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Nigeria: Budget - Ministers Will Be Responsible for Non-Performance - Babalola

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INTERVIEW

Abuja — *Minister of State for Finance Mr. Remi Babalola, explains the new monetary and fiscal focus that would sail the country through the deepening global financial crisis, saying that the country's capital market problem would be solved with a shift from the monetary to liquidity approach; the 2009 budget deficit would be partly financed with \$500 million ICM loan; Nigeria has one of the lowest debt to GDP ratio in the world; and henceforth, every minister would explain his non performance on project implementation for which funds have been provided for in the budget.*

The Minister of Finance has said that Nigeria is no longer immune to the global financial meltdown, is the Federal Government contemplating any bail-out?

I am not aware that the federal government has actually come out to say that we are not part of the global village. I think there was a little bit of misunderstanding. What they were talking of was actually the financial meltdown that was affecting the banks and they were trying to justify that the Nigerian banks are well capitalized and that we are not in the same precarious position that some of the developed countries were. I think that was the whole essence.

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Don't forget that as far back as December, 2008, I actually came out boldly at FAAC to say that it is not a standard to decouple the Nigeria's economy from the global happenings, especially the Nigeria's economy that is predicated on an external shock up. There is no way to say that if China is going into recession, America is going into recession, India is going into recession, that it will not affect us. The magnitude, the depth and the breadth is what is difficult for the economic managers to really appreciate.

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In terms of bail-out, people are spreading so many words around. Stimulus package, bail-out and things like that. It is actually economic stimulus. The most important thing is that you are trying to the economy for activities so that employment would be generated. Innovation and entrepreneurship would be cultivated. That is the whole logic behind the stimulus package. How do we create that? There are so many ways you can do that, and the most important aspect is forging enhancement of enabling environment. How much more money can government actually pump into the system? When you look at the way we are structured, we actually pump so much of the money that we are generating into the system, and we are curtailed by the amount of debt that we can take.

The only thing that we can do now is to actually expand our debt profile in terms of saying that you want to push more money into the system. That is the only way. If you don't have the money you cannot play around the economic stability because you would not want to dislocate your system. So, in terms of bail-out, I think it depends on the way it is defined. What I know that we have never ruled out and we have said it so many times is that if there is any reason for us to assist the financial system, we will be very willing to make sure that the financial system which rotates the economy is assisted. There is no way that we will not actually come out and support the financial system. That is the

kind of things that I know, and I don't know if that is bail-out. But if you can give the financial system some breathing space (is like giving them a shot in the hand) so that they can actually do better, why not? If there is need for that, there is no problem, but we are doing everything possible to enhance the business climate.

Drastic decisions are going to be taken that would ensure that we bring in much more Foreign Direct Investment into the country at this particular point in time. When you are having this kind of recessionary process, that means that where money can actually go are very limited. We are looking at Nigeria and say, no! This is a country that still has a lot of unutilized opportunities and you cannot compare Nigeria's economy with Australia or Canada. So, if, for instance, there is \$1 billion to go round, once the risk is mitigated sufficiently, there is every possibility that that money should come to Nigeria where the return will be higher, and if the risk is mitigated where you have problem with the transportation and problem with security. So, compare that one with the other market where they are actually engaged in most of those areas.

I mean this is a place where people still need water and so many people still need telephone, despite the fact that we say we are the highest rate in the sector. So, these are some of the things that we are looking at. How do we enhance the business climate and how do we bring in Foreign Direct Investment? How do we ensure that our financial system is robust sufficiently to grow the economy in real sector? These are the kind of things that we are looking at.

SEC admitted weakness in our financial system, saying about N388 billion loans given to stockbrokers got sunk into the market. Is that not a sort of financial meltdown?

I don't know. Some people call it financial meltdown and some people call it financial slowdown. It depends. The truth is that it is only when we have a categorical statement from the banking regulators and from the financial institutions that we can determine the extent of depositors in the banking system. That is what I will rely on. I cannot rely on a speech SEC gave because I don't know the basis of that figure. But if, for instance, the regulator of the banking system, which is the Central Bank of Nigeria (CBN), came out to say this is the make-up for each of the banks and this is the exposure they have, then we can agree. It is not only in the capital market. There is significant exposure in the downstream. There are so many areas that people might have recorded significant downside rate. What we need to do is to quantify all these and try to see how we can take it out and give them fresh air to continue their business.

Aside the financial sector, what is the federal government doing to revive the real sector, especially the textile and the manufacturing sectors?

There is a programme on ground for the resuscitation of the textile sector and as we speak now, a lot of work is ongoing in that respect. We have set up a technical committee in that respect. But you need to know that the banking sector is a very interesting sector. It is like the oxygen supply that allows other sectors to grow. That is the difference. That is why we are saying that if the banking sector is comatose, it will affect all the other sectors. It is like the heart. That is the danger of the banking sector. If what happened in the textile sub-sector happened in the banking sector, it would have been a different ball game. This almost happened before the whole restructuring of the system. The real sector is very significant and important, especially now that we are aspiring to be an industrialized nation. Therefore, we cannot neglect the real sector. How do we ensure that? By making sure that we focus on our infrastructural development, making sure that we grow up the business climates, and also by attending to specific sub-sectors for industrialization. What we are doing now is to look at a particular sub-sector. What does this sub-sector need in the next three to four years that would make us self-sufficient in this area? That would make us to be able to export this particular product. For instance, take rice, a lot of work has gone. There is no reason why we cannot produce all the rice we need in the country, which can be of the highest quality that would match that of Thailand, that we can even export to all the African countries. So, what do we need? It is a matter of bringing together all the stakeholders and say, look! What do you need to actually do this in the next three-four years? We have done this before. It was done in the cassava by the last administration and we came from number six to number four and from number four to one in the whole world in terms of cassava production. The only side that was neglected was on the processing side, because in agric there are five processes. You need to move, you need to market and all that. A lot of people moved into cassava. We can do it again. We have also seen it in cement. About six years ago, it would not make any sense for you to produce cement in Nigeria. Everybody was just bringing in cement. What we did was to call the stakeholders and said, tell us what you need.

When they tell you we need this we need that, we are not giving individual or company, we are giving the sector. So, the whole idea of wavers and incentives and concession would not arise. We do not even want a situation where a company will come to the ministry of finance. We do not want that kind of interface. We want interface in terms of policy formulation, step up ideas and all that. Not that you are coming to ask for concession.

When we say we are focusing on that subsector, what are the things that you need?

We are going to sensitize that sector to start with, and we are going to support the sector to grow. There are a lot of dimensions to take and we are actually focusing on that.

The real sector is so keen to the economy. In a country that has population of 150 million, if you don't tackle that, there is no way you can actually tackle poverty because the beauty of our crude oil is for to use it to generate more business environment for us, to make sure that people who are going to employ one or two hundred people, in every two hundred metres you are going to find those people. That is the beauty of using the resource from oil to do that and that is the whole essence. This will equally enhance security. So, the whole job of government and governance is the transformation of poverty to prosperity. Even for countries that are not poor, you try to enhance the level of prosperity when the government takes off and the level when they are leaving and you compare it and say, yes, we are now in a better position than when we started.

What is really the matter? Last year six banks voluntarily came out to say that they were going to bail-out the market and SEC said we don't need bail-out. Tell us what really the matter is. Is it a photo-trick? Banks said they want to bring out money to help and the government is saying we don't need it.

Let us understand the situation here. I don't think there is any bank that said it wanted to bring out money. It is not there money; it is depositors' fund. What they said was that they wanted to be market makers. What SEC was saying was procedures. Following their guidelines and their rules. To be honest with you, market makers or not market makers. What is really affecting the market is confidence level, issue of perception. There is lack of trust. These are what we need to restore. It is only when this is done that the market makers can actually be like bulk purchasers because that is what the market makers are supposed to be. It is not like there was fund somewhere that they wanted to use to assist people. It is not like that.

Is like there is a logjam between the SEC and the Nigeria Stock Exchange (NSE) in this whole issue of market makers?

I don't think there is any logjam. It is just a matter of understanding and interpretation. Nobody stops anybody to buy as many shares as you would want to buy. If you have N1 trillion today, nobody stops you from buying shares. You said there are so much supply while demand is very limited, and you are saying it is not a matter of confidence level. The fundamentals are strong and the banks are declaring wonderful dividend, and yet it is not a matter of confidence level. Then what is the matter?

There is glut.

Where is the glut?

If you go to a yam market, there would be so much yam tubers during the harvest period. There is a limit to what you can buy because if you don't process it it would get spoilt. So, naturally what happens? The price will come down. After the harvest period, the price would go up because there is a limited supply. The problem in the capital market was that demand was up, and all of a sudden the demand went on a free fall. That is why many of the stockbrokers are telling you that they just come to work in the morning and they did not have much to do throughout the whole day. And the reason is that nobody is calling them to say I want to buy, I want to sell. It is not that the companies are not doing good or the fundamentals are not strong. The real thing is for the people to have unblemished confidence and say look there is nothing that is wrong in this company, so if I buy today, I am going to make money tomorrow.

Even before the market came to this stage, we had a lot of inputs. People are telling us to take foreign reserves, convert them into naira and then buy the entire companies in the Nigeria Stock Market, hold it for ten years and government would make a lot of profits. We got so many advices like that and there are so many of those advices that are not practicable, but there are some that are pragmatic that you can look at. Those are the ones that we are working on now.

Like which ones?

We are working on many variables. How do we restore confidence back into the Nigeria Capital Market as well as the general business environment.

Can we know some of these pragmatic ones?

You see, once the situation is biting very hard at times like this, there is an illustration and people ask for the easiest way to putting money into the system. You want to stimulate consumption. What is the easiest way to stimulate consumption? Let people win lottery. That is the easiest way. Some say put money into a plane, then spread it. Do you know what some people even said? They said that based on the way the market was, some people would take the money and save. What is happening now is a situation where you need to create that confidence back. Where people would actually believe that by tomorrow there would be no problem. This is the big challenge that we are trying to overcome. For us, the way we are thinking is that you cannot give money directly to the capital market operators or to investors in the capital market because we have a lot of people asking about that. It is going to be a little bit complicated. And by the way, don't forget that this money is not free money. It is tax payers' money. So, the best option we are thinking of is how to go beyond monetary system which is the banking system.

What do you think is the way out of this problem?

What we are saying here is that if, for instance, we say that the total problem in the market is one trillion, you can take that one trillion off the financial system completely and give them back liquidity. That liquidity flows directly into the market and then over time you can ensure that on a continuous basis you can get your money back. It has been done in other places.

SEC was saying recently that government should buy equities? Are you saying that government is not thinking about that?

We are thinking about so many possibilities. What I am saying is that we are going to adopt pragmatic approach to the resolution of the problem.

The SEC official that spoke was highly placed in the SEC commission and said government should buy up companies that are affected.

Do not let us make a mistake. You have a company which is making profit. It is doing well and it is well managed, but the share price is going down. So, what are going to nationalize about that company? I was talking to Soludo and he said he got an email that somebody said that how can banks be declaring huge profits and yet their prices are crashing? Take the profit and use it to cushion the effect. That sort of talks. Let's look at what is viable and what is feasible. If you take a sector like the textile you talked about, it is a different ball game. If you take a sector and you want to resuscitate it, it is a different ball game. The textile sector is going through one of the worst economic downturns in the century. So, that one is different. You see, flour mill was N10 and the price rose to N70. The price has not benefitted the company in anyway what so ever. Why are you now saying that because the price comes down to N8, let me take over the company? It is a bit more complicated than that. If you take a particular sector, let's say the tyre subsector, and you say because of power challenges, we need to take them over, that is a different ball game all together. That one can happen. We cannot throw that away when we consider all other possibilities.

Where we are worried of is that SEC has said that N388 billion went into the stock and people are concern, is the banks crashing, what is really the problem? When you talk of monetary intervention, can you specifically tell us what you mean?

I don't know. I told you that I am not going to comment on things that SEC has said. SEC is going to give us their own position, their own understanding and their own thinking on the way they believe that the government should resolve the capital market problem. We are going to look at that. But the only authority that can tell us at this point in time in terms of the exposure to the capital market from the financial system is the Central Bank and to the best of my knowledge, the CBN has not come out to say that there is fire on the mountain in terms of what is going on in the capital market. What I am saying is that if that happens, we have contingency plan in such a way that we will take those toxic assets out of the banking system, give them fresh air to allow them to go on and then solve them out over the year.

Do we really have a strategy to take care of the meltdown, dwindling oil price?

Let start from the positive side, last year many countries had some protestations, including some in West Africa countries. People were on the street fighting over flour and bread, fertilizers and maize, that never happened in Nigeria. I could remember that when people were saying that government was not doing anything, while prices of goods were galloping in other countries, the government was very proactive and pragmatic to make sure that the effect was cushion for Nigerians. People tend to forget that. Over N60 billion directly from the Federal Government was spent on fertilizer because the real challenges in the world in 2008 were high price of food, fertilizer and then

financial crisis. So, they were all FFF. What government did was that first, in terms of fuel, there was subsidy, in terms of fertilizer there was subsidy, in terms of food, the government immediately took very pragmatic steps and removed duties on certain products and give some windows for certain products to come in just to make sure that the prices were stabilized. In terms of the financial system, thank God that consolidation took place before we came into this part of the journey and therefore, our financial system was relatively better positioned. We are better positioned than the other financial systems in other countries because the capital adequacy of the Nigerian financial system is much more than doubled, and even tripled in some instances, than what you find in some other countries. It think that is what some people mean by saying that we are de-companing the Nigeria's economy from the global system.

Nigerians are really concerned that every year we spend so much time and money to plan the budget and at the end of the day, nothing really comes out of it. What strategy are you putting in place to make sure that what happened last year does not repeat itself this year? Have you started thinking outside the box?

Let's divide your questions into two parts. Until last year, there was nothing like unspent funds. So what was going on before? 2005 budget was still being spent in 2007. 2006 budget was still being spent in 2007. What we did immediately was to put in place proper accountability. At the beginning of the year you say look I am going to spend N1 trillion. At the end of the year, you say how much have I spent? The remaining that you have not spent, let's make sure that it is accounted for and then you bring it over. The only thing that you are doing now is that you are tidying up your books. You make sure that the project you are doing now is actually inline with next year. We have actually done something that is positive. But be that as it may, we are also trying to take things in an accountable manner because what we are trying to do now is that if you say you are going to do Ogbomosho-Ilorin road, why was it not done? We are going to hold that minister accountable and responsible and liable for his non performance. That is actually the most important and the critical aspect. But on quarterly and regular basis, the Ministry of Finance is going to ensure that there is immediate release of funds, and timely releases. Most significantly, don't forget that there is also the presidential monitoring committee on the budget. So, on quarterly basis, FEC would actually look at it and say what you said you are going to do at the end of the year we are going to do it at the end of the quarters.

Like first week of April, we should look and say at the end of the first quarters, January to March, how much money was actually released for capital expenditure, how much money was spent now. Each minister will have to explain why he did not perform. Is it that money was not released to you or what? Everybody would have to explain his action. This is something that happens in the private sector. There is really nothing extraordinary about it. We are only trying to bring it into the public sector. There is everything to be said about the new dimension and about the performance in the budgeting process. We are going to make sure that the budget is performance-driven. What we have now is not how much money you have released. In fact, what I would expect people to look at critically is that we look at the total amount of money we have released to the three tiers of government in the last fiscal year and we say we released N5.4 trillion. Make an assumption of the three tiers of government and how much of it was consumed in the current expenditure and let us look at the portion that is for capital expenditure or project development. Let say N1 trillion for purpose of argument. Then you ask yourself, do we have worthwhile projects? That is the way that we can actually hold people responsible and accountable. That is the kind of dimension that we are going to use and that is the more reason anytime we release money at FAAC we also publish it in the newspapers. Most importantly, it is always there on the websites.

We want to adopt something that is practiced in other places. For instance, if you are doing a particular project, let that community be aware of the money that is budgeted for that project so that the people in that community would be able to hold whoever is responsible accountable. What that means is that if X amount of money is going to be released for UCH, for example, for a particular work, in that same location where they have their pulse, that is the most important place where people need to know how much money has been released for this particular project. For the mere fact that we publish this on the web site does not mean that the people in UCH would be aware because that might not be detail by detail. For a project the people would say this particular project was in the budget and the money was released for it. That is the kind of thinking that we have.

Why can't the government publish all the projects that have been completed in the newspapers for people to see?

The most important thing is to know that someone is watching you and you should watch yourself. If, for instance, there is a community or people that are going to hold you responsible and that can ask you question, you would behave well. They are the people are at the local level who can actually say that yes a project has been completed.

In the last dispensation, we had a situation whereby budget was delayed because the National Assembly imputed some figures into it. Now again the House of the Representatives has just jerked up the budget to N3 trillion. Which one is the government going to implement?

In the dispensation that I am in, what I know is that once an Appropriation Act has been signed by Mr. President, that is actionable. That is the one that we are going to work on, that is the one that we are going to implement, once it is signed by Mr. President. You see, when they say they are going to do harmonization, it is not just between the House of Representatives and the Senate. It also means that we can keep on dialoging with them while the harmonization is going on. We all love the country. It is not a matter of if they increase the budget we will not implement it. That is not important. What is important is what is in the best interest of Nigeria and that is what we will implement.

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