

NIGERIAN ECONOMY AND THE FUTURE GENERATION

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1. INTRODUCTION

Our discussion today on the Nigerian economy is right on target as this has been the focus of national discourse in the last few days dwarfing even the on-going national conference. Hence this would not have come at a better time. On Sunday April 6, 2014, the Federal Government of Nigeria released the new rebased GDP which now put the Nigeria's GDP at US\$510 billion or about N80 trillion . This singular act has situated the Nigerian economy as the biggest in Africa and the 26th in the world. The rebasing has finally laid to rest, the controversy over the actual size and ranking of our economy. It was also the week when the two Houses of the National Assembly passed the 2014 Appropriation Bill into law.

From the rebased GDP, it makes sense to set out the fundamental implications of the new reality. Nigeria is the biggest economy in Africa with a GDP of US\$510 billion. Our per capita income has moved up to \$2,688, which still places us on 121st position. The per capita income position is an indication of an economy with low productivity. The components of our national output and production, which had always put agriculture at over 30 per cent, showed that agric is now 24 per cent, oil and gas at 14 per cent, telecommunications at 8 per cent, services at 50 per cent and manufacturing at 7 per cent. This new statistics depicted us as an economy moving away from a factor-driven to knowledge or service-driven economy.

The rebasing of our GDP has also done one thing: it has provided us with the impetus and the stimulant to see ourselves as a big economy. Hopefully, it also should be able to further improve the attraction of foreign directive investment provided we are able to put together the other important factors especially appropriate policy and conducive investment climate. This is an affirmation that Nigeria is the place to be. And the favourable, positive factors are there to achieve far much more than what we have recorded-huge population, youthful demographics, and large market. With an estimated population of about 174.5 million and growing at an average of 2.379 per cent per annum, Nigeria population, which makes us the most populous country in Africa and 47 per cent of West Africa population, would exceed 300 million by 2050 and place us as the fourth most populous nation on earth. Nigeria demographic characteristics are as interesting as it is scary due to its dominantly youthful population. About 43.8 per cent or 76 million people of the 174.5 million Nigerians are below 15 years while about 19.3 per cent are between ages 15-24. The implication is that over 63 per cent or 110 million Nigerians are under 25 years. To confirm the youthfulness nature of the population, Nigeria's median age is 17.9 years. This feature of our population would likely continue for a long time.

Nigeria is a country blessed not only with huge human resources but also with natural resources. Nigeria is the largest producer of crude oil in Africa and also has the seventh largest crude oil export in the world with a daily production capacity of over 2.5 million barrels per day. We are the 28th largest gas producer in the world and may be the second fastest growing gas producer in the world. But as an oil dependent economy, substantial revenues of government are derived from oil and gas which also account for over 90 per cent of the country's foreign exchange earnings. Apart from oil and gas, Nigeria has thirty-four other unexploited mineral resources.

With democracy and the pursuit of a free enterprise economy, we have given impetus to free ownership of means of production and equal opportunities to all who may wish to embark on their own private initiatives.

The size of the Nigerian economy through its newly calculated GDP, the growth of the GDP over the last decade and the nature of our youthful demographic all provide a beautiful outlook for Nigeria.

2. THE REALITY OF OUR ECONOMY

a. QUALITY OF LIFE

Our GDP growth in the last one decade has been between 6 and 9 per cent, making it one of the fastest growing economies in the world. This tempo of growth was sustained between 2007 and 2009 when most economies of the world were going through recession and despite the challenges we had in our capital market and the banking system. As a confirmation of the attractiveness of Nigeria for investment, the United Nations Conference on Trade and Investments, for the second year running for 2012 and 2013, has ranked Nigeria as the number one destination for investments in Africa and as having the fourth highest returns in the world. But the World Bank in its May 2013 Nigerian Economic Report stated that the impressive GDP growth is neither capable nor sufficient to reduce poverty in the country. The per capita income of \$2,688 after the rebasing still makes us a low productivity economy. It indicates an economy that is not performing to optimum; an economy where an average output per person is unacceptably low. This is where the issue lies.

Nigeria remains a paradox. The critical issues relating to quality of life is at variance with the optimistic statistics of an N80 trillion economy and the impressive annual growth of GDP. There seems to be a serious disconnect between growth, poverty reduction and human development. This brings us back to the basic old question in the economic literature: which is more important or more appealing between economic growth and economic development? What is the essence of growth that does not improve the quality of life of the generality of the citizens of the country? Of what use is the concept of per capital income when income inequality is high? I align myself with the development economists who hold the view that economic growth that does not translate to improved living

conditions, greater prosperity, and higher life expectancy is a mirage. The various indices used to measure quality of life do not give cheery news of our growth. The UNDP 2013 Human Development Index said it all.

Nigeria occupied 153rd position out of the 187 economies in overall standard of living in 2013. We ranked 4th on Global Index on Modern Slavery beating only India, China and Pakistan. Life expectancy at birth remains low at 52.3 years. Official unemployment is about 24 per cent but when we realize that 522,650 graduates were shortlisted for interview to fill 4,556 vacancies in the elite cadre of the Nigerian Immigration Service, we should know that the official unemployment rate of 24 per cent is a gross understatement. The content of growth shows low employment elasticity with employment not keeping pace with growth expansion of the labour force. It has been a jobless growth. Income inequality at 0.49 is among the highest in the world with 65 per cent of assets in the hands of 20 per cent of the population. High inequality limits opportunity for poor people to benefit from growth.

The most perplexed of them all is the growth in the rate of poverty among Nigerians. The whole world set an agenda to half poverty by the year 2020 as number one of the Millennium Development Goals (MDGs). The World Bank in its May 2013 Nigerian Economic Report highlighted that the number of Nigerians living in poverty was increasing too rapidly. This description was corroborated by statistical evidence. For example, 28.1 per cent or about 17.7 million Nigerians were in poverty, earning less than the proverbial one dollar a day in 1980. This had moved to 67 per cent or 112 million people by 2012. Poverty fell in China from 77 per cent in 1980 to 14 per cent in 2008. Poverty was halved worldwide in twenty years from 43 per cent in 1990 to 21 per cent in 2010. Most countries of the world, with the few exception that are in wars and local crisis, achieved remarkable progress. Why is Nigeria's poverty rate moving up and not down to align with the trend in the world? Why are we moving against the tide in the fight against poverty?

b. ENTREPRENEURSHIP AND PRIVATE SECTOR DEVELOPMENT

Nigeria has been described as an entrepreneurial nation. The 2012 Global Entrepreneurship Monitor (GEM) confirmed Nigeria as very high in terms of the desire to explore available opportunities for starting a business and for possessing the self confidence to start one. The survey shows that Nigerians have high perceptions about the presence of good opportunities for starting a business and also believe that they have the skills and knowledge necessary to start a business. The study confirms that more Nigerians pursue entrepreneurial activity due to perceived opportunities than out of necessity. Nigeria also exhibited one of the lowest levels of fear of failure in the world indicating the readiness to start and run a business without fear of failure.

It is interesting to note that Nigerian youths are excited about entrepreneurship and entrepreneurial opportunities. About 82% of Nigerian youths perceive a good opportunity for starting a business while 86% believe that they have the skills and knowledge necessary to start a business.

The Nigerian experience is an interesting phenomenon. As a country endowed with abundant natural resources, one would have expected a leaning towards the theoretical postulation that entrepreneurial efforts and activities tend to be low in a natural resource-abundance economy, as rent-seeking is always pervasive and there is always no incentives to strive. But this seems not to be the case for Nigeria.

Interest in entrepreneurship may have to do with the level of economic development. Development economists contend that entrepreneurial activity declines with the stages of development. GEM classifies economies as factor-driven, efficiency-driven or innovative-driven. This categorization is based on the World Economic Forum (WEF)'s Global Competitiveness Report, which identifies these three phases of economic development based on GDP per capital and the share of exports comprising primary goods. Nigeria is classified a factor-driven economy, dominated by subsistence agriculture and extractive businesses with a heavy reliance on unskilled labour and natural resources with the attendant implications. It may therefore be the case that entrepreneurial activity is high

because of our level of development. The recent outcome of the rebasing exercise has pointed to the fact that we are on the path of leaving the factor-driven economies and joining the efficiency or knowledge-driven economies of the world.

However, Nigerians enthusiasm seems not to be supported by available infrastructure and environmental attractiveness. There are minimum requirements to succeed as an entrepreneurial nation. It is not sufficient that citizens are passionate about working for themselves and striving to be successful entrepreneurs. They must be empowered. Nigeria is confronted with the challenges of its level of development, poor state of socio-economic infrastructure, significant level of security challenges, high level of corruption and low quality of governance, low financial and credit penetration, poor business climate manifesting in such things as delay in obtaining registration and obtaining permits (where necessary), multiplicity of levies, taxes and charges, etc. All these conspire to make it difficult for interested persons to successfully start and run their businesses. The 2012 GEM report showed that in Nigeria, only 16 per cent of new businesses survived beyond 42 months. The reasons are not farfetched.

The Doing Business 2014 exposed the weak nature of our situation and the frustration that Nigerians go through in starting and running a business. Enumerating the overall ease of doing business among 189 economies in the world, Nigeria ranked 147. South Africa (41st), Botswana (56th), Ghana (67th), Ethiopia (125th) and Kenya (129th) all fared better from the sub-Saharan Africa. In specific, the 2014 position showed that in starting a business, Nigeria ranked 122 out of 189 economies as it takes an average of 28 days and compliance with about eight procedures. Access to reliable and affordable electricity, is vital for business. Yet in Nigeria, Doing Business 2014 finds that getting electricity requires eight procedures and takes an average of 260 days, placing Nigeria at 185 out of 189 economies ranked on the ease of getting electricity. These indices point to the fact that starting a business is characterized by costly, duplicated and cumbersome processes.

Significantly, Nigeria did not witness material improvement over the last ten years in most of the indices except in access to credit. Nigeria had an impressive growth in access to credit by ranking 13 out of 189 economies on the ease of getting credit. The availability of credit information made possible by the existence of licensed private credit bureaus and the continuous strengthening of legal rights for borrowers and lenders make this possible.

For entrepreneurship to meet the aspirations of our political leaders in terms of serious wealth creation, employment generation and poverty alleviation, a lot still needs to be done. But as an economy trying to imbibe and uphold the tenets of western democracy and with a posture of free enterprise, we do not have many options; we just need to do the basic to promote entrepreneurship.

c. FISCAL POLICY

For over a decade, the Nigeria fiscal policy has been such that it is not designed to meet the aspirations of the ordinary citizen. Considering the level of the country's development, and the urgent need to address issues such as poverty, build socio-economic infrastructure, enhance the quality of life and living through sound education and health services, one expected that the yearly budgets would give more to capital expenditure. But the reverse has been the case. At the national level, the share of capital expenditure in our budget has consistently been below 30 per cent and much lower in actual implementation. How then do we build the economy for tomorrow if we consume over 70 per cent of our public resources today. We acknowledge that some states such as Lagos, Edo and Akwa Ibom have reversed this trend.

I wish to submit that in preparing the Nigerian economy for tomorrow and for the future generation, these three fundamental issues must be addressed. For emphasis, these are:

- a. bringing down the level of poverty and inequality;
 - b. promoting policies that massively make it easy to start and run a business;
- and

- c. Instituting a fiscal policy and public expenditure management that make more funds available for the provision of critical socio-economic infrastructure.

3. DRIVERS OF GROWTH AND DEVELOPMENT

I believe that Nigeria government needs to pay more attention to how we can empower our citizens who are desirous of making a legitimate and honest living. We need to bring down the level of unemployment and rate of poverty which have reached alarming and unacceptable levels. We need to pay more attention to the drivers of economic development. These include: quantity and quality of labour, capital formation, land and natural resources, entrepreneurship and managerial and organizational capabilities.

The basic issues that will shape the future of our economy, on which a lot of attention is required, therefore, include the following:

- i. Education and Health

We all agree that the Nigerian educational system is in crisis and unless this is taken up as such, the future of the Nigerian economy and the youths is in jeopardy and we may continue to live in hopes and potentials that are never realized. All nations of the world have agreed on the importance of human capital as national asset. But Nigeria has done little to put action into this reality. And the issues that confront us on education are too numerous. Underfunding and infrastructure are basic problems. Producing secondary and tertiary school leavers who cannot write is doing a lot of damage to the future of the affected citizens and the country. A lot of states in Nigeria still do automatic promotion in the public primary and secondary schools with clear implication for the future. There is dearth of universities and other tertiary institutions. With just 107 universities servicing 174.5 million people, we will continue to have crisis in the admissions of students into the universities. The curricular of our educational

system still demand an overhaul; it is tailored towards the old need of producing graduates for the public service and it is not practical. As a nation with focus on free enterprise, the school curriculum at all levels should be to produce graduates who are able to start and run businesses. Education remains one of the most critical areas to revolutionize for the Nigerian economy to achieve the quality and bounds that we dream of.

ii. Governance and accountability

Every day, we wake up to read about issues that make one sad on the conduct of governance and lack of accountability among public office holders. The leadership challenge probably supersedes most other issues that we have. And there is a school of thought that belief that if we get our leadership right, all other challenges would be confronted. Nigeria remains on top on the Corruption Index list. Lack of accountability, misuse of office, acting above the law, impunity, etc are issues that we have to confront. We need a serious re-orientation, just as we need to get credible people to handle our affairs.

iii. Socio-economic Infrastructure

Infrastructure deficit remains a major issue. And it is in all facets-energy & power, transportation, health, etc. The sound footing of our economy in the future is dependent on the availability and efficiency of our key socio-economic infrastructure. An economy that operates in the dark cannot achieve optimum. A country where productive activities and movement shut down at 5pm daily cannot achieve its potentials. If we solve the problem of energy and power, it has the potential to significantly reduce youth unemployment and boost our production. If our means of transportation makes it safe and easy to transport ourselves and goods, then we can boast of an economy that can compete.

iv. Security

There cannot be an economic prosperity in the face of insecurity. The future economy of Nigeria depends on the peace and stability of the country. For the future generation to inherit a prosperous nation, we have to bequeath to them a secured nation where people can move around and live without religion and

tribal killings or other forms of insecurity such as armed robbery and kidnapping or discrimination.

v. Financial system's depth, stability and development

The financial system is a key aspect of a functioning and virile economy. The major role of the financial system in an economy like ours is to strengthen both production and domestic demand. In simple term, producers (entrepreneurs) should have access to cheap, the right mix and the right amount of finance. Consumers should also have the capacity for effective demand through access to cheap and right amount to fund their desired consumption. It has always been canvassed that the Nigerian banking system has not been supporting businesses especially the SMEs. The reality is that Nigeria is faced with low financial and credit penetration with a lot of bankable citizens not having access to banking services and a lot more denied access to finance. For the future, there is the need to enhance financial inclusion and the current efforts of the Central Bank to foster financial inclusion and promote electronic payments system are in line with international direction and the future of transaction management.

Access to finance is curtailed by lack of access to financial services, absence of robust credit infrastructure such as credit bureau and collateral registry and the legal system that supports creditor rights and easy repayment terms. If banks are going to be lending in the dark, it will not promote or encourage lending to small businesses and consumers. The legal system has to be strengthened and collateral registry has to be established to complement the wonderful performance of the licensed credit bureaus which had solely been responsible for the improved ranking of Nigeria to 13th position in the ease of accessing finance in 2014 Doing Business.

In addition, for start-ups to have access to credit, may demand direct government intervention through series of measures, incentives and schemes such as grants, direct loans, loan guarantees, and interest rate subsidies. The activities of the Small Business Administration (SBA) in the USA are a good model to follow. Though I do not support subsidies because hardly do they reach their intended

targets and recipients, but I think it may be worthwhile for start-ups to access finance through this media.

Another major area of the financial system that needs support is the capital market. Our capital market is shallow and heavily concentrated in few sectors such as banking, oil and gas and conglomerates. There is the need to make the capital market encouraging for companies and for SMEs so that access to long term capital as equity and bonds can be deepened. There is no successful strong economy without a strong capital market.

vi. Building enduring institutions and conducive macroeconomic environment

Nigeria is an entrepreneurial economy. With the adoption of the American style of economic and political systems, we have to create a macroeconomic environment that supports enterprise development and private sector where citizens can engage in legitimate private endeavours. Our legal system and other institutions must run without personal interests and with equal access and opportunities. Registration of business, work permit, land and property ownership, payment of taxes and rates, etc must be simplified. People must have access to public institutions and public offices with ease.

4. CONCLUSION

The Nigerian economy is no doubt going to be a major one in the future. All the features suggest that the future is bright for the young generation. As youths, it is your time to get ready and seize the momentum.

Furthermore, a lot of efforts, actions and commitments have gone into enhancing the investment environment to make the economy be driven by the private sector. Few examples of these include special funds in form of grants and loans

with low finance charges, some pockets of government policies to incentivize interest in certain specific sectors, privatization, some legislations, and fiscal incentives in some states and at the federal level, etc. These phenomenal enlarge free enterprise. We are in the wake of an economic renaissance with an array of policies to modernize farming and make it commercially viable, the reforms in the financial services industry towards financial inclusion and promotion of financial infrastructure, the new attempt on power reform, sustainable democratic governance, positive demographics, high foreign direct investment inflows, various efforts in building capacity and providing funds for self-employment and entrepreneurship, etc. As a factor-driven economy, Nigeria is striving to migrate to an efficiency-driven economy. It is an economy with high growth prospects and still far away from maturity. Those going into entrepreneurial activities and self-employment now are going to be the major beneficiaries of the changing business climate, the array of government incentives and initiatives, the enhanced demand and the possible effects of globalization.

Government still needs to do a lot more to foster growth and development in the high growth areas of our economy such as services and industry. For us to leave behind us the status of a factor-driven economy, we must strengthen our institutions, provide infrastructure, enhance the macroeconomic environment and actively promote quality health and primary/secondary education. To migrate to a knowledge-driven economy and join a country like South Africa, we have to pay attention to higher education and training, labour market efficiency, good market efficiency, financial market development, innovation and technological development.

Moreover, we are currently living in the best time in all of human history for achieving financial independence and success. As a result of new information and knowledge, technological innovations, globalization and increasing customer demand, there are more opportunities today than it has ever been for me and you to achieve financial independence and become wealthy. And most nations, go through this experience, only once in a generation. I believe that Nigeria is in that mode now. Nigeria youth should not allow this phase to elude them.

First, it will be wrong for you to continue to look at the challenges rather than the opportunities. The very smart ones among you will concentrate on how to get the best of what we have rather than embarking on lamentation. As you might be aware, the world is seen differently, depending on the lenses with which you are looking at it. It is your choice to be an optimist or to be a pessimist; to see the opportunities or the challenges. But optimists will see the great opportunities and prepare themselves for it. Because luck is opportunity met with preparation. Those among you who would benefit from the prosperity of the future will be those who would have armed themselves to be able to take the advantage when it comes.

As we move to become a service/knowledge economy, accompanied by improved governance and the rule of law, the service industry will thrive the more. In a service economy and in a free enterprise economy, entrepreneurship thrives. Micro, Small and Medium Enterprises (MSMEs) would be the major beneficiaries. Much more, professionals and highly skilled across all professions people will thrive – technology, engineering, ICT, health, accounting and business, law, real estate, education. You therefore need to develop your skills and competencies.

Furthermore, the preparation for the future also entail having determination and ‘can-do-attitude’. Those who will be successful in the future would realize the importance of steadfastness and focus.

I thank you for your rapt attention.

Ahmed ‘Tunde Popoola
Thursday April 10, 2013.