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ROADMAP TO ECONOMIC PROSPERITY: BUILDING A SUSTAINABLE BUSINESS DRIVEN ECONOMY

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Our host today is caught in a web of truth. It is in a peculiar situation in which in telling the truth it exposes itself to the possibility of being accused of self-interest. It is not an enviable position to be. Does she tell the truth and be accused of promoting her self-interest; or does she tell a lie in order to deflect the accusation. Or should she keep mum hoping to be accused of neither.

The case for building a sustainable business driven economy is as compelling as the crudity of the powerful logic behind it. That logic rests on the tripodal legs of commonsense, stark realism and inevitability.

It is not an option for a country like Nigeria. It is the only way to go. Nigeria cannot literally afford the semblance of a command economy. Our vital statistics cannot entertain such a fanciful notion. And with that I'll like to thank the organizers of this conference for inviting me to deliver the keynote address. I do hope to make a simple but powerful case for the establishment of a sustainable business driven economy. It is the commonsensical approach to solving Nigeria's many challenges and it is an objective to which the national and sub national governments must commit to.

The benefits are not limited to Nigeria or Akwa Ibom state. This is the roadmap for the economic



development not just of not just Nigeria in general, but Akwal bom in particular, and whose consequential expanse covers the whole of West African and indeed Africa in general.

Sometimes statistics can be numbing and I shall be citing some statistics in this lecture. But I have tried to make statistics prosaic so we do not fall into the trap of didactic prolixity.

4 Paradoxes

Let me begin with a dose of realism:

Nigeria is suffering from four paradoxes:

There is the paradox of economic growth versus development.

There is the paradox of widening inequality.

There is the paradox of a very young and growing population but lack of employment opportunities.

63% of the Nigerian population is below the age of 25.

And there is the paradox of the myth of agriculture and all the assumptions under-guarding it.

In 1989, Nigeria's GDP per head was \$280 per head. According to official statistics from the IMF, the World Bank, the CIA and the United Nations,

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that figure rose to roughly \$1,800 per annum in 2012. \$1800 translated into N290,000. Note that this was 2012 figure and does not take into account the rebasing of our economy. After rebasing our economy our GDP rose from \$285.56billion to \$509.9billion. This in effect meant that GDP per head also rose.

According to National Bureau of Statistics and the CIA Factbook, our GDP per head rose to \$2,689. With the rebasing, Nigeria not only became the largest economy in Africa, but we also discovered that we have a more diversified economy than previously thought.

In analyzing the economy of Nigeria it is important to separate the earnings of government from the earnings of the people. If you mix up the two you will arrive at wrong conclusions. The government of Nigeria earns a major chunk of its income from the proceeds of oil. Oil has been the dominant source of government revenue since the 1970s. Indeed since 1973 crude oil has constituted 90% of forex earning and 70% of government revenue.

Unfortunately the oil sector employs only 5% of the Nigerian population. Thus there is a disconnect between government income and the wellbeing of the people. The people of Nigeria earn their income from other sources.



According to CIA Fact File the sectors driving the growth of the Nigerian economy are agriculture, telecommunications and services.

While we may celebrate the quantum of growth, it will be politically and economically foolhardy not to pay attention to the quality and structure of growth. Our relative poverty index jumped 15 points between 2009 and 2010, and another 2 points between 2010 and 2011. According to the 2010 figures from the National Bureau of Statistics, the national poverty incidence has 41% of Nigerians food poor. That means 41% of the people do not have access to nutritionally adequate diet. 60.9% are absolute poor. That means 60.9% are severely deprived of basic needs including food, safe drinking water, sanitation facilities, health shelter, education and information. 69% are relative poor. That means 69% of the people are poor relative to those around them. And 61.2% of Nigerians are dollar per day poor. That means 61.2% of the people have consumption or income less than \$1 a day.

In other words according to every measure of poverty things are not looking good for the nation. The reality is grim and there is a widening gap between the rich and the poor.

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The more people we can move into the middle class segment the better for the nation. Out of a total population of 176.6million the number of middle class as a percentage of the population is projected at just 25% this year. And that is up from the 14.3% of 2010 though it was 24.6% in 2008.

In effect, the estimate for 2015 is that 44.2million Nigerians are in the middle class segment.

Let's break that down. 5.3 million are in the upper middle class, 21.2 million in the middle middle class, and 17.7 million in the lower middle class.

Note however that the middle class is defined by the African Development Bank in a report titled "The Middle of the Pyramid: Dynamics of the Middle Class in Africa" as those with per capita daily consumption of \$2-\$20.

Based on a study of 157 countries by the World Bank, Nigeria is ranked #152 for population below poverty line. Without human development and well-distributed opportunities to ensure a sustained growth, Nigeria is sitting on a time bomb. When the overall economy grows but does not expand the opportunities for employment or realization of dreams we have what we call jobless growth.

The Nigerian Population

Nigeria has the 8th largest population in the world. It is a rapidly growing population. A large growing

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population can either be a blessing or a curse. The unemployment rate is 23.9% of that population. That is a huge and dangerous figure that impacts on the security of the nation. According to the National Bureau of Statistics 25% of Nigerian youths are unemployed though the 2012 National Baseline Youth Survey Report has a much higher figure. In the 1970s unemployment among youths was on average 6.2%. It rose to 9.8% in the 1980s and 11.5% in the 1990s. The big question is, how are we going to provide employment for our growing youth population?

The Myth of Agriculture

Now here's the myth of agriculture. Before the rebasing of the Nigerian economy it was generally assumed that majority of Nigerians lived on agriculture. That belief was largely based on anecdotal assumptions. For one, we believed that everyone outside the city lived off the land, and we failed to take cognizance of the rural to urban migration syndrome in which the youths see the drift to the city as opportunity to make something of their lives. Our belief in the old paradigm was palliative for our collective conscience. If a third of the national population is gainfully employed in agriculture then the food basket of the country is secure and a large percentage of the people have found employment. We never questioned the quality



and scale of that “employment”, and because we were not focused on diversifying the economy we never paid enough attention to the cultivation of cash crops to boost national earnings. Subsistence farming cannot lift the people out of poverty. It can only provide food for them and some extra income but it cannot lift the people out of poverty. As agriculture becomes more and more mechanized the relative number of jobs created per hectare will decline.

According to the 2013 figures, the breakdown of Nigeria’s rebased economy is as follows:

Agriculture 21.97%
Industry 40.59%
Manufacturing (total) 6.83%
Crude Oil/National Gas 14.4%
Services 51.89%
Telecoms 8.69%
Entertainment (Music and Nollywood) 1.42%

The challenges to the growth of the Nigerian economy are:

1. Inadequate power supply
2. Lack of infrastructure
3. A slow and ineffective judicial system, and inadequate dispute resolution system
4. Inconsistent regulatory environment



5. Insecurity
6. Pervasive corruption
7. An inefficient property registration system. This blocks access to capital.

Unless we tackle these issues urgently we will continue to have developmental challenges.

Now, here is a simple fact. It doesn't matter what economic philosophy you subscribe to, or your economic leaning - whether to the right or to the left, or a little to the right and a little to the left, the fact remains that though the State can create jobs, the State cannot efficiently create jobs. When the State attempts to take on the full responsibility of job creation the result is bureaucracy. Too much bureaucracy and the citizens for whom the civil service was created will suffer. Corruption is often the result as bottlenecks are set up at every turn and at every node. And when there are too many employees chasing a limited number of jobs, there will be underutilization of human capacity. This fosters an incredible amount of waste within the system and leads to the creation of more bureaucracy as people create fiefdoms of special interest. The wage increase of the State will continue to rise year in year out unless the cost of those newly employed matches the cost of those



retiring. The sometimes unrealized fact is that each time the State picks up a new employee, it is on average a 30 to 40-year commitment. Assuming a civil servant comes in at Level 07 and works for 35 years retiring at Level 14, the wage cost and other emoluments (including pension) for that civil servant over a 35 year period adjusted for inflation is in the region of N55,570,347.88. We're of course assuming the person is promoted on average every three years and acts in some capacities before promotion. We're also assuming human factor in preventing some promotions.

But there's a drawback for a State with a high population of civil servants. The economic productivity of that state will be low as there are not enough creators of wealth to make the state economically viable. Internally generated revenue will also be low. The state will essentially live on federal allocation and regular taxation of civil servants, which in practical terms amounts to just a miniscule reduction of the wage bill. Because the economic productivity is low consumption will be pegged, which of course affects income from value added tax.

A civil service economic base also poses a problem of multiplication. When civil service multiplies, as is invariably the case with the civil service, more debt is produced for the state. When we factor in the

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peculiarities of African culture civil service cost must rise as everyone scrambles to bring in his relatives, fellow villagers, and members of his ethnic and tribal collective. In essence individual goodwill is dispensed at the expense of the State. And so the wage bill of the state continues to rise on the x axis while the number of employees continues to rise on the y axis. And trimming labour force though economically expedient will prove politically daunting. It can cost a governor an election. As that civil service population ages the cost of social services will rise. In such a state social services tend to be highly subsidized.

This brings into question the economic viability of many states in Nigeria. From the statistics provided in the 2012 Annual Report of the Central Bank of Nigeria, Bayelsa, Bornu and Jigawa States have the lowest internally generated revenue (IGR) among the states in Nigeria. The internally generated revenue of Bayelsa is only 2.23% of the total revenue of the state. Bornu is 3.35% and Jigawa is 3.46%. In essence these states are almost totally dependent on the largesse of the federal allocation. No federal allocation and the finances of these states will likely collapse. It is left to economic philosophers to interrogate whether there is causal link between the economy of some of these states and the spate of insurgency. With the precipitous fall in oil price from \$115 to \$49 those states must



be suffering. Compare their IGR to those of the three leading states by IGR: Lagos, Abia and Ogun. The internally generated revenue of Lagos is 54.91% of total revenue. It's now over 70% and projected to rise. Abia is 37.1% of total revenue; Ogun was 28.68%, now about 40%. And so these three states are the least dependent on federal allocation. Lagos is only 23.78% dependent on federal allocation, Abia 55.17% and Ogun 56.46%. The most dependent states are Bayelsa at 93.09%, Akwa Ibom at 91.53% and Delta at 89.78%. A major contraction in allocation from the center will have a seismic effect on the fortune of these states. Though these states could argue that in proper federation all the money from oil should go to them. In the same vein, Lagos which contributes 40% of the federation VAT revenue could argue to retain its VAT revenue, in which case it would hardly need any money from the center.

And that brings us to Akwa Ibom State. The basic stats are as follows:

Akwa Ibom State was created in 1987. In two years the state will be 30 years old. At 7,081 square kilometers it is the 30th largest state in Nigeria by area. The 2013 projection for the GDP of the state in 2007 was \$13.704billion, and as the state boasts on its website (akwaibomstate.gov.ng) that economy is larger than that of 30 African countries



including Gambia (\$903.5million), Mali (\$10.94 billion), Chad (\$13.51billion), Burkina Faso (\$11.58billion), Togo (\$4.34billion), Liberia (\$1.95billion), Sao Tome and Principe (\$310.7million).

The population in 1991 was 2,359,736. That population was projected to double by 2005 to 4,805,451. We must assume that the population has further risen in 10 years, perhaps doubling again. The annual growth rate of the population was projected at 3.4%. Indeed the 2013 projection for the population is 7,052,004. It is estimated that 70% of the people in Akwa Ibom live in rural areas. In other words, almost four million of Akwa Ibom State people live in rural areas. The urban population is roughly three million going by this figure. There is almost a parity between the male and female ratio. In the projected 2013 figure the male population was 3,764,471 while the female population was 3,497,461. It was very hard getting information on the breakdown of that population, however according to information published in a document by the Akwa Ibom Ministry of Economic Development in April 2014 (Projected Population 2007 -2015), there are 525,394 20-24 year olds in Akwa Ibom, 455,216 25-29 year olds, and 351,596 30-34 year olds. These figures are based on the 2005 projection of a total of about 5million people. We assume these numbers would have doubled by



now. These numbers are critical in formulating an economic blueprint for Akwa Ibom. The more educated the 15-34 year old age groups, are the stronger the economic potential of Akwa Ibom State.

As was noted above, when the civil service multiplies it generates bureaucracy but when the private sector multiplies the economy multiplies. The state cannot match the private sector in the efficiency of job creation. Self-interest has always been a propellant of growth.

For the state to create an enterprise driven economy it must work on fostering a culture of entrepreneurship. There are 12 critical competences of an entrepreneur. They are

1. Persistence
2. Risk-taking ability
3. Commitment
4. Demand for efficiency & quality
5. Ability to take initiative
6. Ability to seek & manage information
7. Ability to set goals
8. Systemic planning & monitoring ability
9. Persuasion & networking
10. Independence & self-confidence

We must consciously create these skills in the youths if the vision must be realized, and the earlier



the better. Based on 2005 statistics, Akwa Ibom has about 635,148 kids in the 10-14 age group and 619,900 in the 15-19 age group. The figures are likely higher. To foster a culture of entrepreneurship the school curricula must be practical and not theoretical. Part of the course work must be the starting and running of mini businesses.

Without a culture of entrepreneurship jobs from entrepreneurial initiatives will not fructify. We generally assume humanity is naturally entrepreneurial but that is not so, as people in the old Soviet Union and East Germany have shown. Most could not understand the profit motive. Years of indoctrination did so much damage. They were bred to function like factory workers in the enterprise called the state. Political repression kills initiative in people.

But let me make a quick clarification. By entrepreneurial initiatives I do not mean sustenance initiatives. That a young man can sell recharge cards to feed himself is not the kind of entrepreneurial culture I'm talking about. The focus should be on creating businesses that can employ people and create more entrepreneurs. Giving recharge cards to a few thousand youths to sell will not create entrepreneurial multipliers. My model calls for creation of job creators. And from the pool of employees must come the next batch of



entrepreneurs, who then create more jobs and more entrepreneurs. This is the model needed to build the economy of Akwa Ibom State, and one has to take a long-range view - 15-20 years; which of course can prove very difficult considering our election cycle. A social engineering project takes time to fructify but like Apostle Paul said, "I have planted, Apollos watered." The cumulative effort of successive governments is what will produce long term benefit for Akwa Ibom not policy summersaults by every incoming regime. The entrepreneurial culture must be generational and become part of the ethos of the state.

This incubationary approach does not take away from the state government attracting industries to and businesses the state. They are needed to create an economic ecosystem. But they cannot deliver on the future growth of Akwa Ibom. They will employ thousands but they will not create an entrepreneurial economy. We're looking for those who can build something from nothing.

But the idea of creating a multiplier effect in enterprise creation in Akwa Ibom state is very feasible and is indeed an attractive proposition. What is needed is a scaled incubation system. The initial target is the creation of 10,000 entrepreneurs who can in 7-10 years create employment for at least 20 people each. With a little bit of support any

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serious entrepreneur can achieve that target in the time prescribed. The state ought to support businesses with a high potential for job creation. At 20 employees per entrepreneur the initial target of 10,000 entrepreneurs will create 200,000 jobs. The goal is to turn 10-20% of that figure into entrepreneurs. Given the same target of 20 employees per entrepreneur over a fifteen year period a million jobs would have been created and the multiplier effect goes quantum. Job creation moves into geometric proportion. All we need is another 10% of that one million becoming entrepreneurs who create jobs. Some of the businesses will of course become very big, employing thousands and tens of thousands, some hundreds of thousands. It all depends on the right mix of policy and commitment. There are of course other macroeconomic issues to consider in making this realizable but it can be done. This is a theoretical broad stroke. The details need to be worked out. Can the state take a long range view is the big masquerade on the table?

To make this happen the state must not only work to create a culture of entrepreneurship, it must set up an incubation system. That incubation system will bridge the infrastructure challenge experienced by entrepreneurs. It will give the entrepreneurs access to power, telecoms and the internet, and it will afford them a confidence boosting business address. The



people cannot stay in the incubator for more than three years. Access to capital must be used as incentive for them to grow and employ.

Note that there are two types of entrepreneur. There are what we term credibility enabled entrepreneurs, and then credibility deficient entrepreneurs. A typical credibility enabled entrepreneur has worked in a corporate setting, has attended management meetings, has an understanding of the workings of a corporation, understands corporate culture, the setting of vision, mission and creation of values. He knows the role of corporate culture and most likely has developed networks and contacts whilst in the corporate system. He has a fair idea of business accounting, understands branding, marketing, the role of experts and has some little capital saved up to commence his business.

To incubate the business of this entrepreneur he must be afforded access to experts who can help propel his business forward. A pool of experts is contracted to consult for entrepreneurs of this ilk grow their businesses. Otherwise they can't fully afford these services. They are expensive, but without them the average corporation will struggle. The average bank in Nigeria employs the services of 15-20 classes of consultants. IT, management, accounting, security, branding, advertising, marketing, HR, training...the list is long. Then there



are sub specialties. The banks can afford to buy knowledge, intelligence and expertise but not the average entrepreneur. It's too costly. If these businesses must succeed they must be given access to a pool of experts and intelligence.

The other type of entrepreneur is the credibility deficient entrepreneur. He's an average graduate of a tertiary institution, has never worked in the corporate sector, does not understand management thinking, has never attended a training, and might not understand how to make presentations. In other words this entrepreneur will need more handholding than the credibility-enabled entrepreneur. Apart from access to expertise like legal and accounting, there is a need for a general manager who oversees the entrepreneurial pursuit of this group of entrepreneurs, and takes them through the rigours of corporate management to develop their capacity. There must also be a knowledge empowerment plan. The more sophisticated the businesses become the more people they can employ and the more the opportunities for growth. The general manager will hold management meetings with them say every Monday to be sure they are pushing towards their targets.

The idea of a segmented incubation and support system takes cognizance of the strengths and limitations of these young entrepreneurs, and their



relative experiences. It is not about throwing money at business ideas. A fantastic business idea in the hands of a terrible manager will lose money. Lack of discipline and managerial capability is what is sometimes the waterloo of entrepreneurial pursuits. Values need to be taught. There is something called delayed gratification. It is one of the reasons for the high level of business mortality. It is of course expected that applicants go through a rigorous screening process, and then a training process. Only those who show promise get to the incubation stage.

How do I know this would work? Because this speaker was a product of such a system, albeit a much more pared down approach. It took just one week of entrepreneurial training. The training was provided through the grace of a UNDP certified trainer who wanted to give back to society. That training revolutionized the young man's mind and he would go on to revolutionize the branding and strategy landscape in Nigeria. I started Alder Consulting with N17.50 twenty years ago. Adjusted for inflation that is about N400 today.

We need an intelligent approach to entrepreneurial development. Without capacitation we should expect a certain failure rate. Successfully incubated businesses will then be paired with venture capitalists who'll invest and take the businesses to



the next level.

The role of the state is therefore the creation of an entrepreneurial culture and the right mix of macroeconomic policies, as well as a takeoff grant. Working in tandem with available institutions and experts, the state can create the future.

It is also important that the businesses being developed be pointed in the direction of attaining the status of a brand. When businesses attain brand status they become powerful and become national ambassadors. One of the reasons America is economically and culturally powerful is because it has been able to export its brands. Of the top 20 brands in the world 14 are American. America dominates the world commercially for the simple reason that the nation understands branding. And so when we think of America we think McDonalds, Coca Cola, Pepsi, Apple, Facebook, Microsoft, Wal-Mart, Disney etc. These brands purvey the excellence of America. You cannot build a brand without fanatical devotion to quality and excellence.

The brand approach makes economic sense. Overall, branding reduces the cost of marketing and the per capita cost of acquiring new customers. Branding makes it easy to attract and retain talent. And when brand values are well entrenched branding improves the quality of the standard of

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living. It's design aesthetic improves local environments.

I'm just saying that the strategic intent to create an enterprise led state development is highly laudable. It's the only logical direction for a state like Akwa Ibom. But to achieve it, the state must be committed and buy into the philosophy. Such an objective requires immense commitment. Perhaps the next Bill Gates is from Akwa Ibom State. Perhaps the next Richard Branson is sitting in this auditorium. But we will never know until we make a commitment to begin the journey into the next 30 years of Akwa Ibom State.

Thank you and God bless! See you in the future!