

PUBLIC LECTURE SERIES



FINANCIAL SECTOR MALADAPTATION, RESOURCE CURSE AND NIGERIA'S DEVELOPMENT DILEMMA

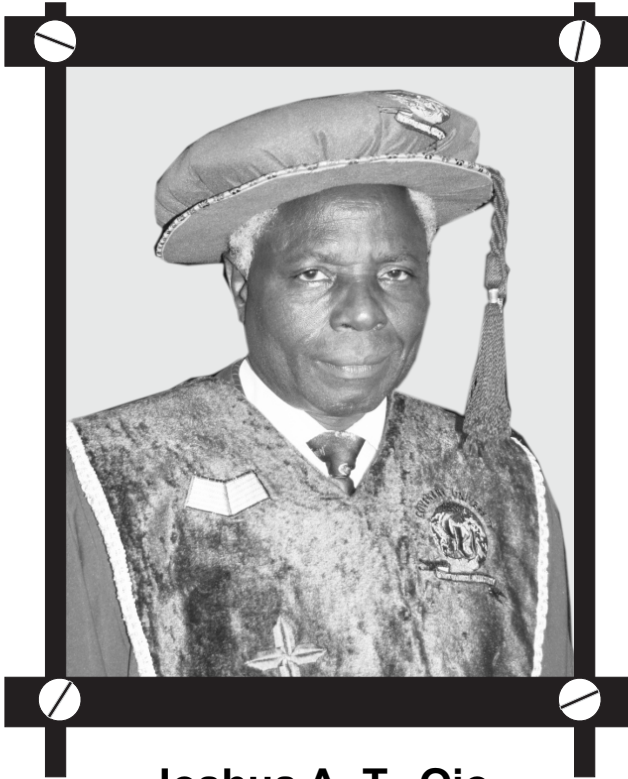
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Covenant University Press
Canaanland, Km. 10, Idiroko Road, Ota, Ogun State, Nigeria

ISSN 2006---0327
Vol. 1, No. 9, January, 2007



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I. INTRODUCTION

In one form or the other, consciously or unconsciously, some aspects of the subject matter of our lecture today have culminated in Nigeria's development dilemma or nightmare have been voiced out in one form or the other by the President and many others.

Just last week, President Obasanjo in a speech in Abuja during the inauguration of 2007 as Minerals and Mines Year, on Tuesday January, 16, 2007 restated that Nigeria's near total **dependence on oil had undermined the development of other critical sectors of the economy.**

The President has attempted on various occasions to appeal to the conscience of the bankers and other financiers to change their conservative attitude to financing the productive sectors and reduce their high cost of funds. He, in fact, had to go to the unusual extent

of attending one of the Bankers' Committee meetings purposely to drum his concern to their ears.

Also, some academics and industrialists on October 25, 2006 assessed the impact of oil on the Nigerian economy and submitted that oil had been a source of conflict and crisis, thus denying the people its expected benefits. The experts, including Prof. Bart Nnaji (former Minister of Science and Technology), Prof. Oye Ibidapo-Obe (Vice Chancellor, University of Lagos), and Mr. Mansur Ahmed (Director-General, Nigerian Economic Summit Group) stated that oil would never provide the nation's needs, and therefore reiterated the urgent need to diversify the economy

The background multi-farious economic problems that have been confronting the Nigerian economy should be noted. It has been a dismal record of disappointing performance, despite the efforts and resources that have been devoted to achieve a sustained economic growth to improve the general welfare of the people. It is a fact that the economic performance of developing countries has been poor generally over the past two decades such that the 1980s was described as a "lost decade" of 'missed opportunities' for these countries. While many have their

economic fortunes reversed and worsened in sub-Saharan Africa, including Nigeria, some have been able to improve their economic fortunes to successfully achieve industrial take off, especially in Asia.

An attempt has, therefore, been made since two years ago to update the earlier studies on Nigeria that started in the seventies (Ojo, 1974, 1976, 1992), by examining how the financial sector has performed since those studies, compared with other countries, where there has been significant contributions to their economic transformation, e.g. Germany, Japan, and some newly industrializing countries.

An economy can be broadly grouped into two systems of financial and economic systems, or two broad sectors of financial and non-financial sectors. The financial sector can, in turn, be sub-divided into its main sub-sectors of banks, non-bank financial institutions, financial markets further sub-divided into money and capital markets and foreign exchange market. Various financial instruments, monetary and non-monetary instruments of varying degrees of liquidity are employed to engage in financial transactions among the various economic units in the economy.

In our 1976 publication: *The Nigerian Financial System*, the basic problem in financial sector development is stated thus:

“Although many LDCs have started to become aware of the potential role that financial sector can play in their efforts to promote economic development, what seems to be the major problem confronting them in this respect is that many of them do not know exactly what financial technology to adopt or how to combine alternative financial techniques and what policy to pursue to make the financial sector play the desired role adequately” (Ojo, 1976, p. 18.) . On learning from the experience of the developed countries, some useful guidelines are stated in the same book- Ojo (1976,p.20) thus:

“In view of the pressing need to allocate available capital into highly urgent uses and the fact that the establishment of financial markets (of the formal orthodox type) may actually lead to a diversion and wastage of capital,... “many LDCs could only benefit in financial development (elsewhere) by looking at the hard- won experience of the advanced countries for **the purpose of adapting it creatively** to their own development requirements rather than for the trapping

of financial maturity...the urgent need of these countries is for institutions much closer to their economic and social situations”.

Financial development in a country exists and is seen as desirable if it brings about enhanced operational and allocational efficiencies within the financial system, which in turn, positively impacts the economic system.

II. MAIN FEATURES OF FINANCIAL SECTOR MALADAPTATION

A financial sector could be said to be of a **maladapted type** when its institutional structure, culture, orientation, and the modes of operation of its main actors are mainly of foreign transplanted type, and/or not appropriately adapted and oriented to suit local structural peculiarities, as well as being not made relevant to the developmental needs of the economy concerned.

The following aspects are among the manifestation of the maladapted financial system:

- Having institutions, practices that are alien and not attuned to effectively serve the peculiar needs and

requirements of the local areas and people.

- Failure to have put in place appropriately designed strategies to provide financial services for micro, small and medium enterprises (MSMEs) and indigenous entrepreneurs that constitute the bulk of the economic units.
- A financial system dominated by commercial banking of the Anglo-Saxon type rather than the desired industrial banking of the German type, well equipped and orientated to financing industrial development and other productive activities.

A major manifestation of a maladapted financial system is that banks and other intermediaries perform their financial intermediation functions in such an inefficient way as to render them **unwilling** or **unable** to make the expected contributions to economic development. Funds are mobilized inefficiently, and since the savings instruments and facilities offered by banks are not quite attractive, less than the available potential savings is mobilized. The limited mobilized funds are allocated inefficiently, mainly on short-term basis to less productive activities; and if made available to some

productive enterprises, the costs are usually too high and the terms not quite suitable for productive use.

In such a system, measures taken by the Central Bank and the Authorities to make the banks and other financial operators change their unsatisfactory financial practices are often unsuccessful, due mainly to lack of co-operation. Thus, financial controls and regulations like sectoral guidelines and prescribed maximum and minimum interest rates on loans and deposits respectively are only observed in a perverted manipulative manner, such that the intended desired effects could not be achieved.

Some observed distorted or perverted trends in certain financial phenomenon/features in Nigeria (i.e, as compared with the normal trends in other countries) have also affected the payments systems development and use of payments instruments in the country. Such distorted/perverted financial aspects include:

- **The perverted interest rate structure** (with high

lending rate (above 20%) and low deposit rate (average of 4-5%); the cost of borrowing rose astronomically to above 50% after deregulation/liberalization in the nineties, compared with the expected decline, as observed in most other countries that undertook similar financial reforms since the late eighties. In Europe, U.S., Japan and some other countries, lending rates fell below 5% per annum.

- **The perverted maturity structure of banks' term deposits and loans** these are preponderantly of the short-term types with insignificant proportion of medium and long-term deposits and loans that are appropriate for production. In Germany, banks could mobilize more than 45% of their needed funds on long-term basis to finance industry and productive activities, far more than it is possible for Nigerian banks with less than 5% of their mobilized funds available for long term lending.
- **The perverted structural composition of monetary and payments instruments** with very high proportion of idle cash balances, large proportion of money outside the banking system, higher than normal rate of currency to total monetary assets, and thus higher than normal trend in

proportion of cash usage in payments settlements.

One of the major manifestation of the maladaptated financial system and its difficult reforming task is the enduring nature of the traditional/informal financing system and the recent attempt at modernizing it by the launching of the new Microfinance Policy, Regulatory and Supervisory Framework for Nigeria by the President, Chief Obasanjo on December 15, 2006. As stated, by Tunde Lemo, CBN Deputy Governor (2006), the launching is to “ensure that financial services reach the over 80 million Nigerians unserved by formal financial institutions, especially the economically active poor and low income households who could not have access to services from the formal financial institutions”. The microfinance policy was to complement the on going banking sector reform that has been on since two decades ago in 1986/87.

III. ROLE OF FINANCIAL SECTOR IN ECONOMIC DEVELOPMENT

1. Economic and Financial Development

Development is a highly complex process by economic and non-economic factors and the rate of capital

accumulation as well as how utilized is a major determinant of growth. Economic development can be defined as a sustained secular increase in real national income per head of population over a period of years. Development is always accompanied by radical changes in productive techniques and usually by a rise in the standard of living and reduction in poverty level.

Development encompasses aggregate output, the quality of the labour force, net national income and the growth in per capita income and output. For any development to take place, growth must occur in the various sectors of the economy, either simultaneously or via a “big-push” from a sector or group of sectors.

Development can be viewed as a continuous outward shift in a country's production possibility boundary. While capital is perhaps a major scarce factor in developing economies, it would be an over-simplification to regard economic development as a matter of capital formation alone. Development also depends on absorptive capacity of the economy. Absorptive capacity in turn depends on natural resources, the labour supply and productivity, entrepreneurial capacity, the level of

technology and cultural/attitudinal factors. Absorptive capacity greatly influences the demand for capital goods as well as the supply.

Well-developed and integrated financial institutions speed up the process of development in three ways. These are:

- (i) By encouraging a more efficient mobilization of resources and allocation of a given amount of tangible wealth; through changes in wealth ownership and composition,
- (ii) By encouraging a more efficient allocation of new investment; and
- (ii) By inducing an increase in the rate of capital formation.

2. Financing Systems and Economic Development

The financial sector facilitates borrowing by the deficit economic units and saving by the surplus economic units through the intermediation of financial intermediaries. The various types of financial

transactions engaged in have major implications for consumption, investment, production, macroeconomic stability and achievement of other economic objectives.

Discussing the importance of financial systems in economic development, the *World Development Report 1989* notes finance as the key to investment and hence to growth. This is so since financial services make it cheaper and less risky to trade goods and services and to borrow and lend. Thus, in many developing countries, financial sectors are seen to be in urgent need of reform.

A financial system shapes its own domestic economy, and can influence other economies' development as well. For, financial availability and the terms on which it is provided can either promote or constrain economic growth and development. In turn, economies shape financial systems, since economic growth usually leads to further development of a financial system.

Finance affects economic development, either aiding or constraining capital formation, according to the kinds of propositions that financiers will entertain. Decisions made by financiers influence the amount and kinds of capital formation which can take place. Capital formation activity, in turn, affects economic growth, both directly and indirectly.

3. Expected Role of Financial Sector In Economic Development

The importance of capital as a necessary, though not sufficient, condition for economic growth is recognized in development theory. This is particularly true in a developing economy where it is believed that the provision of adequate financial resources is a prerequisite for economic transformation. The vital role the financial sector can play becomes obvious; namely, by making the vast financial resources they could mobilize available for financing and promoting economic development.

In the performance of their financing intermediation function- mobilizing funds from the surplus economic units and allocating the funds to deficit economic units- the provision of the required financial resources for the promotion of economic development is best facilitated by the availability and development of appropriate well-functioning financial institutions.

Experience in some countries has shown that banks, if appropriately adapted to their respective countries' needs to be of the development-oriented, innovative and

dynamic type, could serve as an engine of growth to greatly assist the promotion of rapid economic transformation of a nation.

Another important effect of the role of the financial sector is in the redirection of savings from a less desirable form to a more desirable one; e.g., from a relatively liquid and short-term form to a relatively longer-term form.

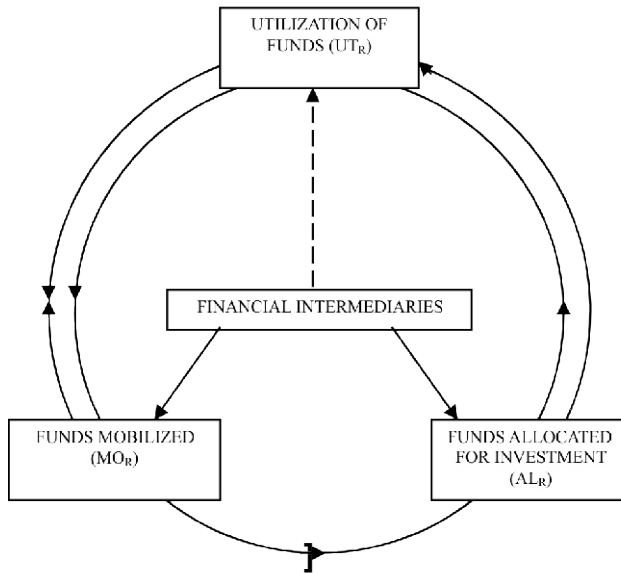
The role of the financial institutions in the efficient allocation of available resources is based on the premise that by mobilizing funds from non-productive channels, more productive investment activities could be financed to increase capital formation; mainly because of their ability to minimize the constraints of investment indivisibility through the pooling together of scattered small savings of many economic units and lending them in lump sums to needy sectors. In many developing countries, where money and capital markets are deficient, financial institutions could offer a major means of financing large investments.

The impact of financial intermediaries on the utilisation of resources is usually indirect via the allocation of funds into various sectors. In some cases, their impact may also be direct (route 6) where the intermediaries do not only ensure that the funds are efficiently allocated but also ensure that other necessary non-financial services are provided for the productive utilisation of the allocated funds, as in the German industrial banking type.

Gerschenkron, (1962), in his review of different banking systems in earlier industrialisation, attributes a greater influence to the banking systems of some countries than other economic institutions during the industrialisation in an economy, and the contribution of institutions, such as the State and the banks, is determined by its “relative backwardness”. He utilizes this relative degree of backwardness as an indicator of the potential of a country's industrialisation as well as a determinant of the behaviour of its economic institutions.

The circular impact of the role of financial intermediaries in the savings-investment process and capital formation is depicted in figure 1. As shown in Ojo and Adewunmi (1982), they have direct impact on the volume of realised savings (MO_R), and the manner in which funds mobilized are allocated influences the productive utilisation of resources (UT_R) and this, in turn, influences the volume of funds available for mobilization. The manner in which funds are mobilized again influences to some extent the utilisation of funds, or the volume of funds available for mobilization. The manner in which funds are mobilized determines the volume of invested funds and capital formation.

FIG.1 THE ROLE OF FINANCIAL INSTITUTIONS IN THE SAVINGS INVESTMENT PROCESS



Quantitatively, $AL_R = f(MO_R)$
 $= f(UT_R)$

But qualitatively, $UT_R = f(AL_R)$

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In accordance with the concluding hypothesis of Gerschenkron (1962) that the role of banking in industrial capital formation is determined by the relative backwardness of an economy and its structural peculiarities, Gerschenkron depicted three major types of economy at different stages of development during industrialisation process; viz;

- (I) an advanced economy the English type of industrialisation;
- (ii) a moderately backward economy - the German (or Continental) type of industrialisation; and
- (iii) an extremely backward economy- the Russian type of industrialisation.

In the first type (advanced economy), the capital needs

are met outside the banking system, mainly from internal sources.

In this type, Gerschenkron's analysis suggests that the structure of the economy and the approach to development determine the role of the banks, in view of the available alternative sources of finance. This implies that banks' role should adapt to the particular needs of the economy.

In the second type (moderately backward economy), there is need for some special institutions to supply long-term funds for industrial capital; because (a) there are no substantial prior ploughed-back profits, and (b) the average plant size is assumed to be much larger. The banks of the industrial banking type as against commercial were the prime source of capital and entrepreneurship for this type of industrialisation. The banks would not only create credit for capital formation but would also, as in the case of a German bank, accompany “an industrial enterprise from cradle to grave, from establishment to liquidation throughout all the vicissitudes of its existence”.

In the third type (extremely backward economy), where

the structure is such that not even the banks could supply the necessary capital and entrepreneurship for industrialisation, and the contribution of the banking system to capital formation appears to be negligible as a result of some underdevelopment bottlenecks, there is the need for the State in such backward economies to be instrumental to the provision of required finance for capital formation.

An important application of the structural hypothesis is that the modes and patterns of financing by banks would vary according to the different stages of development, including the activities actually financed. Banks and other financial institutions are, therefore, expected to restructure their operations to meet the financial requirements at different stages of development.

4. Some Issues In Poor Performance of The Expected Role

As shown in some works on LDC financial systems, e.g. Ojo (1976 & 1986), Kitchen (1988), Fry (1988) and Bhatt (1986), financial sectors in many developing countries do not intermediate efficiently between savers and investors. One major reason, emphasized in the

McKinnon Shaw view is financial repression; but other important reasons are financial system maladaptation and orientation, market structure and management performance of both the financial intermediaries and financial regulators.

Implication for Vicious versus Virtuous Business Cycles

A major outcome of a maladapted or misaligned financial sector as affecting business operations and performance is captioned under “vicious cycle” of business as against the “virtuous cycle” in a suitably adapted financial system.

Why do the Japanese and German manufacturers think long-term than British? How did the Japanese and German corporations build up such high liquidities? The writer interviewed some banks in Germany in the course of his study in 1990 and 1991 to obtain answers to these and other related issues. The answer is that Japanese and German banks loaned money to industry on terms and conditions which permitted surplus liquidity to build up in company accounts, having successfully mobilized long-term funds that could be invested in productive long term projects.

This way of looking at the economic problem from an industrial view-point (as shown by Edwards (1987)) recognizes a virtuous cycle in which long term industrial loan produces rising company liquidity, and more forward looking by companies due to this improved liquidity position, and hence permanently higher investment. In a vicious cycle resulting from the British short-term financing type, the shortage of long-term loans leads to the increasing decrepitude and resulting desperation of manufacturing industry, attempts at modernization produces liquidity crises, and a cumulative collapse of much of manufacturing industries follows. Japan and Germany were seen as being on a virtuous economic cycle, depicted in Figure 2a. Figure 2b which describes Britain and several of its former colonies like Nigeria, depicts that vicious cycle, in which relatively low liquidity produces a short-time-horizon of survival, so companies restrict investment levels to short-term, high-yield projects, and these lower investments produce less liquidity and reduced business confidence in the future. This vicious cycle syndrome of short term funding mode has been what Nigeria has

been experiencing over the years, and which has dealt a major blow against its industrial development effort. Generally, the aspirations and values of the society, and the mission and orientation of banks affect the attitude of staff. In a maladapted financial system, bank managers will tend to give priority to making the figures look good on a risk aversion behaviour basis (in some cases fraudulently); compared with banks that should have positive commitment to the enterprises they support.

Figure 2a: The Virtuous Cycle of Business

Low cash-flow cost Investment continues where of cash
Cash-flow costs are less than Project returns.
Many projects generate Search for finance to excess
cash-flows fund high investment Business liquidity rises
High investment levels desired Survival time-horizon of
business increases Business Confidence Lots of
Investment increases Projects generated.

Figure 2b: The Vicious Cycle of Business

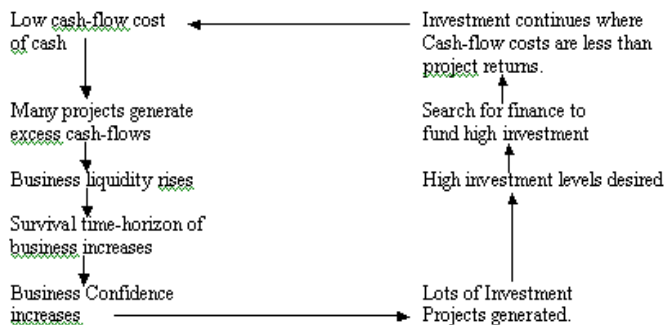
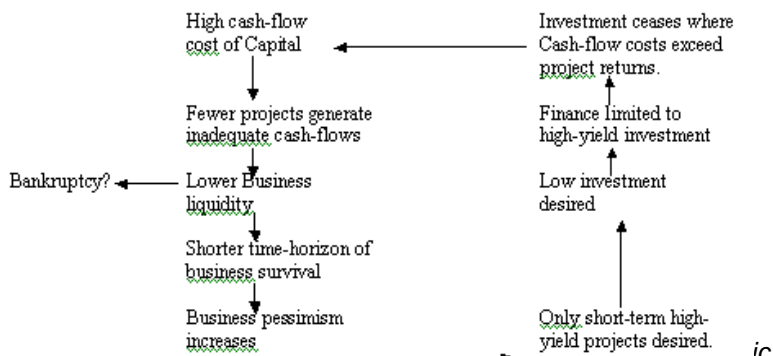


Figure 2b: The Vicious Cycle of Business



Development The Economic of Industrial Resurgence, Macmillan. 1987

IV. RESOURCE CURSE AND FINANCIAL SECTOR MALADAPTATION LINK

1. Main Causes of Maladapted Financial Sector

1.1 Colonial Past

Nigeria's financial sector maladaptation debacle is traceable to its earlier noted colonial past, whereby the banking system and capital markets developed here have been patterned after those operating in Britain, without effecting necessary adaptation to suit local development need.

The British financial system which in Britain was once relevant to the then economic structure and Empire status, failed to change for years, until about two decades past in the context of the harmonized European banking and financial services, and in line with the changing globalised world and economic / industrial realities of the time. The problem of the Nigerian financial system, patterned after the British type, could thus be said to be that of misalignment, a system that had been transplanted here in its defective form, without making the necessary adaptation to suit our own less developed non-Empire status. Thus, we have retrogressed from middle to low income category now that those with better

adapted systems, institutions and attitudes have been advancing, as being witnessed in some Asian countries devoid of rich natural resources as ours.

The British system is a sharp contrast to the description by Gerchenkron (1962, p. 14) of a German banker thus: “A German bank, ... accompanied an industrial enterprise from cradle to grave throughout all the vicissitudes of its existence.” This was confirmed as being still true of the bankers in the course of our on-the-spot study of the German banks recently.

For Britain, as described by Edwards (1987), Jequier & Hu (1989 and Gerschenkron (1962), during its early industrialization process, individuals made money by trading in the colonies, then established family firms, and plough back profits into further investment. There was no real need at that time for financial institution to occupy themselves particularly with promotion of industry, since it was already profitably engaged in financing trade. This was in contrast with Germany, France, Japan, e.t.c

Thus, as could be inferred from the exposition of the

structuralist hypothesis (as shown by Ojo and Adewunmi (1982) , banks in Nigeria and in other former British colonies have no such traditions and economic circumstances that existed in Britain to make them behave in the same manner and observe the same conservative financing practices as British banks in the financing of industry.

1.2 The Natural Resource Curse

Some years after attainment of political independence, with determined effort to industrialize, Nigeria might have got over the colonial heritage problem by restructuring her institutions and adapting them to the nation's development needs.

But unfortunately, rather than curing the infested financial structure and orientation, the canker-worm “Natural Resource Curse” bred by oil money windfalls, reared its ugly head and further reinforced the financial maladaptation. Thus, instead of curing the disease, it has become rather endemic, defying today nearly all medicines, often administered out of context , after expiry dates in a piecemeal half-hearted fashion.

2. The Resource Curse Dimensions

Now what is this “Resource Curse Thesis” all about? Basically, the thesis suggests that a well-endowed country is tempted with over-optimism (possibly being under the illusion of being rich) to enjoy its apparent resource advantage vis-à-vis other countries in the form a less demanding and/or a less prudent development strategy; while the less well-endowed country, mindful of its more marginal position, eschews risk and applies conscious and concerted effort which more than compensates for its initial observed resource disadvantage.

Sala-i-Martin & Subramanian (2003) have attempted to answer some related questions: “Why are Some Countries Subject to the Natural Resource Curse and Some Not?”, and “How Does It Manifest Itself”. In a recent study based on the cross-country evidence, they found that the natural resource curse was intrinsic to most countries with oil or minerals- that is, owning such resources depresses long-run growth. But countries that are rich in other natural resources, such as agricultural products and commodities, are shown as being not subject to the curse. Also, and more important, the curse works by destroying domestic economic and political

institutions. As witnessed in Nigeria, the presence of oil gives rise to rent seeking and corruption, which adversely affect the climate for investment and growth, after distorting our earlier useful social, economic and political institutions.

But the deeper sense in which natural resources are shown to impede the development of institutions is that they minimize the two-way interaction between the state and its citizens. Governments that have easy recourse to oil rents do not need to promote wealth creation that they can subsequently tax; in turn, citizens have less incentive to hold governments accountable.

A feature of this thesis in the Nigerian case was first analyzed in a paper titled: "Oil Wealth Illusion And Problems For Economic and Financial Management in Nigeria" (in Ojo, 1982). Other writers (notably Alan Gelb and Associate (1988) and Richard Auty (1990 and 1991) have further elaborated on the issue of the negative developmental effects of resource endowment like oil windfalls in some developing countries, including Nigeria.

2.1 Petroleum Exploitation and Utilisation

2.1 Petroleum Exploitation and Utilisation

Investment and Use of Oil Windfalls

Nigeria earns (in dollars) an average of \$12.5 billion per annum from oil revenues alone.

As stated two weeks ago during the 2007 Budget breakdown, the government made N1.3 trillion from crude oil sales in 2006, and oil taxes fetched N1.26 trillion, i.e. a total of N2.56 trillion.

During periods of huge earnings from windfall oil revenues (shown in Table 1), e.g. 1973/74 oil crisis, Gulf War and the high oil price since last year, the surplus from billions of dollars earned should have been invested as some other OPEC countries like Saudi Arabia did, much of it abroad, in order to secure future income. This is a better approach to managing and employing the surplus instead of squandering it, as in Nigeria, in view of the negative implications.

Nigeria and some other OPEC countries which did not initially have the absorptive and executive capacity to utilize the funds productively always end up squandering the monetized oil money on spurious or white elephant projects, with its “oil wealth illusion” effects as in the seventies in Nigeria; or misappropriated and siphoned

ANNEX

BOTSWANA CASE STUDY OF AVOIDING RESOURCE CURSE

1. The Effect of Resource Wealth

As shown in a study by Atsushi Limi (2006)*, Botswana has for the past 30 years experienced extraordinary growth-about 9 percent a year on average since the mid-1970s. This has raised its per capita GDP, currently estimated at over \$5000 a year (in current prices), from the low-income to the upper-middle income-country level. This strong economic growth has largely been attributable to an abundance of diamonds, of which Botswana is the world's largest producer, with about \$3 billion in exports every year. The mining sector (copper, nickel, and coal, as well as diamonds) accounts for about 40 percent of Botswana's total growth. Botswana has also been able to register current account surplus averaging 5 per cent of GDP over the past three decades, and accumulate over \$6 billion of foreign reserves.

2. The Role of Governance and Sound Institutions

Although Botswana's resource wealth has allowed it to

grow at a healthy rate and achieve upper-middle-income status, other factors, particularly **good governance**, must have accounted for Botswana's exceptional case of positive economic growth achieved over the years. Unlike Nigeria and some others that have been trapped by the resource curse, Botswana has been commended for **its sound institutions and good governance**, which are rooted in the stable political situation that has prevailed since its independence in 1966. The World Bank Developed Governance Research Indicators Country Snapshot (GRICS) indices in Table 1 rank Botswana well above the average of middle-income countries in all aspects of governance and compares favourably even with some high income countries in several aspects.

*Source: Atsushi Limi (2006) "Did Botswana Escape From The Resource Curse?" IMF Working Paper No. 06/138, (In IMF Survey, August 7, 2006, pp. 236 & 237))

Annex Table 1

BOTSWANA ECONOMIC INDICATORS

| ECONOMIC INDICATORS | DATA INFORMATION |
|----------------------------|--|
| Growth Rate | About 9% on average since mid-1970s |
| GDP per capita | Currently estimated at over \$ 5000 a year (in current prices) |
| Income Group | Has moved from low-income to upper-middle-income country-level |
| Resource Endowment | Diamonds-World's largest producer, with about \$3 billion in exports every year. |
| | Other minerals include copper, nickel, coal |
| Mining Sector | Accounts for about 40 percent of Botswana's total growth. |
| External Account | Current Account surplus averaging 5 percent of GDP over the past three decades |
| Foreign Reserves | Over \$6 billion of foreign reserves accumulated |

Source: Atsushi Limi (2006) "Did Botswana Escape From The Resource Curse?" IMF Working Paper No. 06/138

Table 2. BOTSWANA: MEASURES OF GOVERNANCE COMPARED WITH SUB-SAHARAN AFRICA AND OTHER GROUPS OF COUNTRIES

Note: The indicators range from zero (representing worst-possible governance) to 1 (best-possible governance).

| Measurement of Governance | Botswana | Sub-Saharan Africa | Low-Income Countries | Middle-Income Countries | High-Income Countries |
|---------------------------|----------|--------------------|----------------------|-------------------------|-----------------------|
| Voice and Accountability | 0.75 | 0.42 | 0.38 | 0.57 | 0.82 |
| Political Stability | 0.78 | 0.45 | 0.40 | 0.59 | 0.82 |
| Government Effectiveness | 0.66 | 0.30 | 0.27 | 0.42 | 0.77 |
| Quality of Regulation | 0.72 | 0.38 | 0.34 | 0.51 | 0.85 |
| Rule of Law | 0.67 | 0.33 | 0.29 | 0.47 | 0.84 |
| Control of Corruption | 0.62 | 0.29 | 0.25 | 0.39 | 0.76 |
| | | | | | |

Source: Atsushi Limi (2006) “Botswana: Avoiding The Resource Curse” IMF Survey, August 7, 2006.

Fiscal Management

In fiscal management, an important aspect of governance, Botswana has been disciplined and transparent. A major cause of the resource curse phenomenon has been the wasteful and unproductive utilisation of the proceeds of resource exploitation. But in the case of Botswana, with an implicit rule that all minerals revenue be used to finance “investment expenditure”, the government has endeavored to maintain fiscal balance rather than indulgence in large unproductive fiscal deficits. Here investment expenditure is defined as development expenditure and recurrent spending on education and health care; while

other recurrent spending is funded from nonmineral revenues.

The Resource GrowthLink

Various reasons have been adduced to explain why a country's resource endowment is not automatically linked with growth. Despite expectations that resource rich countries can promote growth by using the large revenues they derive from their resources to invest more in economic infrastructural and human capital, economic growth in these countries has often stagnated.

From a political economy perspective, Nigeria's petroleum resources case has shown how natural resource can sow the seeds of discord and conflict among domestic stakeholders, politicians, developers, local tribes and residents in the resource endowed locations who often clamour for resource control or have larger shares of resource revenues. The attempts by stakeholders to seek unfair resource rents which engender tribal conflicts have adverse effects on local and foreign investments apart from direct loss of resource revenue. Resource rents may also bring about corruption, eroding economic efficiency, and undermine

sound fiscal management, reducing the pressure on governments to collect taxes and enforce accountability and weakening fiscal discipline. In Nigeria, the clamour for resource control and frequent attacks on oil workers by local residents in the oil rich areas of the Delta region have adverse effect on foreign investment and loss of resource revenue, put at about N650 billion for the year 2005.

The Federal Government lost N570 billion to the Niger Delta crisis in 2006, according to the Federal Minister, of Finance. The loss, as explained by her was as a result of the non-export of an average of 600,000 barrels of crude oil per day due to the crisis in the region. She stated this at the 2007 Budget breakdown in Abuja on January 8, 2007. The total loss would in fact be more, taking into account losses due to vandalism of pipelines and the rampant illegal bunkering trade all over the country. Other related losses are those in respect of lost foreign investments resulting from the crisis because of insecurity and the high country risk, scaring away foreign investors.

From an economic point of view, another possible reason for the failure of resource wealth to promote

growth automatically has been the Dutch disease. As noted by Atsushi Limi (2006), Africa's slow growth in recent decades, has in part, been attributed to the Dutch Disease Syndrome. What has been observed has been the lack of positive spillover effects associated with natural resource exploitation, which is generally capital intensive and location-specific, and which may also limit vigorous development in the agglomeration of non mineral industries.

Thus, apart from the role of the financial sector in effectively mobilizing and investing the oil funds,

for any economy to derive tangible benefits from resource abundance, its government must have a sound long term plan for natural resource exploitation and an effective mechanism for investing revenues in the social and economic infrastructure needed for sustained growth and economic diversification. Thus, if a country has good governance, resource wealth is conducive to economic development instead of the tendency for it to affect economic growth negatively.

For any country to manage its natural resources beneficially, good governance is shown to be important by Atsushi Limi (2006) in four dimensions:

abroad as done with the Gulf War windfall discovered in Okigbo's Report; or merely distributed by the three tiers of government and bureaucratic agencies for unproductive purposes, as recently experienced in the present democratic process in Nigeria.

With the unproductive utilisation of the huge monetized petrodollars, the inflationary effect and inflated local prices and naira depreciation since the eighties have imposed a heavy burden on the economy with adverse implications for many local manufacturing industries that have to fold up. This has, in turn, resulted in large importation of food and many goods that could be locally produced.

In the context of the resource gap analysis, it is assumed that the natural resource endowment of a country is of critical importance to economic performance at lower per capita income levels. However, there has been growing evidence among the developing countries, e.g. as analyzed in the Nigerian case (in Ojo, 1982), that a favourable resource base like the rich mineral reserves of Peru or oil in Nigeria might have actually proved counter-productive in terms of overall national

development efforts and performance.

As could be noted in the Nigerian case, there is no doubt that resource endowment like oil money windfalls brought higher levels of domestic investment as well as an additional source of foreign exchange, taxation and an alternative route to industrialization via resource processing. Thus apart from enabling the country to fill the domestic resource and foreign exchange gaps, resource based industrialization is made easier. But surprisingly, while the inverse relationship between resource endowment and economic performance is not a universal law, it has occurred often enough (as shown by Auty (1991) and others) to spawn the resource curse thesis.

Although some oil-exporting countries responded to the post-boom conditions better than others, the formulations of prudent policies for oil windfall management were the exception rather than the rule. For instance, while some were able to deploy their windfalls prudently, others including Nigeria and Venezuela increased conspicuous consumption of mainly imported items and embarked on non-productive domestic investment projects, mainly of

prestigious 'white elephant' type, which were usually poorly executed with large cost overruns.

The latter group that includes Nigeria used their oil as collateral to take “jumbo” foreign loans with unsuitable and costly hard terms, so that far from saving some of the windfall, they actually accumulated large foreign debts that later constituted a formidable obstacle to economic development. The **resultant debt overhang effect** became a nightmare in Nigeria until the recent debt reprieve. Also, the explosion in **windfall- financed inflated government expenditures** provided increased opportunities for **kickbacks and corrupt practices** that have resulted in our development dilemma for some years now. Thus, in terms of economic development, the oil boom or curse instead of blessing with its illusion aftermath has become oil doom. This our conclusion has been substantiated in a study by Auty (1991) of Nigeria and some other developing countries thus: “ Given the pre-boom rapid rate of Nigerian economic growth and the country's large and competitive agricultural exports (which collapsed during the oil boom), the 1974-78 and 1979-82 oil booms have almost certainly been a curse rather

than blessing.”

In contrast, the remarkable economic transformation that started in Japan much earlier has spread through and transformed much of Asia, while Nigeria and some others with oil and other resource endowments have continued to grope in the unclear path towards economic transformation.

2.2 The Problems of Oil Wealth Illusion For Development

The problems of oil wealth illusion for economic and financial management were analysed in the **OPEC Review** (Ojo, 1982). As shown, the post- 1973/74 oil boom significantly modified the economic and financial behaviour and development in some oil producing countries- creating an “oil wealth illusion”. As a fallout of the oil wealth illusion, Nigeria has been confronted with the following problems and negative developments, among others;

- ? Persistent rising prices
- ? Persistent depreciation of the Naira exchange rate since the eighties

- ? More than usual rising trend in public sector recurrent expenditures, which has reached a too high level considered unsustainable in terms of the available revenue.
- ? Low and ineffective efforts in mobilizing additional domestic and external resources for industrialization
- ? Unproductive utilization of available resources, making it increasingly difficult to raise the living standards of the people as well as to accelerate the pace of the country's economic development.
- ? Hostile and violent attacks on foreign oil operators by agitators for resource control, that have increased country risk and scare away potential foreign direct investors
- ? Rising waves of corrupt, anti-social and negative anti-productive practices as well as highly lopsided income distribution in favour of less than ten percent of Nigerians.

With the oil boom and its wealth illusion effect, many Nigerians apparently thought that most of their development problems had disappeared and

considered themselves richer than they were, without recognizing the negative impacts of the suddenly increased oil revenues on the productivity of important non-oil sectors like agriculture and manufacturing industry as well as rising corrupt practices and profligacy. This was more pronounced in the public sector, where having erroneously believed that 'money was not a problem but how to spend it', public officials resorted to awards of spurious and inflated contracts through which large public funds have been recklessly siphoned away into private accounts in and outside Nigeria. Having **considered themselves richer than they actually were**, Nigerians in both the private and public sectors of the economy indulged in high level of reckless consumption practices, with unsustainably high importing pattern. This has meant devoting less resources and efforts to real productive, job creating and exporting activities. The **concept of illusion** here is similar to the **public debt illusion analysis** by Professor Gandenberger (1979). The oil euphoria resulted in a low degree of rationality of public expenditure, as this also resulted in a low degree of perceptibility for both the authorities and the citizens of the burden of financing unproductive “white elephant” projects from the proceeds of such a wasting natural

resource asset as oil. All these have constituted serious set backs and burdens on development efforts, **resulting in development dilemma or nightmare for the country.**

3. The Role of The Multinational Oil Companies and The State

On the role of the multinational oil companies and the State in not facilitating the exploitation of our petroleum resources to benefit the people and the country's real economic and industrial development, Terisa Turner (1980) explains why capital accumulation had not taken place in Nigeria. She analyses the factional conflict between the “commercial compradors” and industrializing technocrats in the Nigerian State, and links these factions of the bourgeoisie to their international progenitors. Oil technology has not been transferred to Nigeria because, s she argues, the dominant comprador faction benefits from maintaining the foreign oil companies control.

In examining why there has been absence of significant progress in the acquisition of oil technology, Turner (1980, p202) reasons thus: “...an explanation of the

under-development and foreign domination of the Nigerian oil industry must start with an examination of Nigerian State.

The benefit of labour force development is seen as the most important aspect of any programme for technology transfer; but unfortunately, little progress has been made in Nigeria, particularly in the oil industry. This deplorable situation, as shown by Turner (1980, p215) “reflects the lack of serious commitment to involvement in the oil industry, either exploration production or in refining and other downstream activities”. Thus the transfer of know-how to Nigeria oil-men has been blocked by oil companies and by “state compradors”. As further observed, “the comprador nature of the Nigerian state prevents it from organizing the transfer of oil technology and, more broadly, from initiating the development of capitalist production” (Turner, 1980, p217). The “comprador state” concept is based in Nigeria on, and often its officers merge with, the local commercial class. Middlemen have become numerous and influential as a result of the former oil boom, the import-substitution policy and the state's intervention in economic and commercial activities that has proved

largely ineffective. This role of numerous middlemen in the oil industry, especially in the exportation of crude oil and marketing of imported refined oil products has the following adverse implications:-

- * slow pace of technology transfer and labour force development to create employment for Nigerians
- * Failure to internalize oil exploitation to achieve capital accumulation and real development in the country; e.g. large value added would have accrued to the nation, with more local jobs created had it been more oil refineries had been put in place over the years to refine crude oil, not only for local consumption but for exports, to earn foreign exchange rather than spending scarce foreign exchange on oil import at high costs.
- * The absence of efficiently operated refineries and presence of a large retinue of middlemen could be blamed to some extent for the incessant increase of fuel prices in the country and the present fuel supply shortage.

It is quite clear that the operation of the exploitation thesis in the oil industry as well as in similar aspects of the role of multinational and foreign investments would

only be feasible if facilitated by the local people themselves, as individuals or State that often collude to defraud their own nation for their own selfish interests; i.e. by sacrificing national interest. But for the corrupt and non-transparent practices of the comprador state and government officials, it would not have been difficult to control the operations of the multinational interest for the benefit of all. The companies could, for instance, be subject to best ethical practices in terms of contracting, procurement, technology transfer and the transparency of their operations.

4. Avoiding The Natural Resource Curse - The Case of Botswana

As earlier shown, what has often been observed has been that resource-abundant economies tend to grow less rapidly than resource-scarce economies, a phenomenon referred to as the “resource curse”. But as shown in a recent IMF Working Paper (No. 06/138) by Atsushi Limi (2006), Botswana (in the Case Study in the Annex) appears to be an exception to have possibly avoided the resource curse. As shown, although it is one of the most resource-rich countries in

the world, it has achieved remarkable economic success, unlike the situation in Nigeria and some other resource-rich countries. The IMF Working Paper throws light on the relationship between growth and natural resources in Botswana and suggests that **governance may play a catalytic role in transforming resource abundance into economic growth and development.** The study finds that **good regulation and powerful anticorruption policies** are particularly important for resource-abundance developing countries, all of which have been absent in Nigeria, especially during **many years of military bad governance.**

Nigeria and other resource-rich developing countries, therefore, have much to learn from the Case Study of Botswana in any attempt to avoid the resource curse syndrome.

V. SUMMARY, SUGGESTIONS AND RECOMMENDATIONS TO RESOLVE THE DEVELOPMENT DILEMMA

1. SUMMARY OF MAIN ISSUES

We have examined the expected role of the financial sector that could have greatly assisted, if appropriately adapted, in the mobilization and utilisation of the huge financial resources emanating from petroleum exploitation. As shown, the efficient performance of such role could have impacted positively on the economic and social development of the country, such that the natural resource curse imposed by petroleum could have turned out to be a blessing, and the oil boom outcome not becoming a doom to constitute development dilemma.

1.1 The Development Dilemma

All nations and their people aspire to develop and enjoy the benefits derivable from sustained growth; but the speed and stage of development attainable in each case will depend on not only the available factors of production, but mainly on the quality of the human resources in skillfully combining the factors, governance and leadership, how determined the people are, and how realistic the efforts being made.

Prof. Soludo recently stated that Nigeria would be among world economic giants by 2050, but the President said he should make things happen by 2020! For a nation still far

away in meeting the Millennium Development Goals (MDGs) by 2015, to attain such desired great development feat is not merely by political gimmick. To be able to effectively deal with the developmental problems, the authorities must first realistically analyse and appreciate the nature, dimensions and enormity of the problems instead of painting and presenting some rosy picture and spurious data of some superficial reform achievements (e.g reduced poverty level, decrease in inflation and unemployment rates) as recently done on January 9, 2007 at the Stakeholders' Forum on the Economy at Abuja,

At the 2007 Budget Ministerial Briefing on 8th of January, 2007 and Presidential Stakeholders' Forum on the Economy in Abuja on 9th January, 2007 (with Ministers, CBN Governor and others, with the President), the political appointees had to present what appeared to be the rosy, palatable and seemingly good aspects of the economic situations and gloss over the dark sides.

To keep their jobs, the CBN Governor and other presenters had to inform Nigerians that the policies have worked well and on course. This was similar to when the late Chief Obafemi Awolowo warned about

our deteriorating economy in 1980/1981, and the counter rebuff by Prof. Edozien as Economic Adviser in the Shagari Administration. We all witnessed the subsequent collapse of the economy, naira depreciation, the ineffective structural adjustment programme (SAP), etc.

Certain growth indices being rosily paraded are at best merely the **old-fashioned symbols of development rather than the real substance**. With real development, we need to look beyond impressive growth rate and external reserves made possible mainly through crude oil export, with no value added and positive internalized effects on job creation, agricultural and industrial production, and negligible impact on the social and economic welfare of more than three quarters of the people. This contrasts sharply with China and other Asian countries with such desired positive effects on the welfare of the people.

Let us briefly review **some areas wherewith the development dilemma has been manifested:**

- (i) Poverty level,
- (ii) Mass exodus of Nigerians to other countries,

- (iii) Poor dwellings for many people,
- (iv) Real and disguised unemployment ; and
- (v) High level of corruption and crime rates.

1.2 Manifestations of Development Dilemma

1.2.1 High Poverty Level

Nigeria's poverty situation in the face of its rich petroleum resources was aptly summed up by Chief Feyide (former Secretary-General of OPEC) (1990) as follows:

“All the characteristics of poverty, as already defined, appear to be present in this country, yet it is true that Nigeria cannot properly be described as a poor country. Our rich endowment of human and natural resources is one aspect of our national wealth. The fact that the resources include vast reserves of hydrocarbons makes all the difference to our classification in the international scale of prosperity”

“We have the ingredients of wealth but they have not been fully converted into real prosperity”.

In the oil boom of earlier years, when the naira was stronger with higher purchasing power than the US dollar, we were all proud to be Nigerians. The

ostentatious display of oil wealth, at home and abroad and the ensuing 'oil wealth illusion' effect led to the extravagant squandering of the petrol money like the biblical prodigal son, instead of its productive investment and utilisation to transform and develop the economy to guarantee lasting real, as against spurious/illusionary transient prosperity.

1.2.2 Poor Impact of Reforms On Economic and Social Transformation and Mass Exodus

This is manifested glaringly in the **continuing mass exodus of Nigerians to other countries** at all costs.

Even in the academic sector, many Nigerian senior academic staff have gone to other Universities abroad in America, Europe, Saudi Arabia, Asia and even some African countries like South Africa and Botswana that are not rich in petroleum resources. In many other cases, many academically and professionally qualified Nigerians have moved abroad as medical doctors, engineers or even to undertake any available jobs whether menial or less dignifying ones because of what they perceived as more conducive environment and better facilities.

With the huge oil revenues accruing to Nigeria in billions of dollars over the years, the various reforms that have been put in place over the years, particularly the four national development plans from 1962 to 1986, structural adjustment programme (SAP) in the eighties, the economic, industrial and social conditions in the country should have significantly improved to make it more attractive for Nigerians to remain here instead of desiring and pressing to go abroad.

The huge dollar earnings (over \$500 billion since independence) from oil windfalls should have, other things being the same, greatly enhanced the capacity of the government to deal effectively with urgent economic and social problems as well as equipping the country to tackle more effectively the problems of human poverty and dilapidated infrastructures.

1.2.3 Hunger

Nigeria was adjudged the 40th nation with the largest number of hungry people among 119 developing countries by a report released to coincide with the activities marking the 2006 World Food Day by US-based International Food Policy Research Institute and

a German NGO, Agro Action. The Global Hunger Index as reported measured the level of hunger worldwide with the aid of three major indicators:

- (i) child malnutrition
- (ii) child mortality
- (iii) estimates of the proportion of people who eat food capable of producing much energy.

As also reported by the Assistant Director-General and FAO Regional Representative for Africa, Nigeria has more than 12 million food insecure people. He reported this at the Fifth Nigerian Economic Summit Group Session on Agriculture in Abuja.

1.2.4 Slum Dwellers

The problem of the country's large number of slum dwellers was brought out recently in a keynote address delivered at the opening ceremony of an international conference on "Abuja at 30" on 11th December, 2006, where the UN Under-Secretary General and Executive Director of the UN Habitat, Mrs. Anna Kajumolo Tibaijuka said that taking a look at Nigeria in 2005, the country had 46 million slum dwellers, by far the highest

in Africa. The need to tackle the scourge of urban poverty in Nigeria was stressed.

1.2.5 High Level Corruption

The Chairman of the Economic and Financial Crimes Commission, Mallam Nuhu Ribadu, on October 16, 2006, shew how Nigerian leaders crippled the State by stealing money meant for developing the nation. He said this at the inauguration in Abuja of a new public-civil society coalition against corruption, where he alleged that some leaders had stolen £220 billion development fund meant for the nation.

According to him, the stolen money was much more that what was invested in rebuilding Europe after World War II through the Marshall Plan. He said, “Corruption in Nigeria takes on the complexion and reality of a systematic and endemic nature and as the experiences of other lands have illustrated, when corruption takes a complexion of this like, it can dissolve and rupture an otherwise thriving State as was the case of Congo Democratic Republic”.

2. SUGGESTIONS AND RECOMMENDATIONS OF FINANCIAL SECTOR ADAPTATION MEASURES

2.1 Need to Evolve New Banking/Financial Culture

The new banking and financial culture considered desirable for Nigeria should make banks and other financial institutions become more developmental oriented, such that our bankers and financiers should really **have the ability and willingness to promote technological/economic development**, rather than focusing mainly on a narrow consideration of financial profit.

Unlike what has existed in Nigeria, **a sound financial structure should be suitably evolved** through needed innovation to facilitate movement of financial resources efficiently from surplus to deficit economic units, and from activities yielding low social returns to those yielding high social returns. This **efficient/desirable movement of funds requires:**

- (i) appropriate institutions, market and institutional philosophy and orientation;
- (ii) financial instruments with savers' and borrowers' preferences and needs; and

- (iii) a rational structure of production pruned interest rates, whereby the wide loan-deposit interest rate gap will become narrow.

Thus, there would be need for more concerted efforts and bolder positive initiatives to bring about the **desired dynamic change and orientation in** a manner to make the banks and other financial institutions and markets become more of assets than liabilities in the country's efforts to achieve concrete development and general welfare of the populace.

2.2 Productive Management and Utilisation of Petroleum Resources

Oil being a wasting asset, **the revenues from oil exploitation must be better managed and prudently employed and productively internalized for real development** for the enhancement of the welfare of all Nigerians.

In many countries with natural resources (oil mineral or other rich natural factor endowment), the quality of the management and utilisation of the proceeds of the natural resources makes the difference as to whether the outcome is economic transformation or stagnation.

How managed and utilized also determine the extent of contribution to national wealth, diversification of the economy, the expansion of social services and the creation and distribution of wealth in a fair and just manner. The objective and target should be the people, the improvement of their standards of living and the quality of their lives, and as put by Chief Feyide (1990), “to spread universal happiness through fair shares and equal opportunities”

For petroleum resources to bring about the desired positive effects and desired development and changes to take place, there must be good governance, the citizens must be hard-working, loyal, patriotic, and reliable. The government should plan for development on a continuing basis, resist the strong temptation to squander riches by ineffective policies and extravagant programmes, and should attack poverty relentlessly.

2.3 Need to Diversify the Economy

This can be done by taking appropriate measures as earlier suggested to productively employ oil revenues to develop the real sectors and infrastructures to boost

agricultural and industrial development activities and production. These will create jobs, boost food production with better earning opportunities for Nigerians.

2.4 CBN Should Take More Positive Measures

There is need to reduce banks' high lending rates and the wide loan-deposit margins so that banks' loans can be profitably utilized by industrialists and for other productive activities.

Unlike Nigeria where banks have always refused to observe CBN directives to bring down lending rates, banks are elsewhere made to adjust their lending rates low at only very narrow margins of less than 1% in some cases above the central banks' benchmark rates, ranging from a high of 5.25 percent by the US Federal Reserve and a low 0.25 percent by the Bank of Japan. For instance, as announced few days ago, the Bank of Japan held its benchmark interest rate at 0.25 percent, to avert a clash with government officials who said that consumer spending and inflation were too weak to withstand higher borrowing costs, even at less than one percent interest rate.

Generally in many countries, despite large fiscal deficits

in some, interest rates have, as reported, fallen with global integration which thereby moderate inflation.

China's high growth and production achievements as well as the record export performance have been and are being facilitated by the low cost of funds and other production costs, with the yuan exchange rate making their manufactured goods very competitive to flood the US consumers' markets, with external reserves of \$988 billion at end September 2006 and growth rate of over 10%.

2.5 To Make Development A Priority Task

Development should be made a priority task for all Nigerians in both the private and public sectors, with appropriate provisions in the Constitution for legislation in favour of development oriented activities and against anti-development activities and practices. With such provision, it should be possible for (i) the CBN to effectively make banks bring down high lending rates; (ii) the President to be empowered not to allow the reckless sharing by the tiers of government of excess funds accruing from oil windfalls that are mostly squandered; but to earmark such excess funds for

priority productive projects.

VI. CONCLUDING REMARKS

Chancellor, Sir, Vice Chancellor, Invited Guests, Academic and non-academic colleagues, Our dear Kings and Queens of Hebron, Ladies and Gentlemen our beloved country needs our prayers for God's intervention to be able get transformed the natural resource curse into blessings, and thereby resolve the country's development dilemma.

Towards achieving this, the country is badly in need of a suitably adapted and appropriately orientated financial system, with banks and financial intermediaries that are able and prepared to perform effectively the desired financial intermediation functions. The functions include mobilizing the huge petroleum funds for productive investment to promote the country's development, by helping economic agents identify and finance good business opportunities in all sectors of the economy, such as to create jobs to boost the incomes and welfare of a larger proportion of Nigerians wallowing today in abject poverty.

All that **GOD** has created and put under our control, exploitation and use, including such natural resources as oil, were meant to benefit us, enrich us and used to enhance our well being; i.e. to be sources of blessing and not a curse to our detriment. Oil as a natural resource in Nigeria, rather than bringing benefits has brought deleterious effects of such negative dimensions as to be seen as a curse. From Biblical explanation, this must have been caused by **the sins of our post oil boom perverted generation** - indulgence in corrupt, greed, selfish use of aggrandized oil wealth accumulation by some Nigerians, resulting in deprivation of many Nigerians. Thus, oil wealth had been largely utilized in corrupt, sinful and ungodly manner, turning its intended beneficial effects into a curse. Just as the Israelites of Micah's days, Nigeria has done what was evil in the sight of **GOD** and failed to heed the warning in Micah 6 to do what is good and the **LORD** requires of us "to do justly and to love mercy and to walk humbly with thy GOD" (v.8). Rather, oil wealth has become "treasures of wickedness in the house of the wicked" (v.10); "the rich men thereof are full of violence, and the inhabitants thereof have spoken lies..." (v12). Thus, **to avert GOD's vengeance on the nation, oil**

wealth must be used to do what is good in the sight of the LORD; to be equitably shared justly, addressing compassionately the plight of the down-trodden majority in the nation today.

In translating this to more specific policy measures, the earlier recommendations should be addressed, particularly the following aspects:

- ? To address significantly the gross injustice of the past by transferring the oil wealth from the elite and greedy persons to the deprived populace so as to improve their well-being and quality of life.
- ? To internalize the use of the proceeds of oil and diversify the economy by embarking on gross fixed capital formation and development projects that create employment, enhance peoples' incomes and accelerate the industrialization process.
- ? To give greater priority to develop small-scale industrial activities, which can significantly transform the fortunes of the bulk of the people as in India and China.
- ? Government should be prudent in its financial management to curb wasteful expenditures and

unproductive use of oil wealth.

- ? To enhance workers' efficiency and raise productivity to curb reckless resort to importation and step up export of non-oil goods.

May God help us in rightly choosing the required visionary leader, able to boldly take the bull by the horns to lead us out of the wilderness and turn resource curse to blessings. Amen.

Thank you for listening and your patience. God bless you all. Amen.

Acknowledgements

Praise be to our God from whom all blessing flow for His grace in leading me here to join forces with other God-chosen people in the task of raising a new generation of leaders for this and other African countries; and for strengthening me to be able to prepare and deliver this lecture today. To Him be all glory and adoration.

I deeply appreciate the God-servant, the Chairman of this occasion and Chancellor of Covenant University, Bishop (Dr.) David O. Oyedepo, for being a worthy vessel

of honour being used mightily by God to bless and transform the lives of many people in Nigeria and in other countries; for his demonstrated exemplary leadership qualities that make him serve as role model, and for the spiritual food, inspiration and valuable exhortation from him always. I wish to acknowledge the Vice-Chancellor of this University, Prof. (Mrs.) Aize Obayan and other Principal Officers, Deans of Colleges and other academic and non-academic colleagues as well as my dear students, kings and queens of Hebron who have contributed in various ways to make this institution such an enviable model, with serene atmosphere, cordial interpersonal relationship and very conducive academic environment.

I greatly appreciate the presence of all our Distinguished Guests, and academic colleagues from other institutions as well as friends here present.

Finally, my love to my dear wife, Yemi and children, who have made my joy to be full.

You are all blessed and will always be remembered for good in the Precious Name of our Lord Jesus Christ.

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Table 1: OIL REVENUES AS PROPORTION OF GOVERNMENT REVENUES IN NIGERIA, 1970 - 2005

| Year | Oil Revenues (=N='million) | Total Govt Revenue (=N='m) | Proportion (%) |
|------|----------------------------|----------------------------|----------------|
| 1970 | 166.6 | 634.0 | 26.3 |
| 1971 | 510.0 | 1,168.8 | 43.6 |
| 1972 | 764.3 | 1,405.1 | 54.4 |
| 1973 | 1,016.0 | 1,695.3 | 59.9 |
| 1974 | 3,724.0 | 4,537.4 | 82.07 |
| 1975 | 4,271.5 | 5,514.7 | 77.5 |
| 1976 | 5,365.2 | 6,765.9 | 79.3 |
| 1977 | 1,749.8 | 3,711.6 | 47.1 |
| 1978 | 4,555.8 | 7,371.0 | 61.8 |
| 1979 | 8,880.8 | 10,912.4 | 81.3 |
| 1980 | 12,353.3 | 15,233.5 | 81.1 |
| 1981 | 8,564.4 | 13,290.5 | 64.4 |
| 1982 | 7,815.9 | 11,433.7 | 68.3 |
| 1983 | 7,253.0 | 10,508.7 | 69.5 |
| 1984 | 8,269.2 | 11,253.3 | 73.5 |
| 1985 | 10,923.7 | 15,050.4 | 72.6 |
| 1986 | 8,107.3 | 12,595.8 | 64.4 |
| 1987 | 19,027.0 | 25,380.6 | 74.9 |
| 1988 | 19,831.7 | 27,596.7 | 71.9 |
| 1989 | 39,130.5 | 53,870.4 | 72.6 |
| 1990 | 71,887.1 | 98,102.4 | 73.3 |
| 1991 | 82,666.4 | 100,991.6 | 81.9 |
| 1992 | 164,078.1 | 190,453.2 | 86.2 |
| 1993 | 162,102.4 | 192,769.4 | 84.1 |
| 1994 | 160,192.4 | 201,910.8 | 79.3 |
| 1995 | 324,547.6 | 459,987.3 | 70.6 |
| 1996 | 408,783.0 | 523,597.0 | 78.6 |
| 1997 | 416,811.1 | 591,151.0 | 71.5 |
| 1998 | 324,311.2 | 463,600.0 | 69.9 |
| 1999 | 724,422.5 | 949,200.0 | 76.3 |
| 2000 | 1,591,675.8 | 1,906,200.0 | 83.5 |
| 2001 | 1,707,562.8 | 2,231,500.0 | 76.5 |
| 2002 | 1,230,851.2 | 1,731,800.0 | 71.1 |
| 2003 | 2,074,280.6 | 2,575,100.0 | 80.5 |
| 2004 | 3,354,800.0 | 3,901,400.0 | 85.9 |
| 2005 | 4,762,400.0 | 5,547,500.0 | 85.8 |

Table: 2(a)

Growth Performances In Asian Countries
(real GDP, year-on-year percent change)

| | 2004 | 2005 | 2006 | 2007* |
|-------------------|------|------|------|-------|
| Asia | 7.1 | 7.2 | 7.3 | 7.1 |
| - Industrial Asia | 2.5 | 2.6 | 2.7 | 2.3 |
| - Emerging Asia | 8.4 | 8.5 | 8.5 | 8.3 |
| - China | 10.1 | 10.2 | 10.0 | 10.0 |
| - India | 7.3 | 8.2 | 8.3 | 7.3 |
| -Indonesia | 5.1 | 5.6 | 5.2 | 5.8 |
| | | | | |

Table: 2(b)

Growth Performance In Sub-Sahara Africa
(real GDP growth, percent)

| | 1997-2001 | 2004 | 2005 | 2006 | 2007* |
|-------------------------|-----------|------|------|------|-------|
| Oil exporting Countries | 4.2 | 8.3 | 7.8 | 5.6 | 10.1 |
| - Angola | 3.0 | 11.2 | 20.6 | 14.3 | 31.4 |
| - Nigeria | 2.7 | 6.0 | 6.9 | 5.2 | 6.4 |
| - China | | | | | |
| | | | | | |
| Sub-Saharan Africa | 3.1 | 5.7 | 5.6 | 4.8 | 5.9 |
| - Zimbabwe | -2.4 | -3.8 | -6.5 | -5.1 | -4.7 |
| - South Africa | 2.5 | 4.5 | 4.9 | 4.2 | 4.0 |
| - Botswana | 8.2 | 6.0 | 6.2 | 4.2 | 4.3 |
| - Ghana | 4.2 | 5.8 | 5.8 | 6.0 | 6.0 |
| -Mozambique | 9.2 | 7.5 | 7.7 | 7.9 | 7.0 |

Note: * projection for 2007

Source: *IMF Survey*, October 2, 2006.

ANNEX

BOTSWANA CASE STUDY OF AVOIDING RESOURCE CURSE

1. The Effect of Resource Wealth

As shown in a study by Atsushi Limi (2006)*, Botswana has for the past 30 years experienced extraordinary growth-about 9 percent a year on average since the mid-1970s. This has raised its per capita GDP, currently estimated at over \$5000 a year (in current prices), from the low-income to the upper-middle income-country level. This strong economic growth has largely been attributable to an abundance of diamonds, of which Botswana is the world's largest producer, with about \$3 billion in exports every year. The mining sector (copper, nickel, and coal, as well as diamonds) accounts for about 40 percent of Botswana's total growth. Botswana has also been able to register current account surplus averaging 5 per cent of GDP over the past three decades, and accumulate over \$6 billion of foreign reserves.

2. The Role of Governance and Sound Institutions

Although Botswana's resource wealth has allowed it to grow at a healthy rate and achieve upper-middle-

income status, other factors, particularly **good governance**, must have accounted for Botswana's exceptional case of positive economic growth achieved over the years. Unlike Nigeria and some others that have been trapped by the resource curse, Botswana has been commended for **its sound institutions and good governance**, which are rooted in the stable political situation that has prevailed since its independence in 1966. The World Bank Developed Governance Research Indicators Country Snapshot (GRICS) indices in Table 1 rank Botswana well above the average of middle-income countries in all aspects of governance and compares favourably even with some high income countries in several aspects.

*Source: Atsushi Limi (2006) "Did Botswana Escape From The Resource Curse?" IMF Working Paper No. 06/138, (In IMF Survey, August 7, 2006, pp. 236 & 237))

Annex Table 1
BOTSWANA ECONOMIC INDICATORS

| ECONOMIC INDICATORS | DATA INFORMATION |
|---------------------|--|
| Growth Rate | About 9% on average since mid-1970s |
| GDP per capita | Currently estimated at over \$ 5000 a year (in current prices) |
| Income Group | Has moved from low-income to upper-middle-income country-level |
| Resource Endowment | Diamonds-World's largest producer, with about \$3 billion in exports every year. |
| | Other minerals include copper, nickel, coal |
| Mining Sector | Accounts for about 40 percent of Botswana's total growth. |
| External Account | Current Account surplus averaging 5 percent of GDP over the past three decades |
| Foreign Reserves | Over \$6 billion of foreign reserves accumulated |

Source: Atsushi Limi (2006) "Did Botswana Escape From The Resource Curse?" IMF Working Paper No. 06/138

Table 2. BOTSWANA: MEASURES OF GOVERNANCE COMPARED WITH SUB-SAHARAN AFRICA AND OTHER GROUPS OF COUNTRIES

| Measurement of Governance | Botswana | Sub-Saharan Africa | Low-Income Countries | Middle-Income Countries | High-Income Countries |
|---------------------------|----------|--------------------|----------------------|-------------------------|-----------------------|
| Voice and Accountability | 0.75 | 0.42 | 0.38 | 0.57 | 0.82 |
| Political Stability | 0.78 | 0.45 | 0.40 | 0.59 | 0.82 |
| Government Effectiveness | 0.66 | 0.30 | 0.27 | 0.42 | 0.77 |
| Quality of Regulation | 0.72 | 0.38 | 0.34 | 0.51 | 0.85 |
| Rule of Law | 0.67 | 0.33 | 0.29 | 0.47 | 0.84 |
| Control of Corruption | 0.62 | 0.29 | 0.25 | 0.39 | 0.76 |

Note: The indicators range from zero (representing worst-possible governance) to 1 (best-possible governance).

Source: Atsushi Limi (2006) “Botswana: Avoiding The Resource Curse” IMF Survey, August 7, 2006.

Fiscal Management

In fiscal management, an important aspect of governance, Botswana has been disciplined and transparent. A major cause of the resource curse phenomenon has been the wasteful and unproductive utilisation of the proceeds of resource exploitation. But in the case of Botswana, with an implicit rule that all minerals revenue be used to finance “investment expenditure”, the government has endeavored to maintain fiscal balance rather than indulgence in large unproductive fiscal deficits. Here investment expenditure is defined as development expenditure and recurrent spending on education and health care; while other recurrent spending is funded from nonmineral revenues.

The Resource GrowthLink

Various reasons have been adduced to explain why a

country's resource endowment is not automatically linked with growth. Despite expectations that resource rich countries can promote growth by using the large revenues they derive from their resources to invest more in economic infrastructural and human capital, economic growth in these countries has often stagnated.

From a political economy perspective, Nigeria's petroleum resources case has shown how natural resource can sow the seeds of discord and conflict among domestic stakeholders, politicians, developers, local tribes and residents in the resource endowed locations who often clamour for resource control or have larger shares of resource revenues. The attempts by stakeholders to seek unfair resource rents which engender tribal conflicts have adverse effects on local and foreign investments apart from direct loss of resource revenue. Resource rents may also bring about corruption, eroding economic efficiency, and undermine sound fiscal management, reducing the pressure on governments to collect taxes and enforce accountability and weakening fiscal discipline. In Nigeria, the clamour for resource control and frequent

attacks on oil workers by local residents in the oil rich areas of the Delta region have adverse effect on foreign investment and loss of resource revenue, put at about N650 billion for the year 2005.

The Federal Government lost N570 billion to the Niger Delta crisis in 2006, according to the Federal Minister, of Finance. The loss, as explained by her was as a result of the non-export of an average of 600,000 barrels of crude oil per day due to the crisis in the region. She stated this at the 2007 Budget breakdown in Abuja on January 8, 2007. The total loss would in fact be more, taking into account losses due to vandalism of pipelines and the rampant illegal bunkering trade all over the country. Other related losses are those in respect of lost foreign investments resulting from the crisis because of insecurity and the high country risk, scaring away foreign investors.

From an economic point of view, another possible reason for the failure of resource wealth to promote growth automatically has been the Dutch disease. As noted by Atsushi Limi (2006), Africa's slow growth in recent decades, has in part, been attributed to the Dutch Disease Syndrome. What has been observed has been

the lack of positive spillover effects associated with natural resource exploitation, which is generally capital intensive and location-specific, and which may also limit vigorous development in the agglomeration of non mineral industries.

Thus, apart from the role of the financial sector in effectively mobilizing and investing the oil funds,

for any economy to derive tangible benefits from resource abundance, its government must have a sound long term plan for natural resource exploitation and an effective mechanism for investing revenues in the social and economic infrastructure needed for sustained growth and economic diversification. Thus, if a country has good governance, resource wealth is conducive to economic development instead of the tendency for it to affect economic growth negatively.

For any country to manage its natural resources beneficially, good governance is shown to be important by Atsushi Limi (2006) in four dimensions:

- ? voice and accountability
- ? government effectiveness

- ? the quality of regulation, and
- ? anticorruption policies

OTHER IMPORTANT FACTORS

Although a very critical factor for resource-rich countries to avoid the resource curse, good governance alone may not prevent Dutch disease. As shown in the case of Botswana, good governance has enabled the country to attain economic growth without much of economic development. Despite its income prosperity, Botswana is shown as being not economically diversified, lagging in behind in terms of employment and social development. It follows, therefore, that in addition to good governance, other supporting policies, including structural reforms, are necessary to ensure that natural resource benefits are effectively channelled into sustainable economic and social development

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