Zenith Economic Quarterly

A Publication of Zenith Bank Plc Vol. 9 No. 2 April, 2013 ISSN: 0189-9732

Sustainable Development: Issues, Strategies & Goals

INSIDE

The Nigerian Oil Sector: Trends, Direction

www.zenithbank.com

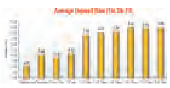
ZENITH ECONOMIC QUARTERLY
is published four times a year
by Zenith Bank Plc.

Printed by **PLANET PRESS LTD.**
Tel 234-1-7731899, 4701279, 08024624306,
E-mail:press@planetearthltd.com

All correspondence to:
The Editor,
Zenith Economic Quarterly,
Research & EIG,
Zenith Bank Plc
7th Floor, Zenith Heights
Plot 87, Ajose Adeogun Street,
Victoria Island, Lagos.
Tel. Nos.: 2781046-49, 2781064-65
Fax: 2703192.
E-mail:marcel.okeke@zenithbank.com,
zeqeditor@zenithbank.com
ISSN: 0189-9732

www.zenithbank.com

Contents



Living Today, Tomorrow

In the past few decades, the phrase 'sustainable development' has gradually but consistently moved from a mere mantra in the corporate world to an integral part of virtually every strategy in human development. Until recently, the concept has hardly enjoyed a universal definition. Indeed, it was in1987 that the United Nations released the Brundtland Report, which included what is now one of the most widely recognised definitions: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." And according to Hasna Vancock, sustainability is a process which tells of a development of all aspects of human life affecting sustenance. It means resolving the conflict between the various competing goals, and involves the simultaneous pursuit of economic prosperity, environmental quality and social equity famously known as three dimensions—triple bottom line.

In recognition of the increasing centrality of this concept in human affairs, our topic "Sustainable Development: Issues, Strategies and Goals" provides an informative treatise on the subject matter. In it, the author x-rays the reasons for the concept; issues involved; diverse views on the subject matter as well as the 'government versus private sector' argument. Sustainable Development Goals (SDGs) versus Millennium Development Goals (MDGs) is also analyzed in-depth through a decoupling of the 'triple bottom line'. In sum, the article warns that it is time for economies and private institutions to hedge the negative impact of their industrial, military, business, technological and scientific activities on the human environment.

In a related discourse, the article "The Nigerian Oil Sector: Trends and Direction" exposes the gamut of issues, trends, interests and challenges at play in this very critical segment of the economy. Exploring the place of the industry in the Nigerian economy in the face of emerging realities in the world oil scene the author points out some threats to the nation's dominance of the market in the African continent. The place of the Petroleum Industry Bill (PIB)—a piece of legislation that has been in the making for so long—is also surveyed. And in the spirit of the argument for the diversification of the Nigerian economy, our write-up "Nigeria's Cocoa Transformation Agenda: Boost to Foreign Exchange Earnings?" reviews programmes and policies aimed at exploiting the 'potential goldmine' that the commodity is known to be.

Ranking next to oil and cocoa in revenue generation for the conduct of public finance is, arguably, tax receipts. Hence, the article "Tax Evasion in Nigeria: Ways Out of the Quagmire" discusses the challenges confronting this veritable revenue source and some imperative initiatives to tackle them. Our man in Zenith Bank (UK) writes on the rebounding of equity markets across the globe, pointing out some bubbles that could build up in the near term in some climes.

In a wrap-up on the Nigerian economy, the cheery trends of the performance indicators, including the improving investor perception are analyzed in the section 'Periscope'; while the 'facts & figures' also graphically underlines the status quo.

Once again, I invite you to enjoy an enriching reading.

You're welcome!

Marcel Okeke

from our mailbox

I have been directed to acknowledge receipt of the January 2013 Issue of your magazine on Privatization in Nigeria: Cause to Cheer?

This is to express the Director's appreciation to you for sending us the magazine. We equally value the information which will be of immense help in the upliftment of many organizations not only in Nigeria, but beyond, and particularly to our research centre.

Thanks for your interest in our Centre as we expect more of your subsequent issues.

Best wishes.

B. N. Onah (Mrs.),
Secretary to the Director
National Centre for Energy Research & Development
University of Nigeria, Nsukka

This is to acknowledge the receipt of your letter dated 14 January 2013 and express our sincere gratitude for the October 2012 Edition of the Zenith Economic Quarterly (ZEQ) which you sent to this institution. The Journal was indeed very informative and the school would appreciate if the journal is sent on a quarterly basis.

While thanking you in anticipation of your co-operation, please accept the assurances of my sincere regards.

B. B. Adewinmbi
Brigadier General
Commandant, Nigerian Army School of Finance and Administration
PMB 1066, Arakan Barracks, Apapa, Lagos.

I am directed to refer to your letter dated 14 January 2013 on the above subject and to acknowledge with thanks, receipt of the Zenith Economic Quarterly publication, which has enriched our data base on investment opportunities in Nigeria. Please accept the consideration of the High Commissioner.

M.T. Isa
Minister
For: High Commissioner
High Commission of the Federal Republic of Nigeria,
Mozambique

I am directed to acknowledge with thanks receipt of the above mentioned subject which focused on Agric Transformation, Tackling Nigeria's Food Import Dependence and the Debt Profile, respectively.

Kindly note that the publication is of immense benefit to the Embassy as it will serve as a source of information and reference material to economic organizations, affiliated agencies and students on research project, accordingly.

While looking forward to receiving more materials from your organization, please accept the highest consideration of the Ambassador and staff of the Mission.

Kamfut Umaru
For: Ambassador
Embassy of Nigeria
Sudan

Please refer to your letter of 6th May, 2013 on the above subject matter. We write to acknowledge receipt of a copy of your January, 2013 edition of the Zenith Economic Quarterly (ZEQ) on the theme - 'Privatization in Nigeria: Cause to Cheer?' We appreciate your kind gesture and hope that it will provide us with invaluable and critical information on the Nigerian and global economy. Thank you.

Yours sincerely,
Branch Controller
Central Bank of Nigeria
Minna, Niger State

I am directed to acknowledge with thanks, receipt of October, 2012 edition of Zenith Economic Quarterly (ZEQ) which focuses on "From America to Asia: Fresh Moves at Salvaging Economies".

Please accept the assurances of highest consideration of the High Commissioner.

J.O. Isajimi
For: High Commissioner
Nigeria High Commission
The Gambia

We hereby acknowledge the receipt of a copy of the October, 2012 edition of the Zenith Economic Quarterly (ZEQ) Journal, which reached us on the 18th of February, 2013.

The Journal has always been found to be very interesting and educating as they provide us with critical information on the Nigerian and global economy for strategic policy decisions.

We look forward to receiving more of the editions. Thank you.

Yours faithfully,

Ojo, Osazee Bonafides
For: Auditor-General
Edo State.

I would like to acknowledge with profound appreciation and thanks, the receipt of your letter dated September 25, 2012 on the above subject matter.

The Embassy of the Federal Republic of Nigeria will indeed find the publication very useful as reference material for policy decision.

Please accept the assurances of His Excellency's highest regards.

Olumide Olowo,
For: Ambassador
Embassy of the Federal Republic of Nigeria, France

PERISCOPE

Nigeria: Economy Sustains Growth Tempo

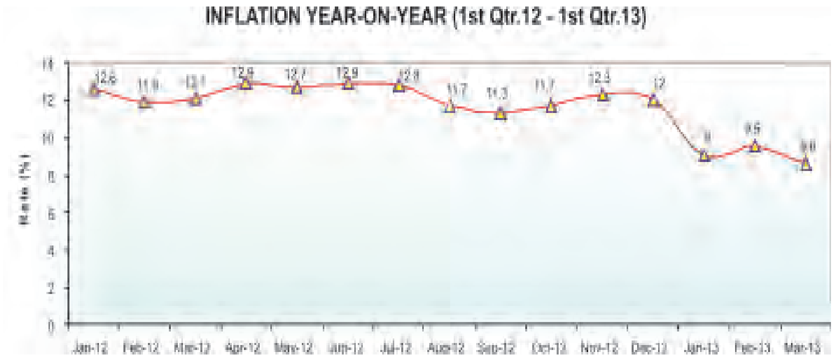
By Marcel Okeke

The Nigerian economy by almost all yardsticks sustained its growth streak of 2012 in the first quarter 2013: lower inflation, rising external reserves, fiscal moderation, stable exchange rate and interest rates, and strong GDP. Data from the National Bureau of Statistics (NBS) show that the Real Gross Domestic Product (GDP) of the country grew by 6.56 per cent during the period. This is higher than 6.34 per cent recorded in the corresponding period of 2012, but slightly lower than the growth rate of 6.99 per cent attained in the last quarter 2012. Indeed, this growth trend puts the Nigerian economy among the fastest growing economies in the world.

This is also in tandem with the International Monetary Fund (IMF) expectation that Nigeria would contribute significantly to the accelerated growth in Sub-Saharan Africa in 2013 following the rebound from flood related output disruptions in 2012. The IMF 2013 GDP growth forecast (World Economic Outlook, April 2013) show that most countries and regions are growing at less than three per cent. The major driver of this growth trend remains the non-oil sector, led by services, agriculture, and wholesale and retail trade. Indeed, oil nominal GDP accounted for only 38.77 per cent while non-oil nominal GDP contributed 61.23 per cent. A breakdown of the non-oil sector shows that agriculture accounted for 28.41 per cent, wholesale & retail trade 18.92 per cent; while others contributed 13.90 per cent.

This improving economic prospect for Nigeria also reflected in inflation rate declining from 12 per cent in December 2012 to a four-year low of 9.0 per cent in January, 9.5 in February, and further down to 8.6 per cent in March 2013. These figures which are far below the 2013 budget projected inflation rate of 12.90 per cent, aptly mark the attainment of the seemingly 'mythical' single-digit inflation level in the Nigerian economy—a development the IMF attributed to a combination of good monetary and fiscal regimes. This is also in tune with the World Bank's raising of the country's economic rating from a low income nation to a medium income position by the close of the first quarter 2013. According to the Breton Wood's institution, the new rating was sequel to a review of Nigeria's economic indicators which revealed that there was an improvement in revenue accretion as well as a reduction in poverty rate per capita in the country—from 64.20 per cent to 62.60 per cent. With this development, Nigeria begins to have more access to resources from its creditors as it becomes eligible to borrow from the International Development Association (IDA) as well as the International Bank for Reconstruction and Development (IBRD).

In a related development, the Food and Agricultural Organization (FAO), an agency of the United Nations, has singled out Nigeria and 37 other nations for honours, for reducing the number of people living in absolute hunger in their countries by half, well ahead of the UN target of 2015. This implies that Nigeria and the other 37 countries by the close of first quarter 2013 have met the Millennium Development Goals (MDGs) target number one before the global deadline of 2015. Similarly, Nigeria was ranked during the quarter under review as the most improved nation for business risks, according to a report published by Alliant Insurance—a California-based specialty insurance brokerage company. In its 2013 "Political and Economic Risk Rating", Nigeria, Greece, Russia and China were named the top five most improved nations in terms of business



Source: National Bureau of Statistics (NBS)

http://www.bohemiantrails.com/wp-content/uploads/2012/01/shanghai1.jpg risk. The report rates political and economic risks based on factors such as currency devaluation, economic downturns and political violence. Alliant's Risk Ratings & Indices provide forward-looking assessments of the risks of doing business in 150 countries and focus on the likelihood of companies experiencing financial losses as a result of political and economic events.

And in tune with the import of these reports, one key feature of the first quarter 2013 was general stability in the exchange rate of the Naira against the Dollar and other major world currencies. The Naira remained reasonably flat around the Central Bank of Nigeria's target, N155/US$. But specifically, in January 2013, the naira on the average appreciated slightly against the dollar due to stronger-than-expected inflow from foreign portfolio investors as well as improved sales from oil companies. In February however, as the naira tried to climb higher, pressure in the inter-bank market coming from petroleum importers and companies remitting dividend abroad, caused some turbulent moments. The naira however ended the quarter at a much weaker level. On monthly average basis, the exchange rate which ended 2012 at N155.26/US$, came to N155.24/US$ in both January and February 2013, but weakened slightly to N155.25/US$ in March.

On a positive note, too, the nation's external reserves experienced significant accretion all through the first quarter 2013; rising from a level of US$43.83 billion at end-December 2012 to US$49.36 billion as at March ending 2013, a jump of about 13.0 per cent. This increase in reserves was driven largely by the proceeds from crude oil and gas sales and crude oil-related taxes as well as reduced funding of the wDAS by the CBN. At the close of the quarter, the reserves level could finance over 13 months of imports. Although the nation's crude oil production figures dropped during the quarter under review, prices of the commodity remained reasonably high in the international oil market. Indeed, according to the NBS, Nigeria's average daily production of crude oil was 2.29 million barrels per day (mbpd) in the period under review as against 2.35 mbpd in the corresponding quarter in 2012. These figures are however deviations from the 2013 budget oil production projection of 2.53 mbpd.

The nation's stock of public debt experienced a decline during the quarter under review. The Debt Management Office (DMO) data show that Nigeria's total debt stock (external and domestic debts) as at March 31, 2013 stood at N7.53trillion representing a decrease of 0.29 per cent from the December 31, 2012 figure of N7.55trillion. A breakdown of the debt stock shows that external debt accounted for 13.79 per cent of the total debt at N1.04trillion (US$6.67bn at exchange rate of 155.75/US$1), while domestic debt accounted for 86.21per cent of the total debt at N6.49trillion. Nigeria's total public debt as at March 31, 2013 is estimated at about 18.04 per cent of the GDP; a ratio that is still far below the applicable critical limit of 40 per cent for countries in Nigeria's economic peer group. This means that Nigeria's debt portfolio has wide fiscal sustainability space.

However, Nigeria's total external debt stock increased by about 2.20 per cent, from US$6.54 billion as at December 2012 to US$6.67 billion as at March 31, 2013. The total external debt stock is estimated at about 2.49 per cent of the GDP as at March 2013. The breakdown of the external debt as at March 2013 showed that 80.19 per cent was owed to Multilaterals,

which include the World Bank Group, International Fund for Agricultural Development (IFAD), African Development Bank Group (ADB), Arab Bank for Economic Development in Africa (ABEDA), International Development Bank (IDB) and Economic Development Fund (EDF); 11.30 per cent was owed to Exim-Bank of China and 8.51per cent was owed to others.

THE CAPITAL MARKET

The bullish run in the Nigerian capital market that commenced in the second half 2012, continued with greater impetus during the first quarter 2013. This trend has reflected in significant leap in all market indicators, particularly the All Share Index (ASI) and the Market Capitalization (MC). The ASI increased by several folds from 28,078.81 points on December 31, 2012 to 33, 536.24 points at end-March 2013. Market Capitalization (MC) also increased from N8.97 trillion to N10.73 trillion during the same period. A number of factors accounted for major up-swing in stock prices which ensured these sterling performances. These include improved earnings, increased capital inflow and portfolio investments as well as investor confidence in the economy. Specifically, strong corporate earnings in 2012 by highly capitalized blue chip stocks such as banks and some manufacturers of fast moving consumer goods (FMCG) lifted market performance. However, foreign portfolio investments (FPIs) into Nigeria came down to 39.3 per cent (N140.8billion) of the market in February 2013; domestic participation picked up to 60.7 per cent—showing a steady decline from a high FPI of 66.8 per cent (N847.9billion) in 2011.

Further details of activity in the market show that a total 31.87 billion shares worth N254.21billion were traded in 382,213 deals in the first quarter 2013, compared with a total volume of 18.61billion worth N140.71billion traded in 203,586 deals in the corresponding period in 2012. This showed an increase of 71.25 per cent in terms of volume, 80.66 per cent increase in value and 87.74 per cent in the number of deals compared to the corresponding period of 2012. The average value of shares traded in the first quarter 2013 stood at N4.17 billion, up from N2.23billion in 2012, while the average volume of shares

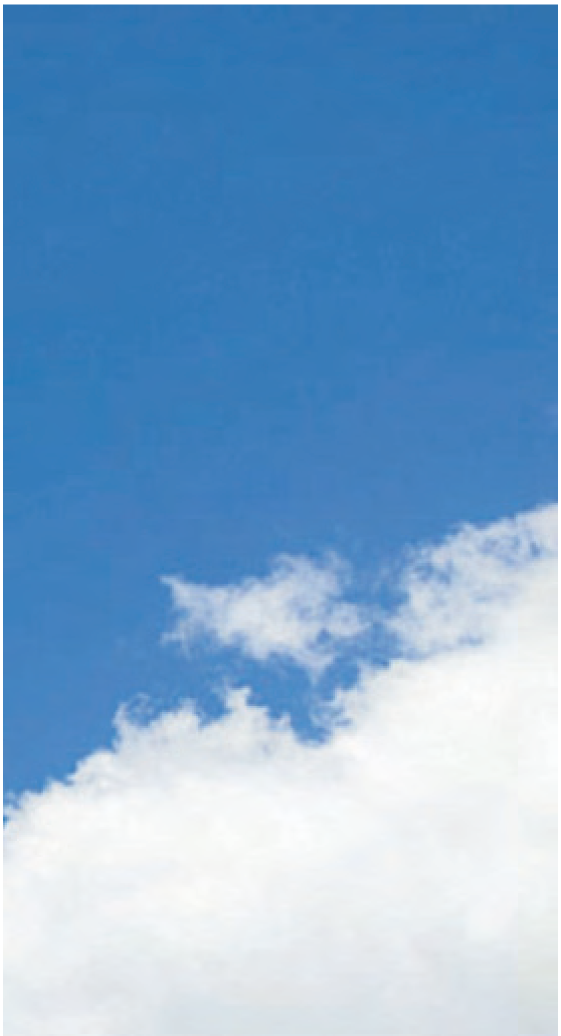
http://telecommunications.regionaldirectory.us/telecommunication-tower-720.jpg

was 522.38million, up from 295.36million in 2012.

Strong regulatory oversight by the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE) which bolstered investor confidence was also a key factor in stabilizing the market and positioning it for sustainable growth. Specifically, reforms in the area of tightening controls, rules enforcement, complaints management mechanisms, improved transparency and disclosure standards, re-launching of investor protection fund and the introduction of market making and securities lending, impacted the market positively. During the period under review, the NSE signed a Memorandum of Understanding (MoU) with Thomson Reuters, the world's leading source of intelligence information for businesses and professionals, to provide Investor Relations Services to listed companies. It also appointed 13 Supplemental Market Makers (SMMs) to complement the role of the Primary Market Makers (PMMs), in driving liquidity in the capital market. The Exchange also introduced six Fixed Income Market Makers (FIMM) authorised to execute retail trading of bonds in the market; they commenced operations in February 2013.

During the quarter, the NSE also introduced the first ever Issuers' Portal in the Nigerian capital market known as X-Issuer –a secure on-line portal through which Issuers will submit financial and other information to the NSE and the market from the comfort of their offices. According to the Chief Executive officer of the NSE, Mr. Oscar Onyema, "The Issuers' Portal, a key regulatory initiative of The NSE, will entrench structure and control in the submission and dissemination of company information. It will provide an unparalleled opportunity to significantly reduce information leakage and eliminate delays associated with the discharge of issuers' post-listings obligations in a cost effective and efficient manner. X-Issuer will no doubt result in greater market integrity and participation."

Also in the quarter under review, a new Board of the SEC under the headship of its former Chief Executive,



Dr. Sulleyman Abdu Ndanusa, was inaugurated. The new Board in line with the vision of instilling a strong culture of integrity in the Nigerian capital market has also reconstituted and inaugurated the Administrative Proceedings Committee, “SEC APC” to effectively deal with errant market operators.

TELECOMMUNICATIONS

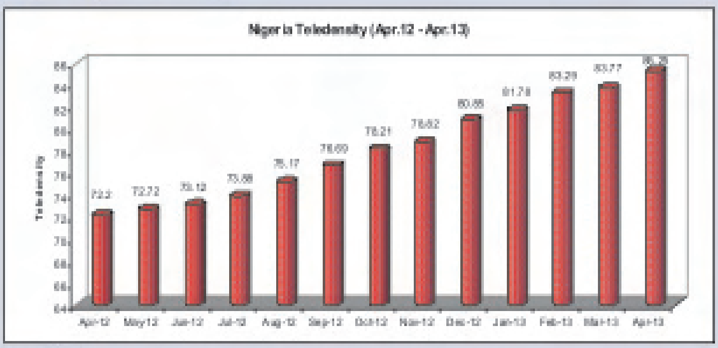
The growth of the telecommunications sector continued in leaps and bounds in the first quarter 2013, with industry installed capacity rising from 226.61million lines in January to 237.40 million lines in March. National Bureau of Statistics data also show that the industry's share of the GDP which stood at 7.05 per cent as at end-December 2012 rose to 8.54 per cent at the close of the period under review. Similarly, the country's teledensity—the number of telephone lines per 100 persons—rose from 80.85 in December 2012 to 83.77 in March 2013; it had hit 85.25 at end-April 2013. The April figure, according to the Nigerian Communications Commission (NCC), translates to over 164.8 million subscriber base, an addition of about 28.85 million lines when compared with the corresponding period in 2012.

According to the NCC, the growth in subscriber base is driven essentially by lower prices and growing demand for mobile broadband services. Indeed, the GSM mobile segment remains the highest contributor of additional lines—creating about three million lines between March and April 3013 alone. This rapid growth has led to certain challenges including network congestion and low quality of service (QoS)—a situation that prompted the imposition of fines by the regulator. Broadly however, the industry's problems still centre around power supply, multiple taxation by various governments, vandalization of key infrastructure, multiple regulations from ancillary agencies and challenges of right of way for easy service deployment and expansion. In the efforts to tackle these issues, among others, the operators have been investing massively in such infrastructural facilities as base stations and fibre optics transmission to support the ever increasing demand for bandwidth.

In the period under review, MTN Nigeria, for instance, secured a N470 billion (about $3 billion) medium term financing from a consortium of 17 Nigerian banks and five international financial institutions. The deal which is expected to help MTN in further expanding, modernizing and improving its network infrastructure, consists of US$1.8 billion in additional facilities and US$1.2billion for restructuring existing local facility. Other GSM networks are similarly investing huge sums in the same vein as follows: Airtel Nigeria N256 billion; Etisalat Nigeria N79 billion; Globacom N196.40 billion—all in the short term.

These huge investments are however in the face of rising number of inactive lines, which have grown to 44.6 million by the first quarter 2013, according to NCC data. The NCC statistics show that additional 6,128,397 lines became dormant during the period under review; thus pushing the number to 44.60 million in March 2013. A breakdown of these figures shows that the GSM networks accounted for 31 million; mobile section of the Code Division Multiple Access (CDMA) had a total of 11.55 million inactive lines, while the Fixed Wireless/Wireless network had two million dormant lines.

Figure: Nigeria Teledensity



Source: NCC

Table: Termination rates for voice services (effective April 2013)

S/N	Effective Date	Termination Rates for voice services provided by New Entrants and Small Operators in Nigeria irrespective of the originating network	Termination Rates for voice services provided by Other Operators in Nigeria irrespective of the originating network
1	from 1st April, 2013	N6.40K	N4.90
2	from 1st of April, 2014	N5.20K	N4.40
3	from 1st April, 2015	N3. 90K	N3.90

Source: NCC

In the same vein, out of the 117.28 million active lines in the first quarter 2013, the GSM operators had a share of 114,172,440; the CDMA had 2,703,604 lines while the Fixed Wireless/Wireless network had 405,625 lines only.

The National Communication Commission (NCC) in April 2013 launched the first phase of mobile number portability (MNP) involving the GSM companies. The second phase will include fixed wireless operators such as Visafone and Capcom. The MNP is a service that enables mobile users to keep their mobile phone numbers as they change from one mobile service provider to another. The MNP performance is expected to usher in another phase of healthy competition in the industry and would improve service delivery. In this regard, the NCC also designated MTN as dominant operator for voice, and directed that it charge subscribers same rates for on-network and off-network calls.

The NCC during the period under review also intervened in dousing competition in the industry by approving news set of interconnection termination rates for voice services. Interconnection rates are the fees which one telecoms operator charges another for terminating calls on its network. The measure which commenced April 1, 2013, is expected to save subscribers money, as it lowers the cost charged by the operators. The subsisting interconnection rate regulation before the latest NCC measure was implemented through the Commission's Interconnection Rate Determination issued on December 21, 2009. Since then, the Nigerian communications market has seen tremendous growth in subscriber numbers as well as traffic volumes and available technologies.

OIL & GAS, POWER & ELECTRICITY

According to the NBS, the Nigerian oil sector witnessed some disruptions due to pipeline vandalism and bunkering activities in the first quarter 2013. However, it added that the sector benefited immensely from the relative stability in international crude oil market price and the favourable exchange rate of the Naira against the US Dollar. The NBS noted that the decrease in crude oil production, with its associated gas components, led to a negative growth in real terms of 0.54 per cent in oil GDP growth in the quarter under review. Specifically, Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at an average of 2.05 million barrels per day (mbd) or 184.50 million barrels for the whole quarter. This is less than the projected crude oil production of 2.53 mbpd on which the 2013 Federal Government budget estimates are based. Crude oil export stood at 1.60 mbd or 144.0 million barrels for the first quarter 2013 while deliveries to local refineries for domestic consumption remained at 0.45 mbd or 40.50 million barrels.

The average price of Nigeria's reference crude, the Bonny Light, estimated at US$115.34 per barrel, rose by 2.3 per cent over the level in the preceding quarter. The OPEC Reference Basket (ORB) increased by 2.0 per cent over the level recorded at the end of the fourth quarter of 2012, to close at US$109.48 per barrel at the end of the review period. The Bonny Light, the UK Brent and the Forcados crude closed at US$115.34, US$113.68 and US$116.89 per barrel, respectively, all showing upward trend over their levels at the end of the preceding quarter.

http://www.energyindustryphotos.com/electrical%20substation.jpg

However, from the external front, the oil and gas industry during the period under review, faced a number of challenges including the threat of a reduction in US importation of Nigeria's crude oil, the impending shale gas revolution, the sophistication of technologies for resource exploration and retrieval, and a rash of divestment of equity by some international oil companies (IOCs) in the country. The non-passage of the Petroleum Industry Bill (PIB) also continued to create room for international and local companies to find and take advantage of several investment opportunities. Such opportunities arise amidst substantial legal risks and regulatory challenges.

The PIB which is expected to effectively address most of the challenges of the industry remains in the quagmire of political debates at the National Assembly. Yet the legislation has the capacity of providing a new vista of governance, institutional, corporate and competitive structure of the entire value chains of the oil sector-upstream, midstream and downstream. Experts have estimated that the implementation of the reforms (through the PIB) will guarantee at least an additional N3 trillion (US$18 billion) in direct annual revenue to the government of the Federation. The PIB when passed into law would also expand investment in the sector while increasing indigenous companies' participation. This is expected to result in domestication of a significant portion of revenue, including taxes to government on the oil and gas value chain.

The threat posed by the discovery of oil and gas in many African countries in recent times has continued to be real, especially since this year, when the volume of crude oil production/export has been on consistent decline. Countries in East Africa and West Africa including Ghana, Liberia, Sierra Leone, Kenya, Uganda and Tanzania have discovered large oil reserves and have started oil production. Vast natural gas resources have also been discovered in South Africa, Mozambique offshore, Namibia and Botswana. Additional Discovery in an offshore oilfield in Angola has been forecast to make the country the largest oil producer in Africa, ahead of Nigeria. Furthermore, oil exploration in Madagascar, Seychelles, Ethiopia and Somalia is under way. Outside the African continent, Israel recently discovered natural gas reserves off its Mediterra-

nean shores which triggered the discovery that the entire eastern Mediterranean is endowed with huge untapped oil and gas reserves.

In the downstream sector of the petroleum industry, importation of refined products continued during the quarter under review, with the existing refineries still in their "bad state". Indeed, the refineries remained in the state in which the National Refineries Special Task Force (NRSTF) met them late last year. The NRSTF report found that although Nigeria had the largest production capacity in Africa, at 445,000 barrels per day between the three traditional refineries, the country had an average utilization of just 18 per cent, making them the worst performing of Africa's 42 refineries. It will be recalled that about eight years ago, the Federal Government granted licenses to 19 private firms to build and operate refineries after paying $1 million each. These licences have however been revoked by the Department of Petroleum Resources (DPR) for the failure of their beneficiaries to meet the 18-month deadline to build the refineries.

In the power sub-sector, during the first quarter 2013, reforms continued with greater impetus, especially with the assumption of office by a new Minister of Power, Professor Chinedu Nebo. These reform efforts culminated into the holding of a Presidential Power Reform Transactions Signing Ceremony on April 22, 2013 to showcase progress in power reform, and sign transactions covering gas, generation, transmission, distribution and privatisation. The much expected private sector participation and foreign and local investment into the Nigerian power sector began to materialize during the quarter under review. Privatisation of the Gencos and Discos made appreciable progress, when all the preferred bidders for the 15 Power Holding Company of Nigeria, PHCN, successor companies met the deadline for the payment of the mandatory 25 percent of their offer value.

The preferred bidders (distribution companies) as approved by the NCPC are: Kann Consortium for Abuja Successor Company at $164 million. Vigeo Power Consortium for Benin at $129 million. West Power & Gas for Eko at $135 million, Interstate Electrics Limited for Enugu at $126 million. Integrated Energy for Ibadan at $169 million; NEDC/KEPCO for Ikeja at $131 million and Aura Energy Ltd for Jos at $82 million. Sahelian Piwer SPV Limited for Kano at $137 million; Power Consortium for Port Harcourt at $124 million. Integrated Energy Distribution & Marketing for Yoka at $59 million. The approved generation companies include: Amperion for Geregu Plant at $132 million. Mainstream for Kainji Plant at $50.76 million plus commencement fee of $237,870,000. North-

South for Shiroro Plant at and $23.60 million plus commencement fee of $111 million. Transcorp/Woodrock for Ugheli Plant at $300 million. CMEC/Eurafric for Sapele Plant at $201 million.

BANKING AND FINANCE

Banking sector reform measures by the Central Bank of Nigeria (CBN) including the emerging competition in the industry characterized the system all through the quarter under review. Such measures as 'financial inclusion', 'cashless banking', International Financial Reporting Standard (IFRS), 'risk-based supervision', 'sustainable banking', and other economic interventions of the apex bank continued to impact the economy. Evident during the quarter was the impact of the positive turnaround in the operations of deposit money banks (DBMs) as shown by their cheery financial reports for the year-ended December 2012. According to the annual reports and accounts of these DMBs, most of which were released during the quarter under review, none recorded losses during the 2012 covered by their records—a development that made bank stocks the 'toast' in the equity market. Indeed, the sharp share price appreciation and dividends on bank stocks were some of the key factors that drove the sterling performance of the entire stock market in the two consecutive quarters ending March 2013.

In the face of the ensuing competition in the industry, each DMB has been churning out 'mobile products', entering 'new markets', and strengthening their capital base. For instance, Zenith Bank Plc during the first quarter 2013 consummated the listing of its $850 million worth of ordinary shares on the London Stock Exchange (LSE) as Global Depository Receipts (GDRs). This move will allow foreign investors to buy Zenith Bank's shares on the LSE and improve liquidity as a result, rather than taking the option of raising fresh capital. On its part, GTBank commenced moves to acquire financial institutions in Kenya, Tanzania and Uganda in line with its expansion drive to East Africa. Diamond Bank also began arrangements to raise $750 million additional capital to enhance its working capital and finance its business development initiatives. Fidelity Bank has also mandated Citibank to manage a $350 million 5-year Eurobond it plans to raise soon. Wema Bank got approval from the NSE and SEC to raise N35 billion through special placing. On its part, Ecobank Transnational Incorporated (ETI) signed a Memorandum of Understanding (MoU) with India's second largest financial institution, ICICI Bank Limited, to make ETI a hub for Indian investment into Africa. Stanbic IBTC Holdings, the Nigerian unit of South Africa's Standard Bank Group Limited, also hinted of its plan to raiser $150 million new capital.

These fresh capital injections and the subsisting favourable business environment had in recent times enabled the DMBs to undertake 'big ticket' transactions, especially huge syndicated loan facilities for key operators in the economy. For instance, Zenith Bank Plc led a consortium of about 17 other banks to sign a deal to finance MTN Nigeria's medium-term loan which the company intends to spend on expanding and upgrading its network. The $3 billion medium-term loan according to MTN, which tenure of repayment has been increased from five to seven years, is syndicated from both local and international banks. The lead arranger of the facility, Zenith Bank, contributed N55billion – the highest. First Bank and GTBank put in N40 billion each while Access Bank, Fidelity Bank and First City Monument Bank added N35 billion, N26.25billion and N15 billion respectively, among others.

Soon after the MTN deal, Zenith Bank also led 12 other banks to pull $1.2 billion Medium Term facility (MTF) financing deal in Lagos for Emerging Markets Telecommunications Services Limited (EMTS), trading under the name of Etisalat Nigeria. The seven year financing deal is divided into two tranches with Zenith Bank, the lead arranger as major contributor to the facility. Apart from Zenith Bank, other banks in the deal include Guaranty Trust Bank, First Bank, United Bank of Africa, Fidelity Bank, Access Bank, Ecobank, Keystone Bank, First City Monument Bank, FSDH Merchant Bank, Mainstreet Bank, Stanbic IBTC Bank and Union Bank.

First Bank of Nigeria Plc also led a consortium of four banks to seal a syndicated $225 million medium term

http://25.media.tumblr.com/684192e8e3b10762534a7bd35d617501/tumblr_mkjgb98VQ51s3cno8o1_1280.jpg

facility with Accugas Limited, a gas processing, marketing and distribution company owned by Seven Energy International Limited. According to the transaction document, the loan would be utilized to re-finance existing $55 million debt secured by Accugas for its gas pipeline project in Akwa Ibom State, while the balance of $170 million would be used to part-finance the expansion of the company's existing gas processing facilities. Other banks in the syndication deal are United Bank for Africa, FCMB and Stanbic IBTC.

In tune with the consistently improving environment, a number of new players joined the banking industry during the period under review. First is the resurrected Societe Generale Bank: seven years after its commercial banking licence was revoked on January 16, 2006 for its failure to meet the December 31, 2005 recapitalization deadline, SGBN opened shop as a regional player (minimum of N10 billion capital base) under the name Heritage Banking Company Limited. The second is South Africa's FirstRand which launched its new merchant banking business in Nigeria as a springboard to move into retail and commercial lending in Africa's second biggest economy. First Securities Discount House (FSDH) also got a merchant banking license from the CBN and commenced full operations during the quarter under review. Diamond Bank Plc in its foreign expansion drive got approval from the Financial Services Authority (FSA) to operate a bank in the United Kingdom.

During the quarter under review, the CBN took a number of measures in sustenance of reforms in the banking industry. One of such efforts was the inauguration of the Financial Regulation Advisory Council of Experts (FRACE) in line with the guidelines for the regulation and supervision of institutions offering non-interest financial services. The apex bank also released guidelines for the regulation of agent banking and agent banking relationships in Nigeria. Agent banking, according to the CBN, is the provision of financial services to customers by a third party (agent) on behalf of a licensed deposit taking financial institution and/or mobile money operator (principal). The CBN also issued new guidelines on bank charges to address that area of banking business that often exposed operators to face-offs with, and litigations by bank customers. The new guide which replaced the one that had been in existence since 2004, took effect from April 1, 2013.

Early in the year, the CBN revoked the licenses of about 236 Bureau de Change companies; it at the same time issued guideline for licensing, operations and regulation of credit bureau and credit bureau-related transactions in Nigeria. According to the new guideline, investment by a bank and its subsidiaries in a Credit Bureau shall not exceed 10 per cent of the total paid-up capital of the Credit Bureau; and no banks shall invest in more than one Credit Bureau. Also, no individual shall be a director in more than one Credit Bureau. The guideline also stipulates that a licensed Credit Bureau shall collect information on the background and credit history relating to the commitment of persons, enterprises and other organizations, in order to determine their identity, banking relationships, overall debt exposure, repayment behaviour and other contractual obligations.

(Marcel Okeke is the Editor, Zenith Economic Quarterly)

NIGERIA INCENTIVE-BASED RISK SHARING SYSTEM FOR AGRICULTURAL LENDING

NIRSAL

Credit Risk Guarantee and Interest Drawback Fund Operational Guidelines and Operations

Effective Date: April 4, 2012

continued from last edition

9. Use of Credit Rating, Credit Rating Agencies, Insurance, and Due Diligence Tools

9.1. In line with the requirements of the Prudential Guidelines, NIRSAL requires both borrowers and lenders to maintain proper credit records with Nigeria's credit agencies, and utilize at least 2 bureaus in determining credit risk. However, as a number of farmers and farmer groups will have limited credit histories, NIRSAL recognizes that complying with the letter of the regulations may raise challenges. Therefore, as a proxy for compliance should bureau record not exist, NIRSAL requires prompt reporting of all loans in order to improve the terms of risk pricing over time in addition to utilizing credit history proxies in initial transactions.

9.2. Counterparties are required to report each loan made to credit rating agencies using the individual or corporate name of the borrower with the expectation that the pricing of the guarantee will evolve over time to reflect the risk adjusted default history of that party, and the counterparty itself.

9.3. Counterparties are also encouraged to work with NIRSAL and 3rd party due diligence providers to explore low cost and innovative platforms for verifying the identity of borrowers such as basic DNA based biometric systems; NIRSAL will issue further guidance as options are examined subject to extant federal regulations and initiatives. In the interim the absence of such specific provisions should not be interpreted as the sole basis for denying lenders credit.

9.4. All borrowers are required to hold insurance cover that covers all other appropriate risks applicable to their business e.g. comprehensive drought, natural disaster, fire, etc. Such insurance can be purchased from private and public companies.

10. Modalities for Purchasing, Securing and Trading the Credit Risk Guarantee

10.1. A risk guarantee fee of **3.0% per annum or 0.25% per month** irrespective of the size of the loan or the nature of the borrower shall be charged. The annual fee is payable only on the portion of the loan that is guaranteed. At the sole discretion of the counterparty, the cost of the CRG fee can be shared between the borrower and the counterparty in a variety of ratios e.g. 50:50 split. The CRG is independent of any other fees /interest / other charges levied on the ultimate beneficiary.

10.2. NIRSAL shall after a **30 business day notice** to counterparties reserves the right to change the guarantee price upwards or downwards solely at its own discretion. However, changes in CRG fee will only be applicable going forward, i.e. no CRG contract will be back dated.

10.3. The guarantee fee shall be charged on the guaranteed portion of the loan outstanding (sum of interest due and principal) as of the date the premium is due.

10.4. To purchase a CRG, the NIRSAL counterparty shall submit a completed application (see Short Form sample in Appendix).

10.4.1. Each application must be accompanied by a copy of the underlying summary Credit Committee appraisal report on the application and a detailed line by line breakdown of the fees and interest charged on the underlying credit. A full checklist of what types of documentation lenders should review is provided in the Appendix.

10.4.2. Each CRG application must be submitted online using the prescribed NIRSAL electronic credit risk management system (CRMS).

10.4.2.1. While the system remains under development, NIRSAL will accept e-mailed applications submitted as a portable document format (pdf) file. Applicants should follow up and submit the original documents via express mail (e.g. DHL, UPS, FEDEX) or NIPOST mail.

10.4.3. Per the terms of the Master Agreement, each agent can designate the authority to sign the Short Form to specifically named agents within its organization.

10.4.4. After putting in place appropriate control mechanisms, NIRSAL encourages counterparties to appropriately decentralize the process of reviewing loan applications as well as applying for CRG coverage in order to create a system in which branch and regional offices with a field based understanding of credit histories and capacities drive business volumes

10.5. NIRSAL will review the application and provide **a response within 15 business days**. If approved, the CRG contract will be effective as of the date NIRSAL receives it.

10.5.1. If the application is accepted, NIRSAL will countersign the original application, annotate the IDP start date if applicable, and add a unique 9 digit identification number

10.5.2. If denied, the application will be stamped "Denied" and returned to the counterparty; unless the underlying loan terms are adjusted, the denied CRG application cannot be reconsidered by NIRSAL.

10.5.3. Note that CRGs issued on loans that benefit from existing CBN interest rate interventions e.g. CACS loans are not eligible for IDPs since such loans already have an interest subsidy built into them.

10.6. Every last business day of the month (except for Federal public holidays), the risk guarantee fee must be electronically deposited by counterparties into NIRSAL's account. The risk guarantee fee shall be payable on the guaranteed portion of the principal loan and interest amount outstanding presuming it continues to remain in good standing.

10.7. Counterparties must bulk deposit their premiums into the NIRSAL account in addition to providing a detailed account breakdown (CRG number, borrower name and outstanding principal plus interest loan value) in order to ensure credit is appropriately applied to each outstanding loan as identified by its unique 9 digit CRG number.

10.8. NIRSAL encourages parties to structure loans and credit contracts in relatively standard ways for each stage in the value chain. That will enable ease of packaging for securitization and similar enhancement initiatives designed to re-price risk, create liquidity and transfer wholly or partially, existing balance sheet risk. NIRSAL wants an active market for agribusiness loan securitization in other to create additional platforms for indirect investors to gain exposure to agribusiness risk. Such credit portfolios if sold on as securitized obligations must be rated by credit rating agencies.

10.9. NIRSAL counterparties are also allowed to trade their underlying CRG protected agribusiness loans obligations to other counterparties in a secondary loan market as long as they inform NIRSAL of the assignment or a novation of a CRG protected loan to a 3rd party with whom NIRSAL has a pre-existing Master Agreement before the next premium payment is due.

10.10. Such CRG protected secondary loan and debt instrument trades must be reported on a monthly basis on the NIRSAL credit management system to improve pricing transparency as well as the implied default terms associated with a specified obligor or borrower.

11. Risk Portfolios and Loss Coverage Levels

11.1. Counterparties are required to group their customers into one of **7 categories** based the definitions outlined earlier in the guidelines (Section 6.1). These definitions, related risk mechanism and associated CRG coverage levels are also subject to refinement at NIRSAL's sole discretion with a **60 business day notice** to all counterparties. Any refinements will be based on NIRSAL's overall portfolio risk strategy including the cross-cycle adequacy of its reserve funds.

11.2. Each group will be covered by a different level of CRG risk mechanism i.e. the definition of the risk sharing as follows:

Category Number	Category Name	Risk Mechanism	CRG Coverage
1	Smallholder Farmers, Cooperatives and Farmer Groups	• Shared Loss	75% of the loss on the individual loan
2	Medium Sized Farmers, Cooperatives and Farmer Groups	• Shared Loss	70% of the loss on the individual loan
3	Large Cooperatives, Corporations and Farmers	• Shared Loss	50% of the loss on the individual loan
4	Agricultural Processors	• Shared loss • Level of CRG coverage can be deal based i.e. negotiated • Levels indicated here are indicative	50% of the loss on the individual loan
5	Logistics Providers		40% of the loss on the individual loan
6	Integrated Farms, Processors and Logistics		40% of the loss on the individual loan
7	Agro-dealers, Input and Equipment Suppliers		60% of the loss on the individual loan

11.3. In the absence of a default, partial or full, the counterparty is obligated to send NIRSAL a Notice of Contract Conclusion upon the full payment of the guaranteed portion of the underlying loan or credit.

12. Incentives: Interest Draw Back Program Offer

12.1. Each risk guaranteed loan, bond, or line of credit is qualified *in principle* for consideration under the Interest Draw Back Program (IDP). NIRSAL reserves the sole right to determine who receives IDP support.

12.2. The IDP is an interest rate support scheme that NIRSAL offers borrowers in good standing i.e. an incentive to reduce the burden of interest payment and encourage timely repayment of loans. The funds for the IDP are provided by NIRSAL and CBN. NIRSAL also administers special IDPs schemes on behalf of 3rd parties e.g. for only farmers registered in a given state or involved in cultivating a specific crop for example.

12.3. Based on the borrower's position in the value chain, and the current value of the CBN MPR, the IDP offered to selected borrowers will be as follows:

12.4. Counterparties can apply for IDP coverage using the Short Form by checking the applicable box. NIRSAL reserves the sole right not to grant a prospective applicant IDP support.

12.5. If NIRSAL grants the IDP, the countersigned Short Form will indicate the status of the request.

12.6. Every last business day of the quarter (March 30, June 30, September 30 and December 30, except for Nigerian federal public holidays), the IDP value will be electronic deposited by NIRSAL into the account of the lender, underwriter, trade finance provider, or related party for onward credit to the underlying borrower. The counterparty is required to credit the borrower's account within **3 business days**, barring which NIRSAL will impose fines equal to 300% of the value of the IDP deposit. Counterparties that repeatedly fail to adhere to the IDP guidelines may be excluded from conducting business with NIRSAL.

12.7. The IDP support will be paid continuously throughout the life of the loan or credit obligation as long as the obligation remains in good standing. A loan is defined as in good standing if all principal and interest payments are up to date, as per the original or amended pay back schedule agreed upon between lender and borrower.

12.8. In the event of a partial default event (90 consecutive days without payment), the IDP payments will cease until the loan is in good standing.

13. Declaring and Managing Events of Partial Default

13.1. In the event of an end to interest and principal repayments for 90 consecutive days, a NIRSAL counterparty can declare the underlying asset, credit, or borrower in partial default.

13.2. Under the conditions of a partial default, counterparties are obligated to inform NIRSAL in writing or via the electronic system using the borrower's 9 digit CRG contract number.

13.3. In the event of a partial default, once the counterparty and the borrower resolve the situation and the loan is reclassified as in good standing, the counterparty is required to advise NIRSAL via a Notice of Contract Extension. NIRSAL will not back deposit IDP payments for periods of partial default.

Category Number	Category Name	IDP Offered
1	Smallholder Farmers, Cooperatives and Farmer Groups	50%
2	Medium Sized Farmers, Cooperatives and Farmer Groups	50%
3	Large Cooperatives, Corporations and Farmers	40%
4	Agricultural Processors	40%
5	Logistics Providers	30%
6	Integrated Farms, Processors and Logistics	30%
7	Agro-dealers, Input and Equipment Suppliers	35%

14. Declaring and Managing Events of Full Default

14.1. The lender, or underwriter, or credit provider can declare an event of full default under the following conditions:

14.1.1. At the end of each financial year, each counterparty is required to draw up a list of its borrowers in default i.e. defined as borrowers who have not made a payment in 12 months

14.1.1.1. In order not to delay the "make whole process", NIRSAL will accept a preaudit version of such a list though a finalized, post-audit list is also required

14.1.2. The counterparty is required to submit the list to NIRSAL with an accompanying Notice of Default

14.1.3. NIRSAL within **3 business days of receiving the Notice of Default**, reviews the declaration and returns a signed copy as acknowledgement

14.1.4. Once the Notice of Default is returned, NIRSAL will have **30 business days to review the file** and investigate the borrower's default.

14.1.5. No later than the first business day following the 30 business day window **after returning the Notice of Default**, NIRSAL will make the lender or issuer whole per the terms of the risk guarantee contract by issuing a **Notice of Settlement**

14.1.6. During the 30 day window, the counterparty is required to prepare for transfer to NIRSAL any supporting documentation as required by NIRSAL

14.1.7. In the interim, the counterparty is expected to continue efforts to recover the loan. In perpetuity, the counterparty shall remit to NIRSAL 60% of the value of recoveries made by the counterparty after NIRSAL has settled the loss less any legal and recovery fees. NIRSAL retains seniority in the process of recovery payback.

15. Summary of Key Process Steps in CRG and IDP Lifecycle (See table below)

16. Compliance and Enforcement Action

16.1. NIRSAL will periodically conduct random spot audits of underlying borrowers, transactions, and counterparties as well as investigate general compliance with its guidelines.

16.2. Parties that demonstrate a repeated pattern of non-compliance will face fines equal to 300% of the financial value of the infraction and/or exclusion for at least 12 months from transacting CRG business with NIRSAL. Note that NIRSAL's compliance actions in no way limits the scope of actions available to the Central Bank of Nigeria, which can choose to impose additional penalties including sanctions on individuals and corporations involved.

16.3. CRG and/or IDP applications based on fraud and misrepresentation will result in both fines, exclusion from the NIRSAL market as well as full scale criminal and civil legal action against the institution and the agents of the institution involved.

16.4. Counterparties are in turn required to provide NIRSAL's Head of Risk Management with all requested data as well as pertinent information should dissatisfaction with NIRSAL's conduct of business arise.

ISSUED THIS 4TH DAY OF APRIL, 2012
BY CENTRAL BANK OF NIGERIA
ABUJA HEADQUARTERS
FOR AND ON BEHALF OF NIRSAL

Summary of Key Process Steps in CRG and IDP Lifecycle

Step	Key Process Activities
1	• Request standard Master Agreement (word document or download from NIRSAL website) + list of supporting documentation
2	• Review, clarify if necessary and sign Master Agreement; return to NIRSAL for review and acceptance if counterparty acceptable to NIRSAL
3	• Commence agribusiness value chain lending to borrowers and classify credit by group
4	• On specific loans apply for CRG and/or IDP using Short Form
5	• Update loan record with unique CRG number and related contract details once NIRSAL approval obtained
6	• Pay monthly risk guarantee fee and/or receive quarterly IDP on behalf of Borrower, immediately credit borrower account
7	• Advise NIRSAL once loan is repaid, ending risk contract
8	• Advise NIRSAL in the event of an event of partial or full default, triggering recovery and claims process as applicable

17. Appendix 1: Credit Related Definitions

17.1. Business Day: Defined as every day the Nigerian banking and capital markets are open i.e. the Central Bank and the Nigerian Stock Exchange except for federal, bank and religious holidays. Interest accrual is calculated on a daily basis.

17.2. Federal Holiday: Holiday based on declaration from the Federal Ministry of Internal Affairs and/or other agents of the Federal Government of Nigeria

17.3. Loans/Credit in Good Standing: In past 90 calendar days, all principal and interest payments are up to date per the pay back subsisting schedule between lender/arranger and borrower

18. Appendix 2: Sample Documentation

NIRSAL Credit Risk Guarantee – Short Form Contract

Section 1: To Be Completed by Counterparty	Transaction Specifics
NIRSAL Counterparty	Global Bank of Nigeria
Underlying Credit / Borrower	Xflavor Foods Limited
Borrower Category	5
Value Chain Classification	Group 4
Primary Crop Focus	Cassava
Credit Effective Date	May 1, 2012
Value of Credit/Loan	N50,000,000
Duration	24 months
Interest Rate Charged by Lender	19%
1st Interest Due Date	August 1, 2012
Collateral Type	Credit Bond (IGI Insurance)
Equity Contribution	9%
CRG Sought	X
IDP Requested	Yes / X / No
Section 2: To Be Completed by NIRSAL	
CRG ID	000-000-001
CRG Coverage (Interest and Principal Outstanding)	50%
CRG Transaction Effective Date	May 1, 2012
CRG Transaction End Date	April 30, 2012
CRG Premium Rate	3% (300 basis points)
Premium Value Date	30th day of the month, or last business day except federal and bank holidays
Premium Terms (Interest and Principal)	Value outstanding on value date
Interest Draw Back (IDP)	Granted / X / Denied
Interest Draw Back % Rate	50%
IDP Value Date	90 day cycle after 1st interest payment
Section 3: Administration	
Payments to Counterparty	Via EFT to account on file
Payments to NIRSAL	Via EFT to account on file
Special Notes	None

For and on behalf of the counterparty named above, I hereby certify that the terms of the underlying credit meet the NIRSAL operating guidelines, and voluntarily enter into this contract per the Master Agreement.

For and on behalf of NIRSAL, I hereby accept the CRG contract subject to the overall terms and conditions specified in the subsisting Master Agreement between NIRSAL and the counterparty named above

Counterparty Authorized Signatory	NIRSAL Authorized Signatory
Jonathan Adeboye	Simon Templar

Notice of Default & Counterparty Declaration to NIRSAL

Section 1: To be completed by Counterparty	Transaction Specifics
NIRSAL Counterparty	Global Bank of Nigeria
Underlying Credit / Borrower	Xflavor Foods Limited
Borrower Category	5
Value Chain Classification	Group 4
Current Value of Principal and Interest	N20,000,000
CRG ID	000-000-001
CRG Coverage (Interest and Principal Outstanding)	50%
CRG Transaction Effective Date	May 1, 2012
CRG Transaction End Date	April 30, 2013
Default Status	Partial | X | Full | |

I hereby certify that the obligor(s) named above or listed in the accompanying appendix has defaulted on the terms of the underlying loan/credit/bond and is therefore in violation of the terms of the NIRSAL credit risk guarantee. We hereby invoke our rights under the terms of the Master Agreement between the counterparty and NIRSAL.

Counterparty Authorized Signatory	NIRSAL Authorized Signatory
Jonathan Adeboye	Simon Templar
May 2, 2012	May 3, 2012

NIRSAL Notice of Settlement

Categories	Transaction Specifics
NIRSAL Counterparty	Global Bank of Nigeria
Underlying Credit / Borrower	Xflavor Foods Limited
Borrower Category	5
Value Chain Classification	Group 4
Current Value of Principal and Interest	N20,000,000
CRG Coverage Level	50%
NIRSAL Repayment to Counterparty	N10,000,000
Payment Date	Immediate

Per the terms of the Master Agreement, NIRSAL hereby issues payment on the CRG listed above or in the accompanying appendix.

Counterparty Authorized Signatory	NIRSAL Authorized Signatory
Jonathan Adeboye	*Simon Templar*
June 2, 2012	*June 2, 2012*

Counterparty Notice of Contract Conclusion

Categories	Transaction Specifics
NIRSAL Counterparty	Global Bank of Nigeria
Underlying Credit / Borrower	Xflavor Foods Limited
Borrower Category	5
Value Chain Classification	Group 4
Current Value of Principal and Interest	N20,000,000
CRG ID	000-000-001
CRG Coverage (Interest and Principal Outstanding)	50%
CRG Transaction Effective Date	May 1, 2012
CRG Transaction End Date	April 30, 2013
Loan/Credit Fully Repaid	Yes

I hereby certify that the obligor named above has completed payment of the underlying loan/credit/bond and therefore the counterparty no longer requires the NIRSAL credit risk guarantee. The contract specified above is hereby concluded as of the transaction end date as noted above.

Counterparty Authorized Signatory	NIRSAL Authorized Signatory
Jonathan Adeboye	Simon Templar
May 2, 2012	May 3, 2012

Counterparty Notice of Contract Extension

To Be Completed by Counterparty	Transaction Specifics
NIRSAL Counterparty	Global Bank of Nigeria
Underlying Credit / Borrower	Xflavor Foods Limited
Borrower Category	5
Value Chain Classification	Group 4
Current Value of Principal and Interest	N20,000,000
CRG ID	000-000-001
Original CRG Transaction End Date	April 30, 2012
New CRG Transaction End Date (i.e. loan end date)	November 30, 2012
Underlying Loan/Credit Terms Restructured	Yes
New Interest Rate	18%
New Transaction Effective Date	June 30, 2012

I hereby certify that the obligor named above has undergone a loan restructuring following an event of partial default. The loan terms have been amended as documented above and we hereby request that access to the IDP be renewed if applicable subject to the broader terms of the subsisting Master Agreement.

Counterparty Authorized Signatory	NIRSAL Authorized Signatory
Jonathan Adeboye	Simon Templar
April 25, 2012	April 25, 2012

In managing itself and its abundant assets and resources, the world now realizes some fundamental flaws that must be corrected. Worsening natural and man-made disasters, terrorism, cybercrimes, poverty and squalor, environmental degradation, diseases and epidemics, social exclusion, cyclical business failures, economic recession and financial crises … these and more have opened our eyes to the fact that we need to manage our world and our posterity better.

At the current reckless rate of exploitation and manhandling, we face the threat of waking up one day to find that our economies have degenerated beyond redemption, our environments have been debased beyond recognition and our social and institutional structures have been gruesomely mismanaged at the detriment of this and future generations. These are some of the crucial concerns that the evolving concept of Sustainable Development tries to address.

Understanding Sustainable Development

Perhaps one of the most succinct definitions of Sustainable Development is that from the World Commission on Environment and Development ('Our Common Future'; 1987). It defines Sustainable Development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

The whole concept gained momentum in the 1980s following the activities of the United Nations and its agencies aimed at creating awareness and mobilizing stakeholders to discuss the deteriorating condition of the global environment. As far back as in 1972, the United Nations held a Conference on the Human Environment in Stockholm, Sweden, where it tried to address similar global challenges. But the setting up of the Brundtland Commission in 1984 and the publication of the epoch making report "Our Common Future" in 1987 marked the actual beginning of the growing relevance of Sustainable Development as a major global issue. This report also had a

Sustainable Development: Issues, Strategies & Goals

By EUNICE SAMPSON

great influence on the work of the Earth Summit in Rio de Janeiro, Brazil in 1992 and the third UN Conference on Environment and Development in Johannesburg, South Africa in 2002.

The most recent attempt at globalising discussions on the issue came during the United Nations Conference on Sustainable Development (tagged Rio+20) which held in Rio de Jenairo, Brazil on June 20-22, 2012. This conference, coming twenty years after the first Rio Earth Summit in 1992, brought together thousands of participants from governments, the private sector, NGOs and other interest groups to examine progress on the outcomes of the first Rio Earth Summit and agree on a range of measures to reduce global poverty, create jobs for the growing unemployed, achieve sustainable energy and promote a fairer and more equitable use of global assets and resources.

Sustainable Development advocates focus mostly on how nations, corporates, communities, individuals and other global stakeholders could meet their developmental needs in ways that will not conflict with the needs or wellbeing of others. For example, how do we ensure that a family's need for firewood does not result in deforestation and damages to the soil and the larger environment? How do we ensure that the need for bio-fuel in one country does not result in food shortages and hunger in another? How do we ensure that developmental projects in one part of the globe do not result in social, economic and environmental hazards in neighboring countries? How can the needs of this generation be met without jeopardizing those of future generations?

The concept of Sustainable Development stresses a balanced consideration of these social, economic, and environmental issues in our everyday decision making processes. It encourages governments, non-governmental institutions, corporate organizations, communities, families and individuals to take responsible decisions with the wellbeing of the whole environment in mind rather than just their own selfish ends.

The world is no doubt grappling with serious socio-environmental, economic and institutional challenges that call for these deep reflections and warrant urgent actions at the global, national and even sub-national and institutional levels. Sustainable Development as a concept has the potential to tackle much of these problems headlong if concerted efforts are made by world leaders to make its implementation a global priority.

Why Sustainable Development?

Governments, private institutions and individuals can no longer base their everyday decisions on the misconception that the earth and everything in it is inexhaustible. Outcomes of technological, industrial and other human activities in the last centuries flag dangerous signals that our environment just might be on the brink of self-exhaustion if no deliberate effort is made to reverse current trends. This is why Sustainable Development has become a critical issue today.

Sustainable Development concerns all of us, at different levels. No one should feel unperturbed by the urgent need to address sustainability issues, especially as globalization continues on rampage. The world as a global village has gone beyond an ICT cliché. There is no American, African, Asian or European environment in that clean-cut geographical precision anymore. Every environment is now closely intertwined

… and whatever happens in one … pollution, earthquake, financial crisis, institutional failures and other natural or human mishaps sends shockwaves across all others.

The *reckless* tendencies exhibited at some governmental and institutional levels have resulted in the environmental degradation and socio-economic imbalances we see in our world today. The targets of Sustainable Development is to reverse and correct these imbalances while also striving to ensure that future generations inherit a world that is better run and structured. And this simply means playing by the rules and averting activities and policies that benefit one at the expense or detriment of the others.

Besides, the world has come to a point of realisation that any growth or development without a human face to it is *unsustainable* and doomed to fail. The same is true for sovereigns, sub-nationals, corporates and even individuals. The goal of Sustainable Development is to inculcate the spirit of responsibility in all of us, in the belief that if stakeholders could exhibit good citizenship attributes, the social, economic and environmental wellbeing of current and future generations would be assured, to a very large extent.

In the emerging dispensation, yardsticks for defining growth and development, either at the sovereign or institutional levels would have to be redefined, taking into cognisance the measurement indicators that have been laid down and to what extent they are being achieved.

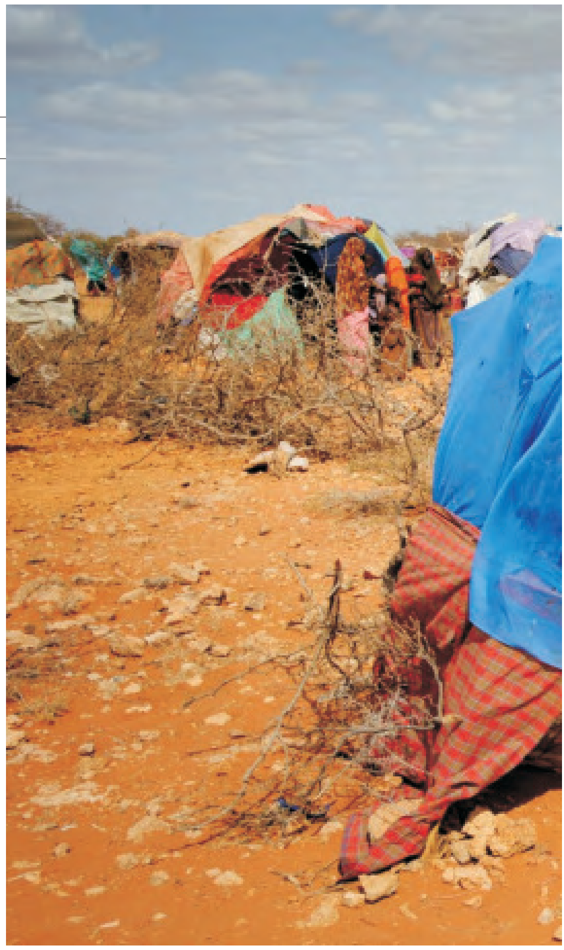
Sustainable Development: Key Issues

Sustainable Development draws global attention to the urgent need to address issues that have the potential to endanger our individual and collective existence and threaten to rob future generations of their wellbeing.

These issues include:

1. The Environment (degradation, global warming, deforestation, loss of biodiversity, climate change, green house gas emissions, waste management, renewable energy, natural resource depletion, food security, water preservation, physical infrastructure management, among others)
2. Economy (cyclical economic crisis, growth challenges, poverty, trade barriers, financial inequality, growing unemployment, social security nets, grassroots development, among others)
3. Social (human right issues, socio-cultural diversity management, religious, racial, gender differences management, social exclusion, stigmatizations and discriminations, extra judicial killings, police brutality, illiteracy, population management, adequate shelter, among others)
4. Globalization (uneven global development, inequitable distribution of global resources, harmful and unfair trade practices, import subsidies, unemployment, technology and knowledge transfer, social media, cybercrime, migration, resource strain, terrorism, among others)
5. Institutional governance (responsible business practices, corporate governance, focused and purpose driven CSR policies, resource efficiency, effective risk management practices, accountability and transparency, full disclosure in financial and non-financial reporting, global best practices in production and service delivery, staff welfare, family-friendliness, working conditions and safety measures, best practices in human resource management, unhealthy competitive practices, among others)
6. Public governance (including at national and sub-national levels; transparency and accountability; efficient management of capital, including human capital, natural capital, financial capital, social capital; community and grassroots development; effective reporting and public disclosure; policy consistency, sovereign debts management, savings and external reserves policies and management, participatory governance, democratic norms, equitable distribution of national resources, sovereign wealth management for the now and the future, among others)

While this list is not exhaustive, one could arguably say that if these issues could be adequately addressed, then the world would have made reasonable progress in its quests for Sustainable Development.



Although the journey to achieving Sustainable Development is still quite far, the UN and its agencies have at least established a credible platform for global leaders to discuss and agree on ways to address these issues of concern while also setting principles and guidelines through which the practices and activities of governments and private institutions could be benchmarked.

Divergent views on Sustainable Development

While a great number of global opinion leaders see the importance of the concept of Sustainable Development, there are however divergent views and opinions as to its meaning, scope, goals, practices and implementation strategies.

Of the three main focus areas of Sustainable Development – economic, social, and environmental – perhaps the one that has enjoyed or suffered

http://2.bp.blogspot.com/-3qrrH-gUO1A/TpnsSNse_JI/AAAAAAAAADU/cY1s8IX_nU0/s1600/D345-0091-096_322441.JPG

the biggest controversy is the environmental aspect. An interesting school of thought sees the new buzz about the environment as a ploy by the developed economies to leave the low income regions perpetually poor. For some, it is another attempt at neo-colonialism. This school opines that the environmental degradation we suffer today are a direct result of the economic, social, industrial and technological activities of the western world … and are the very reason why they are as rich and as advanced as they are today. They therefore see the new *gospel* of Sustainable Development as an attempt by the west to hamper growth and advancement in emerging economies by restricting their industrial, economic and environmental freedom.

Yet another school of thought dismisses the whole environmental sustainability outcry as diversionary, taking attention away from *the real deal*, which are poverty, hunger, inequality, homelessness, illiteracy, social exclusion and other socio-economic gaps that have left the poor, poorer and the rich, richer.

Critics of the "green economy" for example opine that the whole concept is a trick by the west to accumulate more wealth for themselves and profits for their financial institutions as they turn *'speculative'* again ... this time, in the guise of environmental preservation.

The new carbon emissions 'offset' policy is already generating controversies in some countries. In May, 2013, environmental organisations held a protest in Washington, USA, urging California Governor Jerry Brown to disregard recommendations from a United Nations task force to include forest "carbon offsets" in the state's new emissions-trading scheme. The controversial 'carbon offsets' strategy is a mechanism by which companies, governments, or other entities can buy carbon offsets in order to comply with caps on the total amount of carbon dioxide they are allowed to emit. Critics say that instead of reducing green house emission, this strategy would only shift the responsibility of environmental preservation from the rich countries which can afford to buy carbon credits to their neighbouring countries who will continue to bear the brunt of such emissions. Instead, environmentalists insist that every country should work towards reducing the negative impact their activities have on the global environment, rather than pushing this responsibility to other countries and paying them for the dis(service).

While the concept of Sustainable Development is only just evolving, it is critical for its success that the UN, its agencies and all other promoters work out solutions that are workable, practicable and are in themselves, sustainable ... solutions that meet the expectations of all categories of stakeholders.

The only way to mobilise globalised, high-level political support for Sustainable Development is for its facilitators to draw up clear, fair and equitable plans and guidelines on how the issues could best be addressed, without any prejudice and without any socio-economic or political bloc enjoying unfair advantage.

Recent tragic experiences in Haiti and parts of Africa and Asia are pointers to the fact that the least developed economies of the world are the most vulnerable to the fallouts of environmental, social, economic and institutional manhandling. Much of the low income economies lack the muscles to hedge the tragic outcomes of a degraded environment, including polluted drinking water, deforestation, outbreak of epidemic, food scarcity, among others. This leaves them and their future generations perpetually at the mercy of these negative outcomes.

However, all views and perspectives considered, it must be said that the extent of environmental degradation we see around us today has exposed the risks posed to mankind by the irresponsible practices of governments and businesses. So, beyond the finger-pointing, the fact remains that the ugly trend has to be reversed at some point. And there could be no better time than now. As a good starting point, emerging economies could learn from the mistakes of their predecessors … the developed west … and avoid a repetition of the same blunders that have brought us to where we currently are.

Government versus Private Sector

No doubt, government policies and regulations backed by effective implementation would be needed if the world is to achieve set goals on Sustainable Development. But beyond championing regulation and implementation, national governments also have the responsibility to ensure good governance, which is governance in compliance with the rule of law and best practices. Its service delivery to the public should be carried out in a responsible manner that does not favour any one group at the expense of the other or this generation at the expense of the next.

Governments also owe it to the private sector, interest groups, communities, families and all national and global stakeholders to play a pivotal role and provide a conducive environment for Sustainable Development to take firm roots and thrive.

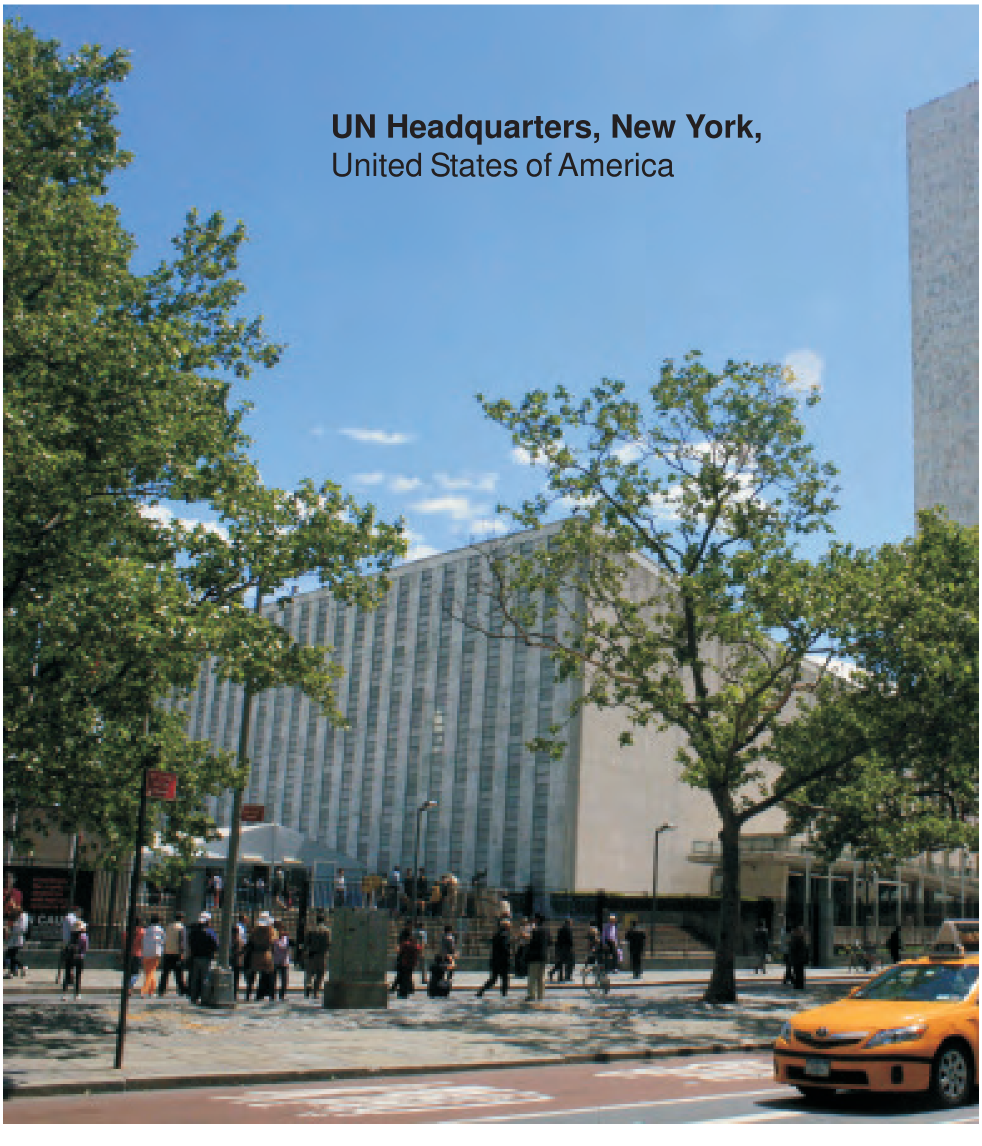
On the other hand, the role of the private sector in the whole Sustainable Development concept is, to put it mildly, overwhelming. In my views, private institutions remain the biggest stakeholder in the pursuit of Sustainable Development. It could be argued that the activities of corporates have had about the biggest impact on the social, economic and environmental wellbeing of our world today.

For Sustainable Development to achieve any meaningful impact, it has to be seen and adopted by private sector operators as an integral corporate policy, similar to what the OECD has initiated. The 'bottom-line' at all costs mindset of today's corporate world must be redefined to create room for a structured focus on sustainability in the entire value chain, production, supplies, services, and in the future of the corporation, industry and economy as a whole. If this is not achieved, Sustainable Development as a concept would die in its infancy.

Thankfully, some global professional groups are beginning to reason along this line. In 2002, the International Energy Agency (Coal Industry Advisory Board) issued a position paper at the United Nations World Summit on Sustainable Development in Johannesburg, acknowledging the paramount importance of Sustainable Development and committing to rallying its members to provide evidence of progress in this regard. Since then, the IEA has taken steps to report on Sustainable Development initiatives of its members with emphasis on evolving best practices. This indeed is the way to go for today and future private institutions.

In the new dispensation, every responsible organization would be expected to adopt Sustainable Development principles and policies at the board-level, to help guide the way it conducts its business. Relevant employees with the required knowledge would need to be engaged, while all other members of the workforce would need to be trained on sustainable business ethics and practices and the impact of these on the bottom-line. Private institutions just like their government counterparts must be willing to proactively tackle socio-economic and environmental issues that have the potential to make the world a better place for all.

Interestingly, beyond the call to 'give back'; Sustainable Development also encourages companies to keep their traditional 'bottom-line', profitability and return on shareholders' investments in mind. This is why effective risk management, cost-effectiveness, excellent service delivery, production efficiency, corporate governance, effective stakeholders' engagement, human capital de-



UN Headquarters, New York,
United States of America

http://www.iisd.ca/oceans/marinebiodiv5/

velopment and fair competitive practices are also emphasized in any meaningful discussions on Sustainable Development.

In addition to these bottom-line issues, Sustainable Development stresses the need for corporates to *share* in the responsibility of taking care of the wellbeing of the socio-economic and environmental space where they carry out their businesses and accumulate their profits. They are also required to give periodic reports on their progress in this regard.

In the foreseeable future, a major performance indicator for companies, especially the aspiring global players, would be their level of adherence to Sustainable Development Goals, and this would become a critical competitive edge across all industries.

Several proactive firms are of course already taking the lead, as they adopt reporting standards that focus on the triple-bottom-line … that is, environmental, social and economic considerations. But so far, firms that have made tremendous progress in this regard are mostly those whose business activities could be said to directly impact on the environment. They include players mostly in the extractive industry, oil and gas, mining, among others.

Interestingly, the sustainability of today's corporate organizations would depend on how seriously they adopt the principles of Sustainable Development and the sacrifice they are willing to make to preserve the future of their industries and the overall economy. It is a trade off that no corporate entity can shy away from, going forward.

But then, even the service-oriented industries cannot exempt themselves from this evolving trend. Regulators of financial services industries are already working closely with relevant UN agencies to get banks and other financial institutions around the world to key into the concept of Sustainable Development by adopting and implementing industry-specific principles and guidelines.

Interestingly, the sustainability of today's corporate organizations would depend on how seriously they adopt the principles of Sustainable Development and the sacrifice they are willing to make to preserve the future of their industries and the overall economy. It is a trade off that no corporate entity can shy away from, going forward.

At this point in history when the modalities for Sustainable Development are still being laid out, private institutions would do well for themselves by ensuring that their voices are heard and their views counted, to ensure their seamless integration of the SDGs when they are unveiled in the near future. The UN Global Compact has been active in this regard, collating the views and contributions of businesses and the private sector and ensuring that these are fed into the post-2015 planning process.

Private institutions remain the engine room for the change the world desperately seeks on Sustainable Development and they must be carried along every step of the way if any meaningful progress is to be made.

Measurement Parameters

Sustainable Development in a nutshell promotes the view that governments, industries and other global stakeholders must begin to imbibe principles that will ensure our collective social, economic and environmental wellbeing. But arriving at a consensus on the exact parameters for measuring progress in these aspects has not been easy.

So, what exactly are the "sustainable" qualities that governments, businesses and other global stakeholders are expected to imbibe and exhibit? And how would these qualities or indicators be measured?

Unfortunately, these have not been strictly defined up till date and there are as yet no globally acceptable indicators that have been agreed. But some institutions are taking proactive steps in defining what the measurement parameters and best practices should be, especially from the private sector perspectives.

In a report, "Case Studies in Sustainable Development in the Coal Industry" published in 2006, the IEA for example evaluated evolving sustainability practices of some flagship companies around the world to buttress some of the growing expectations on Sustainable Development.

The activities of these studied corporate organizations show a leaning towards full integration of Sustainable Development principles and practices into management processes and systems; CSR activities driven by a well documented CSR policy, strategic Community Needs Assessment practices and the active engagement of host communities in relevant CSR projects; local infrastructure enhancement; environmental sustainability practices which emphasize use of renewable energy, effective waste management and recycling technologies; human right preservation including respect for labour laws and support for active unionism, equal opportunities for all categories of employees, including the female gender and the physically challenged; adoption of business practices that support good corporate governance, cost effectiveness, safety-consciousness, healthy-competition; workforce development and empowerment; poverty alleviation and skills development initiatives, especially for women, the youth and the indigent; timely and factual reporting on financial dealings, business ethics, CSR and Sustainable development efforts, among others.

Perhaps a very striking evolving corporate practice that needs to be flagged here is the issue of Sustainable Development reporting. As the IEA's "Case Studies in Sustainable Development in the Coal Industry" points out, "companies are increasingly expected to broaden their accountability, beyond reporting their financial performance to shareholders, by demonstrating a sustainable performance to all stakeholders, such as regulators, the financial community, shareholders, customers, employees, non-governmental organizations and the general public. International sustainability reporting guidelines are available, such as the Global Reporting Initiative and the UN's Global Compact, and encourage companies to report on sustainability".

In this report, the IEA cited the strides by South Africa's public utility company, Eskom in sustainability reporting. Since 1994, the 90-year old energy firm has included the triple bottom-line sustainability issues (economic, social and environmental) in its financial reporting. In 2001, Eskom integrated Sustainable Development into its annual financial reporting with a more detailed version of the sustainability-related information published on its website. The report adheres to the Global Reporting Initiative Guidelines, with an external audit firm also vetting the non-financial performance reported.

A clear and effective report on progress in Sustainable Development is the simplest way a responsible organization can prove that it has integrated the practice into its business processes and systems. By voluntarily adopting this reporting model, Eskom has exhibited good corporate governance, creating an efficient data collation, reporting, verification and auditing trail for its Sustainable Development efforts and giving all its stakeholders easy access to required information.

Sustainable Development Goals

One of the main outcomes of the Rio+20 Conference was the agreement by member States to launch a process that would culminate in developing a set of Sustainable Development Goals (SDGs).

And according to the Rio+20 outcome document, "*The Future We Want* ", the SDGs must:

1. Be based on Agenda 21 and the Johannesburg Plan of Implementation.
2. Fully respect all the Rio Principles.
3. Be consistent with international law.
4. Build upon commitments already made.
5. Contribute to the full implementation of the outcomes of all major summits in the economic, social and environmental fields.
6. Focus on priority areas for the achievement of sustainable development, being guided by the outcome document.
7. Address and incorporate in a balanced way all three dimensions of sustainable development and their interlinkages.
8. Be coherent with and integrated into the United Nations development agenda beyond 2015.
9. Not divert focus or effort from the achievement of the Millennium

SUSTAINABLE DEVELOPMENT AND THE TRIPLE BOTTOMLINE

ENVIRONMENTAL	SOCIAL	ECONOMIC
Comply with environmental regulations	Expand access to electricity	Add to shareholder value
Implement environmental management systems	Provide reliable service	Deliver competitive return on assets/equity
Integrate environmental and social issues into planning and decision-making	Support key social programmes	Improve productivity and efficiency
Develop low pollution technologies and measures	Consult stakeholders and provide information	Apply transparent, fair and affordable prices
Develop GHG strategies	Support employment	Support R&D and training
Promote renewable energy development	Price power at affordable levels	Support business development
Promote energy and resource efficiency	Support ethical business practices	Procurement (*i.e.* improve supply chain management)
Promote resource stewardship*	Promote health, safety and employee welfare	Liabilities and risk management
Undertake environmental education and training	Promote community engagement projects*	
Demonstrate environmental leadership	Integrate social issues into planning and decision-making*	
Sustainable development reporting		
Promote waste minimisation*		
Support key nature conservation programmes		

Sources: WBCSD; http://www.iea.org/publications/freepublications/publication/CIAB_Case_Studies_2006.pdf

Development Goals.

10. Include active involvement of all relevant stakeholders, as appropriate, in the process.

A 30-member Open Working Group of the UN General Assembly has been mandated by the Rio+20 Outcome document to prepare a proposal on SDGs for consideration by the Assembly at its 68th session (September 2013 – September 2014). The activities leading to the development of the goals are expected to draw on the active participation of national governments, civil society organizations, the private sector and businesses, academia, scientists, among other global stakeholders.

http://upload.wikimedia.org/wikipedia/commons/0/03/Johannesburg_Park_Railway_Station_01.jpg

MDGs versus SDGs – The Human Angle?

According to the recommendations of the document, "The Future We Want", there is a broad consensus that the MDGs and the SDGs should be closely linked and should ultimately converge into one global development agenda beyond 2015.

Sustainable Development is all about giving development a human face … taking the wellbeing of the people, the environment and future generations into consideration in all efforts at development and appealing to the conscience of governments and private institutions to do what is right. This emphasis is critical here because for too long, humans, which ought to be beneficiaries of developmental efforts, have actually ended up as the victims.

It is now barely two years to the end of the timeframe set for the attainment of the Millennium Development Goals (MDGs). While a comprehensive scorecard on the initiative is yet to be published, it is highly doubtful that the UN will meet up to 50% of its set targets by 2015. But the initiative has recorded some good success, in at least sensitizing the world on the need to tackle global poverty, illiteracy, infant and maternal mortality and other challenges that have widened the gap between the *haves* and the *have nots*.

Sustainable Development is an extension of the MDGs; the only key difference being the focus and scope of both concepts. MDGs target mostly socio-economic wellbeing, with special focus on low income economies. On the other hand, Sustainable Development concerns all economies and regions, developed and underdeveloped with added focus on the condition of our physical environment.

Real Sustainable Development means equitable distribution of global resources, assistance for the low income economies, food on the table of the hungry, access to quality healthcare services. From this perspective, there is no clear cut line between the Millennium Development Goals (MDGs) and what the Sustainable Development Goals (SDGs) should be when they are formally unveiled.

Sustainable Development is all about giving development a human face … taking the wellbeing of the people, the environment and future generations into consideration in all efforts at development and appealing to the conscience of governments and private institutions to do what is right.

A look at the Johannesburg Plan of Implementation, which was the major outcome of the September 2002 World Summit on Sustainable Development, and one of the existing documents that would have a strong influence on the proposed SDGs, shows a focus on 11 key areas:

1. The principles of sustainable development;
2. Poverty eradication;
3. Changing unsustainable patterns of consumption and production;
4. Protecting and managing the natural resource base of economic and social development (water; oceans; vulnerability; disaster management; climate change; agriculture; desertification; biodiversity; mountains; tourism; forests; mining);
5. Sustainable development in a globalizing world. Characteristics; opportunities and challenges of globalization;
6. Health and sustainable development. HIV/AIDS, TB, malaria and other epidemics; health services; environmental health;
7. Sustainable development in Small Island Developing States;
8. Sustainable development for Africa;
9. Other Regional Initiatives (Latin America and the Caribbean ; Asia and the Pacific; West Asia ; Economic Commission for Europe);
10. Means of implementation (trade;

finance; debt; technology transfer; role of the scientific community; education; capacity building; and information for decision making); and

11. Institutional framework for sustainable development (United Nations, regional and national level arrangements; and participation of major groups or stakeholders

When the Sustainable Development Goals are eventually published, their focus will most likely not be any different from the eleven points outlined above.

We also expect the Sustainable Development Goals to harmonize aspects of the MDGs, since both goals complement each other or at best, with one as a continuum of the other. Beyond 2015, the MDGs should be pursued as a critical aspect of the Sustainable Development Goals, focused mainly on addressing socio-economic challenges in low income economies.

In my opinion, progress in Sustainable Development and achievements of the Millennium Development Goals mean one and the same thing — good meals on the table of millions who currently go to bed hungry; decent work opportunities for the unemployed; access to clean water; access to good healthcare facilities; roofs over all heads; some breath of clean, unpolluted air; access to basic education; equal opportunity for all, irrespective of gender, race, religion, economic status and physical handicap.

Beyond 2015, the MDGs should be pursued as a critical aspect of the Sustainable Development Goals, focused mainly on addressing socio-economic challenges in low income economies.
In my opinion, progress in Sustainable Development and achievements of the Millennium Development Goals mean one and the same thing — good meals on the table of millions who currently go to bed hungry; decent work opportunities for the unemployed; access to clean water; access to good healthcare facilities; roofs over all heads; some breath of clean, unpolluted air; access to basic education; equal opportunity for all, irrespective of gender, race, religion, economic status and physical handicap.

If it is to be proven sustainable in itself, Sustainable Development as a concept should be based on equitable global growth and development, poverty alleviation, enhanced quality of life, sustainable future, tolerance of socio-cultural, racial, religious and gender diversities, environmental preservation, employment creation, good corporate governance and responsible business practices, fair and healthy competitive practices, skills development and youth empowerment, people-oriented national and sub-national governance practices, among others. These issues should be at the core of the preoccupations of Sustainable Development and the MDGs.

To wrap this up, I must stress that the call for Sustainable Development is an appeal to the conscience of all stakeholders to do what is right for the preservation of our environment and for the socioeconomic wellbeing of all.

It is time for economies and private institutions to hedge the negative impact of their industrial, military, business, technological and scientific activities on the human environment.

There is also the need for the rapidly advancing economies of today to learn from the mistakes of the advanced economies as they explore socio-economic and technological prosperity, so as to break the vicious circle of socioeconomic and environmental degradations.

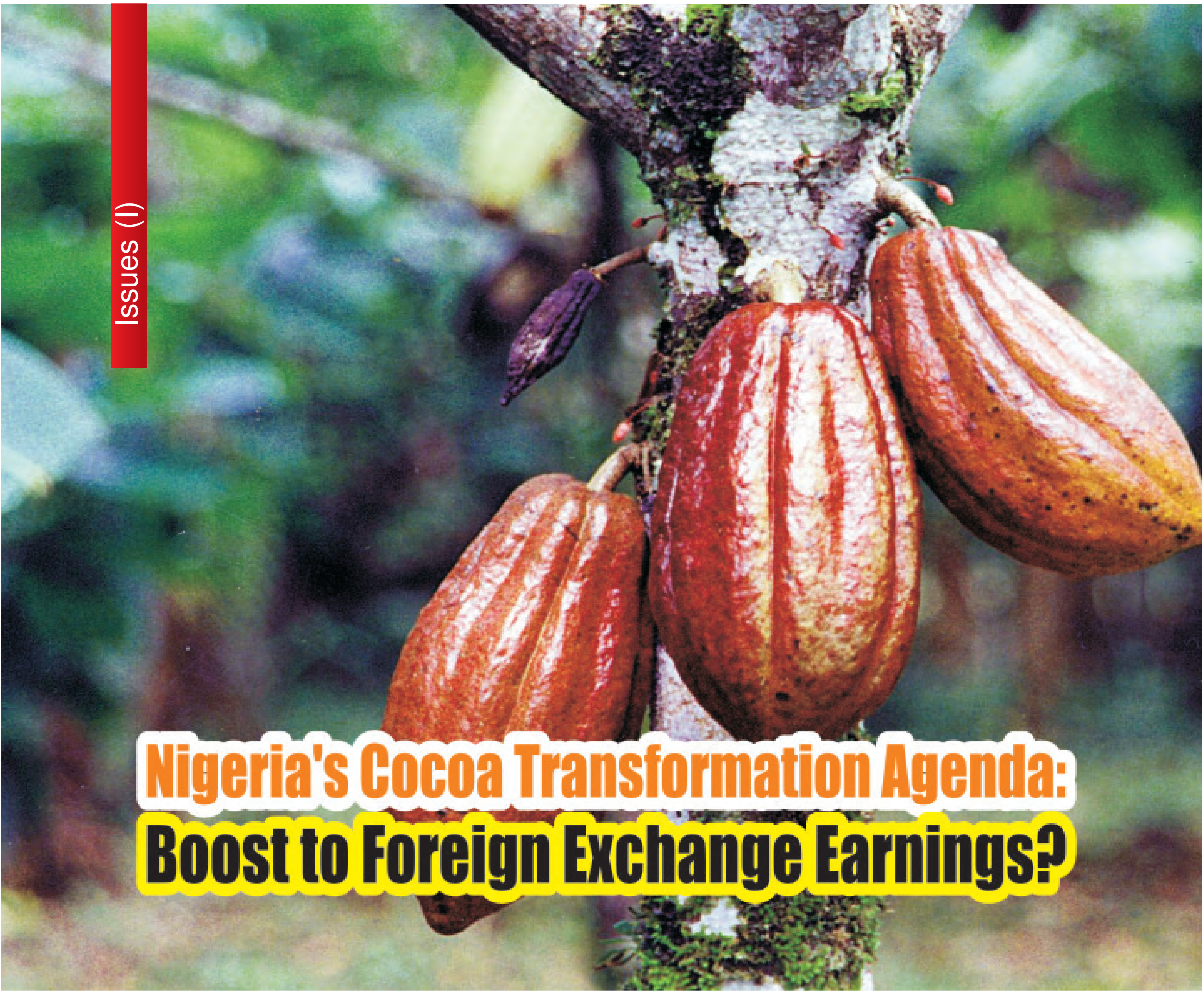
In addition, nations must learn to pursue economic prosperity with consideration for the survival and development of other nations. As an African proverb says, "a rich man in the midst of too many poor remains miserably poor".

In line with the *recommendations of the UN's Global Green New Deal*, the target should be to achieve near even development among regions through the provision of financial, technical and other support to the economically disadvantaged regions. This could call for fiscal measures that would give a major boost to lagging economies including employment generation, skills acquisition and infrastructure development initiatives.

To achieve these developmental goals, every one of us has a role to play. It is a call that we all must heed.

(*Eunice Sampson is the Deputy Editor, Zenith Economic Quarterly)

http://www.un.org/News/dh/photos/large/2013/May/512939-kivusake.jpg



Nigeria's Cocoa Transformation Agenda:
Boost to Foreign Exchange Earnings?

http://www.thestoryofchocolate.com/files/2010/ImageFullSize/pod%20image%202-2TripleRed.jpg

Boosting Nigeria's foreign exchange earnings through diversification of its export products has become more pertinent now than ever before. This is so given the recent weakening of the exchange rate of the Naira and the quest to boost the country's foreign exchange reserve position to hedge the economy against volatilities in the global marketplace.

At a time when the country's earnings from its major revenue earner – crude oil, is becoming more uncertain owing to volatilities in the global commodities market, there is a general consensus that the non-oil export sector holds a lot of promises that could easily be tapped to make up for possible oil earnings gaps. But the irony, however, is that the non oil sector, as promising as it may seem, has suffered its own setbacks, chief among which has been fallouts of inconsistencies in government policies.

One viable non oil commodity that is a potential goldmine is cocoa production. Nigeria had a history of a prosperous, viable and vibrant cocoa industry in the past. The cocoa industry provided the country with foreign exchange earnings which built enduring infrastructure, institutions and edifices. The country once ranked as one of the leading cocoa- producing economies in the world before the oil boom. At some point, the commodity was a major foreign exchange earner for the nation.

The economy of the defunct Western Region of Nigeria was once supported by earnings from cocoa. However, due largely to the neglect of agriculture as a whole, the cocoa sector

suffered adversely and now, from being the second largest producer in 1970s, the country is in distant fourth behind Côte d'Ivoire, Ghana and Indonesia.

Cocoa was Nigeria's most important export before independence as it generated 90 percent of Nigeria's foreign exchange earnings. Eclipsed these days by oil as the country's major export, the country now only produces a meager amount (about 200,000 of cocoa a year) - mostly destined for consumption abroad. The country exports about 96% of its cocoa crop due to lack of appropriate technology to process the crop locally.

Crude oil displaced the agricultural sector of the nation's economy from the early 1970s and till date, the sector has been faltering. Cocoa production which was predominant in the South-West and parts of South-South geo-political zones of the country was badly hit by drawback in the agricultural sector, largely because of the emergence of oil as the nation's new major source of foreign exchange. Setbacks in the cocoa industry were further intensified by the neglect of the sector by successive governments in the country. Although these successive governments could be said to understand the importance of this cash crop to the economy, the political will to execute policies that would have revived the fortune of the commodity was however was lacking.

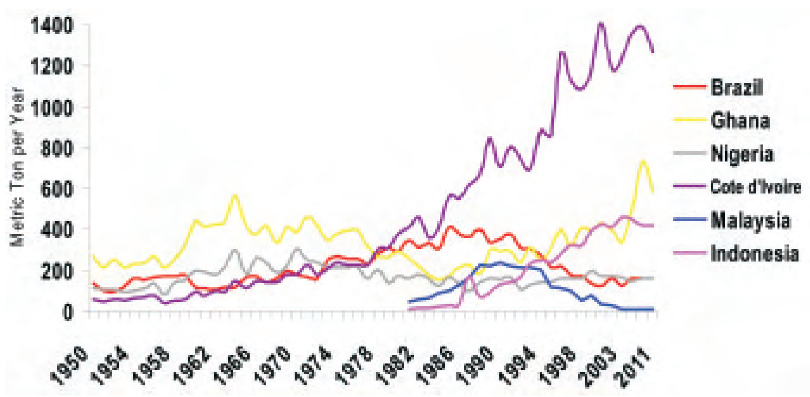
Government policies on subsidies are also considered to be inadequate and ineffective because the subsidies rarely get to the target farmers due to the activities of middlemen and politicians. Another limitation to cocoa production is that the majority of Nigerian cocoa farmers are above 60 years and most cocoa trees are even older, with diminished production. Farmers are concerned about an immediate loss of income if unproductive trees are cut down and replaced with the recommended new disease-resistant, high yielding and early maturing varieties, which have a gestation period of only three years, compared to five years for the traditional varieties.

According to the results of a national survey conducted by the National Cocoa Development Committee (NCDC), there are 14 cocoa producing states in Nigeria and a total planted area of 640,000 hectares. It was estimated that only about 21% of Nigeria's 3.0 million hectares of land suitable for cocoa productions is currently in use. Over the past five years, annual production has fluctuated between 200, 000 and 240,000 tonnes (an average of 0.34 tonne per hectare) which is far below the expected output of about 2.5 tonnes per hectare. In 2011, Cote d'Ivoire and Ghana with arable land far below Nigeria's produced about 1.7 million tonnes and 0.86 million tonnes respectively. Meanwhile, Nigeria with vast arable land and a population of 160 million people only produced 240,000 tonnes in the same year.

Past Efforts to revamp Nigeria's cocoa sub-sector

Past efforts to resuscitate Nigeria's cocoa sector has yielded little or no result. The liberalization of cocoa industry in 1986, which led to the abolition of a government bureau (Nigerian Cocoa Board) that controlled the marketing of cocoa, could be said to be instrumental to the decline in Nigeria's cocoa production. In order

Cocoa production: Trends in the last 60 years



Source: MARS Incorporation

	2007 - 2008 Total	2008 – 2009 Total	2009 - 2010 Total	2010 - 2011 Total	2011 -2012 Total	07/08 to 11/12 % Change
Total Production ('000 tonnes)	3,667	3,507	3,569	4,197	3,987	8.73
% Change	7.2	-4.4	1.8	17.6	-5.0	
Total Africa	**2,603**	**2,451**	**2,428**	**3,076**	**2,801**	**7.6**
Cameroon	188	210	205	230	220	17.02
Cote d'Ivoire	1,431	1,234	1,184	1,688	1,400	-2.17
Ghana	730	730	740	860	870	19.18
Nigeria	200	210	230	240	230	15.00
Other Africa	55	67	69	78	81	47.27
Total Asia & Oceania	**614**	**596**	**642**	**563**	**623**	**1.47**
Indonesia	500	490	530	450	500	0.00
Malaysia	32	25	20	18	18	-43.75
Other Asia	82	81	92	95	105	28.05
Total Americas	**450**	**459**	**499**	**558**	**623**	**25.11**
Brazil	170	155	159	197	185	8.82
Ecuador	115	130	150	160	170	47.83
Other Latin America	165	174	189	201	208	28.08

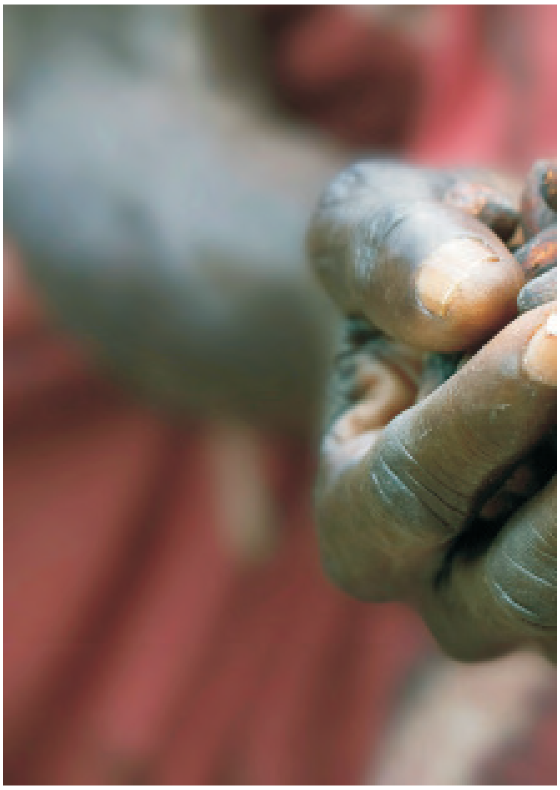
Source: ICCO, USDA, Reuters, LMC International
Note: Totals may differ from sum of constituents due to rounding

to rehabilitate the sector, the Nigeria government in 1999, sent the Cocoa Rebirth Bill to the National Assembly. The development gave rise to the National Cocoa Rebirth Day, a day set aside every year to bring cocoa to the front burner and emphasis its strategic importance to the transformation of the nation's economy.

The promulgation of Cocoa Rebirth Bill into law led to the setting up of the National Cocoa Development Committee (NCDC) whose preoccupation was the development of the cocoa industry through the provision of an enabling environment for production, processing, packaging and export. As an umbrella association of all cocoa stakeholders in Nigeria – including farmers, processors and the research agencies – the body was mandated to ensure uniformity in cocoa production. NCDC promotes cocoa production and trade in cooperation with the various growers' agencies operating in the industry, like the Cocoa Association of Nigeria (CAN), the Cocoa Farmers Association of Nigeria (CFAN) and the Cocoa Growers Association of Nigeria (COGAN).

In 2003, the International Institute for Tropical Agriculture (IITA), a non-profit organization, started an initiative to reinvigorate the industry in cooperation with the NCDC and the Sustainable Tree Crops Program (STCP). Funded by the US Agency for International Development and the World Cocoa Foundation together with the NCDC, the programme was focused on increasing productivity at cocoa farms in an environmentally friendly and socially responsible way. The first phase of the programme lasted from 2003 to 2006 and the second was between 2007 and 2011.

In the first phase, STCP helped ten states to develop the capacity to set up Farmer Field Schools for training farmers. The programme educated



farmers on crop and pest management, quality improvement and farm safety. In cooperation with Cocoa Research Institute of Nigeria (CRIN) and the NCDC, the programme distributed 66,000 seedlings from nursery sites to cocoa farmers across the country. STCP also helped three cooperative unions – The Tonikoko Farmers Co-operative Multipurpose Union (TFCMU), Cross River Advanced Cocoa Multipurpose Union (CRACMU) and Ituna High Quality Cocoa Farmers Multipurpose Cooperative Society (IFMCS) – to set up collective marketing arrangements.

Another initiative, the Cocoa Livelihood Program, a USD40 million development programme set up by the Bill and Melinda Gates Foundation in cooperation with the World Cocoa Foundation and leading chocolate companies, was announced in February 2009. It aimed at helping small cocoa farmers in Cote d'Ivoire, Ghana, Nigeria, Cameroon and Liberia boost their crops as well as their business skills.

Cocoa sector liberalization: Implications for Cocoa production

Though trade liberalization is designed to stimulate the economy and discourage unproductive efforts, idleness and over reliance on government, it has had adverse effect on cocoa production and pricing that adversely affected the relationship between the farmers, government and other agencies, organizations and individual businessmen involved in the cocoa business. Since cocoa price is in the hands of free forces of demand and supply, the vagaries in the global market place negatively affect its dynamics. Operation and production inputs which were hitherto subsidized by government are now left in the hands of agents (middle men) who exploit the farmers.

Trade liberalization affected the quality of cocoa bean being produced by the farmer as individual farmer are left to determine the quality of the crop they exports. While the sector was controlled by the government through the marketing board, standards were created as there was a functional relationship between farmers' income and the quality of cocoa beans they produce and sell. The higher the grade the higher the price and vice-versa.

Trade liberalization has not had any significant impact on yield, but on the prices at which the farmers sell. Most of the farmers have been interested only in the new value for their produce in monetary terms rather than the improved seedlings that could enhance the quality of the produce. Faced with early illusion of liberalization, farmers believed that their income had increased with the exchange rate and so could not increase their farmland to produce more.

Another development was the disappearance of state dominated marketing structures, which led to large transactional companies taking over the exporting functions. The new market situation faced by the crop producers caused a downward trend in price as many cocoa producers now sold at very low prices.

http://www.fairtradeafrica.net/wp-content/uploads/2010/12/Cocoa-prices_Story-14.jpg

Cocoa Transformation Agenda: A reality

As part of Federal Government's drive to sustain its agricultural transformation agenda (ATA), especially on cocoa production, processing and marketing, the government recently launched Cocoa Expansion System (CES). The programme was designed to double the production of cocoa to 500,000 metric tons by the year 2015; make cocoa production a viable commercial enterprise that would feed sustainable processing industries and increase the value chain in the cocoa sector of the Nigerian economy.

To achieve these goals, the government signed a Memorandum of Understanding (MoU) with Cocoa Livelihood Programme of the World Cocoa Foundation (WCF) to train the first batch of 70,000 of 100,000 farmers and strengthen the extension system for cocoa. Presently, the government is implementing Certification Capacity Enhancement (CCE) Scheme for cocoa farmers to make cocoa produc-

http://politicsofpoverty.oxfamamerica.org/files/2013/03/cocoa-pulp.jpg

tion a viable commercial enterprise.

To facilitate the realization of the agenda necessary to restore Nigeria's pride of place in global cocoa production, the government recently sent a team of experts to Indonesia to learn firsthand Indonesia's impressive cocoa plantation plan. The government also distributed free 3.6 million seedlings of high-yield varieties cocoa pods to farmers across the country to revive the agriculture sector by improving the cocoa production capacity. The project was sponsored with counterpart fund from cocoa-producing states and approved by the Agricultural Research Council of Nigeria (ARCN).

In furtherance of efforts to boost cocoa production, the government launched customized Cocoa-Growth Enhancement Support Programme (Cocoa-GES). The program is aimed at supporting the vulnerable cocoa farmers to access Critical Yield Enhancing Inputs that will help in maximizing yield per unit land area on through inputs like agrochemicals and fertilizers.

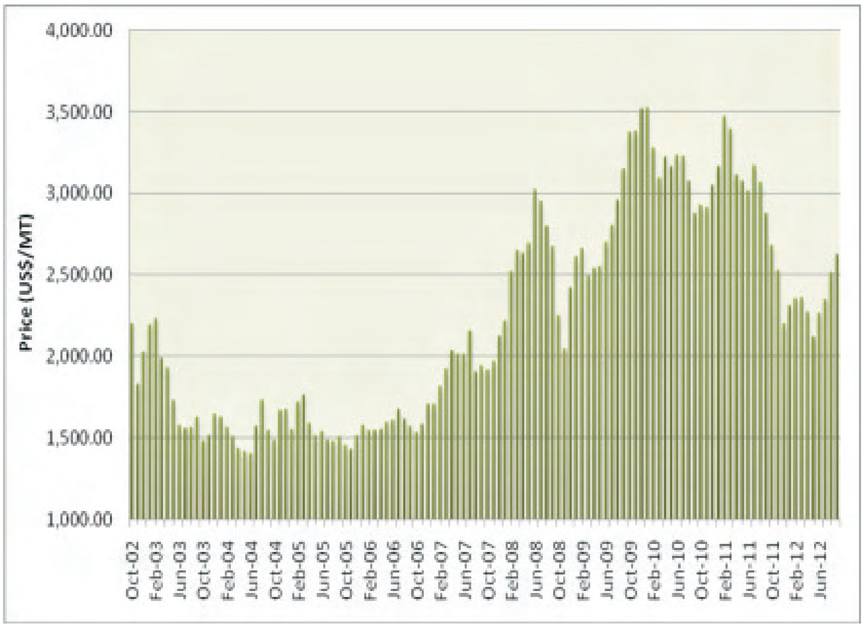
Also, there are plans by the government to partner with the private sector to rehabilitate 200,000 hectares of land in the next four years for cocoa production. The encouragement and re-development of the cocoa industry remains a priority area for the current Nigerian government so that those investing in cocoa can benefit from the considerable incentives now available for investors in the Nigerian agriculture sector.

The government announced that it will help investors create facilities for processing cocoa, with investors constructing, operating and owning the plants and the government supplying a loan of 70% of the funds for development. Agriculture was also declared a "pioneer" industry that avails investors a tax holiday of up to seven years. The scheme provides import of machinery and equipment with 1% duty and enhanced capital allowances on machinery of up to 50%.

Cocoa Pricing Mechanism

Cocoa serves as an important crop around the world - a cash crop for developing countries and a key import for processing and consuming countries. Cocoa travels along a global supply chain crossing countries and continents. The complex production process involves numerous parties including, farmers, buyers, shipping organizations, processors, chocolatiers, and distributors. Cultivation of cocoa at the farm level is a delicate process as crops are susceptible to various conditions including weather patterns, diseases, and insects. Unlike larger, industrialized agribusinesses, the vast majority of cocoa still comes from small, family-run farms, which are often confronted

Cocoa Beans Monthly Price Movement: Oct. 2000 - Sept. 2012



Source: ICCO

http://travellingtoothbrushes.files.wordpress.com/2011/05/dsc02124.jpg

with outdated farming practices and limited organizational leverage.

A steady demand from worldwide consumers draws numerous global efforts and funds committed to support and improve cocoa farm sustainability. Cocoa futures contracts are traded in London and New York with prices quoted in Great Britain Pounds / Metric Tonne and US Dollars / Metric Tonne. The crop is unique among soft commodities in its link to two currencies; the GBP-USD exchange rate assures the relationship between these two exchanges and offers an active arbitrage market to traders. On average, the GBP leads the price of cocoa by three calendar quarters in a year; according to the New York market (Intercontinental Exchange - ICE),

Cocoa prices are affected by various factors including stock/grind ratios, expectations for future production/demand, global food prices, and consolidation/fragmentation in cocoa trade and processing industries. These components generally set the tone for long-term trends in cocoa prices while trading by investment funds tend to drive movement in the short-term. Over the past five years, the price of cocoa overall has increased, but it has been prone to volatility from 2008 through 2011, spiking to a 30-year high of $3,625/tonne in January 2010 and dropping back to $2,200/tonne in December 2011 due to a "bumper crop" in the 2010/2011 season which caused supply to outpace demand. The prices began to rebound again in January 2012 reaching $2.62/tonne in September 2012.

The 2009 spike in cocoa prices was attributed to growing fears of a weaker Ivorian crop for 2009/2010 season combined with recovering demand on the consumer side. The most recent price spike reflects significant political turmoil in Côte d'Ivoire during the first half of 2011, as sanctions on the country's cocoa exports decreased supply levels.

The fall in commodity prices from June of 2008 reflects, among other factors, lower input costs, falling oil prices, and deepening recession fears and decreased consumer consumption among industrialized and developing countries. In addition, there has been significant pressure on prices as investment funds settle cash positions to bolster liquidity in the light of global tightening in credit and liquidity.

Cocoa: Supply/Demand

Numerous cocoa market experts and analysts provide cocoa production data based on historical, current and projected levels. Cocoa bean production is closely monitored as trade balances, pricing, future contracts and depends largely on supply side factors. Total production has increased in absolute terms from 3.66 million metric tonnes in 2007-2008 to 3.98 million metric tonnes in 2011-2012. Change in production has not been linear; however, it has fluctuated in various patterns

http://nourishmylife.files.wordpress.com/2013/04/img_5948.jpg

among the different regions.

Africa remains the principal cocoa producer as it produced 73% market share in 2011 with Cote d'Ivoire having the highest output level at 1,400MT, followed by Ghana (870MT), Indonesia (500MT) and Nigeria (230MT). About 85 percent of total cocoa production in Nigeria is exported as cocoa beans while the remaining 15 percent is processed locally into butter, liquor, powder and cake before being mostly exported. Domestic consumption of cocoa products is very insignificant and consists almost exclusively of cocoa powder used in breakfast beverages.

While processors of cocoa beans are located throughout the world, the highest percentage is based in Europe, followed by Asia & Oceania, the Americas, and then Africa. Providing a breakdown of cocoa processing capacity per region for a three year time frame (2008 - 2011), ICCO showed that Europe processed 39 percent; Americas, 22 percent; Asia & Oceania 22 percent and Africa, 17 percent.

The Cocoa Association of Nigerian (CAN) and NCDC have intensified campaigns to increase domestic processing and consumption of cocoa products over the last decade - mostly emphasizing the health benefits. Although local consumption remains small, these efforts have assisted in the continued growth of domestic demand for cocoa powder and other cocoa-based products over the last five years.

To promote local processing of cocoa, in January 2005, the Nigerian government approved an Export Expansion Grant (EEG) of 30 percent of the Freight on Board (FOB) value for cocoa butter and processed cocoa products and 5 percent for cocoa beans. This was targeted at increasing local cocoa processing. However, this effort is limited by the scarcity and high cost of cocoa beans as farm-gate prices are only marginally lower than the international market prices. With high costs for local processing as compared to the developed and consuming countries, exporters find it more profitable and convenient to sell cocoa beans than export cocoa in processed forms.

There are about 17 cocoa processing facilities in Nigeria with a combined annual processing capacity of 220,000 MT of cocoa beans. Meanwhile, only eight of these processing facilities are functional and only operate at about 30 percent of total installed capacity.

Export challenges remain

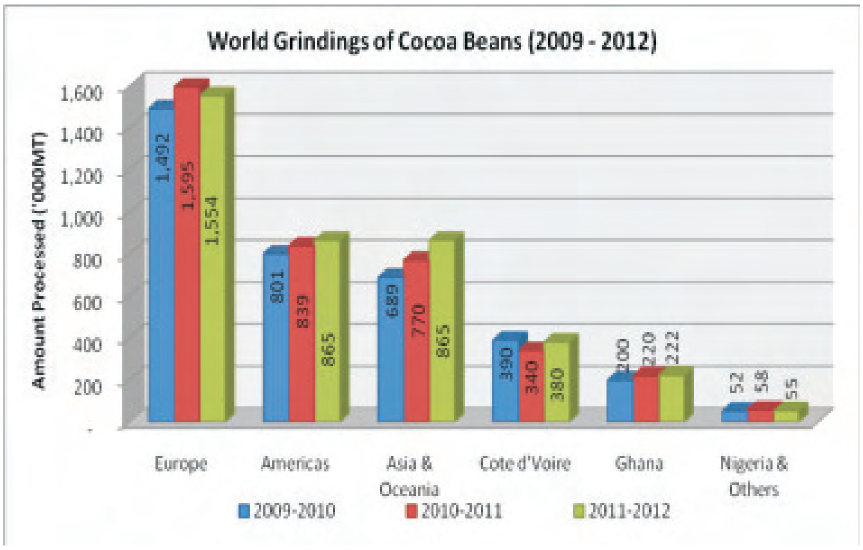
In addition to driving cocoa production and processing, the Nigerian government has a key role to play in helping the country to develop its potential as frontier exporter of cocoa beans and processed cocoa products. Specific areas to be addressed include the enforcement of international standards and the negotiation of new export markets. The government could boost the export potential of Nigeria's cocoa

industry by helping in facilitating improved access to European markets.

Efforts to forge an economic partnership agreement with the EU fell apart in 2007 when Nigeria claimed that the deal would threaten the growth of the country's manufacturing industry. As a result of the impasse, the EU levied tariffs on Nigerian cocoa exports and products. This diminished the country's ability to compete with regional cocoa exporters Ghana, Côte d'Ivoire and Cameroon, who have all signed agreements allowing preferential access to the world's largest cocoa consumer. Together Côte d'Ivoire and Ghana were responsible for production of about 60 percent of the world's cocoa in 2011.

It is notable that Nigeria's refusal to sign an earlier economic partnership agreement with Europe has led to decreasing demand for the country's cocoa products, such as butter, liquor and powder. The EU currently prefers to buy Nigerian raw cocoa beans instead of processed cocoa by placing a high tariff on processed cocoa. Nigerian cocoa processors pay a 6.5% duty on cocoa, while shipments from Ghana and Côte d'Ivoire are not subject to such tariffs.

One way forward would therefore be for Nigeria to negotiate an Economic Partnership Agreement with the EU to increase access to that major market for processed cocoa products. In the light of the impediments facing exporters, the local processing sector is losing up to US$5 million a year; such losses are said to have forced many processors out of the industry.



Source: LMC Internatioal

Outlook

According to United States Department for Agriculture's (USDA) forecast, Nigeria's cocoa production will increase to 300,000 MT by 2013, as rising international market prices for cocoa continue to encourage Nigerian farmers to rehabilitate abandoned farms and also increase area of land allotted for cocoa production. ICCO has also projected that the world stock levels of cocoa are set to increase in 2013.

As Nigeria's main export, the un-

stable price of oil poses potential upside and downside risks to cocoa output. On the one hand, increased earnings based on oil exports should allow for more vigorous government support of the cocoa sector and a greater commitment to the quest for economic diversification. The more oil revenue continues to swell government coffers, the less urgent will be the need for economic diversification.

A key downside risk to cocoa production could arise from the introduction of a European Union ban on Nigerian cocoa exports. An export ban would have a negative effect on the price of Nigerian beans and cocoa products, damaging both the farms and processing sectors. Conversely, the negotiation of a new agreement with the EU on the export of cocoa products could have a positive effect on production within the sector as a whole.

Projections of World Cocoa Supply & Demand

Source: ICCO

As Nigeria won "UTZ CERTIFIED Good Inside" award in 2011 for the first time, there is potential for growth in demand for Nigeria's cocoa beans in the international market. UTZ certification is an international standard which sets sustainable models for the production of better quality cocoa using cost efficient and environmentally and socially responsible farming practices.

The Cocoa-Growth Enhancement Support Programme (Cocoa-GES) which prompted the Cocoa Transformation Team to develop a three-prong MRE (Maximise, Rehabilitate and Expand) strategy would only be achieved when cocoa production and processing are professionalised through capacity building for cocoa producers on agricultural best practices, business and entrepreneurial skills and organisation of farmer groups and cooperatives.

In addition to cocoa farmers' training, the Federal Government should re-introduce the abolished cocoa board that will control the marketing of cocoa and co-ordinate the cocoa value chain in the interest of all players in the value chain. However, the board must be private sector-led and government enabled. Also, it is expected that the Central Bank of Nigeria (CBN) would continue to act as a valued partner in the revival of the nation's cocoa sub sector by giving financial empowerment to relevant institutions to ultimately assist cocoa farmers.

The Nigerian Oil Sector: Trends, Direction

*By **Sunday Enebeli-Uzor**

The recent precipitous fall in crude oil production has again brought to the fore anxieties about the future of the oil sector in the Nigerian economy. In the first quarter of 2013, the contribution of the oil sector as a percentage of the nation's real Gross Domestic Product (GDP) was estimated at about 14.75 percent, compared to 15.80 percent (a decline of over 100 basis points) in the corresponding period in 2012, according to the National Bureau of Statistics (NBS). Also, average daily production of crude oil was 2.29 million barrels per day (mbpd) in the first quarter, as against 2.35 mbpd in the corresponding quarter in 2012, based on data from the Nigerian National Petroleum Corporation (NNPC). Current average daily crude oil production is less than the projected 2.53 mbpd on which the 2013 federal government budget estimates are based. In terms of growth, oil sector GDP (with associated gas components) grew at -0.54 in the first quarter of 2013. Conversely, the non-oil sector continued to be a major driver of the economy, recording 7.89 percent growth in real terms in the same period.

The oil sector has witnessed disruptions in recent times due to pipeline vandalisation, incidents of illegal bunkering and theft of crude. These have resulted in incessant declarations of force majeure by some International Oil Companies (IOCs) such as Eni (Agip), Total and Royal Dutch Shell. Estimates of revenue loss due to oil theft and vandalisation are about $1.23billion in the first quarter of 2013. The federal government has in several global fora sought global clampdown on illicit trade in stolen crude oil as an antidote to oil theft. Nigeria has consistently argued that stolen crude oil ought to be treated globally in the same manner as stolen diamonds because they both generate blood money, aids corruption and violence and can provoke war.

The Federation Accounts Allocation Committee (FAAC) has had to resort to the Excess Crude Account (ECA) to shore up monthly allocations to the three tiers of government. There is also obvious lethargy on the part of IOCs in embarking on new investments especially in deepwater exploration as a result of uncertainties and the delayed enactment of the Petroleum Industry Bill (PIB). These somewhat gloomy scenarios together with the energy policies of the United States and China have reinforced concerns about the long term future of the oil sector in Nigeria.

The Oil Sector and the Nigerian Economy: Curse or Blessing?

That the Nigerian economy is intricately interlinked with the oil sector is restating the obvious. Crude oil receipts account for about 80 percent of total government revenue, 95 percent of foreign exchange earnings, about 15 percent to the country's GDP (14.75 percent in the first quarter of 2013), and four percent of total employment – thus making Nigeria one of the most oil-dependent economies in the world. As such, any major shock in the international commodities market imperils the Nigerian economy as was evident during the global economic and financial crisis when crude oil prices plummeted from its record high of $147.50 per barrel in July 2008 to less than $40 per barrel in December 2008. But for the Excess Crude Account (ECA) that became handy as a fiscal buffer for the economy, the consequences of total dependence on oil earnings would have been dire.

The upsides of the oil sector notwithstanding, the focus of the sector at the expense of other sectors has been blamed for the abysmal performance and retarded growth of other sectors of the Nigerian economy notably manufacturing and agriculture. In the era preceding the discovery of crude oil in commercial quantity, agriculture was the major source of foreign exchange. The groundnut pyramids of the Northern region, cocoa farms of the Western region, and palm plantations of Eastern Nigeria were the major sources of foreign exchange that sustained these respective regions. The pathetic rhetoric of Malaysian farmers learning the rudiments of palm cultivation in Nigeria but now exporting palm produce to Nigeria underscores the neglect that agriculture has suffered. Malaysia is the world's largest producer of oil palm and the commodity is currently the country's leading agricultural export. Nigeria is still a net importer of food, including staples, despite having about 75 percent arable land of which over 50 percent is not cultivated.

The manufacturing sector has not fared better since Nigeria joined the "elite league" of petro-dollar earning countries. The sector has been performing sub-optimally in spite of the preponderance of incentive packages and government policies. Several studies have established a relationship between the decline in manufacturing and the discovery of crude oil in the country since the late 1950s. It has been argued that the manufacturing sector has been ensnarled by the infamous Dutch disease with attendant under-capacity utilisation. The oil sector has not broadened the productive base of

the economy and has not alleviated the unemployment situation in the country because it is not a labour-intensive industry.

Oil Sector Losing Dominance on the Economy?

Although Nigeria's export trade is still tilted in favour of crude oil, recent trade figures indicate improvement in non-oil exports. According to NBS data, non-oil export rose by 25.5 percent between 2011 and 2012, while the contribution of oil to total trade declined from 71.7 percent in 2011 to 69.2 percent in 2012. Statistics from the Central Bank of Nigeria (CBN) also shows that between 2009 and 2012, the non-oil export industry grew at an average rate of about 23 percent annually. The trend is a noticeable departure from the past when crude oil export accounted for over 90 percent of the country's total merchandise trade. These developments are indications that the strategic programmes and policies of the Ministry of Industry, Trade and Investment to promote the development of the non-oil export sector and diversify the export base of the economy are beginning to yield results. The high incidence of unrecorded exports is still a challenge to the non-oil sector and this has affected accurate reporting of the performance of the sector. The non-oil export sector is however still dominated by raw commodities and few products with value addition to the economy.

Demand Forecast Cuts: Implications for Nigeria

Amid Nigeria's internal challenges that have culminated in reduced crude oil production, major agencies have cut their forecast for crude oil demand for 2013. The downgrade in oil demand in 2013 is symptomatic of continuous unease about the challenges to the world economic recovery and the fragility of the euro-zone economies.

There is still pessimism over the global economic outlook, with downside risks continuing to be presented by the sovereign debt crisis in the euro-zone which could negatively impact demand for crude oil in 2013.

The Organisation of Petroleum Exporting Countries (OPEC) in April 2013 trimmed its forecast for global growth in oil demand in 2013 for the second time in two months. OPEC now expects that world oil demand will rise by 800,000 barrels per day (bpd) this year, a cut of 40,000 bpd from its previous estimate after disappointing consumption in industrialised countries in the first quarter of the year. The 12-member cartel cited on-going challenges to the world economic recovery, especially in Europe, as posing considerable uncertainties for product demand. In March 2013, OPEC, which produces more than one in three barrels of crude oil consumed each day worldwide, reduced its overall demand numbers for crude oil by 10,000 bpd.

In similar developments, the International Energy Agency (IEA) and the U.S Energy Information Administration (EIA) have also reduced their forecasts for global oil demand in 2013. The International Energy Agency (IEA) reduced its forecasts for global oil demand in 2013 for a third consecutive month, predicting the weakest consumption in Europe in almost three decades. The IEA cut its estimate by 45,000 bpd, predicting that world consumption will increase by a subdued 795,000 barrels a day, or 0.9 percent, to 90.58 million barrels a day this year. On its part, the US Energy Information Administration (EIA) cut its world oil demand forecast for 2013 by 50,000 bpd to 960,000 bpd.

The reduction in forecast for oil demand in 2013 is a worrisome development for Nigeria. Nigeria's crude oil production has declined consistently since December 2012 and was 1.940 mbpd in April 2013 according to OPEC data, less than the 2.53 mbpd estimated in the 2013 federal government budget. Although crude oil price is still well above the $79 per barrel budget benchmark, continuous weaker-than-expected crude oil demand could culminate in sharp decline in price. If this pessimistic scenario crystallizes, implementation of the 2013 budget will be in serious jeopardy with far reaching implications for the 2013 budget of the three tiers of government.

Threats to Nigeria's Continental Dominance

Nigeria has for long been the highest producer of crude oil on the African continent. However, there are threats to this decades-long dominance as some African countries are stepping up oil production and new discoveries of crude oil reserves in countries which hitherto were not members of the "elite league" of oil producing countries. For instance, Ghana – West Africa's **second-largest economy is now an oil producing country and it expects production to more than double by 2021 as output rises at its Jubilee field and as other sites commences production.** The country also has new crude discoveries at different stages of appraisal and development. The return of normalcy in North Africa after the Arab Spring has also resulted in improved crude oil production in the region especially in Algeria and Libya.

The most potent threat to Nigeria's dominance is obviously Angola. Angola has twice knocked Nigeria off its decades-long perch as Africa's largest crude oil producer, first in April 2008 and secondly between May and October 2009. Although these periods coincided with decline in Nigeria's crude oil production due to agitations in the oil-rich Niger Delta region, the difference between Nigeria and Angola's production now stands at just 170,000 barrels per day. There is also noticeable preference for Angola as the choice destination for fresh investments by some International Oil Companies (IOCs). This development has elicited fears that Nigeria could permanently lose its position as the continent's top crude oil producer, a position held since the 1970s.

Nigeria's proven crude oil reserves have remained at 37.2 billion barrels as at end 2011, representing 28.7 percent of Africa's total proven reserves of 128.578 billion barrels, according to the 2012 OPEC Annual Statistical Bulletin. Nigeria's proven crude oil reserves ranks as second largest in Africa, after Libya's which stood at 48.01 billion barrels as at end 2011. Algeria with 12.2 billion barrels occupies the third spot in proven crude oil reserves while Angola, Nigeria's main rival in terms of production in the continent, ranks fourth with 10.47 billion barrels. The OPEC Annual Statistical Bulletin also shows that Sudan holds the continent's fifth proven reserves with 6.7 billion barrels while Egypt has the sixth largest reserves with 4.5 billion barrels. Gabon occupies the seventh position with 2 billion barrels, while other African crude oil producers collectively have approximately 7.5 billion barrels of crude oil reserves. While

Proven Crude Oil Reserves of African Countries (Million Barrel)

Country	2006	2007	2008	2009	2010	2011
Algeria	12,200	12,200	12,200	12,200	12,200	12,200
Angola	9,330	9,500	9,500	9,500	13,048	10,470
Egypt	3,720	4,070	4,340	4,300	4,400	4,500
Gabon	1,995	1,995	1,995	2,000	2,000	2,000
Libya	41,464	43,663	44,271	46,422	47,097	48,014
Nigeria	37,200	37,200	37,200	37,200	37,200	37,200
Sudan	6,615	6,700	6,700	6,700	6,700	6,700
Others	6,270	6,020	6,001	5,849	7,494	7,494

Source: OPEC Annual Statistical Bulletin

Should these optimistic scenarios in the United States and China crystallise, Nigeria and a host of other countries that export crude to the U.S and China would have to look for other markets. This could have grave consequences for the price of crude oil and it is feared that some oil producing countries could face the threat of becoming failed states. The United States has been the largest importer of Nigeria's crude oil over the years but this is changing very fast. In the last decade, Nigeria accounted for between 9 and 11 percent of U.S total crude oil imports. However, Nigerian crude oil has recently dropped to below 5 percent share of total U.S crude imports. According to U.S Energy Information Administration (EIA) data, over the past five years the United States' reliance on Nigerian crude imports has dropped 63 percent, falling from a peak of 1.084 million barrels per day in 2007 to just 405,000 barrels per day in 2012.

some African countries have had accretion to their proven crude oil reserves, Nigeria's proven reserves have remained stagnant at 37.2 billion barrels since 2006, a development symptomatic of lack of new crude oil discoveries.

The Petroleum Industry Bill: An Elixir?

The much awaited Petroleum Industry Bill (PIB) is presently before the Seventh National Assembly for consideration and enactment into law. The PIB was first presented to the Sixth National Assembly in 2009 but it was not passed into law before the expiration of the assembly. The bill is adjudged to be one of the most profound legislations in the history of Nigeria and the oil sector due to the critical role of the sector in the economy. Although Nigeria's upstream oil sector ranks as one of the most developed in the continent, it is yet to attain its full potential. The PIB is expected to herald a new fiscal regime for the sustainable development of the oil sector and improved revenue for the country.

As expected, the PIB has elicited reactions from several stakeholders. Whilst it has received groundswell of

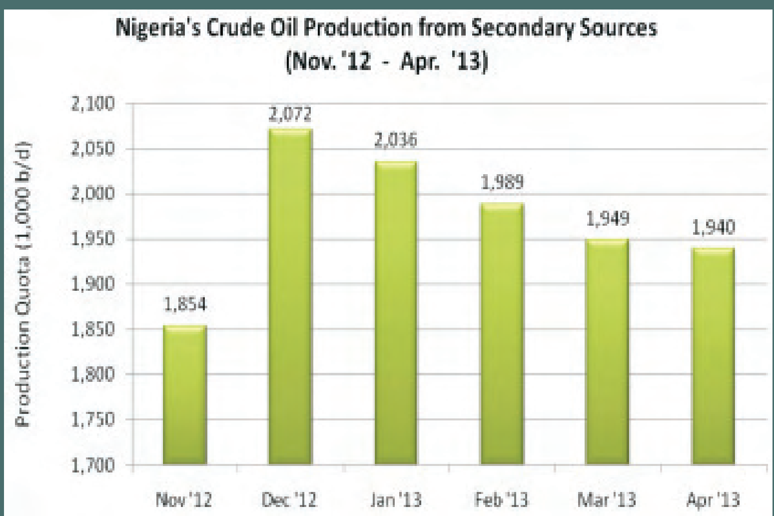
http://www.drillingcontractor.org/wp-content/uploads/2013/01/web_VantageEDThailand-spready.jpg support from some quarters, others contend that it is not an all-purpose elixir that will address all the challenges of the oil sector. For instance, the International Monetary Fund (IMF) has canvassed for the early passage of the PIB. The IMF reckons that the bill would boost investment, government revenue and fiscal transparency. International Oil Companies (IOCs) on the other hand have maintained that the proposed higher taxes in the PIB would make exploration of oil and gas uneconomical in the country. They contend that the bill will make Nigeria's Production Sharing Contract (PSC) regime among the harshest in the world. The IOCs consider the PIB as extremely punitive towards them and this have somewhat stalled new investments. It is estimated that about $50billion planned investment especially in deepwater exploration is on hold and could be imperilled.

As the PIB debate rages, it is pertinent to note that the legislation is not all about higher taxes and royalties payable by IOCs, and instituting a Petroleum Host Communities Fund (PHC Fund). The bill also seeks to make some profound changes in the oil sector by restructuring and improving the management of Nigeria's oil resources. It provides for the dismantling of the state-owned oil corporation – the Nigerian National Petroleum Corporation (NNPC) into nine commercially oriented and profit driven agencies that do not rely on government subsidies. The nine agencies will comprise two regulatory agencies, three funds, three commercial companies, and one technical and support bureau. The NNPC would be restructured in the mould of Saudi Arabia's Aramco, Malaysia's Petronas and Brazil's Petrobras with improved corporate governance. The PIB also provides for the delisting of the NNPC from the Public Enterprises Privatisation and Commercialisation Act. It also requires the government to divest up to thirty percent and forty nine percent of the authorised shares of the National Oil Company and the National Gas Company respectively to the public in a transparent manner on the Nigerian Stock Exchange. The bill seeks to optimise domestic gas supplies, particularly for power generation and industrial development, and encourage domestic refining of crude oil.

United States and China's Energy Policies: Implications for Nigeria

The United States is vigorously pursuing an energy policy which seeks to move the country towards attaining energy independence and away from Middle East and Africa energy sources. The United States is projected to become the world's largest producer of crude oil and other liquid fuels by 2020 and will be entirely self-sufficient by 2030, and a net exporter by 2035 according to some estimates. The International Energy Administration (IEA) believes that the United States will become the world's largest oil producer by 2017, overtaking current leaders Saudi Arabia and Russia. According to Citigroup, by 2017 the U.S. would no longer need to buy oil from any source but Canada. The quest for U.S energy independence has been bolstered by new drilling techniques and technology (horizontal drilling and hydraulic fracturing).

Another recent major development in the global energy market is the move by China (the second largest oil-consuming nation) to commence production of shale oil. The imminent commencement of shale oil exploration in China has sent shockwaves around the global energy market. China is estimated to have roughly 240 billion tons of accessible oil shale reserves. According to China's National Energy Administration, about 10 million tons of oil can be produced from these reserves annually. In obvious panic, OPEC has constituted a committee to study the likely impacts of the shale oil exploration on the prices of oil in the international commodities market and the likely economic impacts on oil-producing countries. Although shale oil extraction is more costly than the production of conventional crude oil, it is nonetheless a substitute for conventional crude oil. There are also concerns about the environmental impact of shale oil production but this also is unlikely to deter China as the country is determined to embark on the project. For China, developing indigenous energy is a high priority. China's continuous reliance on oil imports somewhat ties its prosperity to political turmoil in the Middle East, and Africa. China also reckons that for strategic national interest, it is expedient to limit its energy needs from sources susceptible to interdiction.



Source: OPEC Monthly Oil Market Reports

http://www.bcx.org/photos/deconstruction/driving/oil/ginaplatform/Oil_Derrick_Channel_Islands_20101008_122258_8463BCX.jpg

Should these optimistic scenarios in the United States and China crystallise, Nigeria and a host of other countries that export crude to the U.S and China would have to look for other markets. This could have grave consequences for the price of crude oil and it is feared that some oil producing countries could face the threat of becoming failed states. The United States has been the largest importer of Nigeria's crude oil over the years but this is changing very fast. In the last decade, Nigeria accounted for between 9 and 11 percent of U.S total crude oil imports. However, Nigerian crude oil has recently dropped to below 5 percent share of total U.S crude imports. According to U.S Energy Information Administration (EIA) data, over the past five years the United States' reliance on Nigerian crude imports has dropped 63 percent, falling from a peak of 1.084 million barrels per day in 2007 to just 405,000 barrels per day in 2012.

In a twist of events, India has now become the single-largest importer of Nigeria's crude oil, surpassing the United States. According to some reports, India is now accounting for about 17 percent of the crude exports from Nigeria. One of the reasons that have been adduced for this development is geographical proximity because it makes economic sense for India to ship oil from Africa. India is expected to import at least 13 cargoes, or 17 percent of the estimated 75 cargoes scheduled for export from Nigeria by end May, 2013. In March and April, India imported six and seven cargoes, respectively from Nigeria. China is currently another major importer of Nigeria's oil and as such, China's shale oil exploration portends decline in exports to China in the long term.

Going Forward: At crossroads but not as gloomy

With an average daily crude oil production of 2.29 million barrels per day (mbpd) in the first quarter of 2013 and a proven reserve of 37.2 billion barrels, Nigeria remains an important player in the global energy market. Although there are obvious challenges that have stalled new investments especially in deepwater exploration, Nigeria is not about to lose its prime place in the global energy market. A major attraction for Nigeria's crude oil is its low sulphur content which most refiners prefer. What is expedient for the long-term sustainability of the oil industry is a comprehensive reform in conformity with global best practices. Some of the needed reforms include improved governance and transparency in the oil sector, competitive policies and incentives to encourage new investments. Incidentally, some of the reforms appear to be encapsulated in the Petroleum Industry Bill (PIB) before the Seventh National Assembly. What is required is the political will to urgently enact the legislation. There is also the need to hold the planned oil licensing round which has been deferred for the umpteenth time. Presently, the oil industry may appear somewhat at crossroads; but the future of the sector is still far from gloomy.

(* Sunday Enebeli Uzor is an Analyst, Zenith Economic Quarterly)

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently
- Warren Buffett, CEO Berkshire Hathaway

Equities – the good news continues...for now

* By **Neil Hitchens**

Warren Buffet, the 'Sage of Omaha', is probably the most famous investor of recent times. His deliberate long-term, target driven investment approach has ensured that the price rise of his investment vehicle, Berkshire Hathaway, (BRK/A)has been not only one of the most spectacular but also the most consistent over the past 40 years. From a price of US$12 in the late 1960's, Berkshire Hathaway closed April 2013 at US$ 159,000.

This is not a typographical error.

This 1,324.90% return is not a fluke. It has been achieved through rigorous attention to detail; having predefined entry and exit points, ensuring that pre-purchase research eliminates many of the shorter-term post acquisition volatility problems. Also by having an extremely diversified underlying portfolio, Berkshire has managed to sidestep single industry problems.

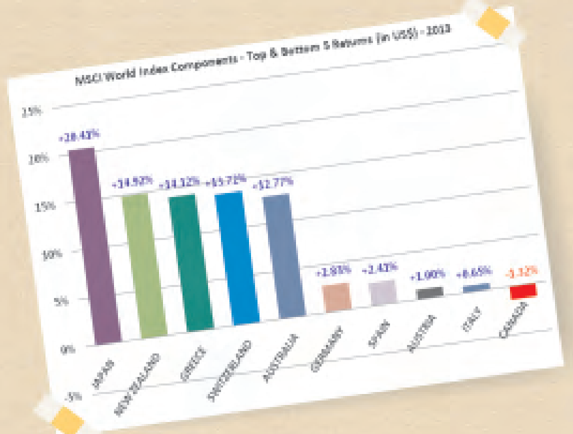
This is an investment approach that all serious investors should note.

For equities in general, 2013 has so far been much as we had expected, hoped and dared to predict. Almost on cue on 5th March, the Dow Jones Industrial Index broke through the old all-time high of 14,578.54, a very solid return by then of +11.25% for the year. The index continued to climb through April to peak at 14,865.14 on April 11th and finished the month at 14,839.80, +13.25% for 2013. The S&P 500 being a more broadly based index only broke into new territory on March 22nd, but managed to end April at a new closing record of 1,597.57, +12.02% for the year.

As we had targeted 1,600 for the end of April, a small pat on the back might be warranted.

As the US is so dominant in any market basket index, it is not surpris-

http://thejapanwanko.sub.jp/wp-content/uploads/Los-Angeles-skyline.jpg



Source: MSCI Barra

ing that the MSCI World Index of developed markets has also had a very strong start to the year and is currently up +10.28%, somewhat surprising given the US market moves. The MSCI US Index, measuring a broad spectrum of US equity performances, was +12.14%.

However, as always within a large and diversified index grouping you also get a divergent set of performances.

Japan, out of nowhere, now has the best single developed market return for this year with a rise in US$ of the MSCI Japan Index of +20.41%. It was almost as if our previous commentary had been sent directly to the Japanese Government for immediate action.

We posited that Japan need to do something radical and grasp the nettle to try to stimulate their economy.

This they have done to extremely good effect – the new cult of 'Abenomics' introduced the hope that by actively targeting an actual inflation rate of 2%, along with a Japanese form of quantitative easing the Japanese economy may awaken after nearly two decades of indifferent and non-existent growth.

A factor in this has been the Bank of Japan's aggressive devaluation of the Yen which has fallen from ¥ 86.62 to ¥ 97.53 (-12.60%) to the US Dollar so far this year. While traders believe that it is only a matter of time before it breaches the numerically interesting ¥100 level, there appears to be a high level of option related resistance here. However, most of the major brokers see a year-end rate of between ¥110 - ¥120 as an absolute minimum, which would be of great help to Japanese exporters.

New Zealand, interestingly comes in second, +14.92%, dragged up in part by the moves in other Asian indices, but also from increasingly better domestic market conditions for the banking sector and the airline industry – a similar story to the Australian market, +12.77%.

Switzerland though is the best performing 'normal' European index by some way at +13.72%. Greece, as you will see is +14.12%, but in all honesty market conditions there can be best described as 'stressed' and 'abnormal'.

The Swiss Franc has benefited from an almost perfect trio of positive factors.

Firstly the most recent Euro turmoil, this time courtesy of Cyprus, led to increased demand overall for the Swiss Franc, that bellwether safe-haven.

Secondly, while the Swiss Franc does remain partially pegged against the Euro it is 'Not the Euro'.

Finally, with Swiss Bond yields uniformly negative for all Swiss Government bonds of a 5-year or less maturity, the very attractive yields on both an absolute and relative basis currently found in Swiss Equities are of more than passing interest.

Currently the highest yielding stock is Zurich Insurance

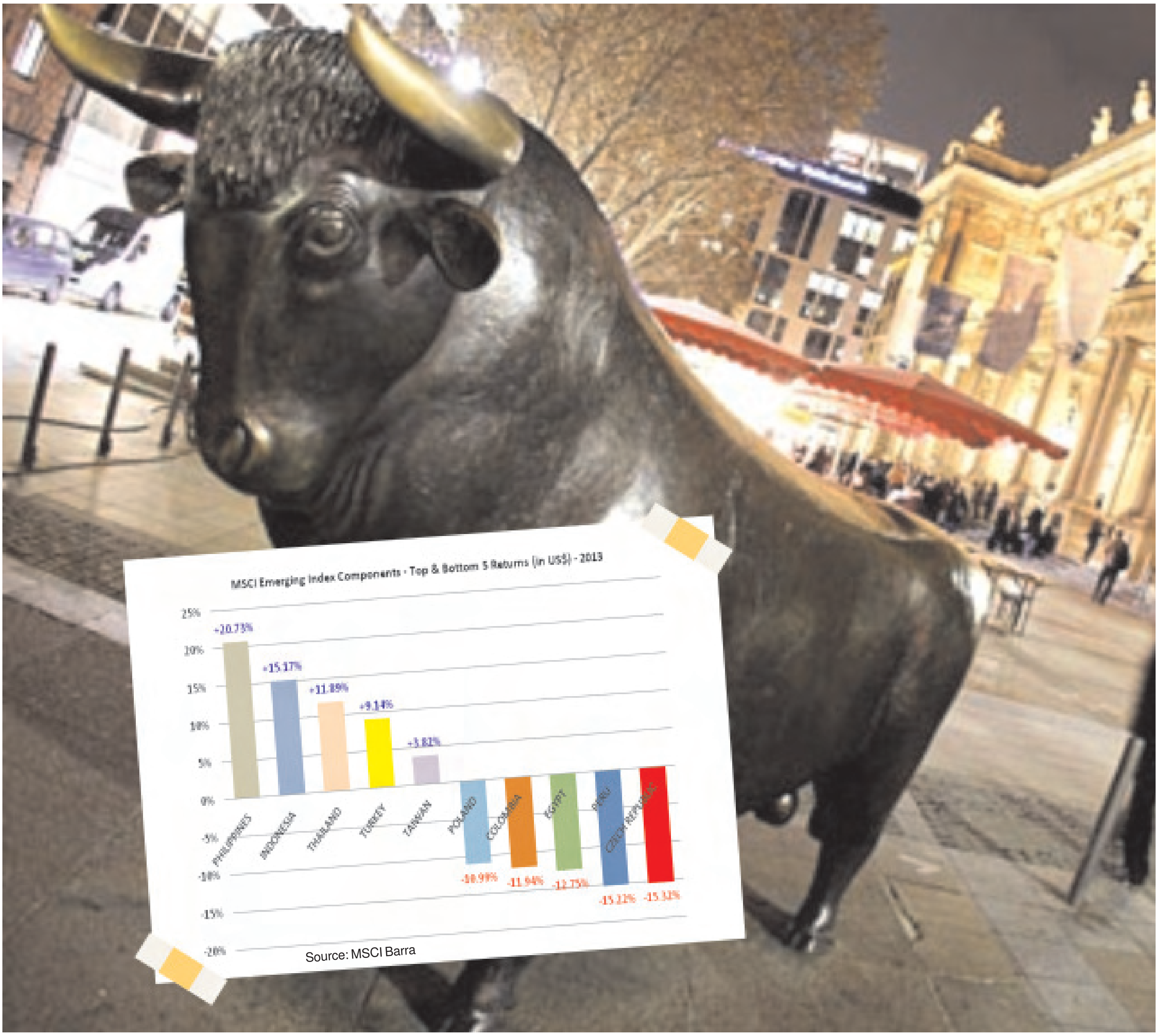
(ZURN), which has a current indicative yield of 6.58%. Add on to this return a 2013 performance of ‘only’ +13.94% and total returns start to look extremely attractive. Apart from one stock in the Swiss SMI Index, Julius Baer (BAER), which shows a +16.48% capital gain in 2013, every component has some form of dividend.

Factor in the datum that all the components of the SMI are up between +5.18% and +33.07% and you can see why this has proved such a popular place for investors.

The five best appreciating Swiss stocks for the year have been:

Stock	2013 Performance	Indicated Yield
Actelion (ATLN)	+33.07%	1.74%
Givaudan (GIVN)	+28.03%	2.99%
Roche (ROG)	+26.30%	3.14%
Swiss Re: (SREN)	+23.53%	4.71%
Novartis (NOVN)	+20.19%	3.33%

Whilst we are forbidden from recommending the purchase or sale of any individual stock, the prudent course



of action is to closely examine any equity that has risen by more than 20% in such a short period and re-examine the case for either its continued possession or a trimming of either part or the whole of the holding.

We do find the fact that Germany is one of the worst performing markets so far this year, puzzling. THE MSCI German Index is up only +2.83%.

http://a.abcnews.go.com/images/International/ap_bull_germany_stock_market_wblog.jpg

Normally the news coming out of this Northern European economic bastion, in comparison to its beleaguered Southern neighbours, would be reflected in a strong local stock market.

However the market has been range bound so far this year moving from a starting point of 7,612.30 and touching a high of 8,058.37 (+5.86% for 2013) on 14th March only for it to plunge to a low of 7,459.96 (-2.00% for 2013/-7.43% from the high), on 19th April and ending the month at 7,913.71.

What does start to worry us is the marked increase in intra-week volatility. Day to day moves of 1% or more baffle most market participants. Some commentators attribute the sporadic enthusiasm for German blue chips to the prospects for an ECB rate cut. Numerous analysts even predict the central bank will finally react to the Eurozone's slow growth and tepid inflation by reducing the refinancing rate by at least 25bp as early as the May ECB meeting.

These pundits tend to overlook another essential pre-condition for a rate cut, namely a properly functioning monetary transmission mechanism.

Will, for example, a ¼% rate cut allow a household in Portugal or a small business in Greece to borrow more cheaply?

No.

This may well be the one reason why has ECB has not moved to cut rates so far.

While the recent convergence of Euro Zone sovereign yields means the mechanism is at least healing, the absolute level of long-term spreads has not improved in the past two months.

This is probably not the missing link to a rate cut.

Another theorem is that even Germany needs a rate cut these days, if the declining and currently contracting Purchasing Managers' Surveysare any guide: recent readings of 47.9 for PMI Manufacturing and 49.2 for PMI Services are worrying. This would mean that, rather counter-intuitively, a weaker German economic outlook is perceived as the driving force for higher domestic stocks.

A better argument in our view is the growing anti-austerity movement in much of the Euro Zone. The rollback of this policy stance in countries like the Netherlands, Spain and France really is good news for German firms and the DAX could well soon retake its expected lead position for Northern European stock markets.

Emerging Markets – steady as she goes.

Away from more 'developed' markets, the spread of performances in both the Emerging and Frontier sectors is somewhat as we expected – with a few expected shocks along the way.

In the MSCI Emerging markets, the leaders were indices all positively affected by the strength in the Japanese and Australian markets. Again, we note with considerable interest that the Philippines markets at +20.73% has built on its strength last year to make a welcome return to the leader board.

Turkey, despite the massive humanitarian and political problems with its Southern neighbour, Syria, is again tickling investor interest and is one to watch for the rest of 2013.

Turkey's economy continues to stand out relative to both its neighbouring economies and other markets in the Emerging Sector.

After a successful soft landing in 2012, Turkey's economy should reaccelerate in 2013. Despite inflation coming in at a relatively high 7% at the end of 2012, it should ease off to below 6% during 2013 and allow the Central Bank to continue its pro-growth stance.

The government, with an eye on local and presidential elections in 2014, will also follow a relatively accommodative fiscal policy. Turkey's current account deficit continues to improve (10% in 2011, 7.3% in 2012), led by a welcomed slowdown in imports, a cooling of domestic demand and stronger exports to the Middle East and North Africa (MENA)/Gulf Cooperation Council (GCC) region.

A big boost to its overall attractiveness is the recent increase in its investment-grade rating in 2012 to BB+ with further upgrades expected during 2013-14. A rise of one notch further to BBB- would put it on an identical credit rating as Spain and one further upgrade to BBB would put it on a par with South Africa, Mexico Brazil and Russia.

While Turkey remains slightly vulnerable (Syria could get very nasty very quickly), we believe that it is well placed and so long as the world remains awash in liquidity, Turkey should be able to finance its current account deficit and the lira should remain stable.

We find the inclusion of Poland as one of the five worst performing markets slightly puzzling when compared to Colombia, Egypt and Peru, both of which are much smaller capitalized markets with neighbouring problems affecting local sentiment.

Poland and the Czech Republic should both be benefitting from the strength in its neighbour Germany.

However, the spectre of weakening European growth in 2013-14 seems to be affecting these two countries worse than usual. Given the countries' high exposure to Europe, weak economic growth and a limited investment universe, we remain cautious on the Czech Republic.

Poland, with a large domestic economy, a stable and generally market-friendly government and less exposure to the euro zone, is the best-positioned country in the region.

After experiencing both fiscal and monetary tightening in 2012, Poland should see some easing this year, which will help keep economic growth stable in 2013. Despite being more attractive within the region, Polish equities outperformed in 2012 and now look expensive.

Banks, which make up one-third of the MSCI Poland Index, face a worsening credit cycle and meagre loan growth. At the same time, many of the state-owned companies have weak management, high costs and unattractive earnings growth profiles. It is probably best for the moment to focus on selective names with attractive, company-specific outperformance drivers.

We also note that Hungary, whose market is flat for the year is particularly weak, as it will see continued deleveraging in both the private and public sectors, which will – as has been seen elsewhere in the European Debt unwinding process - limit investment and consumer spending.

The Hungarian government also continues to pursue populist and sometimes market-unfriendly policies. Therefore, we find little that is attractive in the Hungary market and, thus, we would caution against any exposure to Hungary.

Frontier Markets – good returns along with some well flagged disappointments

There is though some rather good news from the Frontier Sector.

The standout market continues to be Ghana where the recent election has not stopped the continuing equity rally in Accra.

A +53.72% return (in US$) so far for 2013 is on top of a 12 month return of +90.52%.

http://1.bp.blogspot.com/_bH1saYr4D4o/TNq2ggpBrhI/AAAAAAAAAEU/Xu0jpHYram0/s1600/IMG_5071.JPG

Problems in the Gulf appear to have been ignored and as such the UAE index returns of +36.01% should be a welcome diversion in the increasingly diverse and greater capitalised market.

We do find the move in Bulgaria as slightly baffling. Again, as with the rise in the Greek market this year, this is off an extremely low and battered base. Bulgaria though remains at extreme risk of further Hellenic contagion.

As we have warned many times before, a regional problem does not stop at the borders of any particular country – in this case Greece and Cyprus. It will also adversely affect those neighbours with whom a large amount of cross border trade occurs – in this case Bulgaria, Macedonia and Albania.

If you expand the performance measurements, the truth about this rally emerges. The return for the past 12 months is a miserly +3.81% and for the past three years -15.91% and for the past five years a slightly incredible -30.52%. In other words this is a classic bear market rally.

I am sure the time for Bulgarian equities will return but in all honesty it probably will not be in the next two or three years at the earliest. Until then we would rate this an "avoid".

Amongst the fallers we note that our previous observations in 2011 about the lack of depth or breath of the Jamaican stock markets has borne fruit – or rather our predictions of a prolonged market collapse came true and a negative return of -18.64% so far this year could well be exacerbated and the 12 month returns of -30.29% could well have a further 10% - 15% to go. Again, an 'avoid'.

Commodities – what went wrong with Gold?

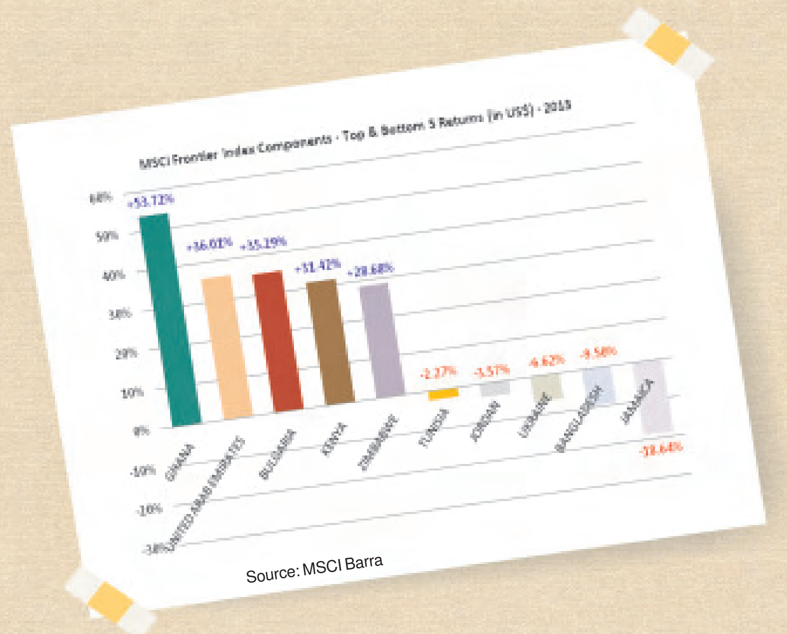
Those misguided investors, who expected the 12-year Gold 'Bull' market to continue moving ever upwards in a continuous straight line, had the shock of their lives in April.

While long upward biased moves do happen, one that runs for over 10 years will inevitably have within it many a sharp correction – as we have just seen. From an opening level on April 10th, of $1,588.19 an ounce the price collapsed to new recent lows 4 days later on April 16th at $1,328.70 – a -16.34% correction. However, after the market looked inwardly on itself the price has risen from that low to end the month at $1,471.93 a +10.78% upside move.

So, what happened?

During the third quarter of 2012, as the Federal Reserve hinted there would be a 3rd round of QE (Quantitative Easing) gold moved up $200 an ounce and peaked at $1,792.18 on 4th October 2012. At that point, the price simply refused to go any higher after 'QE3' had been initiated, despite the monthly size of QE 3 doubling to $85 billion by the end of 2012.

Suddenly, gold speculators started to become very nervous. The new round of QE did produce a spectacular equity rally and even a pickup in home prices, but the price of gold started to slide – here I think it is a



Source: MSCI Barra

near-certainty that the pace of the stock market move sucked money out of gold. Sales of gold ETFs rose and cash flowed into equities instead.

Perversely, had stock markets risen at more normal levels of around 2% - 3% a month 'only' the move out of gold would have been slower – instead of which fund managers felt compelled to move rapidly into equities in case they missed the rally. As always, those that only moved at the end of January managed to miss the first 5% of the rally.

This failure of gold to maintain recent momentum put in place conditions for the recent move. A great number of speculative positions with unrealistic expectations of making a fast buck had jumped onto the gold bandwagon too late. A number of investment banks, such as Goldman Sachs, sensed gold's vulnerability and published sell recommendations.

The final straw was newspaper reports in the second week of April that the Central Bank of Cyprus might sell 10 tons (321,500 troy ounces) of gold to alleviate its banking crisis. Panic selling took hold and despite the Cypriot sale being only of the order of $500 million, billions were wiped off the value of Gold ETFs and Gold funds. The Financial Times reported that billionaire hedge fund manager John Paulson has personally lost at least $1.5 billion on his investments in gold so far this year.

So, can the price of gold fall further?

It very possibly could.

However, there are grounds for some small optimism that this could just have been a slightly over exaggerated market move. Cast your minds back to July 2008 and September 2011 - not that long ago in investment terms. In both these months gold had sharp and even larger sell-offs and yet this did not change the overall longer-term trend for the metal. In July 2008, the price fell by -21.11% (as the Lehman crisis unfolded) and in September 2011, the overall price eventually collapsed by -15.74% as Europe imploded.

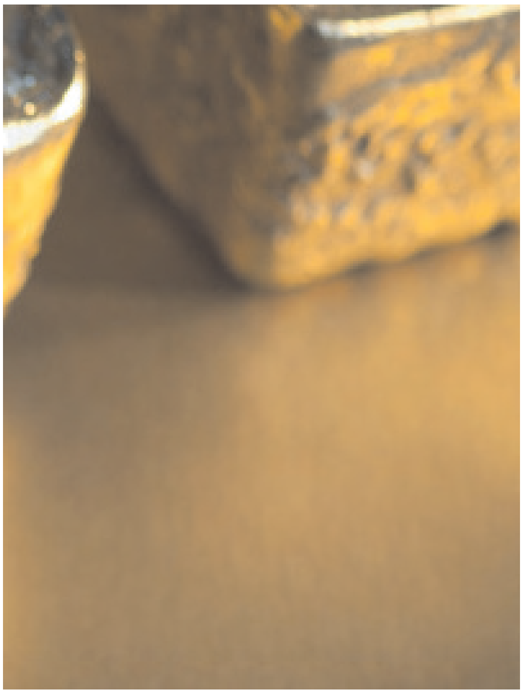
In addition, we have looked at other forms of gold, apart from physical sales of gold bars, as a possible forward indicator. Amidst this sudden correction, the US Mint sold 153,000 ounces of American Eagle gold coins, more than double March's sales and up sevenfold from a year ago. It also released figures showing recent sales of 1.645 *million* ounces of silver taking the 2013 total to a massive 15.868 million ounces. With demand for the Silver Eagle coin so robust the Mint had to restrict sales to primary dealers only. The smallest gold coin, 1/10th of an ounce, sold out completely and sales have been suspended.

Sales also spiked in China, India and Australia.

The China Gold Association reported retail gold purchases across China tripled in the aftermath of the correction. Sales at the Perth mint doubled. Japanese consumers were net buyers of gold for the first time in eight years.

In Switzerland, physical demand was privately reported to us as being 'extraordinary'.

Finally, it would appear that the longer-term players have not been blown off course. It was reported that despite the short-term fluctuation in the price of gold, John Paulson has not changed his thesis about gold being a major beneficiary of the QE money-printing programme. Other investors have also stated that longer-term gold can but benefit from the massive global money-printing programme currently in place.



http://www.barrick.com/files/design/bodybg/home-barrick-gold.jpg

Certainly, this correction has proved a good opportunity for those with patience to either add to or initiate new positions.

As we continue to stress to all clients, gold will always play a part in a well-diversified multi-asset class portfolio – however it is a constantly changing variable and positions need to be watched carefully. All good managers should monitor all such holdings: do not sit doggedly on a position and above all do not refuse to take profits when the indicators signal such a course of action is both appropriate and necessary.

When a position is set at, say, 5% within a portfolio, it is set at this level for a reason. To allow it to rise 50%, 100% or 200%+ higher than this and not to re-set the value will lead to disaster as we have witnessed.

For the very –near term we feel that it would be prudent just to watch near term moves – buying opportunities will invariably present themselves, especially over a Summer that should, hopefully, be its usual quiet self. We remain wary of the possibility of North Korea or Iran doing something unexpected or, indeed, downright stupid that could prove a fillip to the price to push it back to or above its recent average for 2013 of $1,596.80.

Gold at $2,000?

Not yet, but the suspicion is that this remains an attainable nearer-term target. Certainly, the continuing Central Bank bacchanalia through printing money will continue to debase the value of paper money relative to hard assets such as gold.

Oil - slow flow so far in 2013

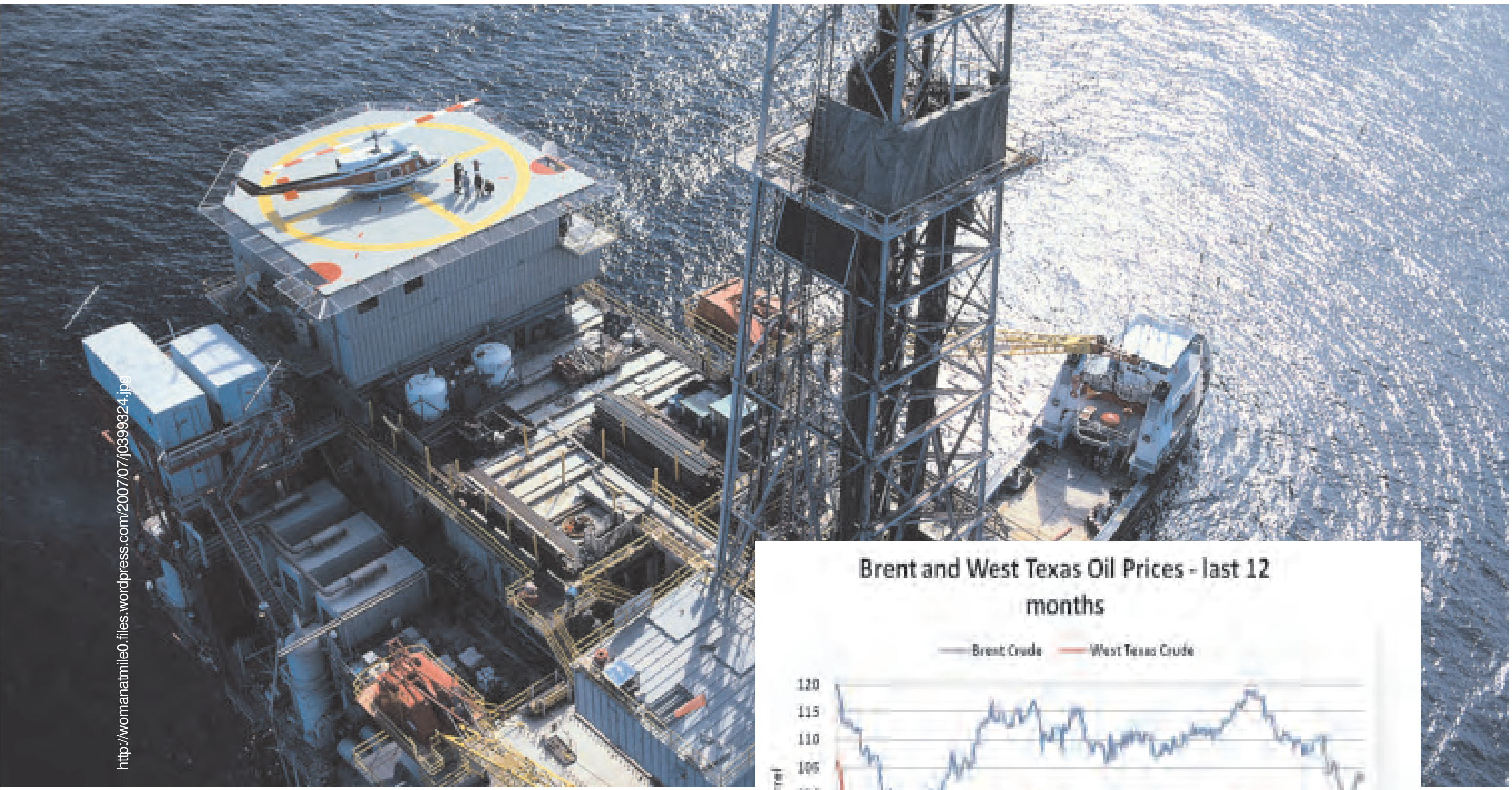
The recent forecast by the EIA (the US Energy Information Administration) that the Brent crude oil spot price will fall from an average of $112 per barrel in 2012 to annual averages of $108 per barrel and $101 per barrel in 2013 and 2014 merely confirmed the recent softness of crude oil.

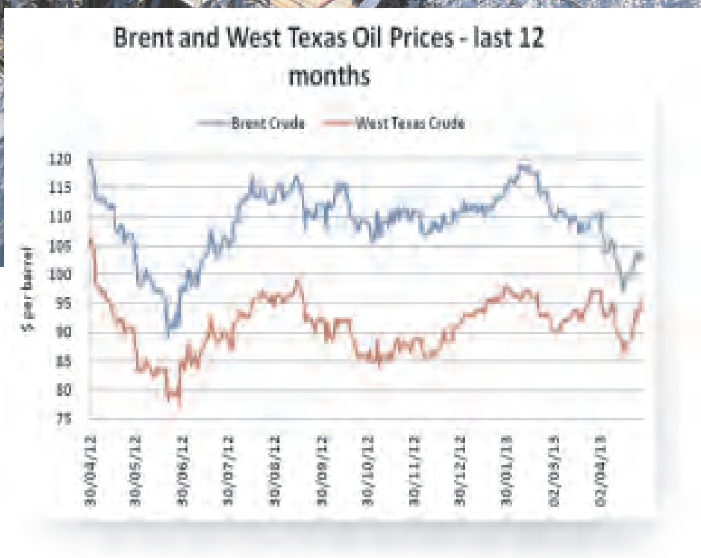
They further added that after averaging $94 per barrel in 2012, the WTI oil price would average $94 per barrel in 2013 and $92 per barrel in 2014. As previously noted, several pipelines will be completed running from the Mid-Continental US to the Mexican Gulf Coast refining centres, which will further reduce the cost of transporting crude oil to refiners. This is turn will further widen the spread between WTI and Brent.

Energy price forecasts are highly uncertain going forward. WTI July 2013 futures traded at a recent average of $96.35 per barrel, down about $8 per barrel from a year ago. Implied volatility averaged 18% and set implied upper and lower parameters for the near term prices at $82 per barrel and $113 per barrel, respectively. Last year at this time, WTI for July 2012 delivery averaged $104 per barrel and implied volatility averaged 26% with upper and lower expected levels at $83 and $131 per barrel. Despite a late spring in Europe, the increasing supply of oil through technological advances combined with a continued push for 'fracked' natural gas will probably keep prices weak at best. WE could quite easily see a re-run this year of the 2102 story when Brent fell from $120 in April '12 to a low of $81.63 at the end of June – and it never regained the previous highs.

Even the well-regarded and slightly oil-loving IEA (International Energy Authority) recently forecast that global oil demand would have to be revised slightly lower for 2013, as global economic growth remained stubbornly low. However, they did note that falling oil prices did not foreshadow a full-blown bear market. Consumption in

Source: Bloomberg





Europe especially is predicted to be at its lowest levels since the 1980's.

As we have pointed outearlier, severe potential disruptions to global crude supply seem to have been either factored out or simply ignored. It is possible there will be disruption to supplies in Iraq, Libya and Nigeria as well as the simmering geopolitical tensions from North Korea, Iran and Syria – any of which could flare up and cause oil to spike higher.

North Korea, especially, has recently gone a little too quiet and has the potential to 'go it alone' without China's consent and launch a nuclear tipped rocket. The No-dong 2 has sufficient range to hit a target in Japan while the Taepo-dong 2, allegedly in development, could hit American Pacific Island bases or even Australia. One version of this rocket could, allegedly, go as far as either the Hawaiian Islands or even San Francisco.

However, accuracy and reliability have never been North Korean rocketry's strengths.

2013 – What will happen in the next 6 months?

While the case for equities continues to grow – and we have seen what happens when assets classes are suddenly switched into them, a sensible investor will only slowly change the weightings in his multi-asset portfolio. Even then, every 5% change must be managed and new positions eased into rather than a headlong and precipitate alteration.

Again, we stress that all allocations of any equity exposure should not be based merely on an unthinking herd-like following of one index or another. Instead, the real art is to spot the 'tulip mania' type approaches where the fundamentals simply do not follow the reality of the situation.

While many management groups do use the MSCI World Index as a useful benchmark it is a smarter adviser that will dissect, analyse and cogitate over not only the country by country allocation but they should also have the courage of their own conviction to realise that certain countries should simply not be a part of any client portfolio.

As Warren Buffet so sagely noted, every client will remember when you lose money but forget any gains.

Merely because, Greece is in an index that you use for your benchmark, if the specifics for investing in such a country do not match with reality then be brave, be bold and above all aim to be different; not for the sake of being distinctive for the sake of it, but to have a logical and analytical reason to exclude such a weighting in favour of another, such as the US.

This makes some advisors superior to the rest of the herd-followers.

Buffet is a hard act to follow but, boy, is he a good teacher!

(* Neil Hitchens is a Senior Relationship Manager, Head of Investment Managment, Zenith Bank (UK).

http://r3.nuq04t15.c.bigcache.googleapis.com/static.panoramio.com/photos/original/62589635.jpg?redirect_counter=2&st=ts&ir=1

Taxation is viewed in many developed countries of the world as both a way of life and a necessary civic responsibility which involves the generation of revenue for a common purpose. Unfortunately, in Nigeria, a large majority of people view tax as an instrument of oppression and dispossession by the government. Whereas the resistance in the colonial era may have been part of the struggle against British rule, in more contemporary times, the average Nigerian resists tax payments out of the plain realization that taxes are invariably stolen by state officials. The people however cannot be blamed for this view because taxation in Nigeria has its roots in the colonial days when local agents of the colonial government forced the people to pay all forms of obnoxious taxes irrespective of their means.

No one likes to pay taxes, even though tax payment is inevitable for the provision of social welfare, hence individuals and companies want to reduce their tax liabilities and they try to do this either legally, by tax avoidance or illegally by tax evasion. As such, one of the problems hindering the effective administration, collection and assessment of tax in Nigeria today is tax evasion. Sadly enough, it is a problem which we have always been faced with.

Tax Evasion In Nigeria: Ways Out Of The Quagmire

By **DEJI OLANREWAJU** & **FOWOWE ESTHER**

This work will examine the concept of tax evasion, how it is perpetuated, penalties provided by the law as well as the measures put in place to combat the problem of tax evasion in Nigeria. The efficacy of these measures will be further examined and the challenges related to these measures. More importantly, the paper will proffer requisite panacea to the problems associated with tax evasion in Nigeria.

CONCEPTUAL CLARIFICATIONS

Taxation has continuously assumed a growing importance in Nigeria;[1] hence the search for a suitable definition of the concepts of "tax and taxation" has led to some sort of struggle among various authorities. One unique thing among all these definitions is that they all drive at the same purpose.

None of the Nigerian tax statutes has given any definition (but rather a description) as regards the concepts of "tax" and "taxation". The only thing one can find in the provisions[2] of these statutes is that **"tax means the tax imposed by this Act" and "tax means any income tax in conformity with the provisions of this Act"**. As such our laws have failed to give a concrete definition of what 'tax' or 'taxation' is. In light of this, it is to decided cases one has to go to construe those terms in our laws where the statute itself has supplied none.[3]

According to the **Black's Law Dictionary**,[4] a tax is "a monetary charge imposed by the government on persons, entities, transactions or property to yield public revenue". Broadly speaking, 'tax' embraces all governmental impositions on persons, property, privileges, occupations and employment of the people and also duties on imports and excises. At any rate, a tax is often thought of as being pecuniary in nature i.e. it is necessarily payable in money.

Tax in a general sense was defined in the case of ***City of Newark v. Jos Hollander Inc.***,[5] to be "any contribution imposed by government upon individuals, for the use and service of the state, whether under the name of toll, tribute, tollage, duty, custom, excise or other name". In a more restrictive sense, **Abdulrazaq** defined tax, "as an enforced contribution of money, extracted pursuant to legislative authority".[6]

From these definitions, one can conclude that:[7]

- Taxes are compulsory.
- Taxes are levied by government.
- Taxes are backed by law.
- Taxes are for public use (direct or indirect).

Taxation on the other hand is the process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society.[8] From this definition, it can thus be inferred that the payment of tax will in turn be beneficial to the entire citizenry.

CONCEPT OF TAX EVASION

Every tax system faces one problem or the other which affects the efficient operation of such tax system. The incidence of tax evasion is rampant in this country. It is a problem which we have always had in Nigeria.[9] In that wise, many Nigerians evade paying taxes. Tax evasion has become the favourite crime of the Nigerian, so popular that it makes armed robbery seem like minority interest. It has become so widespread that there now exists a cash economy of vast proportions over which the taxman has little or no control and which is growing at several times the rate of the national economy.[10]

Nzotta opined that the problem of tax evasion has its genesis in Nigeria during the colonial era. During this period, taxes were looked upon by the restive natives and rural population as an instrument of oppression available to the British Colonial masters.[11] The clamor for self government necessitated a measure of civil disobedience which invariably involved evading taxes through all conceivable means. With self government and latter independence, attitudes to taxes changed. However, the colonial masters were replaced with indigenous privileged elite' class (civilian and military) whose hidden agenda essentially included personal enrichment with little accountability. Thus, the resistances to payment of taxes hardened once again especially during the years of military rule in Nigeria.

The Nigerian Tax Statutes provide no legislative definition of tax evasion but from the various offences and penalties sections, the offences stated therein provide an insight into what may be regarded as tax evasion.

Tax evasion is an illegal device adopted by a taxpayer to mislead the tax authority and thereby escape proper assessment and payment of correct tax due.[12] Tax evasion includes the failure to make a return of taxable income or the failure to disclose in a return the true amount of income derived.[13] This amounts to a deliberate contravention of **Section 24(F) of the 1999 Constitution**, which insists that it shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies (i.e. to the tax authorities) and pay his tax promptly. This is referred to as 'self assessment policy' by the tax payers themselves; whereby the taxpayer assesses himself/herself based on the modality provided by the tax authorities.

Tax evasion is fast becoming fashionable in Nigeria. The massive indebtedness of many Nigerians and by extension client companies, public corporations and even ministries to government service agencies has assumed alarming proportion leaving well meaning Nigerians worried.[14] Closer observation reveals that the taxpaying stratum of the society constitutes insignificant minority of the population. This is due to the fact that with the depressed state of Nigeria's economy, co-operative activities outside the government are limited, just as the scope of wage employment. This situation has influenced the distribution of property and wealth.[15]

Another problem which faces effective taxation in Nigeria is tax avoidance. This problem is confused most times with tax evasion. Tax avoidance is a phenomenon that occurs when a tax payer utilizes the provisions of the tax laws, identifies the incentives and benefits in the tax laws and uses such for his own advantage. Tax avoidance is traditionally considered as not being criminal in nature because the tax payer has not taken any action that is against the provisions of the law.[16]

In distinguishing between tax evasion and tax avoidance in the case of **Seven Up Bottling Co Plc v. LSIRB**,[17] per **Nziako J.C.A**, it was stated that "it is to avoid the escape of taxation of taxable subjects that tax laws are amended or even re-enacted from time to time as has been the case in Nigeria between 1961 and today to meet new developments and block loopholes as it were. It is not only to stop persons who employ legal devices permissible to minimize liability to tax evasion. Whereas tax avoidance is permissible, tax evasion on the other hand is illegal and gives rise to penalties and in some cases imprisonment. This is implicit in the provisions of the statutes which are quite detailed".[18]

REVENUE LOSSES INCIDENTAL TO TAX EVASION

A high degree of tax evasion has unpleasant repercussions on resources; it affects wealth redistribution and economic growth; it creates artificial biases in macroeconomic indicators. It runs counter to the distributional or equity goals of taxation. No matter how fair a tax system appears to be on paper, it will lack the standards of equity if there is high incidence of tax evasion or tax avoidance.[19]There has been a silent agreement from many quarters that there is a tax gap between the actual tax collected and potential tax collections. However, this seems to be a prob-

lem that every tax system faces.[20]

According to **Famakinwa**,[21] it was found from previously carried out researches that about ninety – five percent of people in this country evaded tax payment. The professional and self – employed were the most guilty people in this regard. Tax evasion threatens the government revenues. Revenue losses from tax evasion can be estimated to be over 6 trillion dollars yearly.[22] This means fewer resources for infrastructure and services such as education and health, and lowering standards of living both in developed and developing economies.

WAYS OF EVADING TAX IN NIGERIA

There are some methods of tax evasion which Nigeria has identified and provided sanctions against. The most common form of tax evasion in Nigeria is through failure to render tax returns to the Relevant Tax Authority. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax.[23]However it should be stated that it is not possible to provide an exhaustive list of the various methods adopted to evade tax, apparently because new ones come into play now and then. The identified methods however include:[24]

- Making an incorrect return by omitting or understating any income.
- Failure to furnish a return, statement, or information or to keep the required records.
- Overstatement of expenses.
- Outright Refusal or neglect to pay tax.
- Omission to state income receipts from landed properties.
- Inclusion of personal or private expenses in company's accounts.
- Omission to state income received in or brought into Nigeria from sources outside Nigeria.
- False claim of contributions to a pension scheme.
- Manipulating figures in the construction, manufacturing or trading accounts.
- Reduction of quantum of tax liabilities through fraudulent tax returns.
- Under declaration or dishonest declaration of income, earnings or assets.
- Concealment of profits from illegal or some other sources.
- Connivance with tax officials. E.t.c

LEGAL PENALTIES PROVIDED TO PUNISH TAX EVASION

A person can be found guilty of tax evasion if both of the following facts are proved beyond a reasonable doubt:[25]

- That the person owed substantial income tax in addition to that declared in his tax return.
- That the person knowingly and willfully attempted to evade or defeat such tax.

The proof need not show the precise amount of the additional tax due, but it must be established that the person knowingly and willfully attempted to evade or defeat some substantial portion of such additional tax as charged. The word 'attempt' contemplates that the person had knowledge and an understanding that, during the particular tax year involved, he had income which was taxable, and which he was required by law to report; but that he nevertheless attempted to evade the tax, or a substantial portion of the tax on that income, by willfully failing to report all of the income which he knew he had during that year. A tax evader may be charged to court for criminal offences with the consequent fines, penalties and at times imprisonment being levied on him for evading tax.[26]

In order to deter tax evasion, stiff penalties are listed in the **Federal In-**

land Revenue Service (FIRS) Act[27] to discourage this harmful practice. Some of the offences and the penalties under the Act include:

1. **SECTION 40** – Failure to deduct or remit tax:
   The penalty on conviction is pay tax withheld or not remitted. In addition to a penalty of 10% of the tax withheld or not remitted per annum plus interest at the prevailing CBN minimum re-discount rate and imprisonment for a period not exceeding three years.
2. **SECTION 41 -** Obstruction, hindering, molesting or assaulting authorized person:
   Penalty N200, 000 or 3 years imprisonment or both fine and imprisonment.
3. **SECTION 42 -** False declaration:
   Penalty As in section 41.
4. **SECTION 43** – Counterfeiting documents, falsification, alteration:
   Penalty is as in section 41.[28]

MEASURES PUT IN PLACE TO COMBAT TAX EVASION

As part of moves to tackle the problem of tax evasion in Nigeria, the government has put in place several measures, some of which will be examined below.

Tax administration in Nigeria has been patterned after the various tiers of government and routed along well defined constitutional legislative power. Thus the taxation of corporate bodies in Nigeria is exclusively administered by the Federal Inland Revenue (FIRS). In line with the provisions of section 80 of the 1999 Federal Constitution of Nigeria[29], all the proceeds of the taxes administered by the FIRS go into the Consolidated Revenue Fund of the federation.

The powers and functions of the FIRS are provided for under sections 7 and 8 of the **FIRS (Establishment) Act**.[30] Among its numerous functions, the service is empowered to make a determination of the extent of financial loss of the government arising from tax fraud or evasion and to adopt compliance and regulatory measures to identify, trace, freeze, and confiscate proceeds derived from tax fraud or evasion.[31]

The service also provides an access to adequate information on all persons or agencies involved in the collection of taxes for purposes of preventing tax evasion. The service further undertakes various support researches with a view to determine the extent of tax evasion and other matters that may affect the effective administration of tax in Nigeria. The FIRS also provides relevant information on how and where to pay both corporate and individual taxes.

In order to reduce the incidence of tax evasion and to ensure fairness and transparency of the tax system; the Federal Government, as part of its ongoing reforms[32] in the sector also inaugurated the Tax Appeal Tribunals (TATs) to handle disputes between aggrieved tax payers and tax authorities.[33]Tax appeal is therefore an important component of any tax administration system and this underscores the crucial role of the Tax Appeal Tribunals. The motive of the government in establishing the TAT was to provide the tax payers and the revenue authorities a flexible, timely and cost effective window to resolve all tax disputes, ensure fairness and transparency of the tax system and engender the tax payers' confidence.[34]

The government has also simplified the payment of taxes through the use of data code and banks, the introduction of the Taxpayers identification number (T.I.N.) e.t.c.

THE EFFICACY OF THESE MEASURES

Tax administration lacks transparency which has led to high levels of tax evasion or tax officials demanding facilitation payments in return for lower tax rates. This practice is reportedly declining, but still occurs.

The FIRS can be highly commended because it has achieved its goal as regards combating tax evasion successively to a great extent. In conjunction with the various state internal revenue services, a high number of individuals and companies have been apprehended. As at the 31st of December 2012, the Lagos State Inland Revenue Service had stated that it had shut 67 companies which had failed to remit workers' personal income taxes in 2012. The total amount the companies failed to remit amounted to 450million in the last six years.[35]

Although tax evasion still persists, progress has been made regarding public procurement procedures. Several advertisements through bill boards, handbills, radio and television have being carried out all in a bid to create awareness in the minds of the citizenry as regards the importance of tax payment and the penalties attached to the failure to pay taxes. Guidelines have clarified procedures, public tenders are now publicly advertised, and foreign companies are now increasingly treated as national companies all in a bid to cut down on the high rate of tax evasion in Nigeria.

These measures will however help in maximizing local profits as well as encourage foreign participation and investments.

CHALLENGES RELATED TO THESE MEASURES

Poor enforcement can be blamed for the high rate of tax evasion. The following factors also often render control of evasion difficult.[36]

- Corruption by the tax officials, poor pay and lack of motivation.
- Multiplicity of applicable tax laws.
- Absence of a national data base; (though a process of taxpayer identification number is now in existence).
- Inadequate tax education and staff training.
- Advancement in technology and Globalization as well as the cash base of the Nigerian economy.
- Interference from other government agencies.
- Sophistication in tax planning schemes especially among the multinational companies.
- Poor record keeping by the tax administrators. E.t.c.

PANACEA TO THE CHALLENGES

Enforcement of tax laws enhances tax payment and compliance. When companies are sealed for default in their payments, they will not like to be distrained a second time. Enforcement of the laws also encourages companies to remit their workers' taxes on time to avoid being sealed.[37]

The success of every tax system depends on the administration. A good tax administration creates a conducive environment, which can win compliance voluntarily. Tax payers need to cooperate with tax officers. Several situations abound in which tax officers have been assaulted while going about their duties. It is a very serious offence to assault these tax officials.

There is more need for proper education on the various taxes levied so as to know their liabilities, as well as the need for prompt payment by the citizens into the government's treasury without resorting to negotiation with corrupt tax administrators.

Obsolete tax laws and policies should be repealed or re-enacted also. There should be continuing modernization of tax administration. For instance: automation, introduction of more electronic processes and tailor-made projects to address problems in specific areas in the tax system can be introduced. The recent reforms in the tax administration system by the government need to be commended. However, there is need for continuing reforms in tax legislation including the Constitution, which will help to improve efficiency, clarity and functionality of tax laws and plug loopholes which may exist in the laws. Tax laws should also not be applied arbitrarily. The tax clearance certificate (T.C.C)[38] should be further enforced.

Adequate database for tax payers should be created. This will help to address the challenges facing tax collection in the country. It will enable the tax authorities have detailed information about taxpayers at all times. This will further relieve tax officers of the difficulties of locating tax payers. There is need also for there to be a review of the assessment and collection procedures of taxes in Nigeria.

Furthermore, all tax personnel should be involved in a continuous process of training and development as often as possible so as to be conversant with all necessary information such as the various new techniques adopted by tax payers to evade and avoid paying their taxes.

CONCLUDING REMARKS

Tax payment is a civic responsibility of all and this must be obeyed by all law abiding persons. When taxes are paid promptly, the government is enabled to provide the necessary infrastructure and improve the people's standard of living. Tax evasion would no longer be tolerated by the government both at the federal and state levels.

In conclusion, every Nigerian needs to agree that there is no point evading tax. It takes the rubbing of two hands to keep the hands clean. We can make Nigeria better for ourselves and our unborn generations by joining hands together with the government. When we pay our taxes, we empower the government to improve our quality of life.[39] This is the only path to sustainable growth and development in the country.

Pay your tax! It is your civic responsibility! It is the law!

(* DEJI OLANREWAJU AND ESTHER FOWOWE ARE FROM THE SCHOOL OF LAW AND SECURITY STUDIES BABCOCK UNIVERSITY)

ENDNOTES

[1]**Fran**kfurter once said, "Taxation has always been the sensitive nerve of every government". See Pollack E. H, (1965): The Brandeis Reader, Oceanic Docket Series, Vol. 7 P. 38.

[2] S. 108 of the Personal Income Tax Act, Cap P8, LFN 2004, and S. 105 of the Companies Income Act, Cap C21, LFN 2004.

[3] Per Ikpeazu J. in Aderawos Timber Company v. Federal Board of Inland Revenue (1966) L.L.R. PP 195, 202.

[4]**Bryan A. Garner**. (2004): 8th Edn. Thomson West U.S.A. P. 1496.

[5] 136 N.J. Eq. 539. 42 A. 2d 872 at 875.

[6]**Abdulrazaq A.** (2002): "Nigeria Tax Guide and Studies (ED)" Lagos. The Chartered Institute of Taxation of Nigeria, Lagos. P. 5.

[7] Lecture Note on Law of Property Taxation, "Elements/Characteristics of Tax". Delivered by Barrister A. Taiwo. 4th October 2011. Unpublished Work.

[8]**Ogundele A.E.**
(1999): "Elements of Taxation". 1st Edn: Libri Service, Lagos. P. 7.

[9]**Famakinwa**V.B.A. (1991): "Socio – Economic and Legal Foundations of Tax Evasion and Tax Avoidance". In Ajomo M.A. (1991):
"Tax Law and Tax Administration in Nigeria". Lagos. Nigerian Institute of Advanced Legal Foundations. P. 336.

[10]*Ibid.*

[11]**Nzotta S.**M.(1995):"Human Problems of Taxation". Seminal paper presented at NIM, Uyo Chapter Seminal, Uyo, 1995 in Nzotta. P. 3.

[12]**Ochei B.B**. (2008) "The Nigerian Taxman's Book". 1st Edn, Lagos. Pyramid Unit Publishers (educational) Lagos Nigeria. P. 177.

[13]**Somorin T**. (2010): "Tax Evasion in Africa: Kinds of Evasion, How to Control It – The Nigerian Experience". A paper presented at the African Training and Research Centre in Administration for Development, Intercontinental Hotel – Tangier (Morocco), 29th November- 1st December 2010. P. 1.

[14]**Famakinwa** V.B.A. Op. Cit. P. 336.

[15]*Ibid.* P. 336.

[16]**Akintoye** R.I.(2008): "The Relevance of Case Study to Professionals". Nigerian Taxation, Volume 10, No 1; Jan – June 2008, PP. 27 – 28.

[17] 3 N.W.L.R. (Pt 650) 565 at 591.

[18]**Sasegbon**'s Laws of Nigeria. (2005): "An Encyclopedia of Nigeria Law and Practice". Volume
19. Lagos Nigeria. Deji Sasegbon Publications Ltd. P. 382.

[19]*Ibid*
PP. 59 – 60.

[20]**Somorin T**. Op. Cit.

[21]**Famakinwa**
V.B.A. Op. Cit. P. 336.

[22] http://worldnews.nbc.com/_news/2012/12/18/15985658-corruption-tax-evasion-have-cost-developing -world-6-trillion-report?lite Last accessed 07/01/2013.

[23]**Faseun L. A.** (2001)
"Tax Planning". Lagos.
Tax, the Newsletter of CITN, Lagos District Society. Vol. No. 1. P. 15.

[24]**Ochei B.B**. Op. Cit. P. 179. See also Somorin T. Op. Cit.

[25]See Commissioner of Revenue v. Attah (1970) N.C.L.R 121, where the defendant was held liable for tax evasion.

[26]**Faseun L. A.** (2001) "Tax Planning". Lagos. Tax, the Newsletter of CITN, Lagos District Society. Vol. No. 1. P. 15.

[27]**(Establishment) Act** 2007 No 13.

[28] See also Sections 94 – 101 of the P.I.T.A.1993, 92 – 99 of the C.I.T.A,51 – 59 of the P.P.T.A., 25 – 37 of the V.A.T. Act. E.t.c.

[29] As amended in 2011. Constitution of the Federal Republic of Nigeria 1999. No. 24.

[30] 2007 No 13.

[31]See Section 8 (f-h) FIRS (Establishment) Act 2007 No 13.

[32]**Ifeanyi** Onuba, 2010:
"Tax Appeal Tribunal: A move to engender confidence in Nigeria's tax system". The Punch Newspaper, Sunday, February 14, 2010. http://archive.punchng.com/Articl.aspx?theartic=Art20100214053831. Last accessed 7th May 2012.

[33]http://www.tribune.com.ng/index.php/taxation/21849-tat-and-its-relevance-to-nigerian-tax-system. Last accessed 7th May 2012.

[34]**TAT Digest**:
"Chief Justice of Nigeria pledges support for the Tax Appeal Tribunal". June 2012, Vol. 2 No.2. P. 1.

[35] ***"LASG sealed off 67 firms over tax evasion***". The Punch, January 1, 2013. P. 6. See also http://leadership.ng/nga/articles/42276/2012/12/11/lirs_seals—_51_companies_tax evasion.html. Last accessed 06/01/2013.

[36]**Obi, J.I**. Op. Cit. See also Abdulrazaq, M.T. (1993): "Nigerian Tax Offences and Penalties". Ilorin Nigeria: Batay Law Publications Ltd. P. 14.

[37]http://leadership.ng/nga/articles/42276/2012/12/11/lirs_seals—_51_companies_tax evasion.html. Last accessed 06/01/2013.

[38] A document issued by a tax authority to the effect that the company or the individual stated thereon has paid all taxes assessed up to a particular period or that they are not liable to tax.

[39] Words of advertisement by the Lagos Inland Revenue Service (LIRS).

REFERENCES

- Abdulrazaq A. **(2002):** "*Nigeria Tax Guide and Studies (ED)*" **Lagos. The Chartered Institute of Taxation of Nigeria, Lagos. P. 5.**
- Abdulrazaq, M.T. **(1993):** "*Nigerian Tax Offences and Penalties*". **Ilorin Nigeria: Batay Law Publications Ltd. P. 14.**
- Akintoye R.I. **(2008):** "*The Relevance of Case Study to Professionals*". **Nigerian Taxation, Volume 10, No 1; Jan – June 2008, PP. 27 – 28.**
- FamakinwaV.B.A. **(1991):** *"Socio – Economic and Legal Foundations of Tax Evasion and Tax Avoidance"*. **In** Ajomo M.A. **(1991):** *"Tax Law and Tax Administration in Nigeria"*. **Lagos. Nigerian Institute of Advanced Legal Foundations. P. 336.**
- Ifeanyi Onuba **(2010):** *"Tax Appeal Tribunal: A move to engender confidence in Nigeria's tax system"*. **The Punch Newspaper, Sunday, February 14, 2010. http://archive.punchng.com/Articl.aspx?theartic=Art20100214053831. Last accessed 7th May 2012.**
- Nzotta S.M. **(1995):** "*Human Problems of Taxation*". **Seminal paper presented at NIM, Uyo Chapter Seminal, Uyo, 1995 in Nzotta. P. 3.**
- Ochei B.B. **(2008)** "*The Nigerian Taxman's Book*". **1st Edn, Lagos. Pyramid Unit Publishers (educational) Lagos Nigeria. P. 177.**
- Ogundele A.E. **(1999):** "*Elements of Taxation*". **1st Edn: Libri Service, Lagos. P. 7.**
- Pollack E. H. **(1965):** *The Brandeis Reader*, **Oceanic Docket Series, Vol. 7 P. 38.**
- Sasegbon's Laws of Nigeria. **(2005):** "*An Encyclopedia of Nigeria Law and Practice*". **Volume 19. Lagos Nigeria. Deji Sasegbon Publications Ltd. P. 382.**
- TAT Digest: *"Chief Justice of Nigeria pledges support for the Tax Appeal Tribunal"*. **June 2012, Vol. 2 No.2. P. 1.**
- **http://www.tribune.com.ng/index.php/taxation/21849-tat-and-its-relevance-to-nigerian-tax-system. Last accessed 7th May 2012.**
- *"LASG sealed off 67 firms over tax evasion"*. **The Punch, January 1, 2013. P. 6. See also http://leadership.ng/nga/articles/42276/2012/12/11/lirs_seals—_51_companies_tax evasion.html. Last accessed 06/01/2013.**

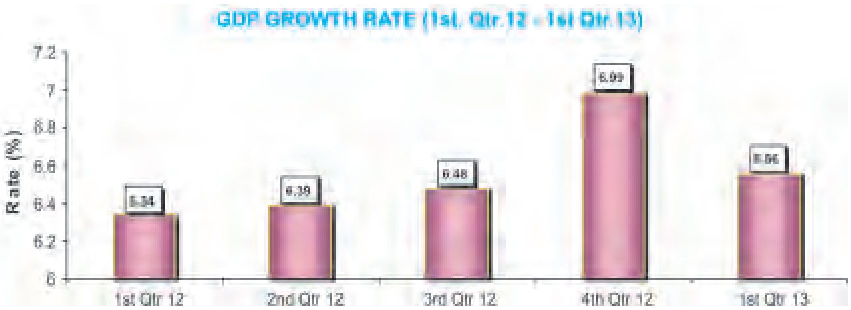
Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy recorded one of its most impressive performances in first quarter 2013 amidst some challenging economic circumstances. Gross Domestic Product (GDP) expanded more than expected. Foreign exchange reserves grew considerably, driven mainly by higher crude oil proceeds and related taxes. The nation's currency, the naira, remained stable against other major world currencies. Inflation eased unexpectedly to within CBN's target. The Monetary Policy Rate remained muted all through the period. In the capital market, the bulls held onto their gains, delivering positive returns. Crude oil prices were mostly steady in the international market but continued to be sluggish in tune with global economic uncertainties.

GROSS DOMESTIC PRODUCT

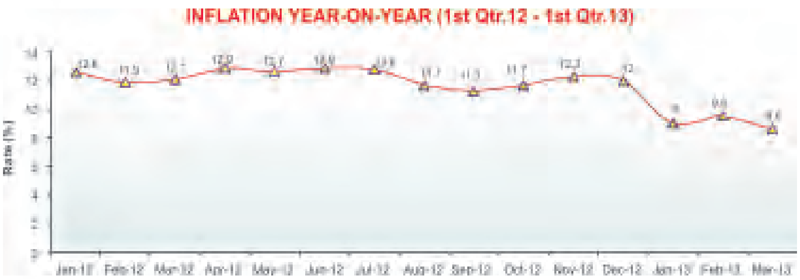
Gross Domestic Product (GDP) began the first quarter with a seasonal dip at 5.46 percent, slumping from 6.99 percent recorded in the preceding quarter. Real GDP growth was mainly driven by the non-oil sector. Despite the civil insecurity particularly in Borno, Kano and Yobe states, agriculture continued its dominance as major contributor to GDP. For the oil sector, the dividend of the Amnesty Deal with the Niger Delta militants continue to yield positive results, with production jumping by 1.39 percent between February and March. Real GDP growth for 2013 is projected at 6.75 percent, slightly higher than the 6.58 percent recorded in 2012.



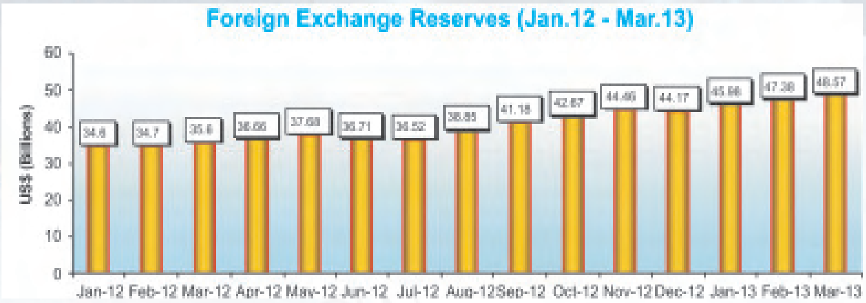
Source: National Bureau of Statistics

INFLATION

Inflation slowed to its lowest level in more than five years in the first quarter 2013, comforting the authorities and brightening prospects for more monetary easing. The headline inflation ended the quarter at 8.6 percent in March. Inflation eased to within the central bank's single digit target earlier in January, the first time since the movement to the new Consumer Price Index (CPI) base period. The freefall is attributed to absence of shocks such as the partial removal of fuel subsidy and civil protests witnessed in the corresponding period in 2012. However, inflationary pressures resurfaced in February due to soaring prices of some staples such as bread and cereals, potatoes, vegetables, yams and other tubers. It was nevertheless temporary, as inflation eased again in March. In the months ahead, concerns of occasional spikes in inflation still remain, coming mainly from imported food as a result of the new tariff regime. However, the authorities project that inflation will remain in the single digit range in the short to medium term.



Source: National Bureau of Statistics



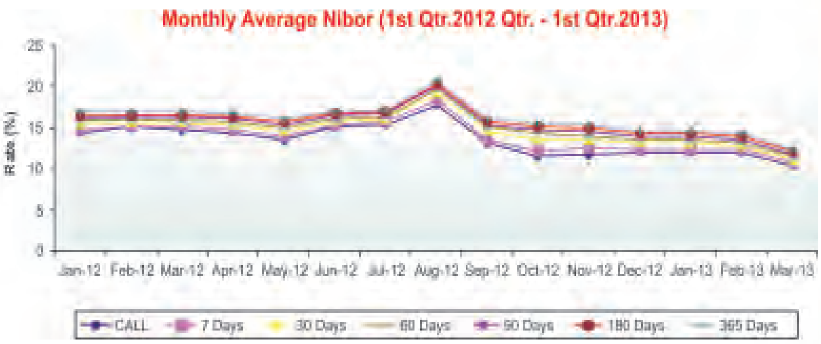
Source: Central Bank of Nigeria

EXTERNAL RESERVES

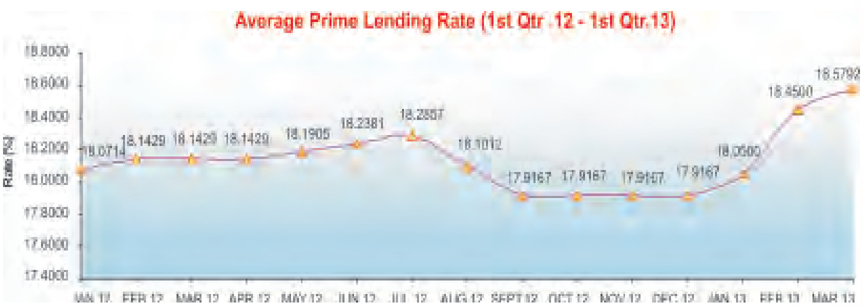
The nation's external reserves surged in the first quarter 2013, climbing to its highest level in more than four years. It was pushed mainly by higher crude oil and gas proceeds and crude-related taxes. External reserves recorded impressive gains during the quarter, swelling by more than $4billion to $48.57billion. It rose steadily in January and picked up pace in February owing in part to reduced funding of the Whole sale Dutch auction as well as significant portfolio inflows. The reserves level could finance over 13 months of imports. In the short to medium term, the authorities project improvements in the stock of external reserves, resulting from higher crude oil prices and output.

INTEREST RATE

As expected, the Monetary Policy Committee (MPC) opted to do nothing and kept its benchmark interest rate, the Monetary Policy Rate, unchanged at 12 percent in its January 21st; March 18th and 29th meetings. It was the ninth consecutive hold since the Monetary Policy Rate (MPR) was raised by 275 basis points from 9.25 percent to 12.0 per cent in October 2011 in response to inflationary pressures.

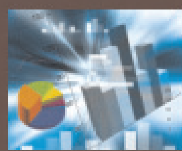


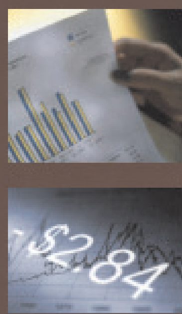
Source: Financial Market Dealers Association of Nigeria (FMDA)



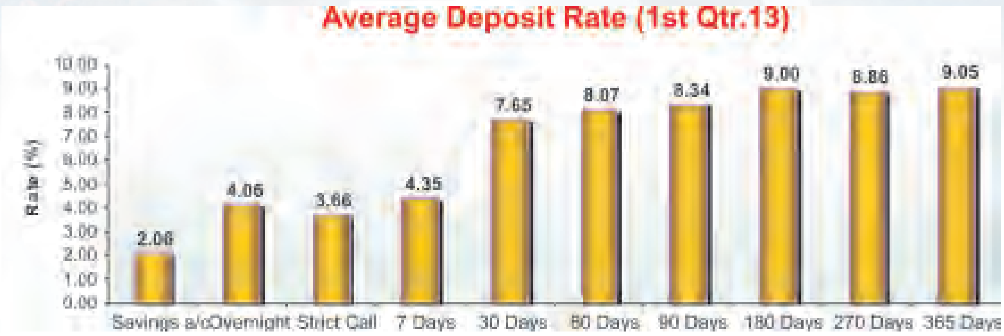
Source: Financial Market Dealers Association of Nigeria (FMDA)

The average interbank rate declined in the first quarter 2013. Volatility was higher on the shorter term tenors due to mop up operations of the CBN. For instance, rates on the overnight tenor climbed as high as 14.25 percent in the first two months, from 10.50 percent in January. Rates however, crashed back down to 10.25 percent in March due to N889billion inflows from Statutory Revenue Allocation and maturities from open market operation of N249billion credited to the system.





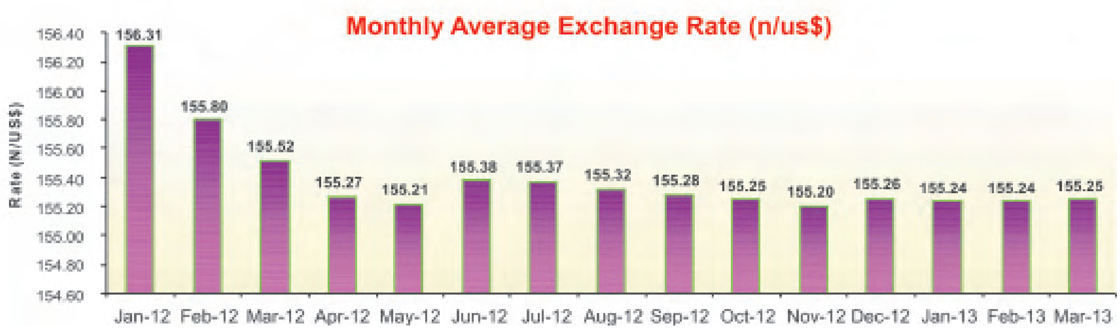
In terms of cost of borrowing, the average Prime Lending Rate (PLR) inched up slightly during the period, hovering around 18.57 percent as at end March 2013. Returns on the average deposit rate went up slightly across most investment horizons, with volatility higher on the 30 Days, 60 Days and 180 Days tenors.



Source: Financial Market Dealers Association of Nigeria (FMDA)

EXCHANGE RATE

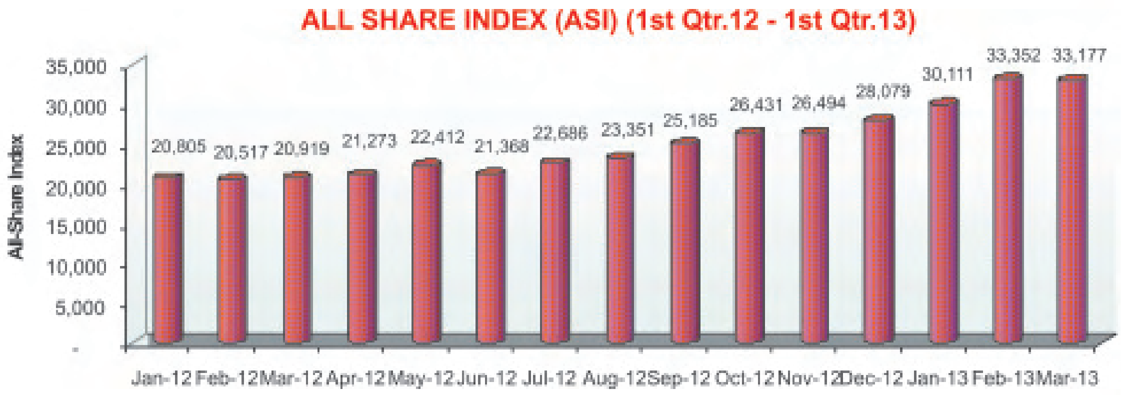
The nation currency, the naira, ended the first quarter confidently, holding firm against major world currencies. It remained reasonably flat around the CBN's target, at around N155/US$. The naira showed remarkable strength and stability against the dollar thanks to CBN's foreign exchange management measures. Earlier in January, the naira appreciated slightly against the dollar due to stronger than expected demand from foreign investors buying government treasuries as well as adequate sales from oil companies. There were turbulent moments in February however as the naira struggled climb higher due to pressure in the interbank market coming from petroleum importers and companies remitting dividend abroad. The naira weakened to its lowest level in more than seven months in March. Despite the headwinds, demand was matched on several occasions at the CBN's twice weekly auction. It offered about $3.93billion and sold $3.88billion during the period. Despite the clarity of expectations however, the premium between the official and interbank widened to 2.9 per cent as at end March 2012, compared to 0.04 per cent in December. In the months ahead, the naira is projected to be on a firm platform due to higher crude oil prices in the international market.



Source: Central Bank of Nigeria

CAPITAL MARKET

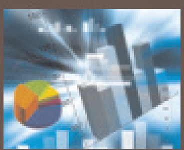
The capital market kicked off the New Year in style, breaking through the 33,000 mark for the first time since November 2008. It grew by 19 percent in the first three months, giving investors' reason to smile as the All- Share Index (ASI) and market capitalization finished strongly at 33, 536.24 and N10.73trillion, respectively, from 28,078.80 and N8.97trillion in the preceding quarter. The mood in the market was positive with very attractive returns on investment. Investors flocked back to the market and made some fortunes. With sentiments high, local investors tipped the balance against foreign investors by controlling about 60 percent of transaction value. Despite the gains however, some investors remained on the side-line, adopting a 'hold strategy'. Cautious trading and profit taking slowed down the momentum in March due to expectations of 2012 year end results. On a more positive note, the Exchange added four new stocks to the market making programme. Market sentiment climbed higher as a number of quoted companies such as Nestle; Julius Berger; Lafarge Cement Wapco Nigeria; GlaxoSmithKline; Nigerian Breweries paid impressive dividends of N18.50; N2.50; N1.20; N1.30; N3.00; respectively. Market fundamentals remained strong as the NSE admitted N20billion Gombe State Fixed Rate Bond on the daily list as part of a N30billion debt issuance programme. In the international capital market, Nigeria's Eurobond yields continued to be positively impacted by renewed concerns about Sovereign Debt in the Euro Zone. Investors were also excited as Zenith Bank listed its Global Depository Receipts, GDRs, on the London Stock Exchange.

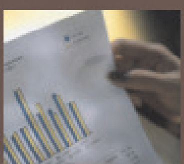


Source: Nigerian Stock Exchange

Source: Nigerian Stock Exchange

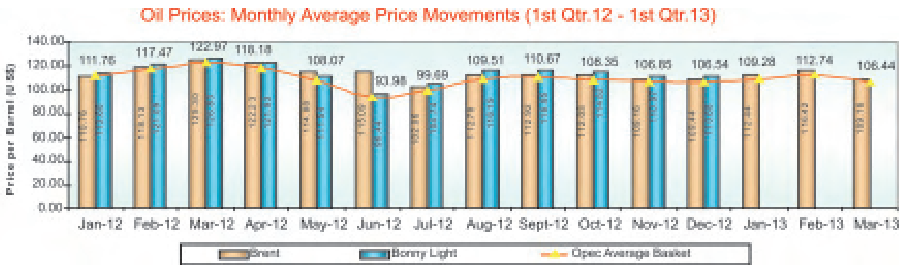
Facts & Figures





OIL

It was a shaky start for crude oil prices, rising then falling in the first quarter 2013. Oil prices posted a gain of around 5 percent amid mixed signals about the state of the world economy. Despite the modest gains, crude oil prices were down 8.3 percent from a year earlier. Crude oil prices rose in January in response to a colder winter weather, the end of the US federal government's fiscal-cliff budget deliberations and a Saudi Arabia production cutback. It however edged lower in the second half of February but recovered slightly and averaged $93 per barrel in March. Nigeria's brand of crude oil, bonny light, traded in a band of $90-$97 per barrel. Industry analysts attribute the price drop to challenges faced by the European economy, slower Chinese growth and massive budget cuts in the US. At the Chatham House Conference, in London, United Kingdom, on 28-29 January 2013, OPEC indicated that it did not envisage a price collapse and that the market is well-balanced.




http://www.roffs.com/wp-content/uploads/2012/12/LB-200.-1st-mile-laidA14E.jpg