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***THE NEW ECONOMIC ORDER FOR BENUE STATE:  
IMPLICATIONS OF THE GLOBAL CRISIS***

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Any presentation or talk on the Global Economic crisis presents unusual opportunity to connect with our people on the real stuff. The focus of my paper will be on how the global crisis is affecting all of us; the country and our States, both through the real economy and the financial sector, how the de-coupling theory—so popular until recently—melted away; and how all of us as policy makers can protect the social gains achieved from our recent sustained growth; and most importantly how Benue State can prepare itself for recovery and future growth.

**A globalised crisis hitting Nigeria**

It is not news that we are in the midst of severe global economic crisis. If you read the front pages of world newspapers, it is also not news that there is no clear roadmap on how to tackle this crisis. How much fiscal stimulus is enough? What do we do about toxic assets? Indeed, the one answer seems to be increased reliance on the Government in ways unthinkable years ago.

Economists searching for answers have looked backward to the 1980s, 1970s and even to the 1930s in search of guidance. But the types of challenges the world is confronting now are very different and it is certain a new world economy will emerge. Some say let's go back and look at the books. Others say it is time to throw the books away.

All economies throughout the world have been adversely affected. Economic news from the United States to Europe; from China to Brazil, relentlessly recount the difficulties faced by dozens of governments, hundreds of markets, thousands of businesses and millions of hardworking people.

This time around, however, the crisis did not erupt in developing or emerging economies. And, this time, Africa was not the epicentre as the crisis was sparked in developed countries. Some call it 'Made in USA' crisis. Nevertheless, the country is profoundly affected, and is grappling with contracting global demand, declining exports, volatile international oil prices, restricted access to capital flows and by extension declining revenue accruing to the Federation Account.

## **We Still Don't Get It!!!**

Success depends on the ability to prosper in divergent circumstances, surviving adverse situations while leveraging on opportunities that emerge. My Professor taught me that mild insanity is a situation when you keep doing the same old thing and you expect a different result. It is easy for all of us to fall into the trap of “business as usual” mode and be unaware of the global developments that will shape our survival or future prosperity.

The scale, depth, breadth and impact of the current global economic crisis are yet to be fully dimensioned. The immediate future is increasingly unpredictable and all of us must be at our wits end. The global economic crisis has led to sharp contraction in aggregate output and employment; monetary vacuum as capital, credit and liquidity disappeared (de-leveraging).

This reduced Foreign Direct Investment appetite in countries like Nigeria, making foreign debts and risk premiums unusually expensive. Over 51 million people have been fired due to this economic mess and additional 40 million people are at risk of being out of job in the course of the year. (International Labour Organisation)

The United Nations (UN) estimates over 200 million workers in developing countries may be on their way to abject poverty. Nigeria's favourable external environment has deteriorated sharply due to lower oil prices. Naira depreciation is a necessary adjustment. The direct linkage between oil prices and economic shocks underlie our vulnerability and susceptibility.

## **2009: New challenges or new opportunities?**

Though the current crisis has highlighted the need to regulate markets better, we also need to remember that some countries will be able to withstand this crisis better than in the past because they have been implementing for years prudent macro and financial policies, including stronger financial sector regulation.

Nevertheless, policy makers will face significant challenges managing the short-term difficulties of the crisis while also maintaining conditions for long-term growth. Therefore, at present, any continued dependence on the Federation Account Allocation as means of funding State expenditures is unrealistic if electoral promises must be met. The current global financial crisis must not become a human and social crisis, and therefore, timely and decisive actions are imperative to protect the social gains made by African countries during recent years.

The double whammy of the crash of crude oil prices and production decline challenges has put pressure on our FAAC projections as well as the projections for all government programmes in 2009. Consider a situation where the totally distributable revenue by all the tiers of government in the country was N30.894 billion in May 1999, N196.383 billion in May 2004, N746.745

billion in May 2008, and N435.40 billion in January 2009, to the lowly amount of N285.58 billion distributed in February 2009. Even the sharp reduction observed in the February 2009 allocations would have been more drastic if not for the depreciated exchange rate applied in the conversion of the oil proceeds. This situation calls for an urgent paradigm shift by all stakeholders, not only here in Benue State but nationwide. Superior resource management, quality expenditures and visionary leadership are sine qua non at this critical time.

It is more worrisome when you realize that the ratio of recurrent to Capital expenditure is 70:30 and when your inflows decline by 35-45%, the consequences are better imagined. As inflows into Federation Account declines, States with low dependence on the Federation Account Allocation (with high IGR) will be less susceptible. Any State that does not generate at least 15% of its total revenue internally may need 'strategic surgical operation'.

Your Excellency, Ladies and Gentlemen, your State is surely not one of the least vulnerable. The good news is that Benue State is richly endowed with both human and natural resources and everything to make Nigeria proud. You have the Senate President, our rallying point, a dynamic and progressive Executive Governor, veritable Agricultural and Mining opportunities and of course the good people of Benue State. What more do we want? Let us roll up our sleeves and get the job done.

### **So what should Benue State Government and its Local Government Councils do under these unique circumstances?**

We cannot pretend that all is well. We cannot close our eyes to the fact that the crisis has exposed weaknesses and vulnerabilities that we must address. We must be bold but we must also be realistic. We should not expect the Governor and his team to devise a new economic architecture in days or even weeks. But neither can they also afford the lost decades of making unplanned expenditures. Too much is at stake, for the teeming lives of the Benue people.

What we can do here and now is this: We should identify what needs to be done. We should recognize the problems being faced currently. We can only move forward if we join hands to clarify the objectives we want the State to achieve given the circumstances. All stakeholders should work hard and smart to reach consensus for the Benue people. The problems being faced now are too complex, their consequences too important to be guided by the pat answers of the past, or the fads or ideologies of the day. All Benue people must make a collective commitment to join together in building a more prosperous State.

Let me suggest a three-pronged approach. The first step is prevention. We must understand the causes of the crises, and work to create economic structures that make them less severe on the programmes of the State. To move this agenda forward, leadership will be crucial, especially in the context of the dynamic political year ahead. It is precisely during this crisis and in defining political junctures, that leadership in maintaining a sound economic management combined with

an emphasis in protecting recent social gains will be needed to cushion the external shocks and facilitate the resumption of growth once the storm has passed.

The second step must be response. No matter how successful we are in the first task, there will be crises. We need to devise more effective ways of responding to the crises, ways that entail a better bearing of the burden, ways that do not entail such pain on workers and small businesses, and other citizens of Benue State. The State Government could take advantage of the present crisis to review various policies that impede investment and business growth.

Indeed, crises often present opportunities for government to take tough decisions and change the course of history for better.

The third step must be safety nets. No matter how successful we are in devising fair and efficient responses - and it is clear that we have a long way to go - there will be innocent victims. We must ensure that these innocent victims are protected. The State needs to keep strengthening policies aimed at the longer term and eventual recovery; otherwise the gains of the past will be lost. States that are better able to manage the dangers posed by the crisis, while seizing its opportunities, will be better positioned to resume rapid growth and gain a larger presence in the National market.

Benue State as we all know is not only blessed with abundant agricultural resources but also natural minerals. Existing studies suggest that over 200 different small and medium scale industries can be established both in the agro-allied sector and solid minerals sector. For example, in Ado LGA of the State investment in the production of the Hot Chili powder can earn substantial amounts of foreign exchange.

In Konshisha LGA where there is abundance of limestone and gypsum, a mini-cement factory at low investment cost can be established. Kwande LGA provides excellent opportunities for the establishment a medium-sized Garri processing factory, gemstone cutting and polishing plant. Obi LGA is home for a popular food seasoner, the Locust beans. The products of processed Locust beans have useful industrial properties which can be exported to Asia and the Middle East.

In Ushongo LGA the answer to the country's reliance on imports of cooking oil to cover shortfall in supply exists. Vandeikya LGA has abundance of Cassava and Fufu being a popular and staple food in Nigeria has high market potential. The processing technology is obtainable locally, so are the Plant and machinery required.

In all, the start up cost of the projects highlighted above is fairly low, with guaranteed high turnover and a handsome return on investment. There is thus a compelling need for us to refocus on alternative revenue sources as statutory allocation alone cannot and will not fuel our economic growth but substantial private investment will. All the bureaucrats need to do is encourage private capital and conducive investment climate.

## **Conclusion**

A global crisis demands global solutions. We therefore must recognize that there will be no solution to this nation-wide economic crisis if the point of view and concerns of the sub-national entities are not taken into account. This is a time to act and responsible leadership is crucial.

Benue State will be part of the global solution if it is aimed at creating a global fair environment that provides opportunities for all. The effectiveness of governments and institutions in using scarce resources will play a crucial role in weathering the storm.

Let me conclude by charging you all as major stakeholders in the Benue project to assist in enthroning good and transparent governance by encouraging the State and its Local Governments to enact the Public procurement law, fiscal responsibility law as well as the Budget Law. The need for efficient resource utilisation through improved budgeting systems is desirable for sound economic development in the country. In particular, special attention should be directed at the leakages of funds, lack of timely and transparent reporting and auditing and also the lack of medium-term economic framework for the economic development of the State.

I am confident that with strong support for the leadership of this State modest growth and social progress is still achievable at this critical time for the benefit of millions of Benue citizens. I am deeply optimistic about the future outcome, perhaps more optimistic than ever about what is achievable in Benue State if all stakeholders join hands in working together with the State Government.

**Babalola, Honourable Minister of State for Finance (HMSF), presented this paper at the Benue State Summit on the Global Economic Crisis held in Makurdi, on Thursday, March 5, 2009**