

The Fronteira Post

■ Economic Policy & Financial Markets ■

January 28, 2010

The Nigerian Economy in 2010 and Beyond: Desiderata for Prosperity

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Dispelling the Mist of Misconceptions

Political stability or instability is a major determinant of economic growth for any nation. What this really means is that important questions around the national budget, today's economic challenges as well as long and short term impacts of government policies on the economy depend upon politics. Politics to a great degree, therefore casts a shadow over the nation's projected macroeconomic performance.

Second, a basic misconception today is that "we have great ideas but implementation is the problem". Everyone, from university professors to market women believes this! Nothing could be further from the truth, the obstacle has always been the ability to correctly conceptualize our problems. We have to go from concept to appropriate policy that will achieve intended results.

Third, is the ability to identify issues or problems that could arise in the area of funding, administrative structure, personnel and nip them in the bud so as to achieve desired results. After these three stages one can then begin to address the questions of implementation. Unfortunately, this aspect is often overlooked. Once an idea is fresh and looks very good on paper we automatically assume that it is good and accept it without thinking about the challenges of implementation. If the challenge that comes with policy is not correctly conceptualized, the policy becomes a problem. That has been the history of this country for the last 15 years particularly in the last 25-30 years.

The Burden of Poor Policy Conceptualization

Wrong conceptualization means not taking the pains to think through problems, which leads to the inability to design appropriate solutions in theory or practice. For

¹ This paper has been prepared based on the interview by ValueFronteira team of Analysts.

instance If you are going to build a school, you must have the money to build the school plus or minus contingencies - physical contingencies, price contingencies. There may be variations in the planning price of what to build and the actual price. In other words structural and cost variations must be considered in our policy planning. These variations must be conceptualized and factored into the budget when setting targets for infrastructure projects. Authorities should take time to correctly define correspondence between quantities and target. After this is done, it becomes so much easier to implement but where there is shoddy implementation as is always the case in Nigeria, it becomes difficult to move closer to the original target. When such mistakes are made, the budget will not be fully implemented. In addition to that, accurately measuring the degree of implementation (30%, 40% or 60%) is also a problem. These percentages or degree of completion are totally exaggerated because quality has to be addressed where corrupting influences comes in. We may have the right concept, the right quality and value in the beginning, but at the end, it gets corrupted. In the end only a fraction of voted resources would be applied to achieve results.

On the issue of political economy, timing and processes is crucial. Furthermore, we delude ourselves by thinking that we were affected by the economic down turn. It is very important to note that our economy is not fully globalised; we are not a major sourcing area, and investments are minimal and restricted to one or two sectors (energy and finance). The current recession is locally induced and it is a reflection of these three issues we have talked about: inappropriate policy, inappropriate conceptualization of problems, and inappropriate allocation of resources. This hampers the performance of the Nigerian economy. The only sectors that perform well are agriculture and oil. Two sectors that do not really require substantial planning or deployment of resources, since we do not refine crude oil and depend on the weather for rainfall.

On Deregulation and Privatization

Manufacturing in Nigeria is contracting. The size of the manufacturing sector as a percentage of GDP (4% instead of 26% - 30%) is very low even by African standards. Infrastructure is in shambles because funds are not allocated appropriately and to some extent the personnel to do the job are unavailable. On the issue of oil sector deregulation although government has come out with the policy, in reality, the government is not committed to full deregulation. This exposes a lack of understanding of the concept!

First, Nigerians must be made to understand that privatization will move the project from public to private sector. In order to effectively do that, the

prospective investors must be able to pay real (monetary) value to government so that they can use it in other sectors. Second, the investor should have the capacity to turn the purchased enterprise around so that workers can be reassembled and even more persons can be employed.

Third, the investor must understand the technology required. In the communications sector, NITEL for instance must be sold to people with expertise and knowledge in managing telecom companies. For instance when a company like NITEL is privatized, payment is automatic. It is not normal practice to wait for financing like is done in Nigeria. It is equally wrong to start looking for partners at this point. The buyer should come equipped with capital, technical partners etc. Only those who meet the (four) criteria of capital, technological, managerial know-how and the financing should be shortlisted. These are the things government should vet before assembling final bidders. That is the way it is done globally, so that at the end of the day desired results are achieved. The goal in privatization is to move a service from public to the private sector to achieve better quality, improved technology, employment of labor and lower prices. Improper implementation and lack of understanding could have the opposite effect. This process will ensure that implementation does not fail.

Are We Prepared to Take the Needed Leap?

On the question of 2010 real output expectation, timing is probably going to be the problem and it is off already. The most urgent issue now in the country is the leadership question. Two of the three tiers of government the executive and the legislative, have leadership issues around interpretation and application of the constitution. Unfortunately, this has cast a shadow over the more important question of budget implementation or economic challenges of 2010. Usually, infrastructure supports budget implementation, there have been giant strides in cellular communications but the state of roads and especially power leaves much to be desired. The supply of land lines which should be the most effective and cheapest forms of communication for the small producer is inadequate. The performance of the construction sector will also suffer since materials utilized like cement amongst others are imported. Gasoline is still imported and gas flaring continues and on and on. These inefficiencies will hamper economic growth for 2010.

Last but not the least is the financial sector. Optimum financing especially when it comes to project implementation depends on the level of savings and other resources one is able to mobilize to ensure that a project runs smoothly from inception to conclusion. If optimal resources are not mobilized (as is the case with

government projects) it hampers the smooth run of the project so that timing is off and implementation is derailed. At the beginning of the last decade the Nigerian government decided not to borrow externally for development projects because of our not so pleasant history with external debt. Although there is a valid point there, let us not forget that the Asian tigers (China, Vietnam, Malaysia etc) all had to seek external financing in addition to mobilizing savings (to the tune of 20%-25% of GDP) to ensure that their budget and policies could be implemented. This also has the effect of stabilizing price and exchange rate for implementation costs. Also when project and policy implementation is on course (because of availability of external financing) it means that macro economic factors like output, exchange rate and employment will not fluctuate widely. Where this is not done there will be wild fluctuations in macroeconomic indices because the country lacks the financial capacity to implement policies.

Till date the Nigerian government continues to shy away from external financing, whereas our counterparts are accessing these low interest funds with very generous repayment terms to develop their infrastructure. In 2006, when oil prices were going up we accumulated so much reserves which should have been used to finance infrastructure projects instead, it was used to pay off our foreign debt. While that decision was generally applauded it was a wrong one. Our low per capita income qualified us to go for debt relief like other poorer countries, instead we chose to part ways with more than \$16bn. This amount (if it had not gone into debt payment) plus our foreign reserves would have accumulated to about \$70bn, and would have been utilized to build refineries, railways, steel plants, thermo and petrochemical facilities.

Of What Use Is Economic Growth Focus?

Economic growth does not mean much if it does not positively affect the life of the common man on the streets. The most important focus of economic managers is the achievement of high level of general living standards. The key question is, has an average growth rate of 6% translated to better living standards for Nigerians? No! What have we done or are doing to improve living standards? It is common knowledge that the biggest problems facing the Country are power supply, unemployment and inaccessibility to healthcare because of costs. Wealthier individuals' especially political elites travel abroad for medical treatment.

Nigeria's problems are so many, that it is impossible to think of any other country ushering in 2010 with so many challenges and unresolved issues. These constitutional, leadership, infrastructure, economic and electoral problems have existed since the late 1960s. Not one of these problems has been resolved. We still

have a postage system that lags behind for instance. We always make plans and believe that it is the best in the world – an attitude that deadens our sensitivity to demand and analyze things. We look at our human and natural resources and conclude that all is well. Whereas correctly utilizing resources and not just having them is key to development. Nigeria is probably the best endowed country in the world but indices used to measure economic progress like nutrition, poverty rates, freedom, life expectancy, technological progress amongst others are among the worst in the world. Women still die in labor and children die from diseases that should have been eradicated years ago. After almost a decade of 6% economic growth Nigeria is still far away from development. There is a complete breakdown of law and order, the gap between rich and poor is very wide and the poor and minorities feel oppressed.

Agriculture should be growing at 7%-8% if appropriate investment is made to improve technology, management, storage facilities and timely supply of input. Manufacturing capacity is very low even by African standards. This is due to lack of power, water, security, poor tax and tariff structure. Under normal circumstances manufacturing should be growing at 12% to 15% other tertiary sectors should be growing at 7 – 8%. When this is aggregated it should be easy for the economy to expand by 7% - 8%. An 8% percent growth rate signifies real growth and not growth by happenstance or just higher oil prices. A 5%-6% growth rate is good but will not put a dent on poverty for a country like Nigeria.

Dwindling Oil Price and Nigeria's Export Potential

The real question here is not budgeting based on an oil price of \$84, \$70 or even \$64 but the mechanism on the ground to help the government work with this target. Every so often there are slippages and leakages in the system because of inadequate financing. In Nigeria, a drop in oil price means that government projects will go uncompleted. For instance if the authorities plan to build five classrooms they eventually build only three. Modern financing enables you to plan your budget, get the financing provided and achieve that target. The most important thing is not revenue or an export target but rather managing implementation so that government projects do not lag behind and expectations are met.

Other countries are looking at alternatives to crude oil. China and America for instance are building electric cars because it is a much cheaper option than cars that run on fuel. These countries are also exploiting their energy reserves to earn additional revenue and reduce their dependence on foreign oil. The U.S. for security reasons is diversifying away from the Middle East and moving to West Africa for oil supply. Nigeria because of

the Niger Delta crises and religious tensions in the north is increasingly looking volatile, this has already hurt our share in the US and global oil markets. These reasons make dependence on crude oil as a major source of export revenue in Nigeria more precarious.

In the medium term it is advisable for the government to leverage what we have like our low debt profile. However, a low debt profile or ability to pay off external debt is not an indication of credit worthiness. In Nigeria's case it might be the exact opposite. True we have paid off our debt but credit worthiness in modern financing is ability to borrow and utilize credit for full project implementation and in a manner that benefits society not shoddy or half implementation which has been the case. It makes no sense to stay away from accessing finance for projects that are beneficial to society when people have no access to healthcare, security is inadequate, infrastructure is nonexistent and general living standards are low. With adequate financing, proper planning and implementation targets can be achieved. Another big question is why Nigeria has not got to the point where technical analysis founded on sound economic principles are utilized to solve problems.

The 7-Point Agenda: Another Failed Dream

The president's 7- point agenda is falling apart. At the time it was announced, he made an effort to identify real problems. The critical issues of energy, security, wealth creation, education, land reform, mass transit and Niger Delta development as pointed in the agenda are all not working. Nigeria is still unable to understand how to mobilize optimal resources to solve problems. Ability to solve a problem depends upon availability of funds and other internal resources. The value added tax, VAT was introduced in 1994 at 5%, this was 16 years ago, by now we should be thinking of how to improve upon that law instead VAT was increased to 15%. I disagreed with this decision because taxes should be raised gradually and not abruptly. There has been a lot of back and forth on personal income tax rates, the health of the economy especially the private sector is a determinant of revenue that can be generated. The economy has all kinds of leakages; the restiveness in the Niger Delta is because of corruption and the misuse of revenues. We should seek alternatives to flaring or improper disposal of oil and gas resources to boost revenue. On the domestic side since we have some creditworthiness funds should be accessed through grants to solves health problems like reappearing tuberculosis, spinal meningitis, polio and so on. Funds could be freed up from different sources so that the government does not need to depend on foreign exchange earnings to achieve these results. Government could get soft financing for agriculture, for small scale manufacturing to compliment our resources, government could go beyond that to normal

credit financing. Also focusing on projects with a higher (20%-25%) instead of a lower (7%-8%) rate of return is another option. These monies could be reinvested to boost manufacturing capacity. Instead, the government under invests because the resources are just not there. The country continues to underperform because the government refuses to borrow to increase capacity.

If the money used to pay off our external debt was utilized for the 7 point agenda or even left in reserve the economy would have been in much better shape. Our foreign debt should have been reduced and the balance rescheduled to be paid off as the economy grows. These funds mean nothing to creditor nations, money set aside for debt is the supplementary budget for some obscure sector.

The way the power project in the 7 point agenda was approached is wrong. Nineteen IPP's are currently being built at a stretch instead of the government accessing loans with generous repayment terms or finance in the bond and capital market. Another alternative could be to get the money and engage major power companies to execute the project. Instead of assessing loans the government takes the inefficient route to satisfy her cronies with billion dollar contracts. Importation of power equipment requires adequate storage and maintenance. The importers do not even consider this. The process of giving out these contracts is fraught with inefficiencies which will spell doom for the implementation of this agenda.

Till date the government has spent billions on power projects. Unfortunately it is not how much you spend but rather taking the pains to produce a long term power plan that counts. Having energy resource also does not count since Nigeria has all forms of energy resources (gas, coal, oil, hydro etc) excluding nuclear but basic power supply continues to elude us. Nigeria needs to come up with a detailed plan to provide residential, commercial and rural electricity by 2010 or 2030. We should be able to supply between 15,000 mega worth and 20,000 mega worth for 8 years. It may cost \$25 billion but government has the resources to make a down payment of \$5bn and the remaining funds can be sourced from development banks and the international bond market. We can achieve 20,000 mega worth by 2016 and turn over management to capable hands in the private sector.

After this is done the doors will be opened to other private operators to supply power. The private sector will be incentivized by the market and profit and the whole process will be transparent and private citizens will be able to demand the best quality from suppliers. The country will still be able to monitor growth of up to 15,000 mega worth. Nigeria at this point has wasted a

lot of resources in the quest for adequate power. This is the kind of resource other countries only make available to get results. In the 1960s there was constant power supply even in the rural areas, it is a pity that the younger generation was not alive then to experience how things worked.

Forget this Inflation Targeting Policy

Statistical rating of inflation is irrelevant in Nigeria. This is because we do not know the extent that monetary policy impacts the economy. Despite the inadequacy of basic infrastructure, the economy is still largely within the market mechanism. The question should be about the structure and flow of funds and the control of money supply. When monetary authorities do not have a grip on that, it becomes difficult to identify a meaningful monetary policy rate. Inflation can swing one way or the other even if we try to control it. Finally, for a developing country, it is not the efficacy of monetary flows to control inflation that is more important, what is important is putting underutilized resources to work in order to create wealth and boost capacity. Areas where underutilization of resources could be improved are in the area of gas flaring, solid minerals, manufacturing, these sectors are performing below capacity. This is considerably more important than the rate of inflation in the medium term because increased capacity and full utilization of resources dampens inflationary pressures. By allowing the markets to set the price of products in a growing economy inflation will not be a problem. It is more expedient for monetary authorities to focus on putting idle resources to use rather than inflation targeting. Full exploitation of resources in the long run is the cure for inflation. We short change ourselves by relying purely on monetary policy instead of looking at the big picture to control inflation. Inflation targeting policy needs a rethink.

The problem is not the functionality or non functionality of monetary policy but rather how do we ensure that it impacts every sector of the economy whether rural or urban. From individual income, government expenditure, savings, investments, imports and export earnings. These macro economic factors should be the determinant of monetary policy. If this is not done it would be impossible to measure the impact of policy on economic performance, which will make it harder to meet targets. These are the things that really matter and other developing countries also face this challenge. The problem is not how much of the economy lies in the informal sector but how monetary and fiscal policies work together to increase production. Having bank accounts, ability to buy bonds and shares is secondary to this and micro finance banks requiring rural farmers to do these things will not increase productive capacity since the resources are not properly deployed.

Recent CBN Reforms: A Fluke or a Reality?

The Central Bank is trying to adequately supervise banks; it is a step in the right direction. This is what the previous governor should have done. There should be adequate supervision especially in the wake of recapitalization. The government is not introducing reforms, rather the government is trying to implement supervision, and trying to get the banks to stick to appropriate guidelines. Some of the fallacies of recapitalization have been exposed in this process – making all banks attain a level of capital for instance. This is really hard to gauge without adequate supervision that compels banks to stick to capital adequacy and normal process of provisioning for bad loans.

Expansion of bank branches was not in tandem with growth in the real economy so that in the end this hurt the financial system. The financial sector feeds on the real sector of the economy to grow. Bank growth should be based on finance institutions coming together to give loans to the real sector not sending marketers to mobilize funds for deposit as is the case in Nigeria. They do not have to worry about their deposit level but rather looking at projects and processes that will create jobs in the utility, manufacturing, mining, agricultural sector, in trading, importing, exporting and so on. Banks grow by the financing the real sector not just capital accumulation. The so called reforms being implemented by the current Central Bank governor are not new; it is just getting the industry to obey the law.

Our Capital Market

Capitalization will continue to dwindle until the market reaches its normal levels. The surge in the capital market that occurred between 2007 and 2008 was due to share price manipulation and speculation, much of the growth was inflated and so correction is normal before the market rises again. When the economy starts experiencing real growth based on better management and improvement in fundamentals the capital market will grow again.

Constitutional Issues

The president's ill health has exposed the ineffectiveness of the constitution. A President's illness is not the worst kind of political problem any country could have, it should not be difficult to reach a solution under normal circumstances. However, political interests are interfering and making it impossible to obey the constitution. What we see being played out is a few powerful people holding the whole country to ransom and endangering our young democracy and any economic progress we have made in the past.

A constitutional review can be done in a week that is how much time it takes to collate issues. People's

views have been expressed, issues debated and amendments passed. When an amendment is passed no one can change it. The American constitution which we borrowed from has been undergoing amendments for centuries. It is wrong for Nigeria to give the impression that there is something special about amending the constitution no matter how fundamental the changes are.