The Case for a Nigerian Sovereign Wealth Fund

In 2005 investment giant Goldman Sachs released a research paper pinpointing growth potential in a group of eleven emerging market economies. This paper coined the term the Next-Eleven or N-11 to describe a group of nations, which “could potentially have a BRIC-like impact in rivaling the G7...if not in absolute terms, then at least in terms of new growth.” Among these nations are Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey, and Vietnam (Wilson, Stupnytska 2). Goldman Sachs notes that “all of the N-11 have the capacity to grow at 4% or more over the next 20 years, if they can maintain stable conditions for growth” and in Nigeria, Bangladesh, and Pakistan “significant progress in improving growth conditions could lead to substantial growth bonuses” which surpass the projections (Wilson, Stupnytska 4).

Nigeria possesses the tenth largest reserves of arguably the world’s most important resource, oil (CIA World Factbook). Yet despite this resource endowment, “70% of the population lives on less than $0.70 per day” (FAO 1) and about “60.8% of Nigerians are malnourished” (FAO 2). The country suffers from a condition seen with high frequency throughout the developing world, which the World Bank describes as the “Nigeria Paradox”, a “unique condition of extreme underdevelopment and poverty in a country brimming with resources and potential” (Osadalor 2).

In the 1960’s Nigeria was highly agriculturally productive, as “the world’s second largest producer of cocoa, the largest exporter of palm oil and a principal producer of cotton, rubber, and groundnut,” (Osadalor 1) agriculture represented 67% of GDP (Okuneye 2). However, the oil boom of the 1970’s caused a general neglect of the agricultural sector. These economic vicissitudes, prompted by the influx of petrodollars, caused agriculture to fall dramatically as a percentage of GDP and the country to make a transformation from a net exporter of food to a net importer (Okuneye 6). Not only did global demand for petroleum appreciate the Nigerian Naira, hurting Nigerian exporters in other industries, but it has also led to an extremely inflationary environment, as citizens have “[demanded] their own share of the ‘oil boom’ money by increasing the various prices of goods. The consequent effect of this [is] the continued importation of consumer goods which [have had] a negative effect on Nigeria’s balance of payment records” (Sikkam 130). Food exports which represented 72% of total exports in 1970 now represent less than 1% and food imports now represent 11.8% of total imports (Okuneye 6). Keeping with this trend, the “food import bill rose from N 3.474 billion in 1990 to N 195.814 billion in 2001” (Okolo 7). Interestingly enough, as the oil resource exploitation intensified and the agricultural sector began to collapse, this collapse “coincided with the collapse of [Nigeria’s] macroeconomic and human development indicators” (Osadalor 2).

As Goldman Sachs noted, Nigeria has the ability to assume a position among the world’s top economies; however, if the “N-11 Dream” is to become a reality, it is crucial that Nigeria solve
its food security problems. As Dr. Omonona from Nigeria’s University of Ibadan Department of Agricultural Economics notes, “the economic development of a nation is dependent on its factor endowment…the productive capacity of the human resources is however a function of how well fed they are” (Omonona, Agoi 398). Agriculture as an industry should provide raw materials for other industries, protect “the nation from high costs of importation, produce excess over and above the local demand for export,” and “continually generate employment for the people as well as a high level of returns for the farmers” (Okuneye 2). In Nigeria agriculture is a key sector as 60-70% of the population is involved in farming with “smallholder farmers [constituting] 80% of all farm holdings”. Thus, agriculture has the ability to affect a majority of the population (FAO 1). Though, as the resource mismanagement precedents show, the nation clearly lacks the institutional infrastructure to take full advantage of all factors of production with which it has been endowed. Furthermore, the nation’s political situation is not conducive to the creation and sustainment of food security.

Poverty in Nigeria is rampant as estimates indicate that nearly 90 million Nigerians are food insecure and “the incomes of most families are not adequate for the basic sustenance of life” (Akpan 2). These exorbitant poverty levels can be attributed to the failed agriculture sector (Okuneye 10) where “over the last decade, Nigeria’s domestic food production has consistently lagged behind national food demand” (Okolo 6). Nonetheless, “real wage and employment are the main determinants of food security in the urban areas” and “the level of domestic food production dictated by the extent and ease of access to production inputs and services is a primary determinant of food security in rural areas” (Omonona 401). Traditionally poverty is more prevalent in rural areas; however, due to increasing urbanization these trends are changing (Osinubi 2).

In August 2003 Tokunbo Osinubi, from the faculty of the social sciences at Nigeria’s University of Ibadan, released a study on urban poverty in the Lagos state of Nigeria. 140 household surveys requesting basic demographic and standard of living information were distributed in the Agege area of Lagos and of those 100 were collected (Osinubi 10). Of the respondents 79% were married (11) and “96% of the households fall between household size 2-5 and 6-9”, the latter being the larger demographic accounting for 59% of respondents (14). Age demographics show participants to be mostly middle-aged and “on average at their economically active age”. This is notable as it indicates that many urban families still possess the ability to earn income to be used for basic necessities (12). Further demographics indicate, “82% of the respondents are educated. However, the level of education varied from primary to secondary and tertiary institutions. Thus, the number of years spent in school varies from 6 to 15 years”. The tertiary education level category had the largest percentage distribution at 45% of respondents. Hence, the average resident of Lagos is quite educated (13). Notwithstanding the relatively high levels of education, 70% of participants had income below N 30,000 or roughly $200 a month (15).

Low incomes in urban areas, the prevalence of which is indicated by Osinubi’s research, have affected the food security situation. The World Bank estimates that in order to meet minimum calorie requirements “N 395.41 per capita per month at 1995 prices” or “N 1500 per capita per annum at 1996/97 prices” is necessary (Osinubi 8). These low incomes and the inflationary environment have made many high protein foods such as milk, eggs, fish, and meat inaccessible to the average Nigerian. Therefore, “the typical Nigerian diet consists of low protein and high
carbohydrate and fiber levels” (Oboh, Omofoma, Olumese, Eiya 399) and “the average intake of 9 gms of protein per day as against the recommended rate of 65 gms is grossly inadequate” (Okolo 7). The lack of proper nutrition among Nigerians has led to the increased prevalence of deficiency diseases such as iron deficiency, protein energy malnutrition, and vitamin A deficiency (FAO 2). The food insecurity situation in urban Nigeria has become an abysmal cycle in that “improved food utilization also has feedback effects, through its impact on the health and nutrition of household members and therefore, on labour productivity and income earning potential” (Omonona 400).

Further incidence of poverty among urban Nigerians is reflected through accessibility to clean water. This factor can have a significant impact on the health of the urban poor. Though according to Osinubi’s research, only 17% of participants had in-house piping, whereas 42% of participants are forced to purchase their water (Osinubi 17). Additionally, 73% of respondents are using pit toilets, while only 27% have access to flush toilets (16). In order to solve the multidimensional issue of poverty in Nigeria, policy makers must make a concerted effort to increase food availability, accessibility, and utilization throughout the whole country.

The greatest tool available to combat poverty is investment. As Dr. Dickson Okolo notes in his Special Study Report for the Food and Agriculture Organization, “government under investment in the rural areas has been amounting to indirect taxing of farmers and rural dwellers…Nigeria needs to improve rural agriculture in order also to stem the exodus of young people to the urban centers in search of jobs that attract relatively better wage than is offered in the rural areas” (Okolo 3). Nevertheless, it is imperative that policy makers view the use of agriculture in sustainable development from both a production and price perspective, keeping in mind the inflationary tendencies of the Nigerian economy and also noting “that the development of agriculture is highly necessary to ensure that more food is produced and made available to non-producers at reasonable prices” (Okuneye 6). Through investment in rural agriculture, poverty in both rural and urban areas can be combated. By increasing production, food as an expenditure can be made a lower percentage of real wages of urban workers. Consequently, allowing these peoples to distribute income to other consumer goods and in turn, improve their standard of living.

Over the last 50 years the Nigerian economy has become increasingly singular to the point that today oil “provides 95% of foreign exchange earnings and about 80% of budgetary revenues” (CIA World Factbook) and “in 2000, Nigeria received 99.6% of its export income from oil, making [it] the world’s most oil dependent country” (Akpan 1). Through joint-venture agreements with multinational oil companies the government receives rents, royalty, and profit taxes (Sikkam 126). According to Standard & Poor’s, these oil revenues have left the country with “swollen reserves” (S&P 3). However, due to the wasting nature of the country’s oil assets it is imperative that economic diversification occur while capital reserves are at a surplus (Sikkam 123). Nigeria must reduce its overdependence on oil and use current account surpluses to revitalize its once thriving agricultural sector.

Nearly 75% of Nigeria’s 98.3 million hectares is arable. Yet this begs the question regarding the intensity of food imports and the lack of food security (FAO 1). The CIA World Factbook pinpoints infrastructure as “the main impediment to growth” and the International Food Policy
Research Institute notes, “Nigeria’s move towards more market-orientation in its rural sector appears to be hampered by continued ineffective market policies and distortions, weak institutions, and inadequate infrastructure” (USAID 10). Moreover, the Food and Agriculture Organization estimates post harvest losses due to inefficient and obsolete agricultural practices to be between 20-40%. Thus perpetuating supply instability (FAO 1). Clearly, the food insecurity situation can be attributed to the aforementioned neglect of the agricultural sector, the product of which is a lack of supporting infrastructure. According to P.A. Okuneye, the national president of the Farm Management Association of Nigeria, over the last several years “the increase in agricultural production was due more to expansion of the area cultivated than [increased] productivity” (Okuneye 11). In addition, Okuneye observes that Nigeria possesses poor feeder roads and irrigation systems, lacks adequate road networks between rural agricultural areas, food storage facilities, and sustained electrification (3). The problem is perpetuated by few incentives to industries and banks to finance agriculture and therefore, there is a lack of microcredit to smallholder farmers in the midst of skyrocketing input prices (5). While recently deceased “President Yar’adua [pledged] to continue the economic reforms of his predecessor with emphasis on infrastructure improvements” and the government has begun to encourage privatization and “market-oriented reforms urged by the [International Monetary Fund]” (CIA World Factbook), budgets for capital projects are still inadequate and credit for the smallholder farmer remains nearly unattainable (Okolo 57). Further policy initiatives should be targeted towards developing a structural support system for smallholders through encouraging local food production “by making inputs available, giving farmers access to more farm land, providing microcredit at subsidized cost, supporting adequate processing and storage, providing market facilities, and discouraging import of produce with local substitutes” (FAO 4).

Investment in agriculture and infrastructure support facilities can be made possible through the creation of a sovereign wealth fund to which a percentage of oil revenues are funneled. Unlike Nigeria’s Excess Crude Account which is used to protect against adverse petroleum price fluctuations and is plagued by illegal withdrawals and a lack of transparency (Akintunde 2), said sovereign wealth fund would have to be directly overseen by an international authority such as the IMF. Furthermore, this fund should be modeled after the Norwegian Government Pension Fund, which uses oil revenues to pursue a “high-return, moderate-risk investment strategy” with 60% of assets in equities and 40% in fixed income securities (Velculescu 4). During the fund’s initial year a direct capital injection into infrastructure should be made to expedite economic development. However, in all successive years withdrawals for reinvestment into the country must be no more than the fund’s real rate of return. As a result the fund will avoid the ephemeral nature that the Excess Crude Account has developed through frequent depleting withdrawals. All investment endeavors undertaken with fund capital must be overseen by third party non-governmental organizations and the IMF must take prudent care to insure that the Nigerian economy is not over-monitized, exasperating the 12.4% inflation rate (CIA World Factbook). While an internationally overseen Nigerian Sovereign Wealth Fund would require a sacrifice of some national sovereignty, it would ensure that oil wealth is distributed among all Nigerians, stemming ethnic conflict, and allowing for sustainable economic development in the face of a poor global Corruption Perceptions Index rating which places the nation in the lower quartile of the world at 130 out of 180 (Transparency International).
Sustainable economic development in agriculture and infrastructure can be achieved in accordance with the National Economic Empowerment and Development Strategy, “that seeks to implement a series of reforms that [are] designed to lay a solid foundation for a diversified Nigerian economy” by “[setting] specific goals in major growth indices as wealth creation, employment generation, intuitional reforms and social charter” as well as encouraging privatization (Akpan 5). In order to better institute developmental reforms, the International Food Policy Research Institute should establish its proposed Nigerian Agriculture Policy Support Facility which would “generate policy research results to fill key knowledge gaps” (USAID 6) and “strengthen the capacity of policymakers, researchers, analysts, advisers, program managers, and trainers to design and carry out agricultural policy research, engage in policy communication, and to improve the development and implementation of evidence-based rural agricultural policies in Nigeria” (20).

While subsidies are typically considered economically detrimental, in the case of Nigerian agriculture the use of capital from a sovereign wealth fund can incentivize the private sector making inputs cheaper and more available through the commercialization of “improved seeds, seedlings, cuttings and suckers…fertilizers, herbicides and insecticides” (Okuneye 12). The subsidization of these modern agricultural innovations would reverse the trend of limited adoption and therefore increase “subsequent impact on yield and production levels” (4). Also, investment should be made in “soil fertility improvement using organic matter to plant arable crops and [the] planting of economic trees in marginal and eroded soils…support for water management systems in low lying flood plains…support for production, processing, storage and [marketing] of produce”, mechanization, increasing the availability of microcredit, and general infrastructure development including but not limited to electrification and water treatment facilities (FAO 10). Investment in such projects will yield tremendous benefits as “facilities like good feeder roads will enhance the evacuation of output and transportation of inputs to rural areas” (Okuneye 12). Moreover, a push can be made towards the development of organic agriculture through a $2.4 million German-backed FAO organic certification program. Not only are organic foods becoming more desirable for export to first world nations, but also organic agricultural “practices tend to be more natural, environmentally friendly and also [sustain] the health of soils, ecosystems and people” (Momoh 3). Though above all, any investment in development projects through a sovereign wealth fund must “ensure pro-poor outcomes that are gender-sensitive and environmentally sustainable” (USAID 7).

The food insecurity situation within Nigeria is certainly not at an impasse. As the country moves toward transparency in the oil industry by “[making] more oil-related information—such as fees collected from oil companies—available to the public” and “[hiring] a Western firm to audit its oil revenues” (Pan 2), the development of an internationally overseen sovereign wealth fund is achievable. Even so, the internationally overseen nature of this fund and the carefully managed implementation of all projects undertaken is necessary as past precedents show that the government simply cannot be trusted to reinvest the oil wealth. By using oil revenues to invest in sustainable agriculture and infrastructure development projects, ethnic conflicts in the Niger River Delta can be stemmed and market institutions can be supported. If the dismal political situation fails to improve or worsens, said institutions could assist in the maintenance of some economic progress and contribute to greater food security. Not only will investment make inputs more available and affordable, creating a livelihood for rural families, but also as food
production increases, food costs will fall, and the burden on urban families will be lessened. As Eme Akpan from the Department of Economics at Nigeria’s University of Ibadan notes, “self-reliance in food production is the best policy option for the nation in the quest for food security” (Akpan 23). When Nigeria “[begins] to deliver on some of [its] increasingly stated desires to improve growth conditions” and the food security situation is solved, it can fulfill the “N-11 Dream” and “may end up proving to be among the more interesting investment stories of the next decade or two” (Wilson, Stupnytska 16).
Works Cited


