

# PUSHING NIGERIA'S ECONOMIC DIVERSIFICATION FORWARD: ISSUES & OPTIONS

Address by

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at the

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## **1. Introduction**

Let me start by saying how much of a privilege it is for me to address you all here today at the 7th Edition of the Stanbic IBTC Bank Annual Conference in Lagos, not only because of my professional responsibility as Nigeria's Statistician-General, and the rare opportunity it gives me to interact with you all, who are arguably the biggest professional users of our work at NBS, but also because it affords me the opportunity to reconnect with a quality institution, high on professionalism where I started my career in Nigeria and which is responsible for a big part of who I am today. Firstly, I commend the management and staff of Stanbic IBTC Bank for continuously organizing this conference every year. It is a demonstration of your willingness to partner with the Federal Government in moving our great country forward, in line with our policy on public private partnership in economic development. In this regard, I call on other stakeholders to emulate this trend, in the hope of stimulating insights on various issues that would engender the positive transformation of our economy. I look forward to a return to the days when institutions such as this were at the forefront of meaningful intellectual discourse on government policies and programmes and contributed to public debate on domestic and international issues that impacted on the economy and country. This meeting also provides a unique opportunity for investors to interact with Nigeria's policy makers and other players in the Nigerian environment to review the state of investment and private sector development in Nigeria, to establish opportunities for match-making and to explore openings for increasing foreign investment flows into Nigeria. As such, it is a timely context for enhancing understanding of the Nigerian investment, albeit currently challenging, environment and of how investors can take advantage of the new commercial avenues which are available and being generated by developments in Nigeria.

Interestingly, this is the first time since the inception of this conference, that our macroeconomic landscape is not looking as positive and facing several severe challenges. The choice of the theme of

this conference *“Unlocking Nigeria’s Potential...growing through diversification”* is very apt and timely, given the major challenges Nigeria is facing today that threatens to erode the gains that we have achieved as a country in the past decade. Accordingly, today’s conference and its theme provides a timely opportunity for operators, regulators, investors and stakeholders in general to re-examine regulatory policies, business models, products, and risk strategies, at a time when financial and economic players in Nigeria are going back to the drawing board on the strategies for economic recovery. It also presents an excellent opportunity for operators and players to articulate a road map for renewed investment in Nigeria in the wake of the uncertain and challenging environment that the economic and financial operators in Nigeria are currently facing.

## **2. Where are we and how did we get here?**

In 2010, at the inception of this conference, Gross Domestic Product (GDP) growth was at 7.98% driven by a household consumption of N36.4 trillion rising to N63.5 trillion by 2014, and while inflation averaged 13.7% during that year it dropped to about 8% a few years later. Exports on Merchandise Trade was up 75%, year on year and portfolio and foreign direct investment stood at US\$5.9 bn in 2010 rising to over US\$20bn a few years later. Crude prices averaged above \$70 a barrel rising to over US\$100 and the exchange rate of the naira to the US dollar was relatively stable at about N150 to the dollar. The NSE All share index at that time ranged from 22,784.92 to 27,766.02 points, rising to 42,949.65 points in 2014. This was a good time to be in Lagos and Nigeria in General. Seasonally adjusted yearly construction growth ranged from 9% to 16%. Real estate growth averaged 6%. Retail and wholesale trade averaged 7% while hotels and restaurants or accommodation and food services growth ranged between 9% and 74%.

Over the 2010 through the 2014 period, we were not doing too bad as a country, but then again, we all know what has been happening since June 2014: oil prices fell 66.8% from \$114/barrel recorded in June 2014, to \$38.0 by December 2015. Prices have fallen even further in 2016, to \$31.4 as at 22nd February, 2016 as the world sees a global glut in oil supply and slowing demand especially in emerging countries. While the price level itself is a problem, a bigger challenge lies with oil price volatility. As a nation that relies so much on oil for its revenues, the implicit multiplier effects for the entire economy, have been most staggering and pervasive. Although many would have noticed the imbalances and strains that were beginning to appear in the economy stemming from the gradual decline in the price of our country's main foreign exchange earner, very few could have anticipated the extent and severity of the economic and financial storm that has subsequently enveloped markets. Despite the unprecedented number and scale of the policy intervention measures introduced, systemic pressures have yet to fully abate. Confidence in the economy and the financial markets in particular is yet to return fully. It would appear that we are entering into a period of uncertainty in the context of changing economic and financial market paradigms. Economic growth rates have slowed from a position where Nigeria was one of the fastest growing economies in the world. The direct and indirect effects of declining crude oil prices, combined with other supply side issues are of course the most important factors that have led to our economic growth slowing to about 3% in 2015, the slowest growth since 1999. The NSE AI is now at 2010 levels of 23,171.07 points, about half what it was at its peak in 2014, as an increasing number of stocks are being offered at fire-sale prices, trading at steep discounts to their book and fair values. This reflects a combination of an overhang in the supply of assets, the prevailing economic outlook and an absence of near-term purchasing power on account of tighter balance sheets. The credit liquidity crunch, accompanied by higher levels of risk aversion, has created a situation where market corrections have been extreme. As a result, capital markets are now undergoing very sharp declines in valuation.

Accordingly, foreign direct and portfolio investments have declined from a high of US\$20.9bn in 2014 to about us\$9.6bn in 2015. Yes, this is still higher than 2010 levels, but we have moved from a growth of US\$5 billion to US\$ 20bn over 4 years to a drop from US\$20bn to US\$9 bn in just one year. Let's think about this for a second. At the same time inflation has been rising to near double digits from a low of 7% few years ago. Exports are down 12%, while both the official and parallel exchange rates are above 2010 levels. Manufacturing has slowed considerably and trade is now growing at about 4%. Construction is growing at about 6% from highs of 15.7%. Hotels and restaurants is growing at about 4% from a high of 74% and previous low of 9.4%. In fact, hotels and restaurants has slowed drastically in the last two quarters. Consequently, government revenue has declined following declining oil prices, slower economic activity and hence lower corporate taxes, declining consumption and hence lower value added taxes, exchange rates adjustments and lower trade related tariff revenues, as well as slower portfolio and foreign direct investment accretion.

### **3. What are we diversifying: the economy? Exports? Government revenue?**

At this juncture, I will like to borrow from 15th century writer, Niccolo Machiavelli, who stated that we should "never waste the opportunity offered by a good crisis". The prevailing economic situation has prompted Nigeria to work harder to further diversify our economy as well as government revenue. Yes, our economy is relatively diversified. However, almost half of the economy is informal and out of the (fiscal) control of government. Policies aimed at drawing in this huge informal sector into the system must necessarily be deployed at this time if we are to diversify our sources of revenue and achieve a more sustainable structural transformation of our economy.

Interestingly, this is not something new; this is what we have been clamoring for since 1970s and 80s: to further diversify our economy and improve our revenue base towards unlocking sustainable development. In fact, between 1988 and 2012, crude oil as a share of government revenues has fluctuated between 70% and 80% during that period, often higher than 70% and in some cases higher than 80%. Interestingly, the decline (or this most recent episode of a decline I should say) started in 2011 when the crude oil share of government revenues declined to 80.95% in 2011, to 75.88% in 2012, to 67.25% in 2013, and 67.12% in 2014. At the time, some mis-interpreted the data by suggesting this reflected improvement in the diversification of government revenue as the share of oil to revenue was declining. The truth was that revenue from oil was declining due to a reduction in the price and quantity of oil produced. True (or a more sustainable) diversification occurs when the share of oil revenue drops due to a significant rise in the value of non- oil revenue. But in this case non- oil revenue stayed more or less constant but oil revenue dropped due to constraints in the sector but was erroneously touted as an improvement in revenue diversification. In line with my professional responsibility as statistician general I must digress here briefly and state my disappointment with the misuse of statistics. Some misuse statistics because they are neither willing nor prepared to face the reality and truth exposed by statistics. This is not a problem of statistics, however, but rather a problem of the ill-motive of the users of statistics. Just as a knife can be utilized to save lives if it is used by a surgeon, it could very well be a weapon in the hands of a criminal. Thus, statistics are ‘innocent’, and, hence do not deserve any wrong labelling. Blames must go instead, to the ones who abuse or misuse it, particularly those who do so knowingly, selectively or deliberately.

Since around 2011, there have been renewed clamoring for economic and thus revenue diversification, although policy makers have tended to sometimes turn a blind eye as revenues were so high, but now, crude oil economy (revenues) have fallen and non-crude oil economy (revenues) are not doing great

either. This in turn is hampering government's ability to provide essential public services and thus hampering development.

#### **4. GDP structure and tax receipts**

As we all know, GDP growth is not necessarily synonymous with development, as development is multi-dimensional by nature and more intricate. GDP growth is necessary but not sufficient for development [so you must grow to develop but growth doesn't always guaranty development]. One of the important links between growth and development is through **taxes**. It is expected that as GDP or output grows companies pay higher taxes to government and it is that higher revenue from higher growth that will be used to fund development projects. If, however, government cannot collect those taxes because of a weak tax system or, like in the case of Nigeria the economy is largely informal and outside the control of tax authorities, then the economy can only keep growing to a point, but without the associated growth related tax revenue needed for development being collected. On the other hand, if taxes from higher output can be collected but are not used to fund development projects and is instead used to fund consumption, then again growth may not translate to development. Growth may also not necessarily result in a corresponding rise in jobs. This depends on the nature of that growth. If our economy is growing as a result of largely capital intensive or technological intensive sectors like telecoms, then output can grow without creating jobs. The question to policy makers is: do we focus on labor intensive sectors since we have a labor problem and find ways of absorbing labor without sacrificing efficiency gains from technology deployment? Or, do we continue to drive capital and technological intensive growth and hope it trickles down to other labor intensive sectors, thereby stimulating employment.

As everyone here is well aware, the updating of national accounts after almost 2 decades by the NBS shows a totally different economic structure both in size and structure. Nominal GDP is now revised to N89.0trillion (\$561.6 billion) in 2014. Again, I must emphasize that the intention was simply to ensure our economic structure was as reflective of reality as possible and not for the purposes which seems to have been the main discussion point, i.e. Nigeria being the largest economy in Africa. In fact, as an interesting side note, it was as a means to give the government better statistics to work with that we started the rebasing project. Nevertheless, as a result of the rebasing, we also observed that our economy was more diversified than we thought and the structure of the economy has changed significantly since the last exercise in the 1990s. You can imagine the consequences to the economy if we continued basing our policies on a two decade and outdated economic structure. An outdated structure that suggested telecommunications for example contributed less than 1% of GDP since the turn of the century.

This leads me to a point I would like to make, which I alluded to earlier in passing, that we need to stop describing the structure of the economy by source of government revenue. True, government revenue is dependent on oil and gas sector but the economic structure of Nigeria is not solely dependent on oil and gas albeit an important part. If you look at the recent revised national accounts, it is evident that oil value added has been negative for years now, and in fact is it the non-oil economy that had sustained the economy. This is not to say the oil sector doesn't have indirect impact on the non- oil economy.

Again, the revision of the National Account statistics shows that Nigeria's economic structure has changed since 1990 being less dependent on agriculture and more on services. Agriculture used to be about 35% of GDP but is now 22%. Industry which included crude oil and gas production used to be



36% of GDP but is now 25% while services that used to be 39% of GDP is now over 50%. This however reveals a disconnect in development theory. Countries are meant to transform from agriculture to industry then services, and each stage of this transition usually takes some time. However, we seemed to take an alternate path from the agricultural stage and, without really developing the industrial base, gone straight to services, and now we are going back to industry and manufacturing in particular. What happened? The growing demand for services under normal development theory should have been fulfilled by manufacturing which should have grown alongside the services. But due to constraints to manufacturing, services was supported by imports. So we want TVs and furniture or cars and, rather than support our local industry to produce to meet this demand, instead we import. Hotels provide accommodation services but most of the furniture in the hotel are imported. So it provides the service to Nigerians, increasing our services GDP but not manufacturing. Our telecoms sector provides one of the biggest telecommunication services in the world but manufacturing of telecommunication equipment that drives that service is relatively non-existent. So we use phones to enjoy telecoms services but the phones and iPads are not produced here. As such, our large consumption of services supports manufacturing in other countries. The question to ask here is: do we ban goods we can't produce efficiently here or encourage companies that produce those commodities we enjoy [from importation] to set up here by introducing attractive policies?

## **5. Pushing forward with diversification**

Let us briefly compare our GDP which shows the structure of the economy with current tax receipts. Analysis shows that the largest contributors to GDP as well as many of the fastest growing sectors currently contribute the least to government revenue with respect to taxes. They are also the sectors that are mostly informal eg agriculture, trade, real estate three of the top 5 are largely informal in nature and contribute together almost half of GDP. In 2013, Agriculture collected the lowest VAT relative

to its economic contribution, contributing 0.11% to total VAT, yet 18.45% to GDP. This is likely due to the high incidence of subsistence farming, the informal nature of which makes it more difficult to tax, but there is room for growth around those areas: agric, trading, textile and garment, real estate, building and construction. The same thing applies to other big contributors to GDP such as trading, some aspects of light manufacturing, real estate etc. At the same time, the greatest contributor to tax relative to GDP share is Professional, scientific and technical Services (which are very formal in nature- these are the accountants, auditors, consultants, lawyers etc), with 13.69% of total VAT, but contributing just 3.69% of total GDP. This is because professional services will be registered and keep accounts, which makes it easy for tax collection. On the other hand, Hotel and Catering, Mining, publishing, automobile assembly and pharmaceutical production are taxed almost equally to their contributions to GDP (again these tend to be very formal in nature). However, they contribute very little to GDP even though they seem to be taxed adequately. Hotels and restaurants for eg, contributes 0.90% of VAT and represents 0.81% of GDP. A report published in 2012 found out that over 25% of incorporated businesses in Nigeria via the Corporate Affairs Commission were not tax payers. Also, over 40% of the active tax payers hadn't filed returns in 2 years! So we can definitely do better by simply broadening the tax base and collecting arrears. Thus, there is definitely some room to find resources to improve government revenue and thus critical services that we need to provide to the public. Economic activity valued at over N80trillion should not generate non- oil government revenue of barely N3 trillion. **Diversification of government revenue therefore starts or should start with ensuring current economic activity, both formal and informal, are taxed appropriately.** We can thereafter introduce policies to deepen the currently existing economic diversification without which it will be difficult to unlock sustainable growth and development.

## **6. Benefits of diversification**

The benefits of improved diversification are clear. Firstly, we are all aware of Nigeria's vast potential despite current challenges. Nigeria ranks among the most richly endowed nations of the world in terms of natural, mineral and human resources. Nigeria has a variety of both renewable and non-renewable resources, some of which have not yet been effectively tapped. Solar energy, probably the most extensive of the underutilized renewable resources, is likely to remain untapped for some time, and the vast reserves of natural gas produced with crude oil have yet to be fully utilized. With a highly entrepreneurial, hard-working, largely youthful population of over 170 million people, over 32 million Micro Small Medium Enterprises and a labor force of about 76mn, Nigeria is Africa's most populous country and its largest market and economy with a household consumption expenditure of over N63 trillion in 2014. Nigeria also contributes over 70 percent of the West African sub-regions' Gross Domestic Product (GDP). Nigeria is favourably-positioned geographically and not susceptible to the natural disasters many other countries are prone to. We are rich in intellectual capacity, with many Nigerians at home and abroad distinguishing themselves among the best in the world, in various areas of endeavor. Furthermore, Nigeria is abundant in natural resources. The country is the 8th largest producer of petroleum, with oil reserves estimated at about 36 billion barrels. Nigeria also has the 6th largest deposits of gas with our natural gas reserves estimated at a minimum of 100 trillion cubic feet. Nigeria has over 34 discovered solid minerals, including significant uranium deposits, abundant arable land and over 44 exportable commodities. With such an abundance in human and natural resources, Nigeria really should be one of the most diversified and competitive countries in the world. However, as aforementioned, Nigeria has historically been heavily dependent on a narrow range of traditional primary products and relatively few export markets for the bulk of its export earnings. Diversification in exports and in domestic production will accordingly be conducive to faster economic growth.

Increased diversification is also associated with lower output volatility and greater macroeconomic stability. There is therefore both a growth payoff and a stability payoff to diversification, underscoring the case for paying close attention to policies that facilitate diversification and structural transformation. Cross-country empirical evidence points to a range of general policy and reform measures that have proven effective in promoting diversification and structural transformation. These include: improving infrastructure and trade networks, investing in human capital, encouraging financial deepening, and reducing barriers to entry for new products. The experiences of the South-East Asian countries, some of them with similar economic characteristics as Nigeria, are instructive in this regard. Faced with problems of economic stagnation, high unemployment rate, runaway inflation and persistent external sector imbalances, the thrust of development policies in those countries shifted in favour of the diversification of the productive base and broadening of the export base of the economy through massive investment in physical and human capital. The successful implementation of those policies resulted in enhanced productivity growth, increase in the share of manufacturing in total export earnings and drastic reduction in the vulnerability of those economies to external shocks as we are facing in Nigeria today. The experiences of the Asian Tigers also demonstrated that the development of Small and Medium Scale Enterprises provides a veritable channel for tapping these potentials.

With over 32 million MSMEs the opportunities are tremendous. I must stress, however, that there is no one-size-fits-all recipe, as evidenced by the diverse case studies of other countries that have followed different paths to increased economic growth through diversification. Perhaps, I should also mention that there is a lot of merit in the observation that unlocking rapid and sustained growth is a function of technological and infrastructural improvement. Yet, it seems that not enough attention has been paid to the maintenance, acquisition, adaptation and utilization of existing technology and infrastructure in Nigeria over the years which has contributed to making our growth and development

so fragile. This cuts across the agricultural, industrial and service sectors. To enhance the competitiveness of the non-oil sector which has driven growth recently and the growth of MSMEs, there is need for increased collaboration among all stakeholders, including the government, the operators in the sector, the universities and research institutes. This will not only stimulate innovation but also improve the quality of the products. This is why I am always excited by conferences like this one initiated by Stanbic IBTC Bank.

Notwithstanding all the macroeconomic and global economic turmoil, you are all here today because you all believe in one way or the other, that the opportunities for profits in Nigeria are substantial despite the risks involved. You are the few who, regardless of how things may seem, are here because you believe the opportunities that the economy possesses. The past year have been particularly challenging for Nigeria in terms of its attempts to attract investment. But with the current situation, lessons are being learnt and we are being forced to undertake essential reforms to create a friendlier business environment, to make them conducive, and more attractive to foreign investors. This can only lead to new openings waiting for those who are prepared to think creatively, strategically and for the long-term.

As the theme of this year's conference is "Unlocking Nigeria's potential...growth through diversification", I decided to conclude my address by sharing a few anecdotes, backed by numbers of course, on how you all could benefit from diversification. Before I go into that, I will let you all in on a little secret. People who operate in Nigeria will tell you that it is a challenging environment, and while it is true, for those who are able to handle it, they don't mention the returns are often high enough to justify the challenges and that they usually come out doing very well. For instance, we know now according to the Petroleum Minister that we can actually make profits at \$20/barrel in

some instances. Think about how much profits oil companies were making when oil was \$114/barrel. But if you spoke to some of them, the only thing they will tell you is how challenging the environment is. So the key is you just have to be able to persevere.

Now, as we are all aware, oil prices are in the doldrums, so we need to look for alternative sources of revenue, which leads me to my tid-bits and the key phrase is Value Addition (like your GDP being value added). Now, given the current economic environment, everyone is looking for alternative sources of funding. How many here know that you could actually get strawberries grown in some parts of Nigeria? A young entrepreneur I met recently started selling some fruit. She sells everything from Broccoli, Strawberries, Avocadoes, Pineapples, and other fruits and vegetables. So, I asked the lady to give me a kilogram of Strawberries (organic, grown by peasant farmers in Jos) and the price was N2,000 per kilogram! Now if you do the conversion (to lbs and then to dollars), it comes out to be \$2.59/lb. Now, this is after the strawberries have been harvested, washed, processed and transported to reach my doorstep by someone who is in essence a retail trader who needs to find alternative income and who has also included her trading margin! Now, I asked myself, if I wanted strawberries at my doorstep, how much would it cost me? So, I got on line, and visited Fresh Direct (An American company specializing in the delivery of groceries to individuals); If I were in the U.S. in say New York, Driscoll's Strawberries cost \$4.49/lb. So think about the margins possible with a more efficient harvesting and distribution of the product. Also, think about how your groceries are delivered via Fresh Direct; they come to your doorstep in a well refrigerated van, thus ensuring that the products are fresh till you get them. In one instance when I ordered two pounds of strawberries from the young lady at the office, by the time I got home, half of the product which she had sold me was already getting spoiled. Thus for people engaged in produce, you could actually source your products here, and sell them abroad not to mention the business opportunity in introducing storage

facilities. Someone once said the fastest and most sustainable businesses find out what is needed in an economy and supply it. Just ask MTN [well, before the fine that is]. If you are into these Fast Moving Consumer Commodities you could make various juices, storage facilities that preserve them and so on with great fruit here with output of various crops at almost 250 million metric tons as of 2014 (the 2015 nos will be out when we when we conclude our 2015 GDP work in a few weeks).

As a former head of research at Stanbic IBTC Bank and now as Nigeria's Statistician General, I appreciate how important data such as this is to you all here and that is why whenever we can, we push very hard despite inadequate funding to get whatever data we can get out there as soon as possible. Some interesting information we published recently via the collaboration with the Federal Road Safety Commission are the number of registered Drivers Licenses by State as well as the number of vehicles registered in the country by state over the 2013 through 2015 period. In 2013, there were 1.3 million motor vehicles and motorcycles registered and 400 thousand driver's licenses issued. That is a ratio of 3 vehicles to each new licensed holder! In 2014, perhaps as the economic situation began to tighten, there were 980 thousand vehicles and motorcycles registered to 653 thousand licenses, a ratio of about 1.5 to 1. In 2015, the ratio declined to 0.5. Now it shows, as the economy gets better, people are likely to buy more cars! And if you think a little harder, cars need tires and a whole lot of other parts and as the wear and tear becomes more on the cars, you need to do a road worthy test annually and so on. So over the 2013 to 2015 period, there were 2.8 million registered vehicles and motorcycles, let alone previous vehicles that were on the roads before and their associated needs. Thus, the market is here and the consumption is massive. Where I think we need some help is scaling up to be able to provide more to the Nigeria customer. Which is where I think you as investors can come in. About a year or so ago, we tried to look at financial intermediation via the Nigerian Stock Exchange, to see how well the NSE was helping companies access capital markets, and its contribution

to the Nigerian economy and we had some interesting findings. Of 1116 firms operating in agriculture, that we had on our establishment roster at NBS, in Agriculture, only 6 firms listed on the NSE could have been classified as agricultural producing firms and the share of Agriculture to the GDP was 22% in 2013. In wholesale and retail trade, we have 502,085 firms on our roster, but only 1 listed on the NSE and it contributed 17% to Nominal GDP. Similarly, in Manufacturing, despite the challenging environment, we had 76,656 firms in our roster, but only 67 firms on the NSE, and so on. So the capital market does not adequately mirror the Nigerian economy.

## **7. Conclusion**

In conclusion, let me reiterate my delight at this gathering as these are the kinds of initiatives that we need in this country to move things forward. Like I stated earlier, you are the few who dare to consider investing in this challenging but high returns environment. Let me encourage you all not be dismayed by all the noise of what is going on. Instead, I will urge you to persevere because the opportunities are there. You just have to do some more research, get creative and more importantly, be daring because as they say; no risk no reward. As you proceed into this dialogue session, I wish everyone present a successful conference, and I hope your discussions and recommendations would be the catalyst for deepened diversification, rapid investments and sustainable growth and development in the country. Thank you very much for your time and I wish you the best of deliberations.