ADDRESS BY THE HONOURABLE MINISTER OF STATE FOR FINANCE, REMI BABALOLA AT THE 2007 ANNUAL CONFERENCE OF THE NATIONAL COUNCIL ON FINANCE AND ECONOMIC DEVELOPMENT (NACOFED) HOLDING AT ZARANDA HOTEL, BAUCHI ON 14TH - 15TH NOVEMBER, 2007

PROTOCOL

I feel highly honoured to welcome you this morning to the 2007 Conference of the National Council on Finance and Economic Development (NACOFED) holding in the historic tourist city of Bauchi. This Conference could not have come at a better time, as the various new administrations across the nation are about half-year into their various terms.

2. In the last two decades or so, Nigeria witnessed a long history of macroeconomic instability and fiscal imbalances, occasioned by large fiscal deficits to GDP. For instance, this averaged 7.7% in 1994, 8.9% in 1999, 4.0% in 2001, 3.4% in 2005 and 2.9% in 2006. These deficits were accompanied by high level of inflation rate, poor productive public sector investment and considerable debt overhang.

3. More specifically, prior to the recent economic reforms, Nigeria's economic performance was characterised by large macroeconomic volatility for variables such as inflation, exchange rates, etc; hostile business environment for private sector growth and poor governance. The public sector was grossly mismanaged and over-bloated. Overall, most economic and social indicators were generally poor.

4. Of particular importance to us at this gathering, was the fact the public expenditure management system across the nation was generally weak and characterised by unsustainable spending with large government deficits, financed largely by monetary growth, large recurrent spending and debt service costs, low implementation of the capital budget, poor accountability and transparency, weak monitoring, auditing and reporting.

Macroeconomic Reforms

5. The macroeconomic reform package embarked on by the immediate past administration had as its key objectives the need to provide macroeconomic stability for private sector growth, improve planning and implementation of government capital expenditures, increase public savings and reduce public debt.

6. The key policy measures introduced include prudent oil price-based fiscal rule, improved implementation of government budgets and improved implementation of monetary policy by the Central Bank of Nigeria and greater coordination between fiscal and monetary authorities.

7. A significant policy measure that achieved considerable success was an improved debt management system that led to Nigeria's successful exit from Paris Club and London Club Debt through the issuance of par bonds, promissory notes, oil warrants, etc. On the domestic debt front, there were regular bond issuance programmes and contractor arrears and pension arrears issues were addressed. As at now, the savings from debt relief is being used for MDG-based programmes

Legislative Initiatives

8. At the Federal level, various legislative initiatives were embarked upon. The two significant ones were the Fiscal Responsibility Act and the Public Procurement Act. Overall, the aims of the two Acts were to ensure fiscal sustainability and quality of spending for economic growth. The Fiscal Responsibility Act was particularly aimed at strengthening fiscal policy design and implementation, by moving from the tradition of short term fiscal perspective, to medium/long term fiscal sustainability, thereby improving the budgetary process. It is meant to ensure prudent management of the nation's resources, ensure long-term macroeconomic stability, accountability and transparency in fiscal operations.

9. The Act is applicable only to the Federal Government, with exceptions in the areas of oil-based fiscal rule, framework for debt management and public borrowing. These exceptions are equally applicable to the states and local governments. The provisions in respect of the Medium-Term Expenditure Framework (MTEF) and Fiscal Transparency and Accountability are not applicable to the States and Local Governments in the passed Bill. It is however settled that it is in the overall interest of public governance in Nigeria that all sub-national units adopt the features of this Act and incorporate them in their own legislations.

10. Public Procurement Act, on its part, was aimed at improving public sector spending behaviour, through entrenching value for money procedures, reducing corrupt practices and inefficiency and tracking down public sector investment spending. The Act is responsible for the monitoring and oversight of public procurement and harmonising the existing government

policies on procurement. The Public Procurement Act outlined in greater detail the procedures in government procurement and disposal of property, especially the need to instal due process, monitor and track down investment in public goods, maintain strict adherence to budget provisions by Ministries, Departments and Agencies.

Fiscal Coordination Between the Federal and State Governments

11. The 1999 Constitution provides for Fiscal Federalism, meaning that states are independent in all areas of Fiscal Policy: revenue allocation; expenditure choices; and other financial decisions. The 1999 Constitution also charges Mr. President with stewardship of the nation's economy. To achieve this will require a relationship with States based on transparency; adherence to the rule of law; and full cooperation between the 3 tiers of government in achieving economic development and wealth creation, as well as macroeconomic stability.

12. A number of major challenges hinder the attainment of a sound fiscal policy management in Nigeria. They include lack of coordination among the three tiers of government, lack of agreement over broad macroeconomic objectives to be achieved and the challenging issue of management of oil windfall. Effectively, about 50 per cent of total revenue goes to state and local governments. This means that all tiers of governance have at their disposal considerable financial resources that determine fiscal policy in Nigeria. At this moment, it is important for all of us to realise that there is only **ONE** economy.

13. To achieve fiscal and macroeconomic coordination among the three tiers of government, there is need for adoption of fiscal responsibility legislation by all tiers of government, adherence to budget implementation, Public Procurement Legislation, due process, accountability and transparency. At the Federal level, efforts are being made to include sub-national governments in the process of setting the key assumptions underpinning the national budget. This is expected to engender a sense of ownership, commitment to decision outcome and instilling discipline at micro level.

14. The National Economic Council (NEC) at its meeting on September 4, 2007 agreed to initiate and facilitate the passage of similar legislations in each state. This would assist in integrating the states' fiscal strategy into the overall fiscal framework, improve transmission mechanism of policy initiatives, increase policy feedback, accountability; transparency and due diligence.

15. The Debt Management Office (DMO) held a Sub-National Debt Management Workshop with Development partners and state governments in October 2007. This was part of DMO's strategic focus to inculcate responsible debt management in all states of the federation. The main objective is to eventually have debt management offices in all the states of the federation.

Governance

16. There is a positive correlation between effective/good governance and development. Nigeria has been recognised in a report by Goldman Sachs as one of the 11 countries in the world with the people and resources that have the potential of being one of the 20 biggest economies by the year 2020; hence the tag Vision 2020. To achieve this strategic objective, there is need for efforts aimed at poverty reduction, instituting Strategic National Fiscal Framework, Development of National Institutions, enhancing the Human Development Agenda, Investments in Education and Health and Continuous Focus on the Millennium Development Goals (MDGs).

17. Our Short-Run target will be to consolidate economic reforms through continued pursuit of sound macroeconomic management and fiscal prudence. In the medium-term, we should empower micro units of productive activities to utilise the benefits from the macroeconomic reforms. In the Long-Run, we should strive to attain growth objectives as set out in NEEDS 2 and reduce poverty by 30% by 2011, attain annual GDP growth rate of 13% in order to make Nigeria one of the 20 largest economies in 2020.

18. Ladies and Gentlemen, on a final note, we need to ensure better value for money, manage the recurrent spending of the government, seek better participation of the private sector, especially in the provision of infrastructure, strengthen monitoring, auditing and reporting processes and strengthen fiscal co-ordination amongst the 3 tiers of government.

19. I welcome you all to this Conference and wish you happy deliberations.

20. Thank you for listening.

Remi Babalola

Honourable Minister of State for Finance