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# Investment Based Economy Or Rogue Economy: Which Way Nigeria?

by

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# AN INVESTMENT-BASED ECONOMY OR A ROGUE ECONOMY WHICH WAY NIGERIA?

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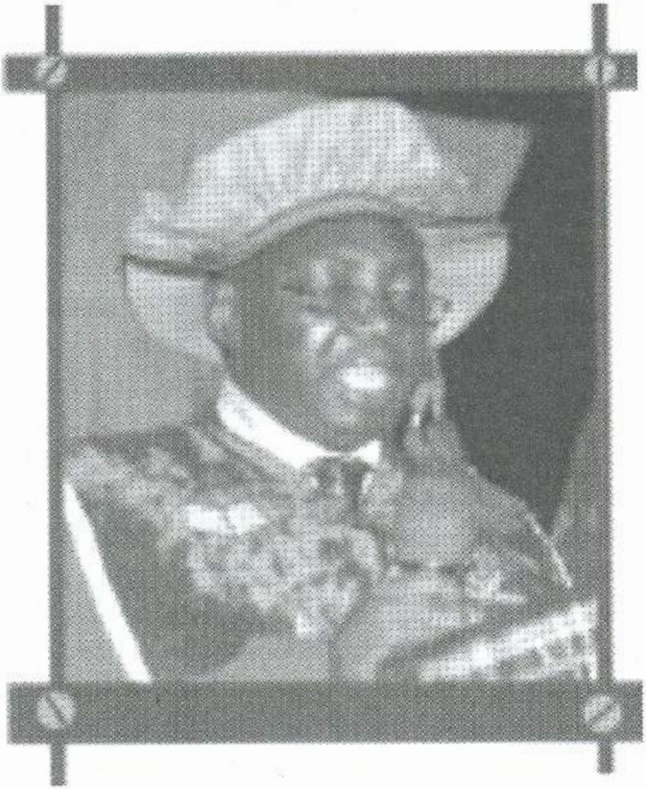

## I.I INTRODUCTION

### The Nature of Investment

All over the world, no country ever developed without investment on a large scale in various aspects of life, including the economy and all aspects of the life of the people. Be it the social life (education, health, and housing) of the people themselves, the political life of the people and the cultural life of the people including the worship of the Almighty, everywhere the language of development is investment. Investment is a long-term or medium-term commitment of resources in terms of time, money or a means of production to achieve an improvement in a person or thing.

Investment is the foundation for building a virile society and every individual building up to maturity invests heavily to attain that goal. Parents invest in the future of a child, in the weaning process, through childhood and up-to the early years of adulthood from which period the individual continues with the process of investment in his or her own future. Whenever and wherever he stops doing that, degeneration creeps into his life and retrogression takes over. Not surprisingly, those who make it in life are those who have enjoyed sufficient investment in their lives in an essential way and at the right time, either on their behalf and/or by themselves.

A person who as a baby was not properly weaned suffers the consequence in childhood if he survives to that age. Every stage in life has its own investment need. Lack of it at the right time can cause havoc in the life of the individual (Oyedepo, 2006: 5-108; Scott, 2006: 1-28). Crucially, whenever the responsibility becomes ones own, the amount of investment in ones own prosperity, acquiring education, skills and certification for gainful employment; decent income for a respectable standard of living; health care for strength and longevity; full participation and a say in your family, among your friends, at the place of work, in your immediate community and in the wider society; these are critical in determining ones access to good living and the enjoyment of freedoms and rights in the society.

It is the same process in the life of any organization (Eisner 1963; Ige 1981) as there is the need for initial investment at the time the organization is born through investment at an appropriate level, whether the money comes from the pocket of the entrepreneur, from family, friends and well wishers or through borrowing from government sources, international development agencies or from financial intermediaries. The investment process must not only be of the sanitized sources to avoid future failure and untimely death of the business. It must follow the due process of business planning, business feasibility appraisal, and the layout of a management process capable of delivering the desired profit. Other things equal, including God being on the side of the investor to ensure the blessing of the Almighty, the success of the enterprise, as with the individual, is guaranteed as it is for the individual.

So also it is with a country, at the aggregate level so to speak, the macro-economic and macro-social levels, moving through levels of complexities; from groups of individuals or groups of organizations; communities or groups of communities, states or group of states; at industry level, sector level, across industries or across sectors; the ownership of the investment may even be economy wide. Surely, things are more complex at the macro level but investment in a country must still take place all the same at any of these levels or a combination of them if the country must advance or else the society dies, through progressive deterioration, degeneration, decay and decomposition and finally through disintegration. To use the right language, whether at the level of the individual, organization or the society, ***SUFFICIENTLY INVEST OR PERISH.***

**Investment at the Ideological Level**

At the non-governmental level, things become very complex indeed especially when the ideology and structure in place is the *laisez faire* or free market so to speak. The current argument is that this is better for a country, and the election of Mr. Nicholas Sarkozy in France is the French people's acclamation of that tendency. It happened in the United States of America (U.S.A) with the landslide election and re-election of Ronald Reagan on that platform (1981-89) and the popular endorsement of unabashed free market economy by the British through the election, re-election and election of Margaret Thatcher (1979-1991). Japan and almost the entire continent of Europe are forging ahead on that platform. Russia and its entire satellite countries following the demise of the Soviet Union and communism as the world used to know it are learning-by-doing what free market all means and entails. South East Asia, the rest of Asia and South America are not being left behind. Indeed China is signaling that it is currently in search of the right combination of ideas to access the free market ideology now that western capitalism has found a secure entry as in Russia and others. Indeed experience of the 1980s has shown Africa that it faces isolation and rapid decline if it continues to shun large scale if not whole scale endorsement of free market ideology. By close association with the West, Africa knows the theory so well, now is the time for the practice in order to achieve qualitative investment through the medium of free market of which the private sector is the vehicle. Nigeria signaled this intention in the Structural Adjustment Programme (SAP) of 1986-87, an idea that actually has its root in the planning years of the 1970s and 1980s. The recognition of the need to accord dominance to individuals and private sector organizations in the practice of investment as it was in the era of the world's first industrial revolution is key to national growth and development.

What then is the role of government in investment? The competing ideology is that governments and governmental agencies should bear the bulk of investments in the country as against charging the private sector to carry out these even on behalf of government (Martnussen, 1997: 49-55) In such environments, only very little encouragement is given to the private sector as we now refer to all organizations that do not bear the imprint of government. The most totalitarian countries in this respect are China and the Defunct Soviet Union while it lasted, its Eastern European allies, its outposts in communist ideology and adherence, in Cuba, Central America, Africa and Asia. Since the iron curtain came down in the Soviet Union in 1989 and the cold war melted in the 1990s, this tendency (the free market tendency) remains only in China and Cuba in any significant sense and they are already feeling the pressure of global change.

Now there is enough evidence that China will eventually don the yoga of free market in not too distant a future with the arrival of the MacDonalds, Coca-Colas and hopefully our own Mr. Biggs as relationships warm up between Beijing and Abuja. People are of the opinion that Cuba will also follow suit and as its closest ally Russia, a member of the Group of Eight (G8) becomes more indebted to the West, Cuba will become an isolated purist adherent of socialism. Indeed, the world is only waiting for the death of Fidel Castro, now an old man, for the final change to occur and only President Hugo Chavex of Venezuela, Fidel's close ally and bosom friend seems to be the only man who may not be in that frame of mind at this time.

When a country or the global community is pro-free market, would it mean that government investment will cease? No, but a responsible government must not compete with the private sector for investment funds in the private domain and must seek funding in the public domain. These sources include tax revenue, yield from its own past investment that could not be sold to the private sector for various reasons, and at the last resort, engage in customary domestic borrowing (through treasury bills and development stock) and from abroad. Domestically, public sector borrowing must, of course, be limited to that arising from the economy management process of the Central Bank of Nigeria (CBN) through the instruments of treasury bills, treasury certificate and development stocks. The next question is "in what should government invest?" Again the principle always is "government should avoid, to the extent possible, competing with the private sector but give the private sector operators ample opportunity to compete among themselves so as not to give monopolies a chance". For as long as the private sector is ready to invest in a venture given the normal protection of the state from sabotage of the individual or group of individuals the private sector has the answer to investment while the government has the responsibility to protect the people from undue exploitation. That protection must treat as sacrosanct the right of the producer to choose what to produce, how to produce it and how to distribute it with the guidance of the free market under which the consumer is king, who has since turned a dictator in the market.

## Irreducible Role of Government

Therefore, government is called upon to invest first and foremost in security of the nation, the safety of life and property, the security of the public treasury and the last but by no means the least the rule of law. These are the Strengths of National Conscience (SNC) and they constitute the irreducible minimum for any serious government that wants the country to develop through the investment process. We can restate this briefly for the sake of clarity, simplicity and codification as National Security (NS), Treasury Security (TS), Life and Property Security (LPS) and Rule of Law Security (RLS). We hear people say that we do not have these fully operative any where in the world even in the U.S.A., the foremost private sector-led economy in the world, but only an ignorant few will disagree with the fact that most violators of these are invariably made to account for their crime as the visibility of deterrence completes credibility.

Apologists of what became known as the Mixed Economy have argued that government and the private sector should share responsibility in investment and in the production of goods and services in the economy, but stopped short of recommending similar sharing in NS, TS, LPS and RLS. The practice of Mixed Economy has since shown that this can only be encouraged in situations where the private sector is found deficient and can really not be assisted or trusted to face up to societal expectations. In some cases, the private sector cannot be trusted to establish to lead a nation's industrialization, in Nigeria Government had to pursue the establishment of a virile iron and steel industry, refineries, fertilizer production and the chemical industry in general because the country could not wait until such a time that capability will be acquired by the private sector. However, government performance in all this has since convinced every apologist of government in *busi-*

*ness* that government may have no business in business after all. But for reasons of security, size of investment, need for certain goods, reduction of monopoly power, urgency, as evidenced in government's recent launch of Nigeria's own Satellite into space and however public interest may be defined, government may need to act. Such interests include the production of merit goods e.g. health and education which are shared with the private sector as evidence of a mixed economy and what may be referred to as public-private sector partnership (Ariyo, Odusola, Ayorinde: 2006: 265-309).

However, government is always advised under an appropriate arrangement that protects public interest to transfer these to the private sector as soon as possible while encouraging more private sector investment in such industries. Theoretically, government presence or dominance in any industry is a danger not just in that very business but to the industry as a whole and experience in Nigeria seems to have proved this beyond any reasonable doubt. **Ultimately,** yes, it can be said that ***government has no business in business.*** Personal experience shows that even when government is a minority shareholder (however small the percentage) in a company, it behaves as if it is a majority shareholder; for example it may want to appoint the chairman, you will be surprised.

This discussion has been divided into a number of sections to enable us deal with the various aspects of investment as we ask the question "will Nigeria choose an investment based economy or adopt the path of a rogue economy". Section II deals with what a rogue economy is and what it is not while Section III situates formally government role in investment within the framework of public finance. Section IV examines the private sector itself and section V summarizes "which way Nigeria?" Section VI looks at the environmental angle while Section VII concludes the paper.

## 1.2 THE ROGUE ECONOMY

### Economic Growth and the role of government in investment

This leads us to the third role of government in investment expenditure, and provides an opportunity to address some of Nigeria's pitfalls in the development process. In the early stages of development, particularly as a country emerges from the visible and clandestine claws of imperialism and neo-colonialism, government investment is critical in the development process. However, most countries get the priority wrong and this is the cause of worry to watchers of Nigeria's lack luster development achievement. Government should never stop asking itself the question "what can we do to make the private sector provide the answer, instead of government going into the venture?"

The fundamental role of government is to provide the necessary infrastructure for the enhancement of the private sector leadership of the economy. Who does not know for instance that the provision of motor-able roads to the rural areas is a major role of government? As we said above, only government authority is ignorant of that fact for its own reasons. Who does not know that potable pipe borne water is needed in communities for the eradication of many infectious water-borne diseases, ditto to the importance of electricity, primary health care etc.? Take a more complex case, that of providing electricity to homes and industries. We can therefore summarize the role of government in this regard as that of providing the infrastructure for the private sector and paving the way for it to venture successfully into various production outlets.

Only when it is manifestly impossible, and usually only for the time being, for the private sector to so excel, is government required to do so by itself. So government only looks for areas critical to national development, which the private sector for now cannot cope with or for the sake of national security. These are areas government can go into and as time goes on, and the private sector is deemed ready, government can privatize what it already has and /or encourage the private sector to expand its presence. In other words the failure of the market to afford the society of some goods such as merit goods can be a reason for government intervention (Bailey, 1995: 16-42; Rosen, 2005: 4-18). Now is the time to define what is meant by a rogue economy.

It is only the dictation of a rogue process that usually prevents a government from encouraging private sector dominance in the economy. In the case of privatization, unless some key members of the government can buy out the company they make the world believe that privatization cannot occur. Meanwhile they strangulate same business and other businesses as they hold on tightly to it as government. From the above, what comes across for emphasis is that national development is all about investment in the individual, investment in the private sector, for the private sector and by the private sector. A government that loses that focus is easy to identify. It simply fails to capture or recognize the struggle of the individual to invest in himself to a point he can function well in the society, earning income, being soçially equipped through good health care and education and being relevant through a feeling of making contribution and defending his own freedom and rights in the society. Most African governments, or indeed governments in developing countries in general fear this scenario and would not want it to happen so they under-fund education, training, health and ensure ignorance to the extent possible.

There are a number of stages of development a nation must pass through on the march towards an advanced status, stages that can be traced from a broadly agricultural life to an industrial stage or from a pre-agricultural life, to agricultural life, pre-industrial life to one of an industrial state (Rivero, 2001:111). Within broad categories, we can also locate the pre-capitalist life of trade by barter to one of capitalist formation, of credit and exchange society. By far the most widely recognized stages of growth are credited to Rostow (1965). The Massachusetts Institute of Technology professor submitted in 1960 that a country would pass through five main stages of growth:

- Traditional society;
- Preconditions for growth;
- Take-off to sustained growth;
- Drive to maturity; and
- Stage of high mass-consumption.

In this regard Britain led the entire world as it took off into the stage of sustained growth in the last half of the 18th century, 50-60 years before France, and 60-120 years before the U.S.A; 93 years before Germany, 100-120 years before Japan, 110-135 years before Russia and 110-130 years before Canada. In other words, it took these countries such many years of continuous investment before they began to smell the aroma of take-off into the stage of sustained growth after the United Kingdom (U.K.) did so almost with precision (Salvatore and Dowling, 1977).

Examining these stages of growth, it is clear that the traditional society is pre-capitalist while the stages of pre-condition for growth is the stage obviously where various types of investments are carried out, making sure these investments will guarantee production of various types. It is not difficult to reason that this is the stage of putting in place various types of infrastructure, of quality and quantity, including social infrastructure (education, training for relevant skills; health to ensure ability to earn a living and leave healthy and long life; economic infrastructure such as financial institutions, development institutions, etc; physical infrastructure such as transport and communications, utilities such as electricity, water, etc. political infrastructure such as the instruments of governance, cultural infrastructure such as the protection of values and norms, dissemination and protection of historical traditions, elimination of negative values etc).

Government is given the responsibility under an appropriate arrangement conferred by the constitution, to sit over the resources of the nation, manage them and ensure a development process that will enable the individual person and corporate entity to develop their potentials and achieve excellence in their objectives. Surely these resources under government charge cannot be used until they have been so developed, deployed and utilized. This is where national investment comes in and this is where Nigeria has been since 1950s and described as potentially rich but blighted by poverty. Nigeria's remain behind today because the leaders simply do not seem to understand the pre-conditions for take off to sustained growth, what it takes and how to get there. A few did and we saw them in the vanguard of Chief Obafemi Awolowo. He knew even in the 1950s that development begins and ends with investment in education, health and infrastructure and the private sector. He got it just right (Ghai et al 1995).

**What then is a rogue economy?**

A rogue-based economy, therefore, for the purpose of this discourse is one that evades the fundamental paradigm of development expenditure (Investment), i.e. pro-people, pro-poor, pro-nature, pro-women and children, pro-growth, pro-jobs and pro-private sector. A government through its investment spending must address the challenges of the people, including the poor with a view to eradicating at least the worst form of poverty. Poverty in any country is like an infectious disease, it spreads if not curtailed and eradicated. If you are a leader and the nation's investment discriminates against women, you neglect investment in combating environmental degradation, destroying the source of income of the people without replacement, you are sitting over a rogue economy. If you are a leader and you are not concerned about ensuring the economic security of women who rock the cradle, you are sitting over a rogue economy, and if you are a leader and not concerned about the future of the youth and you are not putting the unemployed in jobs, you are actually sitting over a rogue economy. Ditto to economic growth and the private sector (Crewe and Harrison, 1998:155-175). Essentially these are the canons of Sustainable Human Development (SHD).

A rogue economy is not primarily about corruption, it goes beyond that, corruption and stealing in government are some of the consequences of running a rogue economy. After all if basic responsibility of government such as National Security (NS), Treasury Security (TS), Life and Property Security (LPS) and the Rule of Law Security (RLS) had been tackled there is no reason why corruption should exist and if it does there is no reason why the level should hamper development, because it would have been dealt with in the first place given the USA example. A rogue economy actually rests on the absence of the seven cannons of development enunciated above and the lack of attention paid to the four pillars of Strengths of National Conscience (SNC) also spelt out above. In any case our seven canons of SHD tackle the corruption saga as a desideratum.

These cases of negligence are usually not done intentionally, but then make no mistake about it, leaders are warned by the vigilance of the people and most of the leaders may not even know what the role of government is. You will notice that these are not cases of stealing per se but cases of pure negligence, at best evidence of crass incompetence which is not punishable by law. At worst the leader and/or his/her party may only lose the next election. The negligence also need not lead to stealing by the leader but it gives room for people to pillage the treasury and that is a different matter entirely, corner government revenue coming from or going into the treasury. May be this aspect is a case for the legal minds and not for economists. They are the consequences of a rogue economy, based on negligence and incompetence.

## 1.3 THE PRINCIPLES OF PUBLIC FINANCE: MAKING THE CHOICES.

### The society and investment

Investment is defined as that part of income, which is not consumed but set aside for or ploughed back into activities that will further earn more income in a future period for the investor. Thus, investment is defined relative to consumption and income. However, whether we are looking into the life of an economy, a business or an individual, investment is key to the future growth of income. When we are talking about investment, consumption and income definitely call for strict scrutiny.

Furthermore, we cannot talk about investment without first talking about saving. In the business of growing an enterprise, a country, or an individual saving comes before investment; even if you have to invest a part of the income in an endeavour immediately you earn the income. A good example of this is the 'ESUSU' contribution normally practised in a work environment or at the community level; this is an element of investment. As soon as you earn the income, you separate or put aside that part for your own contribution. You have just saved or performed that act of saving and the moment you hand it over to whoever is the collector of your ESUSU, alas, you have invested or performed the act of investing part of your income. Here you are a saver turn an investor. However, ESUSU must carry the advantage of the possibility of making fund available to you for a purpose you are expecting in future. That you have divested part of your total income from consumption is never enough, until you have put it in an instrument of investment not immediately accessible to you to pounce upon and when it comes back to you it comes bigger than when it parted from you. Saving could therefore have the same effect of investment once whoever keeps it for you can assure you that it is being used for a profitable purpose you can share from in future. As an individual who sets out to put the money directly in physical asset as different from financial asset such as ESUSU, to produce goods and/or services there will be a more prolonged phase between saving/investment and the benefit/yield. What instrument of investment the individual or company chooses for his/her/its saving will depend on the maturity structure preferred and attitude to risk taking.

In the same way the principle of public (government) investment or development finance requires saving if a nation is to be regarded as one that opts for investment. Even when there is virtually free oil money, unless the money is saved and wisely invested it is as good as living from hand to mouth and such a nation has no future; one day it will be virtually no more as a failed state dissipated by financial crisis acting as the well-head of other crises. In the 30 years from 1975-2004 Nigeria could mobilize enough resources for its meagre investment in only ten years (saving greater than investment, see table 1). Worse still Nigeria was able to save up to the required 25% of its income (GDP) in only 3 years out of 30 years. It invested up to that percentage in only 5 out of 30 years and actually borrowed to be able to do so in 4 of those years. Nigeria could do so if it wanted but the rogue (careless) tendency/syndrome of public finance would not permit. The Central Bank of Nigeria (CBN) is the banker to government and is endowed with the constitutional means and professional skills of managing government's saving in local and foreign currencies; it is also supposed to ensure the money also gets to the borrowing public for optimal use and economic stability. Such means include the issuing of treasury bills and development stock, Open Market Operation, and various methods of ensuring the capital reserves of banks conform to the trajectory of economy management. A government that refuses to use these channels is open to and opens itself to various machinations and manipulations. It is a rogue economy even if no case of stolen money may be identified.

What then are the principles of public finance granted the savings can be accessed or as we say a savings gap can be filled by borrowing? Principally, government is expected to ensure (Musgrave and Musgrave, 1976):

- Allocation of resources for production among contending interests in the society through the use of policy instruments available to it;
- Distribution of output or income of the economy among the population in accordance with the agreed principles of distribution;
- Ensure stabilization of the economy, warding off inflation, ensuring employment, etc;
- Regulatory role, and through its legislative arm make laws, enforce them to make the market perform well in areas such as contracts, consumers etc; and
- Provision for economic growth through saving and investment to more than address population growth.

These are all areas most people would like their governments to do more. The problem in Nigeria and Africa is that those at the helm of affairs simply do not understand the enormity and intricacies of these issues and if they do, they simply do not care less whether they are properly addressed. We said earlier that it does not mean that a government will go out there and start making arrangement to carry out the tasks by itself. Learning about and ability to use the private sector is a great advantage. This is what economic reforms are all about. This is the context in which our seven earlier enunciated canons of development (pro-people, pro-poor, pro-women and children, pro-nature and pro-job (and by implication pro-private sector) must be understood.

Of course there are models of public expenditure in which any government must situate its policies but by far the two most appropriate to our current development objective are:

- The macro models that address development from the point of view of role of government as understood; organic development as the economy matures the role of government changes; one based on what extent the polity will accept being taxed for government expenditure; or serving the interest of public servants. The Rostow's stage model in my view should be combined with a pragmatic share of responsibility with the private sector; and

- The use of micro models based on the demands of individual components of the polity such as voters special interest, public servants, politicians and any other pressure group. This means that public expenditure will favour one group more than others but then this model is less superior to one that focuses public expenditure on the seven canons of development combined with voter preference.

**The need for economic reforms**

There is the need to prosecute economic reforms in conformity with the projection of private sector utilization while at the same time government watches out for the failure of the market in whatever way to guide its own investment pattern. The need for this approach would be seen in the reasons why government pushes privatization as an option for better management of the economy:

! Better management of the national resources;
! Access to finance from abroad (foreign investment);
! Use of competitive technology to which a government owned company may not have access;
! Access to financial sources not ordinarily available to a government-owned company;
! Avoidance of endless subventions to government owned companies;
! Reduction or out-right elimination of corruption which government-controlled enterprises are subjected to;
! Ensuring profitability of government owned enterprises;
! Driving quality of products in the economy; and
! Better management of macro-economic forces.

With privatization coupled with a policy of private-sector led economy, Nigerians can be sure of better utilization of available resources. A well-managed Nigerian economy requires that Nigeria's money is either policed by a CBN that is independent and accountable to the Nigerian people or safely in the foreign reserve account. Politicians in executive positions use Nigeria's money as slush funds, signing cheques for whatever purpose they choose and for whoever they want. This indeed makes it anomalous for politicians to be in-charge of huge accounts and only accountable to a fellow politician, friend or foe. This discourse is not so much about targeting abuses of procedure in Nigeria but draws attention to the manifest tendency and ability of the macro-economic management process to create actual rogues in the process of investment management. For now there is far too much of the country's money under the control of non-bank institutions, such as Petroleum Technology Development Fund, the defunct Petroleum Trust Fund, the Education Trust Fund, etc. managed by politicians in government Recent events show that these accounts are rarely audited and therefore hardly accounted for as indeed they have no mention in our statistical bulletins; their accounts are not published any where. What this amounts to is that the management of the funds is only accountable to politicians whether of the Federal Executive Council or the Legislature. That is why the National Assembly itself a group of politicians, through its Appropriation and Public Committee, is helpless.

Related to this phenomenon is the insatiable appetite of government (meaning all governmental agencies whether local, state or federal) for money and its derivatives, shares inclusive. Given our huge revenue from oil many if not most people will not concede to government, the present fierce competition with the private sector in borrowing from the commercial banks. Could this mean that the commercial banks will not be satisfied with lending to the private sector, just because of the relative security of lending to government? This has always been the problem of the private sector not having access to commercial bank funds and one of the reasons why the private sector is still not in a position to lead the economy. Only if it is a rogue economy do we have such manifest contradictions of national policy persisting.

Furthermore, the budgeting process leads to wastage, considering the frivolous use of deficit financing despite a healthy revenue status. Over the years, huge oil resources had hardly made any difference in Nigeria with the exception of a few notable years in 1971-4; 1979 (early years of the oil boom) and 1995-1997 (Abacha years), deficit spending has remained a pattern of Nigeria's budgeting process (see table 5). For some inexplicable reasons Nigerian governments take the position that the budgeting process requires deficit spending even as they pile up foreign reserve in some cases. By its nature budget deficits are actually money printed to add to government revenue in order to meet up with public expenditure requirement. In the past, the budget approved by the National Assembly is published for all to see but the practice is receding to oblivion. The country needs more than the Fiscal Responsibility Bill now passed by the National Assembly but yet to be signed by Mr. President In cases where the Executive is under scrutiny by the National Assembly such as the auditing of government accounts it is absurd to rely on the report of an auditor-general under the control of same government. It is loop holes such as these that create a rogue economy.

Once again our intention in this lecture is to describe the existence of a rogue economy in Nigeria and whether some people are exploiting it to their own advantage is another matter entirely.

The issue of external debt management is also one that is closely linked to deficit financing as far as suspicious cases of national finance are concerned. In the last two years this country has exited its major debt categories, including the Paris Club, the London Club, Promissory Notes and retrieved Oil Warrants in lieu of debt servicing default. Credit must be given to Chief Olusegun

Obasanjo's administration for the pains it took to exit the country from the noose of debt overhang. However in a dramatic occurrence, within the last eight years the same government that ensured that the backlog of external debt was cleared has built up a staggering new debt of over Five Billion US Dollars. Significantly too, most of it will go into the social sector, and certainly not into job creation or improving the epileptic state of electricity delivery in the country.

In 1979, Nigeria owed only US $1.6 billion and that administration raised the total debt by nearly US $1.3 billion from a small amount of US $350.0 million by the end of 1975. On departure by the end of May 2007, Nigeria again is likely to be saddled with an external debt overhang of over US $5.00 billion. This raises fundamental issues about public finance in Nigeria:

- Does the National Assembly have any powers to scrutinize government demand for foreign loan?
- What in principle, bearing in mind the ability to repay, should we finance with foreign loan;
- What is the process of recommending borrowing from abroad; and
- Is there a regulatory blueprint and policy for external finance?

If Nigeria can accumulate over US five billion dollars of external debt in eight years without any attempt to pay it back the nation should brace up for a quick return to its former position of one of the most debt-ridden countries in the world within the next eight years should the oil market collapse. What should worry the country is the principle behind the borrowing as stated by the Director of Debt Management Office (Punch, 11 May, 2007, Front/ Back Page):

- Credit worthiness rating by lending agencies, including commercial banks;
- A good reserve by the country;
- A booming export earning capacity by the country;
- Attractive terms of the loans, highly concessional;
- Application of the loans;
- Size of the loan in relation to the absorptive capacity of the economy;
- Servicing capacity;
- Over-all fiscal situation of the country;
- Financing gaps;
- Sustainability of the debt; and
- Over-sight and monitoring arrangements put in place.

However, the DMO forgot to tell Nigerians that those who lent this money were more concerned with, at most, four of these criteria in lending to Nigeria:

- Nigeria's international credit worthiness;
- Nigeria's ability to pay by virtue of its current oil bonanza;
- Selling their product (financial and real); and
- Hooking Nigeria once again to the diabolical net-work of debt overhang.

Lenders can never be kind; they will take their pound of flesh (Amin, 2000; Hettne, 1995; Shutt, 1998). History repeats itself on those who fail to learn from history. May the Lord grant our leaders wisdom (see Griffin and Mckinley 1994).

This discourse once again is not just another study in public finance and development but one that is dedicated to the wisdom of Chief Obafemi Awolowo in public finance and development. It is not just because of an idea but I was one of those children rescued by the chief while still on the farm even under an educated father, able to read and write and speak the Queen's English. It took the policy intervention of Chief Obafemi Awolowo along with the professional leadership of Chief Adekunle Ajasin to evolve a programme that sent most children of that generation to school from a life of total peasantry. He lived to witness many of them become professors. Ironical he died in 1987 the very year I became Associate Professor of Economics.

He saw the future that took the United Nations another 40 years (1954-1994) to implement when the United Nations Development Programme (UNDP) of which I was also a part recommended to the world a development agenda of pro-people, pro-poor, pro-nature, pro-women and children, pro-job and private sector and pro-growth. Through his ideas, Nigeria will probably be a Sweden today for we were both at the stage of achieving the pre-condition for take-off in the 1950s in the South West, including then Mid-West. May the soul of a President that never ruled, Rt. Honourable Chief Obafemi Oyeniyi Awolowo rest in perfect peace.

## 1.4 THE PRIVATE SECTOR ITSELF

### The bank and borrowing from the bank in Nigeria

The private sector represents the aggregate of the Nigerian people, their aspirations about life and concerns about government. Indeed, theoretically, and in practical terms, I see the private sector as the bride between the government and the banking sector (see figure 1), if you will pardon me to excise the banking sector from the private sector for the purpose of driving home one or two points in this lecture. We the Nigerian people are literally the bride between the government as an institution and the banking institution. Even if you work in the bank or in government you are still part of the Nigerian people. So far we have talked about Government competing with the private sector cornering some of the loans the banks have to offer.

When the Federal Government feels ashamed of going to the banks to borrow the scanty money that is available there after the banks have serviced their external sector interests, the State and Local Government are never ashamed to approach the banks for loans. At the slightest delay of the statutory allocation from Abuja, they rush there. In any case, they are still more welcome than the private sector (the Nigerian people) because the banks trust their Abuja connection any day. Above all you can easily do a deal with the government, especially a Nigerian Government given the easy disposition to deals. All these make the government a preferred customer than a private sector business man or woman or any individual for that matter. Indeed you don't even need to bring a collateral security if you are government; your word is your word as long as the cheque bears the signature of His Excellency, the Executive Governor of the State, or the Executive Chairman of the Local Government.

In comparison, a company will have to be a Public Limited Company to be able to enjoy the kind of free wheeling and dealing of government in the banks if the requirement of a collateral security is to be dropped and I doubt if the company will get away with it if it is not a regular depositor with the bank. Imagine then if you belong to the class of SMEs; as you approach the bank, the only thing the bank will not ask you to do will be to produce your father to testify to some of your claims, even after producing evidence of ownership and access to a collateral security. For SMEs things can just be worse in meeting the requirement of the bank if they ever succeed.

But then can you blame the banks? Most SMEs are footloose; location can change any time there is a need to evade repayment of a bank loan, refusing to meet the obligation signed before the money was collected. For some Nigerians, just a few bad eggs among us, dogmatism of keeping a promise is a night-mare. When all possibilities are placed on balance you find that the bank is right to insist on strict professional banking procedure in granting loans to the non-PLC organizations and the masses. For at the end of the day what the bank bosses want to see is accountability in granting of loans and at the end of the day they want to be sure the shareholders can look at the chart and see the worth of their investment rising. Besides, at the end of the year they want their shareholders to go to their banks and smile on account of a high dividend payment based on their investment in the bank. Bank owners are very much aware that that can only happen if banking practice is conducted with strict decorum. In developing countries banking resources are meagre compared to the situation in developed countries and therefore there is a limited extent to which waste can be allowed without wrecking an irreversible damage to profitability. Besides, in developed countries companies do cooperate in discharging certain responsibilities despite the competition for profits, a cost cutting method still relatively unknown in Nigeria. This should be encouraged and one area is in distribution of products in a large country like Nigeria (see Ige 1975, 1979).

### The determinants of the demand for investment

Despite the challenging life of the Nigerian business man and woman what then are their reasons for investment, or what determines their demand for investment? This is what this section is all about. The cost of capital to the Nigerian manufacturer is not just interest rate paid on money borrowed, nor is it just interest rate and tax combined. The cost of capital bears close association with the real rate of return that is expected, incorporating as well the risk factor. It is high time the government appreciated this apparently elementary truth in manufacturing policy formulation. Even if the rate of interest were to be zero, most Nigerian business men and women, indeed the folks all over the world that have to face similar challenges our business men and women face, may still not borrow the money. What is important to them, research has shown, is the cost of capital, a different factor from the cost of fund; call it interest rate, a variable which is rarely statistically significant on its own. We can say the same about tax rate, which impinges, unlike interest rate, on already made profit. Or we want to talk about the cost of depreciation. Taken singly none of these variables can discourage the average business man or woman (see Modigliani and Miller 1959; Ige 1983; Ilella 1983; 1986a; 1986b; 1987a, 1987b; 1988a; 1988b; 1989). What is by far most important to them is the rate of return on capital invested in relation to all these factors, each pulling its own weight. Also pulling its own weight in that mix is the cost of production where the cost of labour, the cost of raw material, cost of providing the physical infrastructure, such as transport, the cost of energy, water etc all come to play. Let us single out the cost of energy and utilities, by far some of the most significant cost elements in Nigeria, if not the most significant among the ones the country has not been able to provide a solution to. Can we say that government has been able to provide a solution in any of these areas? Yet manufacturing is the key element of an industrial set up, an area where we all are expecting the private sector to lead and make a quick difference.

No country ever develops beyond the Rostow's stage of precondition for growth without the factors mentioned and without its manufacturing sector assuming a large and significant importance. With Nigeria's manufacturing accounting for less than 5% of the GDP, as against 25% expected at this stage of take-off, a breakthrough into the stage of sustained growth has to be addressed.

Without the manufacturing sector assuming that position, managing the Nigerian economy will continue to pose insurmountable challenges, including the spectacle of roguism.

The average Nigerian investor is already getting used to trading in equities and the option of industry waiting on the banking sector for most of its long term funding may soon be over. Correspondingly the impact of dividend payment is also beginning to assume an important position as an element in the finance of business investment (see Soyode 1978). What this means is that reliance on government to influence the rate of interest is also becoming superfluous, despite the fact that we all know it can be done without costing government a dime. Interest rate will not be important but it can be brought down in less than one year given the opportunity available to both the CBN and government. Meanwhile, equity finance means that the Nigerian people will ultimately be financing their own production as government and banks become more and more irrelevant even in the rogue economy they have created. Gearing will become an advantage to equity share holders.

Nonetheless, the role of government as earlier discussed can never cease or reduce in the economic development of a nation, the structure will change but the absolute relevance will decline. The nature of government intervention, for instance, will change, in variety and in quality. Indeed, through a process of economic reforms, many of the apparently important government programmes such as privatization should be accelerated or else the companies will find it difficult to get credible buyers. That is the kind of rogue economy government creates by its incompetence and negligence. For instance, it is obvious that the issue of raising capacity utilization that hit the all time bottom low from 1985-1993 needs a new initiative. More than two decades after restructuring the manufacturing industry last carried out in 1985-1987 when up to

60% of the companies folded up, requires a re-think. The manufacturing industry must face up to modernization; replacement of old technology to provide the industry capacity to compete? Indeed, new funding from outside may be required. In other words, new investment and new initiatives are urgently needed in the manufacturing sector. Nigeria is not where its likes at independence are and one cannot blame anyone but the successive Nigerian governments that succeeded in turning the Nigerian economy into a rogue economy that create rogue leaders and Nigeria cannot pretend that it is doing things right. Some blame national leadership's lack of political will but in this discourse we blame leadership incompetence and negligence which translates into a deliberate choice of roguism in the manner of the definition we adopted in this paper. By default Nigeria is today under the leadership of people whose objective in leadership position simply does not match the promises of the 21st century.

## 1.5 INVESTMENT AND THE FINANCE

### Bank financing for the private sector in Nigeria

Record on sources and application of commercial bank funds show that between 1993 and 1999, the percentage share of commercial bank claims on the private sector was between 30%-50% of total credit but between 2000-2004 the period on which there is any record the percentage dropped to nothingness, 5%-10%, sometimes the amount was in the negative as the private sector was actually lending to the commercial banks.

During the same period, that is 1993-1999, governments of the federation (local, state and federal) drew from the banks a percentage share of between 5%-90% and from 2000-2004 the percentage declined considerably (see CBN, 2004:.62-65). Two points to notice here. First is that 1993-1999 coincides with the period the Federal Government and/or its agencies maintained deposit accounts at some commercial banks, the same period being the period it withdrew heavily from the commercial banking sector. This may also show that government agencies were trading with government money in the commercial banks, against the principle of maintaining their accounts at the Central Bank of Nigeria.

Secondly between 2000-2004 such deposits at the commercial banks declined, indicating someone not gaining from the deals raised an alarm and the governments and their agencies withdrew their accounts; that is why during this period commercial bank loans and credit to the private sector virtually dried up. This means government funds in the commercial banks (legally or illegally) help provide funds for lending to the private sector. Why then is the CBN whose duty it is, not able to channel government resources through the normal technical channels to the banks and ensure funds availability and lower interest rates. Lower interest rates do not just come about nor is it the singular role of the commercial banks to command into existence, government ushers it in. There is therefore an uncanny reversal of roles going on beyond the call of moral suasion when a government on its knees decides to beg commercial banks to lower interest rate, with all the skills of modern economy management at the command of its own central bank. Classically, that is the roguish economy, with a demonstrated case of negligence and crass incompetence.

We note, however, that when you consider percentage of commercial bank aggregate domestic lending attributable to the private sector, you end up with percentages ranging from 60-90 (table 2). But you also find out that much of the base aggregate credit has gone abroad as foreign asset. So we end up having Nigerian banks support foreign economies at the expense of their own, obviously in search of profit and foreign exchange.

The merchant-banking sub-sector is no better, displaying a pattern of lending broadly similar to the one by commercial banks. Also despite its access to petro-dollar, Federal State and Local Governments still run to the commercial banks and merchant banks and substantially displace the private sector from access to bank loans. The Federal Government entices them with safe lending through the treasury bills, treasury certificates, development stocks and of course direct loans and advances. The merchant banks also guard their foreign portfolio jealously.

Even more depressing is the percentage of total commercial bank and merchant bank credit to small-scale enterprises. In respect of the former we see a decline of nearly 50% in 1992, progressively down to a quarterly average of 5% in 2004. With respect to merchant banks we see the percentage decline from 31.2% in 1992 to a quarterly average of nearly 11% in 2000. This progressive fall was due to relaxation of the policy guideline commanding 20% of their total credit to small scale enterprises wholly owned by Nigerians which took effect from October 1, 1990" (CBN Statistical Bulletin, Vol. 15, December 2004: 89).

### The need to improve on bank finance for the private sector in Nigeria

A country that must develop by investment in its productive future definitely will not proceed in this way whereby:

- The banks will rather maintain accounts abroad for import purposes, expending a sizeable proportion of their resources on this;
- Banks apply a considerable proportion of their resources on governmental activities in preference to the private sector;
- Both government and banks pay scant attention to the small enterprises;
- Government fails to recognize micro-finance in addressing the problem of interest rates; and
- Unruffled concern on interest rates that is capable of bankrupting any company (See table 4).

Looking at the interest rate issue it would appear that no banks really expect a reasonable business man or woman to come round asking for a loan, and not many actually do. Those who come forward arm themselves with government contracts securely in their pocket; usually unbelievable given the disparity between the job to be done and the high contract sum, even with the much trumpeted 'due process' policy of government.

Nigeria must decide whether this is the way to continue; should we shut out investment in credible avenues or pursue government contracts that offer no real development possibilities. Meanwhile the rate of inflation makes lending money for any business look indecorous and it is sometimes difficult to blame the banks. In general inflation rate was running higher than interest rate from 1970-1984, thus creating negative real interest rate; interest rate ran higher than inflation only in a few years between 1984-1991 but the situation was reversed again between 1992-1996 bringing back the bad times for the lending public; and from 1996-2004, interest rate was higher than inflation rate, bringing back a generally favourable lending environment. So even if interest rates were rather excessive between 1996-2004, the silver lining is that the situation became a lender's market. But can borrowers afford it? This has been the dilemma in Nigeria, a situation unfavourable to investors in physical asset. Unless a scoop of a government contract, the rogue syndrome once again manifests.

The definition of unemployment in the unemployment survey states that only those looking for work in the last 2 weeks before the survey are counted. That in itself shows that the information in table 4 is suspect. More insight is provided when you break-down unemployment into the age-group classification: 15-24 in the urban accounts for 31.2% and in the rural 27.9%, noting that most of the new tertiary graduates come in this age group (21-24) and those who are occupying jobs come in the age-group 25-44. With the statistics of almost 30% average for rural and urban unemployed, it is quite unlikely that the unemployment rate in 2004 will be just 11.8%.

Even then our unemployment rate of 11.8% raises a number of issues. People are unemployed because the private sector is denied the resources to operate in a situation where government and the inordinate ambition of the banks aid and abet large scale importation. If we remember, the 1992 large-scale collapse of commercial banks was precipitated by their scramble for foreign exchange and their over-night metamorphosis into petty traders, importing various merchandise and putting pressure on scarce foreign exchange resources, and denying the private sector the opportunity of growing. Indeed we are seeing once again evidence of a rogue economy.

**Unemployment and SMEs**

Besides, a pattern is emerging in the finance of small and medium enterprises. Small enterprises classification already differentiates the micro enterprises from the small and medium enterprises (SMEs), the former employing below 10 people while SME employ 10-250 people. The problem is that our financing institutions have not seriously begun to make that differentiation, and it is not obvious in government policy. So when the record of government talks about small enterprises it is important to then ask which small enterprises. Recently the status of an erstwhile Community Bank was raised (or lowered?) to that of Micro-Finance Bank by raising the capital base. Even then government is yet to make it clear what a micro establishment looks like and what a small enterprise looks like.

Unemployment is serious in Nigeria because scant attention is paid to this kind of fine detail first addressed in Ige (1986) on a theoretical level. The issue is that the upper segment of the acronym SME really has no problem with the banks the way the lower end of it has. Frankly, medium enterprises are darlings of the banks in relative terms given the fact that any entrepreneur of that level would have a collateral he can use, would most probably have some education, able to read and write and would be able to conduct some search for assistance. That cannot be said of a small business struggling to break out of obscurity and can be recommended for assistance by some more recognized businessman, friend, relative or good Samaritan. We must recognize the composition of small enterprises by size and policy. The lower end comprises the micro level and we must recognize in an African context that this is where the problem is most serious. Medium enterprises may have access to finance but complain about the cost of borrowing. The small enterprise and the cousin on the micro-front simply do not have an opportunity of bank finance and hope is really forlorn. The battle for solving unemployment has to be fought and won here at the level of self-employment. Ironically it is this short end that is most difficult to assist and that is why the Nobel Prize Winner Professor Mohammed Yunus deserves all the accolade for pioneering the Graemen Bank of Bangladesh to achieve the feat deservingly credited to him for his successfully breaking the mold, for the rest of the World to emulate.

There is also enough evidence to show that the South East Asian tigers delivered their economies from the pang for successfully addressing the SME issue comprehensively, succeeding in attaining for good Professor Rostow's development stage of 'take-off to sustained-growth.' Modern development is fought at the lower end of the development scale where most of the development-disadvantaged people are tied. As in South East Asia this lower end need to be comprehensively (investment in education, health, housing, job, small business finance etc.) tackled. Surprisingly this is the least expensive segment to tackle when compared to the amount required to finance one big business or medium type business. Besides, since Britain did tens of other countries have done it with handicaps on multiples of Nigeria's. Undue attachment to roguish practices can only be blamed.

However, the job to be done requires organizational conceptualization, setting of objectives in a consistent planning framework in the context of the private sector. Quite frankly, what the banks have achieved so far in the area of small business finance can only be regarded as a token. Even the people have to be encouraged to go out there and get involved in gainful activities for many have given up because Nigerian leaders' sincerity and honesty remain suspect.

Development has to return to the first principle of addressing the identified problems of the people (see Vylder 1994) as captured by the seven canons of Sustainable Human Development (SHD) and the four pillars of Strengths of National Conscience (SNC). Government detracts from these principles because people do not really participate in the development process by ensuring a two-way, not a one-way communication with their leaders for feed-back.

But the founding fathers of our presidential democracy of power separation approach never considered that the government and the legislature might just be the same group of people i.e. same party. Suppose both groups are bad people or both groups are good people. In the US, for example, the groups were Republicans holding a large majority in the house and the position of Head of government. They were probably bad people (or good people).

If they take a good decision the public benefits from this but we must admit this would happen only by chance because they may well all agree to take a bad decision and because of their handsome majority nobody can overturn their decision. Let us now look at a scenario. First in the following election (free and fair) people can throw them out by reversing their majority in the legislature. Hopefully, the people can hope that the social contract will be abided with. But if there is no free and fair election the reversal will be impossible and the suffering of the people continues. The model had envisaged an effective opposition in a situation where a majority will not mean well. But where the majority is just too strong, then the people have no hope except in the next election.

The American people envisaged this and evented the principle of the mid-term election whereby a percentage of the legislature will face the electorate mid-term. Americans are right now probably enjoying this eventuality. Nigeria probably needs this approach and innovation in its political model. The reason for this apparent diversion is that public finance and management can hardly be divorced from politics, as the micro models of public expenditure has shown. The presidential system of government requires the affirmation of the electorate in regular consultation. It also helps small parties that may not be able to spread out to cover all the voting locations.

Also many if not most will agree that the Appropriation and Public Finance Committee of Senate from which much is expected as the soul of public expenditure monitoring only barks. Even if the committee is principled and can be trusted to do a good job, if the party it represents controls a large majority in the Senate, it can easily become voiceless and unable to speak for the people. It is the committee that can decide whether a nation would follow a strictly investment-based economy or by default a rogue economy. It is the committee of the legislature charged to ensure accountability and transparency in government. A government, even one that may have participated in the choice of the UN development agenda that incorporated the principles of Sustainable Human Development.(1994), an up-date on Human Development (HD), for leadership insensitivity, may not up-hold the idea. Human development (see Banuri et al 1994) is both an idea and ideology of development that is grounded in basic development, subscribing to an empowerment of the individual to make choices through capacity to earn a decent income, live a healthy and long live and be able to read and write. In further development of the idea, it was argued by 1992 that the empowerment to make choices obviously include the need to enjoy freedoms and rights, participating in the affairs of the society. Still in further development of the idea it was argued that the resulting development must be sustainable and these require that development must be pro-people, pro-poor, pro-nature, pro-women and pro-jobs etc.

Our argument in this discourse is that this cannot happen naturally unless investment is so directed. That principle that can ensure it happens will entail the principle of public finance, the fulcrum of which is the peoples own parliament adapting the idea. The basic principle of human development is sound, i.e sufficient income, good health, education, rights and freedom, together with participation. These are attributes the individual is expected to imbibe and struggle to have as development. But we argued that unless the government lays out an arrangement for investing in the process the individual may not be able to achieve his or her objectives in respect of these attributes. This is the idea about the Millennium Development Goals (MDG) that uses the SHD as framework and bench mark (see Chambers, 1995).

## 1.6 IMPROVING THE QUALITY OF INVESTMENT THROUGH SUSTAINABLE HUMAN DEVELOPMENT

**The environmental angle**

Therefore, what must government do or how should government organize its thoughts and programmes of investment? What must be its set of priorities? We argued that sustainability of development must be its major goal such that as it lays out its programmes in the attainment of sustainable human development; its investment programmes must target the eradication of poverty, it must promote employment and the private sector, it must invest in the women folk to end discrimination against women, it must encourage participation of the people in decision making and above all, its development effort must be pro-nature, a process which invests heavily in the protection and management of the environment. Just imagine if the vast erosion challenges in Nigeria are not tackled, protection of biodiversity is neglected or the ozone layer is allowed to be destroyed, then we are moving gradually to the end of the world as we now know it.

However, it is pre-prosterous to think that pro-nature agenda is not wider than that, or that it does not incorporate the other indices of Sustainable Human Development. Imagine a country or a world which allows widespread poverty or serious disparity in income as we have in Nigeria and the rest of Africa. That is a recipe for serious devastation of the environment for poverty will continue to increase and endanger capacity of government to look after environmental problems arising from wrong methods of agricultural practice (on the land and in the waters) that encourage erosion. Poor people are also known to be prolific producers of children, given rise to careless population growth, a real danger to the environment. For the same reason that women constitute a disproportionate percentage of poor people inadequate attention to issues relating to the challenges of women and children can lead to endangering the environment. From the same angle we can look at the problem of the unemployed. The danger of living in a country of large scale unemployment and a bi-polar world of haves and have-nots is real indeed as we see in Somalia, Rwanda, Northern Ireland and even Iraq. The private sector on its own is uniquely placed to reduce unemployment. Besides, being the agents of production, some methods of production lead to environmental degradation that puts the entire world at risk through pollution of land, water and the sky.

The world has gone through at least three major summits addressing the issues of the environment, and no global challenge requires as much international collaboration and urgency as it does. The current Kyoto Treaty is a good case in point, where governments are being challenged to take responsibility for the reduction of emissions. The whole treaty is endangered by the brick-bats being thrown around. Simply put, the world is just about to face massive deterioration, deprivation, dissipation and destruction as now predicted by the UN considering the choice of production technique and the consumption pattern. The challenge of the environment is ultimately a question of how we manage the economy. Any economy management must be based on a determination to keep on investing the resources of the nation. It is all about reproducing the economy. Imagine a couple that simply enjoy themselves, making no effort to reproduce their kind as is currently the case in Europe, Japan, China and India. A nation where such becomes a practice obviously faces extinction. So it is with an economy that shuns investment.

Some of the bad management practices of a country that offend nature include the following:

- Lack of consideration for the future generation;
- Lack of policies encouraging investment;
- Encouragement of debt both local and foreign; and
- Resource exploitation that excludes the management of reserve.

**What about the generational angle?**

A nation that fails to adopt investment as an article of faith in development faces eventual extinction. This is all the worry about Africa for it can rightly be said that Africa's enemy is not necessarily the white man right from history but the failure of Africans to invest and reproduce their economy. History has shown us that the white men invested in their economy in order to possess their possessions, including prowess at sea, gun-powder, many artifacts of war and many industrial products, some of which they used to gain the endorsement of African chiefs to cart away Africa's strong, wise and most intelligent young men and women.

In the medieval world, Africa was ahead of Europe in developmental terms but Africa relaxed and failed to raise the level of investment further and beyond the capacity of Europe. That is the price Africa paid with slavery and is still paying with imperialism and neo-colonialism. Africa will get out of this quagmire when the countries finally realize that the cause of their problem is that they abandoned the practice that put them above Europe only some 6 centuries ago. Until Africa returns to the practice of investment, the people will continue to repeat the history of slavery, many times over, and no one will be behind it other than the likes of African leaders of today, like their forebears that pilfered racial resources and sold their kit and kin into slavery. They are still very much around as ministers, commissioners, permanent secretaries; politicians, wealthy ones, etc. They were few centuries ago but today they have multiplied as corrupt leaders. Instead of investing Nigeria's had earned money, they steal it and run abroad to buy luxury items of consumption, some even use the money to buy houses so that they can always go their with their girl-friends or boyfriends.

For as long as you did not legitimately earn the money used for the purpose, for as long as it arose from money laundering, it is a **BY-PRODUCT** of a rogue economy that serves other purposes than investment. Some even fear to hire it out on rent, so it does not really serve any investment purpose for fear of detection by law enforcement agents in that country. You then have a situation where some Nigerians' purchase of houses abroad using the hard earned foreign exchange that could have attracted rent income from abroad is simply drained out of the Nigerian economy.

Part of the issue for the pro-nature aspect of the economy is the consideration for future generation which also ties up with the issue of having in reserve non-renewable resources. Reserve must be maintained at a steady level. Nature must not be depleted by one generation at the expense of the future generation. Ideally every generation should leave it at the same level of wholesomeness as they met it as fairness and justice deserve no less. Otherwise, so that your generation does not hand over a rogue economy to the next generation, invest the income for the benefit of the future generation and turn round the fortune of the whole country, not just your own children.

It is the same reasoning when we discuss the issue of debt, particularly foreign debt. It has always been said that any debt that is contracted but cannot pay for itself by virtue of what it was used for is a criminally contracted loan and those behind it should be punished. Why encumber a future generation of Nigerians to pay for the riotous and dangerous living of the present generation. Public finance and development management must keep this at the top of the agenda. For this reason the present government must be congratulated for taking the decision to exit Nigeria out of its indebtedness to our external creditors. It was long overdue and now we can look forward to a development and a generation that will not have to worry about debt repayment.

We must not forget that an economy deteriorates to the level of rogue economy when the negative consequences of past investment begin to emerge. Even if we do not accept that such investments border on roguism as the spate of borrowing may have been done genuinely, it is the consequences that eventually prove them to be so. Economic roguism is not determined by the evidence of stealing even though proven cases of stealing qualify to be so styled. Rather what qualifies an investment as an element of rogue economy is when power or authority is used to forestall obedience to the principle of public finance and development judging by the evident challenges of the economy. The present Fiscal Responsibility Bill when signed by Mr. President will help the situation but will not solve it since a government can defend itself as taking the right decision. It is the result based on statistical evidence on the economy that will indicate whether an economy is a rogue economy and this because it pursues policies and practices that increase deprivation of the people. The irony of it is that any economy that arrives at the level of this description, of depriving its own people, will also lead its people to negative practices such as stealing, assassination, murder etc. So even if the definition of economic roguism is not specifically a recount of cases of roguery, its consequences will ultimately. Moreover, economic roguism is not necessarily the preserve of developing countries, developed countries can also be liable, but from our definition developing countries are more prone.

**Economic Growth**

An economy that does not grow is forlorn. Indeed an economy that does not grow seriously above its population growth rate is an economy in the doldrums. Yet an economy that wants to take off must grow by at least 5% above its population growth rate. A developing nation is expected to save at least 25% of its Gross Domestic Product (GDP) before it can make a break-through from the stage of pre-conditions of growth to take-off into sustained growth. By inference, at least 25% of its growth rate must also be invested; that is a quarter. But that is if the quarter can actually buy even a quarter of what investment is required meaningfully. The Nigerian economy currently grows at an average of 5% a year. We must first subtract the growth rate of population, an average of 3% and we are left with only 2%; this means 25% of this must be invested at the minimum, translating to 1% of this growth rate. In other words we must invest 25% of the GDP and 1.75% out of a 5% growth of output.

In any case, another way of looking at the issue is to ensure that a country doubles investment in the economy every year. If it was x dollars in a particular year, a nation is advised to strive to double both the amount of investment to 2x and the net growth rate every year, and by so doing encourage a geometric growth rate of the economy. Then a country can be looking at its economy taking a giant leap. This approach is crucial because investment is what will make a difference as to whether an economy remains in the backyard of development or leads other economies to further growth. The Chinese economy currently grows at a rate above 10% and at population growth rate that is very low indeed. That is why every investor from the West now wants to find itself in China and this is proper with the country that has the highest foreign reserve of over U.S $1.00 trillion. Nigeria is unable to achieve that level because the governments have no time paying attention to the details required, and only because it chooses to be unconcerned with the level of deprivation in the land. The more you go round Nigeria, the more you are concerned that we harbour a rogue economy by evidence of what government has not done and the extent government is indebted to the people.

Many argue that further investment in Nigeria is a waste of time because of low utilization of current capacity, which according to government is now above 50%. In other words, over a period of 8 years government could only help raise the capacity utilization from 35% to just 50%. But again the private sector that government should be collaborating with to build up the capacity had complained about energy and infrastructure in the last 8 years and these have not been tangibly addressed. Government has to listen to the private sector and work in concert with it to build up old capacity but even more than that ensure new investment multiply. In particular the problem of the micro, small and medium enterprises should be addressed successfully.

Government should realize that it stands being labeled a "agents of a rogue economy" unless these problems are tackled and as we said this label will come as long as these problems persist and there is evidence that the nation is not poor by virtue of the size of government revenue. We quickly restate that no one is saying that government should spend this money by itself or become the distributor as no modern economy ever does that. There are avenues in the financial management process for channeling money to the economy through the central bank mechanism.

Here we note the flawed way we manage our crude oil export revenue that comes in dollar value. Government itself has told us that although we have over U.S $40 billion in reserve only just over U.S. $10.00 billion of it has not been monetized. Certainly we can do better than this as this process lays government open to the charge of incompetence. If all it does is print money, one may ask, how many times is government supposed to print money corresponding to any amount of dollar value? (Ojomaikre, 2007; Guardian comments of Friday, October 29, 2004; December 14, 2004; January 31, 2005; October 9, 2005; March 8, 2006; April 9, 2006; and May 8 2006). Government should pay attention to these issues.

## 1.7 CONCLUSION AND RECOMMENDATIONS

This lecturer sets out to discuss the challenge of an economy that appears to be making progress according to the view of the leaders and their records under a condition of adequate supply of funds. But the people do not think so judging by their experience from year to year. The lecturer, from his own evidence, thinks that the two positions are actually correct because the experiences are different, one party seeing the situation from an apparent decent rate of growth of the economy whereas the other does not seem to see anything working going by the hardship experienced from day to day.

The lecturer from his own analysis can see in operation evidences of what he called a rogue economy in that the leadership has been busy alright, but doing the wrong things and showing signs of indolence, negligence and crass incompetence from one government to another according to available statistics, in serving the actual interests of the people.

He defines a rogue economy as one in which two groups of principles are expected to characterize what the people really want to see their leaders concentrate upon. One set of such emphasis is what the lecturer refers to as Strengths of National Conscience consisting of National Security (NS), Life and Property Security (LPS), National Treasury Security (NTS) and Rule of Law Security (RLS). It is obvious that the people are piqued by the non-observance of these elements of national conscience.

The second set of expectations of the people is actually more real in feelings in that it can be measured in naira and kobo. In effect they had expected their leaders to work towards a programme that is pro-people, pro-poor, pro-women, pro-nature, pro-jobs, pro-private sector and pro-growth. All these are areas that impinge on their day to day experience. Yet they do not feel any progress by the leaders in these areas. Yet the Leaders say they are trying, so what is wrong? Who is deceiving who?

The lecturer characterizes the situation as one in which the leader depletes the achievement of his government by negligence, lack of commitment and crass incompetence, living ample room for roguish practices in the economy. However, it is not those practices (roguish) that give rise to the rogue economy but the characteristic environment of indolence, negligence, lack of commitment and crass incompetence of macroeconomic management. That is what takes the shine out of the unimpressive effort of the leaders. They probably have not been stealing but the situation gives room for all sorts of misdemeanor, including 'thieving'.

How then can the gap be bridged? The lecturer argues that the government has a few things to learn about the principle of governance. These are two:

1. Programming a policy of Sustainable Human Development (SHD) different from just human development consisting of the seven variables described as canons of Sustainable Human Development (SHD), product of the United Nations Development Programme,

and they are pro-people, pro-poor, pro-women, pro-nature, pro-jobs; pro-private sector, and pro-growth..

2. Programming the attainment of the four pillars of Strengths of National Conscience as required by the law of the land in any country: National Security (NS), Treasury Security (TS), Life and Property Security (LPS) and the Rule of Law Security (RLS)

The paper had 6 major sections on:

- Introduction where the term and experiences of investment are defined and discussed;
- Definition of the Rogue Economy;
- Principles of Public Finance and the need to make the right choices in development focus;
- The private sector in Nigeria and why it should be a major focus;
- Financing of investment in Nigeria and the weaknesses ;
- How to improve the quality of investment in Nigeria; and
- Summary, Conclusion and Recommendation.

The conclusion and recommendations are as follows:

- Nigerian governments are not focused and that is why it is so difficult to break through into the stage of sustained economic growth and development as China has done;
- If a government is not striving to attain the 4 pillars of Strengths of National Conscience as noted above, one wonders what the pride of that government in the comity of nations. Nigeria must therefore go for it;
- The four canons of Sustainable Human Development are what development is all about concretely and Nigeria must go for it;

- The shortest way to achieve all this, of course, is to concentrate on the objective of strengthening the private sector so as to achieve faster economic growth and development. Through the private sector most of Nigeria's development targets can be achieved. Therefore Nigeria should work towards empowering the private sector;
- Finance is a major issue in this regard. Both government and the banks, between them, know what to do. But the competence seems to be lacking; and
- Finally, attention to the issues of the environment, i.e. pro-nature character of development cannot be ignored. Pro-nature matter actually is central to the entire development objective and Nigeria should embrace this.

The diagram below summarizes the crux of the matter:

## ACKNOWLEDGEMENTS

I return the glory of today to God Almighty who has kept faith with me in his promise. Satan through the road and air travels in my pursuit of national and international excellence has tried several times to undo the work of God but you my Lord stood stoutly behind me.

Ever since I set my foot on Canaanland, our Bishop, our dream Arch-Bishop, Dr. David O. Oyedepo has inspired me greatly beyond a level I can describe briefly. I still remember when I had some health challenge. This man of God simply prayed the illness away and when I got to the clinic all tests were in my favour. In one of the vigils at yuletide my wife's ulcer of decades got cured. My prayer always for him and his family is that his health and wealth in God will continue to multiply in Jesus Name.

The Vice-Chancellor and Registrar became my instant friends the day I met them in an official chat. The Vice-Chancellor, Encouragement personified and the Registrar Encouragement dignified, had told me that a lot of excitement awaited me in my sojourn in this school. Everyday has turned out to be just that and so I pray, my very dear Madam Vice Chancellor Professor Aize Obayan and my very dear Mr. Registrar Mr. Yemi Nathaniel excitement and happiness will never cease in your households in Jesus Mighty Name. I thank and pray the same for the entire management.

The friendliness I enjoy from all my colleagues, senior and junior has never been because of any thing far from or near excellence that I may or may not possess but because of their natural tendency to give it unquestionably. May the Holy Heavens open its doors for your unbounded break through in pursuit of excellence in Jesus name. All through my career I discovered early enough that students make a university. Your kind of students, Queens and Kings of Hebron, simply excite me and as I leave my office every evening, I cannot stop missing you. May you continue to be the salt of the earth which the Lord has made you, in Jesus Name.

Sometimes I wonder why I continue to swim in the oceans of love and I quickly remember that God brought me into this world and engendered my spirit along with 3 sisters and 5 brothers of my mother, one demised and this time I came second to the last, all unique in different ways. Their role in my life has been tremendous, and only by God's own choice I could have become what I am today without the inspiration each one of them passed on to me. If I have my way I will still like to come back to the world again along with you, may God hear my prayers.

The Elegbe family of Akure is a unique class of prosperous generation. The woman God gave me to marry through them, I used to tell my senior and junior in-laws, is the most beautiful woman I have ever seen as far as my marriage to her is concerned. My darling, please stand up for the world to see you, a mother in a million and a wife of many parts. I thank you for your friendship and sacrifices for me and our children.

As for my children, I could not have asked God for more fortune in them; they are every thing I prayed for. I commit you and all of you children here, to God's own molding and care. Continue to struggle, we all did and still do, but one thing is certain, YOUR VICTORY IS ASSURED in Jesus Name. I thank you all for listening.

## A MODEL OF NATIONAL PROGRESS AND HAPPINESS

Both the banking institution and government have to work I concert to ensure the private sector advances and ensure the seven canons of Sustainable Human Development (SHD) are achieved and the four pillars of Strengths of National Conscience (SNC) are observed in the country so that we can be proud of our country in the comity of nations.

**Model of National Happiness**

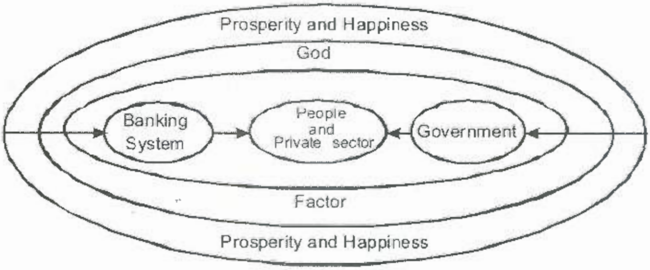

TABLE 1:
SAVING AND INVESTMENT IN NIGERIA: 1975-2004

| | (a) Gross Fixed Capital Formation at Current Prices | (b) Gross National Saving at Current Price | c=a-b Savings Gap | a/GDP | b/GDP |
|---|---|---|---|---|---|
| 75/76 | 5,019.8 | 4,796.9 | 222.9 | 0.234 | 0.223 |
| 76/77 | 8107.3 | 7,371.4 | 735.9 | 0.297 | 0.270 |
| 77/78 | 9,420.6 | 8,017.5 | 1403.1 | 0.287 | 0.244 |
| 78/79 | 9,386.3 | 4,896 | 4490.3 | 0.260 | 0.1357 |
| 79/80 | 9,094.5 | 10,257.8 | -1163.3 | 0.2117 | 0.238 |
| 1980 | 10,841.2 | 11,189.1 | -347.9 | 0.213 | 0.220 |
| 1981 | 12,215.0 | 5,604.3 | 6610.7 | 0.241 | 0.110 |
| 1982 | 10,922.0 | 4,237.1 | 6684.9 | 0.211 | 0.082 |
| 1983 | 8,135.0 | 3,607.5 | 4527.5 | 0.143 | 0.064 |
| 1984 | 5,417.0 | 2,678.7 | 2738.5 | 0.086 | 0.042 |
| 1985 | 5,573.0 | 3,944.5 | 1628.5 | 0.078 | 0.063 |
| 1986 | 7,323.0 | -1,494.7 | 8817 | 0.101 | -0.021 |
| 1987 | 10,661.[illegible] | 3,573.7 | 7087.4 | 0.097 | 0.032 |
| 1988 | 12,383.7 | 361.1 | 12022.6 | 0.085 | 0.0025 |
| 1989 | 18,414.1 | 48,589.9 | -30175.8 | 0.127 | 0.3347 |
| 1990 | 30,626.8 | 61,785.2 | -311584 | 0.211 | 0.426 |
| 1991 | 35,423.9 | 56,601.6 | -21177.7 | 0.159 | 0.254 |
| 1992 | 58,640.3 | 57,119.1 | 1521.2 | 0.213 | 0.208 |
| 1993 | 80,948.1 | 63,409.9 | 17538.2 | 0.253 | 0.197 |
| 1994 | 85,021.9 | 58,987.7 | 26034.2 | 0.157 | 0.109 |
| 1995 | 114,476.3 | 173,984.1 | -59507.8 | 0.165 | 0.251 |
| 1996 | 172,105.7 | 114,411.4 | 57694.3 | 0.189 | 0.126 |
| 1997 | 205,553.2 | 215,394.9 | -9841.7 | 0.226 | 0.237 |
| 1998 | 192,984.4 | -168,126.10 | 361110.5 | 0.0989 | -0.0086 |
| 1999 | 175,735.8 | 942,399.5 | -766663.7 | 0.063 | 0.338 |
| 2000 | 268,894.5 | 2,036,351.7 | -176745.2 | 0.0925 | 0.701 |
| 2001 | 371,897.9 | 740,593.1 | -368695.2 | 0.1311 | 0.261 |
| 2002 | 438,114.9 | -71,517.70 | 509632.6 | 0.1274 | -0.0207 |
| 2003 | 429,230.0 | 736,740.0 | -307510 | 0.088 | 0.151 |
| 2004 | 456,970.0 | 751,910.0 | -294990 | 0.083 | 0.136 |

Source: CBN Statistical Bulletin 2004

# TABLE 2: AGGREGATE DOMESTIC CREDIT OF COMMERCIAL BANK (₦ MILLION)

| ITEM | YEARS | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| 1. Claims on Private Sector | 41,237.0 | 48,200.0 | 92,018.0 | 141,670.9 | 171,642.8 | 238,187.7 | 238,019.2 | 350,575.2 | 500,017.2 | 764,064.1 | 351,7150.3 | 425,3957.3 | 559,5654.5 |
| Percent (%) | 87% | 62% | 69.9% | 87% | 79% | 88% | 90% | 69% | 70% | 80% | 76% | 602% | 7% |
| 2. Claims on State and Local Govt. | 1,253.0 | 1,499.0 | 1,883.0 | 2,650.0 | 3,293.5 | 2,374.1 | 1,070.6 | 2,095.0 | 7,500.6 | 26,796.4 | 67,956.6 | 66,181.5 | 86,362.6 |
| Percent (%) | 2% | 1.9% | 1% | 1.6% | 1.5% | 0.8% | 0.4% | 0.4% | 1.0% | 2.8% | 1.5% | 24% | 1.1% |
| 3. Claims on Central Govts (Net) | 4,856.0 | 27,893.0 | 37,624.0 | 17,365.0 | 41,548.4 | 29,440.7 | 24,969.9 | 148,154.5 | 204,302.3 | 153,773.8 | 1,054,383.2 | 1,470,368.1 | 1,849,797.5 |
| Percent (%) | 10% | 35% | 28% | 10% | 19% | 11% | 9% | 29% | 28% | 16% | 22% | 553% | 24% |
| Aggregate Domestic Credit (Net) | 47,346.0 | 77,592.0 | 131,525.0 | 161,685.9 | 216,484.5 | 270,002.5 | 264,059.7 | 500,824.7 | 711,820.0 | 944,634.3 | 461,9490.1 | 265,499.3 | 768,0347.2 |

Source: CBN Statistical Bulletin 2004

# Table 3: Banking System Loans to Small Scale Enterprises as percentage of Total Credit

Table 3: BANKING SYSTEM LOANS TO SMALL SCALE ENTERPRISES AS PERCENTAGE OF TOTAL CREDIT (%)

| | COMMERCIAL BANK | MERCHANT BANK |
|---|---|---|
| 1992 | 48.8 | 31.2 |
| 1993 | 32.2 | 19.5 |
| 1994 | 22.2 | 18.2 |
| 1995 | 22.9 | 29.9 |
| 1996 | 25.0 | 13.6 |
| 1997 | 17.0 | 13.1 |
| 1998 | 15.5 | 12.9 |
| 1999 | 13.3 | |
| Q1 | | 2.4 |
| Q2 | | 13.9 |
| Q3 | | 12.4 |
| Q4 | | 13.0 |
| 2000 | 9.7 | |
| Q1 | 14.0 | |
| Q2 | | 9.4 |
| Q3 | | 8.3 |
| Q4 | | 9.0 |
| 2001 | 6.6 | |
| 2002 | 8.6 | |
| 2003 | | |
| Q1 | 8.5 | |
| Q2 | 8.8 | |
| Q3 | 8.6 | |
| Q4 | 7.5 | |
| 2004 | | |
| Q1 | 7.3 | |
| Q2 | 5.6 | |
| Q3 | 3.8 | |
| Q4 | 3.6 | |

Source: CBN Statistical Bulletin 2004

# Table 4: Unemployment rate in Nigeria 2000-2004

Table 4: Unemployment rate in Nigeria 2000-2004

| Description | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| **National** | 18.1 | 13.7 | 12.2 | 14.8 | 11.8 |
| **Composition** | | | | | |
| **Urban** | 14.2 | 10.3 | 9.5 | 17.1 | 11.0 |
| **Rural** | 19.8 | 15.1 | 13.3 | 13.8 | 12.1 |

*Source: Federal Office of Statistics CD 2005,*

# Table 5: Federal Government Fiscal Deficit 1970-2004

| | Deficit | % of GDP |
|---|---|---|
| 1970 | -455.1 | -8.7 |
| 1971 | 171.6 | 2.6 |
| 1972 | -58.8 | -0.8 |
| 1973 | 166.1 | 1.5 |
| 1974 | 1,796.4 | 9.8 |
| 1975 | -427.9 | -2.0 |
| 1976 | -1,090.8 | -4.0 |
| 1977 | -781.4 | -2.4 |
| 1978 | -2821.9 | -7.8 |
| 1979 | 1461.7 | 3.4 |
| 1980 | -1,975.2 | -3.9 |
| 1981 | -3,902 | -7.7 |
| 1982 | -6,104.1 | -11.8 |
| 1983 | -3,364 | -5.9 |
| 1984 | -2660.4 | -4.2 |
| 1985 | -3,039.7 | -4.2 |
| 1986 | -8,254.3 | -11.3 |
| 1987 | -5,889.7 | -5.4 |
| 1988 | -12,160.9 | -8.4 |
| 1989 | 15,134.7 | -6.7 |
| 1990 | -22,116.1 | -8.5 |
| 1991 | -35,755.2 | -11.0 |
| 1992 | -39,532.5 | -7.2 |
| 1993 | -107,735.3 | -15.5 |
| 1994 | 70,270.6 | -7.7 |
| 1995 | 1,000 | 0.1 |
| 1996 | 32,049.4 | 1.6 |
| 1997 | -5,000.0 | -0.2 |
| 1998 | -133,389.0 | -4.7 |
| 1999 | -285,104.7 | -8.4 |
| 2000 | -103.8 | -2.9 |
| 2001 | -221.0 | 4.7 |
| 2002 | -301.4 | 5.6 |
| 2003 | -202.7 | 2.9 |
| 2004 | -142.0 | 1.7 |

Source: CBN Statistical Bulletin 2004

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