Zenith Economic Quarterly

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Zenith Economic Quarterly

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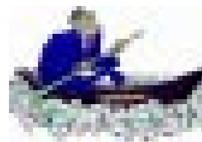

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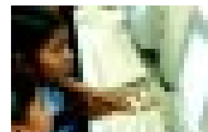

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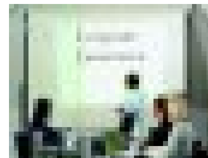

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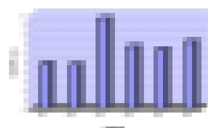

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The Economy, Roadmaps, Pilots & Others

Economic historians seem broadly divided as to whether Nigeria is what it is today "because of" or "in spite of" its past efforts at plotting roadmaps for economic development. In the past sixty years (including 14 pre-independence), the country has packaged a 'bagful' of development plans, frameworks, roadmaps, visions, strategies—each intended to guide the meaningful and accelerated economic development of the nation. Starting with the colonial Ten-year Plan of Development and Welfare for Nigeria (1946-1956) successive Administrations, whether civilian or military, had each devoted substantial resources to crafting fresh frameworks/policies for the economic development of the country.

Interestingly, virtually each one of these frameworks has been hailed as comprehensive, well articulated and realistic, especially at the time they were articulated. Yet, authors and promoters of succeeding roadmaps had always found enough reasons to discredit and jettison each subsisting framework and embark on new initiatives. Thus, our *lead* article in this issue, titled: "Macroeconomic policies in Nigeria: lessons from history and the way forward" presents an in-depth historical analysis of the macroeconomic policy frameworks with emphasis on their aims, objectives, successes and failures. Their differences, similarities and impacts (where discernible) are also explored.

Today, irrespective of what framework is in place, the role of Information and Communications Technology (ICT) as one of the key drivers of economic development cannot be overemphasized. Unfortunately, however, developing countries including Nigeria are still lagging behind in terms of this invaluable and indispensable tool.

Today, irrespective of what framework is in place, the role of Information and Communications Technology (ICT) as one of the key drivers of economic development cannot be overemphasized. Unfortunately, however, developing countries including Nigeria are still lagging behind in terms of this invaluable and indispensable tool. In fact, this is the substance of the "Digital Divide" that seems to have created a 'bi-polar' world—with the rich and industrialized countries in one bloc and the rest in the other. Thus, under the topic: "Developing the Nigerian Software Industry: Role of Nigerians in the Diaspora", the section *Expression*, explores the critical role of Nigerians in the diaspora as a strategic element in growing the Nigerian software industry—in the journey to bridging the digital divide.

Economic development, in the global context, has become inextricably intertwined with the issues of foreign debts and international politics, with each developing country literally sinking under the excruciating weight of a lingering external debt overhang. Debt management has therefore assumed the front burner in all the developing countries—with each plotting how to extricate itself from the pangs of highly debilitating external debts—both genuine and spurious types. Creditor nations, most of them, rich and highly industrialized, have since bunched themselves into 'clubs' to dictate the terms, modes and timing of negotiations and settlement by debtor countries. Our *Global Watch* therefore focuses on the debt exit strategies employed by several countries, while analyzing the implications of the strategy adopted by Nigeria in its recent landmark debt treatment with the Paris Club.

In a related issue, under *Foreign Insights*, the blossoming Indo-Nigerian trade and its potential for the economic growth and development of both leading emerging markets is explored and analyzed. The imperatives for good corporate citizenship and the benefits inherent in the application of global best practices in this regard as well as some insight into globalization and its benefits from a business perspective are all examined under *Issues.* As usual, under *Periscope,* key developments in the various sectors and their effects on the Nigerian economy in the period under review are extensively examined. Other regulars like *Policy* and *Facts & Figures* are not left out in this issue. We believe that we have, in this edition, once again succeeded in serving you, our readers, with our usual scintillating, incisive and masterly analysis of topical issues—from both national and global perspectives. Enjoy your reading !

Marcel Okeke

Mr. President expresses his appreciation for this thoughtful gesture, please accept his best wishes for your continued success and well-being." ***Taiwo Ojo, Special Assistant to the President***

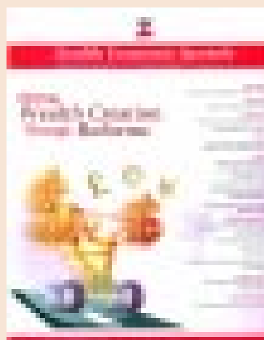
"I wish to acknowledge receipt of your last quarter's ZEQ edition which we found both interesting and informative, particularly because of its well researched coverage of the role and impact of the financial sector in the economy. Indeed, the ZEQ succeeds in juxtaposing the National context and global perspective in a way that is instructive to the reader."
Zondo Sakala, Resident Representative, Nigeria (African Development Bank Group)

"We acknowledge with thanks receipt of your letter dated June 23, 2006 and the enclosed ZEQ. We will be interested in contributing to your next edition highlighting the work UNDP is currently undertaking in Nigeria. We cannot confirm when our editorial will be ready, however, we will let you know well in advance so you can prepare space in your subsequent edition." - ***Alfred Fawund, Officer in Charge - UNDP***

"We acknowledge with thanks the receipt of a complementary copy of your magazine: "Zenith Economic Quarterly" sent to our President/Chairman of Council. We hope that you would continue to send us copies of your subsequent publications while urging you to continue to maintain the quality of the magazine." - ***Tunde Olofintila – Head, Corporate Affairs (The Chartered Institute of Bankers of Nigeria.***

"Thank you for the ZEQ journal. I must commend you on the excellent quality in production and content, consistent in all editions published; I urge you to keep it up" - ***Foluso Phillips – Managing Director/ CEO (Phillip Consulting Limited)***

"We wish to acknowledge with thanks the receipt of the July 2006 edition of your ZEQ, sent to us. Thanks for a job well done." - ***Chief (Dr) I. Olusola Dada – Chief Executive, Anchoria Investment & Securities Ltd.***



"I acknowledge with thanks, receipt of the latest edition of ZEQ. Please keep up the good work." - ***Abraham Idenyi – Nigerian Institute of Advanced Legal Studies***

"We acknowledge with thanks the receipt of your Quarterly Economic Publication Vol. 1 No. 7 of July, 2006. Thank you." - ***Femi Gbadegun - Director General, Manufacturers Association of Nigeria.***

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".... I am also directed to inform you that the Honourable Minister, after going through the publication found it really incisive, interesting and educative. Please accept the best regards of the Honourable Minister of Defence." - ***M. A. Akinode***

"I wish to acknowledge receipt of your letter of 25th April, 2006 and the enclosed copy of the above quarterly. I look forward to receiving future editions in due course and if time permits to contribute feature articles." - ***Chief Luke C. Okafor***

Economy: The Unfolding Layers of Reforms

* By Marcel Okeke

Reforms—the fulcrum of the economic policy of the incumbent Administration—continued with sustained momentum during the third quarter 2006, manifesting in some sectors as further adjustments or new layers of the original actions. Notably, actors and regulators have become the drivers of this process in some of the sectors. Thus, while the banking sector has started undergoing what is widely regarded as the second phase of consolidation, the telecommunications industry evolved a new (universal) licensing regime; some private power generating companies have been issued with licenses, just as the Federal Government has also commenced the payment of huge accumulated pension arrears. Privatization continued with renewed zeal, culminating in the successful 'disposal' of some key corporations like NITEL and others whose sale had been problematic.

Overall improvements recorded in the macroeconomic environment in the first half of the year were largely sustained in the third quarter. The stability of the Naira exchange rate improved; inflationary pressure slowed down while external reserves experienced significant growth—mainly due to the persisting high

prices of crude oil in the international market. The inflation rate which on twelve-month moving average basis, stood at 18% in January 2006, dropped to 15.5% by end-June and to 11.4% by August, and further to 10% by the close of the quarter. This is attributable to the subsisting tight monetary policy, the appreciation of the exchange rate, sustained stable prices of petroleum products in the domestic market as well as the narrowing of the bureaux de change (BDC) market premium.

Sustained liberalization of the foreign exchange market continued to translate into stability of the local currency against foreign ones. The opening of BDC windows by virtually all the deposit money banks during the third quarter also impacted positively on this trend. Thus, the weighted average exchange rate of the Naira vis-à-vis the US dollar which stood at 127.60 per dollar in June, remained relatively stable at 128.12 and 128.10 per dollar in August and September, respectively. The nation's stock of external reserves which stood at US$38billion at end-July 2006, rose to US$40billion by the close of the quarter. Also, during the quarter, the money market was awash with much liquidity arising from payment of some pension arrears by the Federal Government, payment of outstanding debt to some local contractors as well as the disbursement of a chunk of the excess crude revenue to the three tiers of government. This translated into a moderating effect on interest rates in the money market—a general decline in banks' deposit and lending rates. This is in spite of the fact that the monetary authorities had removed control on interest rates—by no longer pegging lending rate to the Minimum Rediscount Rate (MRR), as was the case earlier in the year. The high liquidity also spilled into the capital market, mounting pressure on stock prices and causing excess demand for stocks - a bullish run which impacted on all market indicators. Thus, for instance, the Nigerian Stock Exchange All Share Index (ASI) which stood at 26,161.15 at end-June rose steadily to hit 32,554.60 by the close of trading in September 2006. Market capitalization which stood at N2.95 trillion at end-June, rose to N4.084 trillion by the close of third quarter 2006. During the quarter, a total of 12 billion shares worth N163.87 billion were traded as against 7.15 billion shares worth N104.37 billion traded in the second quarter of the year.

BANKING & FINANCE

The 'second phase' of consolidation in the banking sector which commenced in the first half of the year, took various forms during the third quarter. While some banks that are products of mergers and acquisitions were still tackling the challenges of evolving into truly distinct and cohesive entities, many others embarked on strategic expansion, positioning and market dominance. A number of the emerging entities embarked on the revision, restructuring and re-allocation of their 'bloated' share capital, to enhance their competitive capacity. Some of them include Sterling Bank, Access Bank, Skye Bank, Unity Bank, et

cetera.

Owing to the business co-operation and partnerships entered into by most of the 25 operating banks in the country with a number of global financial institutions, mainly during the quarter under review, the Central Bank of Nigeria appointed 14 of those foreign banks as external fund managers for Nigeria's external reserves. According to the CBN, the appointment of the fund managers is to "allow professional management, diversification of investment and to leverage on the expertise of the foreign banks to transform Nigerian banks into global financial institutions." Under the new arrangement, each of the foreign banks is partnering with one bank in Nigeria. The CBN has traditionally kept the external reserves as deposits with foreign banks. This is the first time the apex bank is appointing foreign asset managers to manage part of its reserves , in line with global best practice.

In pursuit of the new arrangement, the CBN, as a first step, awarded US$7billion to 14 out of 17 reputable global asset managers which not only met its requirements for appointment as external assets managers, but also for partnering Nigerian banks. However, while the amount of the mandate to each asset manager is a function of the size of the shareholders' funds of its local partner, the effective take off of each mandate is contingent on the strength of the partnership between the local banks and their foreign partners. In a similar vein, the CBN redeemed part of the promise it made to reward the first and largest groups of banks to consolidate. The apex bank awarded deposit placements of US$50milion to each of them, on the condition that the deposits shall be given to their foreign branches or reputable foreign partners.

Sequel to the growing confidence in the Nigerian banking system, reputable foreign banks have begun overtures to acquire or strengthen their equity stakes in some local banks. In this regard, during the quarter under review, IBTC-Chartered Bank signed a Memorandum of Understanding (MoU) with Stanbic Bank Nigeria as an exploratory step to a merger. Under the deal, Standard Bank of South Africa, the parent company of Stanbic Nigeria will also buy existing shares of IBTC-Chartered Bank. Standard Bank currently has operations in 17 African countries and 21 nations outside the continent and plans to take advantage of the huge potential the Nigerian market offers.

Ecobank Nigeria is also making moves to acquire another bank even as preparations are still ongoing for the business combination between its parent bank (Ecobank

Nigerian Banks and Partners

S/N	Foreign Partner	Nigerian Bank
1.	Black Rock	Union Bank of Nigeria Plc
2.	J.P. Morgan Chase	Zenith Bank Plc
3.	H.S.B.C	First Bank of Nigeria Plc
4.	BNP Paribas	Intercontinental Bank Plc
5.	UBS	United Bank for Africa Plc
6.	Credit Suisse	IBTC-Chartered Bank Plc
7.	Morgan Stanley	Guaranty Trust Bank Plc
8.	Fortis	Bank PHB Plc
9.	Investec	Fidelity Bank Plc
10.	ABN Amro	Access Bank Plc
11.	Cominvest	Oceanic Bank Plc
12.	ING	Ecobank Plc
13.	Bank of New York	Stanbic Bank Plc
14.	Crown Agents	Diamond Bank Plc

Source: CBN

Transnational Incorporated) and First Bank. Ecobank Nigeria is exploring the 'Purchase and Assumption' or 'cherry-picking' option to acquire the assets of one of the 14 'un-recapitalized banks'.

In a similar vein, Union Bank of Nigeria raised its stake in the Banque Internationale Du Benin (BIBE) in Benin Republic from 25 per cent to 56.7 per cent. This it did by injecting N950 million into BIBE, as part of its expansion drive in the West African sub-region. Under the 'Purchase and Assumption' option, the monetary authorities last August, handed over the assets of former Lead Bank and Assurance Bank to Afribank Nigeria. Lead Bank and Assurance Bank are two of the 14 'un-recapitalized banks'. By this arrangement, customers of the former Lead and Assurance banks were transferred to Afribank.

The CBN, in its effort to deepen and improve the efficiency of the money market for effective liquidity management, commenced in August, the process of appointing primary dealers/market makers in money market instruments. The primary dealers to be made up of deposit money banks and discount houses, are being selected in accordance with the guidelines issued by the apex bank for that purpose. Some of the criteria for qualification include: (i) a primary dealer must be registered with the

Corporate Affairs Commission (CAC) and the Securities and Exchange Commission (SEC); (ii) maintain a minimum capital base of N3billion and comply with the liquidity and other regulatory requirements of the CBN; (iii) an applicant shall have been actively involved in the securities trading over a period of time. Interested operators have all turned in their applications in the prescribed format to the CBN. Under the emerging arrangement, money market instruments include Nigerian Treasury Bills (NTBs), Nigeria Treasury Certificates (NTCs), CBN Open Market Operations (OMO) Bills, among others—all securities with tenor not exceeding three years.

During the quarter under review, the CBN also set up a

committee charged with the responsibility of harmonizing all charges normally passed by banks to their customers. This is with a view to ensuring that bank charges are transparent and reasonably uniform. In a similar move, the CBN in August, inaugurated a technical committee to draft a long term financial framework with a horizon covering up to 2020. According to the apex bank, the essence of drafting such a long term strategic plan, is to have a vision to drive the emergence of Nigeria as the largest economy in Africa in the next 14 years. The committee is composed of representatives of all regulatory bodies in the financial system, some financial consultancy firms, Money Market Association of Nigeria, the organized labour and representatives of Manufacturers Association of Nigeria. The strategic plan is expected to commence by the beginning of next year.

The re-capitalization efforts of operators in the insurance sector intensified during the third quarter 2006, with many of them opting for mergers or outright acquisition by a few major players. In fact, by end-September 2006, a total of 18 insurance groups made up of 45 insurance companies had submitted their consolidation proposals to the National Insurance Commission (NAICOM). Available data indicate that about four months to the close of the consolidation exercise in the industry in February 2007, about 60 percent of the current operators may be able to meet the re-capitalization deadline. The ongoing consolidation began in September 2005, when the Federal Government announced various new levels of minimum share capital for different categories of players in the industry.

Under the new initiative, life insurance firms are to raise their minimum capital from N150million to N2billion; general business companies, from N200million to N3billion; composite insurers, from N350million to N5billion and reinsurance companies, from N350million to N10billion.

In aid of the ensuing mergers and acquisitions in the industry, NAICOM has secured some concessions from relevant regulators and facilitators of the processes. Thus, while the Securities and Exchange Commission (SEC) has offered to apply one per cent charge on the nominal value of securities of the companies raising funds in the capital market, instead of their market value, the Corporate Affairs Commission (CAC) granted 50 per cent reduction on all fees and dues payable by insurance and reinsurance companies for the purpose of the consolidation exercise. NAICOM and the Nigerian Insurers Association (NIA) have also set up a number of committees to assist the underwriting companies in the re-capitalization exercise.

While the frenetic effort of the insurers to re-capitalize is reaching a feverish pitch, indications are that some of them are attracting foreign direct investments (FDI) from reputable institutions abroad. The International Finance

Corporation (IFC)—the private sector lending arm of the World Bank, for instance, is investing about $14million (N18.30billion) in one of the major insurance companies. The global financial institution is using that investment channel to assist in the development of financial markets in the sub-Saharan Africa.

The bonds segment of the capital market remained active during the third quarter 2006. The first tranche of the N60billion bonds earmarked for sale by the Federal Government during the quarter (that is N20billion) was sold by auction on July 26. The second, also N20billion, was auctioned on August 25. While these two tranches will mature in 2009, the third one which was issued in September is to mature in 2011. Also in September 2006, the 17.75 per cent FGN bonds 2006 issued on October 27, 2003, were redeemed along with the interest. In August 2006, the Federal Government commenced the payment of N75billion pension arrears to about 270,000 eligible pensioners whose claims were verified during a pension verification exercise. The payment was made under an arrangement by which some banks underwrote N75 billion worth of a 3-year FGN bonds issued at a coupon rate of 12.5 per cent. Banks involved in the arrangement include Zenith Bank Plc, United Bank for Africa Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc and Fidelity Bank Plc. The Debt Management Office (DMO) had earlier in the year, appointed 15 financial institutions comprising 10 banks and 5 discount houses to perform the function of Primary Dealers/Market Makers (PDMM) in the FGN Bonds.

By the close of the third quarter 2006, the CBN had issued eight organizations with Approvals-in-Principle to operate as microfinance institutions—this is further to the microfinance policy it introduced in December 2005. The beneficiaries of these approvals include: Accion Microfinance Bank, Lagos; Susu Microfinance Bank, Lagos; Integrated Microfinance Bank, Lagos; MIC Microfinance Bank, Lagos; WizeTrade Microfinance Bank, Lagos; Osun State College of Technology (OSCT) Microfinance Bank, Esa Oke; Mustasons Microfinance Bank, Lagos; First Global Microfinance Bank, PortHarcourt.

The microfinance banks, according to the CBN guidelines, are set up to provide such services as savings, loans, domestic funds transfer and other financial services that are needed by the economically poor, micro, small and medium enterprises to enable them carry out their businesses. Organizations or existing community banks that want to transform into microfinance banks have up to December 2007, to meet the CBN requirements, including a minimum capital base of N20 million. Each of them must also produce an institutional assessment report, based on the works of a reputable, CBN-certified rating agency as well as a detailed feasibility report and a five-year business plan, among others.

Nigeria's External Debt Profile (US$Billion)

Year	TOTAL	Multilateral	Paris Club	London Club	PromissoryNotes	Others
1990	33,179.00	3,845.10	17,172.10	5,936.80	4,550.00	1,675.00
1991	33,364.50	3650.00	17,792.80	5,988.50	4,478.90	1,454.30
1992	27,544.10	8,518.00	16,433.90	2,120.00	3,246.00	1,226.20
1993	28,718.20	3,694.70	18,160.50	2,055.80	3,159.90	1,647.30
1994	29,428.90	4,402.30	18,334.30	2,057.80	3,178.20	1,456.30
1995	32,584.80	4,411.00	21,669.60	2,045.00	3,148.00	1,311.20
1996	28,060.00	4,665.00	19,091.00	2,043.00	2,140.00	121.00
1997	27,087.80	4,372.70	18,980.40	1,612.50	1,612.50	79.20
1998	28,773.50	4,237.00	20,829.90	2,043.00	1,597.80	65.80
1999	28,066.90	3,933.30	20,534.30	2,043.20	1,486.80	69.30
2000	28,273.70	3,460.00	21,180.00	2,043.20	1,446.70	143.80
2001	28,347.00	2,797.90	22,092.90	2,043.20	1,291.80	121.20
2002	30,990.00	2,959.90	24,092.90	1,441.80	1,153.20	55.60
2003	35,920.00	3,040.00	27,470.00	1,440.00	910	50
2004	35,950.00	2,820.00	30,850.00	1,440.00	780	50
2005	37,500.00	2,820.00	31,000.00	1,440.00	780	50
2006	4,847.00	2,700.00	N/A	1,440.00	600	100

Source: CBN; Debt Management Office; Research & EIG

EXTERNAL DEBTS/FOREIGN RESERVES

Following Nigeria's exit from the Paris Club debt in the second quarter 2006, the Debt Management Office (DMO) confirmed that the country's public debt as at June 2006 stood at N2.197trillion ($16.926billion). This is made up of N630 billion ($4.847billion) external debt and N1.570 trillion ($12.076 billion) domestic debt, which is predominantly made up of debt owed local contractors and the huge pension arrears. At present, the Federal Government has

The Nigerian Telecommunications Market—Some Statistics

	December, 1999	December, 2002	December, 2003	December, 2004	December, 2005	June, 2006
Number of Connected Fixed Lines	450,000	702,000	850,000	1,120,000	1,223,258	1,538,214
Number of Connected Digital Mobile Lines	None	1,594,179	3,100,000	9,200,000	18,587,000	25,142,956
Number of National Carriers	1	2	2	2	2	2
Number of Operating ISPs	18	30	35	40	60	90
Number of Active Licensed Fixed Line Operators	9	16	30	17	20	27
Number of Licensed Mobile Operators	1	4	4	4	4	10*
Private Investment	$50m	$2,100m	$4,000m	$6,000m	$7,500m	$8,150m

Source: NCC
**Including operator with unified license who are licensed to do both fixed and mobile*

evolved "a documented" debt management strategy to ensure debt sustainability. The plan is to ensure regular conduct of Debt Sustainability Analysis (DSA) and build national capacity for such analysis. Government has also initiated moves to exit the London Club debt. In this regard, it has appointed a United States law firm as a legal adviser to assist in working out modalities for Nigeria's exit from the debt which is put at $2.40 billion. The London Club debt which is made up mostly of oil warrants, promissory notes and par bonds, currently accounts for 49.5 per cent of Nigeria's outstanding external debt of $4.847billion. This makes Nigeria one of the few countries outside the Organization for Economic Co-operation and Development (OECD) with a debt to GDP ratio below 20%.

Like in the first and second quarters of the year, the nation's stock of external reserves grew significantly during the third quarter 2006. According to the CBN, the reserves which stood at US$38 billion as at end-July 2006, rose to US$40 billion by September 30, 2006. Owing to this quantum growth, the CBN, apart from appointing 14 foreign banks in partnership with Nigerian banks to manage a chunk of the reserves, has also invested a portion in bonds. JP Morgan Chase of the United States of America has been appointed as a Global Custodian to take custody of all securities purchased by the appointed external managers of the nation's foreign reserves.

POWER SUPPLY

During the third quarter 2006, the Federal Government took steps aimed at frontally confronting the perennial problem of erratic electric power supply in the country. It granted licenses to four indigenous Independent Power Providers (IPPs). The four licensee companies are: Farm Electric Supply Limited, ICS Power Limited, Ethiope Limited and Supertek Nigeria Limited. The four companies are expected to produce about 4,500 MW and supply to the nation's grid. Nigeria's power grid currently has an installed capacity of 6,000 MW with less than 50% availability. All the IPPs have acquired land, conducted environmental impact assessment and have had their financial and technical proposals approved by the Nigerian Electricity Regulatory Commission (NERC) before they were issued licenses.

With the licensing of the IPPs, the country now has about fifteen power plants out of which eleven are owned by the Federal Government. These include the new medium-sized power plants in the Niger Delta region, at Ihovbor, Sapele, Gbarain, Egbema, Calabar and Omoku. There are four others at Geregu, Papalanto, Omotosho, and Alaoji—which are already nearing completion. The Federal Government is also "on course" to complete about 557 "electricity constituency projects" which it embarked upon earlier in the year. This is in addition to two pilot solar projects already commissioned in Katsina and Bauchi states, and two others in Cross River and Ogun states—contracts for which have just been awarded. A number of upstream oil companies are also building power-generat-

Newly Licensed IPPs

	IPP	Location	Generating Capacity
1.	Supertek Nigeria Limited	Akwete in Abia State	1,000MW
2.	Ethiope Energy	Ogorode, Delta State	2,800mw
3.	ICS Power	Alaoji near Aba, also in Abia State	624mw
4.	Farm Electric Supply	Ota, Ogun State	150mw

ing plants across the Niger Delta region under the IPP arrangement.

TELECOMMUNICATIONS

Further to the granting of new licenses to four companies under the unified licensing regime in May this year, the Nigeria Communications Commission (NCC) during the third quarter 2006, also granted such licenses to four other telecommunications operators in the country. Sequel to the expiration of the five year exclusivity period granted the four GSM service providers (MTN, Vmobile, Glomobile and Mtel), NCC in February this year introduced unified licensing to the industry. The four companies granted new licenses during the quarter under review include VGC Communications Limited, Danjay Telecoms Limited, Bourdex Telecoms Limited and Mobile Telecommunications Network Limited (MTN).

The four companies earlier granted unified licenses by the NCC are: Multi-links Telecommunications Limited, Prest Cable Limited, Satellite TV Systems Limited and Intercellular Nigeria Limited. Under the unified licensing regime, each operator is allowed to offer multi-services, including mobile telephony, fixed, wireless services, broadband Internet as well as Very Small Aperture Terminal (VSAT) and other value added services. Some of the conditions to be met by an operator to qualify for a unified license include: having existing and operating network infrastructure, a customer base of at least 10,000 connected subscribers or justifiable evidence of financial capability for substantial network rollout and being up-to-date on submission of annual audited accounts. The NCC also expects the new operators to spread their services from operational bases to at least three states in each of the country's six geo-political in the five years, with effect from January 2007.

In order to check the relatively high cost of telephone services in the country, the NCC has liberalized the Voice over Internet Protocol (VoIP) or Internet telephone. According to the industry regulator, this is to facilitate the making of telephone services available to un-served carriers via broadband Internet or Very Small Aperture Terminal (VSAT). The NCC had in June announced adjusted interconnect rates among telecommunications operators—which took effect from September. Under the new rates, near-end termination on a fixed network costs N10.80 while far-end termination costs N9.10. The old termination rate on a fixed network was N5.52. However, termination on a mobile network was reduced from N11.52 to N11.40. NCC defines far-end termination as a situation where the originationg operator hands over a call to the terminating operator in the state in which the called party is located. The near-end termination on the other hand, refers to a situation where the originating operator hands over the call to the terminating operator in a location that is not within the state in which the call party is located.

One of the key developments in the telecommunications industry during the third quarter 2006 was Celtel's acquisition of 65% in Vmobile for a record US$1.5 billion. Also during the period, Transnational Corporation of Nigeria (Transcorp) emerged the core investor in Nigeria Telecommunications Limited (NITEL), buying 75% of the Federal Government's equity in the telecoms company for US$750 million. The deal was struck with the privatization agency—Bureau of Public Enterprises(BPE)—under a "willing buyer, willing seller" arrangement, following three failed earlier attempts to sell the company. The remaining 25% shares of NITEL shall be sold to Nigerians through a public offer before year-end. Under the sales agreement, all liabilities and debts of NITEL will be transferred to Transcorp, except for those arising from human related issues such as pension liabilities and downsizing cost which will be borne by the Federal Government. Transcorp has chosen the British Telecommuni-

Annual Average Crude Oil Prices: 1996-2006

	Year	Ave Nominal Price	Ave Annual Inflation Adj. Price
1.	1996	$20.46	$25.66
2.	1997	$18.64	$22.86
3.	1998	$11.91	$14.38
4.	1999	$16.56	$19.52
5.	2000	$27.39	$31.29
6.	2001	$23.00	$25.57
7.	2002	$22.81	$24.94
8.	2003	$27.69	$29.63
9.	2004	$37.66	$39.21
10.	2005	$50.04	$50.38
11.	2006	$65.40	$65.81

Source: OPEC & Research & EIG

cations as its technical partner to assist in the quick turnaround of NITEL.

CRUDE OIL PRICES

Crude oil prices rose sharply during the third quarter 2006—declining however in an undulating fashion towards the tail end of the period. Thus, while prices of crude in the international market stood at an average of U$55 per barrel by end-June 2006, the figure by mid-July was US$78.50pb; and by end-September, prices had averaged below US$60pb. In fact, for the first time since March 2006, crude oil price came below US$60pb on September 20, after the US President George W. Bush announced support for diplomatic efforts to end the dispute with Iran—the world's fourth largest oil supplier. On that date, the basket price of crude oil from the Organization of Petroleum Exporting Countries (OPEC), a weighted average of varieties of crude that is updated daily, fell to US$56.54pb, from the August average of US$68.81pb.

While the price of crude was rising in the international market during the period under review, its upshot in the local economy was high cost of importation of refined petroleum products. Specifically, the situation led to a rapid drawdown on the N150 billion Petroleum Support Fund (PSF) set aside by the Federal Government. The Fund was initiated to subsidize cost of imported refined products, thereby providing succor to the consuming public. But at a point during the third quarter 2006, owing to the prevailing high cost of imported petroleum products, Government was providing N28.48 subsidy per litre of Premium Motor Spirit (PMS) and N29.31 per litre of Dual Purpose Kerosene (DPK). This had the effect of a quick depletion of the Fund, prompting the managing agency—the Petroleum Products Pricing Regulating Commission (PPRC)— to make a case for additional money for the PSF.

The high but volatile prices of crude oil in the international market, especially during the third quarter 2006, was attributable to a number of factors including the crises in the Middle East (accentuated by Iran's Nuclear Programme) which have defied several negotiations. This keeps building up anxiety about disruption to oil supplies from that region. The lingering youth militancy in the Niger Delta region of Nigeria (where over 90% of the nation's oil is produced) is yet to abate—and continues to disrupt oil production in the world's 7th largest oil-producing nation. There is also the demand/supply factor by which most OPEC members are unwilling to see crude oil price drop close to US$50 per barrel; such a level would move them to cut production and supply. The fear of hurricanes and possible disruption to production in the Gulf of Mexico during the period (as was the case last year) was also an influence on the prices of crude.

(Marcel Okeke is the Editor, Zenith Economic Quarterly)*

"The 'digital divide' is real. It is actually several gaps in one: a technological divide in infrastructure, with 70 percent of the world's Internet users living in the 24 richest countries…with nearly 70 percent of the world's Websites in English … and a gender divide, with women and girls in many countries, rich and poor alike, enjoying less access to information technology than men and boys." – Kofi Annan, UN Secretary General at the International Day of the Universal Declaration on Human Rights December 10, 2003.

Developing The Nigerian Software Industry:

Role of Nigerians in the Diaspora

*** By Jim Ovia**

The quotation above which was made by Kofi Annan, Secretary General of the United Nations is a fitting prologue to this paper coming as it does in the wake of an auspicious and momentous occasion; the launch of the Computer for All Nigeria Initiative (CANi).

This initiative like many others that have gone before it is aimed primarily at serving as a bridge for what is a huge lacuna, a veritable digital divide separating Third World countries like Nigeria from other technologically developed and digitally advanced countries.

There is no gainsaying the fact that Nigeria like many developing countries is lagging behind in terms of Information and Communications Technology (ICT). A realization of this ICT challenge compels all stakeholders to reflect on what this digital divide really is and to fully appreciate on what levels it affects us as a country and as a people.

The digital divide refers to a lack of preparedness on a nation's part in terms of ICT infrastructure and skills. The immediate consequence of this for Nigeria is the disadvan-

taged position she occupies which has left Nigeria, as it were, as a mere on-looker instead of a participant in the digital economy.

This divide manifests in several ways from a debilitating lack of awareness of the inherent potential of ICT, to a paucity of computers, low internet penetration and a lack of skilled manpower.

The nation needs an urgent ICT Revolution to help us bridge this yawning gap. A full appreciation of the magnitude of this problem and the clear and present economic and technological danger it portends can be gleaned from a critical consideration of relevant data (see table 1 & 2).

The first step in ameliorating this situation lies in laying the basic foundation for launching Nigeria into and ensuring our active participation as knowledge workers in the new digital economy. To launch this revolution Nigeria must re-appraise her Networked Readiness which is defined by the World Economic Forum as "The degree to which a community is prepared to participate in the Networked World, and includes its potential to do so in the future."

The government has a major role to play in ensuring that the digital divide is bridged and that the nation is network ready. The government must provide leadership through its policy formulations and pronouncements.

It also needs to chart a new path to e-growth by evolving strategies that foster:

- e-awareness – evolving policies that would create ICT awareness
- e-infrastructure – providing infrastructure to enable the sector thrive
- e-readiness – evolving policies that would benefit the ICT sector
- Tackling the nation's image problem which militates against investments
- Ensuring security of investors
- Building a digital database to provide information
- Ensuring adequate power supply

It is heartening to note that President Olusegun Obasanjo has consistently displayed an awareness of the potentials inherent in ICT as a key driver of economic growth. Having identified ICT as a national priority, a national ICT Policy was approved in March 2001. The mission statement was specific: To USE IT for Education, Wealth Creation, Poverty Eradication, Job Creation, Global Competitiveness."

A National Information Technology Development Agency (NITDA), was subsequently established and charged with the responsibility of policy implementation while, in what is an obvious confirmation of proper understanding of the issue at hand, the private sector was identified as key driver of growth.

Table 1: Global Internet Penetration 2006

	POPULATION	INTERNET USERS/	INTERNET PENETRATION AS % OF POPULATION
World	6,499,697,060	1,022,063,282	15.7%
Africa	915,210,928	23,649,000	2.6%
USA	331,473,276	225,801,428	68.1%
Nigeria	159,404,137	1,769,700	1.1%
Singapore	3,601,745	2,421,000	67.2%
India	1,112,225,812	50,600,000	4.5%
South Africa	48,861,805	3,600,000	7.4%

(Source: UNCTAD)

The present administration has over the course of almost eight years launched a string of remarkable ICT initiatives which underscore its resolve to see Nigeria take its rightful place on the information superhighway. These initiatives include:

- Computer in School Initiative (CISI) – to increase PC density and access to school children
- Internet in School Initiative (ISI) – to increase internet penetration in schools
- NCC's Digital Awareness Programme (DAP) – promoting digital awareness
- Computer for All Nigerians Initiative (CANi) – making computers affordable
- Abuja Technology Village – platform for creating a sustainable knowledge based economy.
- Nigeria Software Development Initiative (NSDI) - This was set up at the instance of the FG, and Incorporated as a professional Business association, an umbrella body for software practitioners, committed to developing a software park in Lagos

Aside these efforts of the government, the Private sector continues to work as partners in progress with the government and their pioneering and innovating strategies are evident in the roles they are playing in initiatives like CANi which is being spearheaded by Omatek, Zinox, Beta, Balogtek, Microsoft, Intel, IBM and hp with Zenith Bank, Skye Bank, Fidelity Bank and UBA as CANi financial partners

The Nigerian Software Development Initiative (NSDI), although conceived by the President, is being midwifed and nurtured by Nigerian software practitioners. On individual levels, corporate entities like Microsoft are pioneering Nigerian language operating systems to facilitate ICT literacy in indigenous languages while Zenith Bank is driving the Youth Empowerment for Digital Revolution by partnering with the US embassy at its annual CTO forum and also through donation of computers to and building of cyber cafes for secondary and tertiary institutions.

Despite these laudable efforts, more still has to be done in the areas of capacity building and skill acquisition and it is in this regard that Nigeria must seek input and the expertise from her citizens in the Diaspora.

This recourse to Nigerians abroad who have been exposed to the best technologies is not novel. Other countries like India who have leapfrogged into the information super highway have taken the same path in their quest to bridge the digital divide.

India offers us a good example of how Nigerians in the Diaspora can help grow Business Processes Outsourcing (BPO) and IT-enabled Services (ITES). In India, Software and services export buoyed by assistance from Indians in the Diaspora reached US $ 12.2bn in 2003-04 showing a 30.5% increase from $ 9.6bn recorded in 2002-03.

Today, India is No.39 on the Networked Readiness Index with its IT hub in Bangalore. Bangalore was no more than a mud fort in the 16th century until the Industrial policy declared in 1996 offered incentives that drew investors. Bangalore is today, a powerful magnet for foreign companies like Cisco Systems, Delphi Automobiles, America online, and Eastman Kodak requiring BPO expertise. Bangalore boasts over 103 R&D institutions.

Despite these laudable efforts, more still has to be done in the areas of capacity building and skill acquisition and it is in this regard that we must seek input and the expertise of our compatriots in the Diaspora.

The Indian ICT revolution blossomed when GE and BA set up wholly owned subsidiaries in care of Indian managers pooled from the Diaspora. These returnee Indians then began to staff these local subsidiaries from a pool of skilled manpower drawn from their former alma maters.

At present, the Indian BPO/ITES sector employs over 245,000 professionals while the ITES and BPO services sector is expected to generate revenues of US $62bn by 2008-09 which guarantees India an over 10% cut of global BPO business which grew from $500bn in 2004 to $554bn in 2006 and is projected to reach $682bn by 2008.

Nigeria can replicate the Indian example and reap identical benefits because we are similar to India in many respects. We have a large population, a vast pool of educated young people and a large expatriate community based abroad.

Latest estimates indicate that there are 1.1 million Nigerians in the Americas and over 185,000 of them are IT professionals. We also know from figures released by the World Bank that over $4m dollars is remitted back home annually from the Diaspora. With this knowledge all that remains is for us to find a way of turning this Brain Drain, which has hemorrhaged our best minds across the seas,

to Brain Gain.

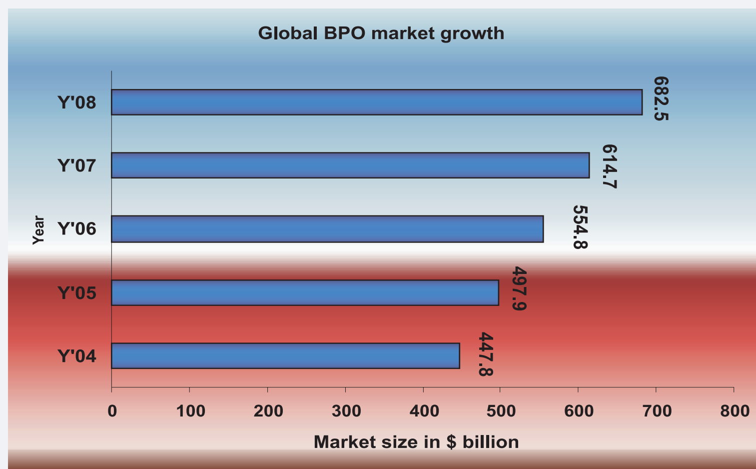
By tapping into this vast pool of Nigerians in the Diaspora, Nigeria stands to reap immense economic benefits because Nigerians in the Diaspora can offer distinct advantages: They are much more conversant about their country of origin, usually speak the language and can thus negotiate better. Many of them got their first degrees in Nigeria and can take advantage of the old school network. They possess unique ownership advantages based on networks abroad with customers for software as well as ability to forecast new developments. They can also better understand peculiar demands as well as country/culture specific requests while being better positioned to mentor local entrepreneurs.

Table 2: Networked Readiness

COUNTRY	NETWORKED READINESS INDEX 2004-2005	NETWORKED READINESS INDEX 2003-2004
Singapore	1	2
United States	5	1
South Africa	34	37
India	39	45
Nigeria	86	79

(Source: World Economic Forum)

Tapping into the opportunities Nigerians in the Diaspora can guarantee will help the nation use ICT as Enabler, Enhancer and Equalizer in bridging the digital divide. It will also assist in opening doors to a large local market estimated at over $5bn, develop a pool of skilled ICT professionals to meet BPO demands as well as a local skill pool for BPO and ITES jobs.



Source: Nasscol

To understand the vast opportunities open to major players in the information super highway and knowledge economy, we must put the e-economy in perspective. The global BPO market grew from $500bn in 2004 to $554bn in 2006 and is projected to reach $682bn by 2008. The African ICT market on the other hand is worth over $11bn and at an annual growth rate of 5.4% is expected to reach $18bn by 2008.

The Nigerian ICT market on the other hand is grossly untapped, worth over $5bn and grows at an average rate of 9.5% per annum and has capacity to contribute at least 10% of the country's GDP in the next 5 years.

Progress lies in a public and private sector alliance with the private sector tapping into the vast resources at the disposal of those in the Diaspora. Government must help drive private sector action and to ensure this, the FG should start by including computer studies in the school curricula and fully implement the Computer In School Initiative (CISI), Internet In School Initiative (ISI) as well as the Computer for all Nigerians Initiative (CANi). In addition, the FG should also develop the nation's ICT Infrastructure, build ICT parks (NSDI & Abuja ICT Village), encourage Government/Private Sector Cooperation, launch an Aggressive Public Awareness Campaign and fully implement ICT policy.

These steps would provide an enabling environment for the private sector to collaborate with those in the Diaspora and help in moving the country from e-Awareness to e-Action while transforming e-Action to e-Wealth.

To conclude we must return again to Kofi Annan who said: *"We are going through a historic transformation in the way we live, learn, work, communicate and do business. We must not do so passively, but as makers of our own destiny. Technology has produced the information age. Now it is up to all of us to build an information society."*

(*Jim Ovia is the Managing Director, Zenith Bank Plc)

JOINT TAX BOARD GUIDELINES FOR THE OPERATION OF PAYE SCHEME

INTRODUCTION

Employers of labour are expected to use these PAYE guidelines as the standard for making tax deductions and tax payments to tax offices in respect of their employees on a monthly basis.

With the passage of the 2006 Federal Budget and those of the various States for the 2006 year, these PAYE guidelines have been issued for the 2006 year.

The guidelines apply to all incomes (i.e. emoluments which include salary and allowances) of an employee derived or deemed to be derived from Nigeria whether or not such income is received in Nigeria.

All Employers of labour, Agents and Consultants should ensure that all employees make full disclosure of all their incomes at the beginning of the year (whether or not such income is received in Nigeria or not) when tax forms 'A' are completed by them before returning same to the tax office.

Such disclosure should encompass as required by law all income earned, accruable, derived or accumulated in Nigeria. This includes disclosure of income paid both in Nigeria and outside Nigeria as well as full disclosure of All salaries and allowances paid either in cash or in kind.

Employers of labour, Tax Agents and Consultants, and Employees who engage in incomplete disclosure of income are liable to be charged for concealment of information with intent to defraud the Government of Nigeria, an act chargeable under the criminal code of Nigeria.

The Board hereby urges all employers of labour both in the public and private sectors, to fully implement the contents of these guidelines in order to ensure a hitch free PAYE Scheme operation in year 2006.

2. DEFINITION OF TERMS

2.1 "Assessable Income" refers to the income of an employee for each year of assessment from each and every source of his income.

2.2 "Employment" includes any service rendered by any person in return for any gains or profits including appointment or office, whether public or otherwise, for which remuneration is payable, and "employee" and "employer" shall be construed accordingly; the gain or profit from an employment shall be deemed to be derived from Nigeria if the duties of the employment are wholly or partly performed in Nigeria, or the employer is in Nigeria, whether the gains or profits are received in Nigeria or not

2.3 "Emoluments" means total emoluments including all allowances, salaries, wages, perquisites, bonuses, and compensation;

2.4 "Fringe Benefits or Benefits-in-Kind" means benefits accruable to an employee when an

(a) Employer's asset is put in the Employee's use (For tax purposes, the deemed value of such benefit accruing to the employee is 5% of the acquisition cost if known or 5% of the market value of the asset at the time of acquisition)

(b) Employer rents or hires an asset which he puts into the use of an employee (For tax purposes, the employee will be charged with the difference between the amount incurred by the employers and any amount refunded to the employer by the employee)

2.5. "Income Tax Reliefs" in relation to any year of assessment, means the sum of personal allowances and other reliefs given to an employee in a year of assessment;

2.6 "Taxable Emolument" means emoluments reduced by tax-free emoluments;

2.7 "Tax Deduction Cards" means a tax deduction card in the form prescribed by the relevant tax authority or such other document as may be authorised by the relevant tax authority.

2.8 Total Income" means in relation to an individual for a year of assessment, his aggregate assessable income for that year after the additions and deductions as allowed in the statute are factored in.

2.9. "Year of Assessment" means the period of 12 months commencing on the first day of January of a year.

3 INCOME CHARGEABLE TO TAX

3.1 An employee's income chargeable to tax is the income for the year, from all sources inside or outside Nigeria, including any salary, wage, fee, allowance or other gain or

profit from employment including compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to an employee other than

a. so much of any such sums as may be admitted by the relevant tax authority to represent reimbursement to the employee or expenses incurred by him in the performance of his duties, and from which it is not intended that the employee should make any profit or gain;

b. medical or dental expenses incurred by the employee;

c. the cost of any passage to or from Nigeria incurred by the employee;

d. any sum paid in respect of the maintenance or education of a child if any provision of this Act provides that any sum received by the employee during a year of assessment shall be deducted from the personal relief to be granted to him for the next following year;

e. so much of any amount of rent the employee is treated as being in receipt equal to the annual amount deemed to be incurred by the employer under the provisions of section 4 of the Act;

f. so much of any amount of rent the employee is treated as having received under the provisions of section 5 of the Act;

g. so much of the amount of rent subsidy or rent allowance paid by the employer, to or on account, for the employee not exceeding N150,000 per annum;

h. the amount not exceeding N15,000 per annum paid to an employee as transport allowance;

i. meal subsidy or meal allowance, subject to a maximum of N5,000 per annum;

j. utility allowance of N10,000 per annum;

k. entertainment allowance of N6,000 per annum;

I. leave grant, subject to a maximum of ten per cent of annual basic salary.

3.2 The Board emphasizes that the fringe benefits and/or benefits in kind of an employee are taxable whether they are monetised or in kind.

4. TAX RATES, RELIEFS AND ALLOWANCES

4.1 **Personal Income Tax Rate Structure:**

The tax rates in the table below are applicable to an employee's taxable income with effect from 1st January, 2001 after reliefs have been deducted. The minimum tax rate payable is 0.5% for any emolument below N30,000.00 per annum while the maximum tax rate is 25%.

The detailed Tax rates are as follows:

Employers of labour are required to adhere strictly to this tax rate structure unless new rates are issued by the Joint Tax Board.

Table 1

Income to be taxed	Taxable Band	Income	Rate of Tax	Percentage
For every naira	First N30,000		5k per N	5%
For every naira	Next N30,000		10k per N	10%
For every naira	Next N50,000		15k per N	15%
For every naira	Next 50,000		20k per N	20%
For every Naira above	Next N160,000		25k per N	25%

4.2 Tax Reliefs (Allowances)

An employee enjoys certain reliefs (allowances) which are normally deducted from his salary before the balance is subjected to tax. Such reliefs are stated in table 1.)

5 . **PROCEDURES FOR ADMINISTERING PAYE**

5.1 The law stipulates that an employer is answerable for PAYE taxes deducted or to be deducted and paid to government.

5.2 *Collection of Tax Form A by Employer:*

5.2.1 Tax forms 'A' will be supplied free of charge to employees through their employers. Employers should approach the relevant Tax Offices in their various States where they operate to collect tax forms 'A'.

5.3 Completion of Tax Forms collected by all employees

5.3.1 Employers should certify the correctness of the salaries and allowances declared in the forms by their employees to ensure that correct reliefs are granted the employee.

5.3.2 Employees whose forms are not fully completed and certified by their employers may experience delay in getting their tax deduction cards.

5.4 *Returns of Completed Tax Forms A by Employers*

5.4.1 All Tax Deduction Cards (TDC) used in the operation of the PAYE Scheme and End of Year returns for 2005 should be returned to the relevant tax authorities not later than January 31st 2006.

5.4.2 Employers Annual Declaration Form H1 for use in 2006 should be returned not later than 31/1/06.

5.4.3 Tax Deduction Cards shall continue to be treated strictly as security documents when returned to the Tax Office

	Type	Relief	Remarks
1	Personal relief	20 % of Earned Income+ N5,000	
2	Children's relief	N2,500 per child up to a maximum of 4 children	Attach Evidence
3	Dependant's Relative relief	N2,000 per dependant subject to a maximum of two (2) dependants	
4	Life Assurance	100% of sums paid	Attach Evidence
5	Pension Contribution	100% of sums paid	
6	Rent Allowance	Where the employer pays directly to the employee the law allows what is paid to the employee up to a maximum of N150,000 per annum with effect from 1/1/2001	Where free accommodation is provided by the employer to the employee, the rateable value of the property will continue to be used in arriving at the Benefit-in-kind of the employee for tax purpose.
7	Transport Allowance	The maximum non taxable allowance with effect from 1st January 2001 is N15,000 per annum.	
8	Leave Allowance	A maximum sum of 10% of annual basic salary	Any amount in excess of this is therefore taxable.
9	Meal Subsidy Allowance	Meal subsidy allowance is N5,000 per annum with effect from 1/1/98	Any excess is taxable
10	Utility Allowance	Utility Allowance is N10,000 per annum with effect from 1/1/98	Any excess is taxable
11	Entertainment Allowance	Entertainment Allowance is N6,000.00 per annum with effect from 1/1/98	Any excess is taxable
12	Interest on Loan in respect of Owner-Occupier Premises	100% subject to the approval of the Board and the relevant tax authority	
13	Meal in the employers canteen or non-transferable luncheon vouchers	100%	
14	Disability Allowance	Disability allowance is N3,000.00 for the disabled	Limited to 10% of earned income if it is less than 3,000.00
15	Compensation for loss of Office	100% subject to approval by the Board	Effective from January 1, 1998
	Retirement Gratuities	100% subject to approval by the Board after ascertainment	Effective from January 1, 1998
17	All other allowances paid to an employee	Nil	All are taxable

5.4.4 Only authorized officers shall endorse the Cards. Employers of labour are therefore requested to familiarize themselves with the specimen signatures of the authorized officers in the relevant tax stations in the State where they operate or the Federal Capital Territory where applicable.

5.4.5 Where an employer of labour is found operating P.A.Y.E. System with forged or fake Tax Deduction Cards, appropriate sanctions will be imposed on such employer. Such employers are also liable for prosecution under the Criminal Act of Nigeria

5.5 *Submission of End of Year Returns*

5.5.1 End of year returns must be submitted along with Tax Deduction Cards not later than 31/1/06. The year's returns must show the name of employees, total emoluments, total reliefs granted and tax paid by the employees.

5.5.2 Submission of evidence of payment (Receipts)to the tax office

5.5.3 Granting of reliefs for employees on Tax Deduction Cards and return of same to employers

5.6 *Remittance of PAYE Deductions*

5.6.1 Remittances must be done within 10 days of the end of each month in order to prevent payment of interest and penalty for late payment. A receipt must be collected by the employer for any remittance made.

6. PROCEDURES FOR OBTAINING TAX CLEARANCE CERTIFICATE

6.1 Any employee who wants a Tax Clearance Certificate (TCC) should submit an application for a TCC accompanied with a certificate of payment and tax (Form H2) showing 3 years tax payment for the 3 preceding years.

6.2 A Tax Clearance Certificate will be issued to all employees on request subject to the return of 2005 Tax Deduction Cards (TDC's) and End of Year Returns for 2005 year showing evidence of payment of tax for the three preceding years.

6.3 The Tax office will issue a TCC within 14 days from the date of receipt of the application from an employee or state reasons for denial.

6.4 Applications for Tax Clearance Certificates by

employers on behalf of employees should be accompanied by fully completed and certified Forms H2. Only the relevant tax offices are authorised to process such applications.

6.5 Such applications should reach the Tax Offices at least two weeks in advance of collection. Applications must be accompanied by, among other basic requirements, the relevant tax returns in respect of these employees.

6.6 Please note that unless the above requirements are met, applications made would not be processed.

7. PROCEDURES FOR OBTAINING TAX REFUNDS IN THE EVENT OF OVERPAYMENT

Where an overpayment by an employee is established, he is entitled to a tax refund as may be directed by the tax authority.

The employer may be directed to refund the overpayment to the employee within the year of assessment during which period the employee obtained his tax relief.

Setoff of overpayments in a current year may also be available in the next year of assessment provided that full taxes have been paid and remitted for the current and previous years of assessment.

8. OFFENCES, PENALTIES AND SANCTIONS

An attempt to willfully cover, conceal or evade taxes is a criminal act and therefore, offences are as prescribed under the Criminal Code of Nigeria. In addition, there are specific offences as stated in the tax laws and stiff penalties prescribed where an employer or employee commits such an offence.

8.1 An employer commits an affence when he fails to register with a tax office within six months of commencing a business for the purpose of deducting income tax from his employees with or without formal notification or direction by the relevant tax authority.

8.2 Making incorrect or false statements and returns or failing to comply with the requirements of a notice served on an employer. It also includes understating any income liable to tax, preparing false accounts, unlawfully refusing or neglecting to pay tax.

8.3 Regulation 19 of the PAYE Regulations 2002, stipulates that: Where an offence under these Regulations or the Act is committed by a body corporate or firm or other association of individuals

(a) every director, manager, secretary or officer of the body corporate;

(b) every partner or officer of the firm; or

(c) every person concerned in the management of the affairs of the body corporate, shall be severally liable for the commission of the offence.

9. ADDITIONAL PAYE ASSESSMENT

Where an employer fails to disclose all emoluments paid to an employee or under deducts, or under remits tax from employees, the tax authority may assess such income to tax for the preceding six (6) years in hands of the employers.

Offences and related sanctions

Offence	Penalty
Under Deduction	10 per cent penalty plus interest at prevailing bank commercial rate
Non Remittance	10 per cent penalty plus interest at prevailing bank commercial rate
Non Deduction	10 per cent penalty plus interest at prevailing bank commercial rate
Late Remittance	10 per cent penalty plus interest at prevailing bank commercial rate
False and incorrect Statement or returns	5,000 and/or 5 years imprisonment.

10. RIGHTS OF OBJECTION AND APPEAL

An employee can object and/or appeal against an assessment raised by the tax office if he is aggrieved within 30 days from the service upon him of a notice of assessment.

Such an aggrieved employee must state his ground of objection before the tax authority can review the assessment and make amendments where necessary.

11. RELEVANT TAX AUTHORITIES

11.1 The Federal Inland Revenue Service has jurisdiction over the following:

11.1.1 Residents of the Federal Capital Territory

11.1.2 Staff of the Armed Forces, Nigeria Police, Ministry of Foreign Affairs and non residents

11.2 The States Boards of Internal Revenue have jurisdiction over individuals within their State.

Contact information for the relevant tax authorities in the Federation

S/N	Jurisdiction	Chairman	Address	Telephone
1	Abia State	Mrs. C. O. Okorokwo	Provincial Structure, Assembly Layout, P.M.B 7214, Umuahia, Abia State	08035481368
2	Adamawa State	Alhaji Abubakar, Abdullahi B.	P.M.B 2035, Yola, Adamawa State	(075) 624589
3	Akwa Ibom State	Mr. Inyang Thomas Etuk	Secretariat Complex Block 9, P.M.B 1118, Uyo, Akwa-Ibom State	(085) 200379 08037456789
4	Anambra State	Mr. Inyeagba C. O. C.	Government House P. M.B 5043, Awka Anambra State	(048) 582258 0803324239
5	Bauchi State	Alh. Ibrahim Sule	Ahmadu Bello Way, P.M.B. 0029, Bauchi, Bauchi State	(077)542282 (077) 543662
6	Bayelsa State	Mr. Godson Mark Torukuru	Block 2, Flat 1, Federal Road Safety Road, P.M.B 59, Yenegoa Bayelsa State	(089) 40268 08063746361
7	Benue State	Mr. J. K. Ager	State Secretariat, P.M.B. 102023, Makurdi Benue State	(044) 533524 08054374939
8	Borno State	Alh. Mustapha B. Ibrahim	Jos Road, P. M. B. 1035, Maiduguri, Borno State	(076) 231178 08035728308
9	Cross River State	Mr. Essien B. Ukorebi	New Secretariat Complex, Off Murtala Mohammed Way, P.M.B. 1063, Calabar Cross River State	(087) 232136 08023322393
10	Delta State	Mr. Uviomo Akpo	64, Okumagba Avenue, Warri	(056) 281465 08033210333
11	Ebonyi State	Mr. A. U. Aga	BIR Headquarters, Abakaliki-Ebonyi State	(043) 220568 08058522185
12	Edo State	Dr. Sam Iredia	80 New Lagos Road, P. M. B. 1020 Benin City, Edo State	(052)256292, (052) 256299
13	Ekiti State	Mr. Abegunde E. O.	G.R.A. Ado Ekiti, Ekiti State	(030) 250095
14	Enugu State	Mr. Agbo Elias	7 Rich Way Road, Government Secretariat, P. O. Box 01038, Enugu Enugu State	(042) 255479 (042) 250442
15	Federal Capital Territory Abuja (Asokoro, Nyanya, Karu, Jikwoyi, Garki Area 1-11, Garki, Apo and Durunmi)	Mr. O. A. Wokelum	Garki ITO City Plaza, Ahmadu Bellow Way, By Old CBN, Garki	08036348399
16	Federal Capital Territory Abuja (Wuse-17, Wuse II, Mabushi, Life Camp, Utako, Jabi, Kado, Gwagwa Idi-Karimu, Deidei)	Mr. M. O. Abass	Wuse ITO Plot 48 Sudan Street, Zone 6, Wuse, Abuja	08023604861
17	Federal Capital Territory Abuja (Central Business District, Airport Road, Lugbe, Dutse, Maitama, Bwari, Kubwa and Gwarimpa)	Mr. M. D. Naanmiap	Central ITO Owena House, Central Business District, Abuja	08037874607
18	Federal Capital Territory Abuja (Gwagwalada, Abaji, Kwali and Kuje)	Mr. O. R. Aminu	Gwagwalada ITO FCT Secretariat, Gwagwalada	09-8821200 08023206370
19	Federal Capital Territory	Mr. U. Magam	Large Tax Office, NACB Building, Airport Road, Central Business District, Abuja.	09-6709890 09-6711313

S/N	Jurisdiction	Chairman	Address	Telephone
20	PAYE/PIT Remittances from the Police, Armed Forces, non residents outside Abuja	Mr. E. A. Sulu	C/o Large Tax Department, 15 Sokode Crescent, Wuse 5, Abuja	09-5236610 09-5236601 08033147141
21	Gombe State	Alh. Salihu B. Alkali	Bauchi Road, P. M. B. 00222, Gombe Gombe State, Okigwe Road. P.M.B 1110, Owerri, Imo State	(072) 223644 (072) 221398 (083)230708
22	Imo State	Mr. Calistus Ekenze		08037758210
23	Jigawa State	Alh. Aliyu Madmud	Gumel Maigatari Road, P. M. B. 7022	(064)650328 (064)650327
24	Kaduna State	Hon. Shehu Adamu	Independent Road, P. M. B. 2090 Kaduna, Kaduna State	(062) 249327 08033047510
25	Kano State	Alh. N. S. Umar	No. 2 Bank Road, Kano, Kano State	(064) 631003
26	Katsina State	Alh. Abdullahi T. Umar	Justice Muhammadu Bello Road. (GRA) P. M. B. 2029, Katsina, Katsina State	(065) 430364 (065) 431364 08035981658
27	Kebbi State	Alh. I. A. Abubakar	Sultan Abubakar Road, Kebbi State	(068) 320644 (068) 321861
28	Kogi State	Hon. Shaban O. Shaibu	Along Marie Road, P. M.B. 1026 Lokoja - Kogi State	(058) 22660 (058) 2209410 08034502848
29	Kwara State	Mr. O. J. Makanjuola	No. 2, Layorin Street, P. M. B. 1352 Ilorin, Kwara State	(031)221806 08056666518
30	Lagos State	Mr. Tunde Fowler	Permanent Secretariat Block 19 Obafemi Awolowo Way, Alausa, Ikeja Lagos State	(01) 4356672
31	Nasarawa State	Senator I. N. Aboki	Opposite Emir's Palace, P. M. B. 18, Lafia, Lafia, Nasarawa State	(047) 220159
32	Niger State	Alh. Muazu B. Mohammed	Old Secretariat, Kpakungu Rd. P. M. B 28, Minna, Niger State	(066) 221629
33	Ogun State	Mrs. Morenike Babington Ashaye	Okem Osan, Abeokuta, Ogun State	(039) 241739 (039) 240435
34	Ondo State	Mr. Bode Adebiyi	Alagbaka GRA, P. M. B 790, Akure, Ondo State	(034) 242651 (034) 241992
35	Osun State	Mr. Adeyeye A. F.	Gbongan Road, P. M. B. 5308, Osogbo Osun State	(035) 243903
36	Oyo State	Mr. P. K. Sanusi	State Secretariat, P. O. B. 12845, Ibadan, Oyo State	(02) 8105252
37	Plateau State	Mr. Pukat S. Barde	7, Beach Road, P. M. B 2061 Plateau State, Jos	(073) 454772 (073) 452211
38	Rivers State	A. N. TEP	Board of Internal Revenue. P. M. B 5030 P. H. Point Blk Sect. Complex	084-233560 08033417198
39	Sokoto State	Muh'd Bello Silarne	Board of Internal Revenue P. M. B 2107 Ibrahim Dasuki Road, Sokoto	060-232761 08035074260
40	Taraba State	Ishaya P. Elisha	Board of Internal Revenue 56 Hammaruwa Way Jalingo	079-22374 08027440000
41	Yobe State	Yahaya I. Barde	Board of Internal Revenue Kano Road, Damaturu	074-522599 074-521401 08035931215
42	Zamfara State	Alh. Kabiru Mohammed	Sani Abacha Way, Opposite Tudunwada Juma' a Mosque Gusiu	Fax: 63-203570 063-203507

Macroeconomic Policies In Nigeria: Lessons From History And The Way Forward

*By Ik. Muo

A question that troubled ancient economists was the issue of government involvement in economic affairs. The Classical Economists starting from Ricardo, Marshal, Pigou and Say had argued that the market was a self-regulatory system and that any form of external interference would lead to sub-optimal outcomes. They promoted the philosophy of the **invisible hand** of market forces, which always restored equilibrium whenever there were any disturbances. They argued that the market forces ensured that there would never be any over-production or general unemployment through its automatic self-regulatory mechanism [Stonier & Hague; 1972: 393]. Government involvement was therefore not necessary.

The **Great Depression** dealt a fatal blow to the classical theory, as there was both over-production and unemployment; supply was not able to create its own demand and the classical school had no explanation or prescription for the situation. Keynes provided an alternative perspective to the classical approach. In his General Theory of Employment, Interest and Money published in 1936, he went on to argue and indeed prove that self-regulatory mechanism would not guarantee full employment and price stability in a capitalist set up. He argued that it was necessary for the Government to intervene in the economy through

a combination of monetary and fiscal policies. [Umo;1986:293]. In effect, government intervention in economic affairs owes its origin to Keynes.

It is now generally accepted that Governments exist to promote the welfare and happiness of the citizens. A social contract is implied as the people 'hand over' their sovreignity and collective resources to a group of people who in turn make policies and deploy the available resources for the common good. In the past, the process of determining the common good varied sharply according to the political system. Capitalist, open market economies adopted the multiparty, democratic approach while socialist / communist economies adopted the one-party, centrally planned system. Of late however, the multi-party democracy/open market system has become generally accepted as the right way of determining both who should be in charge and what the common good is-thanks to the unceremonious collapse of USSR, the resultant overbearing influence of America, and the activities of the multilateral financial institutions.

Under a democratic framework, what constitutes the common good is largely determined by two documents; the constitution-which is the supreme law of the land and which is supposed to be an encapsulation of the peoples' will and the basis of the social contract between the people and their leaders- and the manifesto of the ruling party-which shows how the party intends to promote the common good within the confines of the constitution and on the basis of which it campaigned for the people's mandate.

The major aim of government involvement in the economy is to improve the overall welfare of the people and this is done through various processes aimed at ensuring economic development. In order to ensure that economic development occurs in an orderly manner, governments initiate economic blueprints, frameworks or roadmaps, which guide and coordinate economic activities within the economy. This paper reviews the various frameworks that have been adopted for economic development in Nigeria, draws some lessons from their operations and suggests some ways forward for the nation.

Traditional Macroeconomic Objectives

From the Keynesian advocacy, a general model of Government intervention in economic affairs through macroeconomic objectives and policies developed over time. The generic objective of government intervention is to ensure economic growth and development. This broad objective has over the years been broken down into the following specific macroeconomic objectives:

- **The achievement of full employment** [lowest level of unemployment]
- **The achievement of domestic price stability** [lowest level of inflation]
- **The achievement of exchange rate stability**
- **The achievement of balance of payment equilibrium**

It is generally agreed that these objectives involve some element of tradeoffs; for instance, the pursuit of full employment ceteris paribus, leads to a higher level of inflation.

Over the years, these macroeconomic objectives have been redefined and expanded to include issues like poverty reduction, economic diversification, equitable income distribution, economic efficiency, economic freedom and security, and economic nationalism. [McConnel & Brue, 1980:8].

Another development in this regard is the advent of ***Stabilization Policies,*** which many developing countries were pressurized or encouraged to adopt by the Multilateral Financial institutions. This resulted from years of debt overhang, increasing fiscal deficits, strangulating inflationary trends and chronic balance of payment disequilibrium. The major objectives of these stabilization [Structural Adjustment] policies are:

- *Getting inflation under control*
- *Restoring fiscal balance* through reduced government spending, higher taxes and financial systems reform
- *Eliminating current account deficit* through exchange rate control [devaluation] and increased exports[Todaro & Smith, 2003:734]

Another aspect of macroeconomic management that has witnessed significant changes over the years is the issue of how to measure economic development. Originally, the levels of GNP/GDP and the resultant per capita income were used to measure development. These figures were eventually discounted for inflation. They provided average measures-and there has never been an average citizen- and did not reckon with poverty, income distribution, unemployment and other indicators of well-being. Measures of de-

It is now generally accepted that Governments exist to promote the welfare and happiness of the citizens.

velopment have expanded beyond these indicators to include some social factors. Proponents of these new measures include Sen [1998 Nobel Laureate] who propounded the ***CAPABILITIES* concept** and the UNDP which developed the ***Human Development Index***[based on longevity, knowledge and standard of living]

A social contract is implied as the people 'hand over' their sovereignity and collective resources to a group of people who in turn make policies and deploy the available resources for the common good.

From this new thinking, the following are now generally accepted as the core values and objectives of development [Todaro and Smith, 2003:20]

Core Values of Development:

- Sustenance: The ability to meet basic needs
- Self Esteem: To be a person
- Freedom From Servitude: To be able to choose

Objectives of Development:

- To increase the availability and widen the distribution of basic life-sustaining goods
- To raise the levels of living which enhances material well-being and self esteem
- To expand the range of economic and social choices available to individuals

Governments have tried to achieve these various objectives through **fiscal policies** - manipulation of government expenditures, taxes and trade regulations; and **monetary policies**-manipulation of monetary variables by the central bank [Ackley,1978:148]

The Macroeconomic Policy Frameworks In Nigeria

Constitutional Foundation

The Constitution declares that "*the security and welfare of the people shall be the primary purpose of government", that the State shall " control the national economy in such a manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity"; ensure "that the economic system is not operated in such a manner as to permit the concentration of wealth or means of production and exchange in the hands of few individuals or a group; that suitable and adequate shelter, suitable and adequate food, reasonable national minimum living wage, old age care and pensions and unemployment, sick benefits and welfare of the disabled are provided for all citizens", that "the social order is founded on the ideals of freedom, equality and justice"; that all citizens without discrimination.. have the opportunity for securing adequate means of livelihood as well as adequate opportunity to secure suitable employment"; "that there are adequate medical and health facilities for all persons; and that there are equal and adequate educational opportunities at all levels"*

Other aspects of the common good as constitutionally defined include the sovereignity of the people, participatory democracy, humane governance, national integration, non-discrimination amongst the citizens, establishment of a self-reliant economy devoid of corruption and abuse of power, and rule of law. It is obvious that the economy is the cornerstone for the achievement of the common good and that the other aspects of the fundamental objectives and principles of the state policy are not achievable unless the economic aspects are adequately addressed. As a result, economic policy formulation and execution remains the topmost priority of the Government as the surest way of achieving the common good [the greatest good for the greatest number]. It also remains the usual means of assessing the performance of governments all over the world.

Because of the need to ensure coordinated action towards the achievement of the common good, it becomes imperative for governments to establish all-embracing frameworks for economic action. In Nigeria, this frame-

Oil pipeline fire in the Niger Delta

work for economic policy formulation and execution has varied over the years.

National Development Plans

At independence in 1960, we relied on National Development Plans, which provided the "plan of attack" for the economic activities of all operators in the economy. The National Economic Council, which originally coordinated the plans said that they were to ensure the ***"achievement and maintenance of the highest possible rate of increase in the standard of living".*** The first plan was launched in 1962 and due to the disruptions caused by the political crises, military coup and the Biafran war of independence, it was extended to 1970. It was followed successively by the 2nd [1970-1974], 3rd [1975-1980], and the 4th/last [1980-1985]. The plans provided coordination, control and milestones and indicated the economic aspirations of the country. The objectives of the 3rd National plan for instance were to increase the per capita income, ensure more even distribution of income, reduce unemployment, diversify the economy, achieve balanced economic growth and enhance the indigenisation agenda.

Macroeconomic reforms still far from their reach

Many informed commentators believe that Nigeria would have fared better with the planning strategy. In fact, Nwankwo [2003:40] argues that the abandonment of national planning is one of the factors responsible for the current state of the economy. 'The 5-year development planning circle had the advantages of a holistic approach with a ten-year perspective [5 years before and 5 years after] of every sector of the economy. The publicity attached to its launching and the experiences acquired both in its preparation and the writing of the series of progress reports provided opportunities for mobilizing commitment to planning and implementation…As evidence suggests, the economy performed better during the planning regime[1960-1985]'

The Structural Adjustment Programme

By the time General Babangida came on board, the greatest economic question of the day was the IMF loan, which he subjected to public debate. Babangida supposedly surrendered to public opinion, rejected the IMF loan and introduced the **Structural Adjustment Programme,** a home-made alternative. SAP was as different from the IMF package as six differs from ½ dozen. The key ingredients were devaluation, deregulation, privatization and commercialization. SAP was launched on July 12, 1986 ostensibly to turn-around the economy but specifically with the following objectives:

Enthronement of efficient resource allocation and utilization through the instrumentality of the '**invisible hand'** [market forces] mechanism; minimising government involvement in purely commercial undertakings; restoring a healthy balance of payment position; positioning the country on a path to sustainable non-inflationary growth and development, establishing a '**realistic**' exchange rate for the naira; restructuring and diversifying the productive base of the economy, minimizing our total reliance on oil and ensuring the rationalisation of government's fiscal operations through improved revenue and public enterprise management to achieve fiscal balance.

With SAP, the trioka of **Privatisation, Deregulation, and Commercialisation** became our new economic creed; there was a bank glut with the number of banks increasing by more than 200% almost overnight in a dwindling economy while several fringe banking institutions were established [Mortgage Banks, Peoples Bank, Community, Banks, Finance Houses and Discount Houses]. The foreign exchange market was deregulated through the **Second Tier Foreign Exchange Market** and its subsequent modifications**,** the interest rate structure was deregulated allowing banks

for the first time to charge market-determined rates-as against charging rates determined by the CBN; a dog-eat-dog- competitive environment emerged and coupled with policy summersaults, public sector debts, political interference in appointments, operations and credit process, greed, incompetence and regulatory laxity led to the emergence of bank distress which further distressed the Nigerian populace.

Eventually we started tinkering with SAP, moving from deregulation to re-regulation to guided deregulation. SAP led to the abolition of the corrupt and patronage –driven import license system. And through all this, the multilateral financial institutions maintained an overwhelming presence in Nigeria, tremendously influencing the economic policy thrust of the country. SAP also led to a suffocating attention to macro-economic stability as if it were an end in itself-instead of a means to an end. In the process, every aspect of our national life-including human beings and their very existence was reduced to statistical variables to be manipulated and controlled to achieve macroeconomic stability.

Vision 2010

Another major attempt to create a fresh and enduring economic framework for Nigeria was made by the government of General Abacha. On November 27, 1996, he set up the **Vision 2010** committee under the chairmanship of Chief Shonekan. The 250-member committee was saddled with the responsibility of ascertaining why Nigeria had not developed much despite her great potentials, developing a vision of Nigeria by 2010 and providing a blue print for concretizing the vision. Its report submitted on September 30, 1997 was one of the most comprehensive and well-articulated documents on the way forward for Nigeria.

The committee's vision of Nigeria was **"to be a united,** industrious, caring and God-fearing democratic society committed to making the basic needs of life affordable for everyone and creating Africa's leading economy" but it insisted that the achievement of this vision required a paradigm shift in the mind set of all Nigerians. The document identified 13 Critical success factors which were grouped into four as follows; Value System [norms/standards, anti-corruption, openness and cooperation]; Human Capital [education, health-care and population]; Governing System [law and order, good and stable governance]; Global Competitiveness [science, engineering and technology, external environment, competition and sustainable economic growth]. They also recognized 17 sustainable economic sectors and issues which were categorized into macro-economic [monetary, fiscal/international trade policies], real sectors [agriculture, petroleum, trade and distribution, solid minerals and industry], development [rural and urban development, poverty alleviation, SMEs and infrastructure] and funding /capital mobilization [banking/finance, debt and capital management]

The document stressed the need, and explained how, the Government could signify fundamental shifts in the areas of leadership, rewards, recognition and merit, public service reform, capital mobilization, human capital, privatization, corruption, protection of oil revenue sources and government expenditure patterns. It also dwelt on how to ensure that the vision's agenda was implemented through the establishment of the National Council on Nigerian Vision and the Nigerian Vision Foundation and how to mobilize the people for the programme which was all embracing. The roles and responsibilities of various stakeholders in the success of the vision were outlined while the plan of action was subdivided into four major time horizons; immediate [October-December1997], short term [1998-2000], medium term [2001-2005] and long term [2006-2010]. It also established 22 desired 2010 milestones in areas such as GDP [10%growth rate], inflation[<5%], population growth rate[<2%], education and health[20% and 10% of budget], local content in oil and gas[50%], budget deficit[0-3%] and Human Development index[0.8]. It also included a detailed action plan indicating activities, time frame and executing agencies.[Federal Government of Nigeria,1997]

The questions of whether Abacha would have executed Vision 2010,to what extent he would have done so and how it would have impacted on Nigeria and Nigerians have been overtaken by events but many believed [and some still do] that the Vision 2010 document –if faithfully implemented-would have been our surest route to socio-economic El-dorado.

> Every aspect of our national life-including human beings and their very existence- has been reduced to statistical variables to be manipulated and controlled to achieve macroeconomic stability.

Framework For Economic Growth and Development (2003-2007)

When Chief Obasanjo came back in 1999[after the interregnum of General Abubakar], expectations of economic turnaround were high especially as he had promised the people bounteous dividends of democracy. One thing was however certain; his economic outlook was externally oriented. The administration courted external investors, external creditors, external multilateral institutions, external Governments and external organizations. The President was very eager to win and maintain the friendship of these foreign bodies especially the IMF/ World Bank and the various creditors. Resulting mostly from this, his emphasis was on privatization, commercialization, deregulation, removal of subsidies, private-sector led economic growth, reinvigorating the civil service and increased south-south cooperation

It was therefore surprising when on March 5, 2002 the Federal Government announced that it was stepping aside from IMF monitoring programme because it 'values the benefits of political stability, democratic consolidation, credibility and accountability and does not therefore wish to continue with arrangements where only narrowly defined macroeconomic targets come into play.' The Government implied that its relationship with IMF was preventing it from achieving these noble goals though many analysts believed that Nigeria acted to preempt the IMF which was about to divorce the country for running foul of most of the terms of the relationship. At the extended expiration of the SBA in June 2001 for instance, Nigeria could only meet 4 out of 14 benchmarks agreed with IMF[Salami, 2002:32]. Within that week, the then Economic Adviser, Dr. Magnus Kpakol announced the imminence of an indigenous economic programme because of the need to "build national unity and ensure that democracy holds in this country and to raise the level of security for the people

using sound macro economic policies.. there is no way you can achieve these things if the economy is not viable. There is no way you will have unity if the exchange rate is overblown, inflation is high and the people are suffering"

In October 2003,the Federal government launched the envisaged local policy initiative, the Framework For Nigeria's Economic Growth And Development [2003-2007]. The document was "simple.... multidimensional, consisting of diverse policy measures that will assure prosperity for a strong united and stable Nigeria" with the Federal Government committing itself "to a prudent and transparent macroeconomic strategy that supports poverty reduction in achieving economic growth and price stability and assuring National unity, democracy, good governance and security." The key macroeconomic targets for the period included: inflation rate of below 10%; real GDP growth rate of 7%; daily market-driven forex sales, stable rates and minimal black-market operations, minimum of 6 month foreign reserve levels, market driven interest rates, non-inflationary money supply growth, complimentary monetary and fiscal policies and budget deficit of <2%.

The ***Framework*** also promised budgetary discipline, fiscal stability, civil service reform and an efficient and compassionate economy. Efficiency was to be achieved by "having a government that builds or supports mechanisms for maximizing productivity in the public and private sectors of the economy" while compassionate governance would be enthroned by supporting structures that will "give every working Nigerian the opportunity for shelter, food, power and security" There were policy proposals and targets on agriculture, education, health, water, transportation, solid minerals, oil and gas, tourism and sports. Also included were strategies for optimal revenue generation and expenditure management, harnessing the benefits of NEPAD and AU, creation of Growth Funds under the New Initiative for Growth, Employment and Redistribution [NIGER], revamping of NAPEP and attracting Nigerian human and material resources abroad [FGN;2002:50]

The Framework was literally **D O A** [***dead on arrival].*** There were complaints that it was hurriedly prepared; that the divorce or separation from IMF would make things rough for the country on the international front and that we could not be talking about the medium term while the immediate term was in serious disarray. But the major blow to the **Framework** seemed to be political. It was launched at a time when the 2003 elections were on the front burner. And by the time the President returned to Aso Rock for a second term the tune had changed. Professor Soludo replaced Magnus Kakpol as the Economic Adviser and the new emphasis was on **National Economic Empowerment and Development Strategy** [***NEEDS***].

National Economic Empowerment and Development Strategy (NEEDS)

The NEEDS document was formally launched at a National Stakeholders' Forum in Abuja on March 15, 2004. The circumstances that gave rise to NEEDS included poor GDP growth [2.8% in the 1990s and 3.5% between 1999-2003]; low productivity, decapitalisation, undercapitalisation and low savings/investment. Urbanisation growth rate was 5.3%[one of the fastest in the world]; 50% of the population made up of children; high unemployment rate and violent crimes; chaotic fiscal policy regime [budgetary indiscipline, weak tax effort, complicated tax system]; inadequate infrastructure, weak and inadequate institutions, low level of transparency and unsustainable debt burden.

The document contained a vision for the country; *'to build a truly great African democratic country, politically united, integrated and stable; economically prosperous, socially organized, with equal opportunity for all and responsibility from all, to become the catalyst of African renaissance, and making adequate, all-embracing contributions sub-regionally, regionally and globally'.* It also stated the mission of the Obasanjo administration to use the instrumentality of NEEDS as a nationally coordinated framework of action in close collaboration with State Governments and other stakeholders to consolidate the achievements of the previous four years and build solid foundations for the attainment of our long-term vision. It is also intended that NEEDS would in the medium term lay the foundation and achieve significant progress in the areas of wealth creation, employment generation and poverty reduction.

Yes, we need an economic roadmap. But the roadmap itself is not the end; it is just a means to an end and the outcome will depend on how it is utilized.

The strategy also intends to promote the values of enterprise, competition and efficiency at all levels; equity and care for the weak and vulnerable; moral rectitude, respect for traditional values and extolling of our culture; efficient and effective public delivery system to the

people; and discipline at all levels of leadership. NEEDS recognizes and respects the constitutional and fundamental objectives of state policy which emphatically state that the government exists for the welfare and security of the citizens. In addition to this however, it has three core principles: an incentive structure that rewards and celebrates private enterprise, entrepreneurial spirit and excellence; new forms of partnership among all stakeholders in the economy to promote prosperity, among all arms of government, the public and the private sector, civil society and the international community; and a public service that delivers prompt and quality service to the people.

Ultimately, NEEDS rests upon four key strategies. The first of the quartet is the reforming of Government and institutions. The goal of this strategy is to restructure, right-size and re-professionalise and strengthen the government and public institutions for optimal service delivery. This involves the elimination of waste and increased efficiency, war against corruption, increased transparency, the promotion of the rule of law and the enthronement of a predictable and sustainable macroeconomic framework.

The second strategic thrust of NEEDS is to grow the private sector, turning it into an instrument of wealth creation, employment generation and poverty reduction with the government playing the roles of facilitation and regulation. This will be achieved through a more vigorous pursuit of deregulation, liberalization and privatization; infrastructure development; sector-specific policies; long term capital mobilization, appropriate regulatory framework, consistent/coherent trade policy, and regional/global integration agenda.

The third strategic dimension is the implementation of a social charter since the NEEDS agenda is about the people, their welfare, health, education, employment, security, participation and prosperity. Special attention would be paid to education-as over 50% of the population are children, youth reorientation and employment, healthcare delivery, pension scheme and other aspects of social services and policies. A key aspect of the social charter is the policy of inclusiveness and empowerment which involves *"deliberate programmes to give voice to the weak and vulnerable groups through increased participation in decision making and implementation and laws/programmes to empower women, children, the handicapped and the elderly"*

The third strategic dimension is the implementation of a social charter since the NEEDS agenda is about the people, their welfare, health, education, employment, security, participation and prosperity.

Finally, there is value re-orientation with the key message of: "it is not business as usual' Reduction in the size and scope of the public service would reduce rent-seeking avenues while the war against corruption and financial crimes would increase accountability. Citizens would also be empowered to hold public officials accountable and be mobilized to promote/protect the values of honesty, hard work, selfless service, moral rectitude and patriotism.

Like our previous economic programmes, **NEEDS** contained several intermediate targets, which are inbuilt control and evaluation mechanisms. Some of them are 2million jobs by 2007 [2004-1m;2005-2007,2m yearly]; GDP growth of 5%,6% and 7% in 2004-2007;inflation rate of 9% by 2007; external reserves of $10.6bn by 2007, adult literacy rate from 57% to65%; HIV prevalence rate from 6.05% to 5%; electricity generation from 4000watts to 10000 watts ; road rehabilitation of 7000kms in 2004/5 and 8000kms in 2006/7.There are similar targets[2004-2007] for other aspects and sectors of the economy.

NEEDS also has an inbuilt implementation and financing plan. Current government policies and programmes are all designed in line with the NEEDS agenda; the President is the chief coordinator of NEEDS with an independent Monitoring Committee reporting directly to him. There will be meaningful coordination and collaboration between the Federal, State and Local Governments while all the statutory organs of government are involved in the implementation and coordination. A quarterly review of performance, constraints, unforeseen developments and prospects is also part of the document's implementation tactics. On financing, concerted efforts would be made to mobilise the requisite financial shortfall while a standing Fund Mobilisation Committee has been constituted for that purpose. One feature of NEEDS implementation is the envisaged collaboration between the tiers of Government. Thus, all the states and local governments are expected to prepare and prosecute State Economic Empowerment and Development Strategies (SEEDS) and Local government Economic Empowerment and Development Strategies (LEEDS), their own NEEDS equivalent. Currently therefore, NEEDS is the operating framework for macroeconomic policy in Nigeria

Lessons From the Past

What lessons do we learn from these frameworks as have been formulated over the years?

Instability of the roadmaps: The frameworks have become increasingly unstable and this has made it difficult for the nation to achieve the goals of economic development. From 1960 to 1985, we had development plans but since then, we have tinkered with up to four major economic roadmaps and several minor ones. The NEEDS document made efforts to differentiate itself from the rest by emphasizing its participatory nature [which would ensure wide ownership and sustainability]; its scope and coordination [it reflected federalist planning] and content [it is more focused, realistic and reform based]. But the fact remains that these previous programmes had commendable goals and targets that could have helped the nation on its march forward if logically executed.

The major problem with all the programmes was implementation-poor implementation, non-implementation or even outright sabotage. There is also the penchant for Nigerian leaders to always initiate their own programmes to the detriment of those initiated by their predecessors-and this is not a new development. The 1996 UNDP report bemoaned this unfortunate tendency when it stated that *"it is no coincidence that various military and civilian governments of Nigeria have repeatedly announced new policies on virtually every aspect of the national life and there is no doubt that they will continue to do so in the future.."* That report also regretted that the embarrassing policy turnover had not in any way improved the lot of Nigerian's since they were worse-off in 1996 than they were in 1960.

High Turnover of the operators: As the frameworks for economic development were changing by the day, there was also a worrisome turnover of operators. The Economic Adviser is supposed to be the economic powerhouse to the president. Since 1999, we have had five different people occupying such a sensitive post. We have had P. Asiodu, M. Kpakol, C. Soludo, Ode Ojowu and currently, Osita Ogbu in that order. Whereas these men may well have been experienced and capable, the turnover is embarrassing and with our tendency to always 'do something new', the economy has not been better for it.

Development has become a federal affair: Increasingly, all development efforts-policies and activities- have become matters for the federal government. As all powers and resources become more centralized, the other tiers of government are being reduced to the status of spectators in the development arena. The states are content to pay salaries [when they are not in arrears], construct one or two poor quality roads, build secretariats and feed the people with massive advertisement and PR gimmicks as to the dividends they have delivered. Amuta[2006:8] laments that the governors do not understand the meaning of development 'We have state governments that have mistaken masonry for development. One state governor regales the media with daily photo displays of the same buildings, roads and bridges while staff of government departments have gone without salaries for months'. The Local governments exist mostly as avenues for distributing federal revenue. Even where efforts are being made, the level of coordination and collaboration is very poor especially, when the various tiers have different political inclinations

There may be other significant variables but the key problems with these roadmaps have been policy inconsistency, poor implementation, instability, and increasing alienation of the people from the development process and de-emphasising human beings as the locus of development efforts.

The Way Forward

We have reviewed the roadmaps to economic development used in Nigeria since 1960. It is obvious that these roadmaps have not delivered on their promises and those looking for **hard core** research evidence should acknowledge the simple fact that Nigeria and Nigerians were better in 1960 than the were in 1980. There may be other significant variables but the key problems with these roadmaps have been policy inconsistency, poor implementation, instability, and increasing alienation of the people from the development process and de-emphasising human beings as the locus of development efforts.

Yes, we need an economic **roadmap.** But the roadmap itself is not the end; it is just a means to an end and the outcome will depend on how it is utilized. The driver[s] using the roadmap should be capable, sincerely committed to the journey/destination and must ply the road as mapped.

The issue is that the roadmap should be people oriented and be properly implemented. The high turnover of economic roadmaps and their pilots will not do us any

good. And whatever the roadmap we are operating, the following are imperative.

- A technical knockout of corruption of all shades, sizes and in all spheres; at least, we can reduce it to the pre-war rate of 10%; and enthronement of transparency, fairness and equity. The battle should be depersonalized and decentralized and its current public perception properly addressed
- Patronage of made in Nigeria goods and services by everybody and organizations-including the presidency
- A 5-year moratorium on ceremonies and events except those that are obligatory-and these must be done at low profile levels;
- Leadership by example, where leaders practice what they preach. A situation where leaders do not wear belts at all and are calling on people to tighten their belts is far from ideal.
- Ensuring that any pains that may ensue are shared equally by all. Government must stop paying lip-service to safety nets; these should be adequately provided before taking any actions with social costs
- The rule of law and due process must be institutionalized. There should be no more sacred cows-and this should be in practice.
- Prioritisation based on a **Nigeria First** philosophy;
- Compulsory **Poverty Impact Assessment** for all government policies and programmes.
- Policy consistency and fidelity - We should stop changing the economic roadmaps or frameworks everyday. There is nothing wrong with the road maps per se. Apart from the undue emphasis of appropriate pricing by SAP and its successors without any attempt to concretely take care of the victims of such policies, all the roadmaps contain very lofty aspirations. Sincere implementation is what matters today and tomorrow.

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Globalization From the Business Viewpoint

* By John D. Sullivan

Globalization has replaced the Cold War as the defining element of the international system. How one deals with globalization as a country, as a company, as a region will define much of what develops over the next 20 to 30 years.

There is an abundance of books and articles analyzing the impact of globalization. On the one side, there are plenty of arguments for the benefits of trade. On the other side, there is another series of books and articles saying that globalization will end the world as we know it. While it is easy to point out the benefits and the pitfalls, such an approach may be misleading. The reason is that because if you are for globalization, you try to present the best picture, and if you are against it, the picture you present is the complete opposite. But among these debates on the pros and cons of globalization one key issue often remains overlooked – what does one do about globalization and how does one deal with it? Similarly, globalization can be

viewed in the framework described by Dominique Moisi of the French Institute of Foreign Relations, who said that discontent about globalization comes both from the fear of being absorbed into an artificial world culture, on the one hand, and the equal fear of being left out in an increasingly unequal world.

From the business perspective, the process of globalization entails a pressing need for the business community to understand its impact and to properly respond. Those companies that fail to do so risk being left on the sidelines. In fact, there is a growing gap between companies that choose to join the global economy and those that try to exclude themselves from it or lack the capability to join.

Table 1: Developing Countries Top Destination for FDI (in billion US $)

	2003	2004	2005
China	53.5	60.6	72.4
Mexico	14.18	18.67	18.05
Argentina	1.65	4.27	4.66
Brazil	10.44	18.15	15.06
Hungary	2.14	4.65	6.70
Malaysia	2.47	4.62	3.97
Poland	4.59	12.87	7.72
Chile	4.3	7.17	6.67
Thailand	1.95	1.41	3.68
India	4.59	5.47	6.60
Czech Republic	2.10	4.97	10.99
Peru	1.34	1.60	2.58
Russia	7.96	15.44	14.60

Source: United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2006 (www.unctad.org) / Research & EIG

The Changing Global Economy

The world has gone through tremendous changes in the past several decades. When the United Nations (U.N.) was founded, two-thirds of the current members of the U.N. did not even exist as countries. In that brief period since 1948, two-thirds of the countries in the world formed their governments, and since that time the planet's population grew from 2.5 billion people to 6.5 billion people, and it continues to grow.

The rapid growth of countries and economies is also evident in the increased growth in trade. Since the 1940s, world exports grew by a factor of ten, and a big part of this has been the growth of trade within multinational companies, i.e. within the global supply chain. As international capital flows are no longer dominated by government to government assistance and are rather defined by private sector investment flows, countries begin to realize the need to create a proper investment climate necessary to draw those multinational companies and trade with them. Those that fail to create such a climate, risk being isolated from the global economy.

In the last three to five years, China and India have both had economic growth rates of historic importance. They have emerged as dominant players in the world economy. The old concept of thinking in terms of the First World, the Second World, and the Third World is gone. It is no longer relevant. Brazil is poised to be another player at that same level, and other countries, such as Mexico, are not too far behind.

Discontent about globalization comes both from the fear of being absorbed into an artificial world culture, on the one hand, and the equal fear of being left out in an increasingly unequal world.

There has also been a huge shift in the patterns of foreign direct investment. A little over a decade ago, very little investment went to Russia or the countries of Central and Eastern Europe. Today they are big and important players in the world economy, especially countries in Central and Eastern Europe who have recently joined the European Union (E.U.). Also, the United States is no longer the dominant recipient of foreign investment, as China has recently surpassed the United States as the world's largest recipient of foreign direct investment.

Another factor in this emerging story of globalization is the evolution of Europe, which has changed fundamentally in the last seven years. One of the major changes is that there are ten new countries that recently joined the E.U.; but another factor is the decline in economic status of France and Germany. Not so long ago, a story in the Financial Times, the world's business newspaper, said that Chinese engineers working for Siemens developed a new cell phone technology.

This was not engineered in Germany; rather it was engineered by world-class Chinese engineers who are creating innovative engineering products in China. This is a tremendous change for Germany, and unless they can find a way to remain competitive, they will begin to see the outsourcing not just

of manufacturing jobs, but of innovation. In fact, the rise of China as one of the global economic leaders is changing the structure of most world economies, not just Germany, in ways that are very difficult to foresee. What does this mean for business? For business, globalization as a process of change, the speeding up of transactions and the flow of funds, is not new. It has been there in the past – the globalization of the early 1900s was interrupted first by the Great Depression and by World War II, then there was a brief spurt in the 1970s, and an increasing process in recent years. But the real story is not increasing trade and flows of funds and money – it is the development of an international system of rules. It's a system of rules that governs today's global economy which the business community must help shape. If it fails to do so, the business community will end up living in a system of rules that it never built, but was created by someone else. And this is true for businesses regardless of industry or location – the need to actively participate in the development of an international system of rules applies equally to businesses from developed and developing countries.

Table 2. Economic Globalization Indicators

	Trade in Goods (% of GDP)		Gross Private Capital Flows (% of GDP)		Gross Foreign Direct Investment (% of GDP)	
Income	**1990**	**2001**	**1990**	**2001**	**1990**	**2001**
Low Income	27.4	39.8	3.0	5.1	0.5	1.7
Middle Income	35.5	50.8	6.8	12.2	1.0	4.3
High Income	32.3	37.9	23.6	23.6	3.0	5.3
Regions						
East Asia/Pacific	47.0	61.0	5.0	11.1	1.7	4.6
CEE Europe/ Central Asia	-	65.9	-	13.2	-	3.9
Latin America/ Caribbean	23.3	37.6	7.9	12.1	0.9	4.4
Middle East/ North Africa	48.1	45.4	6.2	9.7	0.8	1.3
South Asia	16.5	23.5	1.4	3.2	0.1	0.6
Sub Saharan Africa	42.3	56.0	5.1	17.0	1.0	8.1
Europe Union	44.9	56.3	14.1	49.3	2.9	14.8

Source: World Bank 2003 World Development Indicators

Table 3. FDI Inflows (in million US $)

	1990		2000		2002	
	Amount	**% of Global**	**Amount**	**% of Global**	**Amount**	**% of Global**
Developing Countries	36,956	17.7	246,057	18	162,145	25
Africa	2,430	1.2	8,849	0.6	10,998	1.7
America	9,701	4.7	95,358	6.8	56,019	8.6
Asia	24,264	11.7	142,091	10.2	94,989	14.5
Central and Eastern Europe	640	0.3	26,373	1.9	28,709	4.4
Developed Countries	171,076	82	1,120,528	80	460,334	70.6
North America	56,004	27	380,764	27	50,625	7.8
Europe	103,363	49.5	709,877	51	384,391	59
Others	11,708	5.6	29,887	2	25,319	3.9

Source: UNCTAD "2004 Development and Globalization: Facts and Figures"

The Drivers of Change

This process of developing an international system of rules has several different drivers. The first driver is the shaping of the international trade system, where of fundamental importance are free trade agreements, both regional and international. To illustrate the trends in trade, it is helpful to look at exports as a percentage of world output – in 1870, exports as a percentage of world output accounted for about five percent, in 1996, by comparison, the number had grown to 24 percent, and today it's probably closer to 28 percent. More importantly, not just exports of goods, but exports of services have also grown, as barriers to trade have significantly declined in many developing countries during the last several decades. The second major driver is financial flows, not just foreign direct investment, but remittances and other sources of global capital flows. In terms of foreign direct investment, in 1990, foreign direct investment flows to emerging markets were about $25 billion per year. Last year, they totaled $135 billion, although they are on a decline since topping $180 billion in 1999. There are a lot of spirals in foreign investment flows, including portfolio investment, equity investment, debt, lending, and bonds. In such an environment, one of the major challenges for the international system is how to create a framework to smooth out the uncertainty. For businesses in developing countries it's about creating a framework that will lock in foreign investment once it is acquired. It is about making sure that it doesn't become fight-and-flight capital, flowing in and flowing back out.

But the real story of globalization is not increasing trade and flows of funds and money – it is the development of an international system of rules. It's a system of rules that governs today's global economy which the business community must help shape. If it fails to do so, the business community will end up living in a system of rules that it never built, but was created by someone else.

The third driver is the expanding process of communications. The discrepancy between developed and developing countries in terms of mobile phone use is astounding. In high-income countries, six people out of ten use mobile phones, while in low and middle-income countries less than one person out of ten uses it. In the coming years, countries like China and India will become the biggest markets for mobile technology.

The fourth driver, closely related to the third, is the growth of technology. For example, in the market penetration of personal computers, high-income countries are far ahead of low- and middle-income countries – with 416

out of 1,000 people having access to personal computers there compared to only 21 out of 1,000 in the developing world. This is a large gap that clearly needs to be bridged, and much of this gap has to do with increasing educational opportunities as well as connectedness. Similarly, there is a gap in the use of the Internet as well, and it is very important because, in today's world, if one can't communicate and can't use technology, one ends up feeling isolated.

And the final driver, of course, is population mobility. The flow of human capital from developing to developed markets has been increasing and is expected to grow further in the coming years. This is true not only for low-skilled workers, but also for workers with high skills and advanced education. Workers are able to take advantage of better opportunities in other markets, and doing so is becoming easier as the global system evolves.

Rules-Based System is Under Construction

Underlying this process of globalization is the development of a knowledge system – the knowledge of how the rules work and how the international trading system functions. This is an integral part of today's international market economy of which you're either part of or you're locked out of. The decisive factor that allows countries and businesses to stay in the global economy as well as reap the benefits of such membership is whether they play by the rules and actively participate in shaping them or refuse to do so.

This global system is under construction – and that construction is incredibly important for business. Unfortunately, governments have a tendency not to want to listen too much to the views of businesspeople. Instead, decisions are made on the higher level as business is left to deal with decisions rather than participate in making them. And this is true of developed countries as well, although in

the developing world the problem is more pervasive. Therefore, one of the things that business has to do is fight for a seat at that table where decisions are made.

And the table is not located in one place – rather, it has many different centers, because there's no central command-and-control operation in this global system. The World Trade Organization, of course, is one of the dominant factors in trade, although the increasing numbers of regional free trade agreements have become very important as well.

Table 4. Mobile Phones per Capita (# of mobile phones per 1,000 people)

High Income	**609**	**Low and Middle Income**	**53**
United States	451	Brazil	167
Sweden	790	Russia	38
Finland	778	Venezuela	263
Canada	362	Argentina	193
Australia	576	Turkey	302
Singapore	724	Romania	172
UK	770	China (Mainland)	110
Germany	682	Indonesia	31
Japan	588	India	6

Source: International Telecommunication Union Development Report 2002 and 2003 World Bank World Development Indicators. Data are for 2001

Another place where these rules are being shaped, that many business people often ignore, is the International Monetary Fund. Another location for global capital that is incredibly important is the Basel Commission on Banking Supervision of the Bank for International Settlements. The rules adopted there affect not just banks in Europe and the United States, they are also going to affect access to capital for companies in many developed and developing countries. It is vital that such rules be brought up and businesses start dealing with them.

The World Bank, of course, is another location where the rules are shaped. The International Labor Organization is also becoming more active and is trying to become a more prominent location for setting these rules and standards. The Organisation for Economic Cooperation and Development (OECD) has developed a number of standards that are very important. And then, finally, there are a whole series of international standards that have been developed – such as quality standards like ISO 9000 and environmental standards like ISO 14000. These standards are incredibly important and will become more important in the future.

In the past decade and a half we've moved from a world dominated by the so-called "Washington Consensus" that John Williamson identified in the late 1980s, which looked at issues like fiscal discipline, tax reform, and exchange rates, to the world of macroeconomic policy. In this world of macroeconomic policy property rights, good governance, market entry, the rule of law, and access to information require a great deal of attention. Addressing these issues is vital, as developing markets seek a seat at the table of globalization and want to become involved, not left out, as Dominique Moisi said. For the business community this comes back to how to create good, stable, democratic governance – governance that is very important for the business community because businesses with such governance can then be heard in this process of creating a rules-based economy.

There are a series of guidelines for foreign direct investment that presents a slightly different checklist than John Williamson's famous Washington Consensus. It includes a number of issues – political stability, market access, the quality of the labor force, tax rates and incentives, and barriers to entry – but in the end it comes down to creating a stable and predictable economic environment where rules are fair and thoroughly enforced. In countries where the business environment is weak and where the informal sector is large there is a lot of work to do to create a market system that will allow businesses to take advantage of the globalization process.

Contrary to some opinion, this international architecture actually does have a structure. And the structure can be found within the IMF under Reports on Standards and Codes (ROSC). There are 12 standards under construction, and they all very much affect the way in which business is conducted. One of these standards is corporate governance. It was very gratifying to see that when the OECD held their meeting in Paris to review their global standard this year, a number of private sector experts from developing countries were asked to help with the revision. It signified the evo-

lution of global standards that is taking place today as developing countries are given an opportunity to participate in the creation of those standards. Five years ago, seven years ago, when that standard on corporate governance was developed, there were no emerging market countries asked to participate. This is a very important part of this new international standard and it is a very important part of this emerging structure of globalization. If countries like Colombia succeed in developing corporate governance principles and standards that serve the interests of their local business community, all to the better. If countries don't do that, what's going to happen is that the IMF, the World Bank, the OECD, this international architecture of organizations will show up, work with local governments and business will wake up one day and find that it has to adhere to standards it never helped shape. From the point of view of business people it's better that they define themselves through active participation in reform. Another big part of these international standards – regarding fiscal transparency, anti-money-laundering, and market integrity – comes back to the famous words, "anti-corruption." In recent years, Business Principles for Countering Bribery (BPCB), developed by Transparency International, and the addition of the 10th Anti-Corruption Principle to the U.N. Global Compact have been important steps in developing these standards. The private sector now recognizes its role in combating corruption, and internal mechanisms are becoming just as important as external ones. The defining characteristic of Latin America has been the gap between the rich and the poor – the income disparity. As business people, we really have to go back and take another look at Hernando De Soto's work on the informal sector. If we look at the steps and stages for barriers to market entry, it is evident that countries with these barriers, where business people are locked out and cannot get into the economy, run a terrible risk of having only very small parts of their economies linked into the global marketplace. And as we look at the WTO taking effect, as we look at trade agreements taking effect, the end of the Multi-Fiber Agreement, what are the new sources of economic growth for countries? How do you attract these foreign direct investors? How do you attract your own domestic investors? Improving the business marketplace not just for firms in the formal sector but also for the informal sector, whether individuals choose to leave the informal sector and come to work for companies, whether they choose to create new companies and growth companies in the market, that's where we're going to see emerging markets develop the kind of healthy market economies that will increasingly attract and demand the investment opportunities that we all look for.

Table 5. Computers per Capita (# of computers per 1,000 people)

High Income	416.3	Low and Middle Income	21.6
United States	739	Brazil	83
Sweden	687	Russia	77
Finland	662	Venezuela	76
Canada	647	Argentina	68
Australia	630	Turkey	52
Singapore	596	Romania	44
UK	526	China (Mainland)	27
Germany	480	Indonesia	13
Japan	477	India	9

Source: IMD World Competitiveness Yearbook 2003, International Telecommunication Union Development Report 2002, and 2003 World Bank World Development Indicators. Data are for 2001 and 2002.

Table 6. Internet Users (# of users per 10,000 people)

Developed		Developing	
United States	5,513	Brazil	822
Sweden	5,730	Russia	409
Finland	5,089	Venezuela	505
Canada	5,128	Argentina	1120
Australia	4,817	Turkey	805
Singapore	5,043	Romania	1905
UK	4,230	China (Mainland)	632
Germany	4,726	Indonesia	377
Japan	4,448	India	174

Source: IMD World Competitiveness Yearbook 2003, International Telecommunication Union Development Report 2002, and 2003 World Bank World Development Indicators. Data are for 2001 and 2002.

In countries where the business environment is weak and where the informal sector is large there is a lot of work to do to create a market system that will allow businesses to take advantage of the globalization process.

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The Business Case for Corporate Citizenship

* By Aleksandr Shkolnikov, Josh Leachman & John D. Sullivan

Today's companies are not only purely economic, but also civic entities. They exist in complex socio-economic structures where they are a subject to economic efficiency pressures of owners and social responsibility pressures of governments, civil society groups, and consumers. And although the debate on social responsibility of business is not new, it has gained increased attention in recent years in light of anti-globalization movements, corporate scandals, and the continued plight of many developing countries.

The traditional view of business, summarized by economists such as Milton Friedman in the 1970s, is that the responsibility of business is accomplished by paying wages to workers in exchange for labor, providing goods and services to consumers in exchange for money, paying taxes to governments which in turn provide public services to citizens, and obeying the rule of law by honoring contracts.

Yet that traditional view is no longer valid, as today's business is about much more than simply providing goods and services to the consumers and paying a fair share of taxes. While business's role and participation in development, governance, and society has evolved dramatically in the past decades, so have expectations.

Surveys reveal that consumers care about the ethical behavior of companies. The traditional response – that companies are only responsible to their owners – may no longer be valid in today's complex world, where consumers are presented

with a variety of options, investors look for stability and security of their investment, and firms face significant legal fines and a myriad of social fears, concerns, and false beliefs. For firms, addressing the role of business in society is vital, because failure to do so can damage their reputation and corporate image, impose additional costs of doing business, and reduce competitiveness. In fact, numerous studies show that responsible business practices – attention to factors other than just maximizing short-term profits – help companies' bottom line and that responsible firms often outperform their competitors.

The benefits of good corporate citizenship are clear. It can be used as an effective tool to improve employee and community relations, and it should be closely monitored because it can help businesses mitigate risk, improve their reputation, and market, sell, and define their brand with consumers more effectively. In turn, ethical practices will reward business with higher profits.

While governments, consumers, communities, and the media pressure companies to be more socially responsible, the major motivating factors for good corporate citizenship programs are often internal. A recent survey of over 500 U.S. executives from companies of different size and from different industries conducted by the Center for Corporate Citizenship at Boston College and the U.S. Chamber of Commerce Center for Corporate Citizenship found that corporate citizenship is driven mostly by companies' internal traditions and values (75 percent) and concerns for reputation and image (59 percent).

Result of Oil spills in the Niger Delta

Yet, despite increased attention paid to corporate citizenship by corporations, much work remains to be done. A Gallup International global survey, conducted in late 2002, revealed that citizens' trust in national corporations has dropped to 42 percent and trust in global companies was a mere 39 percent. Another Gallup survey, conducted in 2003, revealed that 90 percent of Americans felt that the executives running corporations could not be trusted to look after the interests of their employees and 49 percent felt that the executives are there only for their personal benefit.

These numbers demonstrate two issues. First, firms need to do a better job communicating the positive contributions of business to the economic and social development of countries. Second, it means that firms need to pay greater attention to the social consequences of their operations. If they fail to do so, they may become increasingly vulnerable in today's rapidly globalizing world, where consumers are ready to punish companies through market mechanisms for practices they deem unfair.

In fact, Environics International's recent Annual Corporate Social Responsibility (CSR) Monitor revealed that 27 percent of consumers in 25 countries have punished companies for irresponsible business practices and another 21 percent have considered doing so. Another survey by Taylor Nelson Sofres, an Australian marketing information company, revealed that 68% of Australian consumers have punished companies for unethical behavior. Often, consumer punishment is done in the form of switching to a competitor's products. And although consumers in developed countries seem to be more willing to do this, the trend is evident is some of the developing countries. ?e growing citizen discontent with large corporations should be a wake-up call for the business community to develop and implement effective strategies to make the environments in which they operate better and to regain the public's trust.

What is Good Corporate Citizenship?

What is corporate citizenship and what does it mean for a firm to be a good citizen? Being a good corporate citizen means going beyond responding to the financial concerns of shareholders and responding to the concerns of all stakeholders – customers, managers, employees, community, media, and society in general. But, it is more than simply

engaging in philanthropy. Being a socially responsible corporation is going beyond charitable contributions – it means being actively involved in educational programs and committing to protecting the environment. Being a good corporate citizen means contributing time and effort at all levels of an organization to make communities better, operating transparently and responsibly, and creating safe, high-quality goods and services.

In the developing world, being a good corporate citizen means passing on know-how, creating business environments free of corruption, opening up societies by exposing them to democratic principles and the rule of law, and helping nations build institutions of governance and become prosperous. It also means looking beyond profits and helping people raise their standard of living, protecting human rights, assisting countries in the development of free markets, and bringing states on the path of sustainable economic growth and political stability.

A teacher addressing pupils in a local school

Good corporate citizenship must be a habit, not a single occurrence of a noble deed. It must be embedded in a company's culture, as corporations should constantly strive for excellence beyond financial indicators. Responding to the concerns of customers, employees, and communities must be a part of any firm's decision-making process, as it can ultimately make a difference between commercial success and failure.

Ethics and Leadership

Much of being a good corporate citizen has to do with business ethics and moral leadership within companies. Conducting business ethically is often a difficult task for employees at any level of an organization. Top executives are under constant pressure from stockholders to improve the company's bottom line in the short term. Yet stakeholders often expect long-term, sustainable development strategies. At the other levels of organizations, employees and managers are often put in a difficult position, expected to be ethical while at the same time having to think about not damaging the company's reputation or putting their own job on the line.

The responsibility for designing principles of ethical conduct and monitoring their implementation lies in the hands of the top executives. Leadership, therefore, plays a crucial role in ethics. Effective leaders not only talk about ethical principles, but they also do what they say – they are an example of ethical business conductfor employees in their companies as well as for other firms in the industry. Effective leadership is even more crucial in building ethical companies from scratch - in companies that have little ethics experience and lack a good cultural and moral foundation. Leadership failures can have devastating effects for companies and internal and external stakeholders, as recent corporate scandals in the United States and Europe have illustrated. A business can lose the trust of investors and the general public overnight, but regaining that trust takes time. Good leadership also contributes to the overall good reputation of a firm – as recent studies indicate, the reputation of a CEO can be responsible for as much as 50 percent of an overall corporate reputation.

Good leadership should also be assertive rather than reactive. Responding to current challenges is important, but good leaders are able to stay a step ahead and address potential problems before conflicts arise. This includes assessing the environmental record of business

operations on a consistent basis before disasters occur, introducing ethics codes as a responsive as well as a preventative measure, setting up higher than minimum health and safety standards, constantly looking for ways to improve the safety and quality of products and services, focusing on new opportunities, encouraging responsible business practices in other companies in the industry, and communicating and involving others.

An integral part of business ethics, especially in the context of doing business in other countries, are efforts to combat corruption. Companies' refusal to participate in corruption is inseparable from good corporate citizenship. It is true for any environment, whether corruption is private sector or public sector driven. In countries where business is forced to participate in corruption by crooked government officials who extort bribes, companies should actively promote the development of a fair and transparent system. In building such a system, special attention needs to be paid not only to the development of accountability mechanisms, but also to the elimination of opaque and inconsistent rules and regulations that are often a source of corruption, as well as strengthening the rule of law so that rules are not only put on a paper but also thoroughly and fairly enforced.

In countries where business is a facilitator of corruption by providing bribes to gain access or receive preferential treatment, companies should make sure that internal integrity standards are thoroughly enforced, both in their structures and through the supply chain. Combating corruption in the context of corporate citizenship is extremely important because by engaging in corrupt practices, especially on a larger scale, while conducting business overseas, corporations could help support oppressive regimes and closed societies that deny people their basic rights and liberties.

Human Rights

Good corporate citizenship also has a lot to do with the role of the business community in the protection of human rights. The link between responsible business and human rights has become more evident in recent years. As globalization becomes more widespread and multinational corporations are increasingly active in emerging markets worldwide, human rights evolve into a tangible part of responsible business operations. Addressing human rights issues while not endangering economic growth prospects is becoming one of the more serious challenges for the business community.

General labor standards and the use of child labor have also emerged as issues of acute concern in the corporate citizenship debate. Adhering to the labor standards of the countries in which they work and striving to improve those standards should lie within an organization's core strategies. This includes creating a safe working environment, paying competitive wages, establishing normal work hours, providing health benefits, assuring freedom of association, treating employees fairly, and prohibiting forced labor. Another important aspect is a commitment to not using child labor and instead helping children in developing countries receive an education and become the future economic and political leaders in their countries.

It should be stressed that most multinational corporations do favor higher labor standards, even in the context of globalization. A common misconception is that companies search for countries with low labor standards where they can obtain cheap labor force. However, data points in the opposite direction. An International Labor Organization (ILO) study of foreign direct investment among 127 countries suggests that the majority of investment goes

to countries with higher civil liberties, even if the labor costs are higher. Moreover, in surveys of foreign investors, issues that play a key role in securing their investment, such as contract enforcement, corruption, and property rights, are often of greater importance than low labor costs.

Health Issues: HIV/AIDS

Once seen narrowly as a health issue, the effects of the unchecked spread of HIV/AIDS have now proven to be a major economic issue not only for countries but also for the companies that do business in those countries. ?e spread of the disease is a heavy tax on the already weak health and social service infrastructures of many developing countries. Moreover, the spread of HIV/AIDS has also negatively impacted the private sector by raising the costs of doing business by reducing the availability and quality of the workforce. As death and disability create constant turnover in the workforce, corporations are faced with higher costs, as, in some parts of Africa, they must hire two people for each open position knowing that only one will be available for work.

The benefits of active corporate participation in programs combating the spread of HIV/AIDS are, therefore, twofold. By implementing effective education and health programs corporations help countries achieve political stability, as the depopulating effects of HIV/AIDS are now surfacing as a politically destabilizing force. The reasons lie within citizens' dissatisfaction with an ineffective government response to the health crisis itself and the crisis's economic effects. As governments are unable to effectively combat the spread of the disease or even unwilling to recognize the problem, political stability is threatened while people look elsewhere for better responsiveness and better strategies. In addition, companies help themselves by reducing training and other costs associated with high workforce turnover.

Some of the more active responses to the crisis have been employee health education programs run by corporations, especially those that include other members of the community. Another successful private sector response has been active corporate participation in fostering a healthy dialogue between the government, citizens, and the business community, and assistance to national institutional development efforts. Failure to prevent the spread of HIV/AIDS is partially attributable to the institutional weaknesses that exist in developing countries such as lack of a free press and lack of public forums for airing ideas and grievances. As the same institutional weaknesses impede the emergence of free-market democracies, the private sector plays an important role in helping countries achieve a more open society and healthy economy while helping to combat the spread of HIV/AIDS.

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Safe Products and Services

Providing safe products and services also lies at the root of good corporate citizenship. Companies exist because there are consumers who buy their products and if consumers choose their competitors' products, companies, in turn, will cease to exist. Providing customers with products and services that they can trust is, therefore, crucial to the very existence of a business entity. Moreover, product safety and quality are becoming even more important as the globalization process becomes more widespread. As markets open up and trade flows increase, prices are no longer the single factor of a purchasing decision. Increasing international trade results in more consistent pricing through different markets. As it becomes harder for consumers to differentiate products solely based on price, they turn to other aspects – such as product safety and quality, the environmental impact of a product or its production, and the human rights record of the company producing the good.

The emergence of this concept, known as "ethical consumerism," can't be ignored. Studies show that although consumers are often unaware of the ethical features of products they buy, when provided with that information they will lean toward more responsible companies that provide safer, environment-friendly products. The negative publicity that civil society groups can generate compels companies to include ethical consumer is in their development strategy. Many companies are taking the lead and voluntarily provide product safety information to consumers and assume responsibility and take care of the accidents if they take place.

Community Involvement

The capacity to do good often depends on a company's social or economic position. This places corporations and their executives in the unique position of being able to promote good causes more easily than the average citizen. Philanthropic giving is in fact expected by many communities from those who are in a position to do so. Companies give to meet this expectation and to demonstrate their concern for society. While philanthropy is a great thing, companies should proceed with caution with regard to their donations, as simply donating to charities is often seen as a company's superficial effort to buy a good reputation. Consumers are also more aware today of what charities corporations support and will desist their business relations with a company if they find that it is donating to groups that are contrary to the consumer's political or ethical ideology. A company's philanthropic efforts need to have a connection with the communities in which the company works and its core business activities, reflect the values of their customers and employees, or add value to products or services. Without these connections much of the good intent and goodwill that philanthropy can create is lost.

A good corporate reputation allows firms to not only attract new consumers but also keep the existing ones.

MNCs, Small and Medium Companies, and Local Business

The case for corporate citizenship is often made for large multinational corporations, which have been the drivers of socially responsible business practices. In recent years, however, the case for corporate citizenship is increasingly made for small and medium enterprises (SMEs). Large corporations can be effective in improving business practices on the larger scale, setting up an overall climate of business responsibility, and promoting international standards and agreements, while smaller firms play a very important role in developing the local communities in which they operate. In many countries, SMEs constitute a large share of economic growth, and their participation in corporate citizenship programs is imperative. It is also important to make a case for responsible business practices within local companies in developing countries. Their adherence to fair, responsible, and transparent procedures is necessary for the advancement of corporate citizenship reforms worldwide. Multinational companies may try to remain transparent and responsible, but if their suppliers and partners in developing countries choose to ignore good corporate citizenship, these efforts are simply wasted.

SMEs are often focused on internal issues. They frequently address corporate citizenship issues indirectly by making efforts to create a better working environment and build company culture, but often lack the financial and technical resources to go beyond employment issues. Studies of corporate citizenship programs within the SME sector indicate that many firms indirectly implement some of the responsible business policies but they rarely tie them into a concept of corporate citizenship integral to their business strategy. However, business associations are increasingly viewed as one of the solutions to the lack of resources and technical expertise that many SMEs experience. By joining business associations and combining their resource SMEs can develop and successfully implement industry-wide corporate citizenship programs. It can be argued that SMEs have historically recognized the importance of responsible business practices and good relations with the community. However, frequently SMEs, especially in a context of the broken policy environment of developing countries, have been unable to uphold responsible business practices because the institutional system of rewards in such environments does not function. The common excuse in such countries is that firms are bound to break the law in order to exist. The challenge, therefore, is to address the institutional deficiencies of countries from a business perspective. By creating a business-friendly environment that provides proper incentives, companies can address good corporate citizenship from a business viewpoint. If such an approach is taken, corporate citizenship can be driven by long-term profits, not only by societal pressures and moral obligations. CIPE work with local partners in over 90 countries to reform local institutions, remove barriers to business, and create more efficient economic environments can be viewed as such a business-oriented approach to SME involvement in promoting good business practices.

Benefits of Corporate Citizenship Programs

Enhanced reputation and brand image

Responsible business practices strengthen brand image and enhance corporate reputation. In modern corporations reputation is a value creating mechanism and stakeholders pay close attention to it. There is little doubt that a CEO, manager, or employee would much rather work for a company with a good reputation than otherwise. But does reputation really make a difference and does good corporate image reward companies with increased sales and higher profits?

Corporate reputation is perceived as one of the leading measures of corporate success, according to the World Economic Forum "Voice of the Leaders Survey" conducted in late 2003. The results of the survey that was distributed to 1,500 executives of more than 1,000 leading global corporations show that almost 60 percent of those surveyed estimate that good reputation can contribute as much as 40 percent to market capitalization of companies. A good reputation also contributes to companies' ability to sustain profits and performance over time, as was revealed in the study of performance of Fortune 1000 companies during the 1980s and 1990s. Moreover, the same study showed that even in the environments where external stakeholders may not be able to directly observe the quality of reputation, corporate performance is still affected by it.

Economic theory makes a good case that, in markets with asymmetric information (inadequate information provided to consumers about a product), a good corporate reputation allows firms to not only attract new consumers but also keep the existing ones. In environments where consumers are unaware of the quality or other features of a product, they can rely on a trustworthy corporate image and a company's past history. If a company with a reputable name has delivered quality goods and fulfilled its promises in the past, consumers' purchasing decisions will be positively affected. If a company is known for taking advantage of its customers, the opposite is true. Numerous surveys show that customers value their trust in firms and are willing to pay a premium for honesty and commitment to promises. The recognition of consumers' interest in corporate image can be seen in the fact that firms spend significant resources on not only building up a good reputation, but, more importantly, on sustaining it. Also, a company's good reputation is viewed as an asset in the case of mergers and acquisitions.

Improved access to capital

The importance of a good reputation for sustained corporate performance leads to another benefit of responsible business practices – improved position in the credit markets. Essentially, socially responsible companies can attract more capital and borrow at lower total cost. The growth of socially responsible investing (SRI) in the U.K. is a good example. SRI is based on the idea that investments are made not only on the basis of an investor's needs and concerns but also on the merit of the social contribution of that investment. One part of SRI is community investment – an investment strategy that is aimed at supporting development initiatives in under-performing communities

in the home country as well as abroad. According to the Washington, D.C.-based Social Investment Forum, during the last year more than $2 trillion of assets in professionally managed portfolios in the U.S. were of a SRI nature, which is an 80 percent increase since 1997 – a remarkable accomplishment considering a significant economic downturn during that period.

A study of SRI in Europe reveals similar trends of SRI growth in the past years. A survey of European fund managers, financial analysts, and investor relations officers showed that 50 percent of investment leaders view social and environmental considerations as becoming significant features of the mainstream investment decisions of the next 2 years. Non-financial risks are increasingly viewed as important in the investment process, with slightly more than 50 percent stating that investment professionals already systematically take corporate governance and risk management as well as customer relations into account.

Investors and financial analysts are increasingly interested in the social aspects of corporate operations and are willing to invest in responsible companies. Also, responsible businesses have a key role in promoting corporate governance mechanisms, such as transparency, independent audit, and board oversight, which in turn help make investments more secure. Economists have also highlighted the link between responsible companies and the interest rates on loans. In short, reputation is of a value to lenders, who provide credit to borrowers who do not default at lower interest rates and who are responsible in the financial management of their resources.

Greater ability to attract higher quality employees, improved morale and commitment

In addition to the external benefits of good corporate citizenship, firms benefit inherently from their improved standing. Socially responsible business practices can effectively enhance a company's ability to attract and retain higher quality workers. For example, a study by the Reputation Institute, an international private research institute, found that undergraduate students, when considering employment after finishing school, are more attracted to companies that have a good social reputation. Firms with strong corporate citizenship programs typically notice improved employee moral. Also, greater transparency and openness about the business process can change the dynamic of labor relations and union negotiations from antagonistic to a more cooperative relationship.

Reduced business risk and costs

Participation in corporate citizenship programs and environmental efforts yields more favorable fines and rulings for companies that have run into problems with the law. The fact is, a firm's exposure to fines in legal proceedings can be greatly reduced if it can demonstrate that it was making a concerted effort to avoid the problems it has been found guilty of. The public is more accepting of failures when it can be shown that a company was not irresponsible and did not attempt to cover up but rather did everything to prevent it from happening. Responsible business practices can also prevent many disasters from occurring in the first place.

Improved financial performance

Simply put, corporate citizenship makes sense from a financial standpoint. There are a number of studies that expose the link between responsible business practices and improved financial performance. The financial impact of corporate citizenship can be inferred from the benefits

listed above; data analysis studies as well as various surveys of corporate executives support the theory. In fact, in a recent survey of the US firms, 82 percent of the surveyed executives stated that good corporate citizenship helps their bottom line10. Another study by the Australian Graduate School of Management shows that companies with good corporate citizenship programs are more likely to perform well financially.

Corporate Citizenship and International Development

Many international development organizations, civil society groups, citizens and governments are urging the private sector to take the lead in strengthening democratic institutions and designing sustainable solutions to poverty in the developing world. Both developed and developing countries increasingly recognize the effectiveness of the private sector in poverty alleviation and democracy building. The resources of the private sector also make a difference – in fact, the role of the private sector has changed dramatically in the past several decades, as today it is the largest supplier of foreign capital to developing countries. In contrast, three decades ago foreign assistance dominated capital flows to developing countries. Yet, while there are industry leaders that actively participate in international development, full, committed business participation is still lacking. To ensure active business involvement in sustainable development it is imperative to make a business case for such participation.

To ensure active business involvement in sustainable development it is imperative to make a business case for such participation.

Simply put, globally competitive business can't exist in failed, unstable, corrupt, undemocratic countries. Competitive business can't operate in markets marred by the absence of property rights, inefficient legal systems, large underground economies, and weak enforcement mechanisms. And it certainly can't survive in societies that are hobbled by human rights violations, barriers to entrepreneurship, restrictions on freedom of speech, and abuse of the democratic process.

There is an abundance of business opportunities in the developing markets – by investing and expanding their operations to new countries, firms can gain access to new customers and suppliers and discover new trading partners and cost-saving technologies. But taking advantage of those opportunities is often a challenge due to systemwide economic and democratic deficiencies. Poor protection of property rights, corrupt political systems, and a lack of fair contract enforcement can deter business from entering markets. Economic and legal uncertainties can make even the highest rate of return unattractive. Hence, the institutional underdevelopment of countries limits growth opportunities for MNCs and at the same time threatens job creation and investment flows in developing countries. It is in the best interest of the business community to help countries build efficient markets and open political systems and it is in the best interest of countries to welcome such initiatives.

Advancing corporate citizenship programs and ensuring fair labor practices, honest and transparent business contracts, environmental protection, and product safety and quality cannot be accomplished without functioning legal systems and strong enforcement mechanisms. The environment within which responsible business practices are implemented is often taken for granted – in developed countries the challenge is merely to put responsible business measures in place. In the developing world, on the other hand, designing proper codes of conduct or any other corporate citizenship program is problematic, and ensuring proper enforcement of such programs is an even a greater challenge. For example, while companies may try to establish responsible environmental operations in a certain country, opportunities for shirking the new framework may be abundant. Local managers may be tempted or encouraged to bribe public officials in exchange for less stringent requirements or fewer inspections. Even the best intentioned corporate citizenship efforts are put at risk in developing countries if the laws and regulations are opaque and contradictory and cannot be properly enforced.

Widespread institutionalized corruption may also jeopardize firms' efforts to become responsible. Corruption, recognized as one of the keys to why so many local reforms and international development efforts fail, is a serious impediment to business development, trade expansion, and the globalization process. It is also one of the primary barriers to ethical, effective business. Corruption may seem like a good strategy to get things done, but in reality it translates into higher costs, economic uncertainty, poor protection of property rights, lack of fairness and market competition, and foregone profits. After all, if you

can pay a bribe and gain preferential treatment, how can you be sure that someone will not pay a bribe tomorrow and gain preferential treatment over you, leaving you on the sidelines?

Simply refusing to engage in corruption is not enough. While managers and employees will be able to uphold a company's internal ethical standards by not giving bribes and accepting favors in return, nothing prohibits less ethical competitors from taking advantage of the situation. Therefore, a sincere effort on the part of the private sector is required to curb corruption in developing countries. Doing so requires looking at corruption as a symptom of a problem not a problem in itself.

Corruption results from institutional deficiencies. It prospers in environments where the rule of law is lacking, regulations are opaque, enforcement mechanisms are weak, government officials have excessive discretionary powers, accountability mechanisms are absent, and the media is heavily restricted. To remain ethical and to uphold industry standards, companies need to address the institutional deficiencies that sustain corruption and threaten the implementation of codes of conduct. The same institutions are responsible for strengthening free markets and creating democratic societies where citizens can enjoy the responsible initiatives of business.

The benefits of good corporate citizenship are not one-sided. In emerging markets, businesses, particularly factories and industries involved in western market supply chains, are realizing benefits from corporate citizenship-based initiatives, with quantified improvements in infrastructure and processes, market access, productivity, and risk management. As social responsibility can prove to be a barrier to development in regions that do not have the capital, technical ability, or the level of development to raise their standards to comply with international codes and guidelines regarding environment and labor practices, there are efforts to help the developing world raise their standards and become more competitive by supplying them with the funds and technical expertise to design and develop programs that address their corporate citizenship issues. For example, an initiative by the World Bank called the CSR Practice Work Program implements a trust-funded technical assistance project.

Conclusion

In today's competitive business environment, businesses are not solely economic entities. The success of today's business doesn't depend only on its ability to find the most efficient way of converting inputs into goods and services, but also its ability to address social concerns. And there are a number of studies that illustrate a direct link between a business's social record and its financial performance.

The need for good corporate citizenship systems applies to all firms. It doesn't matter if you are a multinational corporation or a small local company, if you operate in the developing markets or in the developed countries, if you manufacture toys or provide financial services. No matter what kind of company you are, to succeed you have to create a pleasant and fair working environment for your employees, address the concerns of your customers, be an active player in your community, and help governments and NGOs build better societies and stronger markets.

Being a good corporate citizen must go beyond philanthropy and cause marketing. To be successful in addressing the concerns of various stakeholders, systems and policies have to be internalized and must become part of company's culture and everyday operations. Good corporate citizenship policies can lead business to prosperity, yet at the same time help develop better societies, protect human rights, and facilitate the development of nations.

Globalization has redefined the rules of competition, behavior of markets, and communication strategies. But it has also redefined the way companies operate and the role business plays. Due to globalization, industries are no longer confined by the traditional boundaries. As markets spread and open up, competition evolves as well. Multinational companies increasingly play a key role in defining markets and influencing the behavior of a large number of consumers who buy their products, the localities where they do business, and the governments who desire their presence for creating jobs and investment. But just as the influence of corporations on consumers, environments, and governments has evolved, expectations of their responsibility to societies and governments have evolved as well. Corporations are expected to put forth measures to help countries build better markets and stable political environments that rest on a foundation of strong institutions.

(*CIPE Authors: Aleksandr Shkolnikov, Global Program Officer, John Leachman, Research Assistant, John D. Sullivan, Ph.D., Executive Director. ***We are grateful to the CIPE for permission to publish this article.)***

INDO-NIGERIAN TRADE

Exploring The New Silk Road

*** By Toni Kan-Onwordi**

A recent report emanating from the World Bank has underlined the great economic potentials inherent in the burgeoning trade between the African continent and the sub-continent of India as well as Asian giant and emergent World economic and political super power, China.

The report entitled “Africa’s Silk Road: China and India’s New Economic Front” documents the future prospects of the growing trade alliance between Africa and China which is the world’s fastest growing economy as well as India which is setting the pace in the sub-continent and beyond. The study makes clear that with China and India in the lead, Asia now gets 27% of Africa’s exports, triple the amount in 1990. It also shows that Asian exports to Africa are now growing at 18% per

annum, faster than any other global region.

What the report also points to is a critical drawback to African nations' ability to reap commensurate gains from this business alliance. To mitigate this drawback, the document recommends that China and India's tariffs on African exports should be eliminated.

This request may not seem important at the present time since African exports to Asia constitute only 1.6% of what Asians buy from the rest of the world, while China and India's African purchases total only 13% of Africa's total exports. But the potentials for growth are there especially when you consider the vast difference between the new trade alliance and what transpired in the past in Africa's former dealings with the Northern hemisphere in which Africa was no more than a supplier of raw materials and importer of finished goods. But things are changing as Harry Broadman, the author of the report who is the World Bank's Africa Region Economic advisor, points out. According to him, "This new 'Silk Road' potentially presents to Sub-Saharan Africa home to 300 million of the globe's poorest people and the world's most formidable development challenge - a significant, and to date, rare, opportunity to hasten its international integration and growth."

This growing South-south alliance positions Africa differently because it extends the continent's customary role as a hub for trade and investment in natural resources and positions it as "a processor of commodities and a competitive supplier of labour-intensive goods and services to Chinese and Indian firms and consumers."

• *A bubbling indian boutique*

Non- Oil Imports from India, China and Asia (Naira [million]) 2002 - 2005

COUNTRY	2002	2003	2004	*2005*
Asia (excluding Japan)	343,721.04	476,728.22	453,940.10	573,373.14
India	76,786.21	121,365.93	94,928.84	125,556.16
China, P.R	93,733.23	178,719.14	187,307.16	251,112.32

Source: CBN & R&EIG

Oil Export to India, China and Asia (thousand barrels)

COUNTRY	2002	2003	2004	*2005*
Asia (excluding Japan)	170,509.0	153,187.6	176,284.3	144,755.5
India	86,026.9	79,469.4	92,422.2	94,453.1
China, P.R	2,848.9	3,447.2	8,752.5	9,269.0

Source: CBN & R&EIG

This report is significant in many respects as we consider the trade relations between India and Nigeria. First, let us consider the reference to the Silk Road. "The Silk Road or Silk Route was an interconnected series of routes through Southern Asia traversed by caravan and ocean vessel, and connecting Chang'an (today's Xi'an), China, with Antioch, Asia Minor, as well as other points. It extends over 8,000 km (5,000 miles). Its influence carried over into Japan and Korea. These exchanges were significant not only for the development and flowering of the great civilizations of China, ancient Egypt, Mesopotamia, Persia, India and Rome but also helped to lay the foundations of our modern world. Silk road is a translation from the German Seidenstraße, the term first used by German geographer Ferdinand von Richthofen during 1877."

The Silk Road refers, therefore, to a new era of prosperity in relation to the trade between Africa on the one hand, and China and India on the other hand.

What does the Silk Road portend for Nigeria? To answer this one must consider trade between Nigeria and China and India. Trade between Nigeria and the Asian countries has been on the rise. Statistics available from the CBN indicate that non oil imports from Asia (excluding Japan) grew by 67% from N343bn in 2002 to N573bn in 2005. Specific non-oil imports from China recorded a more significant growth of about 63% from N93bn to N251bn in 2005. Oil exports to China for the period also reflected the same growth moving by about 228 % from N2.8bn in 2002 to N9.2bn in 2005.

Trade between India and Nigeria has been no less dramatic. Non-oil imports from India to Nigeria grew

by 64% from N76.7bn in 2002 to N125.5bn in 2005. Oil exports to India for the corresponding period recorded a 290% growth from N17.9bn to N69.9bn. Oil exports to India stood at N712bn at end of 2005.

India is gradually emerging as an A-list trading partner to Nigeria as the figures point to with the balance of payment tilting in Nigeria's favour due specifically to large Indian imports of crude oil. The reason for the present trade reality is easy to see. In the last couple of years, India has emerged among Nigeria's top 7 trading partners, competing against the US, UK, China, Germany, Brazil, and Italy. Nigeria has also emerged as India's biggest trade partner in Africa. This blossoming trade relationship is best appreciated in the light of resumption of direct flights between Lagos and Mumbai. Direct flights between India and Nigeria resumed in June 2005 when Bellview Airlines flights commenced between Lagos and Mumbai (formerly known as Bombay).

It is significant to note that trade between India and Nigeria is not a recent development. The Indo-Nigeria relationship began before Nigeria became an independent country when India established a diplomatic mission in Nigeria in 1958.

The first Indian company, K. Chellarams opened shop in 1923. Since then, other Indian companies have set out deep roots in the Nigerian economy cornering sizeable and very valuable market shares in sectors as diverse as textiles, chemicals, electrical equipment, pharmaceuticals, plastics, fishing etc.

A document released by the Indian high commission emphasizes areas of mutual interest for both nations by noting that "Both countries have been in the forefront of the worldwide anti-colonial and anti-apartheid struggle. Similarities in colonial struggle, ethnic diversity and geo-political situation have created affinity and mutual goodwill between the two countries. Both India and Nigeria are members of UN, NAM, G-15, G-77 and the Commonwealth and have collaborated at various international organizations. Both share common perspectives on international political, social and development issues and these have manifested in various meetings at UN, WTO, etc.

With a population of almost 150 million, Nigeria offers a huge market for Indian products, making her India's largest trading partner in Africa with annual bilateral trade turnover in excess of US$ 3 billion.

In terms of import and exports, Nigeria remains the major African importer of Indian pharmaceuticals. Other imported items include machinery and mechanical appliances, electrical machinery and equipment, rice, automobiles, iron and steel, cereals, plastic and rubber, paper and paper products and cotton textiles. India's major imports from Nigeria on the other hand remain Crude oil, metal scrap, wood, cashew nuts, iron and steel with crude oil accounting for 96% of Indian imports from Nigeria following an MOU in May 2005 between the NNPC and Indian Oil Corporation (IOC) sealing a deal to supply 40,000 BPD to IOC.

India's interest in Nigeria's oil extends well beyond buying of crude. It is basically three pronged encompassing: crude purchases, equity participation in the upstream sector as well as in refineries. A November 2005 visit by an Indian Government delegation reaped a number of long

Comparative Indices: Nigeria & India

	NIGERIA	INDIA
GDP (purchasing power parity):	174.1 billion (2005 est.)	$3.611 trillion (2005 est.)
GDP (official exchange rate):	$77.33 billion (2005 est.)	719.8 billion (2005 est.)
GDP - real growth rate	6.2% (2005 est.)	7.6% (2005 est.)
GDP - per capita (PPP):	$1,400 (2005 est.)	$3,300 (2005 est.)
GDP - composition by sector	agriculture: 26.9% industry: 48.7% services: 24.4% (2005 est	agriculture: 18.6% industry: 27.6% services: 53.8% (2005 est)
Inflation rate (consumer prices	12% (2005 estimate)	4.2% (2005 est.)
Public debt	11% of GDP (2005 est.)	53.8% of GDP (feder al and state debt combined) (2005 est.)
Oil - production	2.451 million bbl/day (2005 est.)	785,000 bbl/day (2005 est.)
Oil - consumption	310,000 bbl/day (2003 est.)	2.32 million bbl/day (2003 est.)
Debt - external	$28.28 billion (2005 est.)	$125.5 billion (2005 est.)

Source: CBN & R&EIG

• *A garlanded Indian bride*

term economic benefits for both nations. An MoU was signed between the Nigerian Government and an Indian company ONGC-Mittal Energy Ltd (OMEL) for a US$ 6 billion oil-for-infrastructure deal. Under the terms of the MoU, ONGC-Mittal Energy Ltd (OMEL) will source for 450,000 BPD of equity oil and 200,000 BOPD per day equity gas [totaling 650,000 BPD oil + oil equivalent and gas - equivalent to 32.5 MT] per year over 25 years. On its part, India will assist Nigeria in the establishment of a 2000 MW thermal power plant, set up a refinery and upgrade Nigeria's moribund railway infrastructure. On May 19 2006, OMEL was awarded two oil blocs.

Networked Readiness for Nigeria, India and Select Countries

COUNTRY	NETWORKED READINESS INDEX 2004-2005	NETWORKED READINESS INDEX 2003-2004
Singapore	1	2
United States	5	1
South Africa	34	37
India	39	45
Nigeria	86	79

Source: CBN & R&EIG

There have also been significant developments in the upstream sector. An Indian company, ONGC Videsh (OVL) won a 15% stake in Block II of the Joint Development Zone (JDZ) of Nigeria and Sao Tome Principe (May 2005). OVL is also exploring the possibility of acquiring some oil blocks in Nigeria.

With the ink barely dry on a May 2005 agreement for the NNPC to supply 40,000 bpd of crude oil to the Indian Oil Corporations (IOC), the IOC signified its intention to set up a refinery in Edo state. Other Indian companies like Essar are also exploring the refinery option too.

Business process outsourcing has brought an economic boom to India which has emerged as an Information and Communications Technology (ICT) super power. Onshore or near-shore outsourcing is a well-established business phenomenon but outsourcing to an off-shore location is a comparatively recent trend. This new trend was facilitated by the discovery that some of the developing nations are cost effective destinations. This realization made off-shoring to some of these third world countries a profitable proposition for the business giants of the West.

According to Shashank Bhide et al in their paper "Outsourcing of Business Processes: The Indian Experience as an Offshore location", India tops the list with low cost, high quality abundant manpower, which led a few industry majors to experiment with off-shoring of business processes and consumer-related tasks to centers in India. The experiment began with the establishment of

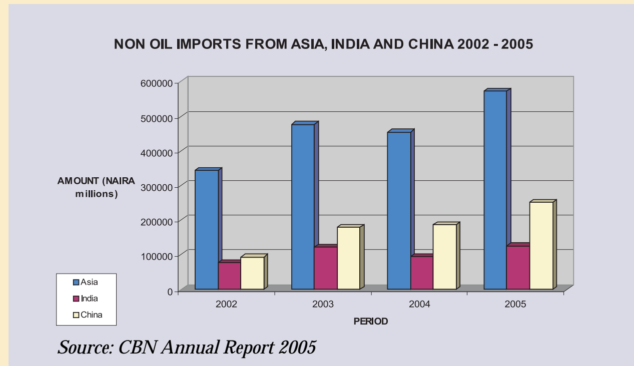
• *A busy street in India*

wholly owned subsidiaries by the likes of GE and British Airways. There has been no turning back since then. Third party players then started investing in the market with the backing of venture capitalists and met with considerable success."

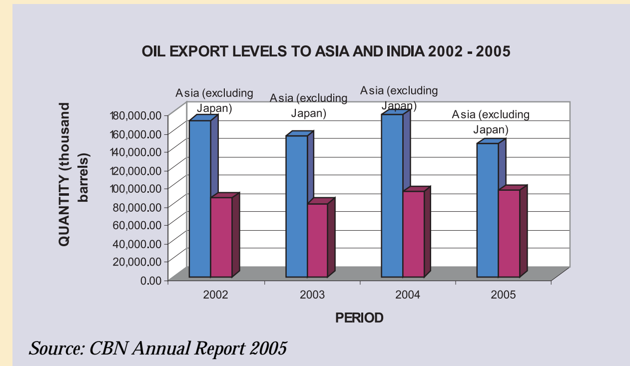
India's revenue from Business Process Outsourcing (BPO) and Information Technology Enabled Services (ITES) points to the huge potentials inherent in the BPO and ITES sectors. Sofware and services export reached US12.2bn between 2003 and 2004 showing a 30.5% increase over the $9.6bn figure recorded in 2002 and 2003.

Available statistics also show that the Indian BPO/ITES sector grew at a rate 0f 52.3% during the 2003-2004 period and projections estimate that the Indian BPE/ITES industry will generate revenue in excess of $62bn between 2008 and 2009.

Nigeria is a major contributor to the Indian ICT sector as evident from existing agreements between major Indian IT companies like Infosys, Satyam, NIIT, and Aptech with local companies and banks to set up training institutes and to promote their products in Nigeria.



Source: CBN Annual Report 2005



Source: CBN Annual Report 2005

Another key sector in which Nigeria and India has forged a strong tie is in the area of steel manufacturing. It has taken the expertise of Indian steel major and Mumbai-based Ispat Group of Companies which was formed in 1985 to turn around the almost comatose state-owned Ajaokuta Steel Plant. Ajaokuta is now back on its feet thanks to the management acumen brought to bear on its operation by Ispat's Nigerian subsidiary Global Infrastructure Nigeria Limited.

The subsisting technical management agreement provides for the Indian company to rehabilitate, operate and manage the steel plant complex for the next 10 years. The plant which was built by a Russian firm in 1984 at an estimated US$ 4 billion has been refurbished and production has commenced with imported billets.

In February 2005, Delta Steel Company, Aladja as well as the Itapke Iron Ore Mining Company were handed over by the Federal Government to the Ispat Group while another Indian steel company Bhushan Steels is concluding discussions towards setting up a steel rolling mill in Otta, Ogun State.

As the future beckons, trade between Nigeria and India is sure to continue to blossom as the new deals mature and more are consummated. And Nigeria's interaction with India is also expected to help the country reap huge dividends as she attempts to bridge the debilitating digital divide by pointing her to the path of success.

(*Toni Kan Onwordi is the Deputy Editor, Zenith Economic Quarterly)

Third World
And the Foreign Debt Albatross
Which Way Out?

*By Eunice Sampson

External debt is defined as the total public and private debt owed to nonresidents repayable in foreign currency, goods, or services. External debt is a borderless, universal problem that is not common to any particular country or region. All nations of the world are indebted to a greater or lesser extent. The 20 most indebted countries are actually the highly developed economies, even though it is in the Third World that the impact of debt burden is most felt. The reasons for this are glaring: aside from the prevalent poverty, low industrial productivity and paltry export earnings, the burden of the usually dollar-denominated debt is compounded by high exchange and inflation rates which are usually unfavourable to the developing economies.

Third World Debt Profile

Ideally, Third World debts should derive their origin from the quest to source funds to put in place basic social amenities for their citizenry, such as electricity, dams, railways, highways and far-reaching industrialisation projects that could create job opportunities. While this is true in some cases, in some others, external borrowings are actually undertaken to fund the repression of civil uprisings or to build armouries that would deter or ward off foreign invasions. In yet other cases, corrupt political leaders and military dictators use

the names and seals of their home countries to borrow for self-enrichment in the guise of executing wide-elephant projects which make no impact on the lives of the ordinary people.

For whatever reasons, foreign debt has since the early 1980s become a channel through which scarce foreign exchange from the impoverished South is siphoned to the already super-rich North.

For some developed economies, especially of Europe, Third World lending has become a highly lucrative business venture – an increasingly parasitic rather than symbiotic economic relationship. The huge Third World debt has accelerated widespread poverty in the lands. Much of the resources that would have been used for the provision of basic public needs like health, education and the fight against HIV/AIDS are diverted to the servicing and repayment of unsustainable debts. This is especially true of the African continent whose total debt of $300bn is so large compared to its GDP that it just cannot be repaid without decimating its over 900 million, mostly impoverished population.

The table below shows the magnitude of the debt burden weighing down most developing countries, especially when viewed vis-à-vis their purchasing power parity and external reserve. As the table shows, some countries' debt burden is over 50% of their GDP.

S/N	Country	Debt ($US Billions)	Year	Position in ranking of world most indebted economies	GDP - PPP ($US Billions)	External Reserve ($US Billions)
1.	**China**	242,000	**2005 est.**	**19th**	9,412,361	941 (2006)
2.	Brazil	211,400	**June 2005 est.**	**22nd**	1,576,728	227 (2006)
3.	South Korea	188,400	June 2005 est.	23rd	994,399	
4.	Indonesia	140,600	2005 est.	26th	977,419	34.5 (2005)
5.	India	119,700	2005 est.	28th	3,633,441	166 (2006)
6.	Argentina	119,000	June 2005 est.	29th	533,722	
7.	Iraq	82,100	2005 est.	30th	94,100	9 (2005)
8.	Taiwan	81,640	2005 est.	31st	631,220	261 (2006)
9.	Israel	73,870	June 2005 est.	34th	158,350	28 (2005)
10.	Malaysia	56,720	June 2005 est.	37th	290,683	70.2 (2005)
11.	South Africa	44,330	June 2005 est.	40th	570,190	21(2005)
12.	Saudi Arabia	34,550	2005 est.	46th	351,996	
13.	Egypt	28,950	June 2005 est.	53rd	305,255	21.3(2005)
14.	Singapore	24,670	2005 est.	56th	123,441	130 (2006)
15.	Algeria	21,540	2005 est.	57th	237,684	56 (2005)
16.	Tunisia	18,910	2005 est.	62nd	83,673	
17.	Iran	16,940	2005 est.	66th	554,775	45.4 (2005)
18.	Morocco	15,600	2005 est.	67th	135,742	16.4 (2005)
19.	Cote dIvoire	13,260	2005 est.	71st	27,478	1.4 (2005)
20.	Angola	9,879	2005 est.	80TH	43,362	3 (2005)
21.	Cameroon	9,223	2005 est.	82nd	43,196	1 (2005)
22.	Kenya	7,349	2005 est.	90th	48,334	1.7 (2005)
23.	Ghana	7,084	2005 est.	91st	55,203	2 (2005)
24.	Zimbabwe	5,170	2005 est.	100th	30,581	0.16(2005)
25.	Libya	4,267	2005 est.	107th	67,244	39.7 (2005)
26.	Togo	2,000	2005 est.	131st	9,369	
27.	Sierra Leone	1,610	2003 est.	137th	4,921	
28.	Benin Republic	1,600	2000 est.	138th	8,747	0.7 (2005)
29.	Chad	1,500	2003 est.	139th	13,723	0.3 (2005)
30.	Haiti	1,300	2005 est.	144th	1,700	0.1 (2005)
31	*Nigeria	4,847	July 2006 est.	99th?	173,765	40 (2006)

**Nigeria has settled the over $30bn it owes its major creditor, the Paris Club. It now owes an estimated* $4.847bn, *mostly to the London Club. If ranked today, Nigeria would improve from its 44th position on the list of the world's most indebted countries as at 2005 to about 99th-100th, a remarkable improvement*

Today's Debt Management Strategies

Essentially, the objective of any debt management strategy is to reduce the cost of debt service, including interest payments and outright payback, to the minimum possible. Developing countries seek debt relief in order to reduce their debt burden to a sustainable level that would free scarce resources for other priority projects. The more a nation pays for debt management, the less it has to cater for other basic necessities.

Traditionally, the debt management options open to indebted countries would include:

- Outright debt forgiveness/cancellation
- Outright debt repayment
- Debt rescheduling
- Debt servicing
- Debt trading
- Debt buyback arrangements

In today's uni-polar world, developing countries find it increasingly difficult to negotiate, as they are more at the mercy of powerful nations who are united in their resolve to get their debts repaid at whatever cost to the impoverished economies. This is why creditor nations have come together to form cartels such as the 'Paris Club', to enable them speak with *one voice* in the demand for the repayments of their credits.

But the question for most developing countries is whether they have the economic muscle to sustain external debt servicing while also struggling (and at times borrowing more) to sustain public infrastructure development and sector reforms, which are essential for the attainment of the Millennium Development Goals.

The ultimate aspiration of every Third World nation is therefore to secure 100% debt cancellation. Several groups have emerged in the global stage lending their voice to

the urgent need for outright forgiveness of all Third World debts.

In all fairness, the developed economies have paid *lip service* to the need to cancel debts owed by the world's poor nations. Far-reaching, practical demonstrations of such verbose declarations are however yet to be seen.

In 1999, the G8 in their Summit in Cologne agreed to write-off up to $100bn of Third World debt in line with the Highly Indebted Poor Countries (HIPC) initiative. Close to a decade after this resolution, only a small percentage of the world' poor countries have benefited from it.

In the G8 Summit of July 6-8, 2005 which held in Gleneagles, Scotland, the developed countries yet again pledged debt forgiveness which was greeted in most quarters as grossly inadequate. The influential group of eight also promised up to $50bn in aid to the poor countries, to be disbursed over ten years.

On June 11, 2005, an agreement was reached to write off the entire $40bn debt owed by 18 HIPCs to the World Bank, the IMF and the African Development Fund. Another 20 underdeveloped economies with a debt of $15bn would be considered eligible for debt relief if they met conditions such as fighting corruption and putting in place structural adjustment programme, that would liberalize their economies, eliminate government subsidies, and reduce budgetary expenditures. But such economic measures have been known to drag some of these developing countries into more complex economic woes. Zambia in the 1980s and early 1990s was compelled to undertake massive budgetary cuts on health, education and child immunization initiatives, a move that for several years deprived the Zambian people of welfare packages that their counterparts in Europe and America take for granted.

In the drive to manage their debts to sustainable levels, Third World economies are continually at the mercy of their wealthy bilateral creditors and even the multilaterals which directly or indirectly are also under the tight control and influence of the rich bilateral creditors.

Debt Management Experiences from Select Economies

Guyana – From the late 1980s, Guyana made series of attempts to manage its debt profile to a sustainable level. It entered into rescheduling agreements with its bilateral creditors, including the Paris Club which was its main creditor.

Guyana's accumulated stock of arrears and debt service payments were consolidated and rescheduled on non-concessional terms with 20 years maturity, including 10 years of grace, for medium- and long-term debts. Short term debts were also capitalized with 10 years maturity, including 5 years of grace.

In 1990, Guyana was extended some relief by the Paris Club under the Toronto terms in which the participating creditor countries offered three options. "First, 33% of debt service obligations were written off and the remainder consolidated at market rates of over 14 years, including 8 years of grace. Second, 100% of the debt service was extended over a period of 25 years, including 14 years of grace. Third, 100% of the debt service was consolidated at preferential rates with a repayment period of 14 years, including 8 years grace".

Guyana, in addition secured debt forgiveness from some countries including Canada, the United Kingdom, the United States, Netherlands and Brazil, saving over $342 million in the process. The World Bank through the IDA Debt Reduction Facility also provided Guyana with US$11

million to buy back commercial bank debts of U$94 million.

In May 1996, Guyana received a stock of debt reduction from its Paris Club creditors. Under the "Naples terms," Guyana received a 67% debt cancellation from the Paris Club, and an additional $110 million in a "topping-up" of previously rescheduled debts. The total debt relief for Guyana as a result of the May 1996 agreement is estimated at $585 million.

Consequently, the share of Guyana's bilateral debt fell from 43% to 22% of the total, while the share of multilateral debt increased from 40.9% to 56.4%. Guyana has been lucky in securing bilateral debt treatment that is considerable relative to its debt size, and without much of the stringent economic side-effect that goes with most debt concession deals.

Argentina – But Argentina was not so lucky. Beginning in the mid-1990s, Argentina went through economic crises culminating in a recession from 1999 to 2002. Economic analysts around the world blamed Argentina's woes on the IMF which placed the country under series of complex structural adjustment measures that are believed to have crippled the economy in the name of debt-restructuring.

The debt restructuring process was long, complex and tedious. At the end, Argentina offered a steep discount on its obligations (approximately 70%) and finally settled the matter with over 76% of its defaulted creditors, excluding the IMF.

For some developed economies, especially of Europe, Third World lending has become a highly lucrative business venture – an increasingly parasitic rather than symbiotic economic relationship. The huge Third World debt has accelerated widespread poverty in the lands.

In December 2005, Argentina decided to liquidate its debt to the IMF in a single payment, without refinancing, for a total of $9.81bn. The payment was partly financed by Venezuela, who bought Argentine bonds for $1.6bn.

In May 2006, Argentina reentered international debt markets selling US$ 500 million of its Bonar V five year dollar denominated bonds, with a yield of 8.36%, mostly to foreign banks. The country's debt rating (Moody's) rose, from B- to B. As at January 2006, Argentina's public debt was put at $124bn (69% of GDP) and with no hope of debt forgiveness in sight.

Haiti – Haiti is the most impoverished country in the Americas; 80% of its population lives in abject poverty and one out of nine children die before reaching their fifth birthday. Average life expectancy in the country is 53 years and nearly half the population is illiterate. Under the grip of political dictatorship, the country's debt skyrocketed over time. In 2005, the country's total external public debt reached $1.3bn with a GDP (PPP) of $1.7bn and an external reserve of $100 million.

Haiti's legacy of debt began shortly after gaining independence from France in 1804. In 1825, the French government demanded that Haiti compensate it for France's recognition of Haiti as a sovereign republic. France demanded payment of 150 million francs (modern equivalent of $2bn). Haiti was forced to choose between paying this exorbitant sum, which was about five times its annual export revenue, or facing a bloody combat with the French military troop.

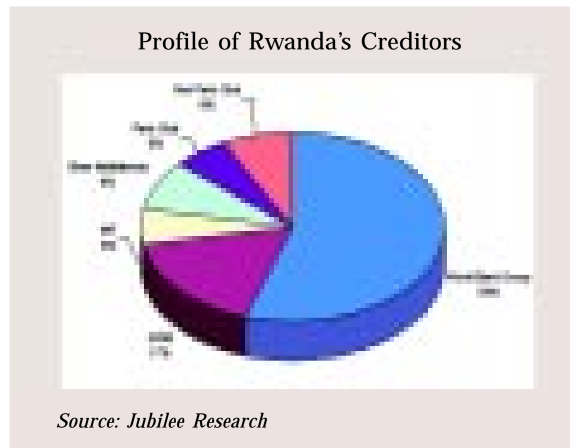
This enormous debt exacted considerable toll on the upcoming economy. And so, instead of investing in infrastructure and the provision of social services, the Haitian government was compelled to send all available cash to France, culminating in a heavy debt burden the country is yet to recover from till date.

Past Haitian leaders also contributed to the miserable debt situation. About 45% of the country's current external debt was incurred by years of father-to- son dictatorship (the *Duvaliers* regime) and corrupt self-enrichment. Not only did these loans fail to benefit the Haitian people, the consequent debt service payments continue to cost the country millions of dollars that could be better spent on the provision of basic human needs.

The dream of all Haitians today is to secure immediate

and complete debt cancellation from all its creditors. In April 2006, Haiti was added to the World Bank and IMF's list of Highly Indebted Poor Countries (HIPC) eligible for cancellation of debt owed to the multilaterals. Ironically however, from the conditions specified, Haiti will not qualify for cancellation until December 2009 at the earliest – by which time the country will have paid $220 million in debt service, scarce resources that would have gone into alleviating the abject poverty in the land, and which would have enhanced the country's chances of meeting the much-preached about MDGs.

Profile of Rwanda's Creditors



Source: Jubilee Research

Rwanda – Rwanda is rated in the list of the 20 poorest countries in the world with about 90% of the population engaged in mainly subsistence agriculture for a living. Primary foreign exchange earners are coffee and tea.

The history of Rwanda, since its independence from Belgium in 1962 has been dominated by ethnic conflict between the Tutsi and the Hutu, culminating in the 1994 genocide in which an estimated 800,000 Rwandans were killed. The conflict further depleted the Rwandan economy, severely impoverished the population with millions of women and children displaced.

Rwanda's heavy indebtedness is the result of domestic policy failings and external factors beyond its control. Much of the country's external borrowings in the 1980s and 1990s went into managing its civil conflicts.

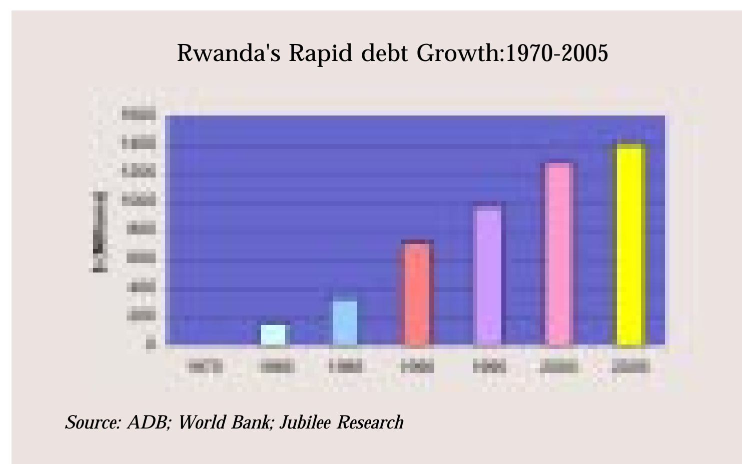
During and immediately after the civil conflicts, Rwanda received significant aid from many donor nations. At a time, 80% of its foreign exchange inflow came from foreign aids (mostly from France and Belgium), though this has since dropped to about 30%. But at the same time, its external debt was pilling up, rising from about $150million as at 1980 to $1.1bn in 1998. This was to rise further to $1.4 billion in 2004, while its export revenue for that year was a mere $89.5 million, with a GDP of $1.5bn.

Rwanda has since the late 1980s and 1990s spent an average of 35% of its export earnings on debt servicing annually. As part of its debt management strategy, Rwanda negotiated and benefited from some debt rescheduling arrangements from its creditors. In July 1998, 67% of the country's debt to the Paris Club was rescheduled according to the Naples terms. This brought only temporary relief especially since its bilateral debt is relatively small, at only 16%. The bulk is owed to the multilaterals.

In the name of loan concessions, the World Bank and IMF had since 2000 put Rwanda through series of stringent economic adjustment exercises. The local currency was devalued; restrictions were placed on imports and subsidies; protection of local producers was lifted. As a result inflation grew at an unprecedented rate, export earnings fell by half, since the local food producers could not compete with the low prices offered by the highly-subsidized US and European producers.

In April 2005, the IMF and World Bank agreed that Rwanda had taken sufficient economic steps to reach the *Completion Point* under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), the 18th country to achieve that feat. This entitles it, in nominal terms, to a total relief from all its creditors for its debt estimated at $1.4bn. By implication, in the first ten years after the Completion Point, Rwanda would save approximately US$48 million annually in debt service costs. But whether a debt write-off of a meagre $1.4bn was worth the years of stringent economic control measures is debatable.

Rwanda's Rapid debt Growth:1970-2005



Source: ADB; World Bank; Jubilee Research

Rwanda today is in urgent need of total debt write-off as millions of children die of hunger and curable, preventable diseases. Many children of school age are unable to go to school. HIV/AIDS spread is on the rise in that coun-

try.

Prior to the genocide, Rwanda was a relatively stable African economy whose human-development indicators were better than the regional average.

But there's still hope for Rwanda after all. The country's average annual economic growth rate since 1995 has been a steady 9%, one of the highest growth rates in the world. Its construction industry has been growing at an annual rate of 21%.

Like other Third World nations, Rwanda desires and deserves immediate and complete debt write-off from all its creditors. This would go a long way in complementing government efforts at alleviating the poverty and squalor in this economy.

The Nigeria Model – Worth Emulating?

Nigeria is the most populous African nation and rated as one of the poorest countries in the world, despite its huge crude oil reserves. Nigeria's debt was accumulated during three decades of military dictatorship with most of the foreign exchange earnings siphoned out of the country and deposited in foreign bank accounts.

Growth of Nigeria's Debt Burden: 1970 - 2006

Source: CBN, Debt Management Office, Research & EIG

As at December 2005, Nigeria had about $36bn in external debt, over 14% of Africa's total debt, and most of it was owed to the Paris Club of creditors. More than half of the Paris Club debt is owed to Britain, France, and Germany. Nigeria owed the Club $30.8bn, comprising an outstanding principal of $25.1bn and arrears of $5.6bn.

Nigeria's debt has grown by about 400% since the 1980s, and bilateral debt has grown by 3,350% within the same period. Half of the growth is a result of arrears and penalties; the other half from export credits.

Since 1980, debt servicing has taken much of the budgetary portion hitherto reserved for education and health. For example, spending on education has dropped from 4% to 1.3%; while debt servicing spending has increased from 1.9% to 8% per GNP, despite the fact that Nigeria was only servicing its huge debt in parts.

Saddled with infrastructure decay, falling life expectancy with 2.6 million HIV/AIDS victims ;rapidly falling standard of education; high unemployment rate and with over 100 million of its population living on less than a dollar a day, it had long become obvious that Nigeria's debt burden was unsustainable.

Since the return to democratic rule in 1999, the country has fought hard to secure significant debt relief, to no avail. Nigeria was originally classed as a HIPC but in August 1998, the IMF and World Bank took it off the list. By implication, the country was not qualified for debt forgiveness.

Now, the debt albatross off the neck of the Nigerian people, government would be saving almost $1bn annually from debt servicing, a significant sum which could be channeled into the provision of the much needed basic amenities to the people.

With these realities facing it, the Nigerian government became desperate to exit from the costly burden of the Paris Club debt. The outcome of the G8 summit in July 2005 was another indication that the West was not yet ready for a significant forgiveness of Third World debt. That year, the Nigerian parliament analyzed the history of the country's debt burden and threatened debt repudiation if the creditor nations remained unwilling to negotiate.

Following a series of discussions with all stakeholders championed by the then Nigeria Minister of Finance, Dr. Ngozi Okonjo-Iweala, the Paris Club agreed to a 'framework' for reducing Nigeria's debt which involved two steps. First, Nigeria has to clear about $6bn in arrears. Then she can negotiate a reduction with the Paris Club on the so-called Naples terms for the remainder, which would include a discounted buyback.

On June 29, 2005, Nigeria reached a new agreement with the Paris Club which saw it gaining $18bn in debt cancellation (about 60% of the total owed the Club) at the price of a $12.4bn repayments (representing regularization of arrears of $6.3bn, plus a balance of $6.1bn to complete the exit strategy) to be effected over a six-month period.

On Monday October 31, 2005, Nigeria paid the first tranche of $6.4bn arrears to the creditors. In April 2006, the balance of $6.1bn was paid, marking Nigeria's exit from the Paris Club debt.

From about $37bn as at 2005, Nigeria's external debt is

today put at about $4.8bn, mostly owed to the London Club. In the last couple of months, the Nigerian government has made efforts to settle the remaining debt and also exit the London Club before the end of the present administration in the second quarter of 2007.

Despite mixed reactions from its citizens about the justification for parting with $12.4bn in the face of abject poverty, global observers of Nigeria's debt deal with the Paris Club have praised the country for *"making the best of a terrible situation". "Nigeria has already paid these creditors $11.6bn in debt service since 1985 and yet the capital continues to grow."*

On the other hand, the Paris Club members have been criticized for taking advantage of an impoverished nation like Nigeria to further enrich themselves. The views of many analysts are that the $30bn debt could have been 100% cancelled. The rich creditor nations could have afforded to let go of the credit without doing any harm to their economies.

The IMF and its role under the Policy Support Instrument (PIS) has also been criticized for *mid-wifing* the repayment of such huge debt with dubious, illegitimate origin:

"This agreement extracts $12.4bn from Africa and transfers it to a group of wealthy countries who do not really need the money,". "It is an outrage that creditors simply plan to use this payment to fill their treasuries. The annual budget of such creditors as Japan and the United Kingdom is over 100 times that of Nigeria. Surely we can do better than taking billions from the world's poorest continent. We expect more from the G8 nations, who promised Africa so much in their Gleaneagles declaration in July"……Dr. Paul Zeitz, Director of the Global AIDS Alliance.

For a country as poor as Nigeria, payment of $12.4bn in six months is quite a huge sacrifice. But the courageous move would also have significant economic impact.

- The country would save about $1bn annually which

would otherwise have gone into debt servicing

- More budgetary allocations would be available for health, education, fight against HIV/AIDS, Infrastructure development, etc
- International credit worthiness rating would improve significantly
- There will be less in the national coffers for corrupt politicians to embezzle
- More will be saved for the development and funding of the productive sector of the economy
- The country would likely enjoy enhanced international goodwill and trust which could increase foreign investment and aids.
- The development, hopefully would serve as useful lessons for current and future leaders on the nuisance of foreign debts and macroeconomic mismanagement.

Nigeria's External Debt Profile (US $billion)

	TOTAL	Multilateral	Paris Club	London Club	Promissory Notes	Others	Exchange Rate (US$ to Nigerian Naira)
1990	33,179.00	3,845.10	17,172.10	5,936.80	4,550.00	1,675.00	8.04
1991	33,364.50	3650.00	17,792.80	5,988.50	4,478.90	1,454.30	9.91
1992	27,544.10	8,518.00	16,433.90	2,120.00	3,246.00	1,226.20	17.30
1993	28,718.20	3,694.70	18,160.50	2,055.80	3,159.90	1,647.30	22.33
1994	29,428.90	4,402.30	18,334.30	2,057.80	3,178.20	1,456.30	21.89
1995	32,584.80	4,411.00	21,669.60	2,045.00	3,148.00	1,311.20	21.89
1996	28,060.00	4,665.00	19,091.00	2,043.00	2,140.00	121.00	21.89
1997	27,087.80	4,372.70	18,980.40	1,612.50	1,612.50	79.20	21.89
1998	28,773.50	4,237.00	20,829.90	2,043.00	1,597.80	65.80	21.89
1999	28,066.90	3,933.30	20,534.30	2,043.20	1,486.80	69.30	85.98
2000	28,273.70	3,460.00	21,180.00	2,043.20	1,446.70	143.80	99.00
2001	28,347.00	2,797.90	22,092.90	2,043.20	1,291.80	121.20	109.00
2002	30,990.00	2,959.90	24,092.90	1,441.80	1,153.20	55.60	120.31
2003	35,920.00	3,040.00	27,470.00	1,440.00	910	50	128.12
2004	35,950.00	2,820.00	30,850.00	1,440.00	780	50	134.29
2005	37,500.00	2,820.00	31,000.00	1,440.00	780	50	136.43
2006	4,847.00	2,700.00	N/A	1,440.00	600	100	127.87

Source: CBN; Debt Management Office, Research & EIG

But the big question is, should other highly indebted Third World nations emulate the Nigerian model of debt exit?

*"....the creditor countries are extracting a pound of flesh in the form of $12bn worth of payments from Nigeria .... **On a more positive note, the deal has set the scene for a more assertive negotiating stance by other indebted developing countries...**" -Sony Kapoor, Senior Advisor, Christian Aid (UK)*

Nigeria's position as an oil-rich nation at a period of record-high oil price, and the unprecedented rise in external reserve (about $28bn as at the time of the repayment) account for the country's daring step. Macroeconomic prudence and government's strong determination to free the country from its huge debt burden are also key factors that expedited the move. It is worth mentioning that Nigeria as at September 2006 had a little over $40bn in external reserve after the $12.4bn debt repayment. Its new reserve level is second in size only to that of Algeria's $56bn on the African continent.

About 2 decades ago, Tanzania's President Julius Nyerere, asked his country's creditors: "Should we really starve our children to pay our debts?"

While the Nigerian model is commendable as a forward looking step, it is certain that very few Third World countries would wish to adopt such an option, and for good reason.

The best option open to Third World countries today is to agitate for outright, total debt forgiveness from all creditor countries. Third World countries are so far away from breaking-even economically that they do not pose any immediate threat to the superpowers who are also the creditor nations. In the same vein, the creditor nations are so rich that forgiving the debts of these poor countries would do no harm to their economic survival. Afterall, over $1 trillion has so far been spent on the war against terrorism.

Debt Albatross and The MDGs

About 2 decades ago, Tanzania's President Julius Nyerere, asked his country's creditors: *"Should we really starve our children to pay our debts?"*

In September 2000, about 189 countries, including 147 Heads of State gathered together at the UN General Assembly to discuss prevalent poverty in the Third World and unanimously adopted the Millennium Declaration – the Millennium Development Goals and targets. The declaration represents a partnership between the developed countries and the developing countries to reduce global poverty by half by 2015.

About the greatest threat facing the realisation of the Millennium Development Goals today is the problem of Third World debt burden. Even the IMF acknowledges that "Low-income countries striving to meet their Millennium Development Goals (MDGs) have large financing requirements". It has been estimated that $45.7bn would be required for 62 countries to meet the Millennium Development Goal. Out of this sum, the Paris Club of developed nations have, through Nigeria's debt buy-back deal, reduced Third World chances of meeting the MDGs by $12.4bn.

The question is: with the debt albatross hanging on the neck of most developing economies, how would these *'large financing requirements'* be met on or before 2015? With an estimated debt burden of over $1tillion for developing countries, and with at least 10% of this going into debt servicing annually, the Millennium development Goals set for 2015 are at best over-ambitious, over optimistic and possibly, unrealistic.

Seven Basic Millennium Development Goals

Goals and Targets		Indicators for Monitoring Progress
Goal 1: Eradicate extreme poverty and hunger		
Target 1	Halve, between 1990 and 2015, the proportion of people whose income is less than $1 per day	1. Proportion of population below $1 (1993 PPP) per day 2. Poverty gap ratio 3. Share of poorest quintile in national consumption
Target 2	Halve, between 1990 and 2015, the proportion of people who suffer from hunger	4. Prevalence of underweight children under five years of age 5. Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education		
Target 3	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	6. Net enrolment ratio in primary education 7. Proportion of pupils starting grade 1 who reach grade 5 8. Literacy rate of 15-24 year olds
Goal 3: Promote gender equality and empower women		
Target 4	Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	9. Ratio of girls to boys in primary, secondary and tertiary education 10. Ratio of literate women to men, aged 15-24 years old 11. Share of women in wage employment in the non-agricultural sector 12. Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality		
Target 5	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	13. Under-five mortality rate 14. Infant mortality rate 15. Proportion of 1-year old children immunized against measles
Goal 5: Improve maternal health		
Target 6	Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio 17. Proportion of births attended by skilled health personnel
Goal 6: Combat HIV/AIDS, Malaria and Other Diseases		
Target 7	Have halted by 2015 and begun to reverse the spread of HIV/AIDS	18. HIV prevalence among pregnant women aged 15-24 years 19. Condom use rate of the contraceptive prevalence rate 19A. Condom use at last high-risk sex 19B. Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS 19C. Contraceptive prevalence rate 20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years
Target 8	Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria 22. Proportion of population in malaria-risk areas using effective malaria proddtion and treatment measures 23. Prevalence and death rates associated with TB 24. Proportion of TB cases detected and cured under DOTS
Goal 7: Ensure environmental sustainability		
Target 9	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	25. Proportion of land area covered by forest 26. Ratio of area protected to maintain biological diversity to surface area 27. Energy use (kg oil equivalent) per $1000 GDP (PPP) 28. Carbon dioxide emissions per capita and consumption of ozone-depleting CFCs (ODP tons) 29. Proportion of population using solid fuels
Target 10	Halve, between 1990 and 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	30. Proportion of population with sustainable access to an improved water source, urban and rural 31. Proportion of population with access to improved sanitation, urban and rural

Source: The United Nations

Multilaterals, G8 and Debt Forgiveness

The debt forgiveness drive by the World Bank and IMF has proven ineffective, more like a ploy designed to buy time.

The HIPC initiative which is the latest and the most applauded debt relief scheme recently introduced by the world bodies was first launched in 1996 with the aim of ensuring that no poor country faces a debt burden it cannot manage. *"The Initiative entails coordinated action by the international financial community, including multilateral organizations and governments, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries"* - IMF.

Exactly ten years later, underdeveloped economies still groan under the heavy burden of unsustainable debt.

The conditions for debt concession are so tedious that very few countries can survive them. For a country to be considered for debt relief in the HIPC initiative for example, that country must:

- *Be IDA-only and PRGF-eligible
- Face an unsustainable debt burden, beyond traditionally available debt-relief mechanisms
- Establish a track record of reform and sound policies through IMF and IDA-supported programs
- Have developed A Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process.

Usually, it takes years of near macroeconomic suffocation before (if ever) a country is certified as having met these stringent requirements.

*(*__World Bank's International Development Association__ (IDA) and IMF's __Poverty Reduction and Growth Facility__ (PRGF))*

List of Countries That Have Qualified for, are Eligible or Potentially Eligible and May Wish to Receive HIPC Initiative Assistance (as of end - August 2006)

Post-Completion Point Countries (20)		
Benin	Honduras	Niger
Bolivia	Madagascar	Rwanda
Burkina Faso	Malawi	Senegal
Cameroon	Mali	Tanzania
Ethiopia	Mauritania	Uganda
Ghana	Mozambique	Zambia
Guyana	Nicaragua	
Interim Countries (Between Decision and Completion Point) (9)		
Burundi	Democratic Republic of the Congo	Guinea-Bissau
Chad	The Gambia	São Tomé & Príncipe
Republic of Congo	Guinea	Sierra Leone
Pre-Decision Point Countries (11)		
Central African Republic	Haiti	Somalia
Comoros	Kyrgyz Republic	Sudan
Côte d'Ivoire	Liberia	Togo
Eritrea	Nepal	

Source: IMF

Debt relief initiatives by the G8 and the multilateral organizations have been criticized for many reasons:

- The number of benefiting countries are infinitesimal compared to the number of countries that actually need debt relief
- The conditions such as the structural adjustment programme are so stringent that the impact on the common man could at times be worse than actually paying off the creditors in the first instance
- Most debt relief offers are only in parts, that is, those owed multilaterals like the World Bank, IMF, African Development Bank. Bilateral debts owed creditor groups like the Paris Club, the London Club, etc are usually not included. Countries like Nigeria, Guyana, etc owe over 75% of their debt to these latter groups
- The problem of ineligibility is a major challenge. The criteria for deciding which countries qualify and which do not are questionable
- Some of the G8 countries sometimes show reluc tance to effect the agreed debt relief packages
- The relief package is almost always inadequate. The 23 African countries now covered by the HIPC Initiative still spend $2bn on debt repayments annu ally. In 2004 Ethiopia with almost half of its population living in extreme poverty, still spent $100m on debt servicing, despite recent $2bn debt relief

However, some improvement (especially in the area of spending on humanitarian needs) has been noticed in the countries that have benefitted from debt concessions. According to the World Bank, public spending on health and education has risen by almost 2% of gross domestic product in countries receiving debt relief. Savings on debt repayments have helped finance free primary education in Tanzania and Uganda, anti-HIV/Aids programmes in Senegal and rural development in Ethiopia.

Conclusion

Third World debt treatments like the HIPC initiative might be convenient, but are they broad enough to cater for the peculiar socio-political and economic situations in each of the indebted countries? Nigeria's debt situation and its ineligibility for concessions under the different debt relief initiatives is a case in point. The country's perceived 'privileged economic status' bestowed on it by its position as the world's 7th largest crude oil producer does not reflect the true state of things. Important socio-economic parameters like high rate of corruption, internal conflicts, and years of oppressive military rule are deliberately ignored.

The world (at least on paper) stands united in its resolve to half global poverty by 2015. But the actualisation of this 'dream' goal must start from somewhere – a determined and sincere effort to forgive the external debt of Third World nations by 100% before 2010.

While billions of US dollars are spent by rich countries annually on fighting real and perceived terrorism as well as global insecurity, it is significant to note that abject poverty is one of the biggest threats to global peace and security in these modern times. As a popular dictum puts it: *"A hungry Man is an Angry Man"*. **Fighting global poverty would be a lot cheaper in the long-run, than fighting the Iraqi war.**

Poverty is the greatest injustice that exists in the world today. Addressing Third World debt burden once and for all would be a win-win situation for all parties.

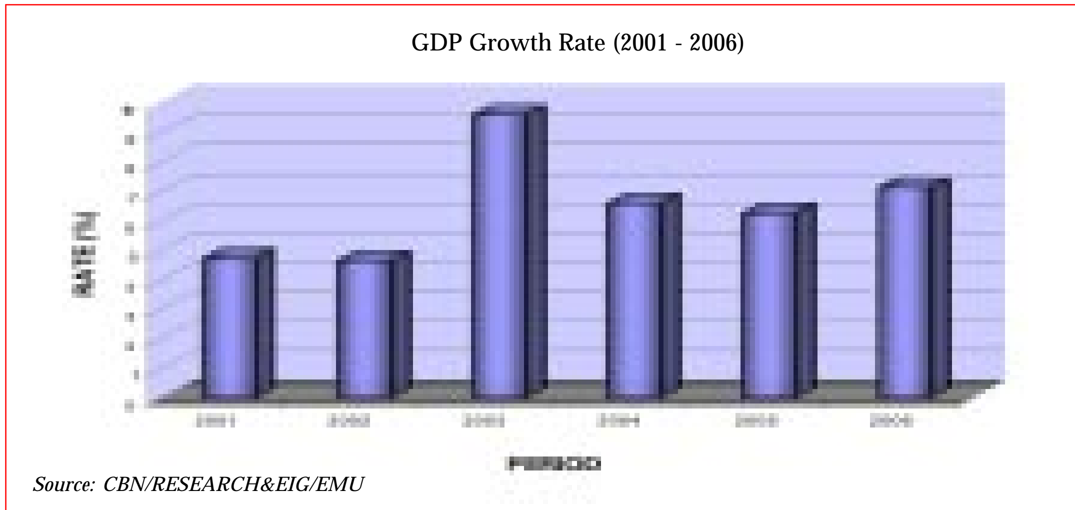
(* Eunice Sampson is the Assistant Editor, Zenith Economic Quarterly)

ZEQ DATABANK

Toni Kan Onwordi

Macroeconomic Environment

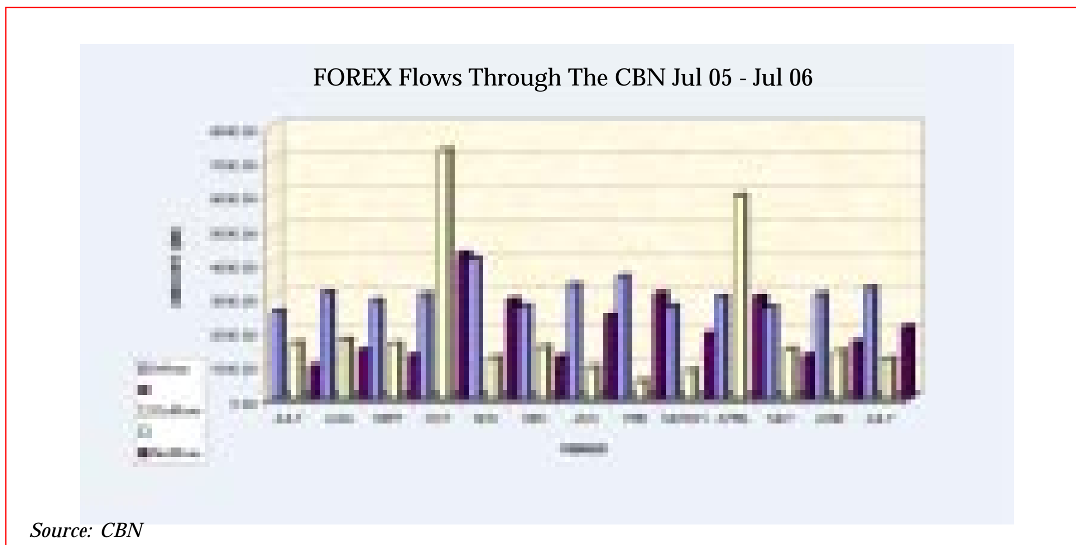
The economy seems to be defying analysts' projections that growth would slow down in 2006 as the CBN announced that GDP growth has risen to an estimated 7.1% by end of Q2 2006. This is an improvement over the 6.2% recorded in 2005. Analysts indicate that the growth may not be unconnected with the stability in the foreign exchange market. Negative projections had been fuelled by the drop in oil prices, oil production and supply disruptions in the Niger Delta as well as rising inflation.



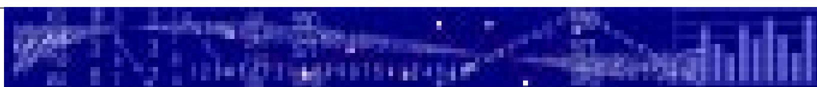
Source: CBN/RESEARCH&EIG/EMU

FOREIGN EXCHANGE MARKET

There was an appreciable increase in Net inflow of foreign exchange for the period which has been attributed primarily to the decline in debt service obligations. Cumulative inflows and outflows through the economy in the first seven months of the year stood at US$34.98 billion and US$12.50 billion, respectively, compared with US$26.42 billion and US$9.98 billion in the corresponding period of 2005. Consequently, the cumulative net inflow stood at US$22.48 billion, compared with US$16.44 billion recorded in the corresponding period of 2005.

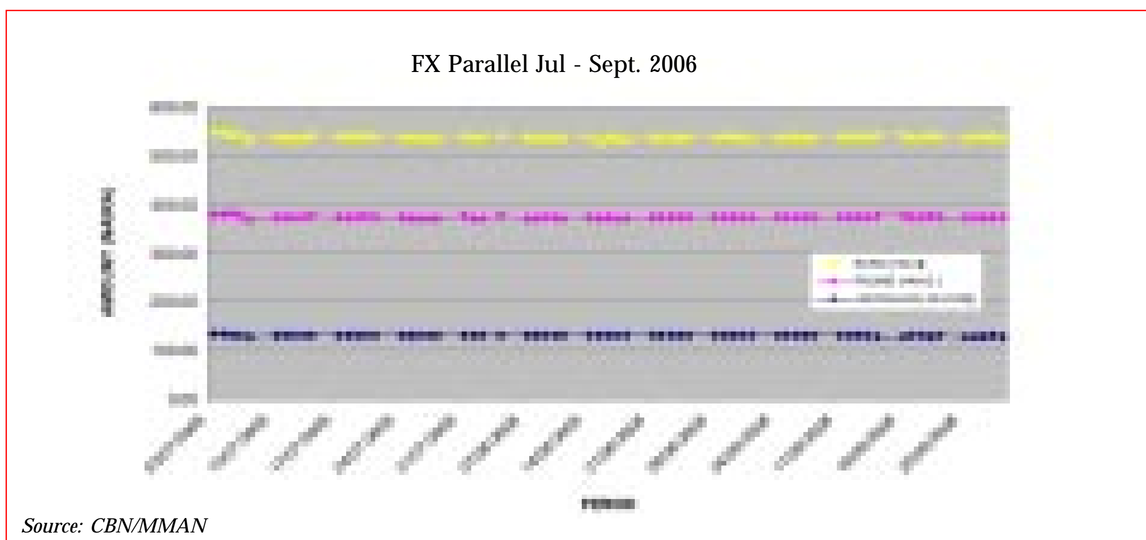


Source: CBN

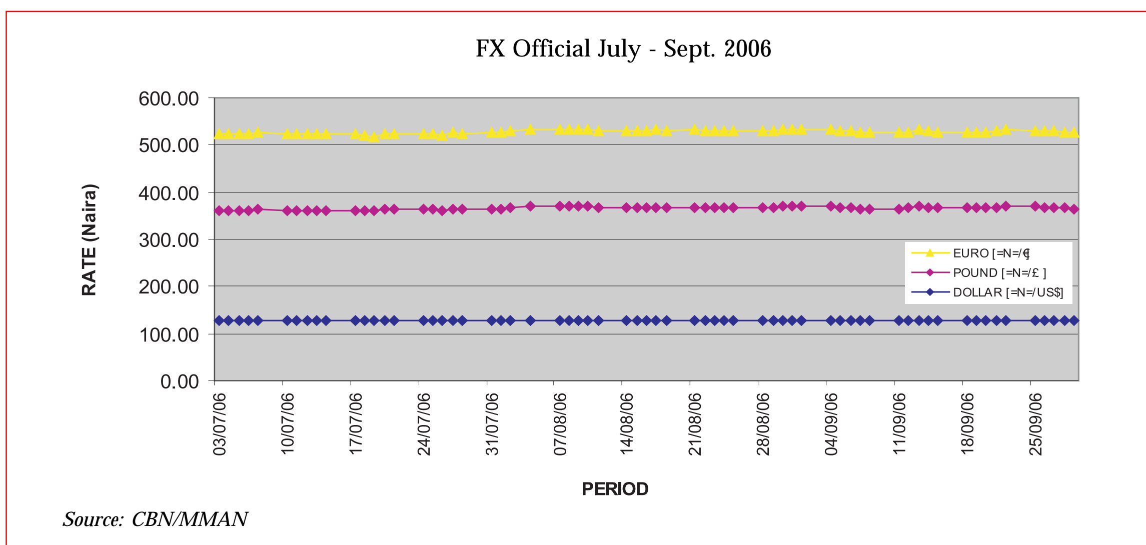


In the quarter under review, the CBN has tried through a number of measures to maintain the exchange rate convergence between the parallel and official markets which has taken years to achieve. This development is a sure validation of the CBN's monetary policy stance as well as its liberalization of the foreign exchange market especially the recent policy change which now allows banks to also operate Bureaux de change.

The target now is to achieve convertibility of the naira against other major currencies while freeing the system of unwieldy documentary processes.



Source: CBN/MMAN



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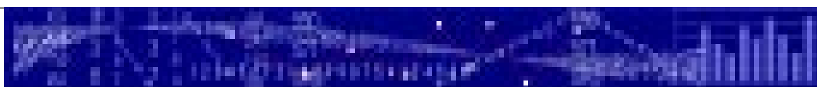
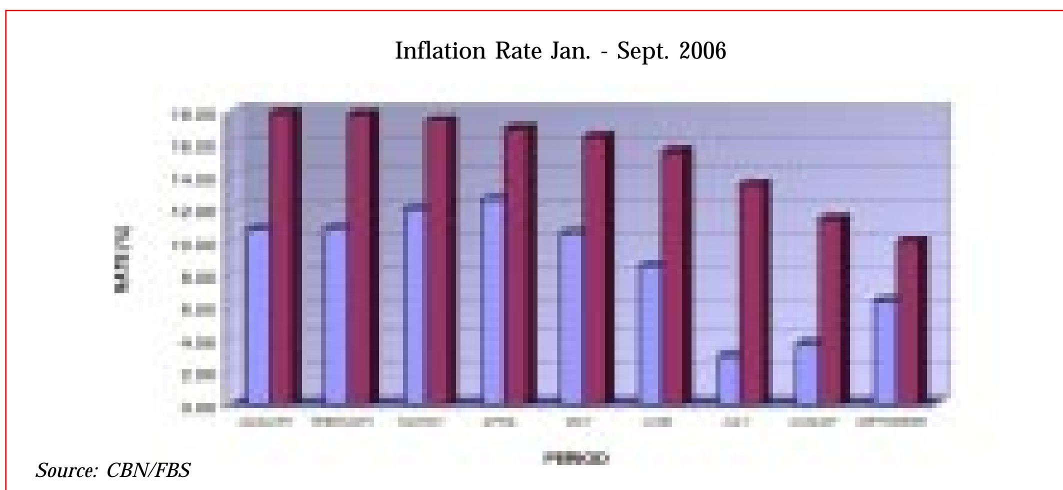


INFLATION

The CBN's ongoing efforts to achieve a single digit rate of inflation seem to be making the desired impact, with the monthly average showing a progressively steady slide down from 17.9% in January 2006 to 10% in September, 2006. The decline in the rate of inflation has run counter to prognostications to the contrary especially with the Federal Government's still on-going repayment of debts owed to local contractors as well as arrears of pensioners.

Analysts still believe that except the CBN is able to sustain its inflation management initiatives, we may well see a spike in the inflation level as Christmas approaches and political activities heat up in the last quarter of the year.

Inflation Rate Jan. - Sept. 2006



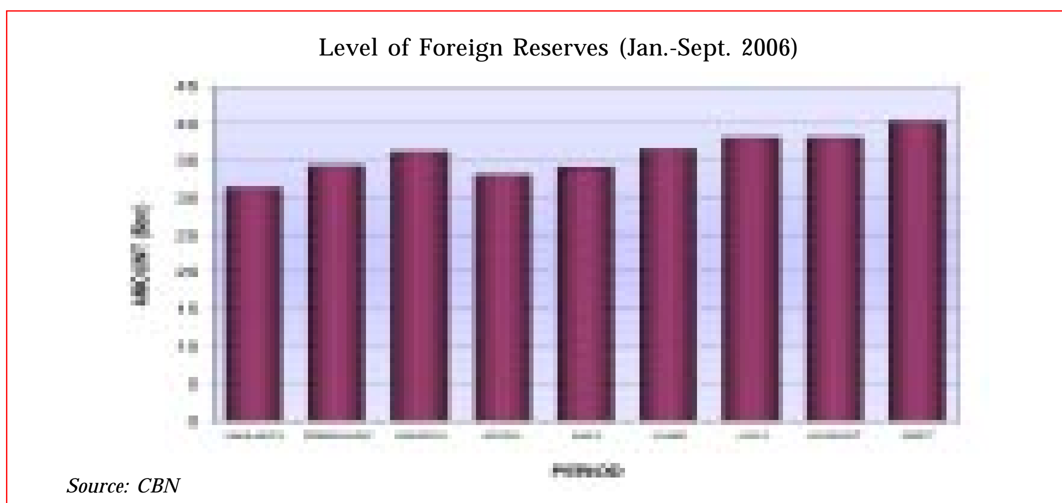
Source: CBN/FBS

FOREIGN RESERVES

Six months after the nation paid up its Paris Club debts with a huge $12bn payment under the Naples term, the nation seems to have fully recovered from that massive payout which had raised a lot of dust with opponents of the debt repayment arguing that the money could have been put to better use. Five months down the line, the superior argument of the members of the Federal Government Economic Team seems to have carried the day as the accretion in the nation's foreign reserves continues to attest.

The nation's foreign reserve level stood at $38.07 at end July 2006 and had hit the $40bn mark by end of September, 2006. The current level can, according to the CBN finance about 31.9 months of foreign exchange disbursement, compared with 24.9 months in June, 2006.

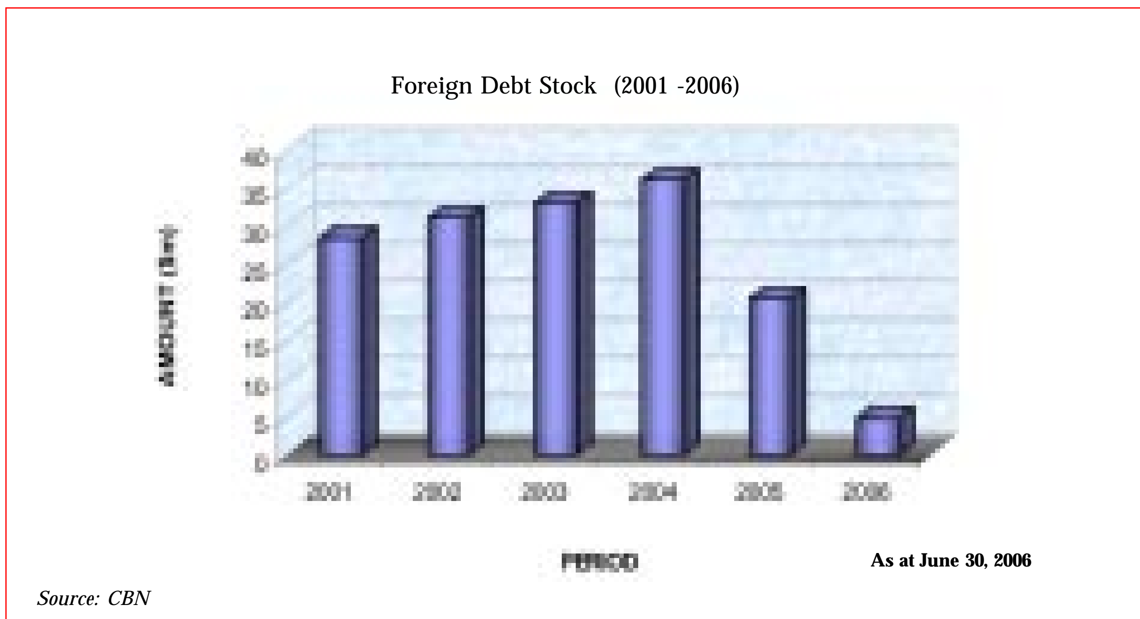
Level of Foreign Reserves (Jan.-Sept. 2006)



Source: CBN

PUBLIC DEBT

The country's total public debt has been put at $16.926bn as at June 30, 2006 by the Debt Management Office (DMO). The total public debt, which is made up of an external debt figure of $4.847bn and domestic debt of $12.079bn, represents a decline of 47.6 per cent over the December 2005 figure of N32.306bn. While the DMO has noted that the task of attaining debt sustainability had become difficult due to resource gap, the nation's exit from the $31bn Paris Club debt through the payment of $12.1bn has been identified as a key reason behind the reduced debt burden. Debt reduction was also achieved through the FG's payment of N4.5bn, part of the outstanding sum of N150bn owed local contractors.



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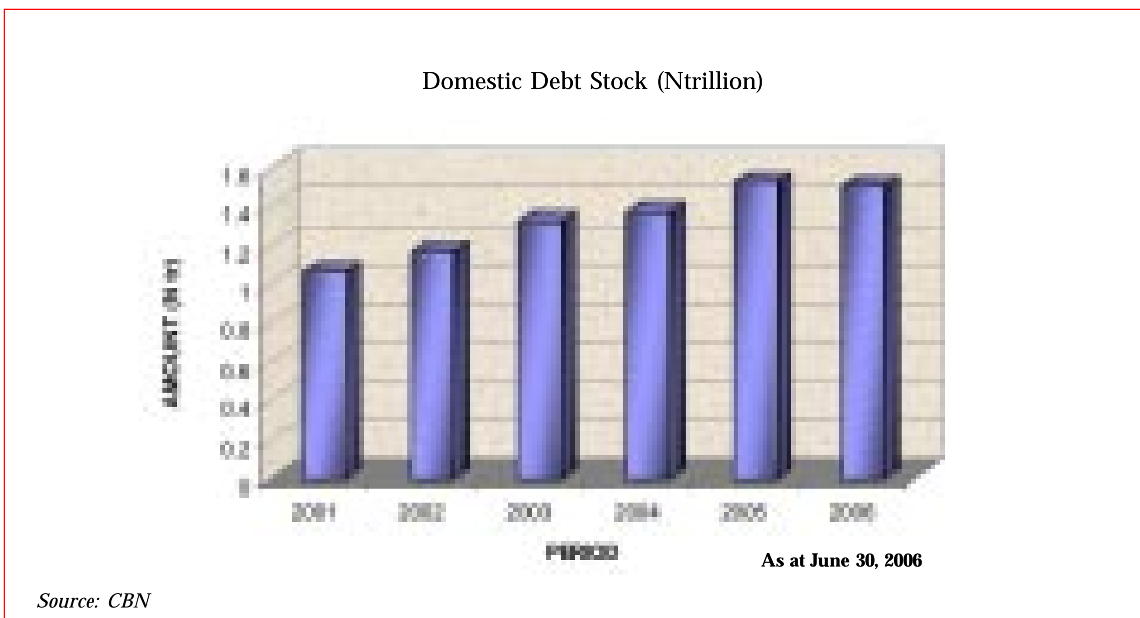

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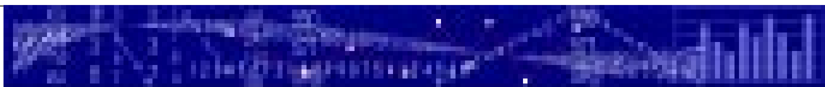
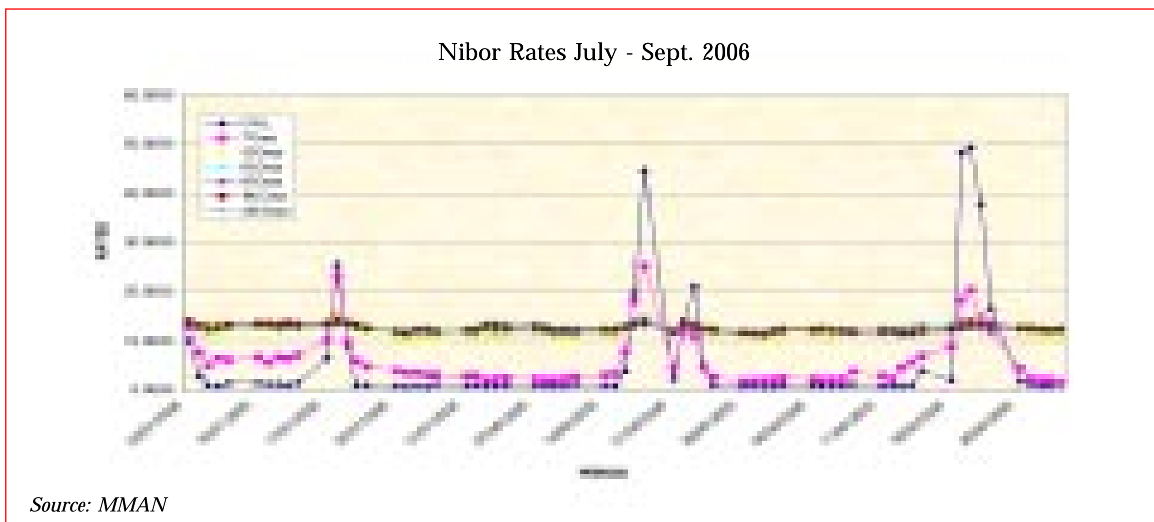


INTEREST RATE

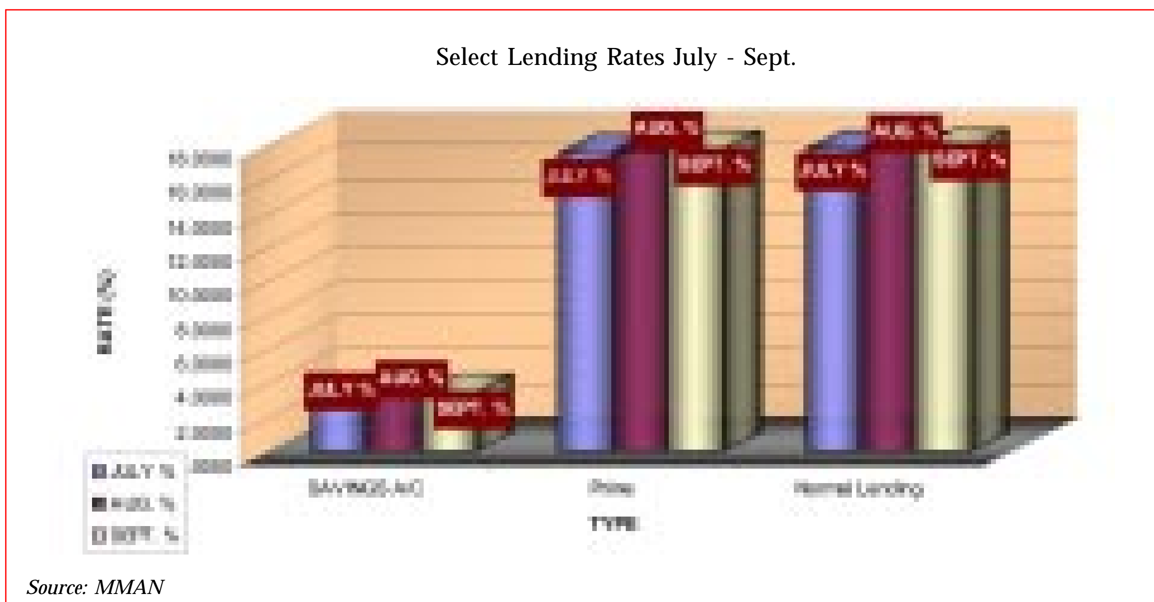
Though the CBN maintained the MRR at 14%, interest rates continued to oscillate in response to the liquidity situation in the market. While prime lending rates hovered between 17 and 18%, other rates continued to move based on the liquidity level in the market place. As usual, the release of monthly statutory allocations, the withdrawal of NNPC's accumulated credit to oil marketers as well as the ongoing sale of government bonds continued to impact on the cost of funds and rates in the inter-bank market. Mid-august, the withdrawal by the NNPC of the N45bn accumulated credit it gave major oil marketers for product supply affected cost of funds (interest rates) at the inter-bank and saw call and overnight funds trading at 50 and 60% respectively. N20bn Federal Government of Nigeria bonds were auctioned on August 21, 1006. The auction was in keeping with the DMO's Bond Auction timetable for the third tranche of FGN bonds, which opened in July. The government expects to sell a total of N155bn of debts, through the issuance of bonds to finance outstanding domestic obligations.

Nibor Rates July - Sept. 2006



Source: MMAN

Select Lending Rates July - Sept.



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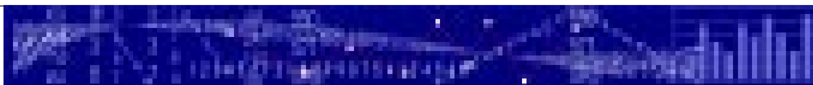
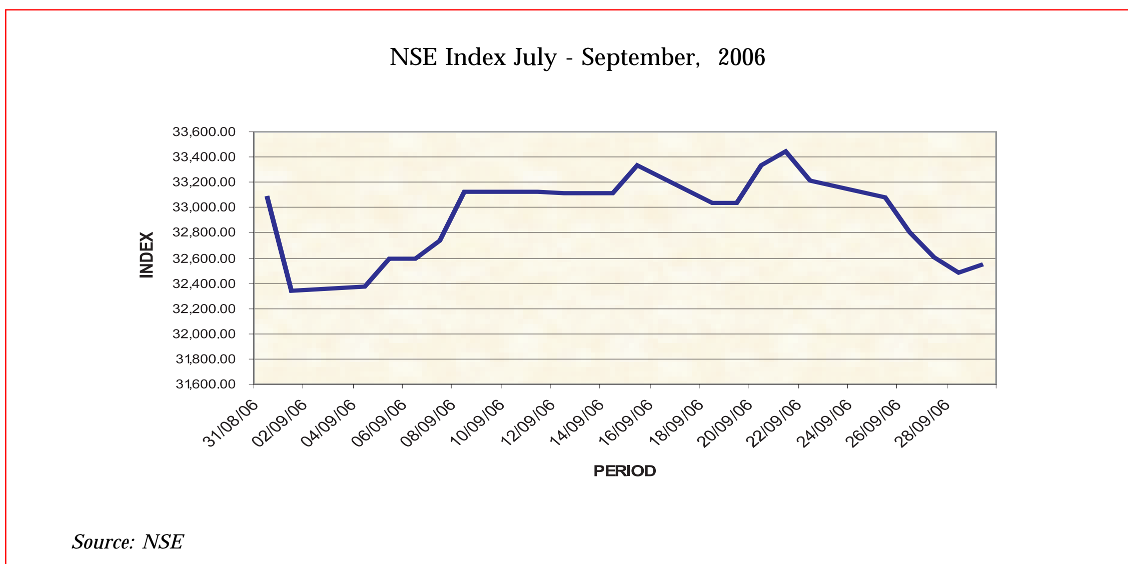
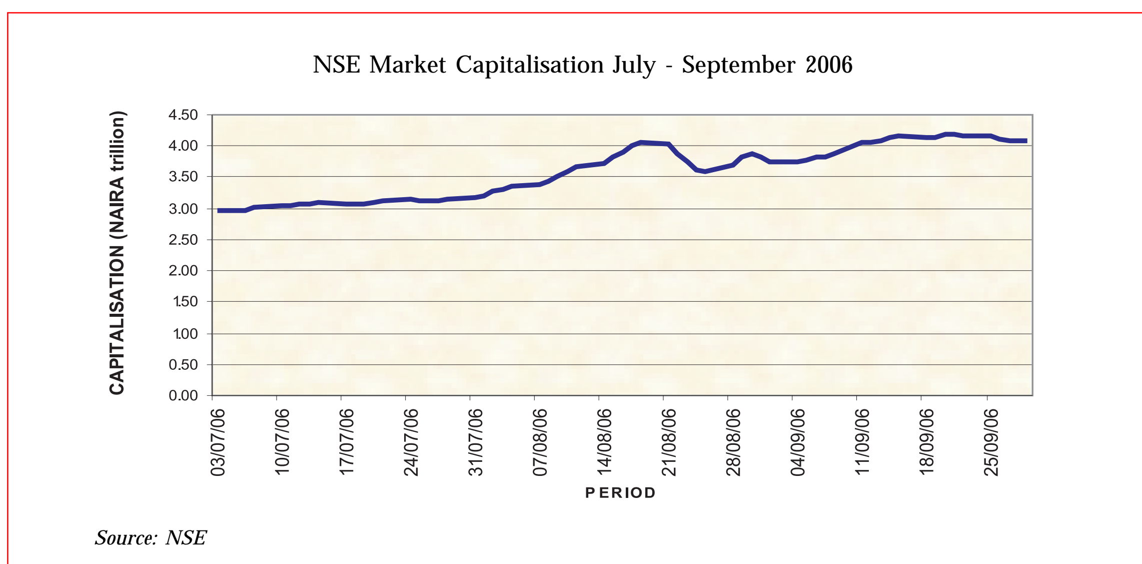


CAPITAL MARKET

The NSE continued to witness bullish transactions with the banking sub-sector driving activity in the market. The market closed August 18, 2006 with a record making market capitalization which crossed the N4 trillion mark to close at N4.057 trillion up from N3.999 trillion recorded the previous week. The all share index also closed at a record high of 35,068.84 points on the same date. The quarter ended in high note with market capitalization at N4.084 trillion while the All Share Index closed at 32,554.60. The influx of pension funds has continued to deepen the market and market players are already seeking additional investment outlets as funds continue to flood the stock market.



Source: NSE



Source: NSE

Editorial Guidelines for Contributions to the Zenith Economic Quarterly

Introduction

The Zenith Economic Quarterly is a publication of Zenith Bank Plc. Its focus essentially is to contribute towards strategic information dissemination and broadening of the horizon of top level executives in the private and public sectors in Nigeria while serving as a useful reference document on Nigeria for the international community. Editorial contributions are welcome from intellectuals – academics, researchers, etc and top level business executives in Nigeria and around the world as well as very senior government officials, senior executives of international organisations and multilateral institutional and development partners.

A section of the publication is dedicated to financial, business and economic indices and selected global financial developments with implications for Nigeria's economy and socio-political policies. It is part of a proposed Zenith Ecoserve, an electronic databank on economic, financial and business indices on Nigeria, which is reader-friendly and regularly updated.

The following information serves as guide for prospective contributors to the publication:

(i) **Restriction and Submission of Manuscript**

Manuscripts for publication should be unpublished unless the submitted version is materially differ ent from the original. Electronic copies of the manuscript should be submitted to the address below:

Editor
Zenith Economic Quarterly (ZEQ)
Zenith Bank Plc 84, Ajose Adeogun Street
Victoria Island, Lagos. Tel/Fax:2703192.
email: marcel.okeke@zenithbank.com

(ii) **Mode of Submission**

Potential contributors should submit diskettes or elec tronic copies by email.

The following regulations should be observed:

1. Each table and figure must be accompanied by a complete source reference.
2. Please do not hyphenate words at the end of any lines
3. Notes should be numbered consecutively and citations should be placed as footnotes or format ted endnotes
4. Text should be 'Full justify', and the font size should be 12-points (Times New Roman or Arial).
5. All materials – including extracted quotations and notes – must be double-spaced
6. You are required to use as few formatting commands as possible.

(iii) **Identification of Author**

Each author is required to identify him/herself on a separate page, providing name, (in the manner expected in the publication), mailing address, telephone number and other details. Specifically, references to their own work in the text should be in the third person, and citation should be written without possessive pro nouns – no "See my…"

Authors are required to submit an abstract of not more than 120 words which highlights main point(s) of the paper and places the article in context. Subheads should be used to divide the manuscripts into three or four sections (or more, depending on length). Articles should not be more than 40 typescript pages (notes and other materials inclusive).

Illustrations may be used (at author's sole responsibi ity).

Authors of accepted manuscripts will be given two cop ies of the edition in which the article appears. Extra copies in whatever form may be given subject to a maximum of five.

(iv) **Preparation of Manuscript**

The Editorial Board has approved the use of the Chicago Manual of Style (1999) based on the Webster's Dictionary.

We recommend that contributors should use gender-neutral pronouns where it is not anachronistic to do so. Double quotation marks should be used for journal titles and direct quotation; single quotation marks are used for quoted material inside quotations. Male nouns and pronouns should not be used to refer to people of both sexes. The day-month-year form is used for dates: e.g.: 31 December 2005.

(v) **Citation Forms: Illustration**

Book: Lee Kuan Yew, From Third World to First: The Singapore Story: 1965 – 2000 Harper Collins Publishers New York 2000.

Journal: Chris 'E Onyemenam, 'Firm Level Competi tiveness in Nigeria' In The NESG Economic Indicators, Vol. 10 No. 3. July – September 2004.