

# <sup>1</sup>Industrial Take Off – From a Pipedream to Quantum Leap

The 2004 Conference theme “This House Must Not Fall” is obviously a refreshing rebuttal to the Karl Maier’s book published in 2000 titled ‘This House Has Fallen’. This satirical presentation has been read across the world, and took its foundations from a quote credited to the doyen of Nigerian authors, Chinua Achebe, who once said ‘This is an example of a country that has fallen down; it has collapsed. This house has fallen’. Today, you only need to find two or three Nigerians together and you can be sure that the conversation will quickly get down to the subject of Nigeria. The group then spend the rest of the conversation talking about how far things have gone, and even if one or more of the participants gets optimistic about the future of our country, the discussion often ends without any consensus on the possible way forward, and they then disperse to go their different ways. Quite often the individuals who have just had this conversation about the decadence in the country then go on to make their own contribution to the destruction either driving on the wrong side of the road, jumping the queue on the traffic, or throwing garbage out of their cars on to the road. Surprisingly very few of such group discussions focus on what the participants can do to stem the process of decay. We are not short of spirited discussion about the appalling state of affairs in the country on my birth, nor do we have any shortage of ideas on what should be done. Everybody has a view. Trouble is not many commit themselves to definite action. I hope that the choice of the theme for this year’s conference is also a collective and individual resolve on the part of the 1000 plus NIM members and guests gathered here to undertake some action.

Indeed you only need to hear what goes on in the Universities, in public and private sectors and in the society at large and you wonder how the country could be salvaged. The combination of wholesale destruction of institutions, economic degradation, animosity between ethnic and religious groups, deprivation suffered by majority of the people, and the destruction of our cherished values has produced a nation brought to disrepute, and our reproach seems hard to wipe off. The question always is: where do you start from and what do you do. Analysts and academics have laid the fault on the doorsteps of the colonial masters, but I hope we also remember that the colonial lords left 44 years ago, and that there is a responsibility that comes with self-governance and self-determination. Our past leaders must take their share of blame, but so must we the citizens, who have acquiesced and even extolled leaders who plunder our national resources and us. Consequently, leaders have not learnt to take personal responsibility for their actions or lack of it, and we relish in doing just what we like.

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No society just evolves and hopes to achieve desired standards. Every good virtue in society has to be built and nurtured strategically. Nothing just happens.

Each time I have reflected on these issues in the last seven years, my conclusion has been that the solution is not as big as the problem. Quite often in life the solution to complicated situations lies in the simple things, but human nature tends to overlook the simple things and wants to tackle the big issues.

It is no gain saying that industrial take off in Nigeria has been a pipedream. Development plans have remained largely on the sheets of paper they were written, and one public officer after another lays out the plans to truly liberate the industrial sector and reduce the reliance on oil. Three years later the same officer is hard put to identify concrete action delivered. And yet we know that industrialization is a powerful tool for, and a key prerequisite to economic development, job and wealth creation, as well as improvement in overall quality of life of the Nigerian people. The picture is usually embarrassing when we compare the performance of our economy with those of other countries that started out with us, with similar aspirations and promise, and with comparable challenges. I will not go over that same ground here because you are all familiar with the facts. However, we need to place the assertion in context. The performance of the non-oil industry sector has been poor, and the contribution of manufacturing to GDP in 2003 was a mere 4.42%, in spite of a 1.1% improvement the year-on-year index of manufacturing production.

Table 1 Origin of Gross Domestic Product at 1990 Constant Basic Prices

	1999	2002	2003
Agriculture	36.70	35.85	34.62
Crude Petroleum	30.79	29.75	33.44
Manufacturing	4.32	4.61	4.42
Mining & Quarrying	0.3	0.31	0.3
Building / Construction	1.98	2.11	2.08
Wholesale & Retail	13.61	13.22	12.68
Services	12.45	14.14	12.29
Total	100.00	100.00	100.00

*Source: Federal Office of Statistics & National Planning Commission*

The contribution of manufacturing to GDP at the best of times was about 6%, but other sectors have consistently out-grown manufacturing, in spite of the slow growth in the wider economy. I have repeatedly affirmed my view that the basic structure of the economy is a hindrance to accelerated growth. Ours is an economy that is based on primary commodities traded on the international markets, and with little value added. Our low value added means we are, on balance, import dependent. This double-edged disadvantage makes us vulnerable indeed because we only earn what the market pays for primary commodities, and have to pay prices determined by exporting countries. We then have no control on our margin stream. We need to restructure the economy towards more value added products, and industrialization is the key. The second underlying hindrance is our development model, which has neglected the development of the human capital through high quality education, health and social security. No wonder there is such a dearth of managerial, executive and leadership capacity everywhere. Institutions are run down, and due process swept aside. Instead we have installed mediocrity, and come to accept the dictum of the Nigerian factor to represent everything substandard and shoddy. I hate that expression with a passion.

If industrial development has remained a pipedream, it is because plans have hardly been articulated and refined in a manner that is deliverable, and only in recent years have we begun to see some tangible effort at economic restructuring. As managers we know that plans and objectives have to be SMART. For example we have recently heard that Nigeria has adopted an objective to earn \$10b from cassava exports within five years. We will of course soon see a flurry of activity to encourage cassava production, seminars and conferences will be held since somebody needs the contract to organize the conference which will be tagged ‘international conference on cassava’, and some influential person will develop the great idea to ensure they can get rich without doing much. If in the meantime the Minister responsible has been reassigned, the new Minister organizes another conference. Trouble is that the \$10b objective has very little consideration for the fact that the cassava tuber is 80% water, and the crop has to be dehydrated before export since no one is willing to pay for water. Then we must answer a number of questions:

1. What is the world price of cassava, and since it is a commodity, what is the trend over the last ten years?
2. If cassava is 80% water, how much dehydrated material do we need to export to fetch \$10b and therefore how much cassava tubers do we need to harvest?
3. How much acreage and how much input is required to generate that output efficiently, since we must compete with other exporters who do not suffer the disadvantage of high cost of doing business as we do?

4. How much acreage do we have under cultivation now, and how do we make up the difference?
5. What does good look like in cassava production and productivity, and what technology will be deployed to process the tubers?

We have even heard that certain officers may have gone to France to procure cassava-processing machines. Now the French know nothing about the crop, so they will naturally sell potato processing machines to us, and your guess is as good as mine on the outcome of the project. There goes our \$10b objective, and .....

My point really is that building an economy requires extensive consideration and planning, and it's not about the rhetoric. Things don't just happen; they are made to happen, and we must understand that the comments I have made here about the cassava plan are not a criticism of government. It is an honest contribution to the process of refining policy and goals for the good of our land

The cassava example demonstrates the first reason our industrial take off has remained a pipedream. We need to build competencies in planning and execution skills. The challenge of building the leadership and managerial talent needed to orchestrate the transformation of this scale is one we must tackle vigorously. It's important too to note that the failures of the past have the effect of raising the stakes for the present and the future. The longer it takes to break out of the vicious cycle of consistent underperformance, the harder the task becomes. We have the critical advantage that Nigerians, and our leaders especially, are probably the most traveled group in the world, so we see how others have attained the standards that seem to elude us. This advantage means that we can take an existing idea, refine and adapt it to suit our purpose and leave a lasting legacy. This brings me then to consider what in my view are the real issues in achieving the transformation from mere pipedream to a reality.

1. One of the major challenges we face is that basking under the illusion of oil wealth, we have become a nation of consumers, not builders. The figures speak for themselves: in 2003 our import bill for consumer goods was about N800b, raw material imports was worth N740b, and by contrast capital goods cost N420b. We have therefore set our socio-political philosophy on the premise of sharing the cake, rather than baking it. Consequently we spend so much energy on how to share federal revenues that no one seems to worry about how we increase the pot. We have great difficulty organizing census, agreeing the revenue allocation formula, implementing affirmative action in public office etc because the premise is only on sharing. And yet a careful look at the revenue

profile shows that we earn only 50 cents per capita per day from oil exports. It's really not enough by itself to share. See Table 2 below.

Table 2 Oil Revenues

	1980	2002	2003
Crude Oil Exports, mbd	2.2	1.7	2.31
Average Price per Barrel,	\$30	23.9	29.2
Daily Revenue	\$66m	40.6m	67.5m

*Source: Central Bank of Nigeria Annual Report, 2003*

We have now firmly entrenched this mindset by formally institutionalizing the concept of geo-political zones. This philosophy extols the factors that divide us. We need to entrench a counter-balancing factor to extol the virtues that unite us apart from football. I propose that we begin to actively de-emphasize the principle of geo-political zones, and replace it with the concept of economic zones. Obviously we cannot discountenance the geo-political reality of our country, and indeed we can derive strength from such diversity as others have done. But we must not make this top of mind any longer. In defining economic zones we can for example have the Grains Belt that cuts across the current northwest, north central and northeast zones. The Grains Belt has the most ideal climatic conditions for development of grains production (corn, sorghum, millet, wheat, etc) and we can focus the infrastructure for grains production around that zone, including specialized research support, and for this we designate ABU Agriculture faculty as the center of excellence in grains production. This center focuses on how to maximize yields, reduce cost to farmers, extension services etc, in a way that makes us competitive. In doing so we raise production of this staple for our people, generate huge surplus for industrial processing, and for export. I am sure you already see the foundations for industrial take off in such a venture. Similarly we can have a Tree Crop Belt that focuses on cocoa, rubber, palm oil; an Information Technology Hill to champion the development of IT policy and deployment; a Financial Services District, etc.

2. Secondly, and arising from the first point above, we must invest in and develop the base line economic sectors, especially agriculture, petrochemical, and solid minerals, as well as the accelerator sectors such as Power and Telecomm. In selecting the base line sectors utmost consideration goes to comparative

advantage, and we can lead off with rubber, palm oil, cocoa, cotton and cassava.

3. The imperative to reduce the cost of doing business has been a recurring theme in many gatherings like this, and I need not elaborate. Specific areas of intervention and possible courses of action include:

- a. Infrastructure. This is not the forum to elicit the contribution of infrastructure to industrial development. It will take at least 7 to 10 years of consistent investment and deft management to bring the infrastructure up to scratch, and during that period I propose that we reduce corporate tax rate from 32% to 20% for the next 7 to 10 years, to compensate the industrial sector for the provision of their own infrastructure. Also, we can allow a longer amortization period for fixed assets related to infrastructure development. The argument against this proposal has often been that it will reduce government revenue, but in reality, the 2003 CBN report indicates that Corporate Income Tax in that year amounted to N115b. or 4.5% of Federally Collected Revenue. A reduction from 32% to 20% translates to a drop in federal revenues of N14b, which represents 0.5% of the total revenue of the Federal Government. An investment of N14b in making industries more competitive will pay off in lower prices, and higher prospects for exports

Table 3 Federal Accounts Operations (Nm)

	1999	2002	2003
Total Revenue (Gross)	949.2	1,732	2,575.1
Oil Revenue (Gross)	724.4	1,230.9	2,074.3
Companies Income Tax	46.2	89.1	114.8
Customs & Excise Duties	87.9	181.4	195.5

*Source: Central Bank of Nigeria Annual Report, 2003*

In any case this is only a fraction of the current level of wastage in public expenditure, and a concerted improvement in efficiency will make up this mild revenue dip, if it must be seen as a dip.

- b. Tariff Structure. A reform of the duty structure is in the works, and the adoption of the Common External Tariff initiative of Government will simplify the duty regime and reduce the burden. Again this reduction will be self financing because the combination of higher compliance level and quicker pace of economic activity will more than compensate for the perceived lowering of returns to the government. We are in effect speaking of 7.6% of Federal Revenues, which was the contribution of Customs and Excise Duties in 2003.

- c. The burden of a bureaucratic and inefficient administrative system is often not recognized as a cost of doing business. Five or six weeks to clear an import consignment through the ports when all documentation and duty obligations are fully discharged is an unfair cost on business that already suffers from the burden of high financing cost and inflation, and the challenge of generating demand from a populace that faces a diminution in purchasing power because of inflation and unemployment. Furthermore a user-friendly implementation of policy goes a long way to build the bridge between business and policy operators. An inefficient bureaucracy is an additional tax burden and a deterrent to industrialization. The real impact on business is to elongate the cycle time for inventory turnaround. This is why for example the initiative to cut over to destination inspection is a brilliant move, because it will potentially cut the cycle time for business. However the planning needs to be flawless, and the implementation seamless if we will avoid the potential chaos that could erupt. The critical issue is that today inspection of Nigeria-bound cargo is done in dozens of locations around the world. Bringing all that activity to one point requires detailed planning and expert execution. Unfortunately our track record in making major shifts of this magnitude is very poor, and we have already had three false starts on destination inspection. Like the unrepentant optimist that I am, I believe we can still use this particular example to score high marks as change agents. If there are any doubts, then we should outsource that bit of the port operation to the private sector, and possibly invite one of the existing inspection agents to conduct it for defined periods.
4. The challenge of achieving industrial take off is not just that of policy makers or government. Government faces serious issues on the level of abuse of legitimate incentives offered to genuine players in the industrial sector. Indeed we have some of the most generous incentives but the combination of abuse and collusion with corrupt public officers has created unintended beneficiaries of most of the incentives. For example, Government has been forced to suspend the export expansion grant aimed at promoting exports and allowing exporters to have headroom to compete in other markets because some bad representatives of the private sector have engaged in malpractices on a scale that is unprintable. I hope the clean up gets completed soon and the incentive restored for serious exporters. This raises the question of the standards of corporate governance and corporate social responsibility in the business sector

itself. I believe the time has come for us to commit to a number of initiatives in larger numbers:

- a. Subscribing to the Convention on Business Integrity is a definitive step to make a public statement and commitment to stand against and oppose corruption. I think the fight will be easier when we remember that in the corruption game, the hand of the giver is as bloody as the hand of the receiver. Interested persons and organizations can contact CBI on their website: [www.theconvention.org](http://www.theconvention.org) Essentially subscribing to CBI is an affirmation that we will run our organizations to the highest standards of accountability
  - b. A commitment to responsible and sustainable development will help grow industrial activity positively. Preserving the environment is a primary responsibility of industry.
  - c. Collaborating and engaging with regulatory agencies is a powerful way to raise standards through dialogue.
5. The fifth track I wish to explore in the quest for quantum leap in industrial development is Human Capital Development. It will amount to preaching to the choir if we start to recount the importance of human capital, when we know that the productivity of all other assets are determined by the productivity of the people. I think it is also trite for me to spend time at this event discussing how badly we have managed our human capital development strategy, and the worst hit has been tertiary education. Indeed our development model has ignored the development of people and it is no wonder we are in a quandary. People who themselves are half educated are appointed teachers, and the decadence cascades from one generation to the next since you cannot teach what you don't know. In redressing this I believe it will demand massive investment, which we must be prepared to make. My proposal here is two-fold:
- a. We must start a vigorous process of re-investment in education, health and social security. Education and Health because we will need the contribution of every citizen to the task at hand, and an uneducated and unhealthy populace cannot be economically productive. Social security because the inevitable fallout of a restructuring of the economy through privatization and liberalization is a swap of skilled for less skilled people, for whom a social safety net is required in order to keep them from becoming social miscreants. To fix education and health care as well as create a social security system will mean we must commit a higher proportion of annual budgets to these areas, and the job will probably



- take 10 years. Education alone needs approximately 20% allocation but I would even propose an additional course of action.
- b. During the 10-year period when we are fixing education, we will still be turning out graduates whose quality is at best suspect. Today we send graduates who have been pushed through a conveyor belt into the world of work, and worse still we ask them to teach our children. I propose that for the 10 years we are vigorously repairing our educational system, we turn the NYSC scheme into a finishing school to compensate for the current deficiencies in tertiary education standards. The curriculum for this finishing school will cover elements of Nigerian history, Information technology, Business Studies, Leadership and rudimentary Development Economics. They need to understand how markets work, investment principles and social dynamics. The faculty will have to be chosen carefully, so we avoid the current situation where lecturers are themselves cult members. Essentially this period prepares them for the wider world in which they are going to compete, and removes a large part of the handicap they currently suffer. Obviously, this will be a very expensive programme, and the logistics will be demanding. But I often ask: what is a generation of youth worth to a nation? Or how much is too much to invest in them? When we look at this issue from a standpoint of strategy, our youth today represent the face of Nigeria brand tomorrow. Doing this will amount investing in the flagship brand we can boast of. More importantly, the alternative is disheartening. Just look inside the University campuses and see how close we are to losing a second generation of youth currently in their teens and early twenties.
6. The sixth and final track is to develop the executive capacity needed to make plans and deliver them. I call this the LEP capability for Leadership, Entrepreneurship and Partnership. The severe shortage now of managerial and leadership talent portends great danger for the future, and the trend must be arrested. Education planners and administrators need to know that at least 3 million babies will be born this year in the country, who will all advance into school in six years' time. If we want 30 kids per class at that time, then we need to provide the 300,000 classrooms they will occupy, 300,000 trained teachers and support staff, etc. This means we tie admission into teacher training institutions to the defined needs of the future. The imperative to plan to details dawned on me many years ago meeting a young Asian teenage lad, who was starting University in UK on scholarship from his home government. This young lad knew that he was one of the 5000 Doctors his country expected in five years' time. Such level of detail in planning not only ensures we have our

development needs covered, it also engages the youth who see themselves as a part of the future. Again we need some drastic intervention in raising the standard of management, and here my proposal is that the private sector acquire ASCON, bring it up to world class standard, and convert it to the School of Public Administration of the Pan African University. The School becomes the platform to take in senior executives from the public and private sectors, and their curriculum will include a period of internship – public servants in the private sector and vice versa. The kernel of the curriculum will be Leadership, Entrepreneurship and Partnership.

You will of course have noticed that two of the six tracks on this quest for quantum leap are related to developing people. The failure over the years to focus on people development means that we will have to commit to a massive intervention programme to arrest the decadence in our system. When we build the people, they will build the things. Industrialization will only happen when we prepare the people to thrive in the new world of globalization where only the winner is recognized, and in an increasingly competitive environment. The world today has no time or space for mediocre performance. Industrialization will happen when we can compete with the outside world on the same terms, and submit to the same criteria for measurement.

Industrial take off will only happen in the context of a functional economy and a social system that recognizes certain minimum acceptable standards. On the economic front, we face restructuring issues as well as rebuilding imperatives, and on the social front some decorum in behaviour and personal conduct. A full discussion on this is out of scope of this presentation, but we must however acknowledge the significant reform effort of the current Government even if one could argue that this should have come in the President's first term and the execution in most cases could be better delivered. The politically difficult decision to deregulate the downstream petroleum and other key economic sectors must receive a loud acclaim. We have seen the benefit of deregulation in the airline industry, and, more recently, in the telecommunication industry. The privatization initiative needs to overcome the current inertia and be conducted with transparency, so that the expected impact of freeing up resources for social infrastructure can be realized. Many other laudable reform initiatives deserve commendation, especially

- The institution of due process in public sector procurement
- The positive changes in the budgeting and monitoring process
- The Extractive Industry Transparency Initiative project, which aims at significantly improving the level of confidence and transparency in transactions

- Banking reforms which should raise the overall standards of corporate governance, lower financing costs, and help refocus attention on growing the real sector
- Pension reforms which will create a large pool of long term funds and improve our savings culture
- Labour reforms that aim to democratize the labour centers and grievance procedures.

If we commend these initiatives, and ignore for a moment the poor implementation or wrong timing of some of them, we also have to observe that the fight against corruption has been far too feeble and probably not whole-hearted enough to make any impact. A lot of the opposition to reform would disappear if the war against corruption is waged sincerely, consistently and openly, and if the gains are demonstrable. For a country that has been ravaged by corruption, reversing it will take a sledgehammer, and the same machinery of state that was used to perpetuate it in the first place.

I hope I have succeeded in raising enough thought to ensure we can have a lively discussion through the remainder of this conference and beyond, but in closing let me now return to the main theme of this conference: This House Must Not Fall. We will all have had another opportunity to examine some of the issues for our nation, listen to presentations, engage in lively discussion and will be ready to depart at the end of today's session. I hope this conference will not just be about the good time we have shared and the communiqué that will be issued, as many conferences are. I hope we will all individually make time to reflect on what we can do to achieve this objective, and determine that we will live our dream as soon as we return to the desk on Wednesday or whenever we do return. Whatever we do, one thing we must all resolve is that we will not be a part of the decadence of our country. But that means you will not, ever, drive on the wrong side of the road even if there is a lot of traffic!!!

I thank you for your patient attention

Bunmi Oni  
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