Firm Level Competitiveness in Nigeria

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1.0 Introduction

1.1 Organization of paper

This paper is organized into four parts. The first part, an introduction, sets out the parts into which the work is subdivided including a brief review and discussion of the concept of competitiveness and some related issues. The second part focuses on factors in Nigeria competitiveness drawing on recent evidence with a situation report. The third part deals with firm level competitiveness issues while the fourth part issues of policy and research and the role of development partners as far as evidence based policy reform is concerned. The final part begins with an indication of the potential for future research and opportunities for partnership.

1.2 On the concept of Competitiveness

I share the view that ‘Competitiveness’ remains a concept that is not well understood, despite the widespread acceptance, significance and use of it. The important thing for us in this paper, I believe, is to share thoughts, experiences and ideas as we put in perspective those issues that helps understand the right strategies for improving firm/country level competitiveness in Nigeria and how research have or can help improve the quality of strategy formulation and implementation including what future role advocacy institutions can play.

Competitiveness has two basic colourations: national/global and firm level. Put differently you could look at firm level competitiveness from the point of view of factors extraneous to the firm and those that are endogenous. What this suggests is that there may be a sense in which correlations can be established. Thus one might posit that national competitiveness can translate to firm level competitiveness and vice versa. Whether this is true from evidence is perhaps inconclusive and we shall come back to this shortly.

First let us be clear as to what we mean by (the concept of) competitiveness. I imagine this is not about a treatise or seminar on what competitiveness means. Otherwise it may be difficult to present an acceptable understanding and common use of the term. Suffice it to mention that clarification of the concept has benefited from the many years of Economists’ search for what drives economic growth and development in an economy.

In this article, competitiveness (is conceived of as a ragbag word that) describes the degree of superiority by which a firm or a nation produces goods, services and related functions when compared to peers. The defining thrust here is the ability of company ‘a’ to perform better than company ‘b’ based on certain perhaps identifiable advantages. Therefore the notion of a continuum linking a series of component parts is assumed. (Whether at the national or firm level).

By extension we have had to contend with dimensions of competitiveness\(^1\) and the various derivatives. Thus the phrase ‘competitive industrialization’ which refers basically to the degree to which, under open market conditions, a country can produce goods and services that competes internationally while simultaneously sustaining and expanding domestic real income.

What this really suggests is that competition can be viewed from a matrix of two by two: external: internal; and national: firm/industry level. Nations are said to be competitive when they pursue a package of economic policies that emphasize private sector as engine of growth and devolve around

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\(^1\) See the World Economic Forum descriptive indices of competitiveness (i) Growth, (ii) Business. Xavier Sala-i-Martin has an extensive review of the concept for further readings.- The Global Competitiveness Report 2003-2004, Oxford University Press, 2004. Let me quickly mention that I have left out the indices as my colleague would be talking more about them in the paper on reform strategy development in Nigeria.
the market oriented doctrine, have the associated public institutions and continue to experience technological progress.

Firm/industry level competitiveness focuses on the capacity of a company to increase profit and grow on a sustainable basis. This is understandable for two reasons: effect of policy on industry and firm-based factors in competitiveness. It also draws attention to the issues of trade policy, investment and business environment as well as government policies and their impact on industry competitiveness. The emphasis on sustainability underscores concern for competitive edge based on strategic values and a vision that enables a company to remain consistently more competitive than the other.

**National/Country and Firm level Competitiveness**

There is yet another, perhaps incidental, issue. Earlier on I suggested that it is possible to talk of national competitiveness as correlated to firm level competitiveness. The rationale for this is simple; we found recent evidence from the Nigerian experience, during the General Abacha era that there could be macroeconomic stability without growth. (This further confirms the view that macroeconomic stability is a necessary but not sufficient condition for economic growth.)

So can we say that a national economy that is competitive translates to a firm level competitiveness? Evidence suggests that the factors that account for firm level competitiveness more or less influence economic growth. Arguably since a country’s growth development strategy helps shape its competitiveness, the outcome is normally reflected in the performance of the firm/industry (level competitiveness). Evidence suggests that a country can become competitive and yet its industries or rather firm level competitiveness is not achieved. Put differently a firm/industry may be or become competitive in an otherwise less competitive national environment.

A simplistic verification of this position is provided by evidence of the performance of African economies, characterised over the years, by a preponderance of State Owned Enterprises (SOEs) and a public sector driven growth strategy that ensured that government controlled the commanding heights of the economy.

The result was decades of poor economic performance, near absence of an indigenous private sector, large scale inefficiency and an emphasis on ‘social anchorage’ rather than competitiveness based on market orientation and a private sector driven growth strategy. From its inception and perhaps to date, African private sector operators have become largely paternalistic and always seek one form of protection or the other and government support, consistent with the implications of the growth strategy.

Really two sector indices help demonstrate the point aptly. In Nigeria, data on intermediate cost input shows that it is 27% in the Agricultural sector and about 75% in the Manufacturing sector. A convincing evidence is the oil and gas sector in Nigeria which has, in spite of the fluctuations in investment climate, remained quite competitive.

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2 Some argue that this is true of both poor and rich countries. However as Peter Drucker argues, the next society would be dominated by knowledge based wealth creation. African countries still depend to a large extent on natural resources, agriculture, oil, solid minerals and livestock, while developed countries depend more and more on knowledge-skills and especially knowledge technologist. Thus while African countries depend on natural resources under the feet developed countries depend on skills resources in the head (brain power) for their wealth creation. The scenarios are therefore different and it is doubtful that same factors would apply to the same degree.

3 The subsidiary of a foreign construction giant in Nigeria provided the revenue stream that rescued its parent company from liquidation at a time Nigeria was regarded as not being competitive.
The shift in paradigm, to a private sector driven growth strategy and the associated package of economic reforms have meant that competitiveness issues have come to the fore and in spite of the urgent need for improving national competitiveness, sectoral/vested interests have constrained the pace of reform and thus the ultimate result of efforts at becoming more competitive.

Finally the growth competitiveness index as described by the World Economic Forum would seem most important for our discussions going further. The ‘three pillars’ conceptual tool: macroeconomic environment, the quality of public institutions and technological progress, provide a basis for expressing an opinion on Nigeria’s competitiveness.

2.0 Is Nigeria Competitive?

A cursory evaluation of the Nigerian state using the components enumerated above would lead to a simple answer: No. Perhaps a more appropriate answer would be to say ‘not quite’. The next logical question may be: why? How did Nigeria get to this position and what is the situation at firm level.

2.1 Nigeria’s poor competitiveness status is historical.

Nigeria’s competitiveness is clearly, therefore an issue. This is against a twofold background. First political instability characterised by frequent rapid incursion of the military in government. This development accounted for macroeconomic instability which clearly undermined national competitiveness. The second is that developmental strategies adopted over the years, by Nigeria, like many other African countries, have led to, amongst other things:

- A leading role for the State as the engine of growth and development
- Primacy of industry (SOE’s) over Agriculture. And then Oil, in Nigeria’s peculiar case.
- Creation of a thorough-going import substitution regime to promote industrialisation
- A pervasive hostility to the private sector and to the market as an allocation mechanism
- ‘Nourishing’ a class of rent seekers who work to maintain current policies that favour them.

Indeed African governments have failed to effectively transform themselves from instruments of neo-patrimonial political control and predation to instruments of development.

The combined effect of all these have been a variety of reactions, typically described as symptomatic of a post-conflict economy as in Nigeria. It has also manifested as large scale corruption and poverty. Certainly such an environment would not be competitive.

Faced with an unfavourable operating environment, stunted development of an indigenous private sector and unable, therefore, to attract foreign direct investments, economic policy reforms became an issue. National competitiveness took a central stage as a logically derived area of focus, having been so far engaged in a public sector driven growth strategy.

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4 The ‘three pillar’ conceptual scheme is utilised in the evaluation of growth competitiveness comparisons of countries, including the business competitiveness index and the various country ranking reports of the WEF. See World Economic Forum 2003-2004 Report, Oxford University Press 2004.
5 The trajectory of private sector development into the informal sector did not provide the context for sustainable and dynamic economic growth and development. Little wonder that the international recession of the 1980’s and the pressure from the Bretton Woods institutions imposed the need for economic reforms on African governments. This was the beginning of efforts at making African economies to become more competitive.
In the process due consideration was not given to specific issues of firm level competitiveness and as it turned out, there was ‘improving’ national competitiveness without commensurate firm level competitiveness.6

2.2 Factors in Nigeria’s Competitiveness.

**Macroeconomic stability:** It must be noted that Nigeria’s general economic performance has been poor. Given the low volume of output over the years it stands to reason that costs per unit is higher and therefore firms would normally not be competitive in Nigeria.

A review of Nigeria’s macroeconomic history shows clearly that efforts have been made especially since the structural adjustment era in 1985 to move Nigeria from a point of non-competitiveness to one of increasing competitiveness. Evidence (see macroeconomic indices attached as appendix to this paper.) shows that clearly, the interest, exchange and inflation rates have combined with the unwholesome and pervasive policy inconsistency of the years of military rule to create a state of uncompetitiveness.

Government’s fiscal operations (especially deficits ratio as a % of GDP) had the negative effect of worsening these rates as well as ‘crowding out’ the private sector in the (especially lending/borrowing) financial system. In addition the deficits have impacted negatively on savings, investment and exports. Added to this is the series of financial system crisis (banking distress of the 1990’s) and the pervasive fraud which tended to undermine the financial system and thus put medium to long term growth prospects in jeopardy.

One major feature of government’s fiscal operation was the typical delays in announcing the federal budget, particularly considering the dominant position of the public sector. At some point businesses had to wait for Federal budget to be able to determine the direction and depth of public policy. Fiscal policy was conducted in isolation of and at other times uncomplimentary to monetary policy. Where necessary legislations were required to give effect to a budgetary pronouncement this was not done and this often times constrained implementation.

The combined effect was total incoherence in the public policy processing and implementation. The immediate impact was years of policy inconsistency and over time, poor economic performance. This created a very harsh business environment that did not make for competitiveness.

However there was a period when Nigeria seemed to have achieved some measure of macroeconomic stability7 but it was without growth. Indeed many suggested that this was achieved with repression and administrative ingenuity of the maximum leader and his cohort at the time.

**Public institutions:** It is generally agreed that stable social, regulatory, political and legal institutions together with sound macroeconomic policies are preconditions for private sector driven wealth creation within an economy. Nigeria’s experience is anything but stable and efficient. No thanks to

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6 But some sectors have fared better than others, or were simply insulated from the local economy, for example the oil and gas sector which has remained very competitive. For obvious reasons, ranging from the fact that the sector is external to the Nigerian economy to the often sighted view that it is the unfortunate part of the local economy that has remained colonised by the multinationals. The fact that more than 85% of its budget is spent outside of Nigeria with foreign exchange sourced from Nigeria presents its own peculiar problem to the Nigerian economic growth dilemma, as it is with countries similarly endowed. The point really is that reform efforts focused on the macro with little, if at all, consideration for firm level consequences. For example the introduction of liberalisation policy meant that firms were unceremoniously exposed to aggressive competition they were least prepared for. Palliative measures, where offered, were mexitricably inadequate.

7 Under the late General S. Abacha regime (1993-1998) macroeconomic stability was achieved but available data showed that there was no growth and expectedly it could not be sustained, thus supporting the proposition that macroeconomic stability is a necessary but not sufficient condition for economic growth and development.
the years of military rule. Expectedly public institutions became decimated, corruption was rampant and the judiciary was not independent. There was almost nothing like sanctity of contracts and the law courts could not hold out as the expected unbiased arbiter. (There are currently pending cases of commercial disputes instituted over 11 years ago).

Several procedural and administrative processes connected with the Land Use Decree which makes access to and transactions in land very difficult is still with us, so is the problem of multiple taxation for instance. National institutions that were traditionally regarded as the custodians of national values and vision were not spared.

Technology: Although Nigeria can hardly boast of refined local technological capability. Indeed the effect of years of military rule can best be gauged from the level of technological backwardness in Nigeria. Some have traced this to the early 1970’s when the policy of indigenization sent the wrong signals, followed by a series of enterprise regulations that constrained free flow of capital and intellectual properties. Under the General S. Abacha’s regime Nigeria was isolated as a pariah state for over five years during which the global market ‘left her behind’. Technological progress through whatever form had become discontinued.

However there has been a major development in the private sector in this area over the past two decades—the emergence and growth of indigenous small and medium scale machinery and equipment fabrication industry and the manufacture of spare parts and components (located in major commercial cities of Kano, Aba, Port Harcourt Onitsha etc). They are able to manufacture a range of products which ordinarily improves competitiveness since parts are locally made for those firms that need it, but they are again constrained by technical challenges, policy inconsistency and harsh business environment.

Unfortunately large firms who would have facilitated their survival and growth through patronage often patronise foreign products under the guise that the locally fabricated ones are technically substandard. They will never be of appropriate standard unless and until large firms support the processes to help produce locally what will improve their competitiveness.

General Business Environment/Investment climate Issues: Then there is that gamut of business environment related issues spanning the realm of transaction costs, policy inconsistency (generally referred to above) to issues of administrative and procedural red tape, conflicts in legislations, lack of codification of incentives, multiple taxation, delays in processing cases and enforcement of decisions by the courts, customs procedure delays at the ports, the tariff structures and the poor conduct of trade policy (import prohibitions etc), lack of depth and crisis of confidence in the financial system, and the now very popular BYOI.

2.3 Is the situation changing?

It is safe to argue that things are changing, difficult as it may appear. Indeed the reforms that ironically began under a Military President have, in spite of hiccups here and there, remained on

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8 Ehiedu E. Iweriebor in his paper ‘The Machinery Industry and the Challenge of Sustainable Industrialisation in Nigeria’ summaries the modest effort made by the indigenous private sector in this area, and indicated the way forward for that industry arguing that although Nigeria is in a very complex phase of technological and industrial development and has the basic foundations to build upon, it needs to do more to get to the desired level.

9 BYOI is an acronym for ‘build your own infrastructure. The state of roads, water and electricity supply, transportation, security and the quality of products of educational institutions have gotten to a point that the firm must have remedial options for ‘making good’ the gap or deficiency in the public infrastructure service supply chain.

10 President Ibrahim Babangida introduced the economic reform package tagged structural adjustment programme in 1985/86 which sought to enthrone a private sector driven growth strategy through a combination
course and in fact become very central in the current tenure of President Obasanjo. Suffice it to mention that vested interests have continued to oppose it and as can be gleaned from recent experience especially the labour group, there continues to be a swell of opinion against such reforms.

In 1995, a series of legislations to liberalise and foster (guided) deregulation were successfully enacted. This was followed by the enactment of the commercialisation and privatization law by the General Abdulsalami regime close to end of its tenure. (June 1998- May 1999). That law has enabled the resuscitation and continued implementation of the privatization programme which is now in its second and perhaps most difficult stage.

Nigeria’s nascent democracy has wobbled and fumbled but it is gradually finding its feet. It will some day stand firm and perhaps begin to run smoothly. It is an important ingredient for macroeconomic stability. There is an increasing effort, lately, to try and cut down deficits, infuse value for money in the national procurement system and fight corruption.

Government’s effort at streamlining public sector expenditure away from over 70% on recurrent expenditure has begun with the monetization policy on public sector benefits and the right sizing of selected pilot institutions. Recent appointments at the federal level have confirmed the increasing preference for ‘bright, brilliant, tested and young professionals’ to lead the economic rejuvenation of Nigeria, and by implication, its competitiveness.

There is a gradual revival of some national institutions. Of particular note is the National Drug Law Enforcement Agency (NDELA), the Economic and Financial Crimes Commission (EFCCC) and the National Food and Drug Administration Commission (NAFDAC). The judiciary is gradually getting back to its feet although certain events have questioned that pace.

3.0 Evaluating Firm Level Competitiveness in Nigeria

Determinants of firm level competitiveness include but are really not limited to the following: impact of openness of the economy, Productivity, Infrastructure, Labour issues including HIV/AIDS, of currency depreciation, administrative, legislative and institutional sector reforms, deregulation, privatization, encouraging exports and a general liberalisation of the Nigerian economy.

11 For example Labour and indeed all stakeholders accept the need for deregulation of the downstream petroleum sector but have a different view on the method of implementation. It is ironical that Labour accepts deregulation but refuses to allow privatization of the refineries preferring its rehabilitation by the same people who facilitated its decimation to the present state. The issue goes beyond the price at which crude oil is sold to the refineries. Vested interest would prevent it from functioning efficiently as this would mean a stop to importation of finished products, a source of very lucrative contracts for the sorder or rent seekers and profiteers around government officials, their avowed collaborators.

12 Although this law is being (politically induced) reviewed, it would have been impossible to revive the privatization programme if that law were not in place at the beginning of the present democratic experiment. Privatization of utilities like NITEL,NEPA, oil refineries and the concession of ports remain the major test of the political will and commitment of the present Administration to the programme.

13 Federal budget over the years have been skewed in favour of recurrent expenditure, accounting for over 70% and less than 30% on capital expenditure. The States and Local Governments did not fare any better. It was therefore difficult for any appreciable improvements in the business environment, especially infrastructure.

14 Recently President Obasanjo appointed Professor Charles Soludo the Governor of Central Bank of Nigeria and Ifueko Omoigui as the new Chairman Federal Inland Revenue Services. Both are in their forties and have solid professional training and practical experience that would be valuable to their present positions.

15 The Supreme Court has performed creditably well so far. (Offshore-Onshore case is a typical example) While the election tribunals have not met expectations, the National Judicial Service Commission has equally done well. Lagos State’s reform of the administration of justice and the provision of infrastructure and capacity development leads the pack in this area.
Finance, Government consumption etc. These factors operate within a national and may have
differential consequences, from sector to sector, in terms of impact, a general trend is however
discernible.

**Openness and Productivity**

‘Openness of an economy’ ordinarily stimulates competition. Globalisation and the impact of
developments in the information and communication technology impose it in a subtle way. But what
happens when competition is unfair? Openness of an economy, Nigeria’s example is proving, can
become problematic. My view is that unless preconditions for competition are met locally,
international competitiveness would remain a mirage. Unfortunately, firms in Nigeria have often
times depended on government patronage and protection

As earlier indicated Nigeria’s economy has become increasingly liberalised- government policy has
allowed increasing participation in international trade and removed several foreign exchange
restrictions. This is confirmed by the legislative reforms, exchange rate policy since 1985\(^6\), the
pattern of growth of imports in the last decade or so and especially food imports\(^7\), the just expired
tariff structure and the series of incentives to export. (Including the export processing zones).

However manufacturing activities in Nigeria are severely constrained by a set of factors that have led
to high transaction costs and generally cost of doing business and therefore cost of production. Thus
local manufacturers are not competitive.

A recent experience in the textile manufacturing industry in Nigeria led government to place a ban on
imported finished textiles etc. A local manufacturer (name withheld) with a strong brand of fabric,
recently found out that it was unable to sell its product due to large scale importation of the same
product with the same brand name (purportedly produced by it) from an Asian country.\(^8\)

Nigeria’s manufacturing experience is replete with such instances. Recently the National Agency for
Food and Drug Administration (NAFDAC)\(^9\) showed that the food and drugs sector has been the
worst hit, going by the value/volume of substandard and fake drugs it has confiscated in recent times.

Understandably, Nigeria’s tariff structure is still on the high side (and there are ongoing efforts at a
modest review, to improve competitiveness), including the port charges and other levies.\(^20\)

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\(^6\) There has been a consistent but irregular, sometimes sporadic attempt at ensuring appropriate valuation of the
Naira against the US $ and major convertible currencies since the introduction of the structural adjustment
programme by the Babangida Administration in 1985.

\(^7\) It is said that Nigeria spends annually, N50 billion on importation of fish alone. This translates to about
US$360m. Food imports account for over 60% of monthly imports. At a marginal propensity to import of 0.85%
of every Naira, Nigeria is certainly an import dependent country.

\(^8\) Piqued by this development it made a representation to Government. Subsequent investigations revealed that
this was true and the Government promptly banned the importation of the range of textile products. There have
been strong reservations about the wrong signal the series of bans would send but the issue here is how do you
ensure fair competition where a foreign manufacturer produces goods with a product label indicating that it was
produced in Nigeria and this product finds its way into the local market in Nigeria as though it were produced
by the local manufacturer, and is selling for over 50% of the current price of the genuinely locally produced
product? It is hoped that the ban would be for not too long a period during which a solution would have been
found.

\(^9\) The NAFDAC is one such public institution that has been revived due to a change in leadership in less than
three years.

\(^20\) Indeed Nigeria has lost (and continues to lose) a significant amount of business to the ports of neighbouring
countries and this has fuelled smuggling activities, since Nigerians are amongst those who use these
neighbouring ports. Unfortunately efforts at reducing the rate of smuggling have not been quite successful. It
remains to be seen how recent changes in the leadership of the Department of Customs would impact on this.
But firm productivity is constrained by (macro) factors more devastating in their effect than the direct consequences of internal corporate strategy. What should a firm do for example when faced with large scale importation of an imitation of its most valued brand which sells for almost half the price in the local market, thus impacting its revenues and ultimately its level of capacity utilisation? How do you support a trade liberalisation policy that allows such a fraudulent practice to thrive and jeopardise the survival and profitability of a local manufacturer? The issue seems to go beyond the efficiency of public institutions concerned with law enforcement. Perhaps it has to do more with our trading partners and the few Nigerians who have continued to direct their ingenious energies at fraudulent practices.

The textile industry currently has the largest idle heavy duty equipment and machinery in Nigeria, some relatively modern, others now obsolete and in many case difficult to maintain as spare parts from Europe and America would have to be ordered, manufactured and imported. At some point it was believed that the textile industry in Nigeria was better prepared to take advantage of the AGOA policy. That has not materialised to date.

Typically when the conditions are right, a firm would seek to export once it perceives a saturated local market or a certain potential for its goods in another market. Evidence from Nigeria shows that manufacturing export activities have been on the decline for several reasons.21

**Infrastructure**

By infrastructure we refer to things like power, roads, ports, air travel, telecommunication and even railways. Perhaps the most important determinant of firm level competitiveness in Nigeria today is infrastructure, especially power. In the late 1990’s, and this has not changed significantly, only about 30% of roads in Nigeria are paved, and of the close to 200,000km road network 67% is under the States and Local government which (except a few) depend largely on allocations from the Federation account. As we have seen earlier on, given the pattern of public expenditure, very little is available for rehabilitation, maintenance and construction of new roads.

As earlier indicated, firms have resorted to BYOI to survive. What this means is that a manufacturer redirects capital for expansion to provision of basic infrastructure its competitors take for granted elsewhere. In a 2002 study22 66.7% of large firms (employing above 1,000 people) and 93% of other firms surveyed have facility to generate their own power. The study confirmed that power is the single most important constraint to productivity and competitiveness. Substituting internal capital in this way, for publicly provided inadequate infrastructure represents a major problem that often times imposes capital requirements beyond the firms imagined capacity to borrow. This is aside from output reduction of about 30%. Unfortunately ‘factor substitution’23 is difficult if not impossible, yet firms were willing to pay twice the price for a stable supply.

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21 Nigeria’s seeming low propensity to export can be explained in terms of the advent of oil and the oil boom; the industrial policy adopted which encouraged import substitution, inability to manufacture products that meet the ISO technical specifications, conflicting export stimulation policies and the tendency by firms to remain satisfied as ‘local players’. The trend over the past two decades when put in a graphic form presents a finger-like projection even though Agriculture and agro-processing specifically have been impressive.  
23 For example coal. The good news is that over the past 5years there have been successful efforts at this. The Ikeja and Agbara industrial estates in Lagos and Ogun States have been linked up to gas as an alternative source and increasingly firms in these locations are converting to the use of gas as a source of energy for their production processes.
Labour

The issue about labour is basically threefold: over the years, the quality of education has gradually declined. Companies now have to arrange for special/extended training programmes to ‘refine’ as it were, University graduates. In one particular case in the brewing industry, a graduate engineers training programme for about nine months was extended to about eighteen months and is now a standard training programme for new engineer-recruits in the company.

In a sense one major oil company’s ‘artisans skill development programme’ in the oil sector is meant to ‘fill the same gap’ by ensuring that there is well trained artisans for the support services they require and or typically outsource to (local)third parties in the sector.

The second issue is related to the consequences of incessant strikes called in protest against various national policies, which meant that huge man-hour losses were recorded by firms and yet wages had to be paid for that period as well. In the coming days we expect another nationwide strike called by the central labour Union organizations over the recent upward adjustments to the price of petroleum products by marketers.

There has also been undue wage increases due to political and labour pressure considerations beyond levels that can safely be adjudged appropriate in the Nigerian circumstance. Although evidence does not support any correlation between wages and firm productivity in Nigeria due to intervening variables above, it is instructive to note that wages have been on the increase in Nigeria irrespective of productivity levels.

The other issue relates to the HIV/AIDS. This is against the background of a life expectancy of about 55 years and declining school enrolment due to harsh economic conditions. The Regional Programme on Enterprise Development Study found that it was prevalent amongst an average of 6.7% of the age bracket 15-49 years. When this rate is applied to Lagos state with an estimated population of 30.5 million, it can be seen that firms are seriously exposed to at least two major potential sources of cost due to treatment and payment of benefits, and cost due to training and retraining for fresh intakes, loss in productivity/production disruptions etc. There is the wider implication for the formal man power training and recruitment/sourcing processes in relation to, not just school enrolment, but also the labour force, considering the age bracket of 15-49 years.

Finance

Access to finance is the second most important constraint at firm level competitiveness in Nigeria. (As revealed by the RPED study). There are three aspects to this issue. First is that the package of

24 Unfortunately there is a mismatch in the training programmes of Universities and skill/capacity requirements of industry. Besides Nigerian students hardly pursue degree programmes in the sciences and the proliferation of Universities and the lack of attention to basic infrastructure for teaching science subjects have combined to produce poorly trained graduates, in short supply. Unfortunately there is graduate unemployment in Nigeria.

25 The constantly changing educational policy, funding constraints and the frequency of strikes, by the University teachers and students for various reasons partly accounted for this state.

26 In my opinion, Nigeria’s economy is too important to the West African sub-region that strikes and closures should be avoided. Not by administrative fiat or legislation but through proactive and pre-emptive methodologies-consultation, dialogue effective information dissemination and ‘walking the talk’

27 In particular, the banking sector which witnessed significant expansion in the late 1980’s/1990’s. The expansion in part, led to a ‘thinning- out’ of available human capital in the sector and the search for available resources shot up wages inadvertently. The distress and spate of fraud in the sector had its roots, in part to this phenomenon.

28 The National Aids/STD Control programme of Federal Ministry of health projects that HIV prevalence will increase by about 90% in 2003. (from national average of 5.4% to 10%). Whether this has been achieved is difficult to say.
reform that was introduced in the mid 1980’s saw Nigerian firms suddenly experiencing working capital shortages. Some resorted to borrowing from the money market and soon found that they ought to have gone to the (expensive) capital market. Unfortunately they were mostly less than prepared for the capital market.

Thus while at the macro level, companies were unable to enjoy liberal conditions for their imports due to Nigeria’s balance of payments problem, advance payments at huge costs had to be made for imports that would take time to arrive. By resorting, understandably, to short term borrowing from the money market they continued to expose themselves to the fluctuations in the money and foreign exchange markets, including the implications of the various ongoing reforms in the sector. The cost of funds had its own impact as well. Worse still is the fact that they have a poor credit rating. Somehow it was easier for an Asian businessman’s proposal to be better valued and funded than a Nigerian’s.

In a recent study of access to finance 29 it was found that banking services remain inadvertently tailored to suit the needs of large corporations. In particular the banking sector still had traditional banking products and found it difficult to develop long term financial instruments to service the peculiar needs of small and medium scale businesses. Special purpose banks created to addresses access to capital ended up with significant bad loan portfolios that they became distressed.

The problem of foreign exchange fluctuations was equally significant. First there was this special purpose fund created to provide ‘cheap’ and ‘long term’ finance for industries- Nigerian Economic Reconstruction Fund (NERFUND) in the late 1980s’. Due to exchange rate fluctuations firms that borrowed funds had a liability twice and in some case thrice the original amount.

Another quite disturbing development occurred in the 1980’s when African Development Bank granted Nigeria an Export Stimulation Loan (ADB-ESL) for onward lending to needy industries. The primary objective was to ‘stimulate’ for export. Some companies had a portion of the loan remitted to them in Naira and payments made on their behalf for imported machineries and equipment in US$ dollars. The loan was for a three year term and unfortunately it was not renewed. Applications and disbursements were processed through the banks.

By the time repayment was due, some firms were yet to take delivery of the equipment while those who did were still smarting to meet working capital requirements as the exchange rate had further depreciated. Most of these firms went into liquidation while others simply folded-up when the promoter absconded. 30 The revelation of the structural adjustment programme of the 1980s was that Nigerian firms did not have sufficient managerial capacity, were not adequately capitalised including a weak reserve base and did not plan ahead. The most important thing was that financial distress hit the new generation banks that were more aggressive in creating risk assets as they were in liability generation and this further shrank access to finance by firms. The irony is that in spite of this, banks in Nigeria have remained profitable, raising the question: why are they unable to finance firms. It is important to note that although Banks now reserve 10% of their profit before tax for onward lending to small and medium scale enterprises, over 90% of that reserve has not been disbursed. 31

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29 The ‘Financial Instruments and Access in the Niger Delta region study, commissioned by the Niger Delta Development Commission NDDC was conducted by the Nigerian Economic Summit Group Ltd/Gte. The survey covered the nine states of the region and involved the interview of some seven thousand respondents spread across the states. It included providers and consumers of financial services in the formal, informal and semi-formal areas as well as the regulators, community leaders and traditional providers of financial services.

30 When payments were due, the accounts of these banks with the Central Bank of Nigeria were debited with the naira equivalent at the prevailing exchange rate. Some banks never recovered from this action. Indeed this marked the beginning of the financial distress in banks in the 1990’s. (Admittedly some banks did not deliver the foreign exchange to the beneficiary firms either on time or at all.) However the banks in turn debited the accounts of these firms with them, some kind of faith accompli.

31 In a recent reform effort, government merged a couple of distressed special purpose banks and recapitalized the new entity, Bank of Industry (BOI). It is expected that the BOI would help solve the problem of access to
Nigeria’s financial system is not quite deep. Until recently, in fact, this year, bonds were no longer being issued by the government. Under the military ways and means was mostly used to finance budget deficits and monetary policy was conducted by administrative fiat. It was therefore not surprising that no single Nigeria bank could finance a major transaction at the ongoing privatisation programme. Indeed the most successful GSM operator could not raise funds from the domestic banking sector until after almost two years.

The most serious issue here as I have indicated is the resultant cost structure to the firm, of the interplay of these occurrences in the Nigerian business environment. To compete locally firms may be said to face fairly similar factor prices, generally speaking. But internationally, where the world is beginning to produce at lower cost, the Nigerian firm faces a much difficult constraint. In Nigeria the manufacturer experiences a total intermediate cost input of about 72%. This hardly makes for competitiveness. The result is that most firms are highly leveraged and cannot therefore compete with imported products.

Subsidiaries of multinationals fared better since they could rely on their parent companies, but as exchange control deepened, the support grew leaner. So much has changed in recent times but firms remain increasingly in search of long term funds to meet their capital needs and even the exchange rate fluctuations have meant a perpetual search for funds to complement working capital.

**Government Consumption pattern**

This has been a major issue in competitiveness in Nigeria from the adoption of public sector driven growth strategy to now that SOEs’ are being privatised. Two issues are critical for competition here. First is that state monopoly meant that government kept spending without receiving value and had barred new investment by the private sector in some of these sectors. The implication is that now that deregulation allows private sector investment, entry costs are so high that some regard it as prohibitive. Second is that government’s fiscal operation, funded over the years largely through ways and means, ‘crowded out’ the private sector. Domestic debt of government grew astronomically and yet it was not being serviced, if at all, at below market rate.

The largest single spender in the economy is government. Its expenditure is skewed in favour of recurrent expenses, and often times imported goods and services are preferred, leaving the local manufacturer out. Of course, this consumption pattern is within the context of an inefficient public sector and therefore value for money is an issue. The privatization programmes has in recent years helped reduce government’s expenditure and involvement in productive activity.

**Technology**

This has been discussed earlier on. The point to note here is that crude material accounts for no less than 40% of Nigeria’s GDP. If crude materials is driving Nigeria’s economy, as indicated earlier on we are far from being knowledge driven and so production stage technology would be prevalent. Put
differently, we are basically involved in crude materials and add little value to what we export, be agricultural produce or crude oil. Extractive technology is therefore prevalent.

As Nigeria gradually moves from a crude material production to knowledge based economy, its technological base would improve. Most firms have not yet achieved a significant status and even operate with technologies that are no longer being manufactured by the producers in Europe. Nigeria once boasts of intermediate and capital goods industry. This has collapsed. General firm level competitiveness is facilitated by this industry and as earlier indicated the basic machinery and equipment industry is available for consolidation and upgrading in a competitive edge is to materialise.

**Improving firm level competitiveness in Nigeria**

In the course of this paper I have indicated what government is doing where necessary and what needs to be done. A few words would suffice in the light of findings of a few studies we have looked at.

One of the best ways of improving firm level competitiveness in Nigeria is to rapidly execute the privatization programme along with the sector reforms to further deregulate and liberalise sectors hitherto the exclusive preserve of SOE’s. In particular the next phases of privatisation34 would affect enterprises involved in production of intermediate goods –chemicals, fabricated metal products and assembly plants etc; they would be facilitating competitiveness ultimately when they resume local production of their products.

The second important policy response would be to focus on large scale infrastructure renewal and development. This can be done by quickly embracing the private sector participation in infrastructure through various concession schemes. The Executive has presented a ‘Concession bill’ to the Legislature and it is hoped that the law would be enacted soon. In addition, the various utility companies should be privatized speedily especially NEPA and the refineries.

If the infrastructure is right, manufacturing cost disadvantage of over 70% would be dramatically eliminated. The ongoing public sector reform especially the budgetary process and monetisation programme in the civil service should be continued and ‘savings from this exercise should be ploughed into the capital projects in infrastructure sector.

Liberalisation should continue unhindered. However where malpractices threaten the essence of this policy remedial step should be taken, not by banning imports but by improving public institutions for policing and law enforcement. The platform of bilateral talks/agreement should be used to address the issue of export of substandard goods from Nigeria’s trading partners. Import ban should be used sparingly, if at all, since it sends the wrong signals and hardly helps fight the scourge it was targeted at. There are even complaints that the recent attempts at import ban did not take into full account the actual local capacity. The result was scarcity and a rise in price(which in turn made smuggling an attractive option). This clearly is a case of policy adjustment not based on reliable evidence.

Sustaining the political processes and fighting corruption is no doubt as important as ensuring macroeconomic stability and it is hoped government would continually focus on this. There is no doubt that given the seeming ‘actual commitment’ to transparency, and if the improving tempo of privatization is sustained and government’s new economic empowerment and development strategy

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33 Professor Olu Ajakaiye argues that to enhance industry level competitiveness manufacturing firms must find a way of replacing significant portions of their technology and gradually move to join the knowledge driven firms of the global market place if they are to compete.

34 The next phase involves major utilities and important real sector companies (include the refineries). As indicated elsewhere ALSCON and Daily Times were sold June 14, 2004.
(NEEDS) begin to guide governments’ action towards focused spending and fiscal discipline, Nigeria’s competitiveness would improve especially at the firm level where, due to Nigeria’s economic stature and population, there is a potential regional market waiting for her.

On the side of the private sector, a couple of initiatives are inevitable for long term competitiveness. Large firms should begin to take seriously the issue of building up local supply chain for their intermediate inputs. This would help reduce costs and improve competitiveness. Secondly sharp and unethical practices must be denounced and avoided. There must be a constant desire to improve operational efficiency. Firms should devote significant portions of earnings for internal restructuring, capacity building and expansion of modern technology by forgoing in the short-term distributable profits to finance this.

**Development Partners**

There is a dearth of information on a couple of issues in Nigeria’s real sector. One of the major problems has to do with timely data on Nigeria in one location. It can be frustrating and the private sector has planned to help address this issue by developing an economic portal that puts these data in the public domain timely.

The cost of doing so is prohibitive but the Nigerian Economic Summit Group Ltd/Gte is working on a project called NESG Ecoserve. It would be an electronic portal on financial and business indices on Nigeria and would be available online. Although data would be sourced from existing government data collating institutions various means would be used to manage the data for utility. This means surveys would regularly be conducted to complement policy analysis and advocacy.

Specific studies can be commissioned to help build recent data on firm level competitiveness. The last study on Nigerian firms by the World Bank was very useful and reveals for example the alarming threat of HIV/AIDS to the manufacturing sector in Nigeria.

Capacity technical and managerial is lacking in significant proportions just as the technical know-how is lacking in many respects. Partnerships that would facilitate the acquisition of these machineries and equipment would be very useful. So is the provision of resident expertise for a period of time to help build internal capacity.

**Advocacy and policy reforms**

The greatest constraint to facilitating the process of privatization, deregulation and liberalisation is the army of vested interest who continually oppose the policies. Significant public awareness campaign is inevitable especially engagement of the legislature and civil society organizations.

Institutions like the Nigerian Economic Summit Group Ltd/Gte (NESG) currently engaged in various forms of dialogue with public sector officials and civil society organizations would require various kinds of support and partnership. I must not fail to mention that the NESG is currently engaged in a year long programme of dialogue and policy advocacy in the area of Agriculture courtesy of a grant from the DFID.

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35 It is important to mention the support for ongoing reforms at the National Planning Commission from partners including the DFID. Now the Nigerian Centre for Management Education (NCEMA) has been merged with the Centre for Management Education. Also the National Data Bank (NDB) has been merged with the Federal Office of Statistics (FOS). These reforms are a necessary first step towards improving data collection.

36 Only yesterday Monday June 14, 2004, the Bureau for Private Enterprises (BPE) sold two enterprises-Aluminium Smelting Company of Nigeria (ALSCON) and Daily Times of Nigeria Plc.
Also the NESG in collaboration with the federal government organizes annually the Economic Summit, which brings together top level government officials and chief executives of private sector organizations to dialogue on appropriate policy reform and implementation action agenda for the nation. Distinguished speakers who are experienced and have considerable ideas and experience to share are typically welcome to speak at the Summit. Development partners can help in arranging for speakers to attend.

Finally the Administrative and Management Company Services (AMSCO BV) a company set up by ADB IFC have typically seconded experts especially technical experts to companies that need their services but cannot really pick the bills. They help set the standards and implement reforms that yield operational efficiency. Finding and seconding such personnel would help a great deal to improve internal capacities.

It must be noted however that improvements in firm/country level competitiveness would mean greater competition with even those offering assistance. Therefore a win-win balance is imperative. Suffice to state that since development stages are not the same assistance can be rendered for now without compromising competitive edge.

**Conclusion**

Two major action points flow from the foregoing. Nigeria’s effort at improving its competitiveness is laudable but it is based more on isolated cases of appropriate reform efforts based on evidence. To improve future policy reform and implementation, support for professionally executed surveys and policy review is necessary and this would help to address the problem of poverty in a holistic manner.

Thirdly Nigeria needs to concentrate her energies on areas of maximum comparative competitive advantage in other to deliberately transit from a crude material production to a knowledge based one through improved manufacturing industrial output processing and adding more value to production/exports. These areas are clearly in Agriculture. For example the study by UNIDO indicated the potential specific competitive edge in each.37

Finally the conduct of public policy should be increasingly based on modern concepts of governance- more participatory, involving significant stakeholders. It is this respect that institutionalised public-private sector dialogue processes would greatly facilitate participation and involvement.

**Selected References**


37 The study showed that in oil related industry the focus should be on diversification and processing, in Food processing, it should be ‘rehabilitation and higher value added’ in Textile and clothing., rehabilitation and new market opportunities, in cocoa and products, upgrading intermediate processing, in Leather, upgrading the efficiency of leather value chain etc.
8. Agboli, M: Creating an Enabling Environment for Competitiveness in Nigeria in The NESG Economic Indicators July-December 2001. The NESG