

Bringing Dead Capital to life

What Nigeria should be doing



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Our Estimate

PwC estimates that Nigeria holds at least \$300 billion or as much as \$900 billion worth of dead capital in residential real estate and agricultural land alone. The high value real estate market segment holds between \$230 billion and \$750 billion of value, while the middle market carries between \$60 billion and \$170 billion in value.

There are many forms of dead capital but in this paper, we focus on real estate. This report estimates the amount of dead capital in residential and agricultural real estate

across Nigeria. We also recommend ways in which the estimated capital can be unlocked and leveraged to create value and grow wealth in the economy. Several underlying assumptions were made to support this estimate.

- 1) The estimate assumes that total population of people in Nigeria is 200 million, and 40 million households, with 5 members each. The typical house in Nigeria is over capacity with an occupancy rate of 7 people to a room.
- 2) approximately 95% of household dwellings in Nigeria have no title or a contestable title¹.



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Nigeria is the largest economy in Africa with a GDP of \$US 530 billion¹, a long term average growth rate of 3.5% and is expected to grow 2.3% in 2019¹. Oil revenues contribute more than two-thirds of the nation's revenue and constitutes 9% of the GDP. The informal economy accounts for 65% of GDP which is amongst the highest in the world. In 2017, the economy recovered from a recession as global oil prices recovered and export production increased; the economy recorded real GDP growth of 0.82% compared to -1.56% in the previous year.

The IMF's most recent report on Nigeria concluded that Nigeria is set to experience incremental decline to income per capita over the next 8 years, through 2022. This decline is a result of slow GDP growth

exceeded by a population growth rate that is not expected to slow in the near future. Population is expected to reach 263 million by 2030. In contrast, GDP is growing at a slower and less consistent rate, averaging 1.4% since 2016.

In order to circumvent this projected crisis, Nigeria requires more investment in critical areas that directly impact economic growth. Heavy investment in infrastructure coupled with structural reforms will loosen domestic and foreign capital, allowing more businesses to thrive. In the long run, investing in human capital will yield economic prosperity by overriding high unemployment in a large population.



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Nigeria is underperforming and unlocking dead capital is critical to stop this. This paper hopes to discuss the essence of dead capital and the potential of its effective utilization.

What is Dead Capital

Lack of access to finance is a major contributor to persistent poverty. Research has long shown a positive relationship between financial development and poverty reduction. Individuals and businesses benefit from a range of financial services such as saving, loans and insurance products that allow them to mitigate financial risks and access capital for value-creating endeavors.

In 2001, Hernando de Soto coined the term 'dead capital' to describe assets that cannot be converted to economic capital. Capital is any resource that can be used to increase productivity and generate wealth in the economy. He posits that the differentiating factor between developed and developing countries is the ability of convert physical assets to capital that creates value. According to De Soto, capital is the most essential component of societal advancement and deserves the utmost priority when developing solutions for developing countries.

Presently, a large proportion of Nigeria's population operate in the informal sector by living in informal dwellings and/or working in the informal sector. For many, the cost accrued in the formal sector outweigh the benefits. However, this creates a large stock of dormant assets.

Capital is scarce in societies with large stock of dormant assets. Ideally, a standard description of assets lowers the costs of economic transactions, as it provides security for parties involved by making transactions legitimate and legally binding. However, a lack of description makes transaction costs too high to be economically beneficial for both parties. The poor are therefore unable to leverage their assets and possessions for economic gain.

This report estimates the amount of dead capital in residential and agricultural real estate across Nigeria. We also recommend ways in which the estimated capital can be unlocked and leveraged to create value and grow wealth in the economy. Several underlying assumptions were made to support this estimate. 1) The estimate assumes that total population of people in Nigeria is 180 million, and 36 million households, with 5 members each. The typical house in Nigeria is over capacity with an occupancy rate of 7 people to a room. 2) approximately 95% of household dwellings in Nigeria have no title or a contestable title¹.



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1. Affordable Housing paper

Structural reasons for dead capital - Land Tenure System in Nigeria

Land tenure system in Nigeria is still largely in the communal and informal sectors. Sporadic efforts by the government on formalization of property rights through certificate of occupancy in cities like Lagos are yet to meet the intended goal. Land ownership has been quite a stressful process as a result of this complex land tenure system. The current legal status overseeing the formalization of land ownership is the Land Use Act, which was created to support fair access to land by establishing a certificate of occupancy system with fees and taxes. The Act has failed to establish a uniform land tenure system that govern ownership in the country. More so, most citizens, especially in the rural areas where land is not scarce, do not comply with legal provisions of the Act and have no certificates on their land. Issues around proper land registration and omole also makes it difficult to ascertain proper land ownership. About 97% of land in Lagos is unregistered². This makes it difficult for banks to validate claims to land or for land occupants to use their land to create wealth.

a. Obstacle to Legality

Difficult registering a property and obtaining a construction license create obstacles to legality.

With regards to registering a property, Nigeria ranks 184. In Lagos, it takes an average of 12 procedures and 105 days to register a property, costing up to 11.1 percent of the property value. This process is made difficult due to the low quality of land administration in Lagos³. This does not encourage formal declaration of assets and discourages people away from registering their properties.

Nigeria ranks 149 on the Ease of obtaining a Construction Permit and requires 17 procedures, 118 days, and 27.5% of property value. This encourages more informal construction of properties and increases risks in the real estate sector.

b. Challenges Staying Legal

In urban land markets, it is expected that pricing systems, demand and supply, information systems as well as social interactions should increase the level of accessibility to land. However, increasing population and multifarious land needs of urban households have put pressure on demand. Hence leaving the pricing system to dictate solely the allocation and distribution of land in the market. At current low-income levels, the urban household is prone to market segregation. The state's intervention at creating and sustaining equilibrium and equitable access to land through the Land Use Act has created a myriad of problems. A strong example is the problem of centrality in the administration of land leading to bureaucracies and corrupt practices. Stemming from the above market and socio-economic situation, there has been a shift by urban household to access lands through the informal property market.

Properties with owners who have violated expressed prohibitions and which do not have updated registry records have left the

The Land Use Act vests all land in urban areas, except Federal Government land, ownership to the state Governor who then has the right to grant statutory right of occupancy to individuals and organisations. Land in other areas of the state belong to the Local Government who can then issue a customary right of occupancy. It is illegal to mortgage, sublease or engage a transfer of possessions on land with a customary or statutory right of occupancy without permission of the Governor. This restricted ownership and unregistered land creates dead capital as people cannot easily leverage their assets to create wealth.

The country needs to invest in establishing proper and seamless land administration and implement policies that will improve land accessibility.

formal market. Therefore, as a result of bureaucratic challenges, such as red tape and inertia, and the high cost of registration, businesses and households that have left the formal market are comfortable staying informal.

Collateralized loans are the most common lending contract in the formal financial sector. In low- and middle-income countries such as Nigeria, 70–80 percent of loans require some form of collateral. Loans secured by collateral have far better terms. Having fixed assets as collateral reduces the cost of lending and provide better terms than movable assets collateral. This is because fixed assets are more valuable than movable assets and reduces the risk of bankruptcy.

Policy makers believe that enterprises cannot access finance due to insufficient collateral. However, firms own collateral but they cannot use it. This is because there is a disparity between the collateral that firms have and what banks accept as collateral. Reports have shown that firms have more movable assets than fixed assets. This assets include machineries, vehicles, intellectual property, goods and services and even receivables from creditors. In developed countries with formal property rights, central information for assets and advanced legal systems for collateral, most of these assets are acceptable as collateral. However, In low- and middle-income economies, only real estate and new vehicles are accepted as collateral. This means that for services based and countries with large informal economies, little of what they own can be used as collateral. Using this makes them turn to informal sources and personal networks for financing their businesses through unsecured loans rather than formal channels in the financial system in an attempt to drive down the cost of lending.

This can be solved through reforming collateral laws and establishing a single registry for pledges of collateral, so that prospective lenders can easily establish whether there is a prior claim on an asset.

2. <https://www.vanguardngr.com/2018/10/land-management-stakeholders-say-only-3-of-land-in-nigeria-is-registered/>

3. http://www.doingbusiness.org/en/data/exploreconomies/nigeria#DB_rp

a. Blockchain for Land Registry

Blockchain, the distributed public ledger database system can bring tremendous potential applications to property rights and recording of property titles for those who operate in the informal sector.

This new technology also gives communities the opportunity to bypass many other private services which assist parties in the West to sell and track titles and deeds; these include: solicitors and notaries, appraisers, insurance firms, mortgage brokers and banks, custody of documents, etc. These new ways of trustworthy registration and authentication would help the communities to secure and manage their capital when selling and renting, their assets. It will also list every single transaction and other people in the system would be able to instantaneously verify these transactions, protecting people or community's privacy but at the same time giving enough transparency to allow for oversight from anyone.

Establishing a single registry for pledges of collateral, so that prospective lenders can easily establish whether there is a prior claim on an asset is essential in improving access to credit and ensuring trust in the system.

Transactions done through the blockchain accrediting process should be legally binding and admissible in court. Countries currently exploring the use of blockchain to reduce the issue of disputes and make land and property more accessible and liquid include Brazil, India and Sweden.

The blockchain system should address the following:

- Recorder of deeds after identifying and describing each asset. On a community scale, that is, a quarter or a small settlement, enumerate and map the assets in order to envisage future planning and developmental priorities. This information will be extracted from a community-based data gathering in order to create a strong link of confidence between grass-root organizations and slum dwellers.
- Provider of a single record keeping platform where the deeds of real property rights are kept and may be researched by investors, buyers, or other communities, etc.
- Intermediary between loans and micro credits companies using blockchain technology for people who don't have bank account or credit history.

A Blockchain-Based Land Titling Project – The Republic of Georgia

The land registry system was previously managed by the Bureau of Technical Inventory and the State Department of Land Management. Each ran its own system of land registry that was opaque enabling government officials to illegally change land records in the system.

The National Agency of Public Registry created NAPReg, a digital database that included information such as property titles and satellite photos. This enabled details of land property information such as name and address to easily be found. Although this reform created cost and time reductions it did not fully solve the public distrust in government agencies, as officials could still alter land records.

Blockchain as a Solution

Bitfury, and the Republic of Georgia, formed a partnership in April 2016 to create a one-year trial project to move the country's land registry system to a Blockchain platform. Georgia had been able to maintain an accurate account of land titles in its current NAPR database, which is crucial for the success of a Blockchain project.

Phase One

The goal of the first phase was to apply Blockchain technology to Georgia's land registry system by creating a Blockchain-based timestamping layer on top of the NAPR's existing digital land registry system.

The user interface was not modified. Changes were made primarily to the backend of the system, where certificates are timestamped and hashed in the Bitcoin Blockchain.

According to Bitfury, one of the most significant benefits of timestamping is to “add immutability and allow the owner of the document to prove to anyone that the receipt existed no later than the time of timestamping, and that it was authorized by NAPR.”

Phase two

Based on the efficiency and transparency of Phase One, Phase Two is in the works.

Conclusion and Outcomes

According to Forbes, the Georgia pilot project makes it the first time a government has used the Bitcoin Blockchain to record land titles. The project has significantly improved the government's efficiency and helped restore public trust in national agencies. As of 2018, a total of 1.5 million land titles in the Republic of Georgia were published on the Blockchain, which ensures the security and immutability of the data.

The success of the Georgia project was the result of two important factors— education and data quality. The existence of high-quality data, as a result of NAPR reforms, helped ensure the credibility of the project. This is evidence that for Blockchain based solutions for governments, while the technology can ensure the security and immutability of information, it cannot be a substitute for the institutional infrastructure that is essential for ensuring the quality of data.

Implementing land reforms will increase participation in the real estate market and increase capital inflows into the sector. With a mortgage to GDP ratio of 0.5%, real estate has been unfavorable to invest in due to the high cost of mortgages and difficulty in accessibility. With a single registry for property and collateral contracts through blockchain, it will bring down the cost of lending, increase trust and liquidity in the market and will spur a new breed of activity in the capital markets for real estate products such as real estate investment trusts and mortgage backed securities.

Currently financing real estate projects are currently done by traditional bank lending but with increased participation, it is expected that real estate players besides the NMRC and FMBN would also float bonds in the capital market hoping to seek private capital to develop the sector.

This would ultimately boost activity in the capital market, increase capital inflows and overall improved economic activity.



Potential Outcome

The conversion of Dead capital to live capital through structural reforms would help convert most of the capital in the informal economy which is currently valued at 65% of GDP into the formal economy. By creating trust in the system, increased participation

will bring about the capital conversion in this economic class through fiscal receipts into the formal economy. It would also increase capital for infrastructure in the sector and increase economic activity.

i NBS Q4 GDP Report

ii <https://www.afdb.org/en/countries/west-africa/nigeria/nigeria-economic-outlook/>

iii http://www.academia.edu/10092646/land_tenure_in_southern_nigeria

iv <http://www.nigeria-law.org/Land%20Use%20Act.htm>



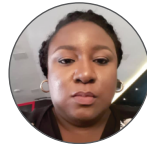
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