rate rebate under the scheme (Sanusi, 2011).

iii. **Commercial Agricultural Credit Scheme (CACS)**

This was jointly established by the CBN and Federal Ministry of Agriculture and Rural Development in 2009, through the issuance of a N200 billion FGN bond to promote agricultural enterprises on significant commercial scale in Nigeria. The first tranche of N100 billion has been issued and allocated to twelve (12) DMBs currently participating in the scheme. The scheme had disbursed a total of N133.11 billion to 144 beneficiaries (119 private and 25 state government projects) by May 2011 (Sanusi, 2011).

iv. **Federal Mortgage Bank of Nigeria (FMBN)**

It is tasked with administering the National Housing Trust Fund (NHTF) provident scheme.

v. **Interest Drawback Programme (IDP)**

It was introduced in 2003 to reduce the effective borrowing rates of borrowers under the ACGSF, by providing interest rebate (40 per cent) on market determined rates applied to credit facilities that were fully repaid. A total of N42.91 million was paid under the programme on 3,852 claims by farmers as at May, 2011 (Sanusi, 2011).

vi. **Manufacturing Sector Re-financing/restructuring Fund**

It was established by the CBN as a N200 billion fund to ensure the flow of credit to the manufacturing sector and stimulate the accelerated development of SME and manufacturing sector, through the refinancing and restructuring of existing loans. The maximum amount granted through the fund was N1 billion at 7.0 per cent interest rate, and a total of N199.67 billion was released for 539 projects by June 2011 (Sanusi, 2011).

vii. **Microfinance Scheme**

The CBN introduced the microfinance policy in 2005 to address the problem of disenfranchisement of a large population from access to formal financial services. It was designed to facilitate provision of affordable and reliable financial service to the active poor to undertake and develop long-term sustainable economic activities.
viii. The Bank of Agriculture (BOA)
It was created from the merger of public sector banks with the emphasis on providing credit for small and medium scale enterprises involved in the agricultural sector.

ix. National Housing Trust Fund (NHTF)
It was established under decree No. 3. of 1992 as a compulsory provident scheme, to facilitate access by workers to housing finance. The loans are accessed at 6.0 per cent per annum for a maximum 30 year tenor.

x. Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)
It was established in 2010 by the CBN to de-risk credits to the agricultural sector, in so doing, help increase agricultural sector output, incomes and jobs across the sectors value chain. A total of N75 billion was provided for the scheme under the following 5 pillars:
  a. Risk Sharing Facility – N45 billion to cover 50 per cent of losses incurred by DMBs
  b. Insurance Facility – N4.5 billion for the purchase of insurance cover on the credit facility
  c. Technical Assistance Facility – N9 billion to build on the technical capabilities of the stakeholders to facilitate financial inclusion and build agricultural value chain
  d. Holistic Bank Rating Mechanism – 1.5 billion towards providing a framework for rating the effectiveness of DMBs participating in the programme and
  e. Bank Incentive Mechanism – N15 billion incentive to facilitate strategic lending commitment to the sector by DMBs

xi. Power and Airline Intervention Fund (PAIF)
PAIF was introduced by the CBN as a N300 billion fund to help raise productivity in the power and aviation sectors by refinancing existing loans and provide working capital for companies in the sector. A total of N41.94 billion had been disbursed for eight (8) airline projects as at end-June, 2011 (Sanusi, 2011).

xii. Primary Mortgage Institutions (PMIs)
The PMIs were set up to provide open market loans funded by retail deposit and act as the sole channel to disburse NHTF subsidised loans.
xiii. **Small and Medium Scale Enterprises Guarantee Scheme (SMECGS)**

It was introduced by the CBN in 2010 to accelerate development of SME and manufacturing sector in the economy by providing guarantees on SME loans, thus moderating the risks which hindered the availing of loans to SMEs. The N200 billion SMECGS guarantees 80 per cent of the loan amount up to a maximum of N100 million, for the tenor of the facility.

xiv. **Small and Medium Enterprises Equity Investment Scheme (SMEEIS)**

The fund was launched in 2001, to encourage DMBs to have equity participation in small and medium scale enterprises. DMBs were required to invest 10 per cent of pre-tax profit in SMEs under the scheme, however lack of technical competency by DMBs in managing their stakes in SMEs and inadequate consultation/buy-in prior to its launch led to poor investment results and low levels participation levels by DMBs (Radwan, 2010).

xv. **Trust Fund Model (TFM)**

The TFM was introduced in 1997 to complement the ACGSF by improving and increasing credit channels to farmers under the programme. It was a multilateral arrangement between the CBN, State/Local Governments, Oil companies and Non-Governmental Organisations (NGOs). The effective exposures of DMBs under the scheme was thus reduced to 12.5 per cent as the CBN guarantees up to 87.5 per cent of DMBs lending to the agricultural sector (75.0 per cent guarantee plus another 12.5 per cent based on surrender of collateral by farmers in the form of government deposits).
SECTION FIVE

Conclusion
In concluding, the real sector is a very important sector of the Nigerian economy and is one of the key engines of growth and employment; however it faces many severe challenges. At the root of the challenges are weak socio-economic infrastructures and weak institutions, which manifests in high costs of operation and unattractiveness for credit facilities. As a result, the monetary and fiscal authorities have implemented numerous policies to address these challenges, many of which are focused on providing funding to the sector. Significantly also, effort have been made and are currently being made to address institutional weaknesses and infrastructural deficiencies, which is expected to generate long term benefits and help propel the sector and the Nigerian economy to a higher growth path.
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Okefie Uzoaga at the University of Nigeria, Nsukka, Enugu State on July 12, 2011


