Book-2
Chapter 6

NIGERIA'S 1987 BUDGET: IS RECOVERY IN SIGHT?

Consolidation and growth. These are the twin themes of the 1987 Budget message. Overall the Budget communicates a powerful signal of economic policy continuity and a deep commitment to effective implementation of a bold plan for structural adjustment. The message is very positive overall and particularly encouraging for the private sector and international financial community.

We are witnessing a fundamental change in the Nigerian economy, one so pervasive that, when HBSAN meets again to review the 1988 budget, we will probably no longer recognize the Nigerian economy for it will have irreversably changed in a profound and dynamic way. Rather than any one thing we can point to in the 1987 Budget, this change will primarily result from the far reaching effects of allowing free markets to rule throughout the Nigerian economy.

The President has demonstrated a bold experiment in leadership, one that challenges the management skills of both the public and private sector as to whether implementation can be accomplished successfully or not.

This experiment brings to mind Peter Drucker's distinction between the two words - EFFECTIVENESS and EFFICIENCY. Drucker defines EFFECTIVENESS as doing the right things, while EFFICIENCY is defined as doing things right. He adds that - "effectiveness is the foundation of success" - whereas "efficiency is a minimum condition for survival after success has been achieved".

The Drucker example fits because the President has truly gotten the vision and the overall plan right -- so that Nigeria is "doing the right things". The foundation for success is being steadily and systematically put in place. The test - and my concerns about the Budget-revolve around implementation, that is, our ability in both the public and private sectors to manage efficiently, or "doing things right."

My comments are organized in four parts:

- first, let us very briefly highlight the major economic accomplishments of 1986.

- next, let us more extensively review four key issues which are critical to interpretation of the 1987 Budget

- third, based on this analysis, lets assess the 1987 outlook - as to what we might reasonably expect to accomplish in 12 months and then focus on the longer term issue of growth - which inspires my sub-title - "Is Recovery in Sight?"

- lastly, lets examine the challenge of management - which falls on both the public and private sector to implement efficiently a bold, far reaching and effective restructuring of the Nigerian economy.

MAJOR 1986 ACCOMPLISHMENTS

The 1987 Budget builds squarely on the major economic accomplishments of 1986, which centre around putting most of the key elements of the Structural Adjustment Programme (SAP) in place. It is the ability in 1987 to build on the SAP foundation and the demonstrated commitment to action and concrete results which are confidence builders for the private sector. The right words have been heard before but now we are seeing consistent policies and specific actions which are yielding concrete results.

The Structural Adjustment Programme constitutes an overall structure, or framework, within which a myriad of separate policies and initiatives are intended to work as a cohesive whole. However imperfectly the various pieces have been designed and assembled during 1986, the structure is virtually in place and the overall result is a strong foundation for the 1987 Budget to build on. Lets recall briefly the major pieces which have been implemented during 1986:

- SFEM - which aims toward realistic exchange rates which encourage import substitutes to become competitive and stimulates exports as well as generally correcting foreign exchange imbalances. Proper exchange rates are, in fact, the bedrock on which all other economic policy rests.

- restrictive monetary policy - which has drained excess liquidity from the banking system, assured the successful implementation of SFEM and other free market mechanisms, stimulated competitive drives by banks to attract deposits, and generally placed an effective upper ceiling on inflation.

- free market mechanisms - principally the elimination of licences, marketing boards, and price controls plus initial steps toward deregulation of interest rates. These measures have greatly encouraged the supply side of the equation and opened up enormous new opportunities for the domestic private sector.

- tight public sector controls - coupled with limits placed on new borrowing, there has been a very healthy introduction of making spending releases based on actual cash receipts. This brake on spending commitments can be credited largely to Chief O.A. Kuye, Director of Budget - Revenue, who refers to it as the "self-adjusting budget".

- rescheduling of external debt - though time consuming to negotiate, rescheduling agreements are nearly in place with both the London and Paris Clubs. Fully supported by the IMF and World Bank, they have been well designed to buy Nigeria sufficient time to put its economic house in order.

- reduced petroleum subsidies - although this spectre has reappeared following the introduction of SFEM, the almost total elimination of refined products subsidies was implemented boldly and successfully at the start of 1986.

- encouragement of exports - we have seen the introduction of measures to stimulate exports, particularly the ability to retain the full proceeds of non-oil exports in foreign exchange and to utilize them for authorized imports and external payment requirements. The export response has, in fact, exceeded almost everyone's expectations.

- agriculture/rural development - there is little question remaining in anybody's mind that the overriding priority is agriculture and rural development. Hence, the 1986 measures have truly converted words into deeds. In addition to stimulus to traditional exports and effective bans on key food imports, general awareness of the need for storage, processing, and distribution throughout the agricultural sector has been accomplished.

Collectively these major accomplishments have created the promise, after many years of searching for the right package of policies, that the economy is pointing in the direction of recovery and sustained growth.

The shortfalls or delays in accomplishment are many, but for me they simply illustrate the difficulty of the task and do not detract from the pragmatic commitment of this government to keep trying until they get workable solutions. One could, for example, comment on the rather limited progress toward commercialization and privatization to date, or the yet unproven record of government in new spending initiatives for rural development, feeder roads, etc. or the limited initiatives taken to encourage private sector investment. In fact, this could be a rather lengthy list as so much obviously remains to be done, but I believe that the major accomplishments in 1986 are so significant and the spirit of continued experimentation so great that the substantial "unfinished business" should not be dwelt upon but instead moved to the 1987 agenda for further analysis and followup.

However, before moving ahead, I would like to be sure these comments have placed the 1987 Budget in perspective. The Budget itself is like looking at the tip of an iceberg - there is about 30% visible above the water and 70% hidden below the water. In our case, the Budget Message itself is the 30% visible above the water. The 70% underwater is the Structural Adjustment Programme (SAP), which is the guiding light underlying the 1987 Budget. We therefore cannot review the Budget documents without simultaneously analyzing SAP itself. There are a number of very crucial elements of Nigerian economic policy which are left unsaid in the 1987 Budget but the serious analyst, by delving into the various documents which spell out SAP, can come away with considerable comfort as to the overall direction being charted. Furthermore, the implementation of the 1986 budget and the highly successful introduction of SFEM should further strengthen confidence in the appropriateness and viability of the fundamental economic reform which is strongly underway in Nigeria today. In my view, the foundation for sustained long term economic growth is being systematically put into place; hence my major concerns deal with short term implementation and whether or not rapid enough advantage is being made of available opportunities to deliver benefits to the Nigerian public in the shortest possible time span. This, of course, gets the analyst into the area of politics (which has been defined as "the art of the possible") and into country risk analysis, which most assuredly is outside my scope for today's paper.

KEY ISSUES

Lets now delve into the four key issues. Here my intent is to deal conceptually with those Budget areas which make a major difference, leaving the more detailed analysis of specific areas for subsequent speakers to address.

The four critical issues are as follows:

(1) first is the issue of oil revenues. The potential deficit has already generated a mini-debate between our October Budget preview speaker, Isaac Aluko Olokun (Principal Economist at UBA) and the Director of Budget - Revenue, Chief O.A. Kuye. Despite outward appearances, this debate is not really over. The winner will be determined by the future course of the international oil markets, a very unpredictable jury indeed.

(2) secondly, several public sector initiatives to promote growth were announced, particularly to address the threatening social problem of both unemployment and underemployment. The priority given to employment is the right one in view of the stagnant condition of private sector investment and our continued high population growth rate. The issue is whether the 1987 Budget does enough in this regard and whether the initiatives will be successful.

(3) thirdly, lets look at the restructuring taking place within the public sector. Here we see a constructive turn on the issue of privatization mixed with a little less encouraging view as to the commitment to commercialization efforts and as to the overall prioritization of recurrent and capital spending.

(4) lastly, the private sector is being called upon to play a greatly increased role in the Nigerian economy. Lets therefore look at the incentives provided to the private sector to promote increased savings and investment - since these are the necessary determinants of economic growth. In this regard, the signs are very encouraging but again raise a concern as to whether enough is being done in view of the expectations which the Budget itself creates.

Oil Revenue

First, we must recognize the entire oil picture has probably taken a turn for the better. Just before Christmas, decisions to reverse strategies and to return to tighter production quota limits were reached at OPEC meetings under the able leadership of our Minister of Petroleum Resources, Alhaji Rilwanu Lukman. Celebration of this good news, however, should be tempered by the fact of life that the oil markets themselves have not given their verdict.

The essential change for Nigeria may be to move from a netback basis of pricing (which assures producers minimum margins) to a reemphasis on posted prices. This change has not yet impacted agreements with oil producers and may not do so. Given the uncertainty, the most pragmatic way to estimate oil revenue today would be to assume the oil producers will continue to receive an approximate $2.50 margin out of the slightly over $18.00 price now expected from recent OPEC decisions.

Furthermore, there is another issue apparently not well understood which deserves comment. This is the unavoidable need for Nigeria to invest say $1.00 per barrel in exploration and development drilling in order to sustain (or perhaps modestly enhance) its crude oil reserves, which in turn provide the underpinning for future oil revenues. In other words, about $1.00 per barrel must be spent first - before anything else - to protect the vital future foreign exchange earnings from crude oil on which Nigeria's economic development is based.

Given the uncertain oil market, one would expect the 1987 Budget to be based on rather conservative oil revenue estimates -- if for no other reason than to avoid raising unnecesarily high expectations and causing subsequent budget cutbacks in the event current price initiatives cannot be converted to reality. Subject to further clarification by the Ministry of Finance, it appears the 1987 Budget is not conservative as to its oil revenue projections. Therefore, subject to "self adjusting" mechanisms in spending releases, the debate as to a potential deficit situation is still an open issue which should be pursued further.

Let me explain why. To do so, let me deal with simple mathematics as to oil revenues. I have rounded all figures for simplicity of understanding but this does not change the basic conclusion. Let us use 1,050,000 barrels per day of exports for 365 days at an exchange rate of ₦3.30 to $1. Then, let us look at the crude oil price situation existing in early December versus the more uncertain condition we face today.

In early December, we experienced a price level around $13.00 per barrel. Most oil industry observers believed we had reached a price floor and gradual upward movement could be expected over the next few years as cutbacks in drilling worldwide would bring demand and supply back into balance. Nigeria's oil revenues would then have been calculated at $13.00 per barrel less $3.50 ($2.50 for production and $1.00 for exploration/drilling requirements), thereby resulting in annual revenue of about $3.6 billion or ₦12.0 billion.

Today, it would be reasonable but somewhat optimistic to assume a price of $18.00 per barrel and we should deduct the same $3.50 figure above in arriving at the 1987 estimate. This would produce a revenue figure of $5.6 billion or ₦18.3 billion.

What we have in the Budget is at the upper limits of reasonableness and public clarifications have not yet been convincing as to the attainability of the oil revenue estimate. The budget shows -

Estimate	₦13.252 bn	(or $4.0 bn)
Contingency	4.514 bn	(or $1.4 bn)
	₦17.766 bn	(or $5.4 bn)

Moreover, the contingency is stated only as to Federal Government share (ignoring for the time being State, local government and special allocations). We are also told that the price used for the estimate is $13.00 per barrel. However, the mathematics are not yet clear and this figure apparently does not specifically consider the $3.50 discussed above. One recommendation HBSAN should make as to future Budgets may well be that the exact basis for calculating oil revenues should be clearly set out in the Budget particularly in light of the confusion carrying over from 1986 as to whether that budget was based on $20 vs. $25 per barrel for crude exports.

My conclusion, again subject to further government clarification, is that the 1987 Budget is based on a too optimistic oil revenue scenario. The ₦17.766 bn (including ₦4.514 bn clearly marked as "contingency" but ignoring another ₦3.693 bn which would accrue to State, local government, and special funds) stretches beyond my limit of reasonableness - ₦18.3 bn - set out above. Therefore, the deficit debate should be allowed to continue.

While this is a serious objection, it does not pull the rug out from under this year's budget because further adjustment in exchange rates and the "self adjusting" budget mechanism act as safety valves. Basically, my concern is that this may place more burden than is reasonable on private investment to produce the desired growth. We should now assess, as we more quickly examine the remaining issues, whether my concern about growth is warranted.

Public Sector Growth Initiatives

Among the best news in the 1987 Budget are the specific measures aimed at creating growth through fiscal measures - particularly the cuts in individual and corporate taxes and the scheme to attract new investment during the next five years by exempting dividends from taxation. This constructive use of fiscal measures, combined with measures to continue to improve tax compliance, is very encouraging to the organized private sector which bears the tax load. The organized private sector and PAYE sufferers welcome this tax relief enormously in the face of continued wage/price and liquidity squeezes.

There is similar good news in terms of increased interest rates. Although not yet fully deregulated, this can be expected to stimulate additional savings and to make borrowing vs. equity less attractive, particularly in light of the continued, highly desireable policy of tight control over monetary expansion. The resulting impact on inflation is likewise a highly favourable factor to help create savings and investment.

The news as to direct government initiatives to promote growth is less clearcut. The capital spending budget continues to back a small but mixed list of economic projects - some clearly viable, others less clearly so. The Budget continues 1986 programmes to support rural development and agriculture, which are certainly in the right direction but yet to be proven clearly effective. The 1987 initiative toward farm and off farm storage capacity is particularly welcome as are credit schemes, information services, rural water and electrification schemes, etc. We should be able to gauge during 1987, to use Drucker's phrase, the efficiency of the Directorate of Foods, Roads and Rural Infrastructures and the private sector in producing measurable results.

Further new initiatives in 1987 are properly focused in the area of generating employment. The initiatives are encouraging but the measures themselves are not yet spelt out. Again government will need to evaluate whether they can better generate employment in the private sector by direct government action rather than by providing incentives to the private sector.

On balance, all of these initiatives are sound and moving in the right direction. My only concern is that we are discussing rather small amounts in relation to the overall task. The employment generation task is huge. We need to generate productive jobs annually for at least one million new entrants to the labour force. Due to absence of demographic data, I horsebacked this figure by assuming 50 million Nigerians under 18 and about 40% of that number entering the work force annually. This is a very rough number but it more nearly spells out the overall task to be faced if Nigeria is to enter a period of sustained growth and development. Fortunately, the priorities are clearly right today and agriculture can absorb a substantial work force, provided foreign exchange rates (SFEM) are allowed to seek their appropriately attractive level. In my view, the biggest single step government can directly take to support employment is to keep the Naira valued competitively. In fact, the willingness to maintain a slightly undervalued Naira is imperative if these growth incentives are to work effectively. Such a policy also maximizes available revenues as government is one of the main beneficiaries of SFEM. My "gut" feel, however, in the absence of better data is that the task remaining for the organized private sector is overwhelming in terms of new investment needed to generate new employment.

Public Sector Restructuring

Our third issue again provides ample good news, particularly in terms of control of public sector spending limits. Virtually the entire increase in spending is due to interest expense which in turn results from SFEM and from including previously omitted interest - previously capitalized but now quite explicitly expensed - in this year's budget. The total deficit of roughly ₦2.0 bn is, in fact, less than what international lending agencies would have found acceptable.

This restraint is further supported by the continued policy (understood, if not fully restated) for government corporations to generally become fully commercialized. From personal experience, it is fair comment that managements commitment to become fully commercialized is taking positive shape in many, if not most, of the government corporations throughout the nation. This heartening news must, of course, be tempered by the enormity of the task ahead. Commercialization will not be accomplished overnight, but will, in most cases, take years of hard work to accomplish.

The news as to petroleum subsidy, however, is not entirely positive or at least clearcut. The Budget puts everyone on notice that refined products prices will be increased (if smuggling persists) during 1987. The mention of ₦918.6 million accrual from withdrawal of petroleum subsidy is misleading (although not included in revenues) because SFEM has caused the refined products subsidy to reappear in larger amounts than before. The Budget does not provide a line item for subsidy and since funds to pay the subsidy are not in sight, there appears no alternative except to raise refined product prices. This should be done early in 1987 and a mechanism, based on international crude oil markets, should be put in place to make periodic price adjustments rather than delaying until year end - at which point the sheer magnitude makes the required price increase into a politically sensitive issue. More importantly, I hope this lack of firmness on pricing does not extend to other government corporations, as there will be little hope for commercialization if prices and tariffs are not set to yield a basic minimum return on investment, without subsidies, for major government corporations.

Perhaps the brightest news could be the policy on privatization. While only ₦30 million (a very modest sum) is reported for proceeds from privatization, the shares to be sold may indicate a fundamental change in direction which would be very constructive if and when implemented effectively. The shift to sale of shares in banks, insurance companies, and breweries is extremely sound. In portfolio management terms, this amounts to a shift to selling "stars" rather than the previous emphasis on selling "dogs". The previous policy has been difficult to implement because (using UK experience as a guide) "dogs" must first be commercialized, and then a track record laboriously built over a period of several years before such shares can be disposed of at reasonable market values. Furthermore, the sale of "dogs" encourages bargain hunters who are looking for understated asset values. These bargain hunters are not the type of private sector investors which will emphasize growth or which should be given priority. In complete contrast, the sale of "stars" (banks, insurance companies, breweries, etc.) meet the normal criteria for a good sale - reasonable sales price, widespread shareholder distribution, gradual and manageable dilution of control, rather quick realization of sales proceeds since track records are already established and public offerings thus easy to accomplish, etc, etc. This policy initiative is again evidence of very effective leadership and should be fully supported by the private sector. Hopefully, this evidences a strong policy change which will greatly strengthen the funding available for implementing the Structural Adjustment Programme.

The bottom line is that the public sector has gone a long way toward getting its house in order. While the road ahead may be tougher than realized, the general direction and trend are extremely encouraging. In fact, my reaction is that we are reaching a point in time where, if our public servants make the enormous sacrifices to do their own housecleaning, they can legitimately look the private sector executive in the eye and ask - have you done your part? Lets therefore turn to investment incentives.

Investment Incentives

The eventual answer to the question just raised - have you done your part? - will still depend a great deal on government, particularly as they must provide the right environment for private sector activity, what we generally refer to as the investment climate. Today, the private sector is still waiting signals from government that indicate a serious attempt to attract private investment will be made. The 1987 Budget does little to answer that question positively.

The first priority for government, in creating a positive investment climate, is to provide the supporting infrastructure, the appropriate economic policy framework, and the positive attitude toward investment (as reflected in both the investment rules and their application in practice). A major start has been made. The entire Structural Adjustment Programme, given sufficient time, is well designed to move Nigeria toward a free market economy which should create enormous opportunities and growth potential for the private sector. Again, in terms of a leadership direction, the overall signs are very positive.

Unfortunately, when one looks for specific measures designed to encourage private investment, the Budget is either rather limited or even silent, particularly on issues critical to the potential new investor. For example, the encouraging tax reduction measures noted earlier are steps in the right direction but they are, in my view, insufficient to attract the level of investment required to promote growth through a private sector largely unaccustomed to playing the leadership role of "engine for Nigeria's development". There is an inertia within the private sector that will require a major effort, as well as time, to overcome and to get moving.

Looking at comparable incentives offered to attract new investment to competing countries (both developed and developing) around the world, the major private investor today would logically expect specific incentives to be offered and to even be besieged by a rather aggressive marketing campaign which seeks to woo and to win his affections. The Budget is silent in these matters and there is no apparent courtship of new private capital in sight.

It would not take much, given SAP and the favourable free market conditions and deregulation steps that are being taken, to announce and begin the courtship. Such steps could include -

- the timely privatization (as announced) of several banks, insurance companies, breweries, or other similar government held investments.

- the announcement of specific major investments - particularly in agriculture, petrochemicals, gas, or sectors where Nigeria possesses comparative advantage - in which private investment is welcome either by itself or with government as its partner.

- the clarification of NEPB rules as to definition of "foreign" companies or as to manufacturers being able to integrate forward into distribution or as to certain priority sectors being available for more than 60% foreign participation or of pioneer industry status being expeditiously granted in advance of the investment decision.

- the early review of tariff structure and clear guidelines as to which industries Nigeria intends to support through infancy to maturity. The Budget clearly indicates that review is planned while just as clearly signalling that policy will favour comparative advantage and competitive import substitution.

- the cleanup of the backlog of dividend and technical assistance payments (which are the foreign investors return on capital and technology) coupled with gradual total freeing up of exchange controls over these items as they are so sensitive to the new foreign investor.

- etc.

In many ways, given the favourable free market economy which is emerging, perhaps these measures have more symbolic value than real substance. That is, they primarily serve to announce to the world that Nigeria is serious about attracting major private investment. This symbolic step, however, is most important and it is wise to fire a "symbolic shot" early. Unlimited time is not available to government in the light of expectations which must be met and because lead times to reach major investment decisions and to implement investment projects must be measured in terms of 1 to 5 years rather than in months. Also, since new investment is contagious, and one new project encourages another, an early initiative from government is essential.

This conclusion is particularly true in light of the blood bath many companies will take during 1986 and 1987 on foreign exchange losses; the backed up dividends and trade debts which most major companies have experienced; and the highly competitive and uncertain economic outlook which most businessmen (rightly or wrongly) perceive exists today.

Nigeria's private sector is like a boat "dead in the water". It is preoccupied with putting its house in order (just as is true in the public sector). Except for buying assets, it is not yet oriented toward major new initiatives or investments. There is, in fact, a certain lethargy or passive attitude on the part of private sector management today. They are still waiting for government to act although many managements fully appreciate the enormous free market opportunities opening up for the future. This paper's conclusion will contain a challenge to the private sector to get moving, but it is only realistic to expect government to provide the initial signal to the private sector that specific incentives and an aggressive programme to attract investment are in the works. Once the private sector is convinced, it should be able to get up a head of steam, and to move forward largely under its own power.

The Five Year Development Plan could be the vehicle to address the whole issue of private investment in depth, setting the stage for programmes which activate the enormous potential inherent in the private sector - for investors both here and abroad.

1987 OUTLOOK

We have spent considerable time exploring four key issues. Lets now use the analysis to focus on the 1987 outlook and the longer term issue of growth.

What is the 1987 outlook? Can we expect a year of consolidation or will we also begin to see growth? In other words, is recovery in sight?

In my view, we should not expect growth in 1987. The entire year will be needed for consolidation and, given policy continuity, we should reach January 1988 with recovery in sight.

Forecasting still revolves primarily around oil revenues and internal oil prices. Given the past record for oil forecasting, one has to be a gambler to try to forecast for 1987. Perhaps, we must heed the words frequently attributed to Sam Goldwyn - "never make forecasts - particularly about the future."

In true gambling spirit, however, my guess is that we would be unwise to count on a strong oil market just yet. We should be very happy if it comes and produces unexpected growth. But we should be very careful to spend any windfall gains to pay external debt or to invest in productive investments which expand the economy away from dependence on oil exports. In all events, we must avoid repeating mistakes of the past by keeping steadfastly to the Structural Adjustment Programme. The lesson of the oil glut is the enormous capacity of the OECD countries to conserve energy and to substitute for oil in their overall energy requirements. Our long term response must be diversification and our management resolve must remain firm regardless of whether oil prices rise or decline.

Much of the remaining outlook revolves around SFEM and the further systematic deregulation of the economy. As all successful developing countries around the world have proven, exchange rate policy should be aimed at a conscious undervaluation of the Naira, which assures proper resource allocation - toward exports and away from imports. Given enough time, this policy alone would cleanse most of the ills currently present in the Nigerian economy today. Unlike some of the comments heard during the IMF Debate, I have great confidence in the rational, economic behaviour of the Nigerian public - both in the traditional and modern sectors of the economy. Give the public the right exchange rate and realistic prices for goods and services; then most of the important resource allocations will be done rather automatically with no need for government direction.

Assuming SFEM is allowed to be essentially a free market and, even more important, that non-SFEM foreign exchange transactions are left entirely free, we should reach year end with a very successful consolidation period behind us and poised for growth to start. This, in fact, will be a major accomplishment and should be put into perspective.

Fundamental economic changes take a great deal of time to accomplish. One can think of the time and distance needed to turn a supertanker around 180 degrees and to point it exactly in the opposite direction. It takes a lot of time and patience to accomplish. The President defined the problem in his Budget speech -

> "It is, however, clear that several of the problems and constraints which were identified in the 1986 budget are still with us. Notable among them are the continued heavy dependence on the oil sector as the main source of foreign exchange earning and government revenue; the high inflation and unemployment level; the twin issues of low productivity in agriculture and low capacity utilization in manufacturing; the overstretched economic and social infrastructures; the heavy burden of both external and internal debts; and the distorted patterns of both consumption and production.
>
> These are fundamental problems of economic and social development, which cannot be resolved by a single year's budget."

It has taken at least 10 years (dating from roughly 1974) to create these fundamental problems and constraints. Moreover, we have now experienced about 5 years of austerity measures (dating from the Emergency Measures introduced early in 1982) and it is abundantly clear that continued "belt tightening" eventually results in the belt ending up around one's neck. Austerity has somewhat cleansed the system but it is abundantly clear that it is a failed policy in terms of creating recovery and sustained economic development.

We have now wisely entered into a period of consolidation - which is really a period of preparation for growth. Consolidation can be compared to the process of turning the supertanker as mentioned earlier. In our case, we have to turn our economic supertanker around 180 degrees to point in the exact opposite direction - in this case, in the direction of growth.

Turning a supertanker, however, takes time. The best captain and the best will in the world can not do better than the design of the tanker permits, particularly when execution of the turn must be done in somewhat troubled and uncertain waters.

The turn is already well started but it will take all of 1987 - with continuation and reinforcement of current economic policies - to fully execute the turn and be pointing in the direction of growth.

It is not possible to turn and go forward in the opposite direction at one and the same time. In my view, we should therefore not expect growth to occur in 1987. Our only real hope for short term growth is higher oil prices. If it comes, we should applaud it; but we should not count on it or artificially raise our expectations for the long term.

In fact, the only serious conceptual problem I have with the 1987 Budget is its tendency to raise false expectations for growth. Let me refer to exact words in the Budget to illustrate my point:

> "The Structural Adjustment Programme, which was designed to reset the national economy on a healthy course of reconstruction, growth, and development was conceived right from the beginning as a two year policy measure for July 1986 to June 1988. The 1987 budget period is in the middle of the programme and must reflect its spirit."

These words quite properly identify a two year turning radius for our supertanker - in other words, the period of time needed for <u>consolidation</u>. This is confirmed by the words near the close of his address when the President stated -

> "I can say with pride that Nigerians have collectively demonstrated a sense of commitment to their nation in their resolve to determine their own destiny. We must not rest on our oars. We must not repeat those mistakes which have brought us the current hardship. Government has no doubt that we shall turn the economy round within the period of the Structural Adjustment Programme."

Again, these words can be seen to imply the need for a full two year period to turn our economic supertanker round and head it confidently and solidly in the direction of economic growth.

So, what is my concern? Simply, the use of the word <u>growth</u> can arouse expectations. This can be seen in the public questions as to why no growth rate was stated in the Budget.

Government's initial silence on this issue is to be admired. Subsequent announcements have tended to comment on growth as if it were just around the corner and not stress the difficulty to achieve growth. I would urge all of us to remain totally candid about the long lead time and difficulty to produce sustainable, diversified growth.

Government should not promise more than consolidation during 1987 and the private sector should not expect more. We should all be happy if, in January 1988, our economic supertanker is almost completely turned and pointed on th course of meaningful economic growth

The 1987 outlook is therefore for intensive housecleaning in both public and private sector houses. Growth will occur or not based largely on the fortunes of the oil markets. Our real objective for 1987 is to avoid past economic mistakes and to lay the foundation for sustainable economic growth in the long term. Lets remember our analogy of turning a supertanker completely round in somewhat troubled and uncertain waters. We are somewhat early in the turn and at least the entire year of 1987 is required to complete the turn in both the major public and private sector economic institutions which really make the difference in the Nigerian economy.

Now - what about our question - Is recovery in sight? By now you know my answer is "not in 1987" but can we really expect it in 1988? My answer is that recovery will come when the private sector gains confidence in the Structural Adjustment Programme and sees continuity of economic policies over at least the medium term.

The private sector is already well motivated by the direction of events because they see the end objective clearly. As the President said - "this administration has embarked on a journey. The route is long and tortuous but the destination is well worth our effort. We have vision of a great and dynamic society; a society which is united at home and respected abroad."

When looking at the private sector response, we must recognize the lead time for long term planning and reaching major investment decisions. As we saw in last spring's strategic planning workshop, sponsored by HBSAN, it takes careful and systematic definition of mission (equivalent to the President's use of the word <u>vision</u>), objectives, goals, and strategies before any institution can position itself properly for the fundamental economic change in the Nigerian economy which lies ahead.

The strategic planning process requires deep and difficult thought on the part of top management, particularly when sailing into what for most CEO's will be uncharted waters. This process takes months if not years to complete and only then will concrete investment decisions be explored and taken. While the underutilization of existing capacity presents tremendous opportunities to make a major difference in the Nigerian economy, what is needed to produce growth is major new investment. This will require not only more time than 1987 in most companies to reach decisions but also will require improved private sector confidence to even accomplish at all.

What I mean by this comment is that a proper investment climate has to be built before private sector confidence will reach the point that significant new investment will take place.

Considerable investment is already taking place in the traditional sector, particularly in agriculture, because the price incentives are finally right. It is also apparent that existing companies are making new investments in priority areas, although much of this investment is to buy existing assets from troubled companies, and this has less economic impact than does new capital and new investment projects.

My emphasis arises from the overwhelming need to reach new investment levels which are radically different and respond to the President's "vision of a great and dynamic society." In other words, the scale of investment that would begin to approach the development of new jobs for a million or more Nigerians each year in the future. With public sector capital spending sharply curtailed, this main burden falls rather unexpectedly on a private sector which is not yet prepared for such a challenge.

It is too much to expect the 1987 Budget to map out the economic programme to accomplish the President's vision - because this is the province of Development Plans and must take at least five years to get fully off the ground.

Nevertheless, the 1987 Budget falls short of even hinting at such a major plan. Hence it fails to gain time by at least establishing the level of investor confidence which is necessary to get studies leading to capital investments at least underway. Moreover, government must go beyond existing companies to attract foreign investors not now interested in Nigeria, who are generally turned off due to negative country risk ratings which Nigeria currently receives. Like all other successful developing countries around the world, we need a constructive programme of investment incentives, supported by an aggressive marketing programme, and executed by positive civil servants who really want to attract new foreign investors to Nigeria.

In my limited observation, it seems we have all been so busy with survival and the short term that both the public and private sectors have failed to articulate the needs and rationale for growth and then to debate how it can most effectively be accomplished.

Both the public and private sector must participate actively in this debate. Government must get beyond listening to specific complaints - even those as valid as faced today regarding tariff structure and to the burden of foreign exchange losses - and start to develop an economic blueprint, or roadmap, for recovery and sustained growth.

The private sector must also do its part. Rather than going to government, cap in hand, with our problems, we must look further down the road and begin to map out sound economic policies and to develop viable investment proposals which can contribute positively to Nigeria's overall economic development.

CHALLENGE TO MANAGEMENT

Let me close by encouraging a debate on growth and to urge HBSAN to play a lead ro... both in the growth debate and also in framing the overall blueprint which logically should follow.

Again, I have been struck by Peter Drucker's words that "developing countries are not underdeveloped, they are undermanaged." The President's vision obviously intends to move the nation from under-development to at least the "point of takeoff", perhaps following the leads of Brazil, South Korea, Singapore, Taiwan, India, etc. He therefore has issued a clear challenge to general managers throughout all of our major public institutions and private enterprises.

As Harvard Business School is uniquely the leader in training general managers, there could be no better shoulders for this task to fall on that this group assembled here today. At least we can get the growth debate started and get others to join in. And our objective of promoting general management training can be expanded by using the unifying theme of growth for several years of future HBSAN programmes. Our March workshop on Enterpreneurship, for example, falls well within that theme.

First, what should the debate address? There are three aspects that come to mind - the economic theory as to what policies are necessary to produce growth; the constraints which have blocked new private investment in Nigeria during at least the past eight years; and the practical programmes which other countries have demonstrated can attract the right kind of capital investment. Our end product should be to summarize our findings and present constructive recommendations to government.

Second, how can we contribute to better general management - both in the public and private sectors? We are well aware that general management must now manage in a competitive environment and this is to a large extent a new experience for all of us. We should foster basic courses and workshops in fundamentals of management - such as marketing, production, finance and control, human resources, etc. as well as the more advanced topics of policy, strategy, and entrepreneurship. Our aim should be to help existing business administration schools and management centres while expanding our own workshops and lectures aimed at general management. Also, we should become more active in recruiting candidates for top management training courses, such as AMP and PMD at Harvard Business School.

Thirdly, we need to be a catalyst for getting the private sector moving. If the private sector is passive and sets on its hands, we may look back and realize a great opportunity has been wasted. HBSAN should look for leadership roles where we can help the business sector take the initiative for growth and development.

Lastly, we should continue our dialogue with government, particularly in terms of budget and economic policy recommendations, but also going further to help public sector managements to join with the private sector in a common cause for growth.

My ideas barely scratch the surface as the potential is enormous. My hope is that both government and private sector leaders would support our initiative and that creative dialogues will result. I am sure that focusing the right minds on the right issues and practicing management as we preach it will reach results worthy of the President's vision.

Let the debate begin. Surely recovery and sustained growth are worth the effort and we will have efficiently, and hopefully, effectively answered the President's challenge to management.

DICK KRAMER
14th January, 1987