National Financial Strategy and the Wealth of Nigeria[1]

Dr. Ayo Teriba
CEO, Economic Associates
ayo.teriba@econassociates.com
Author page: http://ssrn.com/author=358232

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Abstract

Show me a *continent, country, region, state or city* that is *liquid, stable, and growing, with socio-political harmony*, and I will show you it is *optimizing its public assets*. Show me one that is *illiquid, unstable, and declining, with socio-political disharmony*, and I will show you it is *not optimizing its public assets. Assets can always be optimized to fix or rejuvenate other balance sheet and income statement items.*

Contents:

[1] This paper builds upon and refines ideas earlier developed in Teriba, A. (2020), Nigeria's Post Covid-19 Economic Outlook May 1, https://ssrn.com/abstract=3590393; Teriba, A. (2019), '*Unlocking Liquidity in Nigeria*', ssrn.com/abstract=3454652, Teriba, A. (2018), '*Harmonization of Fiscal and Monetary Policies in Nigeria*' ssrn.com/abstract=3163481, Teriba, A. (2017a), '*It Is Time to Resolve Nigeria's Monetary Policy Conundrums*', ssrn.com/abstract=2947533, Teriba, A. (2017b), '*Nigeria's Economic Outlook in 2017*', ssrn.com/abstract=2939899, Teriba, A. (2016), '*This Time is Different: There is a Clear Way Forward for the Nigerian Economy*', ssrn.com/abstract=2813560, Teriba, A (2015a), '*Nigeria's Post-Election Economic Realities*', ssrn.com/abstract=2628976, Teriba, A. (2015b), '*Nigeria's Economic Outlook in 2015*', ssrn.com/abstract=2563975, , Teriba, A. (2013a), *Puzzles About Monetary Policy in Nigeria*, ssrn.com/abstract=2442602, and Teriba, A (2013b), *A Reality Check on Fiscal Policy in Nigeria*, ssrn.com/abstract=2442589.

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1. Getting National Financial Strategy Right

Finance is usually captured in two sets of reports, *income statement* and *balance sheet*, with each having three components. Income statement captures *flows of revenue, spending, and deficits/surpluses*, while balance sheet captures *stocks of debt, equity, and assets.*

Like most countries around the world, Nigeria's economic and financial economic management from 1960 to 2020 has *passively* focused on the income statement and *neglected* the balance sheet altogether. *Neglecting the balance sheet is the main reason for Nigeria's unflattering fiscal and economic narratives.*

Global weakness of commodity prices since 2014 has exposed Nigeria's income statement to revenue shortfalls as both oil revenues and much of Nigeria's non-oil tax revenues are cyclically dependent on external liquidity from oil. Covid-19 pandemic has only aggravated the situation.

As revenue dwindled, Nigeria has incurred growing deficits to fund mostly recurrent spending. The perennial deficits have increased debt stocks, and debt costs are rising to levels almost as high as available revenue, especially at federal level. We may have become revenue-poor since 2015, we have always remained asset-rich.

2. Why Nigeria Must Change Strategy

Nigeria needs new sources of non-oil, non-tax, non-debt revenues that our peer countries thrive on in the face of global export shortfalls and recession that erodes their tax base. This should be easy for us to do. But we must *find the political will* to *look beyond income statement* and debts and *set gaze on national assets*, and the *opportunities they offer* as we try to restore liquidity, stability, growth and socio-political harmony.

It should be easy for Nigeria to unlock large sums for the following local and global tailwinds:

a. Nigeria is asset-rich: perhaps no country has a richer stock of idle/unexploited public assets.
b. Quantitative easing since 2009 has precipitated an unprecedented global liquidity glut.
c. US$10 trillion injected by major countries in 2020 to mitigate lockdown has increased the glut
d. Liquidity will leave advanced markets with prolonged lockdown for markets that have reopened.
e. Our peers[2] are *connecting global liquidity to local assets* to *attract large streams of external liquidity inflows.*

3. How Nigeria Should Change Strategy

The place to start is to answer basic questions about:

a. What assets does Nigeria own?
b. What are they worth (*market value*), and what are we currently getting from them (*use value*)?
c. What strategic opportunities do they offer for raising liquidity now and in the future?
d. What steps must we take to harvest all the opportunities, not just the low hanging ones?

A closely related set of questions that will also be helpful to answer are:

a. What assets are our peers relying on to raise liquidity?
b. How large are the resources they are unlocking from various asset classes?
c. How are they unlocking the liquidity?
d. How long is it taking them to unlock different types of liquidity?

Nigeria is currently one of the large number of countries that everyone around the world knows what they owe, but no one knows what they own. This is because they have no asset register where assets can be listed or valued. This weakens their balance sheets as debt is the only item that is known for sure on their balance sheets. Tis fuels perceptions of insolvency.

Nigeria must take immediate steps to join the few countries that everyone in the world knows both what they owe and what they own by creating an asset register where all assets owned by Nigeria can be listed and valued.

[2] Nigeria's peers include BRICS (Brazil, Russia, India, China, and South Africa), MINT (Mexico, Indonesia, and Turkey), and Egypt, Saudi Arabia and United Arab Emirates from Middle East and North Africa.

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This would strengthen our balance sheet, open our eyes to assets we can leverage on to raise equity and other securities, and enhance our net worth[3]. There is no alternative way out of the current crisis.

4. Five Asset Clusters to Unlock Liquidity From

The five national asset types are:

a. *Cash, Cashflows, and Listed Shares*

These *financial assets* have verified *third-party claims* or *known market values* and are either *already in cash* or *can be securitized to raise cash,* are easily captured on the income statement or budget as revenues, and on the balance sheet as cash, receivables, or *securitizable* discounted present values of future cash flows.

b. *Corporate Assets and/or Unlisted Shares*

These *nonfinancial assets* have no verifiable *third-party claims* or *known market values* that could be reflected on the balance sheet or taken into consideration in the assessment of our net worth.

Our peers are financializing them by generating third-party claims on such assets through *securitization* by issuing minimal IPOs that establish market value and/or through *privatization* by selling larger shares in their wholly owned companies to unlock liquidity in the form of huge sums of Brownfield FDI.

i. The recent 1.5 percent ARAMCO IPO issued by Saudi Arabia is a compelling example. The 1.5 percent IPO helped the country to raise US$26 billion immediately but the bigger gain for the country is that the IPO verified that the value of ARAMCO on Saudi's national balance sheet is more than US$2 trillion.
ii. This goes a long way to strengthen their balance sheet, improve their net worth and credit risk rating, while also lifting their securitization headroom for selling desired fractions of the newly verified equity stake in ARAMCO or just issuing sukuks against it.

Nigeria has many corporate assets that contribute no value to our *balance sheet*, assessments of our *net worth*, our sovereign *risk rating*, our *asset securitization headroom*, or our *liquidity generation headroom*.

c. *Physical Assets: Natural- Assets beneath the land, and the Land; Produced: Built Structures*

These *nonfinancial assets* also have no verifiable *third-party claims* or *known market values* that could be reflected on the balance sheet or taken into consideration in the assessment of our net worth.

Nigeria has thousands of valuable but idle or underutilized pieces of land and built structures in prime locations across 774 local government areas. Nigeria's postal service and police force each hold more than two thousand parcels of such premises, there are 235 prison facilities, and a similar or greater number of military barracks. Nigeria can unlock hundreds of billions of US dollars in liquidity in the short-term through *liberalization* by *auctioning relocation/redevelopment rights*, with the additional possibility of *securitizing the expected cash flows* from lease and sale income once redevelopment starts in the medium-term.

Other countries are unlocking cash and cash flows by repurposing and redeveloping idle/lands and built structures for *commercialization* through leasing, rental, and sale in the first instance, and securitization of confirmed cash flows in the second instance[4].

i. India generates about 10 percent of its total federal budget from land auctions, leases and sales.

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[3] These issues are articulated in a flurry of recent research at the IMF, Alves, M. and De Clerck, S. and Gamboa-Arbelaez, J. (2020), Public Sector Balance Sheet Database: Overview and Guide for Compilers and Users, IMF Working Paper No. 20/130, July, https://ssrn.com/abstract=3670610; Yousefi, S R (2019), Public Sector Balance Sheet Strength and the Macro Economy, IMF Working Paper No. 19/170, Fiscal Affairs Department, International Monetary Fund, August, https://www.imf.org/en/Publications/WP/Issues/2019/08/06/Public-Sector-Balance-Sheet-Strength-and-the-Macro-Economy-48529; Harris, J, Senhadji, A, and Tieman A.F (2019), 'A Global Picture of Public Wealth', IMF Blog, June 18, 2019, https://blogs.imf.org/2019/06/18/a-global-picture-of-public-wealth/; Gaspar, V, Harris, J, and Tieman, A F (2018), 'The Wealth of Nations: Governments Can Better Manage What They Own and Owe' IMF Blog, October 10, 2018, https://blogs.imf.org/2018/10/09/the-wealth-of-nations-governments-can-better-manage-what-they-own-and-owe/; Dag Detter and Stefan Fölster (2018), Unlocking Public Wealth: Governments could do a better job managing their assets, Finance & Development, March, Vol. 55, No. 1, https://www.imf.org/external/pubs/ft/fandd/2018/03/detter.htm.

[4] See Teriba, A. (2020), Nigeria's Post Covid-19 Economic Outlook, https://ssrn.com/abstract=3590393 for references.

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ii. Hong Kong funds its entire capital budget from this source with some surplus.
iii. The US created a Federal Real Property Council that has liberalized its civilian real estate portfolio (https://www.gsa.gov/policy-regulations/policy/real-property-policy/asset-management/federal-real-property-profile-frpp/federal-real-property-public-data-set?bypassAkamaiCache=1511550008) and licensed auctioneers/valuers, redevelopers, and facility managers (https://www.gsa.gov/policy-regulations/policy/real-property-policy/asset-management/federal-real-property-council-frpc), just like we created the National Communications Commission that liberalized our GSM telephony and we created National Pension Commission that liberalized our pension sector.
iv. The US also has a program for closing military bases and turning them into great places across its 50 states (https://www.epa.gov/fedfac/base-realignment-and-closure-brac-sites-state).
v. In the last decade, the UK has relocated about a dozen inner-city prisons to more economic locations and freed old prison sites for repurposing and redevelopment into luxury homes, hotels, offices, shopping and other income generating commercial purposes.

d. *Intangible Assets*

Including Entry Licenses, Prospecting, Operating, and Production Rights, Concessions, Spectrums, Patents, Trademarks, Image Rights and are easy to overlook because of their intangibility but they spread across all the other nonfinancial asset classes across all sectors of the economy from agriculture to mining, manufacturing and even services. It is becoming common to speak about the intangible-intensity different sectors and asset types. Liberalizing intangible sectors and attracting investment into intangible assets is perhaps the largest potential source of large-scale external liquidity inflows for Nigeria.

Nigeria's success story in this regard include *liberalization* of GSM telephony and auctioning entry licenses to operatives in 2001, and liberalization of the pension sector and licensing administrators and custodians in 2004, with each of these two making huge impacts on non-oil FDI inflows. While Nigeria's successes in this regard are that few and far between, our peers have been more prolific, with each of them *liberalizing hundreds of intangible sectors and auctioning thousands of intangible assets each year*, and smiling to the bank with record-shattering greenfield FDI inflows each year.

e. *Human Assets, Especially Intangible Human Capital*

Every citizen that carries any country's *birth certificate*, *national identity card*, or *international passport* is part of the *tangible human assets owned* by that country. The extent to which those citizens have opportunities for getting *educated, skilled, reskilled or upskilled* determines the *intangible human capital owned* by the country. Large population is either perceived to be an asset or a liability depending on the *ratio of human capital stock to human asset stock*. High human capital levels mean that many citizens possess the hard and soft skills to add enough value to earn adequately at home and are readily welcome abroad. Many high-income countries offer them special visa programs to attract such people as they try to plug their human capital gaps in education, healthcare, sports, and entertainment.

Philippines is a leading exporter of sailors, nurses, and domestic workers, earning a lot of net service income from aboard, plus migration dividends that makes them fourth largest recipient of remittances in the world, netting US$35 billion in 2019. This was less than India's US$83 billion, China's US$68 billion, and Mexico's US$39 billion, but more than France's US$26.83 billion, Egypt's US$26.78 billion, and Nigeria's US$23 billion (placing Nigeria seventh in the world). Moving from passive and reactive approaches to human capital management to active and proactive approaches, especially in the diaspora space, can make Nigeria the fourth largest recipient of remittances, ahead of Philippines, France and Egypt, once again, as was the case from 2005 to 2007.

Some countries tick all the five asset boxes and now rake in multiple streams of record levels of external liquidity annually in the process, in the face of weakening export and tax revenues. It is high time Nigeria joined that prestigious race for attracting global liquidity into local assets.

Intangible, human, physical, corporate, and financial assets offer *five policy levers that Nigeria can pull* immediately *to get the liquidity required to lift the country out of current stability, growth, and socio-political doldrums.*

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5. Steps towards Asset Optimization

Nigeria does not need to do a long list of things or wait a long time to restore stability, growth and national cohesion. Nigeria needs only to do the following:

a. *Map out a Strategy for Getting Adequate levels of External Liquidity* with Monthly, Quarterly, and Annual Targets. *The following caveats apply:*

   i. Embrace a new strategy of prioritizing how to get the money required to attain ends.

   ii. Do away with the old strategy of putting the cart before the horse by prioritizing endless lists of the ends that we never manage to get the money to attain.

      - Stability requires that we have enough money to meet all external trade and capital flow transactions, especially adequate levels of external reserves to meet all trade and financial obligations, and growth requires that we have more than enough money in the form of external reserves, government revenue, deposits in banks, and bonds and equity buffers, to meet precautionary/insurance needs against unforeseen shocks, and speculative/investment needs to seize every strategic opportunity.
      - Money answers all things. Nigeria's only macroeconomic priority should be to get more than enough money. Stability, growth, employment, shared prosperity, and national cohesion will follow. This is not different from a doctor saying that once his pale and anemic (illiquid) patient is given enough blood (liquidity) his other symptoms like dizziness or nausea (instability) and emaciation (recession) should disappear.
      - It is clear that once the paleness, anemia, dizziness, nausea, and emaciation disappear, the social stigma on the patient that made him/her to lose friends (disharmony) will be removed and people will want to be his/her friends again (cohesion). Our peers' experiences show that *once you have the means* by *unlocking more money than you need*, *you will attain all desired ends*, *and foster strong national sense of belonging*! We must understand that individuals or groups who ask to leave a room when the temperature is not right will ask to remain in the same room once the temperature is right.
      - People exit corporate arrangements that erode shareholder wealth in search of arrangements that enhance shareholder wealth. By the same token, *democratic deficits breed resentment*, while *democratic dividends breed contentment*. We must situate widening social, demographic, ethno-tribal schisms, and calls for restructuring in that context. *Poverty breeds discontent and disharmony, prosperity breeds contentment and harmony*. It is all about getting our elected democrats to do all that is necessary to get the economy to deliver shared prosperity[5]. The time is now.

   iii. Do away with the mentality of 'quick wins' or 'low hanging fruits' that took us into the current situation by making us lose sight of the need to manage medium to long term strategic evolution

   iv. Embrace a mentality of 'all wins' or 'all fruits' that will enable us to start closing the gaps between us and our peers slowly but steadily and hopefully catch up with them one day.

b. *Develop a Roadmap for Creating a National Register for each of the five types of Assets*

   Start a process that will enable us to know what we own, their worth, and how to optimize them.

c. *Develop a Roadmap for Unlocking Large Sums of Liquidity from the Assets*

   Start a *transparent process* that will enable us to connect our assets with global liquidity glut by creating an automated *one-stop investment hatchery* hosting the *universe of fundable/investible projects* in all sectors, states, and tiers of government in Nigeria within an *automated deal origination and consummation process* like India's Investment Grid https://www.investindia.gov.in/india-investment-grid and Brazil's Schedule of Projects https://www.ppi.gov.br/schedule-of-projects, each of which points the way forward on *how Nigeria can join the few countries that have mastered the virtuous art of connecting surplus global liquidity with local assets*. To ensure transparency that will reassure the populace that the public asset optimization efforts will serve the public rather than private interest, the deal origination and consummation processes should be *linked to an escrow account were all proceeds and appropriation can be tracked by all interested parties.*

d. *Use the Proceeds to Renew Nigeria*

[5] Teriba, A. (2014), Nigeria, Democracy, and the Economy, May 19, https://ssrn.com/abstract=2438947.

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Nigeria owns enough assets to elevate Nigeria to the summit in the committee of Nations now and always. We only need *clear enough vision* of where the target is located, and *strong enough political will* to do the needful: *assemble the people with the know-how* on how to take the nation there, and *create transparent automated processes for taking us there*. No time is better to do it than now. Better late than never!

6. Financial Strategy and Wealth of Nations

While this conversation has been pitched at the level of the wealth of nations or countries, it applies with equal force to the wealth of continents, regions, states, local government areas, or cities. Assets can always be optimized to fix or rejuvenate other balance sheet and income statement items. A rising tide lifts all boats.

Show me a *continent, country, region, state or city* that is *liquid, stable, and growing, with socio-political harmony*, and I will show you it is *optimizing its public assets*. Show me one that is *illiquid, unstable, and declining, with socio-political disharmony*, and I will show you it is *not optimizing its public assets*.

Dr. Ayo TERIBA

Ayo is *CEO* of *Economic Associates* (EA) where he provides strategic direction for ongoing research and consulting on the outlook of the Nigerian economy, focusing on global, continental, national, sub-national, and sectoral issues. He is the *Coordinator* of the *Technical Working Group* (TWG) on *Financial Sector and Capital Markets* on National Development Plans *MTNDP 2021-25, MTNDP 2026-30*, and *Nigeria Agenda 2050*. He is the *Vice-Chairman* of the *Technical Committee of the National Council on Privatization* (TC-NCP), where he aligns privatization programmes with the macroeconomy.

He was a *Member* of *Board of Economic Advisers* in the Office of the Economic Adviser to the Vice-President, influencing the conception of policy ideas. He was a *Member* of *Nigeria's Industrial Council*, shaping efforts to ensure Nigeria's industrial advancement. He was a *Member* of *Presidential Technical Advisory Committee on Implementation of New National Minimum Wage*. He was also a *Member* of the defunct *National Economic Intelligence Committee* (NEIC), where he conducted reality checks on economic, fiscal, and monetary policies.

Before becoming CEO of EA in 2004, he was *Chief Economist* at ThisDay Newspaper (2001-2004), *Faculty Member* at Lagos Business School (1995-2001), *Head of Research* at Lagos Chamber of Commerce (1993-1995), and *Company Economist* at UAC of Nigeria (1992-1993). Ayo served as *Consultant* to many blue-chip companies, Federal ministries, departments and agencies, States, DfID, GIZ, USAID, UNDP, UNIDO, World Bank, and was a *Visiting Scholar* to the IMF Research Department in Washington DC.

He got grants from Ford Foundation and Rockefeller Foundation, chaired the *Money, Macroeconomic and Finance Research Group* of Money Market Association of Nigeria, is a Member of Council and Chair of Economic and Statistics Committee of Lagos Chamber of Commerce and Industry, a Non-Executive Director of Proshare and was a Non-Executive Director of Greenwich Trust Group.

He is known for publicly articulating views on Nigeria's economic reform imperatives. From 1996 to 1998, he led the advocacy for re-denomination of Naira notes and coins that led to the introduction of N100, N200, N500 and N1000 between 1999 and 2005. N50 note was the highest denomination.

His current reform advocacy is on (a.) how Nigeria can *ride the three mega trends*, of technology, migration, and liquidity, that *drives the distribution of real and financial gains from globalization*, and (b.) how Nigeria can *connect vast stocks of valuable but under-utilized national assets with the global liquidity glut* to attract external liquidity inflows required to rejuvenate ebbing fiscal, financial, and forex flows, and change the economic narratives.

Ayo holds *B.Sc. Economics* from Ibadan with *Sir James Robertson Prize and Medal*, *UAC Prize in Economics*, and *Economics Departmental Prize* as *all-round best economics graduate* in 1988, *M.Sc. Economics* from Ibadan in 1990, *M. Phil. Economics of Developing Countries* as *a Cambridge-DfID Scholar* from Cambridge in 1992, and *Ph.D. in Applied Econometrics and Monetary Economics* from Durham in 2003. He is an *Alumnus* of Lagos Business School (*AMP 5*) and Henley Business School (BDP) Executive Programmes.

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