THE SECOND WIND

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A world in crisis

I have an alarmist friend who believes we should all be building underground bunkers and stockpiling essential supplies for the "Long Night" ahead. He believes that the world is long overdue for another mass effect—a routine natural occurrence when nature re-corrects itself by shaving off the deadwood, holding back certain natural processes and resettles into a new equilibrium.

Maybe he is right, maybe he is just another crackpot prophet of doom. But who is to say?

Either way, the world will never be the same. The 70s witnessed widespread recognition of the world as a single, interconnecting whole. The 80s have shown that this whole is not operating as a self-sustaining system. In the 90s, the chickens came home to roost for the one side of the same coin of geopolitical imperialist culture created by the aftermath of WWII.

In the 2000s, the world coalesced into a truly global village and in the 2010s, the pent-up pendulum of natural selection was completing its launch sequence for a kinetic showdown. In the 2020s, the showdown is in full swing.

In short, we appear to live in a world in crisis - manifesting itself in hunger, poverty, debt, conflict, statelessness and war, as well as in the accelerating degradation of the natural environment.

Even though the majority of these world events that credibly threaten the global status are in the Global South, the multipliers will reverberate throughout the Global Whole. The countries under focus are home to just 10% of the world's population but account for approximately 86% of all people in humanitarian need globally, 75% of displaced persons, 70% of people suffering from crisis or worse levels of food insecurity—and a growing share of global extreme poverty.

In The Democratic Republic of Congo, intense fighting broke out in the eastern Democratic Republic of the Congo in 2023, following the collapse of a truce between the government and the armed group M23. This exacerbated a protracted crisis that had already exposed millions of Congolese to conflict, political tensions, economic pressures, climate shocks and persistent disease outbreaks. The country enters 2024 with 25.4 million people in need of humanitarian assistance—more than any other country on earth.

Across Ethiopia, livelihoods have been decimated by three consecutive years of drought alongside multiple conflicts and, now, there is a risk of an el-Niño-induced flooding. The November 2022 ceasefire between the Government of Ethiopia and the Tigray People's Liberation Front continues to hold in northern Ethiopia, but other conflicts, particularly in the central Oromia region and in Amhara in the northwest, are fueling humanitarian needs and raising the risk of a return to large-scale fighting. Persistent inflation is further deepening the crisis.

Niger Republic's July 2023 coup has triggered political tensions with Nigerian and other neighbouring countries, leading to the withdrawal of international security assistance after the junta kicked out American and French troops from its territory. New sanctions and border closures have also severely limited the amount of nutritional aid and medical supplies entering the country. Public spending has also decreased by 40%, weakening key services.

After facing five consecutive failed rainy seasons, Somalia is now experiencing widespread flooding. These repeated climate shocks have devastated agricultural lands, damaged critical infrastructure and driven humanitarian needs. The country enters 2024 with 4.3 million people facing crisis levels of food insecurity and a limited ability to restore food production.

An ongoing government offensive against the armed group al-Shabab risks driving civilian harm and displacement, further worsening conditions for 6.9 million in need of humanitarian aid.

In Mali, security and economic crises have left 6.2 million people in need of humanitarian support. The recent withdrawal of the UN peacekeeping force has raised safety concerns, especially of renewed fighting between the government and Tuareg armed groups in northern Mali. Already, armed groups are besieging towns and

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cutting off humanitarian access while half of the country is living in poverty.

The conflict in Myanmar has spread significantly since the military retook political power in 2021. In October 2023, three major armed groups resumed clashes with the government, putting state military forces under significant pressure and causing increased civilian harm. 18.6 million people in Myanmar are now in need of humanitarian assistance—nearly 19 times more than before the military takeover.

Over 335,000 people have had to flee their homes since the latest escalation began, leaving more than two million people displaced across the country. Security has rapidly deteriorated, with severe impacts on civilians and their access to basic services and humanitarian aid. Meanwhile, climate change means that communities in Myanmar are exposed to more frequent natural hazards, particularly cyclones.

Burkina Faso is facing rapidly growing and spreading violence as the Burkinabe military struggles to contain armed groups. Roughly half of the country is now outside government control, with armed groups including Islamic State in the Greater Sahara and Jama'at Nusrat al-Islam wal-Muslimin blockading cities and towns and preventing

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OPINION

Lesson that Nigeria can learn from Switzerland

By Aboubakr Barry

During the World Bank and IMF Spring gathering, I attended a meeting with the new Governor of the Central Bank of Nigeria (CBN), Mr. Olayemi Cardoso. He radiated confidence in the future growth of Nigeria's economy and committed to upholding conventional monetary policies to ensure price stability and attract investment.

Reports from Bloomberg News indicated that the CBN had raised the minimum cash reserve requirement for banks in February from 32 per cent to 43 per cent and increased the benchmark rate by 600 basis points to 24.75 per cent between February and March.

These steps effectively amount to the withdrawal of surplus naira from the market to reduce the currency's supply, which had been overinflated due to excessive money printing by previous administrations. The measures appear to be working for now, as the Nigerian naira has increased in value by 32 per cent since mid-March, bouncing back from a 43 per cent devaluation in January, according to Bloomberg News.

Yet significant challenges lie on the horizon.

As the late Nobel laureate Milton Friedman said, "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output."

Thus, management of the risk of inflation and currency devaluation is improved by constraining the present and future government's ability to print money to pay for expenses in lieu of raising taxes or borrowing from the capital markets.

Analysing the World Development Indicator report produced by the World Bank, in the period 2011-2022, we note the following:

I) Broad money (a measure of the total supply of money in the economy, consisting of currency in circulation, deposits, time deposits, and savings accounts) representing cash available to pay for goods and services grew at an annual average rate of 14 per cent.

II) The real gross domestic product, representing the actual goods and services produced, grew at an annual average rate of one per cent.

III) Money growing 14 times faster than production led to too much money chasing too few goods, followed by high inflation, loss of purchasing power, and massive poverty.

IV) As a result of the above, Real GDP per capita (excluding inflation) barely moved in 10 years, falling from ₦347,574.88 in 2011 to ₦346,703.24 in 2022.

Because the cure for high inflation is always painful, involving the loss of jobs, currency depreciation, and economic contraction, it's better to reduce the risk by enshrining in the constitution fiscal rules, constraining federal government expenditures within available means and a prudent level of debt.

As the saying goes, an ounce of prevention is better than a cure. This leads us to a lesson in fiscal management from Switzerland, offering an example of how Nigeria can develop a homegrown solution, fit for purpose.

In 2001, Switzerland passed a constitutional amendment for a balanced budget, a debt brake rule, approved by 85 per cent of voters. It limits federal government spending over the medium term to available revenue. Implementing it, the Government:

a) Sets an annual ceiling for spending, guided by the expected income for the budgeted year and the state of the economy.

b) Calculates, after the end of the fiscal year, the difference between actual spending and revenue.

c) Records the difference into a hypothetical compensation account (as a debit if spending is more than revenue, and as a credit if revenue is more than spending).

d) Reduces spending when the balance in the compensation account exceeds six per cent of revenue in any given year to this threshold or lower in a maximum period of three years.

e) Approves exceptional spending by a simple majority vote and records it in an amortization account earmarked for recording extraordinary expenses and revenue. Normally, the net balance of this account is payable in six years.

An exception was made in 2019 when the COVID-19 pandemic led to CHF 30 billion in emergency expenses, and the government passed a special law extending the repayment of this exceptional borrowing to 2035.

While Nigeria has previously adopted fiscal rules, these were not consistently implemented nor embedded in the constitution. The Swiss example teaches us that these rules work best when they are supported by political will, embodied in the constitution, include sanctions, and allow for exceptions.

As necessity is the mother of invention, the pain being caused by inflation now, combined with a newly elected president, creates the opportune moment for the authorities to push for constitutionally based fiscal rules. Insurmountable obstacles in normal times, like amending the constitution, are achievable with deft leadership in challenging times. For all major changes happen in a crisis.

While the CBN is independent, the reality is that it's part of the federal government. When the government fails to raise taxes or cut spending and is unable to borrow from the capital markets to fund its deficit, CBN will be obliged to print money, restarting the cycle of unconventional monetary policies, which Cardoso vowed to end.

So, it's better to adopt constitutionally based fiscal rules with escape clauses to manage unforeseen emergencies, reinforced by a mechanism for repaying exceptional debt incurred for this purpose. This makes noncompliance difficult, since violating the constitution is an impeachable offence, which could be further enhanced by adopting the British practice of an Office of Budget Responsibility (OBR) established in 2010. The OBR is tasked with scrutinising the budget and providing its independent assessment to the government and the public.

The implementation of these recommendations will promote transparency, and enhance investor confidence in the government's credibility, which will lead to a lower risk premium, reduced borrowing costs, and increased investments.

Nigeria has all the elements necessary for prosperity: abundant natural resources, highly skilled technocrats, a youthful population, and a vast market. I am confident that with political will, a homegrown pragmatic vision that is executed, underpinned by solid financial management anchored by a constitutional fiscal rule, Nigeria can take its rightful place as a superpower in Africa and a major player in the global economy.

Yes, it can.

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