# Hard Times are Here

EMAIL

Written by Lucky Fiakpa
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…as revenue allocation dips 35%

It was not altogether unexpected but no one expected that the hard times could be this early with the three-tiers of government going home from the monthly revenue allocation rituals with a fraction of what they got the previous month, Lucky Fiakpa writes

•Babalola

The party may have been over and the worse set in for the economy as indicated by quantum of revenue allocated to the various tiers of government last week. As against N435 billion allocated to the three tiers of government in December, the figure dropped to N285 billion in January, showing a difference of N150 billion.

The Minister of State for Finance, Mr. Remi Babalola, without mincing words made it known that there was need now to reduce expenditure, enhance non-oil revenue and tolerable fiscal deficit and borrowing that would affect the macro economic stability. He believes there was no better way of putting it given the fact that oil prices are far below half to what they were last year and "our OPEC quota reduced to 1.88 million barrel per day, compared to the budgeted 2.292 million barrel per day for 2009, ''.

He stated further that, "today, the immediate challenge we face is to avoid a situation where the recession forces deepen and combine with the oil market volatility in creating a vicious spiral. This new situation requires not only further and bolder actions, but also to step up the level of cooperation and common understanding between policy makers both at the national and sub-national levels.

“To manage revenue shortfall effective this month, we may have to consider among other options expenditure reduction, non-oil revenue enhancement and tolerable fiscal deficit/borrowing without jeopardizing macroeconomic stability. Prudent management is essential now than ever.”

He is also quoted to have further said that, “The current global outlook provides us an opportunity to take dramatic measures that will improve the robustness and stability of our economy both now and in the future.

“Our economy like other economies of the world is undergoing a very challenging period. The global economy is still sliding. We are likely to be living with a high degree of uncertainty for some period of time as a consequence of the ultimate magnitude and duration of the slowdown under way.

“The challenges ahead are huge. The speed and agility with which we, as public policy makers, respond to the continuing pressures in a rapidly evolving environment will determine how quickly and how smoothly our economy is stabilized – and how rapidly the risks to the economic outlook of the country are mitigated,”.

President Umaru Musa Yar’Adua had only last Tuesday requested the Revenue Mobilisa-tion, Allocation and Fiscal Commission (RMAFC) to review downward the salaries and allowances of “certain political, public and judicial office holders” in view of the current global crises.

Based on an oil benchmark price of $45 per barrel and oil production of 2.292 million barrels per day, the Federal Government had projected an aggregate receipt of N4.529 trillion into the Federation Account in 2009. Oil-related revenue is expected to account for N3.606 trillion or 80 per cent of the aggregate revenue, while non-oil sources of revenue are to account for the balance of N923 billion or 20 per cent.

On the oil price shocks, Babalola repeated his warning to the FAAC members, including states commissioners of finance and accountants-general that the oil prices were going firmly against market fundamentals.

He emphasised that the oil prices volatility have serious implications for the Nigerian economy, with Nigeria’s OPEC quota reduced to 1.88 million barrels per day (mbpd) compared to the budgeted 2.292 mbpd.

He added, “The short-term outlook for the oil market still remains gloomy. With good understanding from all stakeholders not to touch the Excess Crude Account apart from monthly augmentation, we are primed to meet the budgeted revenue during the lean period.

“Our budgeted oil price of $45 per barrel is market appropriate when compared to Russia $95, Colombia $80, Mexico $70 and Qatar $55,” he said.

The minister also advised that concerted efforts should be concentrated towards strengthening the Nigerian economy and making it flexible to meet future challenges. This, according to him, could be achieved through creating the right environment for business to flourish and delivering better conditions of living to Nigerians.

The Accountant General of the Federation (AGF) Ibrahim Hassan Dankwambo, however blamed the decrease on militant activities in the Niger Delta, which resulted in production shut down at Tebidaba as well as reduction in OPEC quotas.

Total mineral revenue for January amounted to N181.85 billion as against N318.91 billion in December, while total non-mineral revenue amounted to N62.69 billion as against N364.73 billion in December.

Total Value Added Tax (VAT) for January was N44.25 billion as against N30.42 billion in the previous month. Out of this, the Federal Government was allocated N6.64 billion (15 per cent), state governments N22.12 billion (50 per cent) and Local governments N15.49 billion (35 per cent).

From the N244.54 total mineral and non-mineral revenues, Federal Government got N114.68 billion (52.68 per cent), State Governments N58.17 billion (26.72 per cent) while Local Governments was allocated N44.84 billion (20.60 per cent). A total of N23.64 billion was given to the mineral producing states on the basis of their 13 percent derivation as stipulated in the Constitution.

The Federal Inland Revenue Service (FIRS) and the Nigeria Customs Service (NCS) were allocated N1.58 billion (4 per cent cost of collection) and N1.63 billion (7 per cent cost of collection) respectively.

Perhaps, the allocations to the three tiers of governments would have been better than what they got if there had been augmentation from excess crude account. But with the 2009 budget yet to be signed into law by President Umaru Musa Yar'Adua, it was difficult to dip hands into the excess crude account for augmentation purposes.

Difficult Times for States

This must be some difficult times for several state governors. If there is no respite soon from dwindling crude oil receipts, some governors might be faced with difficulties to even meet recurrent expenditure.
Governors Adams Oshiomhole of Edo State and his Delta State counterpart, Dr. Emmanuel Uduaghan had at different fora lamented the dwindling allocations to their states.

Governor Oshiomhole had said that the allocation to his state dropped from over N3 billion naira to N1.3 billion, while Delta State's allocation has dropped from over N8 billion to about N3.5 billion.
In his reaction to the development, Governor Gbenga Daniel of Ogun state cut salaries of all political appointees by 12 per cent.
The Presidency also recently instructed the Revenue Mobilisation Allocation and Fiscal Commission to slash the salaries of elected officers and political appointees.

To further underscore the current state of financial handicap, governors of the South East rose from an emergency meeting in Enugu a fortnight ago with a resolution rejecting a proposed salary increase for civil servants.

Activities of Militants

Total crude oil off-take reduction following the force majeure declared by Shell Petroleum Development Company, a subsidiary of Shell Companies in Nigeria including third parties has been put at 200,000 barrels per day, while the country's exports drop to 1.9m b/d, a senior manager of the Nigerian National Petroleum Corporation (NNPC) has disclosed.
A fortnight ago, Brent crude oil prices for March delivery stood at $43.65 per barrel, while Light crude stood at $37.51 per barrel. Last week, Brent crude closed at $44.06 per barrel while Light Sweet closed at 37.06 per barrel.

President Umaru Yar'Adua had in his 2009 budget speech noted that "In addition to volatility in international oil prices, actual crude oil production has been lower than projected, averaging just over 2 million barrels/day, due to the situation in the Niger Delta. As a result, overall revenue receipts have been well below expectation."

Meanwhile, the amount saved from oil windfall in the country's excess crude revenue account has been depleted and what is left will not tide the country over the current financial down turn. Latest report puts it at $15 billion, down from $20 billion.

Following a Shell announcement, shipment from the Bonny oil terminal facility stopped last

Thursday over workers inability to fix three pipeline leaks discovered last month.
The affected pipeline supplies crude oil to the Bonny Light export terminal. Altogether, about half a million barrels of crude oil is exported from the terminal daily.
Although there had always been threats of attacks, it was gathered that the management of Shell had to respond swiftly when Ateke Tom, leader of the Niger Delta Vigilante threatened to launch an all-out attack on the facility.

The senior manager of the NNPC who did not want his name in print disclosed that the force majeure has cut the country's export volume to 1.9 million barrels per day.

"Before the loss of export volume from the Bonny terminal, export volume had climbed to 2.1 million barrels per day. We hope the security situation improves so that we resume normal loading soon," the manager said.
It was also gathered that following the shut in, output volumes from Shell had also dropped to a little over 250,000 barrels per day.

Shell used to be Nigeria's largest crude oil producing company with installed capacity to produce about 1.2 million barrels per day.
Meanwhile, Petrobras, the Brazilian state run oil company has disclosed plans to invest 12 per cent or $1.908 billion (about N436.8 billion) of a total $15.9 billion between 2009 and 2013 in Nigeria's upstream oil and gas industry.

A statement released by the company disclosed that most of the resources will be allocated to International Exploration & Production activities (79%); Gas & Energy (8%); Refining, Transportation, Marketing and Petrochemicals (7%) and Distribution (5%).

The country that will receive most of the investments in the period will be the United States (28%), where Petrobras has a refinery in Pasadena, Texas, and exploration and production concessions in the Gulf of Mexico. Argentina, where the company is among the main oil and natural gas producers, will be the second biggest resource destination (16%).

Call for Prayers

The Finance Minister, Mansur Muhtar, during a reception party organized for him by his people had called for prayers to save the Nigerian economy and he surely need a whole load of it to manage the economy successfully. He came into office at a time the economy is at its lowest ebb in more than a decade. The 2009 budget benchmarked at crude oil price of $45 per barrel is already wobbling with oil prices below the benchmark price. There are fears it could stay low for a good part of this year, which may spell untold hardship for the Nigerian economy.

The excess crude oil account created to serve as a buffer for period such as this had since been depleted. This therefore leaves the various tiers of government at the mercy of the harsh economic realities of the day.
Oil prices remained near three-year lows as the slowdown in United States and Chinese economies continues to hurt demand for crude, especially in the U.S. which serves as the major oil market for Nigeria.

Muhtar also assumed office to manage a budget many have written off as dead on arrival given the poor performance of crude oil in the international market. The budget also has a huge deficit component the source of its financing looks blurred. The deficit announced in the budget leaves considerable room for uncertainty. While the government announced a recall of $200 million from the Nigeria Trust Fund Account of the African Development Bank (ADB) and a bond issue of a Naira denominated $500 million, other aspects of the deficits are quite unclear, raising speculations as to the extent of borrowing.

The revenue expected from signature bonuses and proceeds from privatization are not clear and were not stated. As the government may have made projections based on certain parameters, it is likely that borrowing will be greater than expected if the projections are not met. So as government deficits grow, so also do the growth risks in the economy.

Again, Muhtar came into office at a time the naira, the nation’s currency is heading for the canvass and at a dashing speed. The greatest force against the strength of the naira is the uncertainty of how low oil price could go and the implications it would have on balance of trade and the level of foreign reserves. It is thought that the greatest pressure on the naira will emanate from continuous worsening of the terms of trade and the threat to macroeconomic growth through debt and inflation.

Sunday, February 22, 2009

## The Guardian

## The N70 Billion Bail-out For Textile Industry

THE Minister of State for Finance, Mr. Remi Babalola recently said that the Federal Government would give the textile industry a N70 billion bailout not in cash but in the form of bank guarantee to enable the sub-sector get back into operation. Indeed, said the minister, an inter-ministerial group is already in place to bring this idea to fruition. This is too little coming too late. Two years ago, investors in the textile industry called on the Federal Government for help, but they were ignored until one after the other, Nigeria's textile factories closed shop. So why is government just realising the strategic importance of the textile industry? It is however gratifying that government's intention is not specific to textiles alone, but the entire manufacturing sector.

It is most agreeable that there are plans to give the real sector every assistance necessary to enable it operate at maximum capacity and it is trite to enumerate the benefits, economic, social, even political that are derivable therefrom. A 2007 World Bank report ranked Nigeria's manufacturing sector a poor 83rd out of 117 countries surveyed and put capacity utilization at less than 40%. Later that year, one of Africa's largest textile companies, the Kaduna-based United Nigeria Textile Plc (UNTL) shut down its operations and sent the last 4,000 of its at-a-time 20,000 workers into the job market. The reason that was advanced for this was Nigeria's hostile business environment.

Two years on, we can not with any measure of confidence say that the situation has improved. For example, energy, a critical input into the manufacturing process, has remained in shorter supply than ever, forcing industries to run on generators at exorbitant costs. Many companies have had to shut down due to the rising cost of production, occasioned by such ordeals as the irregular supply of electricity. The President of the Nigerian Labour Congress (NLC), Comrade Omar comments that 'high cost of energy accounts for the unsustainable cost of operation of most players in the industrial sector'. In 2007, the textile industry lost 67 days to gas scarcity according to the Director-General of Nigerian Textiles Manufacturers, Chief Peter Olanrewaju.

In the 1980s, close to 200 textile companies, including Western Textile Mills, Aba Textiles, Nortex and Gaskiya Textiles, were in active business in this country. At its peak, this sub-sector was the second largest employer of labour after the Federal Civil Service. Today, only a fraction of the textile companies still exists, and they operate with low capacity. Some, such as Afprint Plc have effectively turned their back on the textile business and gone into edible oil production. The company "is not considering a change of mind" says its chief executive, Mr. Siva Subramanian.

The problems that confront the manufacturing sector are many and multi-faceted. The cost of transporting goods - be they raw materials or finished goods have risen as a result of inadequate and/or poor road and rail infrastructure. Inflow of smuggled, cheaper goods, multiple taxations by federal and state governments, unstable fiscal policies, and Nigerians' penchant for foreign products have conspired to make local manufacturing unprofitable. In recent years, hundreds of factories have closed shop in the industrial cities of Lagos, Kano, Kaduna and Aba. Tyre manufacturers, Michelin have also closed shop in the face of harsh operating conditions, while some manufacturers are even now, downsizing as part of their response to a worsening environment. Millions, comprising skilled and unskilled workers have joined in the unemployment queue.

The attendant economic, human and social costs are yet to be quantified. But, where there is political will, they are surmountable. If government keeps its promise in respect of its offer to the textile industry, that would indicate a determination to make a difference. But too little is being done too late. The Manufacturers Association of Nigeria (MAN) has felt constrained , it has now decided to set up a Manufacturers Power Development Company to build for its members an 808MW Independent Power Project at a proposed cost of about N10 billion. This is money that could have gone into modernizing factory machines, upgrading workers' skills, expanding production, and generally spent on the process of producing more and better goods for export.

A few years ago, the United States government under President Bill Clinton enacted the African Growth and Opportunity Act (AGOA) which allowed some African products, including textile goods, free access to the American market. In response to this, the Obasanjo government raised, or so it was claimed, a total of N70 billion specifically for the textile sub sector. N50 billion was meant to rehabilitate the factories and N20 billion to grow cotton. Disbursement of this huge sum has been shrouded in mystery. We ask: is this same package that Mr. Remi Babalola is representing as new? Nigerians demand an answer.

Indeed, reacting to the latest offer by government, some textile industry operators have merely scoffed. Said one: 'this is not the first time we are hearing the news that funds are to be released to revamp the industry. Two years ago, the government indeed presented cheques to some textile companies to revive their operations but when the cheques were presented for payment, they were not honoured and all attempts to get the fund were frustrated by administrative bottleneck'.

If N70 billion would make some impact a few years ago, it certainly does not go far in the face of the current realities. The value of the naira is much lower now, factory machines are in far worse conditions and the supply of critical production inputs such as black oil are either in short or irregular supply. Like NLC President Comrade Omar correctly observes, a N70 billion bailout for the industry is 'too little relative to the scale of the crisis'.

It is a crying shame that government would wait until the real sector fails beyond redemption before acting. In an earlier editorial, we had noted that, clothing is second only to food in the order of human basic needs. In terms of demand size, we are convinced that producing clothing for a population of 147 million Nigerians, or even a fraction of this number, will directly contribute hugely to the national economy, besides other attendant benefits. Government must take the only right course of action: conclusively ensure that the sector is revived.

All said, even as government attempts what appears to be piecemeal response to the near collapse of the industrial sector, the pertinent question to ask is about the causative factors that led to their present state. We must avoid throwing money at a deep-rooted problem that demands careful analysis and a holistic solution. So, even with a multi-billion naira bailout, the conditions for survival and improved performance of the textile industry must be created in tandem with financial assistance. To this end, a holistic approach to get all industries working would make better sense. This economy needs to become productive. This is the inevitable path to development, or to achieving the much-touted Vision 20/2020.

**Does Nigerian economy need a stimulus package?**
By AMECHI OGBONNA
**Monday, February 23, 2009**

Last week's passage of about $787billion stimulus package presented by President Barack Hussein Obama to the United States (US) Congress brought much hope and excitement to American people all over the world.

**•Ndi Okereke**
**Photo: Sun News Publishing**

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Like the pace setting global role model she has always been, Americans used that package to make yet another clear statement about her love for the society and citizens who have been through hell economically over the past six months, on account of the global financial meltdown that has wiped off millions of jobs from the economy.

For the Nigerian economy, irrespective of how anybody interprets the impact of the ongoing global financial meltdown on the people and organizations, the truth remains that our economy is sick and in need of urgent financial lifeline. That is because for more than 36 months, Nigeria's industrial and financial sectors have been showing signs of malignant ulcer even though several top administration officials have pretended that there was nothing to bother about.
Dire as the situation may look, what is not certain is the extent of intervention that government and the private sector would need to make to heal the wounds on the economy to enable it keep pace with growth as in other emerging economies.

As a matter of fact, the rot on the economy started to manifest several months ago when, with the closure of various industries and its attendant loss of jobs, before the current crisis in the money and capital markets.
Already, the Federal Government has started counting its losses, as falling prices of crude oil tend to threaten the attainment of the 2009 budget targets and the seven-point agenda of the Yar Adua administration.
For instance, in a swift reaction recently, President Umar Yar'Adua declared his intention to slash the remuneration of political office holders, just as other executives in both the public and private sectors have embarked on series of cost cutting measures, if only to remain in business, while the evil economic wind blows.

With inflation at over 14 per cent as against the single digit figure expected for the year, and crude oil selling below budget benchmark, while industries are closing shop at an alarming rate, coupled with an attendant upsurge in unemployment, Nigerians need no fortune tellers to convince them that these are, indeed, austere times and that the economy requires fresh capital injection as was the case in Europe and America to remain afloat and sustain jobs and the citizens.

Meanwhile, the spread of the global financial bug to the Nigerian economy, despite repeated official assurances that the country may be spared, has triggered vigorous debates among economic observers and commentators, regarding the necessity or otherwise of government financial intervention in the crisis.

As at the time of this report, opinions are divided as to whether the Nigerian banking industry really needs a stimulus package.

Going by the 2008 world rating of banks recently released by the Banker Magazine, Nigerian banks' tier 1 capital was said to have more than doubled from about $5.38billion in 2007 to about $11.29billion last year, thus raising the country's financial institutions claim of tier 1 capital in sub-Saharan Africa to 34 percent from 24 per cent the previous year.

The Banker rating somehow confirms the position of the Central Bank of Nigeria (CBN) governor Professor Chukwuma Soludo, that Nigerian banks' N2.7 trillion shareholders funds and capital adequacy ratio of about 22 percent make them strong, healthy and robust

The debate on a healthy banking sector was rather accentuated by a recent declaration by the minister of state for finance, Remi Babalola, that government was at present not contemplating a stimulus package for the Nigerian banking industry. The minister said that government position was informed by its belief that none of the banks was distressed, arguing that it was the manufacturing sector, particularly the textile industry that was being considered for possible assistance.

But Babalola, however, said that government would not hesitate to come to the rescue of banks if it was proved they need assistance.

However, recent developments in the sector have left some commentators with the conclusion that most of the claims of the banks may, indeed, not stand the test of the time if properly investigated. It has been argued, for instance, that if most of the claims were, indeed, true, the Nigerian economy would have been better for it. With interest rate at unprecedented heights of about 25-30 per cent, unemployment among youths soaring higher and inflation as high as 15 percent, Mr Henry Boyo, an economist, says it would be difficult for anybody to believe that statistics of financial soundness accorded the banks, by the CBN governor are genuine.

Perhaps no signs of the malignant tumor afflicting the financial sector and the economy can best capture the mood of the market than the discordant tunes coming from the regulatory agencies, amid pressure from higher authorities on them, to reveal the viral load the institutions are now carrying.

For instance, only about fortnight ago, the Director -General of the Securities and Exchange Commission (SEC), Mr Musa Al Faki, told a meeting of accountant-generals in Abuja, that the problem be-deviling Nigeria's capital market, was largely inflicted by the banking sector, that was careless with its loan administration. He revealed that the estimated N388billion believed to have been trapped in the market from margin facilities to stockbrokers and other investors in the market without adequate collaterals, was accumulated when most bank chief executives threw caution to the wind, by capitalizing on rising stock price up to early last year to create bubble capital.

Al Faki, who was represented by his director of legal services, Charles Odora, decried the degree of opulence that most of the bank chiefs exhibited, while the bubble lasted, stressing that many suddenly became richer than the institutions they represented.
For now, what is worrisome is the fact that much of these margin facilities were only backed with worthless share certificates which values have been terribly eroded under the prevailing market environment.

However, while assessing the tempo of Nigeria's financial market over the last two years, Dr Biodun Adedipe of Biodun Adedipe Associates, a management consultant, frowned at the unbridled penchant of Nigerian banks to creating loan facilities above their deposit liabilities. While pointing out that the banks are statutorily allowed to create between 56 to 68 percent of such liabilities, he observed that most of them created more than 100 percent of such facilities, an indication that they lent money from deposits that never existed.

Dr Adedipe said that the outcome of the unbridled credit growth on the part of the deposit money in banks in the absence of credit derivatives led to the incidence of overtrading which he argued was not good for the Nigerian economy
Investment experts have since faulted the CBN over its decision to reschedule the facilities to December 2009, stressing there was no guarantee of a market rebound before then, considering that the Nigerian Stock Exchange which had a total market capitalization of about N12.395trillion early last year, currently boosts of less than N5trillion capitalization.

Another pointer to the dire straits the Nigerian economy is now enmeshed was the recent revelation that an estimated N1trillion may have been extended to some banks by the CBN, through its expanded discount window, which opened last October. Some observers are of the view that the CBN largesse was an indication that all was not well with the nation's financial market, particularly now that even the banks themselves are discriminating among which institutions that can relate with. This apparent loss of confidence between banks is also spreading to some blue chip companies most of which have chosen a few financial institutions to handle their businesses.

According to a former deputy director at the Nigeria Deposit Insurance Corporation (NDIC) Mr Hussaini Mohammed, the two apex regulators of the financial sector should be held responsible for the current crisis in the banking industry, and should be made to fix it.
Mohammed who worked in the Banking Examination/Receivership and Liquidation Department at the NDIC, in a recent interview with a national daily not Daily Sun wondered how banks that were certified as having met the mandatory N25billion capitalization benchmark set by the CBN, could be coming back to the capital market for additional equity within very short intervals, without a concrete proof they have optimized the capital raised from the market in 2005.

The former NDIC deputy director, therefore, carpeted the CBN and NDIC, as having failed in the conduct of their due diligence on the assets and liabilities of the banks at the period in question, stressing that what they failed to do right in 2005, was now facing the industry like the sword of Damocles. He noted that if the banks cleared by the CBN are as strong as it wants Nigerians to believe, some of them that came back for additional equity would not have done so judging by their current levels of operation.

While admitting that consolidation was a good policy, Mohammed, however, frowned at the hasty manner it was implemented, blaming the two apex regulators for the collapse of some of the 14 banks.
But one other issue that tended to confirm the CBN and NDIC were lax on their regulatory role was that despite the clean bill of health given to the 24 banks in December 2005, two of them were discovered to have gone burst a few months later, prompting CBN's intervention. Ever since then the apex bank has never ceased to intervene in the industry, and arranging bailouts for troubled institutions in various degrees, often without drawing public attention

For instance, the release of about N1trillion to some banks through the discount window was considered a panicky strategy to rescue some operators facing dire financial challenges.
Observers have since suggested that it was high time the regulators took another critical look at what the banks are doing at the moment since some of the signs emerging from the industry suggested that some of them are not healthy as claimed by the CBN.

According to Mr Adewale Bakari, an investment analyst, the role of the government in stabilizing the market is to create confidence by encouraging more people to buy shares. He, therefore, enjoined the Yar'Adua administration to inject more money into the market, so that banks would be encouraged to give more loans to stockbrokers and investors to patronize the market.
Coming on the heels of the Federal Government current posture on the rescue plan for the economy as presented by the Minister of State for Finance, Mr Remi Babalola, over the financial sector crisis, the Lagos Zone Shareholders' Association last week called on President Umar Yar'Adua to emulate his counterparts around the world, by injecting liquidity into the capital market, so as to boost investors' confidence.

According to its acting Chairman, Chief Theophilus Adegboye, who spoke at a Press briefing in Lagos, the plea became necessary as "the Federal Government seems not to realize the dangers which the meltdown in the stock market poses to the economy as a whole".
He explained: "The National Coordinating Committee of our shareholders' association has watched with pains the current stupor in which the stock market has found itself and which has caused untold sufferings to our members. We are not unaware of the fact that the initial cause of the bearish trend in the stock market was due to the divestment and repatriation of funds by foreign investors, as a result of the global meltdown. We are aware that the manipulation of prices by capital market operators and lack of adequate exercise of supervisory functions by the regulatory authorities equally helped to see the

system at the verge of crumbling as it is now. Some stockbrokers sell investors' shares but lack the funds with which to pay them. Pension funds are threatened. Investors no longer have confidence in the market. Many no longer have confidence in the banks either and that is dangerous for the financial system and country's economy."

On the way forward, Adegboye said that various governments in the Western world and America have responded positively to the financial crisis in their countries". We are now calling on the Federal Government to prop up liquidity in the banks through lending to the banks at the minimal interest rate. The banks should in turn reschedule the repayment of loans given to the brokers and investors. The government should give teeth to the regulatory bodies in the capital market and the banks so that they can have the muscle to carry out their duties. This would boost confidence in the capital market."

At another level some observers have called for enforcement of market discipline and strict adherence to corporate governance principles without which the nation's economy faces slim chances of rebound.
It would be recalled that the Central Bank had last year granted banks the leverage to reschedule margin loans in their books upto end of December 2009, a move that has been faulted by some commentators.

Similarly, while commenting on current financial crisis in the economy, managing director of Financial Datanet House Limited, Mr Tayo Bola Onadele, faulted the Central Bank for rescheduling the facility, doubting the possibility of the capital market bouncing back in 2009. In his opinion, the CBN should have only allowed stronger banks to take over the weaker ones as witnessed when Bank PHB took over Spring Bank, rather than giving every one the opportunity to reschedule the facility which may actually dug a big hole in their books.

Onadele further argued that companies should endeavour to provide the information beyond profit before tax, as that would help investors make informed investment decisions.
On rebuilding the nation's financial market, Onadele listed corporate governance, ethical standards, information and leadership and commitment were critical to the recovery of the market. For instance, he suggested that a minister should be given the responsibility of developing the financial market, stressing that governments at all levels should be encouraged to issue corporate bonds. In addition he called on the government and the Central Bank to support the building of a new financial market to create jobs and promote schemes that will galvanise housing for all.
One other suggestion made by the FDHL boss was the need to set up another stock exchange in Lagos to encourage competition. According to him a Lagos Derivatives Exchange was long over due, adding that banks should be encouraged to trade capital market products out of their investment banking subsidiaries.

Furthermore Onadele said banks would still need to raise additional capital or consolidate, while calling on the Central Bank to promote the money and repo markets. On the capital market, he contended that the SEC and NSE must step up their corporate

governance machinery to raise capital market standards in the country.
Despite concern in some quarters that our banking sector stinks, the minister must have based his assessment of the current state of the industry, on the impressive statistics often reeled out by the Central Bank, Governor Professor Chukwuma Soludo, who had consistently argued that the banking sector remains healthy, strong and robust.
He said that the sector's 22 per cent capital adequacy range was far ahead of the global average of 8 percent.

Speaking shortly after a recent Bankers Committee meeting in Lagos, Central Bank Governor, Professor Chukwuma Soludo, allayed fears over the price inflationary impact of naira depreciation.
The governor admitted that though, in theory, depreciation of any currency should lead to higher prices, considering that higher import and production costs fed into the domestic economy, are often borne by consumers, the developments would more than be compensated by the declining commodity prices across the globe.

This, he further argued ,was because freight costs as well as the prices of various goods and services which are currently crashing would create a balancing effect in the economy.
The governor added, however, that rather than lead to job losses in the domestic economy, the depreciation of the currency would rather sustain jobs. He explained that although the CBN remains committed to achieving a stable exchange rate regime, the ongoing depreciation of the naira exchange against other convertible currencies was the only way it could adjust to the monumental changes that have taken place in the global financial system over the last few months, stressing that any effort on the contrary would reverse the gains recorded by the Nigerian economy over the past 12 years.

Meanwhile, as part of efforts to douse any adverse effect on prices, the bank had introduced stringent measures to regulate banks and bureau de change operators in the nation's foreign exchange market, including the suspension of the inter bank foreign exchange market.
Part of that strategy also included the return to the Retail Dutch Auction System, where banks would only be allowed to bid on behalf of their customers for eligible transactions.
But CBN's claim that the downturn in the fortunes of the naira at the foreign exchange market, described as a deliberate strategy of the Federal Government to adjust naira to the realities of a faltering global financial system, can no longer be taken as stated by the authorities, considering the grave dangers it has so far posed on the economy.

Already the international Finance Corporation (IFC) said recently that it is building on its substantial commitments to Sub-Saharan Africa as governments, businesses, and millions of people across the world's poorest continent brace for the fallout from the gathering financial crisis. Grim economic news in the richest countries is spreading to the developing world through the threat of falling exports, reduced tourism receipts, and a drop in remittances.

IFC, said it is supporting private sector growth to help create jobs and reduce poverty across Sub-Saharan Africa, noting that the role include helping economies cope with the sharp financial downturn, during which foreign aid and direct investment will likely fall. Last year, IFC's activities reached 36 countries within the region including Nigeria

To address problems before they erupt, IFC is working closely with clients, especially in Africa's poorest and most vulnerable countries, to help them identify risks and prepare for any contingency. Rather than reduce exposure to risky markets during the crisis, we are devising new strategies to better support these markets.
IFC has proposed a recapitalization fund of around $3 billion to help smaller developing countries which lack resources to shore up their banking systems. Subject to board approval, the fund would launch with as much as $1 billion from IFC and, at least, $2 billion from governments, private banks, and other partners. Japan announced that it will contribute $2 billion to this fund.

To address problems of liquidity, the hallmark of the recent crisis, we are helping with short-term and trade finance funding to meet immediate needs in the marketplace and keep trade flows moving. IFC plans to double its Global Trade Finance Programme from $1.5 billion to $3 billion. The trade guarantees issued under the program will have an average tenor of six months, thereby supporting up to $18 billion for short-term trade finance over the next three years.

This programme has been most popular in Africa, where about half of the guarantees have been issued. The expanded facility would benefit participating banks based in 66 countries, including many of Africa's poorest economies. The programme offers banks partial or full guarantees covering the payment risk in trade related transactions.
IFC is proposing new ways to support the private sector in Africa and other emerging markets through the launch or expansion of four initiatives, which could total as much as $30 billion over the next three years.
Among other initiatives the IFC plans to double its Global Trade Finance Programme from $1.5 billion to $3 billion, launch a global equity fund to recapitalize distressed banks, where it expects to invest $1 billion over three years with, at least, $2 billion provided by other investors where Japan is also investing $2 billion in the fund, assist with roll-over financing to recapitalize existing, viable, privately funded infrastructure projects facing financial distress. IFC expects over three years to invest a minimum of $300 million and mobilize between $1.5 billion and $10 billion from other sources.
In addition, it hinted of plans to focus existing advisory services programmes to make them better geared to help clients in the current crisis. IFC estimates a financing need of, at least, $40 million over three years.

For the ICAN President Dr Richard Uche, the current crisis is a worldwide phenomenon and every country has to manage its resources in the best way possible stressing that if Nigeria manages its own well it would not be the only one falling.
The ICAN boss was really displeased about the deep plunge the naira has taken in the foreign exchange market of late pointing out it has very serious implications on the economy. Uche who advocated the diversification of the nation's economy such that we are no more a mono-product economy stressed it would be counterproductive to continue to benchmark the country's economic survival and development on crude oil prices that

are no longer dependable. From its height of 147dollars last July Nigeria has earned less than 40 dollars on each barrel of crude oil exported since December 2008.

This he said has severe implications for inflation in this country, because we are an economy that is still dependent on imports

What it means the Dr Uche asserted is that we have to diversify and explore other sectors like solid minerals that we can rely upon to cushion adverse impact of the crash in price of crude oil.

In addition he advised that Nigeria must keep an eye on her foreign reserves now warning that a situation where the government has spent over 15 billion dollars in less than two months was unhealthy. "We must monitor it and ensure we have the required amount of reserves to support 6-9 months of imports into the country." He concluded.

He however expressed optimism that if government heeds the advice of the president's economic team the country would in for good times.

But what will be the disposition of the economic team toward rescue or economic stimulus package for the banking industry and the economy.

Commenting on the state of the nation's financial sector the Managing Director and Chief Executive of Fidelity Bank Plc, Mr Reginald Ihejiahi ruled out the likelihood of another round of bank failures in the country on account of the ongoing global financial meltdown.

Ihejiahi, who spoke to Daily Sun in Lagos recently, stated that concern about bank failures would have been a real problem if she had not undertaken the rigorous capital restructuring exercise that enlarged the capacity of the banking industry in 2005. He argued that the consolidation programme that reduced the number of banks to about 24 from 89 has really made Nigerian banks more robust and better positioned to survive the ongoing global financial turmoil feared by the Britton Woods institutions.

He remarked, "I don't think we have a problem in Nigeria, because our case is quite different from the picture being painted here. As you may have known, we have just gone through a dramatic transformation of our capital that was a huge success. But if we had not done the consolidation, or if we have not increased our capital, perhaps Nigerian banks would have been more vulnerable under the prevailing circumstance. But we have done all that, so I don't think there is any reason to be apprehensive.

Usually part of the reasons you increase capital is because it is the bulwark for risk and all that people are talking about is risk. But if you have enough capital, liquid and reliable, I think that reduces your exposure. So I don't think they are talking about Nigeria, but that's not a reason for complacency, because all of us would still need to work really hard to ensure we don't create rooms for such predictions to materialize.

And I think you noticed that a few days ago, President Umar Yar'Adua inaugurated a presidential committee on the global financial crisis, with himself as the chairman showing the seriousness and audacity with which he is handling the matter".

According to him, Nigerian banks are robust and are adequately capitalized to discharge their obligations to the business community, stressing also the regulatory environment has also been strengthened to enhance better performance

Managing Director and chief executive of Profiliant Development Resources Limited, one of the nation's sales methodology firm, Mr Oliver Nnona, cautioned the Federal Government against any form of stimulus package to stem falling share prices in the Nigerian Stock Exchange, warning it would amount to an effort in futility.
Mr Nnona who spoke to Daily Sun in Lagos, said it was wrong to allow tax payers money to be used to cushion the recklessness of some of overzealous investors in the market, who took risks far beyond the capacity of their operating capital.

He argued that the best approach to resolve the deadlock on the Nigerian capital market was for the government to stimulate the economy, through increased spending on necessities, while the operators in the market can come in again to do their business after it has bottomed out.
According to him "Investors don't tell Nigerians when they make profit or how much they have made from it over these years, and so why should they worry us when the make losses. So how do they expect government to use tax payers' money to buoy activities in the market again for them to come in and exploit?"

He regretted that a lot of the people playing in the nation's capital market don't really understand the mechanisms of the market which naturally goes up and down depending on the tempo of the domestic or global economy in a given year, stressing that the present down moment of the Nigerian market would also give way to a more robust performance after a while.
Commenting on the genesis of the global financial meltdown, Nnona said it was the outcome of the financial recklessness on the part of the management of some institutions abroad, for which he contended they needed to be sanctioned.

The Profiliant Development Resources, chief executive said he would not be tempted to blame the collapse of these institutions on the failure of the sales function in them, but that it resulted from the fact that certain overbearing persons took risks that they should not have taken.
"It is not that the sales people did not do their bit, but some people at the helm of affairs decided to do what they are not supposed to do". He contended. To resolve the problem, Nnona argued that government will need to continue to spend on the economy as the Americans are doing thereby freeing the people from the emotional and psychological logjam.
On how Nigerians should spend their money in a crisis period, Nnona advised that people should spend only on necessities and things that can generate money.

# ...Firs targets tax evaders

By Jide Babalola
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The Federal Inland Revenue Service has fine-tuned new strategies to curb tax evasion and enhance the Federal Government‘s capability to cope with the challenges posed by the global economic meltdown.

Photo file

Chairman, FIRS, Ms. Ifueko Omo

Already, a National Implementation Committee being headed by the office of the National Security Adviser is considering modalities for ensuring that every individual and corporate body in the country gets a Taxpayer Identification Number.

Officials of FIRS declined to speak on the detail of the new initiatives to deal with tax evasion, citing administrative rules and involvement of the NSA‘s office as critical issues.

”We are civil servants, no one can make a statement to you now,” the FIRS‘ Director of Corporate Communication, Mr. Etim Bassey stated in his office on Friday.

The FIRS’ Head of Corporate Communication, Mr. Afam Okeyi and the Director, Tax Group, Dr. J. E. Opara, also refused to make comment while the FIRS‘ Chairman, Mrs. Ifueko Omogui-Okauru was said to be away on official assignment.

However, our correspondent gathered that arrangements had been concluded towards ensuring that FIRS Tax Clearance Certificates become compulsory documents to be tendered by individuals and corporate bodies for the processing of foreign visas and land allocation documents.

Also, a central database on taxpayers is being created through a special collaboration between FIRS and all the Boards of Internal Revenue in various states, for the purpose of monitoring compliance.

The creation of the database is to ensure compliance and effective monitoring for individuals and corporate bodies that earn substantial amounts of money in a state and collect tax clearance certificate after paying minimum taxes in another state.

”For instance, lawyers, accountants, consultants and other professionals earn millions in Abuja but go to their states to pay a little tax and they satisfy legal requirements once they collect a tax clearance certificate. Very soon, instead of arbitrary decision that may short-change government, what you earn will become a decisive determinant of the amount you pay,” an FIRS source stated.

While the Federal Inland Revenue Service (Establishment) Act, 2007 does not empower it to increase taxation rates, the FIRS has mapped out strategic collaboration through which the Central Bank of Nigeria and all commercial banks can effectively trail payments into bank accounts and compel payment of all necessary taxes.

CBN‘s Director of Corporate Affairs, Mr. Festus Odoko, told Sunday Punch that the e-payment system was thought out to satisfy such needs.

”The introduction of e-payment will provide an easy trail through the banking system,” he stated.

He added that FIRS collaborated with CBN at the research stage before the e-payment policy took shape.

However, it was gathered that the FIRS was liaising with the CBN and chief executives of banks on how to effectively implement the new TIN policy articulated by FIRS.

”Sections 25 and 26 of the FIRS Act empowers the body to seek the assistance of bodies, including the EFCC and to demand for all companies‘ account information from banks, for the purpose of making appropriate assessments of due taxes,” the source at FIRS told Sunday Punch.

In May, last year, Sunday Punch exclusively reported FIRS authorities official claim that they collected N2.2 trillion taxes during the first 12 months of the Umaru Yar‘Adua presidency.

According to the erstwhile Board Secretary of FIRS, Mr. Chris Onyegbule who was mandated to speak on behalf of the body‘s management, the target set for the period was N1.9 trillion.

At the last Federation Accounts Allocation Committee Meeting, the Minister of State for Finance, Mr. Remi Babalola said the enhancement of non-oil revenue was one of the major options the government aimed to utilise to stem the effects of revenue shortfall caused by oil market volatility and the global economic downturn.