

"DISTORTED INCENTIVES: BARRIER TO NATIONAL DEVELOPMENT"

TEXT OF LECTURE PRESENTED BY THE CORPS MARSHAL AND CHIEF EXECUTIVE OF THE FEDERAL ROAD SAFETY CORPS OSITA CHIDOKA AT THE KUTI HALL AWARD CEREMONY HELD AT THE KUTI HALL UNIVERSITY OF IBADAN ON SATURDAY 17 JULY 2010

INTRODUCTION

As I was preparing this paper I read a full text of a convocation lecture delivered by the Governor of Central Bank of Nigeria Sanusi Lamido Sanusi titled "**The Nigerian Banking Industry: what went wrong and the way forward**" in the paper the Governor attempted a diagnostic review of the past and presented his plan going forward. A brilliant paper as showcased in the depth of analysis, breadth of vision and beauty of its prose. His paper will present a trigger point for my lecture today, but before I turn to it I wish to make some preliminary statements about the event today.

I am here today because of the opportunity it presents for us to promote national dialogue and ask the relevant questions about our national aspirations and possibilities. Therefore I am not here to receive an award as I do not believe nor will I accept our new national past time of doling out awards based on access to public office. A nation that we all lament that is underperforming; a nation we all talk about its latent potentials; a nation we all agree has performed below its peers as at 1960 has its managers as award winners in all spheres. If our leaders are all award winners then why are we not giving garlands to Nigeria at 50? Why are newspaper editorials criticizing the Nigeria at 50 celebrations? Yet the same Newspapers were and are still creating awards for all segments of our national leadership.

Let's read from Leadership Newspaper in its editorial of Monday 21<sup>st</sup> June titled 50<sup>th</sup> Anniversary Profligacy "Fifty years in the existence of an individual or nation indeed calls for clinking of glasses. In the case of Nigeria, however, it has been 50 years of agony, frustration and retrogression. Virtually nothing works in the country. The economy is comatose. Nigeria depends on imported goods for which it has raw materials to produce locally. In 50 years, Nigeria cannot guarantee uninterrupted power supply to drive its economy. Basic infrastructure such as the roads and rail systems are in a shambles. Same goes

## RESTRICTED

for the education and health sectors. Mass unemployment and government corruption are the major causes of all manner of crimes in the country - and they are the direct consequences of bad governance that has characterised Nigeria's leadership since independence"<sup>1</sup>

If this is the editorial view of the Newspaper, which I do not agree with, how did it happen that on April 30<sup>th</sup> 18 Nigerians and companies were presented awards for "Excellence"? What excellence were the editors of the Newspaper celebrating in a Nigeria that they described a month later as characterised by bad governance? This is just an example of the strange phenomenon called awards in Nigeria.

Awards have been afflicted by the Nigerian factor and identified as an unclogged route to titillate the oversized egos of public office holders and guarantee transactional exchange that satisfies both parties. In most cases when you are written that you have been nominated the letter usually comes with a request for advert placement or "support" for the event, should the recipient fail to honour the unspoken obligation your name is expunged from the final list or if they are gracious you remain a nominee.

Yet I believe that awards are necessary to create incentives for good behaviour and application of oneself to deliver outcomes that will promote our collective humanity, uplift social consciousness or indeed make sacrifices for the good of country. We will discuss incentives presently as we progress.

At the last count, I have been offered about 103 awards since the last three years of my leadership of the Corps, out of which, I honoured only 3 and was physically present to receive one, because of its direct bearing on road safety management in the country. That was the Prince Michael International Road Safety Awards won by the Corps in 2008.

The ceremony today, though an award, presented me with an opportunity to start a dialogue with members of my generation and to point you, from my limited perspective, to a new vista of challenges and opportunities that may aid or hinder our future. That was why when I got your invitation and nomination for this Award, I decided albeit against my principled stand on awards to public officers at this period of our chequered historical development to show solidarity with you as the leaders of tomorrow by honouring the invitation and delivering this paper.

On this note, let me express my sincere appreciation to the Executive and members of the great Kuti Hall of this prestigious University for considering me worthy of the Award. I also wish to sincerely thank the Vice Chancellor, Senate and Students of Nigeria's premier University for the warm reception you have accorded me and my entourage. I am convinced that Nigerian youths, given the right atmosphere, are capable of effecting leadership change in this country.

### **THE CHOICE OF THE TOPIC**

After a careful reflection of Nigeria's economic situation and the future of the youths, the conclusion I reached was that there is no incentive for the outcomes that will lead to national rebirth, affirmation and development. I came to the considered conclusion that the quest for development would continue to elude Nigeria until we create an atmosphere that is hostile to underperformance and fertile for the germination of seeds of hard work and sacrifice. A cursory look at our country today and my experience so far in public service led me to conclude that a major barrier to our national development is a distorted incentive structure. I could not resist the temptation of utilising this forum to discuss this challenge in order to engender more discourse in an academic environment with students as the target audience.

### **DEFINITION**

According to Wikipedia, The free Encyclopaedia, Incentive is "any factor (financial or non-financial) that enables or motivates a particular course of action, or counts as a reason for preferring one choice to the alternatives.<sup>2</sup> It is an expectation that encourages people to behave in a certain way. On the other hand, Dictionary.com defines it as "something that invites or tends to invite to action or greater effort as a reward for increased productivity"<sup>3</sup>.

It is clear from the definitions above, that in dealing with this topic, issues of development; motivation and increased productivity are central factors. This is so because, human beings as social animals respond to stimuli which push them to engage their extra efforts in achieving set objectives. The incentives must

## RESTRICTED

not necessarily be economic, but the underlying factor remains that something must drive one into engaging his or full energies toward the realisation of a goal.

Incentive could be a spiritual fulfilment, a nationalist obligation or an escape from certain reality, as the example of the Japanese whose fear of re-colonisation is the reason for their militant and committed attitudes to work. Just like in capitalist production system, the incentive for investing in productive ventures is profit making.

Citizens that are under the threat of war develop the incentive to be united because of fear of collective destruction or defeat. The intangible concept of national pride plays a dominant role in the evocation of national consciousness during football competitions, especially when the National Team is involved.

In all these, it is obvious that value system is central to creating and sustaining the consciousness required in producing an attitude that guarantee extra ordinary action in certain circumstances. Constructed differently, people must know why they have to engage their maximum efforts for a cause and the reward system in place to sustain these efforts. This is because productivity and development are linked to people's value system.

We therefore insist that there is need for value reorientation among all Nigerians; and this must be built on what people really believe in and sincerely appreciate, if the much desired national development is to take place. A society not built on strong value system of its people would suffer the consequences of borrowed affirmations and identities. A value system that does not incentivise the ethic of hard work, delayed gratification, social justice and disdain for vices will not develop the moral and ethical infrastructure that underpins modern society and economic development.

Following from the above and considering the historical perspective of the emergence of the Nigerian state as well as present socio - political and economic realities, you would agree with me that the present distorted incentive structure in Nigeria is a barrier to national development. And this can be explained as follows:

### **(a) Lack of quest for excellence:**

## RESTRICTED

Following from the different colonial development patterns, policies of divide and rule and the failure of the British colonial rule to create the unifying forces among the various sections of the country, a huge imbalance in the educational and economic development exist between the two former protectorates of North and South. The consequence of this distortion is the fear of domination, suspicions among the major players and antagonism between the people of the two sections of the North and South.

To redress this and ensure unity among the people, a thoughtful policy of inclusion variously described as "Federal Character" and "Quota system" became entrenched in our constitution. Rather than resolving the crisis it created an unintended consequence of distorting the incentives for excellence. It created the mongrel situation where youthful idealism was turned to cynicism due to frustrations of denial of access due to ethnicity or worse still state of origin.

In the political arena, where it ought to aid national inclusiveness and cohesion the result has been abysmal as we have democratised incompetence and truncated policy dialogue since the only criteria for assumption of office is by "zoning", "turn by turn", "rotation" etc. The very pragmatic decision that would have led to national unity has become an opportunity for the elite to avoid the competition that is the hallmark of meritocracy. It should be a source of worry to all of us in the younger generation that while other nations are engaging in serious dialogue on strategies and agenda for development the conversation in Nigeria is about geographical identity. So far we have not heard of any aspirant with an agenda for lifting Nigeria from the throes of poverty or clear timeline on deliverables for achieving our national vision of 20:20:20.

### **(b) Distorted Economic and Institutional Paradigm**

Let us return to the aforementioned lecture<sup>4</sup> of the Central Bank Governor, in the lecture he brilliantly diagnosed the problems afflicting the Nigerian economy and the recent banking crisis but for today's discussion what attracted my interest was his frank assessment of the role of the CBN in the crisis. I will attempt a summary.

- Lack of co-ordination among regulators prevented the CBN from having a comprehensive consolidated bank view of its activities.
- There is little co-ordination among the FS regulators. In spite of the widespread knowledge of bank malpractice and propensity for regulatory

## RESTRICTED

arbitrage, the FSRCC, the coordinating body for financial regulators did not meet for two years during this time.

- A comparison of Nigerian regulations with those of international regulators indicated the Nigerian set of regulations was not as comprehensive. An example was the lack of a legal and regulatory framework governing the margin lending activity
- Uneven supervision and inadequate enforcement also played a significant role in exacerbating the problems associated with the crisis.
- The Supervision Department within the CBN was not structured to supervise effectively and to enforce regulation. No one was held accountable for addressing the key industry issues
- Enforcement was the biggest failure among surveillance processes, despite the CBN having all the powers it needed to enforce examination recommendations.
- The governance and management processes at the CBN also had a significant impact on its ability to deliver its mandate adequately. Governance and internal processes were unstructured and this compromised the CBN's ability to supervise the industry. Corporate governance at the CBN was *laissez-faire*.
- The CBN was not organised to monitor adequately and analyse the macroeconomic issues and systems risks inherent in the financial sector. There is no overarching architecture to manage the risks in the banking system, linking economic indicators to macro-prudential guidelines and to individual bank prudential guidelines
- Leadership and culture issues included an apparent lack of political will to enforce the sanctions for infractions

In my view this assessment of the failure of the Central bank can be applied to any agency or government institution in Nigeria. It is reflective of the weakness of the Nigerian state and its institutions. While I agree with the basic analysis of the Governor, I believe that at the root of the problem are distorted incentives.

The Central Bank is one of our flagship institutions with some of the best and brightest individuals that the public sector can afford and yet its internal mechanism lent itself to the directions of one man without resistance, as narrated by Governor Sanusi. That to my mind is a major failure that cannot be cured only by Sanusi's evangelising mission of reforms but a culture change that will incentivise good behaviour across all spectrum of the economy. He spoke

## RESTRICTED

about financialisation of the economy not benefiting the real economy and indeed that was the heart of the problem: a real sector which has lost the incentive to produce.

Development as we all know is a function of consumption, production and investment. And because of the inequalities that exist among the people, responsible governments put in place a progressive tax structure that creates balance between consumption and investment in order to sustain development. Such tax regimes are structured in such a way as to favour those who engage in productive activities through which they create opportunity of gainful employment for other citizens. They therefore enjoy such concessions as generous tax relief, low tariffs, etc. But those who invest speculatively in the economy to make quick money are made to pay higher taxes to discourage such practices. Inheritance tax is used in most economies to avoid distortion of incentives. A distorted incentive structure is the biggest dampener of innovation, creativity and real economic growth.

In Nigeria a land allocation in a state capital automatically empowers the allottee in a transaction that confers on him high net worth which can be resold immediately, without any tax, for full profit. In Abuja that can translate to hundreds of millions which is usually the profit of industries employing about 200 staff and with turnover ranging in the billions and a 30% corporate tax.

But in Nigeria, there are inadequate tax structures in place to tackle this distortion, and the result is that higher productivity is not encouraged thereby making those who pay taxes feel exploited by the system. In the UK<sup>5</sup> for instance, Capital Gain Tax grew to 28% in 2010 and are effectively collected whenever due. However in Nigeria, the Capital Gains Tax Act of 1967 charges 10% on capital gains from disposed capital assets.

Even though the rate has not been reviewed upward, administering the tax has been difficult. Speculative buying in stocks and properties continue to thrive as speculators easily evade payment. Because of poor tax administration in the country, many taxable companies and private businesses are neither captured on data for tax payment nor are they commensurably taxed. This distortion is a disincentive to productivity and one of the causes of business failure in the country as business owners turn to speculation for survival.

**(c) Attitude of Public Sector Managers to National Values:**

Another area of national distortion is in our educational system where children and wards of senior public officers and captains of industries no longer attend public schools. In the 70s and early 80s when children of public office holders attended public schools, there were noticeable commitments to appropriately fund public schools and invest in improving public infrastructures. Public schools, including the elitist ones like Kings College, Queens Schools, Igbobi College, CKC, Onitsha, etc, were centres of academic excellence and their products could compete favourably with their international counterparts. The emergence of a public sector that lost direction and national pride resulted in their exporting of their wards to foreign schools and the consequent decay of public schools.

The prolonged neglect has today caught up with all of us with the increasing cases of examination malpractices and mass failure in SSCE, NECO and JAMB examinations. Today, in our universities the best graduates can only be found in banks, oil companies and lately, telecommunication industries. The absence of outcome-based evaluation of public servants has ensured an almost irreversible collapse of the social sector. Again we see that the public sector managers, without skin in the game, have lost the incentive for positive outcomes. Public office holders free from social or legal sanctions and in most cases rewarded for non-delivery of public goods continue to enjoy the distorted incentives that are the hallmark of our new national experience.

**(d) Poor recruitment system**

At the root of the collapse of our public sector is a recruitment strategy that primarily distorts the incentive structure of the country. Recruitment into public employment in this country has become an elite scramble for patronage, where quotas are filled by high networth individuals to the detriment of the qualified, but "non-connected" candidates. We are witness to the macabre situation where the engine of our national development - the public service is progressively degenerating , where incentive structures does not recognise and reward excellence and where poor performers are occupying highly sensitive offices and are in the commanding heights of certain economic sectors which they run in a manner that has no regard for competence.

It is trite that a beneficiary of a system nurtured on incompetence would perpetrate the continuation of such system till the entire system is compelled

## RESTRICTED

to collapse. This definitely cannot be the way Nigeria of the next century would be managed. Most successful countries, at least economically, like America, or indeed South Korea usually are founded on innovation and promotion of meritorious placement of skilful manpower that are commensurately remunerated.

It is the totality of these distortions that have run the economy of our nation aground. The current national experience of the country when compared to what obtained about 25 years ago could be as dismal as it is frustrating. Take the case of Atedo Peterside, who at the age of 36 years in 1989 and with the sum of five hundred thousand Dollars (from which he personally raised 20% of the shared capital) was able to establish IBTC Bank. By 1996, IBTC was responsible for 80% of the major merger and acquisition transactions in the country totalling N 10.5 billion<sup>7</sup>.

Peterside's story is phenomenal and inspirational to the possibilities of youthful imagination. He was able to manage the small investment Bank with great dreams from only one location in Lagos though with heavy investment in modern infrastructure, lucrative advisory mandates and crop of young talented Nigerian Bankers. The Bank has since transformed into a mega Pan African financial empire with global network and expertise, known as Stanbic IBTC Bank PLC- a subsidiary of Standard Bank of South Africa.

The question today is do young Nigerians have the incentive structure and value system to create another Atedo Peterside?. How many Nigerian youths at the age of 36 can raise 20% of N25 billion required to start a bank?. Atedo's case therefore exposes us to the fact that youths with talents when given the right opportunity can perform creatively. But in contrast to this, what we find in our nation today unfortunately are growing spate of youth restiveness and kidnapping especially in the South East of the country.

While the trend is fast spreading to other parts of the country, there has been no concrete effort to curtail it or bring the culprits to book. In the same vein, no adequate measures are in place to punish those who pay the ransom; creating a situation where the perpetrators see the act as a means of getting easy money or a lucrative business with a low risk factor. This has caused the collapse of economic activities and social life which may take another 25 years for us to recover from.

## The Brazilian Experience

Brazil, a third world country like Nigeria and Malaysia, were all predicted, in the early 1960s, to turn into economic giants. Through right incentives and economic management, Brazil and Malaysia were able to get out of economic woods, still leaving us at a cross road. At the height of world economic meltdown in 2009, Brazil loaned \$19 billion USD to the IMF to bail out some countries that were experiencing economic recession. This was the same country which eleven years earlier, had borrowed \$42billion USD from IMF. This shows how the country had been able to manage its economic situation within the years we were rated as economic equals. Even this year, the Brazilian economy is expected to grow by 8%. The country has well capitalised banks. Bank credit grew by 18 % while its retail sales grew by 30% in March 2010. Unemployment in the country has reduced significantly.

An Advert by the state of Rio de Janeiro reads "Great Achievements Do Not Happen By Chance" The state is the first in Brazil to receive a Standard and Poor "Investment grade" rating. The state's strong administration during the last **three years** (emphasis mine) was one of the reasons the rating was granted. While we wonder how a country that was bailed out by IMF with \$42billion could in **eleven years** loan IMF \$19billion we stand amazed that Rio de Janeiro in three years got an "investment grade" rating from S & P. Indeed great achievements do not just happen.

From this analysis, it is clear that it is possible to transform a country in 10years from a debtor to a net creditor, rebuild its state regulatory capacity and grow its domestic market through the real economy.

For you gentlemen of Kuti Hall, this may sound depressing since there is not much to cheer like Brazil because the future looks bleak; unemployment among young graduates is high; educational institutions have become derelict; and access to credit by the productive forces is very limited, as it is based on conditions that many enterprising youths cannot meet. The Brazilian example is to show you that it can be done.

## THE WAY OUT

Even with the seemingly gloomy picture of our national development that I have painted above, we cannot totally surrender to cynicism, otherwise we would not be present here to engage intellectually in discussing the common issues affecting us as a nation and attempting to find sustainable solutions to the problems. I would therefore, proffer the following recommendations as the way out:

First, there is need to set core value system for the nation. No society develops without a set of values over which its citizens would be ready and willing to sacrifice their comfort, leisure and personal interests towards attaining and sustaining. As hedonistic as human beings are, there are various examples of people going beyond the level of human endurance to work in order to satisfy their religious beliefs, national ethos or economic interest to make sure their society become great.

This nation must as a matter of national priority set for itself a value system that is citizens' - attractive and acceptable enough to make people readily sacrifice their lives and comfort for. Like the Japanese whose fear of re-colonisation became the source of their commitment to science and technology which today has transformed them into an enviable nation. Nigeria must construct a set of values to which people would be emotionally, culturally and spiritually attached, the attainment of which should drive the citizens to committing themselves.

Secondly, there should be a credible reward system that takes into consideration the differences in our endowments, talents and flair, without necessarily compromising the need for a balanced federation. This way the fears of the proponents of quota system or federal character would be allayed. Granted that we live in a country with diverse peoples who needed to be accommodated in the national scheme of things, superimposing the quota system without regard to its implications on the intellectual, technical and educational capability of the people will only erode merit and enthrone mediocrity, which is not good for our national development. Creating the balance between inclusiveness and merit - driven society is now a national imperative.

Thirdly, the youths who are the leaders of tomorrow must be made to have confidence in the nation's systems by ensuring that their specific interests are

## RESTRICTED

taken into consideration in any plan for national development. The struggle for this should start from our educational institutions and how they are run, to avoid the kind of distortions that produce youths who pay no allegiance to the system having not felt its impact in their upbringing and development.

Fourthly, there is need for an overhaul of our educational and other systems of learning to create harmony in the system. The incongruence that exists between our educational system and development system does not go well with the course for national development, as this incoherence creates a situation where there are no relationships between our institutions of learning and the productive sectors of the society. Unless this is done, the investments the government is making in the educational sectors may not translate to national development.

Finally, we must recognise that leadership is a social trust; and the elected ones must be responsible and responsive to the electorate, whose interests must be jealously guarded and protected. This is where the issue of credible electoral system that guarantees the sanctity of people's votes comes in. The promise of credible electoral system by the government in next year's elections and the growing clamour for electoral reform are evidence of people's consciousness on issues of election. On the economic front, we have another golden opportunity through Vision 20:2020 to make Nigeria become an economic giant.

The Vision does not belong to government officials alone. It is a collective dream to make our dear nation great. The Federal Government, due to the decay in infrastructure requires N23 trillion (\$153.3 billion USD)<sup>8</sup> to fund the Vision. Interestingly this amount is equivalent to what China spent to host the last Olympics in Beijing. Vision 20:2020 is predicated on a projection of making per capita income \$4,000, growing Nigeria's current GDP of \$175 billion to \$900 billion by 2020, thus making our GDP at par with Brazil, Russia and Canada of today.

Equally, population growth is expected to rise from 140million to 200million and electricity generation to grow from 3,759 megawatts to 60,000 megawatts. The current 8million registered Vehicle population is also projected to grow to about 40million in 2020. As youths, whose future can only be assured in a Nigeria of great opportunities, what role are you going to play in facilitating the attainment of this Vision?

## RESTRICTED

In conclusion, I believe we need to restore the right incentive structure if we really aim to achieve the vision of development. We must curb rent seeking, reduce speculative investment, enthrone outcome-based performance evaluation, sanction corruption of processes, systems and finances and promote merit. These are critical building pillars for national development.

Thank you for your attention

## RESTRICTED

### REFERENCES

1. <http://www.leadershipnigeria.com/editorial/16563-50th-anniversary-profligacy>
2. <http://www.wikipedia.the.free.encyclopaedia.com/incentive>
3. <http://www.wictionary.com/incentive>
4. <http://www.cenbank.org/out/speeches/2010>
5. <http://www.guardian.com/ukcapitalgaintax>
6. <http://www.firs.gov.ng/capitalgaintax>
7. <http://www.nihgeriainvestment.com/atedopeterside/ibtc>
8. The implementation Document for Nigeria's Vision 20:2020