

DIVERSIFYING THE NIGERIAN ECONOMY FOR SUSTAINABLE DEVELOPMENT

By

Dennis O Odife,
B.Sc [Hons], MBA, FIMC, FCIS
Chairman, CentrePointBank PLC

Being the text of a speech made at the Opening Dinner of the 2004 Manufacturers Summit under the theme "Mapping the future of the Manufacturing Industry in Nigeria" held at the AFRICAN LEADERSHIP FORUM, OTA, OGUN STATE. April 14-16 2004

Diversifying the Nigerian Economy for Sustainable Development

By

Dennis O Odife

Mr. Chairman,
Distinguished Ladies and Gentlemen,

I am very pleased to be here with you this evening. I thank you for inviting me. I am no longer used to being invited to speak in public. That is since I led the Panel that recommended a new Stock Exchange at Abuja and so you will please forgive me if I sound a bit rusty. But thank God for where we are and for our President and Commander in Chief, Chief Olusegun Obasanjo who many years earlier had recommended a new capital for Nigeria at Abuja. I remember vividly how we were told that if an aircraft could manage to escape crashing into one of the many mountains of Abuja, then river blindness would deal with any survivors. Today, Abuja stands, and it is so beautiful, our creditors have said that they cannot forgive the debts of a nation that owns such a beautiful city. By the time Minister El-Rufai finishes with his work of further beautification, they may decide that the original loan was understated. The challenge is to make all state capitals as beautiful as Abuja and ditto for the rest of the country.

Even though I did not hesitate to accept the invitation, I was curious as to why you wanted to hear me speak. I then decided that it must be because I am a stockbroker and you need a talk on risk management drawn from portfolio theory. But the last time I taught that course was in 1976 at the University of Lagos, nearly thirty years ago. Not that much has changed since then in portfolio theory, but this would clearly not be dinner material for busy manufacturers.

I then recalled an encounter with my manufacturer-cum-economist friend who had advised me during the June 12 crisis to say something when other bankers were speaking up. "What if you don't like what I will say?" I queried. "Ah, oti-oh, you must say something we shall like!" he retorted. I have kept my mouth tightly shut since then. And many of you know what happened when I opened it over the Abuja Project.

Tonight will be different though. No need to bother about reasons for whatever. And I am much closer to retirement than then. I know that you

have taken pains to ensure my comfort: and you have chosen a venue from which even you cannot escape, no matter how badly I perform. I shall therefore go straight to business and do the job as best I can. Your liking it will be just one of the possible fall-outs. There can be no guarantees.

I shall be speaking to you for the next thirty minutes or so on the topic DIVERSIFYING THE NIGERIAN ECONOMY FOR SUSTAINABLE DEVELOPMENT. Since you gave the order, I am sure you know it is a tall one: much like the search for the correct path: the search for *El Dorado*. History has shown that there can be no quick fixes, no formulae to be applied for immediate results. Rather, there are combinations of circumstances, with hard work, that are more likely to produce results than others. It is such combinations that nations seek and apply fastidiously until they obtain the results they deserve.

In a sense, our nation has been no different. We have pursued policies such as Agricultural Commodities Exports Promotion, to [ISI] Import Substitution Industrialization, through Nigerianization and Indigenization to Export Promotion Industrialization, through the Occupation of Commanding Heights of the Economy, back down to Privatization, Liberalization and Deregulation. Most countries, starting from different stages of historical experience and resource endowment have pursued similar policies: a few have made it. We either did not or are not there yet: hence the concern with diversification for sustainable development. The key concepts now are **diversification** itself, then the **economy** and the concept of **sustainability** but I shall not take them in any particular sequence.

Nigeria is Diversified

Talking of diversification, Nigeria is very diversified in terms of its people and cultures: more than 300 tribes or ethnic nationalities. Its very unity and stability are based on that diversity. It is also climatically diverse, from the tropical jungles and swamps of the south-south to the temperate belt around Jos and Obudu, to near desert conditions in parts of the far north. And the various parts are also very well endowed in all sorts of mineral and other resources. Technology fast becoming available and cheaply priced should facilitate their exploitation in the near future. Interest in diversification for now can therefore mostly arise from the dependence of our economy on one major commodity, namely oil, and the need to broaden our revenue base.

Risks of Over-dependence on one Commodity

The main risk is that of over-dependence on one commodity, oil, which is also non-renewable. When oil was first found in Nigeria in the fifties, the prognosis was that Nigeria would never become more than a dot on the world oil map. Today, she is very much more than a dot, about the sixth largest producer or thereabouts. Unfortunately, Nigerian oil is so **sweet** that the Nigerian economy is now nearly 90% to 98% dependent on oil revenues. This dependence exposes the economy to major risks; namely,

The risk that our **production** could fall, [domestic factors]

The risk that the **demand** for our oil could fall [external factors]

The risk that the **price** might fall [external and OPEC related]

The risk that the country could run out of **reserves**.

Risks of Revenue Shortfall

The good news is that whereas our oil production could fall as a result of domestic factors [strikes and insurrections], the demand is unlikely to fall in the nearest future unless the consumer countries like the USA, which is now more than 60% dependent on imported oil, discover other products to replace oil. Prices are a different matter and not even OPEC can guarantee their level for all time, especially in the face of determined opposition from the developed world. Our reserves can still take us a few decades at current levels of production and there is hope that advances in technology will reveal further finds, even from previously exploited wells. The biggest risks are in the domestic front and it is therefore not by accident that much Nigerian oil production currently takes place off shore, away from the warring youth gangs. The goals of policy here would therefore be to create and sustain economic, political and social conditions, which make the extremism that results in 911-type adventures unattractive under any circumstances.

There are other derivative risks but the foregoing will suffice for now. From the point of view of the layman, the most important aspect is the risk that revenues would not be sufficient for the yearly budget and that times could become hard or harder. Diversification as a subject is concerned with protecting ourselves and our children against such risks.

Sustainable Development

The second concept with which we shall be concerned is sustainability. In simple terms, like democracy, sustainability has to do with conditions under which we are able to offer a majority of the people, including future generations, better life, and for all, not just the women. To pursue sustainable development is to **“...ensure socially responsible economic**

development while protecting the resources base for the benefit of future generations...” A recent study reported by the BBC has claimed that Nigerians are the happiest people on earth. If this is so, perhaps there is no need to bother about further diversification. Just carry on! Except that there are other studies also, and some of them say we are the 20th poorest nation in the world today from being the 20th richest nation some 20 years ago.

There is therefore more to sustainability than our acclaimed happiness. Nations have, first and foremost, to use ideas, policies and strategies, call them micro, macro-policies, **development plans** and budgets to change the objective conditions of their people, to use resources better and to achieve reasonable standards of living and per capita income for most of the people. Over 60% of Nigerians are said by the World Bank group to be living below the poverty line. This is not a situation you want to sustain. It is a condition you want to change, and like yesterday. The target is to achieve these higher standards of living and then to seek to maintain them into the future, for the living as well as for unborn generations.

Reserve Fund for Future Generations

Small oil producing nations such as Kuwait tried to solve the problem of sustainability by creating what they called **Reserve Fund for Future Generations**, into which they set aside a good proportion of current revenues under the management of an autonomous investment agency reporting to their ministry of finance. The fund is still there but the country has had to dip into it in hard times. Nigeria has such a large population that trying to meet the demands of current consumption is enough to exhaust all we are making from oil. And the current formula for revenue allocation leaves nothing for the future. Even pensions that should be a first charge on recurrent expenditures remain unpaid.

It is ironic that many years ago, Nigeria did in fact set up such a fund at the ADB for then poorer African nations!

What other nations, that have done better than us, have done therefore, is to take some resources from oil and invest in other areas to yield revenues not subject to the same risks as the dominant source of revenues. Markowitz explains in portfolio theory that to obtain a balanced portfolio, that is one with the minimum amount of risk for a given desired level of return or revenues, one needs to invest in not less than 20 stocks. Diversification beyond this point makes little difference to the riskiness of the portfolio.

It is easy to diversify a portfolio on the stock market. Stocks may be freely sold and bought. They do not complain or resist. In real life, diversification involves the diversion of presently scarce resources from parties in control today into uses that may benefit others rather than themselves. Resistance is thus guaranteed, and only the interplay of politics and political will can determine the outcome. Two other forces come immediately into play. One is the chronic lack of **investment expertise** in Nigeria resulting in the saying that **our problem is not money but how to spend it**. The second is a direct lesson from Machiavelli, the Italian prince, when he says that **there is nothing more difficult to implement than reform. For reform attacks privilege, of which we have many patrons in Nigeria, and seeks to give voice and opportunity to future generations, either still unborn or too weak to participate in the economy**. Many who are clamouring for change may in fact be blocking reform, sometimes without knowing it. We shall look at the concept of the economy in a minute, but first let us exhaust the issue of ideas.

Diversification of Ideas

I hope you note from what we are saying that the problem could not always have been just implementation, as is popularly asserted. There is need to open our minds and diversify our ideas and our thinking as well. There are many wrong ideas in high places in both the public and the private sectors. Moreover, I am not sure that we are subjecting ideas to as much examination and scrutiny as they deserve for purposes of policy formulation. As I pleaded in one of my books, **please do not believe what is said just because some big man says so**, or you may be one of those led by a false sense of loyalty [which equals disloyalty] into not **telling the naked king the truth of his condition**. Or is it loyalty to let him make a fool of himself and everybody else?

Two examples: I finished my MBA at Columbia in 1974 and a Ghanaian University accepted and published one of my major papers on Nigerian oil. The paper was concerned that oil wealth might not translate into economic health for Nigeria, unless certain things were done. The paper also advised against doing joint ventures with the oil companies and drew attention to possible youth problems in the oil producing areas. I hope you understand the import of the suggestion. Today we are here talking about diversification. **While other countries were taking oil money and putting same into other industries, that is diversifying, Nigeria has been taking oil money and putting it back into oil**. Hence, in so doing, Nigeria has been confirming the

saying that our problem is not money but how to spend it. **Since we don't know how to spend it, why not put it back whence it came?**

Second example; monetization as a concept has been lying around for over twenty years until the President and Commander in Chief, Chief Olusegun Obasanjo took it up. Now he has the courage to implement it, he is probably not getting as much support as he and the concept deserve. For us to be able to diversify our economy properly every idea will count and every idea will need to be examined nationwide before implementation, at least as a way of mobilizing support for the idea.

Third example: sustainability brings to mind 'renewability'. Thus we can think of renewable sources of energy, such as solar power and wind energy for distributed power generation. India only embarked on wind power development recently, but she is now an important participant in the field. In the area of solar power, we live in a belt of nearly 94% solar radiation day and night. There is good potential for the use of solar power for security lightings etc, at least to decrease the load on NEPA and free some capacity for powerful industrial consumers.

Fourth example: tourism as a possible foreign exchange earner. Until the foreigners come with their dollars and in preparation for their coming, surely we can do something about creating and sustaining domestic tourism for our students and for holiday-makers. This will help us build a culture of hospitality so essential for the successful promotion of tourism. Tourism is not necessarily something that occurs in remote locations where there are waterfalls, scorpions and wild animals but no natives. Tourists also like to interact with ordinary non-419 Nigerians of which there are still very many.

What Makes Up the Economy?

And now, let us look at the concept of the economy. Just what is the economy? What makes up the economy?

Going by official statistics, the economy is in sectors, namely the financial sector, the real sector and the government sector. GDP and GNP data reflect these sectors and their activity levels. The data say little about the informal sector, which is estimated in the USA to account for 10% to 20% of the GDP. In Nigeria oil accounts for nearly 90% of the GDP. What percent does the informal sector account for in Nigeria? Before we attempt to answer that let me digress for a moment. While trying to order a new car from Europe, I

learnt that the factory was producing one special edition, bullet proof and all that, for a Nigerian chief. I asked why bullet proof and how can he afford it. I was informed that the chief owns a diamond mine.

As I was saying, I am not sure that official statistics completely capture the size and dimensions of the Nigerian economy. Unfortunately, when we think of 'the economy' in Nigeria, most people think of the banks and industries, and activities that began only when government arrived on the scene. And Government was the last to arrive. After all, people were already here, and they were trading across the Sahara and West Africa, before our colonial masters came on the scene and gave rise to modern government. What was missing was a system of national income accounting. For policy to be effective, it is important that we devise a system of national income accounting that better captures economic activities including the informal sector. This will remain a never-ending job as the formalization of the informals progresses.

Private Public Partnerships

So at last we get down to the task of diversification and who does what. Permit me to congratulate MAN for putting this summit together. As trade groups you normally seek protection for yourselves and your industries. Your meetings, going by Adam Smith's thinking, would thus be no better than conspiracies against the public interest. But when you begin to talk of sustainability, as you are doing here, you have become statesmen. You are seeing the nation and its problems as statesmen, and that brings the solution steps closer. You still have the disability that you are not government, but thanks to the concept of Public-Private-Partnerships, the direction in which you should move is clear. It is not for you to arrange the spectrum of industries, which the nation needs, or to do all your diversification as well as backward and forward integration yourselves, without inputs from the public sector. A forum like this enables you to itemize and articulate your problems in such a way that the executive can find that they help themselves best by helping you.

Importance of Manufacturing.

There is no gainsaying the importance of manufacturing. The contribution of manufacturing to GDP may be low now, but manufacturing is a major employer of labour, giving many Nigerians a chance to participate in economic development, and transferring vital industrial skills to them in the process. All industries and almost all activities depend on manufacturing to some extent. Even the knowledge economy is based on the production of parts and components and these have to be manufactured. As we move into the future,

all the products that we know of, and use now will continue to be manufactured. What we can achieve through diversification is to increase the numbers of these products that we can produce locally in Nigeria and which ones we have to continue to import.

Funding Difficulties

One of the major obstacles to your being able to exploit the economic opportunity sets that you are able to identify in the economy and so to increase our diversification, is funding. Aside from the fact the indigenous companies amongst you find it more difficult than the expatriate ones to raise funding locally, both of you suffer from the prohibitive cost of local finance, where and when it is available. It is almost as if the banking sector has diversified away from providing funding for industry. That would be undesirable diversification, the type that was common in the mid nineties when some manufacturers were clamouring for higher interest rates! The capital market is there but still rather shallow and still unable to provide substantial foreign currency credit, or term facilities and bonds at affordable rates and in a timely manner. Your activities are heavily dependent on the prevailing macro-economic policies, the exchange rate, fiscal, monetary and credit policies. As a group you therefore have an abiding interest in what these policies are and should be at any moment in time. We all need to put on our thinking caps, so that we can diversify our economy away from the lurking dangers of inappropriate policies.

Terms of Trade.

In so doing, it is important to bear in mind that much of international trade still obeys the laws of game theory. There are traditional winners and there are traditional losers, and the winners are not playing to lose. Where and when they lose, by chance, they quickly rearrange the game and their winning luck resumes. The basic lesson of International Trade therefore is that it is not fair. It is best to understand that at the start. The die is loaded against us. Economics 101 teaches that you borrow in weak currencies and invest in strong currencies. For weaker economies such as Nigeria, this means that there will be pressure on the local economy for credit for all purposes, making macro-economic policy management more difficult. The dependence of the local economy on oil whose revenues are domiciled offshore while the costs are incurred in Nigeria puts the economy under even more severe pressure. Thirdly, where the same party controls both sides of trade transactions, the trade is unlikely to be a fair exchange. Much Nigerian and African trade is unlikely to be fair thus further worsening already unfair terms of trade. Neither

GATT, nor WTO, not the Washington Consensus and not even the DOHA terms are likely to improve the African condition. WTO favours agriculture, in which Africa is weak more than manufacturing: Its tariff policies will benefit industrialized and industrializing countries more than most African countries with inefficient industries. It is not for us to begin to lament the dearth of infrastructure such as power and transportation in Nigeria at this forum. **What is important to note is that successful diversification, capable of leading the nation out of the shackles of poverty, is unlikely to result by chance, and nobody else will do it for us.**

For these reasons also, it should be clear that when we set our interest rates at such artificially high levels, citing demand and supply whereas most of the money in circulation is either outside the banking system, or the money in the banking system belongs to government, we merely set our economy on a course of permanent instability, devaluation and inflation.

Privatization, deregulation and liberalization all try to free up the economy such that all economic agents can operate unfettered. Governments are not to participate in economic activity but are to leave it to their weak private sectors to do, or to invite foreign investors to do it for them. There is merit in these ideas, but **none of the developed nations would have made the progress they made if they had been obliged to operate their economies under such or similar circumstances.** The only sure result is to return the world to *laissez-faire* state from whence we started, only with better entrenchment of those in control.

So where do we go from here? In summary,

- (a) We need to get our ideas right.
- (b) We need to get the financial system right,
- (c) and our national income accounting must capture the economy better.
- (d) We must avoid the misuse of local credit as replacement for equity,
- (e) set up proper bond and mortgage markets, and
- (f) hopefully see several wholly Nigerian companies achieve world class status,
- (g) as we create conditions good enough for foreign direct as well as institutional investors.

In the area of possible industrial gaps, we could list for you the 20 top industrial sectors of the Standard Industrial Classification to enable us examine where we have manufacturing gaps in Nigeria. However, that is hardly for you to do as a group. You may do so individually, but only government can study it with a view to taking remedial action, which is no longer fashionable for it to take.

Lastly, I like the concept of mobilization; mobilization for economic war. All through the early phases of our collective existence, you might say that leadership was more concerned with nation building and basic sustenance. Forty-four years after independence, we have good reason to be concerned about sustainable development. **To achieve this requires an economic war against poverty, ignorance and vested interest.** This is an economic war requiring the mobilization of our already 'diversified' people, especially for **entrepreneurship**, to enable them **participate** better in the economy by **harnessing the resources** available to them where they live in their **communities**. Every policy will thus be assessed in terms of its contribution to these objectives. I also like the idea of mobilizing the **Nigerians in Diaspora** to invest back home, either in their home localities or wherever else they please in the country. It is from them and from you that prospective foreign investors will obtain the encouragement to invest locally. As you very well know, **we need both local and foreign investment to achieve sustainable development for our people:** To achieve our common destiny, by pursuing **Prosperity with Transparency**.

Dennis O Odife

Ota

14th April 2004