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BUDGET 2008:
Good prospects for double digit
Economic Growth

■ Infrastructure Financing: Way Forward

Zenith Economic Quarterly

C O N T E N T S

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BUDGET AS GROWTH DRIVER

Over the years, Federal budgets, whether under the military or democratic/civilian administration, have turned out to be a mere ritual rather than the driver of economic development that it ought to be. Consistently, budgetary outcomes have remained far off the mark vis-à-vis the planned targets. Budget/implementation monitoring mechanisms are either not put in place or are left to function in a perfunctory manner—leading to the usual below-the -target outcomes, from year to year.

Specifically, overall budget performance, especially as regards the capital expenditure component, has hardly crossed the 70 per cent mark. Yet, each year, the reported level of actual deficit turns out to be staggering—several times the projected position. Even the budget assumptions and benchmarks are usually outlandishly unrealistic, again, leading to off-the-mark outcomes. This, with respect to oil price benchmarks, has led to huge 'unplanned revenues'—the controversial 'excess crude account'—the management/sharing of which has remained ever contentious. And before this, was the era when all that was earned were spent—leading to the 'boom and burst' cycles in the economy, a reflection of the vagaries of the international oil market.

The 2008 budget, apparently reflecting the priority focus of the present Administration, appears to be crafted to eliminate/minimize the pitfalls of yesteryears.

The 2008 budget, apparently reflecting the priority focus of the present Administration, appears to be crafted to eliminate/minimize the pitfalls of yesteryears. The legislative oversight, as reflected in the scrutiny and adjustment of aspects of the budget proposals by the legislature are ample indication of the new order. All these, among others, raise optimism about the probability of the economy attaining a double-digit growth rate in 2008 as planned. This unfolding possibility is masterly analyzed under the topic: "*Budget 2008: Inspiring prospects for double digit economic growth*" in the ***Issues*** section. And the author concludes that the nation is full of expectation that the task of transforming the Nigerian economy "now has a fair chance to begin". Also contained in this section is an expert treatise on "*Fraud and Anti-fraud Challenges in Contemporary Nigerian Banking*". Here, the definitions, dimensions and trends of fraud in banking are explored. The piece ends with a call for the institution of both punitive and deterrent machineries as part of the global arsenal to confront the menace of fraud on banks.

Our **GlobalWatch** focuses on "*Global Economic Outlook for 2008 and fears of U.S. Recession*", analyzing the reviews and adjustments in global and regional economic projections for 2008 by the Bretton Woods institutions. The signs of the feared recession in some major economies are equally explored, just as possible ways of arresting them are also examined. In the ***Policy*** section is contained an update on Nigeria's domestic debt position as articulated by the Debt Management Office (DMO). In ***ForeignInsight,*** the topic "*Small Bribes Buy Big Problems*" deals with the practice in some countries whereby bribe giving and taking are tolerated as 'facilitating payments' alongside anti-graft campaigns. The author deplores the practice, pointing out its far-reaching implications for local and international business relations. Brazil-Nigeria trade relations is also examined under this section—a treatise that reveals the unexploited opportunities in the blossoming relationship.

Periscope as usual ex-rays the entire economy under the topic: "*Economy: Cheery indices, cheery prospects*", showing the 2007 year-end positions of key economic indices and sectors. In a similar vein, ***Facts and Figures*** analyses the indices and attempts some projections. Thus, this edition is another complete package for the variegated and sophisticated tastes of our teeming readership…and you are one!

Marcel Okeke

I write to acknowledge your letter of August 21, 2007 and thank you sincerely for sending us one copy of your current journal. We are grateful that you have put us on your mailing list and hereby assure you that your journal is academically enriching and very sought after by our numerous users.
Thank you once more.
Okee Okoro (Ph.D)
University Librarian
Imo State University
Owerri
Imo State

I write on behalf of the Vice-Chancellor, Professor C.O. Oshun to acknowledge the receipt of your Zenith Economic Quarterly bulletin of October 2007 edition.
The October 2007 edition is very inspiring and educative, having discussed extensively the imperatives about job creation in order to move Nigeria out of poverty that ravages almost every home. No doubt, the book will be useful to both staff and students of Joseph Ayo Babalola University. We shall therefore be looking forward to receiving your subsequent editions.
Thank you and best regards.
Yours sincerely,
E.O. Ijisesan
SAR (VC)
Joseph Ayo Babalola University
Ikeji-Arakeji
Ilesha

I write to acknowledge the receipt of the latest edition (October 2007 edition) of your very insightful publication, the Zenith Economic Quarterly, ZEQ.
The magazine has proved to be one of Nigeria's most important and influential economic journals that addresses and set agenda on the way forward for the Nigerian economy.
The information contained therein will no doubt help the country in her quest to improve the economy and achieve our vision of making Nigeria one of the fastest growing economics in the world.
I assure you of our cooperation and patronage.
Accept the assurances of my highest regards.
Dr. Aliyu Idi Hong
Hon. Minister of State
Federal Ministry of Tourism,
Culture & National Orientation

Thank you for sending me a copy of the September 2007 edition of the Zenith Economic Quarterly (ZEQ).
This is my first contact with the publication. It looks good in quality print and the topics are contemporary. It looks like a catalyst in our race to the property line.
Thank you for good job in capacity building.
Dr. S.A. Olorunfemi
Hon. Commissioner
Kogi State Government of Nigeria
Lokoja, Kogi State

I am directed to acknowledge with thanks, the receipt of the July edition of the Zenith Economic Quarterly (ZEQ), sent to this Embassy.
I further wish to inform that the reach, wealth of information and the professionalism that formed the hallmark of the publication are well recognized and appreciated. Please do keep up the good work.
Warm regards.
T.N. Chukwu
First Secretary
Head of Mission
Embasssy of the Federal Republic of Nigeria
Democratic People's Republic of Korea

I write to acknowledge with thanks, the receipt of the following publication which you have kindly donated to our Library, ZENITH ECONOMIC QUARTERLY (ZEQ) June 2007 Edition.
I also want to assure you that the publication has been put into use in our Library and I hope that this cooperation will continue to exist between us.
Thanks for your kind gesture.
G.A. Popoola (Mrs.)
Serials Librarian
University Librarian
The Federal University of Technology
Akure, Ondo State.

We acknowledge with thanks the receipt of one copy of your recent June, 2007 edition of Zenith Economic Quarterly (ZEQ) titiled: 'The Stock Market Boom: Challenges And Opportunities' sent to our library.
The contents are very informative and it is an additional collection to our holdings.
We deeply appreciate your kind gesture and looking forward to more of these donations in the future.
C.N. Okorafor (Mrs.)
Serial Librarian
University Librarian
Federal University of Technology
Owerri, Nigeria.

Economy: cheery indices, Cheery Prospects

* By Marcel Okeke

The Nigerian economy in the last quarter 2007 recorded cheery outcomes by all performance indices: single digit inflation level; stable and relatively appreciating exchange rate; rising external reserves; declining but stable interest rates, among others. These are obviously manifestations of the wholesome (mid-to-long term) effects of the plethora of recent reform measures in virtually all facets of the economy as well as such external factors as high and rising crude prices in the international market all through the quarter. The market/competition-induced consolidation in the banking industry remained feverish as the streak of hybrid offers and mergers and acquisitions that ruled the sector in the past quarters, continued to the close of the year.

Typically, a number of banks (for the first time in living memory) were still in the market raising funds, even as year 2007 rolled into 2008—a development that largely debunks the myth about scarcity of investment funds around year-end periods. During the quarter under review, more banks also resorted to the international financial market to raise funds through the issuance of Global Depository Receipts (GDRs)—this has led to the listing of the shares of two Nigerian banks on the London Stock Exchange (LSE) by the close of the year. Also, some insurance companies commenced moves towards mergers, acquisitions and recapitalization during the quarter under review.

20 MOST CAPITALIZED COMPANIES AT END-2007

Company	Market Capitalization (NBn)
1) First Bank of Nigeria Plc	889.084
2) Intercontinental Bank Plc	752.593
3) United Bank for Africa Plc	558.869
4) Zenith Bank Plc	533.810
5) Union Bank of Nigeria Plc	498.624
6) Guaranty Trust Bank Plc	479.625
7) Oceanic Bank International Plc	435.411
8) Dangote Sugar Refinery Plc	389.500
9) Nigerian Breweries Plc	370.565
10) Ecobank Transnational Incorporated	292.250
11) Diamond Bank Plc	254.238
12) IBTC Chartered Bank Plc	248.625
13) West African Portland Cement Co. Plc	239.528
14) PlatinumHabib Bank Plc	205.197
15) Fidelity Nigeria Plc	194.765
16) Guinness Nigeria Plc	191.740
17) Afribank Nigeria Plc	186.907
18) Nestle Nigeria Plc	182.786
19) First City Monument Bank Plc	180.3
20) Ecobank Nigeria Plc	172.151

Source: NSE

A number of Government policies or policy reversals also impacted the economy in diverse ways during the period under review. These include the reversal of the privatization of some refineries; revocation/cancellation of some waivers on import duties; repossession of two recently privatized insurance companies consequent upon the 'recertification' of 49 out of the 71 that earlier met the recapitalization deadline for operators in the industry. There was also the frenzy by community bank operators nationwide to meet the December 31 2007 deadline for recapitalization and conversion to microfinance banks. Developments in the Niger Delta region as well as the 2008 Federal budget presented during the quarter also impacted the economy.

The Central Bank of Nigeria (CBN) through its monetary policies and a combination of other factors, saw inflation rate sustained at single digit all through 2007. Thus, during the fourth quarter, the apex bank reviewed the Monetary Policy Rate (MPR) upwards, from 9.0 per cent to 9.5 per cent; it had raised the rate from 8.0 per cent to 9.0 per cent during the third quarter—with the 'interest rate corridor' removed. Headline (year-on-year) inflation dropped from 8.2 per cent in December 2006 to 5.5 per cent in November 2007 but closed the year at 6.6 per cent. This is significantly below the 9.0 per cent projected by the Federal Government in the 2007 budget.

Both the foreign exchange and domestic financial markets experienced stability all through the quarter under review. The naira exchange rate appreciated in all segments of the foreign exchange market owing mainly to the sustained high foreign exchange inflows buoyed by favourable macroeconomic environment and relatively high rates of returns in the domestic financial markets, among others. From N124.75/US$1 in September, the Naira exchange rate appreciated to N116/US$1 as at year-end 2007. Owing largely to huge earnings from the high prices of crude oil in the international market, external reserves soared by 23 per cent to over US$52 billion as at end-December 2007, compared to its level of US$42.3 billion in the corresponding period in 2006. By the close of the year, the price of crude hit an unprecedented high level of US$100 per barrel from

about US$60 a year earlier.

The last quarter 2007 was the busiest on the Nigerian Stock Exchange, with all market indices gaining quantum leap from their previous levels. Activities in the market were influenced by the overall macroeconomic stability, profit-taking and stock switching by investors. Thus, by year-end 2007, turnover on the NSE stood at N2.1 trillion (19.5% of GDP) up by 343.7 per cent on the N470.25 billion (2.6% of GDP) recorded in 2006. The total market value of the 309 securities listed on the NSE (market capitalization) increased by 160 per cent, from N5.12 trillion in 2006 to N13.30 trillion by year-end 2007(with equities accounting for N10.30 trillion or 76%). This is largely attributable to the listing of new securities (equities and bonds), price appreciations by equities and improved corporate results. In the same vein, the All Share Index (ASI) grew by about 75 per cent, from 33,189.30 at end-2006 to 57,990.22 at the close of business in 2007.

Unsurprisingly, of the 20 most capitalized quoted companies at year-end 2007, banks took 15 slots and in fact, the first seven places. These include First Bank, Intercontinental Bank, United Bank for Africa, Zenith Bank, Union Bank, Guaranty Trust Bank and Oceanic Bank. In terms of activity, the banking and insurance sectors accounted for 19 of the 20 top companies by turnover volume during the period under review. This is due mainly to the gains of the recapitalization programme, which boosted the available float in both sub-sectors which created the condition for block trades in the listed companies. Also contributory to this result was the CBN directive that no state government should hold more than 10 per cent equity interest in any bank—and this led to major divestment by some parastatals.

BANKING AND FINANCE

Like in the previous quarters, competition-driven consolidation efforts still dominated the banking industry in the last quarter 2007. Most of the banks were engaged either in public offers, rights issues, private placements, issuance of GDRs or mergers and acquisitions deals to improve their position and size in the market. While the merger between IBTC Chartered Bank and Stanbic Bank was concluded, a similar arrangement between Ecobank Nigeria and Sterling Bank remained ongoing. Other banks continued negotiations with the CBN and Nigeria Deposit Insurance Corporation (NDIC) to consummate the acquisition of some of the 'liquidated' banks through the Purchase and Assumption (P & A) arrangement.

Of all the banks that went for additional funds from the capital market during the period under review, it is noteworthy that only Zenith Bank's hybrid offer was open from December 2007 into the new year, 2008. The offer (a rights

Geographical Spread of The MFBs

State	Population	Provisional Approvals	Final Approval	Total Approval
Abia	2,833,990	15	2	17
Abuja	1,405,201	5	3	8
Adamawa	3,168,101	7	0	7
A/Ibom	3,920,208	6	1	7
Anambra	4,182,032	58	17	75
Bauchi	4,676,465	9	-	9
Bayelsa	1,703,358	1	-	1
Benue	4,219,244	6	1	7
Bornu	4,151,193	3	0	3
C/River	2,888,966	10	5	15
Delta	4,098,391	20	4	24
Ebonyi	2,173,501	5	0	5
Edo	3,218,332	21	2	23
Ekiti	2,384,212	12	1	13
Enugu	3,257,298	16	5	21
Gombe	2,353,879	3	0	3
Imo	3,934,899	36	6	38
Jigawa	4,348,649	4	0	4
Kaduna	6,066,562	17	1	18
Kano	9,383,682	4	0	4
Katsina	5,792,578	4	0	4
Kebbi	3,238,628	5	0	5
Kogi	3,278,487	17	3	20
Kwara	2,371,089	15	3	18
Lagos	9,013,534	52	8	60
Nassarawa	1,863,275	2	1	3
Niger	3,950,249	9	0	9
Ogun	3,728,098	47	3	50
Ondo	3,441,024	15	1	16
Osun	3,423,536	22	6	28
Oyo	5,591,589	40	2	42
Plateau	3,178,712	11	0	11
Rivers	5,185,400	18	0	18
Sokoto	3,696,999	5	0	5
Taraba	2,300,736	4	0	4
Yobe	2,321,591	1	0	1
Zamfara	3,259,846	6	0	6
Nigeria	**140,003,542**			

issue of 1,654,557,911 shares and offer for subscription of 1,763,000,000 shares) which opened on Monday, December 6, 2007, closed on Monday, January 17, 2008. The very high level of subscription (expected) by the offer will certainly break the myth about scarcity of investment funds in the financial markets during the Yuletide and New Year periods. The other banks that also sourced funds from the market during the quarter were Afribank, Diamond Bank, First City Monument Bank, Bank PHB, among others. A number of insurance companies, including Aiico Insurance Plc and Staco Insurance Plc, also raised funds from the market.

The Re-certified Insurance Firms

S/N	NEW INSURANCE FIRMS
1.	Guardian Express Assurance Company Limited
2.	Cornerstone Insurance Plc
3.	Niger Insurance Plc
4.	STACO Assurance Plc
5.	Leadway Assurance Plc
6.	Guaranty Trust Assurance Company
7.	Royal Exchange Assurance
8.	UNIC Insurance Plc.
9.	WAPIC Assurance
10.	Yankari Insurance Company
11.	Oceanic Insurance
12.	Lasaco Assurance
13.	Prestige Assurance
14.	International Energy Insurance Company
15.	Zenith Insurance
16.	Equity Indemnity Insurance
17.	Union Assurance Company Limited
18.	UNIC Insurance
19.	Mutual Benefit Assurance
20.	Alliance and General Insurance Company Limited
21.	Custodian and Allied Insurance
22.	Law Union and Rock Insurance
23.	Crusader Insurance
24.	Regency Alliance Insurance
25.	Standard Alliance Insurance
26.	Standard life Assurance
27.	Anchor Insurance Company
28.	Industrial and General Insurance Company
29.	Gold Link Insurance
30.	Great Nigeria Insurance Plc
31.	Guardian Trust Insurance
32.	Oasis Insurance Plc
33.	Heirs Assurance Company
34.	Sovereign Trust Assurance Company
35.	Kapital Insurance
36.	Sterling Assurance Nigeria Limited
37.	Capital Express Insurance
38.	Linkeage Assurance Plc
39.	Equity Life Insurance
40.	Consolidate Hallmark Plc.
41.	Unity Trust Insurance
42.	Universal Insurance
43.	AICO Insurance
44.	Investment and Allied Insurance Company
45.	Continental Re-Insurance
46.	Guinea Insurance
47.	NEM Insurance Plc
48.	African Alliance Insurance
49.	Nigeria Agricultural Insurance Corporation

The frenzy for the recapitalization of community banks with a view to converting them to Microfinance Banks (MFBs) also prevailed in the financial services sector during the fourth quarter 2007. And by the expiration of the deadline of December 31, 2007, only 600 community banks met the conditions for the conversion to MFBs. A total of 145 community banks across the country which were unable to beef up their share capital to a minimum of N20 million as prescribed by the CBN had to close shop at the year-end. According to the CBN guidelines, those community banks that could raise up to N1 billion capital would be allowed to operate as state MFBs with branch network spread within a particular state. Statistics show that of the 600 new MFBs, 75 are located in Anambra State, 60 in Lagos and 48 in Ogun. Others are: Oyo, 42; Imo, 38; Osun, 28; Edo, 23; Abia, 17; Abuja, 8. Bayelsa and Yobe states have one each.

The CBN also during the quarter under review, came up with a policy on foreign ownership of local banks. The policy, a sequel to the merger of IBTC Chartered Bank and Stanbic Bank Limited, a subsidiary of Standard Bank of South Africa, stipulates that foreign banks or institutions have a maximum allowable limit of 30 per cent equity investment in any bank in Nigeria. Further to this, the apex bank also issued a guideline to streamline GDRs' adoption and usage by the local banks to raise money in the international financial market. The guideline mandates banks selling GDRs to furnish the apex bank with details of the beneficial investors on a copy of the Certificate of Capital Importation issued in favour of such banks. Some Nigerian banks that have successfully raised dollar-denominated capital via GDR issue include Diamond Bank, Guaranty Trust Bank, Access Bank, First City Monument Bank and Fidelity Bank.

In the quarter under review, the CBN also issued new guidelines on "the appointment of independent directors" which provide that an independent director should not provide financial, legal or consulting services to the bank on which he/she is a board member. Also, an independent director should not be a current or former employee who had served in the bank in the past and none of his/her immediate family members should be an employee or former staff of the bank at the management level in the preceding five years.

OIL, GAS AND PETROLEUM RESOURCES

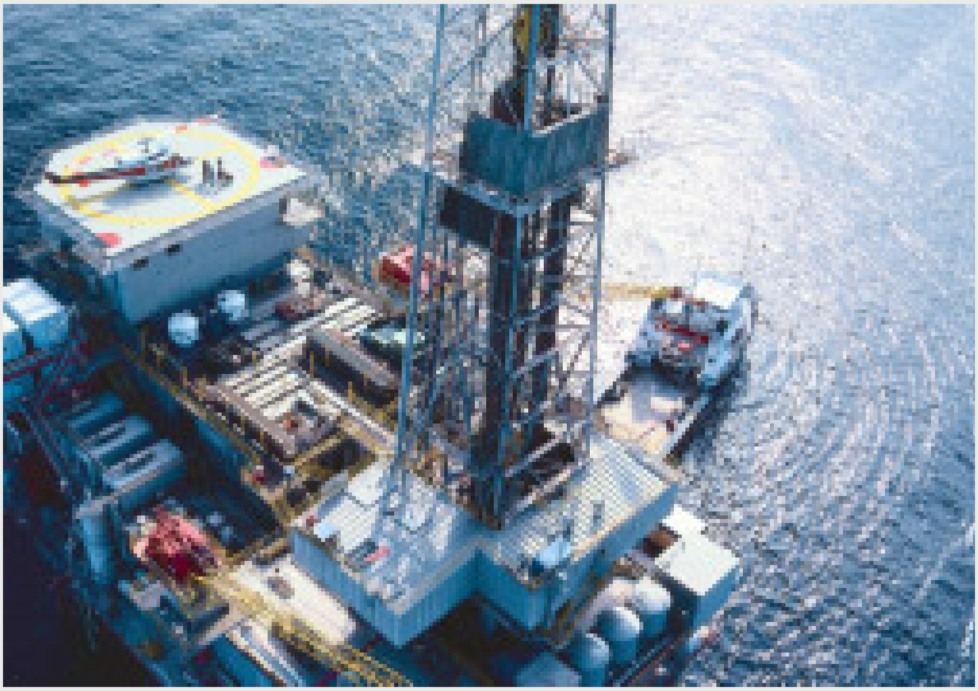
Oil prices in the international market made the most quantum leap during the last quarter 2007 vis-à-vis the rest of the year. It was during the quarter that the spot price of the Brent crude hit US$100 per barrel. Although the OPEC Reference Basket dropped slightly from US$88.99/barrel in November to US$88.40/barrel mid-December, spot prices remained much higher all along. The consistent rise in oil prices had been attributed to a number of factors including the Middle East crisis, especially Iran and Iraq; declining petroleum reserves; rising global demand; unrest in Nigeria's Niger Delta region, and the continued weakening of the US dollar, among others.

THE 2008 APPROPRIATION BILL

S/N	Key Assumptions and Targets	2006	2007	2008
1.	Total Expenditure	N1.9 trillion	N2.3 trillion	N2.37 trillion
2.	Total Revenue (FG)	N1.47 trillion	N1.72 trillion	N1.98
3.	Oil price Benchmark (per barrel)	$35	$40	$53.8
4.	Crude oil production	2.0m barrels per day	2.5m barrels per day	1.55 million barrels per day
5.	Joint Venture Cash Calls	$4.2bn	$4.5bn	$5.0bn
6.	GDP growth rate	7%	10%	13%?
7	Inflation rate	10%	9%	6%?
8	Exchange rate	N129 to US$1	N126 to US$1	N125 to US$1
9	Fiscal deficit (as % of GDP)	2.0%	3.3%	2.1%
10.	VAT Rate	5%	5%	5%

Apparently, owing to this oil price trend, the Federal Government anchored its 2008 budget proposals on the benchmark of US$53.83/barrel (still being debated in the National Assembly at the time of going to press) as against the US$40/barrel in 2007, US$35/barrel in 2006 and US$30/barrel in 2005. While the oil price trend subsists, the upshot for Nigeria has been the challenge of rising cost of imported petroleum products. The local refineries have been operating at abysmally low levels—with some completely shut down owing to pipeline vandalism or technical faults.

In the face of the daunting challenge posed by near total dependence on imported petroleum products as well as the inability of the licensed private refineries to get on-stream, fresh initiatives by new investors have since commenced. A 12,000-barrel-per-day private refinery sited at Amakpe, Akwa Ibom State is fast nearing completion. The state government has 25 per cent equity stake in the venture which is floated by a group of US-based indigenous investors. Similarly, a consortium of three companies (Britain's Centrica, StatoilHydro ASA and Consolidated Contractors Company) is set to establish the fourth Liquefied Natural Gas (LNG) in the country (also in Akwa Ibom State). Orient Petroleum Resources, one of the earlier set of licensees, has attained advanced stage in building its refinery at Nsugbe, Anambra State. A team of Chinese energy experts from Beijing Petrochemical Design Institute is undertaking the major structural and engineering work at the refinery which is a private sector initiative between the government of Anambra State, Rivers and other stakeholders.



A German conglomerate - Sharks Petroleum Development Company (SPDC) is also building re-

with a production capacity of 100,000 barrels of crude oil a day, is estimated to cost N230 billion.

TELECOMMUNICATIONS

Even as the telecoms sector grappled with scarcity of frequency spectrum, the industry regulator—Nigerian Communications Commission, during the quarter under review, announced the withdrawal of operating licenses from some fixed wireless operators. These were among the 22 issued fixed wireless licenses in 2002; their five-year licenses expired in June 2007. The NCC had earlier carried out a nationwide audit of frequency spectrum allocated to operators, with the aim of establishing those which might have failed in their rollout obligations. Consequently, only 12 of the 22 fixed wireless access companies retained their licenses, including XS Broadband Limited (formerly UBA Capital & Trust Ltd); Witel Limited (formerly Startech Connection Ltd); Rainbownet Limited, O'dua Telecoms Limited and Cyberspace Limited, etc.

The NCC also during the period under review, licensed about 13 players to operate the recently introduced Unified Access Service License (UASL)—which offers the operators the privilege of providing voice, data and other telecoms-based services.

NCC data show that as at end-October 2007, the telecoms industry had achieved about 52 million connected lines as against 34 million in December 2006. Mobile (GSM) increased from 32 million in 2006 to almost 50 million in October 2007. Within the period, fixed wired/wireless number rose from 1.7 million to 2.4 million. Also, teledensity which stood at 24.30 in 2006, rose to 28.13 by end-October 2007. These are in line with the quantum growth of investment in the industry—which by year-end 2007 had hit over US$9 billion, from US$50 million in 2001.

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

OPERATORS GRANTED UNIFIED LICENSING

S/N	OPERATOR
1.	Visafone Communications Limited
2.	Starcomms Limited
3.	Danjay Telecomms Ltd
4.	Prest Cable & Satellite TV Systems Limited
5.	MTN Nigeria Communications Ltd
6.	Multi–Links Telecommunications Limited
7.	Gicell Wireless Limited
8.	Intercellular Nigeria Plc
9.	Celtel Nigeria Limited
10.	Siotel Nigeria Limited
11.	Gamjitel Limited
12.	Reliance Telecommunications Limited
13.	*Emerging Markets Telecommunication Services Ltd

fineries in Bauchi, Bauchi State and Baro in Niger State. The Baro refinery, a Public-Private Partnership, is owned in the ratio of 92.5 per cent by the German company and 7.25 per cent by the Niger State Government. The refinery

NIGERIA'S DOMESTIC DEBT: THE CURRENT SITUATION

1.0 INTRODUCTION

1.1 The purpose of this report on Nigeria's public domestic debt is:

(a) To give an overview of the overall domestic debt portfolio and its characteristics, so as to put the efforts being made in managing it in the last four to five years in their proper context;

(b) To clarify the use being made of domestic debt instruments to contribute towards economic growth, development and poverty reduction;

(c) To outline the efforts of the DMO towards addressing the inherent historical defects of the domestic debt portfolio; and,

(d) To chart the way forward by highlighting the role and uses of government domestic borrowing for generating growth and development in the economy, through a carefully configured government debt market.

2.0 THE DOMESTIC DEBT PORTFOLIO

2.1 DOMESTIC DEBT STOCK

At the time of the inception of the Debt Management Office in 2000, the nation's domestic debt stock (securitized public debt of the Federal Government) stood at N898.2 billion. As at March 2007, the figure stood at around N1, 866.37 billion, representing a mere 3.6 per cent of the Gross Domestic Product (GDP). The composition of the domestic debt stock, as at end-December 2000 and end-March 2007 is as shown in Tables 1a and 1b.

2.2 Although the extent of domestic indebtedness of the state governments has not been ascertained due to data constraints, the DMO recognises that borrowing activities of the States constitute a significant part of the national debt portfolio. This has necessitated a detailed inventory of domestic debt and contingent liabilities of the States for a full appreciation of Nigeria's domestic debt portfolio. Accordingly, the DMO has initiated a work plan that would enable it address the domestic debts of States. In line with this commitment, the DMO in conjunction with its stakeholders, including the State Governments, recently organised a brainstorming session on Assessment of Sub-national Borrowing in Nigeria, which took place on Monday, July 30, 2007 in Abuja. The outcome of the deliberations during the brainstorming session will serve as input into the DMO's programme for addressing the domestic debts of the states in a comprehensive and sustainable manner. A particular goal of the initiative is the building of accurate debt database of the States.

Table 1a: **Composition of Domestic Debt Portfolio (End-December, 2000)**

Security Type	Amount (N b illion)	% of Total
NIGERIAN TREASURY BILLS	465.5	51.8
TREASURY BONDS	430.61	47.9
FRN DEV STOCKS	2.11	0.23
FGN BONDS	0.0	0.0
TOTAL	**898.254**	**100.00**

Table 1b: **Composition of Domestic Debt Portfolio (End-March, 2007)**

Security Type	Amount (N billion)	% of Total
NIGERIAN TREASURY BILLS	698.11	37.40
TREASURY BONDS	413.59	22.16
FRN DEV STOCKS	0.720	0.04
FGN BONDS	753.94	40.40
TOTAL	**1,86637**	**100.00**

2.3 REASONS FOR THE GROWTH OF THE DOMESTIC DEBT STOCK

2.4 It is pertinent to underscore the reasons for the upward trend in the domestic debt stock over the years. While the N1.8 trillion domestic debt stock may seem a fairly large amount, its size largely reflects the cumulative effects of financing Nigeria's budget deficits in the past, including public sector capital expenditure needs.

2.5 The increases between 2005 and 2007 are accounted for by different sets of factors, reflecting a shift **towards market-based funding of government deficits,** as well as **productive uses of domestic borrowing**. For example, in 2005 the domestic debt stock increased by N155.6 billion bringing the total to N1, 525.9 billion. This increase was accounted for by the issuance of 2nd FGN Bonds to **fund capital expenditure** of N108.3 billion, and 2005 budget deficit of N70 billion. But it should be noted also that in the same period, there was a decline of N16 billion in NTBs, N0.27 billion in Development Stocks and N5 billion in Treasury bonds due to maturity and redemption of these instruments.

2.6 In 2006, the domestic debt stock increased to N1, 753,259 million mainly due to the issuance of N45 billion under the 3rd FGN Bonds to **finance budget deficit**; N15 billion as Agency bonds **to support 3 Development Finance Institutions**, namely: the Bank of Industry (BOI), the Federal Mortgage Bank, as well as the Nigerian Agricultural and Rural Development Bank; and N75 billion and N91.6 billion as **Special Bonds to settle the lingering Pension Arrears and Local Contractor's debts**, respectively, after thorough verification exercises by the National Pensions Commission and the Budget Office of the Federation (BOF).

2.7 The N110.5 billion increase recorded as at end-March 2007 is directly attributed to the N80 billion part **funding of the budget deficit for the year**; the N25 billion NTBs in FGN's support to the TINAPA project, which the Cross-River State Government (CRSG) is repaying according to an operating schedule; as well as, N5 billion new NTBs issued by CBN for Open Market Operations (OMO). These explanations are summarized in Table 2.

2.8 From the foregoing it could be safely deduced that the increase in the level of the domestic debt stock between 2005 and 2007 was largely due to financing of: budget deficit; capital projects; bonds meant for supporting development finance institutions; as well as final settlement of local contractors' debts and pension arrears. These are clearly productive, necessary and desirable objectives which are consistent with the generation of sustainable growth, shared prosperity and poverty reduction.

Table 2: **Yearly Analysis of Change in FGN Domestic Debt Portfolio 2005- End March 2007**

Year of Issue	*Amount of Debt Stock (₦'bn)*	*Change in Debt Stock (₦'bn)*	*Type of Instrument*	*Purpose of Change in Stock*
2005	1,525,906	155,581	FGN BONDS & NTBs	*2nd FGN Bonds of ₦170.27 bn broken down as: *Funding of ₦100.27 bn capital expenditure *₦70 bn for 2005 budget deficit *OMO of CBN NTBs (₦ 16 bn), Dev. St. (₦ 0.27 bn), T-Bonds (₦ 5bn)
2006	1,753,259	227,353	FGN BONDS & NTB's	*₦45bn to part finance budget deficit *Agency Bonds for 3 DFI's (₦15 bn) *Local Contractors (₦91.6 bn) & Pension Arrears (₦75 bn)
2007 (End-March)	1,863,768	110,509	FGN BONDS & NTB's	*Part financing FGN budget deficit (₦80 bn) so far *Tinapa Bonds (₦25 bn) in NTBs *OMO CBN (₦ 5 bn)

2.9 In the process, the DMO has also achieved the objective of changing the maturity profile of about 42% of the component of the domestic debt stock from the predominantly short-term instruments of less than one year to long-term ones, extending from 3 years to 10 years. The restructuring exercise is still on-going. This long-termization of the portfolio is in itself, a goal worth pursuing because it provides the basis for developing a market for funds that could be accessed by the private sector to develop agriculture, manufacturing, power, housing, etc.

2.10 It is important to note that much of the domestic debt (currently about N1.8 trillion) is active investment by various economic agents, including individuals and firms. These investors are assured of a steady and reliable income from it, while being guaranteed of repayment at maturity. As the secondary market for government bonds has been introduced and is being developed by the DMO with the support of other stakeholders, those investors that wish to realise liquidity before the bonds mature can easily do so. It is, therefore, clear that the domestic debt portfolio is not overdue debt owed to local contractors and other groups, which need to be paid, as has been misconstrued in some quarters. As such the issue of paying off the debt does not arise. It is neither necessary, desirable, nor appropriate.

3.0 STRUCTURE OF THE DOMESTIC DEBT PORTFOLIO

3.1 **Composition:** The domestic debt of Nigeria is comprised of securitized and non-securitized debts. The securitised debts include: NTBs, Treasury Bonds, FGN Development Stocks and the FGN Bonds, whereas the unsecuritised ones are mainly the outstanding liabilities of government such as contractor debts and pensions arrears. A preponderant share of the domestic public debt before DMO's initiatives was concentrated in shortdated instruments, held in the forms of 91-day NTBs. As at end-December 2002, 91-day NTBs accounted for about 63 per cent of the domestic debt portfolio. This situation has improved significantly. As at end-March 2007, the proportion of 91-day NTBs had declined to 37 per cent, while long-term bonds of 3 years and above had risen from virtually zero to 40 percent.

The domestic debt portfolio is not overdue debt owed to local contractors and other groups, which need to be paid, as has been misconstrued in some quarters. As such the issue of paying off the debt does not arise. It is neither necessary, desirable, nor appropriate.

3.2 **Holding:** As at end-December 2003, CBN accounted for N686.80 billion or 51.65 percent of the total outstanding, whereas the remaining 48.45 percent was taken by the Non-Bank Public, the Commercial Banks and the Discount Houses. This meant that the structure of holdings of the debt instruments was disproportionately tilted towards holdings by the CBN. In the past, the practice was for the CBN to take in the residuals from undersubscribed offerings. This situation has changed significantly as a consequence of DMO's efforts towards broadening the investor base of domestic debt holders. As at 2006, CBN holding was 19.14 percent, Banks and Discount Houses, 50.36 percent, and Non-Bank Public, 30.51 percent.

3.3 **Problems with the Structure of the Debt Portfolio:** The first problem relates to the composition of the domestic debt. Until 2005, the domestic debt portfolio was dominated by the 91-day Nigerian Treasury Bills (NTBs). From N556.0 million or 50.0 percent of the total debt in 1970, the share of NTBs rose to N825 billion or 63 percent of the total domestic debt in 2003.

The lopsided nature of the domestic debt created interest rate and rollover risks, as well as bunching problems. The effects of these were high inflation and interest rate volatility.

3.4 The second problem before DMO's intervention is related to the issue of the pattern of holding of the debt, in which holding by the non-bank public of this portfolio was very small (less than 10 per cent), while the financial system alone held more than 80 per cent. The financial system consists of the Central Bank of Nigeria (CBN) and the Deposit Money Banks.

3.5 A number of problems were associated with this situation. The first is that over the years, the CBN has been a major holder of the domestic public debt. As at December 2003, CBN accounted for N686.8 billion or 51.56 percent of the total outstanding. The preponderant holdings of these instruments by CBN led to a depressed and below-market pricing of these instruments as well as the absence of a virile, deep and resilient securities market. It had also complicated monetary policy management. Secondly, the very insignificant holding by the non-bank public implies that ordinary people and the corporate sector were scarcely active in the financial system, which was dominated by the banks. Thirdly, the preponderance of treasury bills meant the underdevelopment of the government bond market and the absence of a credible vehicle for long-term resource mobilization for the execution of infrastructure and social programmes.

3.6 **Efforts to Address the Defects in the Domestic Debt Portfolio:** With the creation of the Debt Management Office (DMO) in 2000, efforts were made to address these problems. First, in terms of the overall domestic debt portfolio, the DMO adopted a strategy of restructuring of the existing 91-day NTBs, which amounted to N850 billion into long-term bonds. This was initiated in 2003, with the issuance of the N150 billion 1st FGN Bonds.

Based on the lessons that were learnt from that outing after 17 years of absence from the market by the government, the DMO had taken other initiatives, in conjunction with other stakeholders, particularly the Central Bank of Nigeria (CBN) in 2004. These initiatives entailed the smoothening exercise, as well as lengthening the maturity structure of the FGN's debt profile. The objective was not just to restructure the existing domestic debt portfolio, but to ensure a balanced maturity and holding structure, as well as making it compatible with macroeconomic stability.

The lopsided nature of the domestic debt created interest rate and rollover risks, as well as bunching problems. The effects of these were high inflation and interest rate volatility.

3.7 The smoothening process envisaged that the amount the CBN issued each week was approximately the same. This has brought some stability to the system. In addition, the CBN has gone forward to issue 6 months and one year NTBs. In the past, these bills were issued in varying amounts which led to high volatility and instability in the system. In line with this development, the DMO started issuing 2 and 3 year bonds on a regular monthly basis in the second part of 2005, for the purposes of restructuring part of the existing 91-day NTBs to longer term tenor. Currently, a significant portion of the portfolio (about 40 per cent) is in the form of long term securities of 3-10 year tenor. The holding of the debt by the non-bank public has also improved from less than 10 per cent before DMO's intervention to about 30 per cent by December 2006.

3.8 **The Impact of DMO's Intervention:** First, there has been a significant decline in the amount of domestic debt being held by the CBN over the past 4 to 5 years. In many respect this was salutary, as it tended to "liberate" the CBN from the contradictions of playing the role of a monetary authority, as well as that of government's fiscal agent, all at once. Secondly, there has been a significant improvement in liquidity in the financial system. Thirdly, in addition to improving liquidity it has put a downward pressure on the interest rates. As the DMO continues to refinance the maturing short-term NTBs with longer-term bonds, the 91-day securities became scarce and the demand for it relative to its supply became higher, putting a downward pressure on short term interest rates. This is salutary for the economy and particularly the real sector whose growth is easily assured under a regime of low interest rates.

3.9 The DMO has taken further steps to consolidate the gains of the restructuring exercise by putting in place a framework for the development of the Federal Government bond market. Of particular importance is the introduction of the Primary Dealing/ Market Making System. The DMO has empanelled 20 Primary Dealers/Market Makers (PDMMs); these are institutions, with appropriate resource base and skills that make two-way quotes and are always ready to buy or sell government bonds. The objective includes not just funding government deficits in a non-inflationary manner, but creating the desirable yield curve that will serve as benchmarks for pricing other securities as well as the revitalization of the capital market in order to encourage the private sector to begin to access long term funds for development.

4.0 ROLE AND USES OF GOVERNMENT DEBT MARKET IN GENERATING GROWTH AND DEVELOPMENT

4.1 Domestic debt plays an important role in the development of both advanced and emerging market economies such as Nigeria. Domestic borrowing is desirable as long as it is targeted at developing the productive base of the economy and is within sustainable levels. Compared to its peers in the emerging markets of South East Asia, Nigeria's domestic debt market is very far behind. For example, the size of local currency bond market as percentage of GDP in Korea, Malaysia and Singapore is 25, 39 and 40 percent, respectively, while in Nigeria it is barely 2 percent. Countries with similar developmental aspirations such as Nigeria maintain a sizeable stock of domestic debt which they use for the purpose of generating growth and development.

Table 3 details the level of total indebtedness (both domestic and external), as a percentage of GDP, for countries of similar credit standing as Nigeria, as well as some of the most developed countries in the world.

Table 3: Total Pubic Debt as *% of GDP*

Country	%	S & P Rating
Lebanon	209.0	BB-
Japan	176.2	AA
Jordan	72.2	BB-
Morocco	70.9	BB
Germany	66.8	AAA
France	64.7	AAA
Turkey	64.7	BA3
US	64.7	AAA
Argentina	61.0	B-
India	52.8	BB+
Brazil	50.0	BB-
Vietnam	47.5	BA3
UK	42.2	AAA
South Korea	32.9	BB+
Korea	31.9	A2
China	22.1	A-
Romania	21.4	BBB-
Nigeria	**10.4**	**BB-**
Russia	8.0	BB-

Source: The World Fact Book, 2007

4.2 It should be noted that Nigeria ranks second from the bottom of the list at a very low level of indebtedness. Given Nigeria's infrastructure needs and high level of unemployment, along side huge unexploited natural resource base, the future funding of projects (both public and private) using the domestic debt market can be fully justified.

4.3 Advanced economies like the United States of America (USA) have historically used domestic debt to propel their economies out of depression and recession, and have continued to use domestic debt to deepen their financial markets. In these economies, funding of investments in public projects is made possible not just by investing tax revenues but by borrowing domestically to augment the already constrained available resources.

4.4 Nigeria is currently set to embark upon an ambitious effort to modernise the economy, rebuild infrastructure and expand the scope of economic opportunities for the private sector. The nature of investments that the changing need of the economy would require is bound to be great in magnitude and will require long-term financing. Prudent financial management that will inevitably come with privatization will ensure that new investments are financed more rationally with better tenor matching.

4.5 The domestic debt market is bound to play a crucial role in this process, hence the imperative for the government to actively encourage the development of the government debt market through a prudent domestic borrowing framework. There are immense economic benefits to be gained from using the government debt market as platform for resource mobilization that will be deployed for generating growth and development.

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4.6 Currently, funding sources of the Federal Government are too skewed towards oil export receipts, underscoring the huge over-dependence on oil as a source of revenue to the Government. This tends to make Government projected revenue highly vulnerable to fluctuations as a result of volatility in international oil prices. Development and broadening of the non-oil sector of the economy is a primary goal. The development of the Nigerian bond market is essential to private sector capital formation. Borrowing domestically through the government bond market would definitely avail the Federal Government with the opportunity to leverage its commitment to development within a prudent degree of risk.

4.7 In essence, the role which the debt market would play in the rejuvenation of the Nigerian economy could be delineated in at least seven key areas, namely:

(a) Developing the financial sector;

(b) Mobilizing long-term funds for long-term projects in the development of the real sector of the economy, particularly by the private sector;

(c) Financing economic infrastructure;

(d) Providing an alternative to reliance on external sources of finance;
(e) Fostering savings culture amongst the citizens;
(f) Resolving special problems like settlement of contractor arrears and pensions arrears; and,
(g) Improving the Welfare of Nigerians.

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4.7.1 **Developing the Financial Sector and the Capital Market:** Government securities contribute to the development and functioning of financial markets, in part because of their liquidity. They also play an important hedging and pricing role. Even in highly developed markets, Governments, reflecting their taxation power, provide securities with no (or a negligible) credit risk. The financial markets in turn use sovereign government debt as a benchmark from which they can evaluate and price other debt and derivative instruments. Such benchmarking is considered to be important for the development of a corporate bond market.

4.7.2 Government debt is often a critical component of strategies aimed at reducing overall portfolio risk. For example, short positions in government bonds can be used to hedge interest-rate risk from holding other fixed income securities. More generally, government debt is part of bank regulatory capital. In many countries, including Nigeria, guidelines and/or direct quantitative regulations of private pension funds specify minimum compulsory investment shares in government securities.

4.7.3 The importance of the government debt market towards the development of the financial sector and the capital market in particular is underscored by the fact that **countries running budget surpluses such as Botswana and Singapore, for instance, still borrow domestically to achieve the objective of developing the capital market.**

4.7.4 **Mobilizing Long-term Funds to Develop the Real Sector of the Economy:** The importance of the real sector in accelerating economic growth and development in a mono-cultural economy like Nigeria cannot be overemphasized. Bonds market which structurally provides funding for long term projects are best suited for developing the real sector considering the long term nature that characterizes projects in sector. Projects like Real Estate and Mining, Agriculture, etc which requires huge capital outlay could conveniently leverage on the bond market to source long term funds at relatively cheaper cost.

4.7.5 **Financing Economic Infrastructure:** Bond markets create platforms for financing not only the government budgets but specific social and economic projects, such as, power, roads, bridges, railways, and housing. Governments at Federal, State and Local Government levels if they are to meet the aspirations of the citizenry are bound to rapidly expand investments in these areas, not only to restore capacity but to meet current demand. With constraints in short-term revenue generation, they are bound to turn to the bond market for funding. They would, therefore, need to access the bond markets to finance their projects. In the United States and the United Kingdom, for instance, municipal governments issue project based bonds in the bond market on a regular basis. These are typically repaid by cash flows emanating from the projects.

4.7.6 **Alternative to Reliance on External Sources of Finance:** The bond market typically allows the government to borrow in domestic currency and thus avoids build up of foreign currency denominated debt by providing vital access to a large pool of relatively affordable funds. In recent years, a major issue associated with borrowing from external sources is the element of currency risk. Adverse currency and exchange rates movements expose the economy to huge financial losses. To mitigate this, domestic bond markets, serve to insulate the economy from exchange rate risks. In addition, bond markets assist to reduce the external political control of a sovereign country, which is usually associated with high level of external indebtedness or total dependence on external aid.

4.7.7 **Fostering Savings Culture amongst the Citizens:** The bonds market provides a good avenue for promoting savings culture among Nigerians especially at the retail end. Considering that the economy has a large informal sector whose income is largely untapped for economic growth, the bonds market provides a relatively risk-free, fixed income investment outlet for the citizenry hence promoting a healthy savings culture that would ultimately positively impact economic growth and development.

4.7.8 **Resolving Special Problems such as Settlement of Contractors and Pensions Arrears:** The lingering problem of local contractors liability which the government has been grappling with since the military era, and that of pension arrears of Federal Government employees were conveniently addressed and resolved in a non-inflationary manner by the issuance of Local Contractors' and Pension Arrears Bonds worth N103 billion and N75 billion respectively. The use of the instrument provided government with an avenue to securitize the liability and thereby deferred the payments of the debts to periods between 2009 to 2011.

4.7.9 **Improving the Welfare of Nigerians:** The welfare of the average Nigerian is partly hinged on his ability to acquire decent housing. Mortgage financing in most developed economies is available as a matter of course for up to 30 years tenor. In Nigeria, five-year mortgage tenors are hardly known outside the limited government driven but grossly inadequate National Housing Fund Scheme. A virile government bond market can transform mortgage financing and guarantee its sustenance outside of government-driven schemes. By providing liquidity to mortgage obligations, savings from various sectors can be voluntarily, as against compulsorily, channeled in to the mortgage sector. Indeed, mortgage finance market can also be placed on a self-sustaining platform by a vibrant bond market. In

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the United States, easily accessible mortgage financing has resulted in 70% home ownership. The housing market and related activities – home building, furnishings, appliances, etc. - accounts for 25% of economic activity. The development of the mortgage market in Nigeria can be a great engine of growth for the economy, but it is largely hinged on the development of the bond market.

Government debt is often a critical component of strategies aimed at reducing overall portfolio risk. For example, short positions in government bonds can be used to hedge interest-rate risk from holding other fixed income securities. More generally, government debt is part of bank regulatory capital. In many countries, including Nigeria, guidelines and/or direct quantitative regulations of private pension funds specify minimum compulsory investment shares in government securities.

5.0 CONCLUSION

5.1 Contrary to the commonly held view, the current size of the domestic debt does not constitute a problem, particularly when viewed from the point of view of resource endowment of the country and its potentials. It is safe to say, therefore, that as at the moment, Nigeria's domestic debt is within sustainable thresholds and the DMO is committed to keeping it within sustainable limits. In some instances, the domestic debt has been used as a mechanism to resolve lingering debt problems such as the pension arrears and contractor debts, as well as recognise these debts formally as part of government's liabilities, which needed to be addressed one way or the other.

The securitization of these debts meant that government needed not strain its constrained revenues to repay these debts, while at the same time reviving many firms that had gone comatose so that they could continue to generate economic activities and create jobs in the economy.

5.2 The role of debt instruments in the economic development of a country cannot be overemphasized. Apart from providing a platform for financial mobilization, it ensures efficient allocation of resources. It is planned that the initiative of DMO would help develop the bond market to maturity, provide a sustainable and cheaper source of funds, as well as ensures prudent management of financial resources, especially by the federal government. In particular, the development of the bond market will provide a reliable source of funds for the private sector. Long term money would be required if we are to grow the economy at a minimum of 7 per cent per annum, to generate employment and reduce poverty on a sustainable level. The efforts of DMO to develop the government bond market, therefore, ties into the current vision of President Umaru Musa Yar'adua's administration to build the Nigerian economy to be among the top 20 economies in the world by the year 2020.
(Source: Debt Management Office (DMO))

Fraud and Anti-fraud Challenges In Contemporary Nigerian Banking

* By CHUKS NWAZE

The issue of fraud has for long remained with the banking industry in all climes. It has therefore become an intriguing subject - multidimensional and sophisticated. And to deal with the 'monster', we will adopt some definitions.

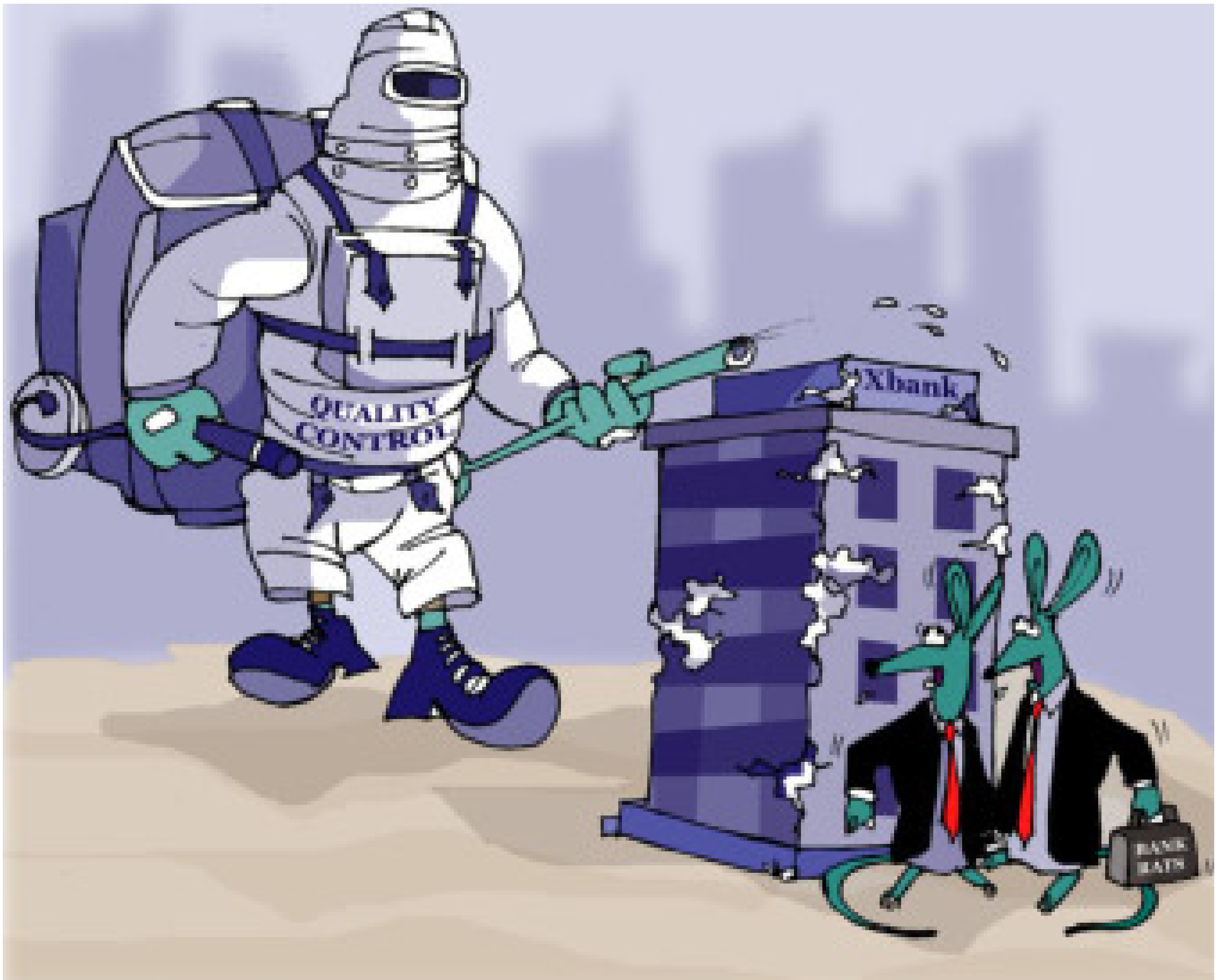
1. DEFINITION

1.1. What is a Bank?

A bank is most commonly defined in terms of its functions. Lord Paget (1966) defined a bank or banker as a "corporation or person (or group of persons) who accept monies on current accounts, pay cheques drawn upon such accounts on demand and collect cheques for customers; and if such minimum services are afforded to all and sundry without restriction of any kind, the business is banking business, whether or not other business is undertaken at same time"

In the Nigerian Banking Act of 1969 the term bank was interpreted as meaning "any person who carries on banking business." The Act (as amended by section (i) (k) Banking (Amendment) Decree No. 3 1970), stated that banking business " means the business of receiving monies from outside sources as deposits irrespective of the payment of interest and the granting of money loans and acceptance of credit or the purchase of bills and cheques or the purchase and sale of securities for account of others or the incurring of obligation to acquire claims in respect of loans prior to their maturity or the assumption of guarantees and other warranties for others or the effecting of transfers and clearings and such other transactions as the commissioners may on the recommendation of the Central Bank, by order published in the Federal Gazette designate as banking business".

From the above, it can be summarized that "an institu-



tion is a bank if it has a license to be so called and performs the following basic functions:

- Providing deposit facilities for the general public
- Permitting money to be withdrawn or transferred from one account to another and
- Lending the surplus of deposited money to customers who wish to borrow" (Cox 1981).

1. 2 What Is Fraud?

Blacks law dictionary (Sixth Edition, 1990) defines fraud as "An intentional perversion of truth for the purpose of inducing another relying upon it to part with some valuable thing belonging to him or to surrender a legal right. A false representation of a matter of fact, whether by words or by conduct, by false or misleading allegation or by concealment of that which deceives and is intended to deceive another so that he shall act upon it to his legal injury. Anything calculated to deceive, whether by a single act or combination or by suppression of truth or suggestion of what is false whether it be by direct falsehood or innuendo, by speech or silence, word of mouth, look or gesture".

The rather rigorous definition given above is meant to capture not only the seriousness of the issue at stake, but also the legal, social and institutional dimensions of fraud as they manifest in our everyday lives. Other definitions of fraud include the following:

- "Any intentional misrepresentation of financial information". (1983 Audit Commission Code of Practice)
- "A false representation of fact made with the knowledge of its falsity, or without belief in its truth, or recklessly careless, whether it be true or false" (Derry v Peek)"
- "In legal terms, fraud has been defined as "the act of depriving a person dishonestly of something which is his

or something to which he is or would or might, but for the perpetration of fraud be entitled". (Fagbemi: 1989).

- "A conscious premeditated action of a person or group of persons with the intention of altering the truth and or fact for selfish personal monetary gain. It involves the use of deceit and trick and sometimes highly intelligent cunning and know-how. The action usually takes the form of forgery, falsification of documents and authorizing signatures and outright theft". (Adewunmi: 1986).

According to G.O Nwankwo (1991), "Fraud occurs when a person in a position of trust and responsibility, in defiance of norms, breaks rules to advance his personal interests at the expense of the public interest which he has been entrusted to guard and promote. It occurs when a person through deceit, trickery or highly intelligent, cunning ways, gains an advantage he could not otherwise have gained through lawful, just or normal processes".

The well respected Ronald M. Hawes, vice president bankers trust company also has this to say "Fraud is the disease of the 20th century. It is a global problem with no financial institution or economic system in the world able to escape the growing complexity of fraudulent transactions. Established economies with highly developed control systems and the emerging economies of the world are vulnerable to financial crime, as criminals adopt more complicated, sophisticated and less identifiable methods of fraud….. It should always be borne in mind that fraudsters are difficult to catch. They are always one step ahead. The fraudster knows he/she is a fraudster (but) banks do not know until after the event. Banks must, therefore, look out for and identify clues and cast doubts when situations dictate".

Genesis chapter 27 verse 22 confirmed Jacob as the first recorded fraudster. Jacob impersonated Esau and stole the blessing meant for his brother, Esau. It was their father Isaac who suspected a fraud when he noted that "**the voice is Jacob's but the hands are the hands of Esau**".

2 FRAUD: CONCEPTUAL FRAMEWORK

It would almost amount to an understatement to say that fraud has come to stay. It has been around since the beginning of time and would certainly continue to be an issue until the end of time. Even the Holy Bible has records of early frauds. Genesis chapter 27 verse 22 confirmed Jacob as the first recorded fraudster. Jacob impersonated Esau and stole the blessing meant for his brother, Esau. It was their father Isaac who suspected a fraud when he noted that "**the voice is Jacob's but the hands are the hands of Esau**". However, he did not investigate further to establish the truth; the fraud succeeded.

Since then, frauds have followed the same pattern, albeit with increased sophistication. Hence forgeries, deceit and other un-wholesome practices have continued to be a way of life and the practitioners have continued to smile their way to their banks.

Even residential properties are not immune from the onslaught of fraudsters as Landlords are no longer sure their houses still belong to them. Hence, it is not uncommon to see inscriptions on houses warning all and sundry that "**This house is not for sale"** with the occasional emphasis "**beware of 419".** No doubt, this underscores the extent to which fraudsters have driven fear into the society at large.

Incidentally, banks are their major targets in recent times, not withstanding the increased use of technology in banking operations. Hence, the focus of this paper is on bank frauds and the devastating blow it has dealt on the collective psyche not only in the banking industry but also on the generality of Nigerians.

a. Difference between Fraud and Error

Errors are of commission or omission. Commission means an error of principle, e.g. treating recurrent expenditure as a capital item whilst omission means to exclude. Where an error is intentional, it may be fraudulent.

b. Classifications of Fraud

According to by J.S.R. Venables & K.W. Impey (1985), fraud may be classified into three as follows:

i. Theft: The taking of another's possessions.
ii. Forgery: The falsification of documentation.
iii. Manipulation of accounting records or entries.

3. CIRCUMSTANCES THAT FOSTER FRAUD

The principal circumstances that can foster fraud have been summarized by the acronym COMAS by J.S.R. Venables & K.W. Impey in their book as follows:

Concealment : the chance of remaining undetected
Opportunity : the right place and right time for the fraudster

Motivation : a personal need or greed
Attraction : a desirable target
Success : the chance of avoiding prosecution

4. BANK FRAUD: RECENT STATISTICS

One fundamental source of worry on the issue of fraud in the banking industry is the paucity of accurate statistics. We shall discuss the reasons responsible for this later, but in the meantime, we are going to present the official statistics of the preceding three years (before and after consolidation) which will provide a guide on the seriousness of the matter. Our source is the Financial Institutions Training Centre (FITC) which collates the Frauds and Forgeries returns from banks.

4.1 Before Consolidation (2005)

Just before the consolidation was consummated, the scenario was as follows:

QUARTER 2005 / YARDSTICK	1st Quarter Jan- March ₦	2nd Quarter April-June ₦	3rd Quarter July Sept ₦	4th Quarter Oct Dec ₦
Total Amou nt Involved	1,152,248,997	1,466,910.383	2,258,224,681	2,878,039,083
Actual/ Expected Loss	260,127,499	369,313,757	522,324,919	1,155,652,438

The increasing incidence is obvious from the above.

4.2 After Consolidation (2006)

Just after the consolidation exercise was completed, the situation was as shown below:

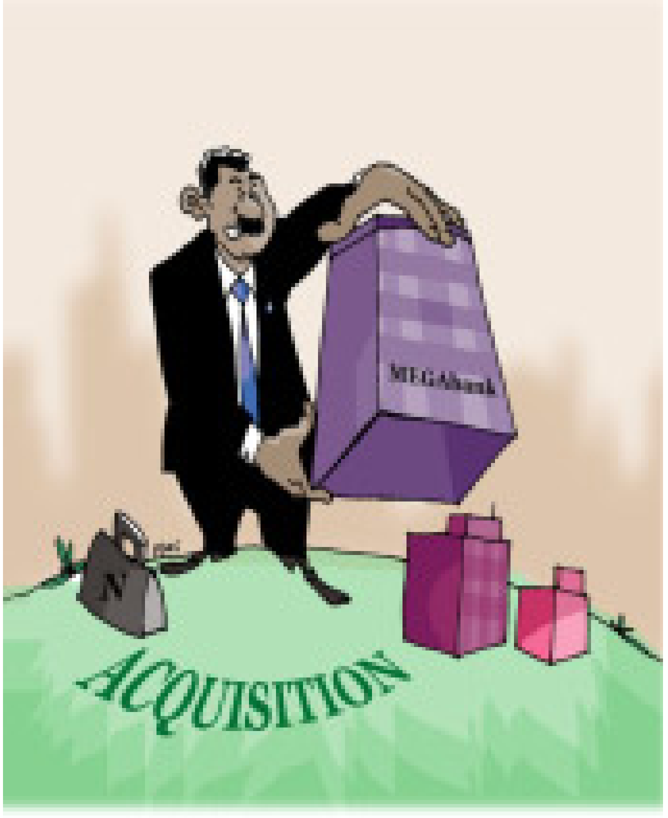
QUARTER 2006 / YARDSTICK	1st Quarter Jan- March ₦	2nd Quarter April-June ₦	3rd Quarter July Sept ₦	4th Quarter Oct Dec ₦
Total Amount Involved	233,822,452	884,405,097	666,755,803	794,310,419
Actual/ Expected Loss	43,135,208	448,831,362	223,011,730	206,387,699

Although there was a drastic reduction, this was only temporary as a result of the consolidation.

4.3 After Consolidation (2007 – 1st & 2nd Quarters)

QUARTER 2007 / YARDSTICK	1st Quarter Jan- March ₦	2nd Quarter April-June ₦
Total Amount Involved	4,221,217,198	1,008,805,445
Actual/ Expected Loss	594,033,839	482,885,779

AS can be observed, things have settled down and it has become business as usual.



5. BANK FRAUDS: INDUSTRY TREND

As was pointed out earlier, the above statistics only serves as a guide on the trend of fraud in the banking industry. In terms of the amount and actual incidence of fraud, the reports submitted to the regulatory authorities are a far cry from the situation on the ground. However, if these figures are not correct it is the banks themselves that are to be held responsible for underreporting.

The problem with bank fraud, therefore, is that everybody knows it is taking place everyday, but nobody knows how much is involved at the industry level. Even within the confines of a particular bank, the facts and figures in relation to fraud often remain the exclusive preserve of a few people, usually those in control department.

Hence, within the banking industry, there are two different but related issues which are rather disturbing:

- Fraud is increasing
- Fraud is being covered up

i. Bank Frauds: The Increasing Trend

Explanation for this must include the following:

• As a result of instability and the grim struggle for survival by some banks, marketing and deposit mobilization have been placed conspicuously on the front burner at the expense of controls.

• There is an increasing army of experienced bankers being thrown into the already saturated unemployment market but who are determined to continue to make a living from the banking system even from outside.

• There is scanty information about fraudsters and their various syndicates, including staff collaborators, who are still keeping their jobs while continuing to pollute and subvert the system.

• Contemporary issues of consolidation, capitalization, right-sizing, rationalization, re-engineering etc. all combine to heighten tension and insecurity in the banking industry. This constitutes a great temptation for otherwise honest staff to look for the non-existent pension and gratuity by "settling" themselves if the opportunity presents itself.

ii. Bank Frauds: The Grand Cover-Up

As an insider at a senior level in the banking system for a long time, it is rather sickening to recall my experience in a particular bank where fraud took place virtually on a weekly basis for several years, yet the position of man-

agement was that fraud cases should not be reported. The question "begging for answer" is: why is there such a grand design to cover-up fraud? The following might provide a clue:

- Fraud is bad news which would also generate bad image and negative publicity; this is not good for banking business.
- Some of the frauds are serious enough to make regulatory authorities wield the big stick against the bank. Bank-owners and executives do not want that.
- Many of the frauds are perpetrated by staff who are related to existing big-time depositors or people within the corridors of power who hold the key to the survival of the bank; you cannot harass or embarrass them.

Unfortunately, this state of affairs does not do anybody any good as a cardinal objective of the reporting principle which is information sharing, is not being achieved. Even on the few cases being reported, the actual details are so scanty that not much is gained from it by way of preventive intelligence.

At the end of the day, everybody loses, the industry is worse for it, while the professional fraudsters smile to their houses as they continue to replicate the same approach from one bank to another.

> There is an increasing army of experienced bankers being thrown into the already saturated unemployment market but who are determined to continue to make a living from the banking system even from outside.

6. FRAUDS, FRAUDSTERS AND THE LAW

The Nigerian law makers have since recognized the existence of frauds and other financial crimes. Hence, adequate provisions have been made via relevant legislation whether during civilian or military regime which include the following:

- The Banks and Other Financial Institutions Decree (BOFID) – 1999
- Companies and Allied Matters Decrees No. 19. 1990 (CAMD 1990)
- The Central Bank of Nigeria (CBN) decree No. 24 of 1991
- Nigeria Deposit Insurance Corporation decree No. 22 1988
- Special Tribunal (Miscellaneous Offences) Act 1990
- Banks employees, etc (Declaration of Assets) Act 1990
- National Drug Law Enforcement Agency Act 1990
- Economic and Financial Crime Commission (EFCC) Act 2004
- Various criminal and penal codes in our statute books

The above pieces of legislation are designed, in the main, to bring to justice not only bank clients and customers but also bank staff and executives who brazenly engage, amongst others, in the following offences:

(a) Fraudulently or knowingly forging, procuring, altering, accepting or presenting to any person, any cheque, promissory note or other negotiable instrument knowing it to be false, forged, stolen, or unlawfully procured (section 3(2) Special Tribunal (Miscellaneous Offences) Act 1990).

(b) Intentionally omitting to make full and true entry in the books of accounts of the bank or destroys, alters, mutilates or falsifies any book of account or makes any false entry therein (sections 435 and 437 of the Criminal Code Act).

(c) Granting of credit facilities, loans and advances, without following laid down procedures or failure to declare interest in such facilities, loans and advances as required (section 18 of BOFID, 1991).

(d) Commits any other offence not specifically mentioned above but which can be construed as fraudulent

Regrettably, however, in spite of the rather elaborate civil and penal provisions enunciated in the different laws cited above, fraud and other malpractices in the banking and financial sector of our economy have not abated. In fact, they have continued to increase leading not only to the failure and distress of several banks but also to the eventual collapse of many others, and the loss of depositors funds.

We can state categorically, therefore, that legal provisions have not succeeded in deterring fraudsters from executing their nefarious agenda on banks. The time has come, no doubt, for non-legal fraud-prevention machinery to be highlighted and given due attention in the entire process.

There is also an urgent need for the institution of both punitive and deterrent machinery as part of the global arsenal to confront the menace of fraud on banks.

(* Chuks Nwaze is a Managing consultant, Control & Surveillance Associates Limited).

BUDGET 2008: inspiring prospects for double digit economic growth

* By Mike Uzor

Fiscal 2008 is the first time the new government of President Umaru Yar'Adua will be implementing a budget planned by its own administration. The 2007 Appropriation Act which was the instrument of the Obasanjo government had run for five months before the leadership baton changed hands on May 29. The 2008 budget will provide an appropriate basis for assessing the impact of the new administration on the economy, as the planning and implementation reside in the same government. It is a budget that is strategically important to both the government and the people. It will test the ability of the new government to sustain the positive signals in the economy and activate new growth potentials of the nation.

The environment for planning the budget and the impressions coming out of the review processes in the Legislature are beaming a ray of optimism about government fiscal conduct. The spirit of openness and transparency in government finances that departed from the nation since the mid 1980s seems to be reappearing. There is apparently a reasonable chance that the overall quality of governance could improve, as law makers join forces with the executive to submerge personal interests in agreeing the budget numbers.

GDP Growth (Percentage)

Year	'01	'02	'03	'04	'05	'06	'07	'08
	4.72	4.63	9.57	6.58	6.51	5.63	*6.21	**6

** CBN / Federal Ministry of Finance Estimate*
*** AFDB/OECD*

How realistic is growth target?

A key question for the budget is whether government spending will be strong enough to keep the economy on the path of growth. The budget's framework seems to make an inspiring statement about fiscal prudence and increased productivity of government spending. This reflects the government target to grow the economy by double digits in 2008 with about the same amount of resources available to the Obasanjo government in 2007.

Government's proposed spending vote of N2.55 trillion in 2008 is just 10.6 per cent higher than the preceding year's number. A GDP growth of 11 per cent is however targeted for the year against an estimated actual growth of 5.8 per cent in 2007. This will be a new high in economic growth, ahead of the 10.2 per cent GDP growth achieved in 2003. The prospects for double digit economic growth will inspire new confidence in the economy and its management.

There is a good chance for government to perform and get economic growth accelerating once again after a three-year slow down to 2006.

The high growth aspiration with a modest increase in government spending presents a big challenge ahead for government. It is however an opportunity to demonstrate what changes and superior fiscal management expertise are now in place to make way for the high performance projection. It is apparent nevertheless that the budget is starving of the necessary funding for delivering the economic growth target indicated. Indications of possible adjustments being made by the National Assembly confirm that law makers have picked up the problem of resource gap on the budget and are taking steps to make a patch up.

Whether the growth target is achievable or represents the usual figure to measure deviation of actual performance from target is one of the real concerns for the 2008 budget. Economic growth performance falling well below projection is a recurring pattern in government budgeting.

In fiscal 2007, government aspired for a high GDP growth target of 10 per cent. The estimated actual growth of 5.8 per cent falls a clear 42 per cent below target. This means that, on the average, every plan and decision premised on the 10 per cent economic growth target is subject to the wide downswing.

Significant under performance is a strong indication of either faulty planning or poor implementation or both. There is yet no clear conviction that the factors responsible for the significant under performance in 2007 have been brought under full control to permit the stronger growth expectation for the current year. It is important for the new government to break free from the pattern of wide deviation from set targets.

Budget numbers generally appear to leave a big room of doubt about the ability to grow the economy that much without major spending to fix the lingering problem of broken down infrastructures. The President seems unimpressed that there is not much to show for huge funds spent on various infrastructural projects so far. He isn't going to be easily persuaded to throw new money at the problems but without new funding the infrastructure problem could escalate.

Revenue caution versus growth optimism

The budget reflects a mixture of extreme caution on revenue projection and rather ambitious growth expectation. It follows the usual pattern of setting crude oil price benchmark and therefore federal revenue well below their potentials and then creating huge excess crude oil receipts. It also follows the pattern of long running fiscal deficits, as the extra crude oil earnings come like a windfall and put no responsibility on government to apply them to balance the budget.

The budget has also not shifted from the huge dominance of recurrent expenditure and a relatively thin capital spending. This will continue to prevent adequate funding of capital projects needed to build capacity for the high economic growth.

The revenue budget for 2008 is planned on the benchmarks of $53.83 per barrel of crude oil and production volume of 2.45 million barrels per day. The figures do not appear to reflect strong expectations of another bullish year for crude oil and sustaining gains in oil output in Nigeria. The oil price benchmark appears quite conservative in the light of the new price highs recorded in the international market for crude oil this year. It can be expected that the Legislature will mark up the crude oil price benchmark to accommodate a higher level of expenditure.

The indicated benchmark of $59 per barrel by the Legislature still remains on the conservative side. A benchmark price of $65 per barrel will appear more realistic, which will step up the ability to fund key projects, reduce the margin of fiscal deficits and provide the platform for the envisaged high economic growth. The extreme conservatism on the side of revenue and high optimism in terms of economic growth are in the moment clearly out of balance.

The 2008 appropriation needs to be sufficiently stimulatory to support government's expectations for strong economic growth in the year. The outlook for crude oil output and sales is quite favourable for this year and taking a full advantage of the situation will provide adequate backing for the GDP growth target of 11 per cent.

The N3.629 trillion revenue expected to be earned from crude oil sales in 2008 is very likely to be exceeded. Without a significant increase in the revenue figure for 2008, government cannot adequately fund key projects earmarked for the year. That will temper the multiplier effects expected from the strong economic growth on employment, income and output in the private sector.

Environment for accelerating growth

The economic and political situation present an enabling environment for government to improve overall economic performance. There is a relatively stable macro-economic environment and the economy has scaled through political uncertainty with a democracy that is no longer at a high risk. There is a good chance for government to perform and get economic growth accelerating once again after a three-year slow down to 2006.

GDP growth stepped up moderately from 5.6 per cent in 2006 to 5.8 per cent in 2007. The environment is quite favourable for strengthening economic growth forces further in 2008. A stable economic environment is all that the nation needs to sustain and further improve upon the gains recorded in major economic indices in the past few years.

The post election environment has raised the level of confidence in the economy by both domestic and external investors. Other positive signals that have made the job of growing the economy easy include some gains in crude oil output, a strong and rapidly growing financial sector and a healthy stock of external reserve. There are also favourable impacts of positive credit rating, moderating domestic inflation and stable interest and exchange rates.

There is a reasonable stability in crude oil output following increased deep water exploration and production of crude oil and natural gas offshore. Community hostility has continued to disrupt oil production in the Niger Delta but offshore drilling activities can be expected to lead to further output gains in crude oil in the current year. Oil companies have been increasing investments in floating platforms since 2006. With improving stability in crude oil output, Nigeria can be expected to achieve the oil production target of 2.45 million barrels per day.

The hopes for stability in crude oil production rest heavily on the high security vote of N444.6 billion for the Niger Delta. This accounts for close to 20 per cent of the federal government budget, which raises optimism for stability in crude oil production in 2008. Apart from the spending vote, government needs to employ more fundamental strategies in attempting to fix the security problems in the area. It needs to utilize the funds effectively to deal with the social and economic problems confronting the people in the Niger Delta.

A statutory allocation of N69.9 billion is made for NDDC in 2008 but how far and how soon the funds are released are quite critical to the commission's performance. Between 2003 and 2007, the commission did not receive half of the money appropriated to it and this accounted for its dismal performance. Timely release of the funds and for the specific projects under the budget is considered important for maximum impact on the living standard of the people.

Government needs to make effective use of increased security votes for the Niger Delta region to secure oil facilities. The various security operatives need to be better equipped for the nation to meet the oil production volumes targeted for 2008. The operations of Naval police need to be reinforced in the waterways to achieve a more secure environment for oil exploration.

Non-oil sector is expected to remain the growth locomotive of the economy with growth likely to marginally exceed the targeted growth of 9.4 per cent in 2007. The sector had grown by 9.0 per cent in 2006. Sustaining the high growth record is an indication of opening up of new opportunities for output and employment in the economy. Increased real sector funding by banks has also supported the non-oil sector growth.

Fresh initiatives are still needed in expanding the capacity for non-oil exports, particularly in the private sector. These include new road and other infrastructure facilities to open up export production villages, new incentives to encourage output of farm produce and above all stable power supply to permit increased production for the domestic and export markets. This is needed to keep up with the target to build the non-oil export basket to contribute one-half of Nigeria's foreign exchange revenue in 10 years.

Stimulating the private sector

Economic growth remains out of balance between the public and the private sectors with the public sector accounting for a disproportionate share of GDP. The oil sector's dominance of government revenue puts a large share of GDP in the hands of government. The private sector has continued to lack the basic facilities for optimum output.

Faced by operating difficulties, industrial capacity utilisation remains low at 45.2 per cent in 2007, a marginal improvement from 44.06 per cent in 2006. The much needed infrastructure support for domestic production is still missing and the private sector output remains significantly constrained by the virtual dependence on privately generated electricity and other facilities.

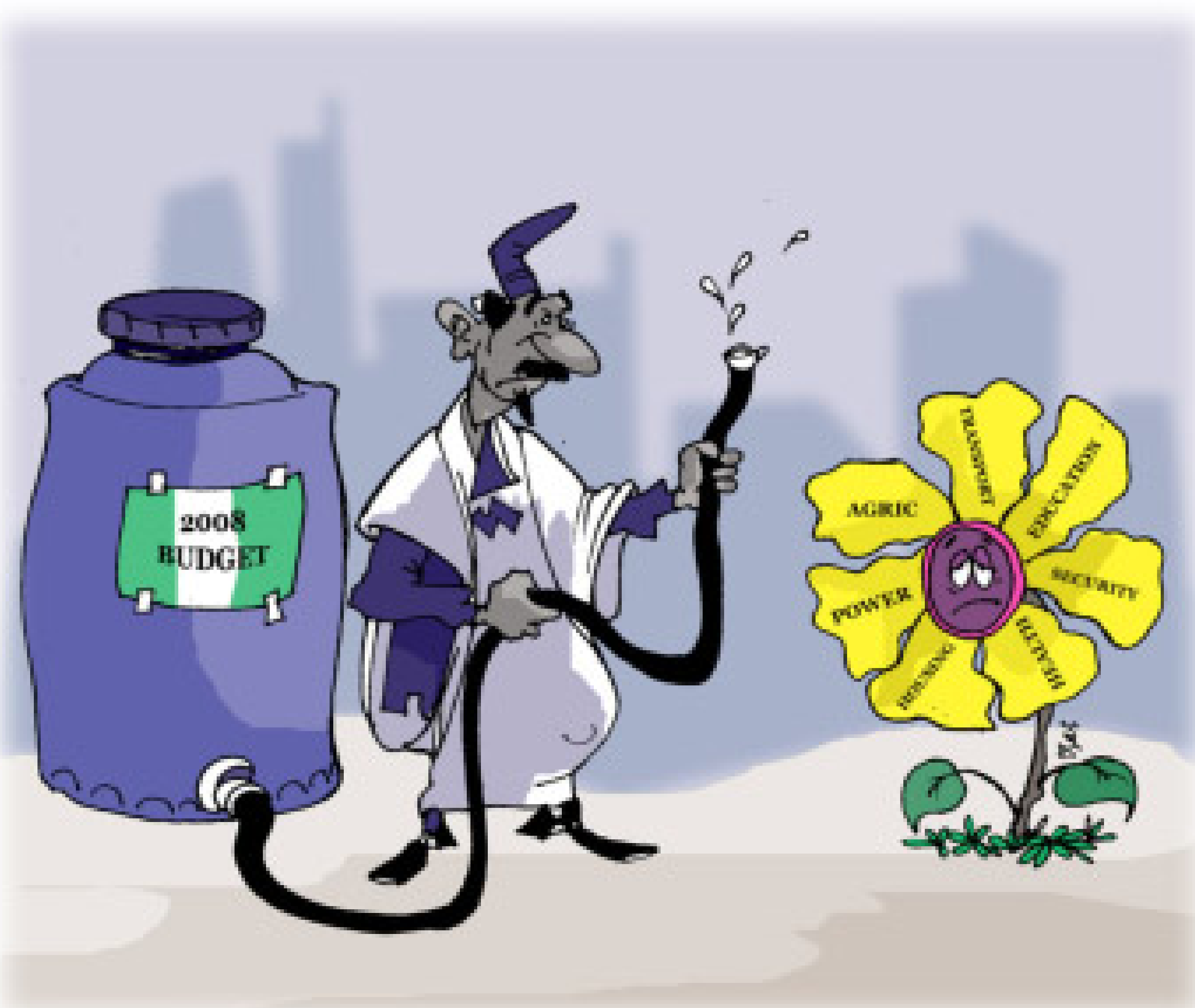
There was some improvement in consumer spending capacity in 2007, which helped industries to grow sales volume and revenue. The impact of this was however limited by production constraints - high cost of domestic output and the availability of cheaper imports. The recovery in industrial production could not cut across more than a few sectors and industries.

Government is voting new money in infrastructure development in the 2008 budget. Improvement of physical infrastructures, electric power generation, transportation and human capital development constitute government priority in the 2008 budget. The President voted about N140 billion for the power sector, which is expected to be supported with alternative funding arrangements for the national integrated power projects. Road construction and rehabilitation will attract N73.1 billion in new government spending in 2008, which leaves a number of key projects without funding.

Deploying government's revenue to create an enabling environment for private sector activity is considered a major task the new government needs to accomplish. There is no visible signal in the 2008 budget that this is going to happen. Various past administrations have not matched words with action in their promises to empower the private sector. It is hoped that the Yar' Adua government will not be like the rest of them in this regard.

The chance to build up the private sector is while government revenue is running up in the sustained high oil price situation. With fiscal deficits sustained over many years, the nation runs the risk of fiscal crisis in the event of a down turn in crude oil prices. A new commitment in building output capacity in the private sector is imperative to achieve a balanced economic growth between the public and private sectors and also create a strong fall back position when oil revenue runs down.

The 2008 budget is lacking in terms of adequate incentives for increased production in the private sector. In place of increased incentives for export and agriculture, government proposes to raise VAT in the year. The private

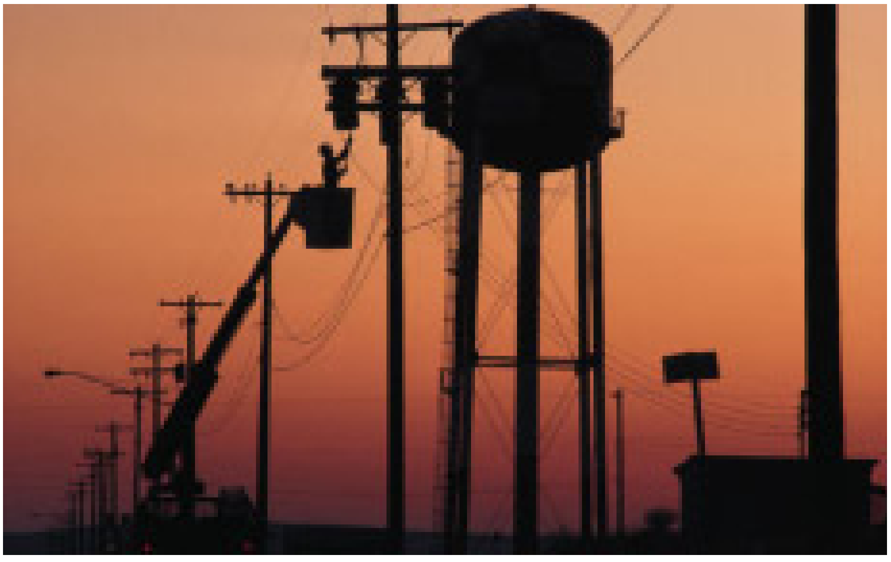


sector needs strong incentives to achieve a low cost operation and drive industrial growth. It needs new tax incentives to expand local content production and compete favourably with low cost imports for bigger market share. The budget should seek to streamline taxes and introduce a tax regime that provides adequate incentives to the private sector.

Power generation

The budget makes a new spending vote of N139.78 billion for the energy sector in 2008. The amount clearly doesn't ring a tone of excitement about power supply prospects in 2008 and no amount possibly will. The solution to the nation's long drawn electric power supply crisis doesn't appear to have a cash-based solution.

Voting new money for the electricity monopoly, has not led to any significant headway in dealing with the situation. Between 1999 and 2007, about N600 billion was committed into the sector but the power supply situation got worse instead. There is no basis for confidence that the new money appropriated will achieve anything reasonable in the sector this time. This is a sufficient signal to seek more fundamental approaches in dealing with power generation and supply problems.



The future of the power supply business is seen to belong to the private sector - to build power plants, generate and transmit electricity to customers. It is expected that it will take a few more years for government to admit that the only way forward for its Power Holding Company is privatisation. In the mean time the nation can expect another year of generator-based operation.

Capital spending

Capital projects got an allocation of N630 billion in the 2008 budget, a drop of 19.4 per cent from N781.5 billion in 2007. The decline in capital expenditure fails to reconcile with the high level of decay in public infrastructures and the high growth target for the current year. Alternative funding is critically needed for government to make a reasonable impact in improving road infrastructures.

Road development needs to be given greater priority in 2008, which will facilitate the development of states and improve security of lives and property on the roads. Nigeria is estimated to lose up to N15 billion and 10,000 lives annually in road accidents. The opportunity for private sector funded infrastructure development needs to be opened wider this year to make up for the deficiency in government funding.

Good news on inflation

A sustaining growth in the agricultural sector is a major factor in achieving reasonable stability in prices of food stuff. This has enabled the Central Bank to keep domestic inflation down for a second year in 2007. Inflation rate dropped to the single digit target in 2006 and further moderation is likely for 2007. The benign behaviour of inflation reflects the absence of a major upward review of petroleum products prices, exchange rate stability and the growing dependence of low cost Asian manufactures.

The 2008 budget envisages that inflation rate will remain in single digit at 8.5 per cent for the year. The effect of that will be to amplify the benefits of sustained economic growth with stimulatory impact on real incomes and consumer spending. A low inflation rate environment will support the Central Bank's stable exchange rate objective and defend the low interest rate policy as well. This is creating a positive real interest rate environment and speaks clearly of a significant improvement in the quality of monetary policy in recent times.

Achieving the low inflation rate target for the current year however requires fresh initiatives by way of cost saving infrastructure support to be attained in a year in which the high economic growth objective has the potential for reinforcing inflation. The outlook on inflation depends on who pays the extra cost of the rising crude oil prices, the government or the consumers.

Fiscal deficit

The budget contains a fiscal deficit of about N400 billion, which isn't excessive by any standard. The issue however is that the deficit shouldn't have existed if the oil price benchmark used in revenue projections had been less stringent. The Legislature is moving in the direction of a balanced budget. That move appears more politically motivated than it is financially imperative.

Inflation Rate

Year	Dec 05	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
	11.9	7.1	8	6.4	4.1	6.6

The budget has a clear need to move to a significantly higher level of appropriation than proposed by the Executive to permit a much higher level of infrastructure rehabilitation and development. Fiscal deficit itself isn't the problem but the wasteful and non-productive use of it often warrants its disapproval. It does not appear appropriate at this time to press for a balanced budget because it is not likely to be sustained.

There is the pressing need to use stimulatory spending to unlock the nation's economic potentials and build a bigger productive capacity. It does not appear appropriate to sacrifice this demand, in fact a responsibility in order to achieve a mere arithmetic number. With expected improvement in government fiscal conduct, a sufficient room needs to be allowed for productive spending to deepen the nation's productive capacity and stimulate the growth functions of the economy.

Debt servicing

With the exit from the Paris Club debt, the debt problem has shifted to the domestic front with an estimated internal debt of N1.9 trillion. The relief at the external front is expected to enable government step up payment of internal debts. Much of the N372.3 billion appropriated for debt servicing in 2008 is for internal debts settlement - local contractors and pension arrears.

This will have a stimulatory impact on the domestic economy by empowering both the production and consumption functions. The provision however falls short of expectations that followed the President's earlier call on the Central Bank and the Debt Management Office to take decisive steps to get the local debt situation under control.

With the likely upward adjustment in revenue and some recoveries that have been made, the possibility of increasing the provision for internal debt settlement can still be considered. Such payments are not a loss to the system but will reinforce the strong economic growth expectation for the fiscal year.

Monitoring budget implementation

No matter how promising the budget document, it remains a plan that needs effective actions to drive it to reality. The new spirit with which the 2008 appropriation bill has been put together needs to be matched with a new strategy to get the plan to work. To get the plan to work, government needs to roll out a budget implementation machinery that must follow every naira of disbursement to its desired destination.

An independent monitoring team is required to keep an eye on government projects across ministries, departments and institutions with reporting responsibility to the Presidency. This will be like extending due process down the line of implementation. The screening processes of government business will no longer end with release of funds but will then continue to meet the continuing test for compliance with agreed quality standards by the monitoring team on a continuing basis. This is one effective way of ensuring that public funds are deployed to serve public and not private interests.

Getting government spending to serve the best interest of the nation is one great task the Yar'Adua government has a great potential to accomplish. The 2008 appropriation bill seems to present a great opportunity to start off the job. The nation is full of expectation that the task of transforming the Nigerian economy now has a fair chance to begin.

(* Mike Uzor is Chief Executive Officer, Datatrust Ltd)

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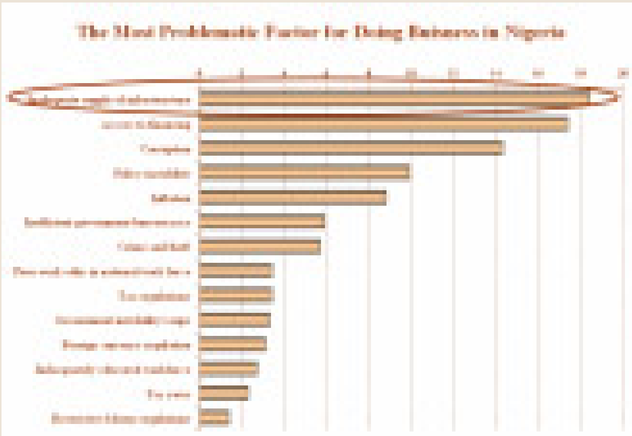
Frontier Infrastructure: The Way Forward for Nigeria

* By Elaine Delaney

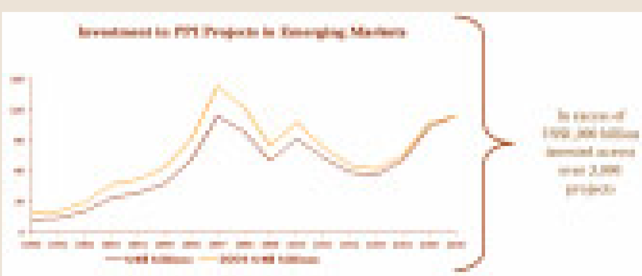
Mind the gap

Identifying the extent of decay in Nigeria's infrastructure is not a difficult task; from transport to health; from energy to utilities, decades of malaise and underinvestment have taken their toll on the nation's infrastructure. Bridging the immense infrastructure funding gap that stifles Nigeria's socio-economic development cannot be met by public resources alone. With an estimated $90 billion bill for addressing the poverty of infrastructure, limited subnational debt programmes and a poor regime of tax revenue collection, the private sector needs to be mobilized. Furthermore, the ability of governments worldwide to successfully implement large scale projects falls far short of the mark. Opening the door to private sector capital brings a host of benefits including increased governmental transparency and accountability, capital efficiency, optimal risk allocation and specialised expertise. Infrastructure investments are inherently "lumpy" with large up front costs, long term revenue streams and tend to be in fixed locations and therefore



2nd Pillar: Infrastructure	Nigerias world ranking out of 131 countries
Quality of electricity supply	128
Quality of port infrastructure	127
Quality of railroad infrastructure	122
Quality of overall infrastructure	120
Quality of roads	114
Available seat kilometers (hard data)	113
Quality of air transport infrastructure	102
Telephone lines (hard data)	89

Source: Global Competitiveness Index 2006/7



may not appeal to all investors. The sheer size and scope of infrastructure investment means that these assets often lend themselves to being naturally monopolies, the upside of which is the inherent economies of scale and scope.

Pillar to post infrastructure

The 2006/7 Global Competitiveness Report cites infrastructure as one of twelve pillars that are fundamental to a country's ability to compete. In this report, Nigeria was ranked 95th in the world overall, behind countries such as Namibia, Botswana and Khazakstan and fared even worse at 119th in respect of infrastructure.

Engaging private capital is therefore a must in order to surmount the obstacles faced by government in the wake of increasing urbanization, limited public bourses and the sheer depth and breadth of infrastructure investment requirements. In order for Nigeria to participate in the global economy, adequate infrastructure must be in place to accelerate the transition from virgin to emerging economy. Privatisation is not a panacea to all ills; it must be implemented methodically and diligently in conjunction with deploying the capital markets to fund specific projects. Private equity, project-based finance, asset-backed finance, privatization, public-private partnerships and bond issues all form part of the toolkit that the government can employ to address the infrastructure deficit. Global capital flows are starting to veer towards infrastructure projects in emerging markets once again. In the wake of the Asian crisis in 1997, appetite waned. However, since 2004 the hunger for alternative investment universes has returned increasing by over 70% to US$95 billion.

The timing is right to kick-start Nigeria's turnaround. In particular, sovereign funds have begun to make specific allocations to this asset class given its diversifying properties, the potential for significant returns and the opportunity for developing inter-governmental relationships. Countries that seize upon these flows will propel their economies forward and charge the engines for growth. Sub-Saharan Africa has been ignored historically given the low creditworthiness of her subjects, the risk profiles of potential projects, shallow local capital markets, weak currencies and poor regulatory oversight coupled with corrupt practices. Funding infrastructure projects has typically been through a combination of equity and limited recourse to debt, that is, debt that is tied to the project itself and not to the sponsors. The ability to attract such debt is fundamental to the success of infrastructure projects; the recent BB- rating attached to Nigeria will significantly improve Nigeria's attractiveness on the world stage. The recent recapitalization exercise of the Nigerian banking system, the re-emerging FGN bond programme and the deepening equity market are acting as catalysts to improve the prospects of project finance. The long-term nature of project financing and the potential for government interference have conspired against international monies finding their way to Nigeria's shores. Having witnessed the first civilian to civilian handover in her history may go some way to alleviate international investors' fears.

Infrastructure planning cannot be achieved in a vacuum; the cross-benefits, both social and economic across the sectors should be factored in. In protecting the viability of projects, maintenance must feature heavily in order to ensure the longevity of the project and hence the anticipated cashflows. The fiscal space available for infrastructure cannot meet the nation's needs; the history of boom and bust spending on grandiose infrastructure projects has drained the country of her supporting arteries. The role of OECD countries in offering financing solutions has not met with much success. The cookie cutter approach adopted by these organisations to meet the unique requirements has failed to make significant inroads; however the landscape is changing and multilaterals are engaging in a variety of new manners that create a greater foundation for enabling viable projects.

Structures for infrastructure

Bankruptcy remote, special purpose vehicles have proved the most viable option for raising private finance for infrastructure projects. In addition, a typical project will have clear risk mitigants to protect the project, its sponsors and the government:

- Covenants on the revenue streams with specified minimum debt service coverage
- Minimum funding levels for reserves
- Limitations on issuance of further debt
- Prioritised ranking order for distribution of cashflows

In order for the project to be viable, it must have the following characteristics:

• Credible sponsors
• Credible and skilled advisors
• Governmental support
• Support from legislative and regulatory framework
• Clear ability to effect title and security
• Clear revenue streams

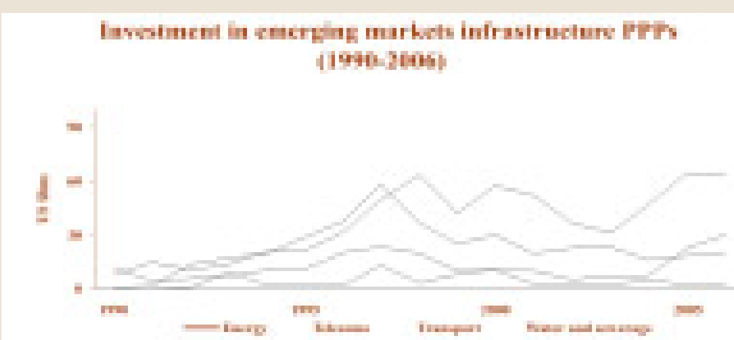
Competition for investable funds is immense; only properly structured, viable projects will attract the level and quality of sponsors that the project needs. In examining the opportunities that are presented within infrastructure, this article focuses on two key areas: transport and power.

Paving the road for development

Roads, rail, air, urban mass transport, bridges, ports, tunnels: every aspect of transport has been neglected. As the economy develops, more goods need to be transported, more people will travel, more products produced; all this can only be possible with a transport network equipped to handle the large volume of goods that a country with a 140 million populace needs. Nigeria's transport sector contributed just under 3% to real GDP, with road transport accounting for over 85% of sector output. The number of vehicles on the road has increased by over 20% since the start of 2000; struggling to traverse a mere 193,000 kilometers of roadways, of which 15% is paved. The annual cost of the poor road networks has been

Africa's expenditure needs to meet the Millennium Development Goals (% of GDP 2005-2015)

Needs	Electricity	Telecoms	Roads	Rail	Water	Sanitation	Total
Investment	1.2%	0.7%	2.2%	0.0%	0.4%	0.6%	**5.1%**
Operation & Maintenance	0.7%	0.5%	1.7%	0.2%	0.3%	0.5%	**3.9%**
Total Expenditure	**1.9%**	**1.2%**	**3.9%**	**0.2%**	**0.7%**	**1.1%**	**9.0%**



Private Infrastructure Projects	Nigeria	Sub-Saharan Africa	Low income
Total $ value of private investment commitments/population size	95.4	35.1	26.4
Total $ value of private investment commitments (million)	13,800.1	27,013.3	63,490.7
Total number of projects	42	184	343

Source: PPIAF

estimated to be N80 billion by the OECD.

The transport woes will not be solved overnight; long-term planning that will anticipate the booming population and ever-increasing urbanization is called for. Specifically, quick wins can be achieved in aviation and urban mass transport. Clearly defined projects that will alleviate the pressure valve that is choking Lagos in particular can be quickly implemented as part of an overall long-term solution.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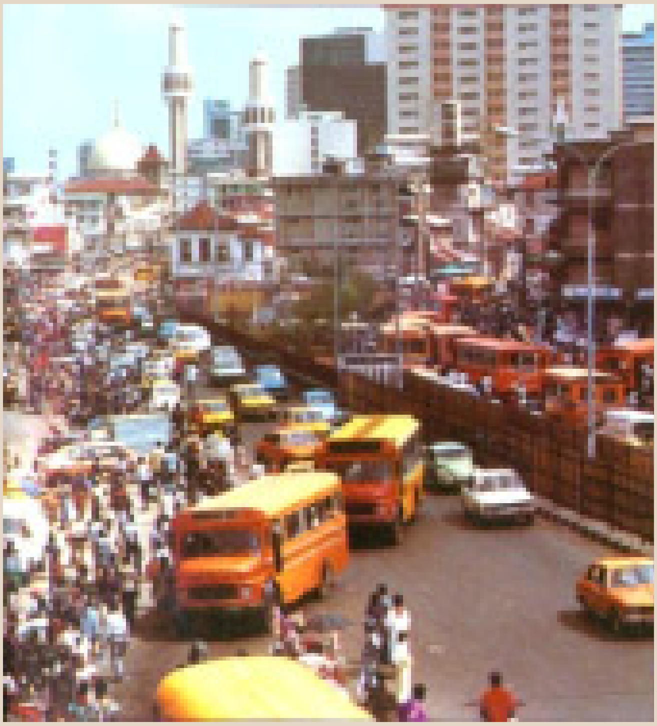
The value added from a functioning transport network is multi-dimensional, acting as a source of employment, a contributor to GDP, a growth accelerator and as a prerequisite for global competitiveness. China has recognised such and plans to invest over US$500 billion over the next thirty years in its rail and road infrastructure, the latter of which is planned to expand by over 70,000 kilometers – in effect larger than the total US highway network. With demand for freight and passenger transport expected to grow at twice the rate of GDP, the impact on China's internal economy will be immense. In recognition of the importance of transport infrastructure, the Nigerian government has sought to integrate such into the NEEDS programme with the overall policy thrusts as:

- Rapid privatisation of key infrastructural service to ensure their effectiveness in putting Nigeria on the path of growth.
- Encouraging private sector initiation and participation in the provision of infrastructure using such methods as Build-Operate-and-Transfer (BOT), Build-own-operate-and-Transfer (BOOT), etc in the provision of infrastructural services.
- Providing targeted intervention in the provision of infrastructure especially to rural areas and vulnerable groups.
- Enhancing and enforcing relevant laws to improve competition in the provision of transport infrastructure. Provide counterpart funding as a sign of commitment for which either the resource involvement is too high or the incentive is too low for private sector participation.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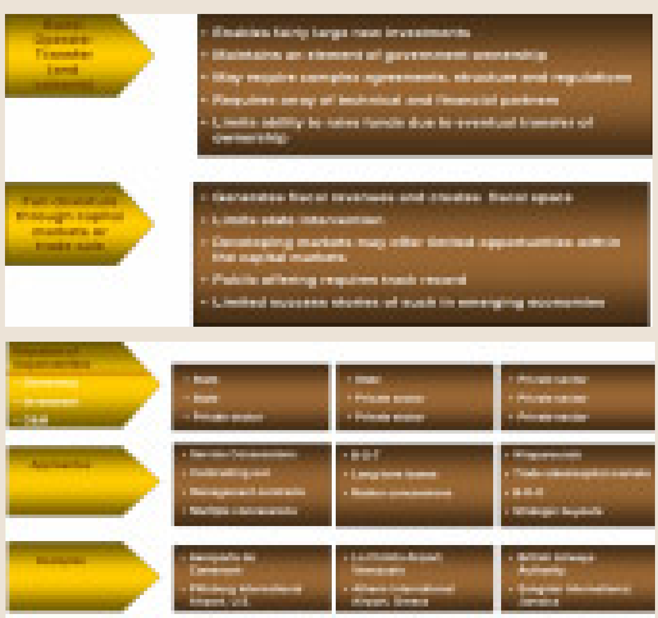
Flying in the face of obstacles

Globally, the trend has been for greater private sector participation in airport infrastructure. The UK paved the way with the privatisation of BAA in 1987 with many European airports following in close pursuit soon after. The model has been seized upon within the emerging markets, with the preferred approach being a build-operate-transfer concession. Under this model, the private sector, often without any direct governmental financial support, will build the airport, operate it for a period of time and eventually transfer ownership back to the public sector. During 1990-2005, over 100 airport contracts valued in excess of $18 billion were entered into by emerging market participants. The growth in air traffic, and consequently revenues, has outpaced general economic growth, making aviation infrastructure an interesting space for private sector monies. The wide array of revenue streams from aeronautical services – monopolistic services such as runways, taxis, aprons and terminals to airside services such as passenger and airport services, shopping, parking and accommodation offers investors a compelling investment opportunity.



Impact of aviation sector	Africa	Asia-Pacific	Europe	Latin America	Middle East	North America
			Jobs (mns)			
Direct/indirect	0.5	3.2	4.1	0.6	0.5	4.6
Catalytic	2.6	6.6	3.4	1.6	0.5	0.8
Total	**3.1**	**9.8**	**7.5**	**2.2**	**1.0**	**5.4**
			GDP (bns)			
Direct/indirect	11.3	148.4	273.6	20.6	16.1	409.6
Catalytic	44.2	540.1	768.1	101.4	46.0	583.2
Total	55.5	688.5	1041.7	122.0	62.1	992.8

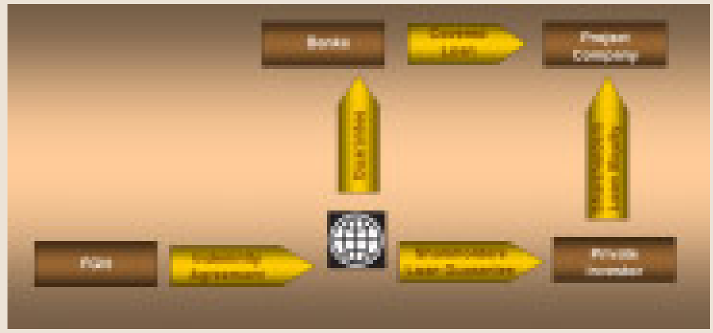
Source: OEF

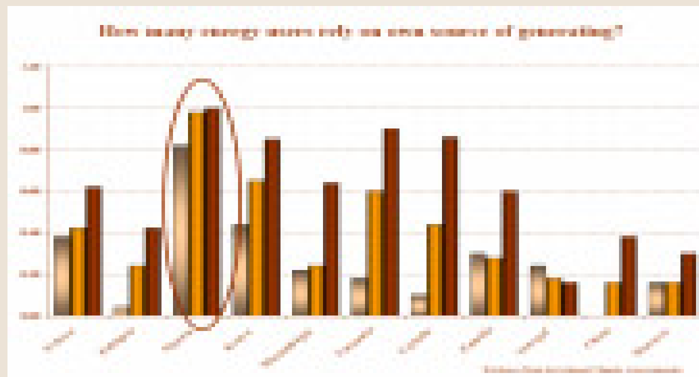
The success or otherwise of the government's capabilities to effectively implement contractual obligations in PPPs is currently being challenged with the difficulties facing the new domestic airport, Murtala Mohammed Airport II, and two of Nigeria's prominent carriers. The conflicting agreements made by the previous administration to both parties demonstrate the clear need for a holistic approach to meeting the transport gap. Both the airlines and PPPs rely upon working in partnership with government; both parties are symbiotic. A vision to create Lagos as an international hub, equidistant between South America, South Africa and Europe should be given serious consideration. The socio-economic impact of transforming Lagos into a world hub can easily be interpolated from the impact of emerging hubs such as Dubai and Singapore. In the wake of the series of air crashes that blighted Nigerian skies, aviation will need to go that further mile if international acceptance is to be achieved.

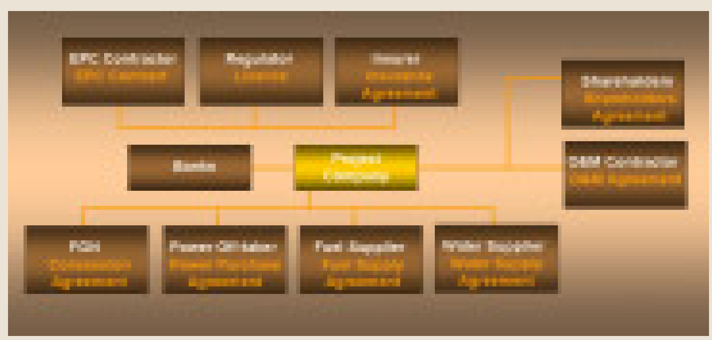
The recent milestone achievement of full 24-hour radar coverage in Lagos and Abuja airports demonstrates the civil aviation authority's commitment to improving the sector. Air transport, unlike road or rail, can entirely cover its infrastructure costs by way of taxation – instantly increasing the appeal to the investment community.

Empowering the economy

The single greatest handicap to global competitiveness in Nigeria is unarguably the lack of power. The cost of doing business is crippling given the requirement to rely on generators to run day-to-day operations. It is difficult to fathom how US$10bn could have been invested in the sector without one further megawatt being added to the grid, as alleged. Nigeria first enjoyed electricity in 1896, a mere fifteen years after its introduction to the UK. In 1950 the Electricity Corporation of Nigeria was formed which eventually merged with Niger Dams Authority to form NEPA. NEPA was a vertically integrated monopoly that controlled every aspect of the power process, from generation to transmission to distribution; the lack of competitive forces driving the power process was absent from the bottom up. Even with the liberalisation efforts in 1998 that granted licenses to other companies to generate electricity, the stranglehold that NEPA held over the distribution process stifled competition. The maximum outage ever recorded was 3.083 MW, unsurprising given the underfunding, excessive executive interference and under-capitalisation that is characteristic of many state-owned enterprises. The transfer of NEPA assets to Power Holding Company of Nigeria (PHCN) brought about a restructuring to create "pure-play" companies - 6 generation companies and 11 distribution companies. One single government-owned entity will survive the privatisation process, namely the transmission company. The challenges posed are immense but not insurmountable – deploying the private sector in conjunction with bi/multilateral agencies will alleviate the pressure on public bourses and create fiscal space. Multilateral agencies can financially engineer the process to mitigate some of the inherent risks thereby making it easier to attract private monies.







The menu of risks that can be mitigated by engaging multilaterals adds the flavour that is needed to make the project a viable one given the endemic failure of the sector, the perceived political risks and the critical role that tariffs will play in the project's fortunes. The World Bank can offer guarantees against tariff risks, regulatory risks, subsidy payments, changes in law and a host of other project-specific risks. All these sweeteners work in tangent to improve the prospects of the project but they cannot substitute for strong supporting fundamentals. The government will need to clearly define the TransCo market rules, the DisCo restructuring and develop a strategy encompassing the technical grid and the distribution. Examining the need to maintain transmission in the hands of government should also be reconsidered.

Power failure

The importance of getting the structure right is fundamental to the success of the project. The high incidence of power project failures globally has created an aversion within the private sector to participating in emerging market power projects. Understanding the causes of the project failures can go some way towards structuring a regime that offers a supportive investment climate. The World Bank's "Analysis of Power Projects with Private Participation under Stress" identifies four key areas that have lead to power project failures:

(i) Regulatory and pricing issues - these constitute the most frequent cause of stress within projects, and within this category, noncompliance with the pricing formula and government interference are identified as the most critical issues

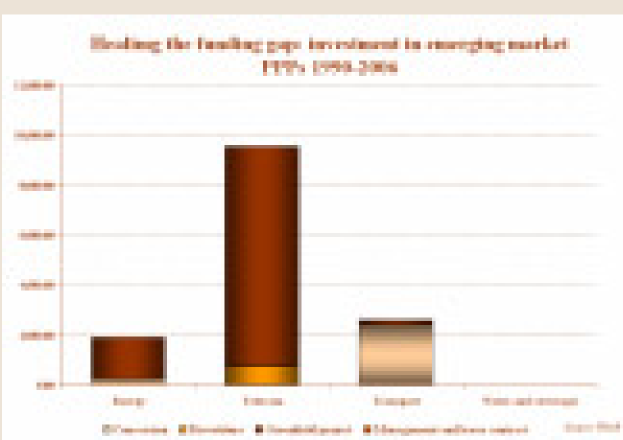
(ii) Sociopolitical resistance to private sector involvement is identified as the second largest factor of stress, and within this category, the most frequent issue is the lack or change in political commitment of the government, as well as social resistance from the public or special interest groups.

(iii) Macroeconomic causes appear equally important, and within this category, exchange rate instability comes as the most frequent issue, followed by low demand due to macroeconomic crisis and other macro events.

(iv) Faulty project structure comes significantly behind the three previous causes of stress, and within this category, project exposure to foreign exchange (forex) risk through the mismatch between nonhedged foreign exchange risk on borrowing and the currency of project revenues is clearly the most frequent cause of stress.

	GDP per capita (US$ - PPP)	Electricity consumption (kWh billion)	Per capita electricity consumption (kWh/person)
Nigeria	650	16.88	120.6
South Africa	4,900	210.7	4,788.6
Ghana	1,400	5.849	265.9
China	5,300	2,859.0	2,164.3
UK	35,300	348.7	5,811.7

	2007	2008	2009	2010
Existing Power Stations	4,027	3,880	3,780	3,780
Existing IPPs	750	750	750	750
Ongoing FGN Projects	1,496	2,512	3,528	4,544
Ongoing NIPP PS	2,203	2,743	2,743	2,743
Proposed JV-IPPs	1,220	2,790	2,790	2,790
Other IPPs	510	1,265	1,365	1,865
Total	10,206	13,940	14,956	16,472



Healing the funding gap

Privatisation enables governments to liberate their balance sheets, raise funds and transfer assets to entities that may be better placed to manage such. Infrastructure investing has evolved from being considered dull and boring to become the latest darling of the investment classes. The definition of infrastructure has expanded to include toll bridges and roads, railways, schools, hospitals, water and waste, government offices, defence, lotteries and even stock exchanges. Given the historical perception of the space as dull and low brow, the availability of qualified manpower, globally, is limited. Investment banks, hedge funds and asset managers have turned their attention to infrastructure investments, particularly at the greenfield level. Whilst the cashflows generated by projects may be uninteresting, the potential for making a significant profit exiting once the project has successfully launched has proved appealing to the likes of Goldman Sachs, Citigroup, Morgan Stanley and Credit Suisse who have all joined the bandwagon with the launch of infrastructure funds. With an estimated $150 billion looking to find a home and the infrastructure crevice in Nigeria, it would seem a match made in capitalist's heaven. The PPP space is therefore one to watch carefully.

(* Elaine Delaney is a Senior Investment Consultant with Zenith Capital Limited)

Small Bribes Buy BIG PROBLEMS

* By Alexandra Wrage & Matthew Vega

The United States leads the world in fines, jail terms, and other penalties for the payment of bribes overseas. An aggressive prosecutorial climate, fuelled by reporting requirements under Sarbanes-Oxley, has moved this issue to center stage for in-house counsel and compliance officers. Companies spend a fortune vetting their third party intermediaries and reviewing any gifts or meals provided to foreign government officials lest the latter be deemed an "inappropriate payment." Yet, the United States is also one of the few countries that raises no objection to the payment of what it euphemistically calls a "facilitating payment" overseas. These are typically small payments to prompt a low-level government official to do what he or she is supposed to do anyway: stamp your passport, provide police protection, clear your goods through customs, or hook up your phone. The US anti-bribery law, the Foreign Corrupt Practices Act (FCPA) expressly carves out these payments as an exception to its otherwise onerous anti-bribery law. A relic from the days when companies thought there wasn't much they could do to avoid paying these bribes, these

Companies spend a fortune vetting their third party intermediaries and reviewing any gifts or meals provided to foreign government officials lest the latter be deemed an "inappropriate payment."

payments linger on in a sort of legal limbo. The enforcement authorities now lag behind many US corporations which have abolished these payments. Companies are beginning to see facilitating payments for what they are: a violation of foreign law (no country permits you to bribe their officials regardless of what the bribe is called), an invitation to books and record violations (few employees can bring themselves to record these bribes accurately), and corrosive of good governance more generally (companies are uncomfortable leaving definitions of permissible versus impermissible bribes in the hands of their employees).

Most multinational companies have made progress toward eliminating traditional bribes from their business practices. They have done this by implementing comprehensive compliance programs, by training local and foreign employees and business intermediaries, and by rigorous internal enforcement. Now some of these companies are taking steps to eliminate "facilitating payments" from their business practices as well. These small bribes, permitted under the FCPA, are made to foreign government officials to encourage them to perform or expedite routine, nondiscretionary governmental tasks.

In this article, we will illustrate how making "facilitating payments" leads to problems, and provide suggestions on how companies can implement and enforce their own internal policy against

bribes of any kind, both large and small. Much of the following guidance was developed from a recent TRACE survey in which 42 companies engaged in international business were interviewed to learn how they have stopped paying small bribes to government officials. Many of the companies interviewed have found that it is possible—occasionally even easy—to refuse to participate in bribery schemes. There are certain techniques that work and certain practices to avoid.

The Problem

In many companies, a distinction has long been drawn between major bribes and mere "facilitating payments." The distinction has been confusing. Bribes and "facilitating payments" are both payments, gifts to, or favors for, government officials—in their personal capacity—in exchange for a desired outcome or relief from an undesirable situation. The legal distinction under the FCPA is supposed to be whether the benefit bestowed was within the official's discretion to grant or whether it was due to the payer as a matter of course. The fact remains, however, the company is almost always seeking better treatment than a non-paying company would expect to receive. If companies make these payments willingly, they are bribes. If companies pay them because they believe they have no choice, they are a form of extortion.

"A corporate policy allowing facilitating payments, except where prohibited by local law, doesn't really work for a global company with global employees. There are so many local prohibitions that the overall policy becomes like Swiss cheese. Add to that the agony of explaining to employees that big bribes are bad but little bribes are okay. End result—"the employees are confused and anxious and are distracted from doing their real job," said Rebecca (Riv) Goldman, VP, commercial law, Rockwell Automation.

Double Standard

Of the handful of countries that permit these small bribes overseas, none permits them at home. A Canadian or American who makes a "grease payment" to a foreign customs official would face criminal penalties for making the same payment to an official at home. Permitting the citizens of one country to violate the laws of another on the grounds that it is "how they do business there," corrodes international legal standards that otherwise benefit multinational corporations. "The cost to businesses of making facilitating payments in emerging markets is more than a nominal fee when such payments undermine the rule of law and good corporate governance," said Susan M. Ringler, senior counsel for international compliance, ITT Corporation.

A Slippery Slope

The mixed message of permissible small bribes versus impermissible large bribes creates a risky arena for business activities. Many companies interviewed complained that small bribes involving routine governmental tasks are both difficult to define and impossible to control. They found that some employees, responding to pressure to ensure timely contract performance, paid bribes for distinctly non-routine services. Furthermore, it is difficult to convey to employees that the payment of large bribes to foreign government officials is likely to cost the employee his job and possibly his freedom, but that the payment of small bribes is acceptable.

"Facilitating payments are often a 'slippery slope' toward outright bribery. In addition to being an unnecessary expense, even when de minimus, these payments are seldom declared by the recipients and thus frequently misrepresented in the books of the providers. In all respects, they can create a nontransparent business environment, particularly when encouraging preferential treatment. We are encouraged to see that international conventions and private sector firms have started to take a hard line against this practice,'' said Suzanne Rich Folsom, counselor to the president and director of institutional integrity, The World Bank Group.

Loss of Local Community's Confidence

It is difficult to maintain a good reputation within a local business community when your company is believed to buy its way past the administrative obstacles that local citizens and companies must endure. When a bureaucratic delay is legitimate, rather than trumped-up by the bribe-taker, purchasing preferential treatment for your company bumps others further down the waiting list.

Inherent Illegality

Every bribe of a government official—regardless of size—breaks the law of at least one country. The host country outlaws payments to its government officials in any amount and for any purpose. Of course, regardless of the statutory language, the interpretation and enforcement of the law varies widely from country to country. Local officials often have inside knowledge about the correct fees, or have the authority to change them locally, giving the officials improper leverage to extract bribes. This legal landscape is further complicated by the fact that officials in many countries are poorly paid and a gratuity is treated as an informal but integral part of their salary.

Regardless, there is no country anywhere with a written law expressly permitting the bribery of its officials. A lack of resources, political will or interest has meant violations are rarely prosecuted, but that is changing. Countries, like China, that are eager to be seen to be combating corruption, are prosecuting the payment of small bribes with increased frequency.

As a result, there is widespread concern amongst the companies that TRACE interviewed that small bribes could lead to costly legal complications. "The fact that facilitating payments are permitted under US law doesn't make them a good idea. These payments are inherently risky and a willingness to make them can be an indication of larger problems with internal controls," according to Deborah Gramiccioni, vice president, TRACE, and former assistant chief of the fraud section at the US Department of Justice.

Accounting Dilemma

The laws of countries that permit the payment of these bribes abroad also require companies to maintain detailed and accurate records of each transaction. Many business people interviewed expressed reluctance to record on company books a "payment to government official for routine task"—creating a record of a violation of local law. Yet failure to keep accurate records of the expense violates US law even if the underlying payment does not. Consequently, companies making these payments must choose between falsifying their records in violation of their own laws or recording the payment accurately and documenting a violation of local law.

Foreign Subsidiaries

With the implementation in many countries of new laws criminalizing the payment of bribes to foreign governments, there is also an increasing risk that a multinational company with foreign subsidiaries will violate the laws of the country where the subsidiary is based. Companies with offices in more than one country expressed concern that if they do not abolish the use of small bribes altogether, they must undertake different compliance programs based not only upon the location of each office, but the citizenship of the people working there.

International Security

In addition to the legal issues, there is a growing concern regarding national security. One US company reported that the terrorist attacks of September 2001, put a new face on the practice of paying small bribes. That company had routinely paid foreign officials for processing work permits and visas, but is now very uncomfortable promoting corruption in this area. If visas can be bought, borders won't be safe. The practice of bribing immigration officials can lead to serious entanglements with the enhanced security laws of the company's home country.

Bad for Business

Paying small bribes is poor legal practice, but more to the point, it is bad business practice. Widespread small bribes set a permissive tone, which invites more and greater demands. Every company that TRACE interviewed expressed dissatisfaction with these small bribes. They told us that they amount to a hidden tax on business, they tend to proliferate, they buy an uncertain, unenforceable advantage and—the most common complaint—they are simply irritating.

Well-run businesses seek clear, dependable terms and enforceable contracts. Small bribes introduce uncertainty, risk, and delay.

> **"The cost to businesses of making facilitating payments in emerging markets is more than a nominal fee when such payments undermine the rule of law and good corporate governance,"**

Reputation as a "Soft Touch"

The standard argument in defense of bribery is that it is impossible to conduct business successfully overseas without paying bribes to ease the bureaucratic and regulatory burden. If true, business should be more efficient for companies paying bribes, but this argument is not supported by research or anecdote.

Two World Bank researchers studied the premise that small bribes reduce red tape and found that "contrary to the 'efficient grease' theory, ...firms that pay more bribes are also likely to spend more, not less, management time with bureaucrats negotiating regulations and face higher, not lower, cost of capital."

Decide and Commit

"It is simpler to do the right thing—to get the response right—on the small issues and, by so doing, to set the tone for the issues that carry the greatest risk for the company," according to the compliance officer of one British oil and gas company.

Several companies reported that the most difficult part of eliminating the practice of paying small bribes was actually focusing attention on the issue and committing to stop. Once a company decides that it wants to eliminate the practice, it must commit itself to spending the time and money needed to carry out its goal through:

- a clear written policy;
- an internal audit;
- training employees and intermediaries;
- a robust internal reporting program; and
- enforcement.

It is crucial that the decision to eliminate the practicehave the full support of and formal endorsement by the highest level of management in the company.

Adopt a Clear Policy

The essential core of any successful anti-bribery strategy is a clear and consistent message to employees, intermediaries, and bribe-takers that bribes of any kind will not be paid. "The direct or indirect offer, payment, soliciting, or acceptance of bribes in any form is unacceptable. Facilitating payments are also bribes and should not be made"

[The Shell General Business Principles]. Such a message is most effectively conveyed through a clear written policy that includes assurances that no employee or intermediary will be penalized for delayed performance that can be directly tied to his or her refusal to pay bribes. If corruption is widespread in your industry or in the countries in which you operate, it is also critical to establish a clear mechanism for reporting demands for bribes to senior management so that appropriate countermeasures can be developed to alleviate the pressure on employees in the field.

Medical and Safety Emergency Exception

Employees of multinational companies are occasionally asked to travel and live abroad in countries where the standard of living is lower than their own country and the risks to health and safety are higher.

Many companies currently rely on the good judgment of their employees in these situations, but some have created a formal medical and safety emergency exception. The situation should be a true emergency and the payment should be accounted for appropriately and reported through management channels both to conform to books and records requirements, and to ensure that management is apprised of and can track the risks to personnel in that country.

Assess

A comprehensive inventory of past payments will enable companies to address each risk area appropriately. This assessment should include a review of the company's areas of operation that pose a high risk of exposure, any past legal or ethical problems, existing policies, procedures and compliance efforts, and all relevant laws and regulations.

A key aspect of the internal assessment is the employee interview. It is crucial that those conducting the assessment speak to the right people. The companies that TRACE interviewed stressed this point more emphatically than any other. Employees in the field understand the local challenges better than the head office; their participation in a change of policy will be critical to its success. They can identify situations for which a small bribe has been useful, help devise alternative approaches, and can tell when a small bribe is not necessary.

The last point is important. Most of the people interviewed recounted stories of employees, new to a foreign assignment and primed with rumors about corruption in the local business community, thrusting money at a government official at the first mention of delay. Employees will be part of the company's solution and report this information only if they are given clear guidance and training in advance and only if they believe they'll be supported if a refusal to pay results in delays or administrative obstacles.

Types of Payments

Payments identified during the assessment are likely to fall into one of four categories and a different response may be required for each. *Traditional Commercial Bribes* are payments to obtain an improper business advantage and are not permitted under any legal exception for small bribes. The suggested response to a traditional commercial bribe:

If a bribe is paid in order to obtain an improper business advantage, the employee involved should be sanctioned and the company protected from the consequences to the extent possible by prompt remedial action. The company's broader policy on bribery of foreign government officials should be invoked to address these situations.

"The direct or indirect offer, payment, soliciting, or acceptance of bribes in any form is unacceptable. Facilitating payments are also bribes and should not be made"

Expediting Payments are usually demanded by entrepreneurial government officials who threaten delay and red tape if they are not paid small amounts at regular intervals. This category includes payments to secure licenses, to overcome unwarranted delays at customs, to resolve disputes over inflated taxation, and to end harassment by local police or military.

Suggested responses to demands for expediting payments include; meet with the individual in question and explain the change in policy.

We are grateful to the Center for International Private Enterprise (CIPE) for permission to publish this article.

(* Alexandra Wrage is the President, Transparent Agents and Contracting Entities [TRACE] and Matthew Vega is the In-house Counsel, Federal Express Corporation.)

Brazil-Nigeria Trade: The Best is Still to Come

* By Tony Monye

Nigeria and Brazil share lots of attributes as economies in common though they both belong to different geographical regions/continents. Brazil lies deep in the southern fringe of the continent of America; the only country that shares border with all her neighbours in the region while Nigeria sits at the trigger point of the gun-shaped continent, Africa. These two countries are home to the largest economies in their respective sub-continental groupings. In addition, while Nigeria is the most populous Black nation on earth, Brazil, on the other hand, is host to the largest assemblage of black people in South America. One other thing that draws a fine line between these two nations is the presence of the Yoruba people of Western Nigeria who bear names that are largely Portuguese but traceable to Brazilian ancestry, like Gomez, Pedro, Fenandez, etc. It was said that they migrated from that part of the world and carved for themselves a new settlement along the coast of Lagos. Little wonder why the world famous Rio Carnival is virtually being replicated, though not yearly in a way in the commercial capital of Nigeria, Lagos.

Nigeria – Brazil Trade Relations: Brazilian Exports

The volume of Brazilian exports to Nigeria, Africa's largest market, in the seven year-period between 2001 and 2007 has consistently moved in one direction – upwards. As at end-2001, Nigeria's imports which stood at US$416.871million, from the South American nation, moved by over 262.79 per cent to close 2007 at US$1,512.357million. This is quite an appreciable growth considering the fact that generally Brazilian exports to the whole of Africa in the same period went up by about 331 per cent. On the other hand, when this trade relationship is looked at through the prism of the football-crazy nation's overall exports to Africa in percentage terms, one could see that the West African nation's share has witnessed some haphazard movements, rising in the following year after the base year and then falling consistently in the two years thereafter. In 2005, Nigeria's share of Brazilian exports to Africa went up. This trend was further sustained in the following year. However, by the end of 2007, it had gone down to 17.63 per cent.

According to figures from the Nigeria official databank, National Bureau of Statistics (NBS), Brazil consistently dwarfed her neighbours, (Nigeria's top-five trade partners of Brazil, Argentina, Colombia, Chile and Peru from South America) in their trade relationships with Nigeria in the period between 2001 – 2005; averaging on the imports side almost 77 per cent of the African country's receipt of goods and services. The Argentines appeared to have largely consigned themselves as the second most favourable import source for Nigeria while Chile has continued to maintain the third position.

Nigeria's imports from the South American nation are fairly skewed in favoured of refined petroleum and other gasoline which account for over 51.60 per cent. Raw sugar cane accounts for about 13.65 per cent. The other significant import items are sugarcane extracts, beet, sucrose, pure chemicals and other solvents, which add up to about 5.58 per cent. Ethylic alcohol adds up to 3.27 per cent of the country's imports from Brazil.

Table 1a: Foreign Trade: Nigeria and Brazil – Exports

Year	Brazils Exports to Nigeria (US$ million, F.O.B.)	Brazils Exports to the World (US$ million, F.O.B.)	Nigerias % of Brazils World Exports (%)	Brazils Exports to Africa (US$ million, F.O.B.)	Nigerias % of Brazils Exports to Africa
2001	416.871	58,286.593	0.72	1,989.031	20.96
2002	507.648	60,438.653	0.84	2,363.340	21.48
2003	469.730	73,203.222	0.64	2,862.004	16.41
2004	505.235	96,677.499	0.52	4,247.699	11.89
2005	953.226	118,529.185	0.80	5,981.354	15.94
2006	1,373.624	137,807.470	1.00	7,455.879	18.42
2007	1,512.357	160,649.073	0.94	8,578.222	17.63

Source: Brazilian Consulate-General, Lagos, Nigeria/Research& EIG

Table 1b: Yearly Figures: Nigeria's Imports from Brazil, Top-5 South American countries (Nmillion)

Yearly/ Country	Brazil	Top-5 Total	Brazil as % South America
2001	19,420.262	22,506.838	86.29
2002	21,686.866	26,886.182	80.66
2003	23,595.545	30,516.371	77.32
2004	21,515.569	29,073.077	74.01
2005	25,708.728	39,745.539	64.68

Source: National Bureau of Statistics / Research & EIG

Nigeria – Brazil Trade Relations: Brazilian Imports

Nigeria's exports to the land famous for its Samba culture went up in a dramatic fashion in the period under review, from US$1,376.174 million as at end-2001, according to figures from the Brazil's Ministry of Foreign Trade, to US$5,273.247 million as at end-2007; a movement of over 283 per cent for the seven-year period. It was a steady yearly rise with the exception of year – 2005 when it dropped from US$3,501.030 million it achieved in 2004 to US$2,643.016 million - a drop of about 24.6 per cent! It however, rebounded in subsequent years and has since maintained its rise. Brazil has also, in the period, shown preference for made-in-Nigeria goods as against imports from other parts of the African continent, as Nigeria's share of the South American nation's imports from the continent has maintained a consistent rise in percentage terms, from 41.31 per cent as at end-2001 to 46.53 per cent in 2007.

Brazil is Nigeria's most favoured export destination, according to the dataset from National Bureau of Statistics. Brazil has consistently taken over 80 per cent of

Nigeria's exports to her top-five trading partners in South America on the average. It accounted for over 84 per cent of Nigeria's exports in 2001 which went as high as 95 per cent as at end-2007. This is a reflection of the closer economic and political relations both countries built during (erstwhile) President Obasanjo years and have since maintained even in the life of the Yar'Adua administration.

Political and Historical Relations: Nigeria and Brazil

If there are any two Southern American and African countries that are enjoying the best of political relations at the moment, these two must be Nigeria and Brazil. Nigeria, under former President Olusegun Obasanjo, and Brazil, under President Lula Da co-chaired the first Africa-South America Summit that took place in Abuja, Nigeria's capital in November, 2006. One of the Abuja resolutions saw to the establishment of the Africa-South America Cooperative Forum (ASACOF) which both countries have pledged to see to its survival.

Table 1c: Foreign Trade: Nigeria and Brazil – Imports

Year	Brazils Imports from Nigeria (US$ million, F.O.B.)	Brazils Imports from the World (US$ million, F.O.B.)	Nigerias % of Brazils World Imports (%)	Brazils Imports from Africa (US$ million, F.O.B.)	Nigerias % of Brazils Imports From Africa
2001	1,376.174	55,601.758	2.48	3,330.950	41.31
2002	1,094.550	47,242.654	2.32	2,675.613	40.91
2003	1,521.662	48,325.567	3.15	3,291.175	46.23
2004	3,501.030	62,835.616	5.57	6,183.473	56.62
2005	2,643.016	73,600.376	3.59	6,656.665	39.70
2006	3,918.296	91,350.841	4.29	8,110.811	48.31
2007	5,273.247	120,620.878	4.37	11,332.538	46.53

Source: Brazil Consulate-General, Lagos, Nigeria/Research & EIG

Table 1d: Yearly Figures: Nigeria's Exports to Brazil, Top-5 South American countries (Nmillion)

Yearly / Country	Brazil	Top-5 Total	Brazil as % South America
2001	116,925.915	137,940.334	84.77
2002	185,454.348	209,431.642	88.55
2003	211,362.933	241,658.498	87.46
2004	410,182.349	471,691.424	86.96
2005	561,845.218	591,045.695	95.06

Source: National Bureau of Statistics / Research & EIG

It should also be recalled that the Portuguese were about the first Europeans to set their feet in Nigeria in the fifteen century and they also were the colonial overloads of Brazil. Nigeria and Brazil are both countries with solid federal structures as their system of governance with each having an area that is carved out of the whole particularly referred to as a 'federal capital territory'; Abuja for Nigeria and Brasilia for Brazil. Nigeria has 36 states as component units of the federation to Brazil's twenty-six.

Comparing Demographics: Nigeria V Brazil

Nigeria and Brazil have some similarities in their demographic features. In terms of population size, both countries are the powerhouses of their regions. Nigeria sits atop the other countries in Africa with over 148.5 million as at end-June 2007 according to the estimates from the United States' Central Intelligence Agency (CIA). With over 190 million inhabitants, Brazil is the most populous nation in South America as at end-July 2007. On the basis of net yearly addition to population, the Nigerian figure, at approximately 2.38 per cent, is much higher than Brazil's 1.00 per cent. This means that if these growth rates are maintained over a reasonably long period, the Nigerian population might dwarf the Brazilian figure in the coming years. On the average, a Brazilian, male or female, is expected to live much longer than their Nigerian counterparts. The average Brazilian life expectancy is, at the moment, put at 72.24 years for the overall population; with the male figure put at 68.3years against the female's 76.38 years. Nigerians, on the average, are still expected to have a lifespan of less than 50 years; with the average Nigerian male expected to live shorter than the female with 46.83 years and 48.07years, respectively. There are many factors than could account for this longer life expectancy for the Brazilians. These could be in the area of improved medical facilities, literacy rates etc, all in favour of the South Americans.

Benchmarked against the Brazilians, on the average, the Nigerian female is quite fertile. A Nigerian woman is anticipated to have slightly below six children on the average during the course of her life time. On the other hand, the average Brazilian female is okay with about two children. Sexual and other reproductive health education which is quite available in Brazil might account for this differential.

Brazil is a massive country in terms of land mass, placed side by side to Nigeria. With 8,511,965 total square kilometres, the South American nation is about ten times the Nigerian land size area which is less than one million

Table 2: Key Demographic Indices: Nigeria and Brazil

Index	Nigeria	Brazil
Population (millions)	148.5 (June 2007)	190.011 (July 2007)
Population Growth Rate (%)	2.379 (2007 estimate)	1.008 (2007 est.)
Life Expectancy at Birth:		
Total Population (years):	47.77	72.24
Male (years):	46.83	68.3
Female (years):	48.07	76.38
Total Fertility Rate (TFR):	5.45 Children born / Woman (2007 est.)	1.88 children born/Woman (2007 est.)
Land Area:		
Total (sq. km)	923,768	8,511,965
Land (sq. km)	910,768	8,456,510
Water (sq. km)	13,000	55,455
Land Use:		
Arable Land:	33.02%	6.93%
Permanent Crops:	3.14%	0.89%
Others:	63.84% (2005)	92.18% (2005)
Administrative Divisions	36 States and a Federal Capital Territory (FCT) Abuja	26 States and I federal District

Source: Central Intelligence Agency and other websites

square kilometres. In fact, the South American nation is the fifth largest in the world in terms of land size, coming after Russia (17,075,400 sq. kilometres), Canada (9,976,140 sq. kilometres), United States (9,629,091 sq. kilometres) and China (9,596,960 sq. kilometres). Brazil also has much larger waterways compared to Nigeria with 55,455 and 13,000 square kilometres, respectively. In percentage terms, Nigeria, with over 33 per cent, has a much larger arable land compared to Brazil at 6.93 per cent. It is therefore, less wonder why Nigeria has assumed the stature of the food basket of Africa.

Comparing Economies: Nigeria V Brazil

By the end of year-2006, Brazil had joined the exclusive list of countries that are classified as the 'trillion dollar economies' – a group of fourteen countries as at end-2007. By year-end 2007, the Brazilian economy, in nominal GDP, has grown to US$1.838 trillion. This figure puts it at slightly over six times the Nigerian figure which as at the same period stood at US$294.8billion at purchasing power parity (PPP), according to the release from the United States' Central Intelligence Agency (CIA). With these figures, Brazil tops all other countries in Southern America. Argentina and Venezuela came a distant second and third with US$523.7billion and US$335.0billion, respectively. On the other hand, Nigeria still trails behind South Africa, the continent's leading economy and Egypt whose GDP figures as at end-2007 were US$467.6billion and US$431.9billion, respectively. Nigeria is closely followed by Algeria with US$268.9billion as at the end of the same period.

According to the World Fact book of the Central Intelligence Agency (CIA), Brazil is ranked as one of the top-ten economies in the world. She is just behind France, a core member of the Europe Union, with US$2.067trillion and atop Italy with US$1.80trillion as at end-2007. It is noteworthy that Africa's top two economies, South Africa and Egypt, for the first time made the list of the world's top-twenty economies with US$0.468trillion and US$0.432trillion, respectively.

In real terms, the Nigerian economy grew by about 6.1

Brazilian fishermen

Niger Delta fishermen, Nigeria

per cent in 2007. This percentage growth rate eclipsed the Brazilian figure put at 4.9 per cent for the same period. Several factors accounted for the high growth rate achieved by the Nigerian economy in 2007. These include stable political climate—for the first time Nigeria witnessed democratic transfer of power from one civilian government to another; increasing awareness of opportunities in the Nigerian capital market; improved contributions of banks to the real sector; improved macroeconomic management, and massive inflow of foreign direct investments, among others. The Brazilian per capita GDP at US$9,700 is over four times that of its Nigerian counterpart of US$2,200 as at end-2007. This could have some positive impacts on the standard of living of the average citizen in both countries.

As at the end of 2007 the two countries Brazil and Nigeria have, between them, amassed wealth in the form of foreign reserves to the tune of US$228.33billion. The Brazilian economy, the more buoyant of the two had a higher value with US$178billion in its coffers. The Nigerian economy accounted for the remainder of the sum as at the end of the period. Foreign reserves positions in both countries have assumed a steady growth position since 2004. For instance, Brazil's foreign reserves rose by over 544 per cent to US$180.334billion as at the end-2007 from US$28.00billion as at end-2004. On the other hand, Nigeria's position went up by over 202 per cent, from US$16.955billion as at end-2004 to US$51.32billion at end-2007.

There are some striking similarities in the composition of the two economies especially with regards to sectors' contributions to GDP. This is because the two countries are classified as both developing as well as emerging economies. For Brazil, the services sector contributes the largest share to the economy with about 64 percent while the industry sector is the lead contributor to the Nigerian GDP with about 53.1 per cent. Agriculture contributes the

Table 3: Key Economic Measures: Nigeria and Brazil

Index	Nigeria	Brazil
GDP (Purchasing Power Parity)	$294.8 billion (2007 est.)	$1.838trillion (2007 est.)
GDP (Official Exchange Rate)	$90.52 billion (2007)	$1.269trillion (2007 est.)
GDP - Real Growth Rate (%)	6.1 (2007)	4.9% 2007 est.)
GDP Per Capita (PPP)	$2,200 (2007)	$9,700.00 (2006 est.)
Military Expenditures - % of GDP	1.5 (2006)	2.6%
Foreign Reserves	$50.33 billion (2007)	$178 billion (December 2007 est.)
GDP Composition by Sector: Agriculture: Industry: Services:	 17.6% 53.1% 29.3% (2007 est.)	 5.1% 30.8% 64.00% (2006 est.)
Exchange Rate to the US$	N117	
Labour Force: Unemployment Rate:	50.13 million (2007) 5.8% (2006)	99.47 million (2007 est.) 9.8% (2007 est.)
Investment (Gross Fixed)	24.3% of GDP (2006)	16.8% of GDP (2006 est.)
Budget: Revenue: Expenditures:	 $20.5 billion $21.82 billion; including capital expenditures. (2007)	 $244 billion $219.9 billion (FY 07)
Inflation Rate (Consumer Prices):	6.5% (2007)	4.2% (2006 est.)
Public Debt:	14.8% of GDP (2007)	46 of GDP (2006 est.)
Debt External	$6.278 billion (2006)	$191.2 billion (2006 est.)
Natural Resources:	Natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, arable land etc	Bauxite, gold, iron ore, manganese, nickel, phosphates, platinum, tin, uranium, petroleum, hydropower, timber.
Exports: Total: Commodities: Key Partners:	 $61.81 billion f.o.b. (2007) Petroleum and Petroleum products, 95%, Cocoa, rubber. US. 48.9%, Spain 8.0%, Brazil 7.3%, France 4.2% (2007)	 $159.2 billion f.o.b. (2007 est.) Transport equipment, iron ore, soybeans, footwear, coffee, autos. US. 17.8%, Argentina 8.5%, China 6.1%, Netherlands 4.2%, Germany 4.1% (2006)
Imports: Total: Commodities: Key Partners:	 $30.35 billion f.o.b. (2007) Machinery, Chemicals, transport equipment, manufactured goods, food and live animals etc. China 10.7%, US. 8.4%, UK5.8%, Netherlands 6.2%, France 5.6%, Brazil 5.1%, Germany 4.5% (2006).	 $115.6 billion f.o.b. (2007 est.) Machinery, electrical and transport equipment, chemical products, oil, automotive parts and electronics US 16.2%, Argentina 8.8%, China 8.7%, Germany 7.1%, Nigeria 4.3%, Japan 4.2% (2006)

Sources: Central Intelligence Agency (CIA), United Nations Development Programmes (UNDP), African Development Bank (AfDB), National Bureau of Statistics (NBS) and Research & Economic Intelligence Group, Zenith Bank.

least for both economies though in varying degree; 5.1 per cent for the Brazil and 17.6 per cent to the Nigeria. It is because of these statistics and some others that the World Economic Forum in its recent handbook classified the Nigerian economy as belonging to the first stage of development which also has countries like Cameroun, Chad, Pakistan etc. These are economies that are still grappling with some of the teething problems of economic and political development. The same handbook further classified the Brazilian economy among those in the second stage of development alongside those of Malaysia, Jamaica, Latvia, South Africa, Algeria etc. These are economies that have wriggled out of the basic problems of development. In between this divide is the transition stage which contains countries like Venezuela, Oman, Ukraine, Botswana etc.

Unemployment rate in Nigeria as at end-2007 at 5.8 % was much lower than the Brazilian estimate put at 9.8 per cent. If the unemployment rate differential was benchmarked against a higher real GDP growth rate for Nigeria of about 6.1 per cent for 2007, it becomes understandable why Brazil has a lower inflation rate for the period. This could be because demand remained depressed in the Brazilian economy as against rising ones for the more prosperous Nigerians. All things being equal, inflation rate tends to rise in economies of expanding demands that are not being matched by increasing supply sources especially where the demand could be said to be effective as exemplified by the Nigerian scenario. At least for the two economies, inflation remained at single-digit as at the end of 2007.

Nigeria's public debt as a percentage of her GDP as at end-2007 was about three times less than the Brazilian figure at 46 per cent. The Nigerian figure has been largely helped by the downsizing of her external debt profiles in the past four years through a combination of debt forgiveness that she enjoyed from the Paris Club of creditors and other multilateral agencies and aggressive debt repayments she undertook. On the other hand, the Brazilian public debt to GDP ratio has just over-stepped its critical threshold level at 46 per cent. Further fund raising and spending on the part of the Brazilian government through the issuance of debt instruments might not, in the long run, augur well for her economy if such expenditure is not on viable capital projects that would be beneficial to the economy. Nigeria, under President Umar Musa Yar'Adua, appears less inclined to walk the way of increasing external debts like the nation did in the last two decades of the

The Amazon Rain Forest, Brazil

previous century. On the size of each individual country's external debt overhang, Nigeria appears to be doing much better than Brazil. The West African country as at end-2006, according to the figures from World Fact book of the Central Intelligence Agency, has about US$6.278billion. This figure is quite commendable when scaled against the Brazilian figure estimated to be about US$191.2billion as at the end of the same period.

A Nigerian woman is anticipated to have slightly below six children on the average during the course of her life time. On the other hand, the average Brazilian female is okay with about two children.

In terms of natural resource endowments, both countries could be said to be quite rich, at least considered alongside Japan, a highly developed economy with little or no natural resources. Mineral resources such as natural gas, petroleum, tin, iron ore, gold, bauxite, manganese, phosphates coal, limestone and a host of others are found in commercial quantities in both countries. It is in the light of their natural resource endowments that both countries could be said to have a highly developed extractive industry though there is still room for improvement.

Nigeria and Brazil contributed about US$221.01billion to global export trades in 2007. Brazil contributed over two and a half times that of Nigeria in the ratio of US$159.2billion to US$61.81billion as at end of the period. While Nigeria's exports were largely products from both the primary and extractive industries like crude oil and petroleum products, Brazil's contributions

Table 4: Top-20 Economies in the World as at end-2007 by GDP (Nominal)

Rank	Country	GDP (trillions of USD)
1	United States of America	13.86
2	China	7.043
3	Japan	4.305
4	India	2.965
5	Germany	2.897
6	United Kingdom	2.147
7	Russia	2.076
8	France	2.067
9	Brazil	1.838
10	Italy	1.800
11	Spain	1.362
12	Mexico	1.353
13	Canada	1.274
14	South Korea	1.206
15	Australia	0.767
16	Turkey	0.668
17	Netherlands	0.639
18	South Africa	0.468
19	Egypt	0.432
20	Belgium	0.379

Source: CIA/World Fact book – 2007/ Research & EIG

In terms of natural resource endowments, both countries could be said to be quite rich, at least considered alongside Japan, a highly developed economy with little or no natural resources.

were in transport equipment, footwear, autos and a handful of agricultural products such as soybean and coffee. It should be noted that Brazil ranks as one of the world largest exporters of both coffee and soybeans. The United States ranked in 2007 as both countries' most favoured export destination with 48.9 per cent and 17.8 per cent of Nigerian and Brazilian exports, respectively.

On the import side of international trades, the two countries imported goods from other nations, in value terms to the tune of about US$145.95billion. With US$115.6billion as the sum spent on imports in 2007, Brazil dwarfed the Nigerian figures of US$30.35billion by over three times. Both countries share some similarities of goods high on the import list. These are basically machinery, electrical and transport equipment, chemicals, electronics, among others. In 2007, China served as the West African nation's most favoured import source, while

google.com

Municipal Market, Florianopolis, Santa Catarina

Table 5: South America's Ten Largest Economies as at end-2007

S/No.	Country	Gross Domestic Product ($ - Billion)	Population (Millions)	GDP/Capita
1	Brazil	1,838	190.011 (July 07 Est.)	9,700
2	Argentina	523.7	40.302 (July 07 Est.)	13,000
3	Venezuela	335.00	26.024	12,800.00
4	Colombia	320.4	44.380 (July 2007)	7,200
5	Chile	234.4	16.285	14,400
6	Peru	217.5	28.675	7,600
7	Ecuador	98.28	13.756	7,100
8	Bolivia	39.78	9.120	4,400
9	Uruguay	37.05	3.461	10,700
10	Paraguay	26.55	6.669	4,000

Source: Central Intelligence Agency (CIA) World Fact book – 2006

Table 6: Top-10 Economies in Africa as at end-2007 by GDP (Purchasing Power Parity)

African Ranking	Country	GDP (Billions of USD)
1	South Africa	467.6
2	Egypt	431.9
3	Nigeria	294.8
4	Algeria	268.9
5	Morocco	127.00
6	Sudan	107.8
7	Angiola	80.95
8	Libya	78.79
9	Tunisia	77.16
10	Kenya	57.65

Source: Central Intelligence Agency World Fact book - 2007/ Research & EIG

Table 7: Foreign Reserves Positions: Brazil V Nigeria in Billions of US$

S/No.	Year	Brazil	Nigeria
1	2001	38.00	10.416
2	2002	15.00	7.681
3	2003	22.00	7.468
4	2004	28.00	16.955
5	2005	54.00	28.279
6	2006	90.00	41.90
7	2007	180.334	51.32

Table 8a: Major Exports – Nigeria to Brazil (2006)

Products	Value US$ F.O.B	Percentage of Exports (%)
Total	3,884,591,768.00	100.00
Total of the Main Exported Products	3,884,591,768.00	100.00
Total of Crude Petroleum	3,736,143,841.00	96.18
Naphthalene for the Petrochemicals	140,924,676.00	3.63
Depilated Skins of Ovines (sheep), Dried, Crust	2,149,336.00	0.06
Goatskin / Leathers, Wet Blue	2,112,260.00	0.05
Other types of Cotton not Combed or Carded	2,046,344.00	0.05
Goatskins/Leathers Caprines, Dried State Crust	874,625.00	0.02
Depilated Skins of Ovines Curt, Cromo Wet Blue	255,084.00	0.01
Leather Caprines, Tanned Finishings	25,259.00	-
Other Depilated Skins of Ovines, Pre-tanned	23,731.00	-
Other tools for Perforation, etc of Common Metals incl. parts	14,813.00	-
Other Centrifugal Pumps	6,490.00	-
Parts of Taps, others, Dispositiv. F/Canalisations, etc	5,534.00	-
Original Production of Statuary Arts or of Sculpture	4,219.00	-
Arabic Gum	2,881.00	-
Statuettes other objects, of Wood, F/Ornamentation	1,613.00	-
Other Materials Veget/Miner. Of Engravings, Works of Arts, etc.	548.00	-
Statuettes/Obj. Ornament. Of Common Met. Silver/Gold/Platinum	204.00	-
Others works of Natural Leather or reconstituted	155.00	-
Artefacts of Wood, for Tables or Kitchen	92.00	-
Phosphates. Aluminocalcicos, natures.Cre-fosfatado, N/Moidos	33.00	-
Basket making, of plant materials	19.00	-
Door bars/etc. of plant materials, textiles/paralleled	7.00	-
Machine parts & Air-conditioned Appliances	4.00	-

Source: SECEX/ Brazilian Consulate-General (Lagos Nigeria)

the United States remained so for the South American nation. Generally, both countries, in 2007, had a positive balance of trade in their relationship with the rest of the world though the margin was fairly wider for the Brazil to the tune of US$43.6billion as against US$31.46billion for the Nigeria.

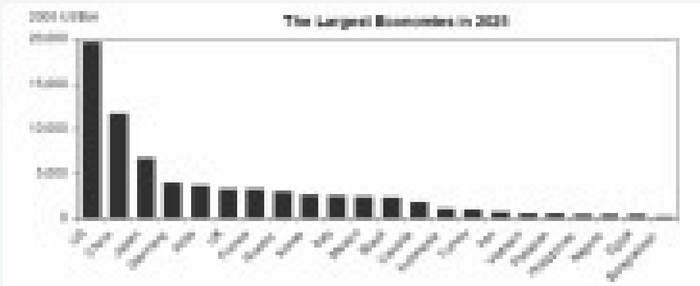
Nigeria-Brazil: Goldman Sachs' Analysis

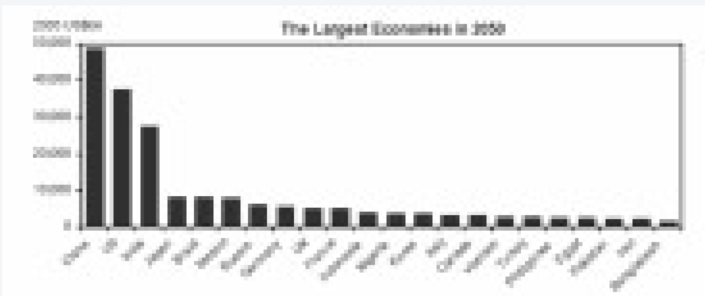
Brazil and Nigeria seem to be headed in the same direction but at different paces though they are both surpassing the projections according to a study by world renowned investment house, Goldman Sachs. According to the study, these two countries will rank amongst the twenty largest economies in the world by 2025: precisely 12th largest for Brazil and 20th largest for Nigeria. That's about seventeen years from now. For instance, Brazil's GDP by 2010 was projected to be about US$916billion. However, according to the Central Intelligence Agency's (CIAs) World Fact Book, the Brazilian economy currently ranks as the ninth largest

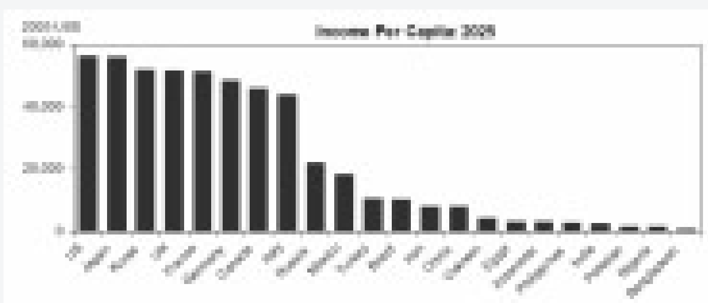
Table 8b: 20 Major Imports – Brazil to Nigeria (2006)

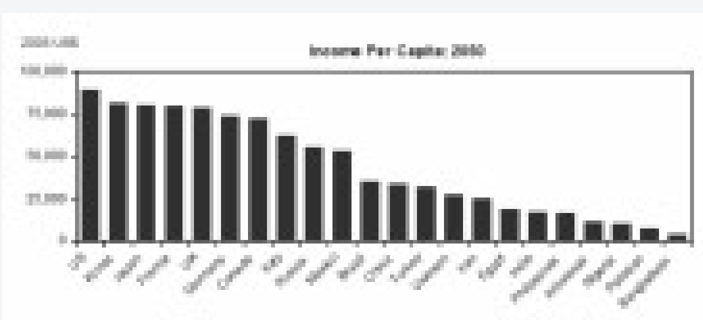
Products	Value US$ F.O.B	Percentage of Imports (%)
Overall Total	1,512,357,010.00	100.00
Totals of Main Products Exported	1,491,232,598.00	98.60
Other Gasolines	780,395,852.00	51.60
Sugarcane, Raw	206,387,084.00	13.65
Other sugarcane Extracts, Beet, Sucrose Pure Chem, Sol	84,462,985.00	5.58
Ethylic Alcohol, N/Denatured, C/Vol. Teor Alcoolico>=80%	49,409,790.00	3.27
Automobile Vehicles, F/Transp>=10Persons, W/Motor Diesel	35,171,448.00	2.33
Glutamic Acid Salts	32,435,184.00	2.14
Polypropylene W/O Charge in Primary Form	27,787,126.00	1.84
Polyethylene Linear, Density<0.94, in Primary Form	18,086,062.00	1.20
Other Airplane Turbojet, etc. 7000KG<Weight<=15000KG, Vacuum	17,566,567.00	1.16
Other tubes Hollow Iron/Steel, F/Oleod./Gas Duct	15,447,233.00	1.02
Refined Copperwire, Big Dimension DA Sec. Transv>6MM	10,939,460.00	0.72
Bodyframe F/Vehic. Automob. Transp>=10Persons or F/ Loads	10,381,482.00	0.69
Oil Lubricants W/O Additives	10,303,076.00	0.68
Zinc N/LG. Cont. Zinco>=99.99% , electrolytes, in Ingots	10,074,048.00	0.67
Other Polypropylene W/O charge, D>=0.94, in Primary Form	9,514,072.00	0.63
Chassis W/Motor F/Vehics. Aut omo. Transp.Persons>=10	9,031,214.00	0.60
Paper/Cardboard Kraftliner, F/Covering, Crus, in Rolls?FLS	8,108,530.00	0.54
Other. Pipes of Iron/Steel, W/Seam, F/Oil Ducts/Gasducts	7,173,950.00	0.47
Copolymer ethylene/Acetate Vinyl, In other Primary forms	6,266,983.00	0.41
Cement Portland, Common	6,206,377.00	0.41

Source: SECEX/ Brazilian Consulate-General (Lagos Nigeria)









economy in the world on the basis of nominal GDP as at year-end 2007 with US$1.838trillion. This means that the Brazilians have since attained the future expected heights, today. On the other hand, Nigeria's GDP, according to Goldman Sachs, was projected to be about US$126billion in 2010 but with data from the CIA as at year-end 2007 it stood at US$294.8billion. It means that the West African nation's economy has achieved twice its projected target three years before its due date. The United States will continue to rank as the apex economy in the world by 2025 with a project GDP position of US$19.644trillion.

By 2050, according to Goldman Sachs, the two economies would have made further progress. The Brazilians would have moved further up by seven places from the 12th largest it was projected to achieve in 2025 to the 5th largest by the end of the projected year. In the process, beating countries like United Kingdom, France and Germany, all core members of the Group of Eight (G8), the world's present-day economic 'super powers'. For the Nigerian economy, it is the same song all the way as the West African nation is anticipated to move by eight places to the 12th largest economy in the world from the 20th position it is expected to achieve in 2025. By that time, 2050, Canada and Italy will be the only two countries among the G8 that will have their economies on lower scales than Nigeria's. By 2050, the United States would lose its position as the world's premier economy to the Chinese whose economy will have GDP value in excess of US$48.571trillion, about US$10 trillion more than the United States' value of US$37.666trillion.

On per capita income basis, both countries exceeded their projections as the average citizen's earnings inched up massively. Brazil according to Goldman Sachs' report would have US$4,685 as per capita income. This figure is an extreme depression of the actual value which put it at US$9,700 as at end-2007 according to the data from the World Fact Book. A value much nearer its projected figure for 2025! It is the same story for the average Nigerian's earnings for the period. Goldman Sachs put the Nigerian per capita income to be about US$872 for year 2010. However, actual figure for 2007 put it at US$2,200; almost three times its projected value three years earlier. By 2025, Brazilian per capita income would be about US$10,466 compared to the Nigerian value of US$1,753. The United States citizens, by 2025, will continue to be regarded as the richest in the world on per capita income basis as they would on average gross about US$56,181, closely followed by the Japanese at US$55,896.

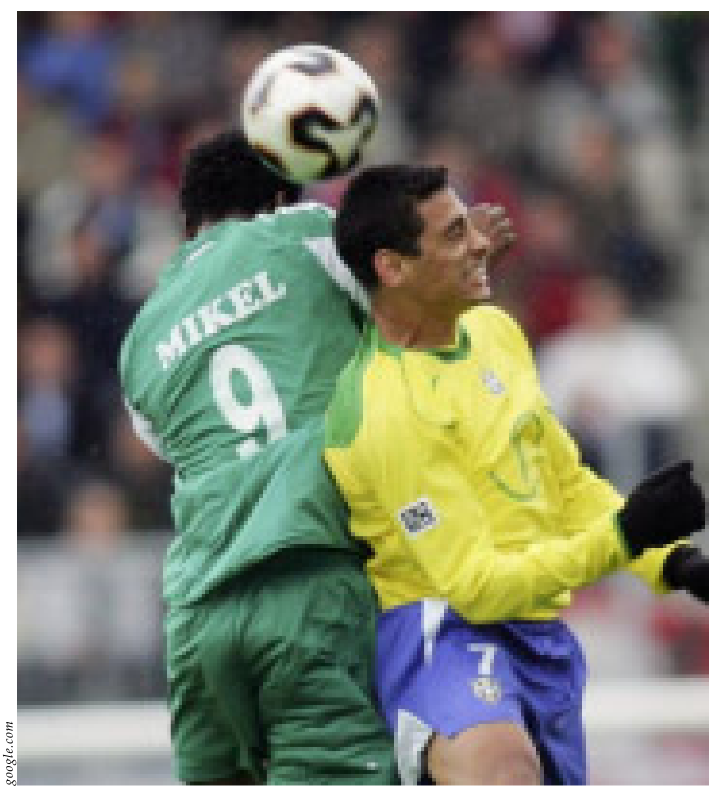
source: google.com (Photo by Raul Reis)

An oyster farm in Florianopolis, Brasil.

By 2050, per capita income in both countries would have moved further upwards. According to Goldman Sachs, the Brazilian per capita income would be about US$35,143. This figure puts it about US$20,000.00 above the high-income threshold value of US$15,000.00. That is, Brazil, as at that date, would henceforth be regarded as a high-income economy. The story is a bit different for Nigeria as her average per capita income would still be below the high-income threshold at over US$10,402.00. Egypt, the only other African country on this exclusive list, would rank higher than Nigeria on per capita income index with US$19,387.00

It should be noted that trade exchange between both countries has been on the rise and quite impressive of recent. According to the Nigerian mission in the South American nation, trade statistics show that Nigeria's merchandise exports to Brazil in 2007 ranked her as the fifth highest exporter of goods after the United States, Germany, Argentina and China well ahead of neighbours like Chile and Mexico. On the other hand, Brazilian exports to the West African nation have been rising in creeping steps in spite of the fact that Brazil has much on offer for Nigeria. One phenomenon that has not helped the growth of trade between both nations is the similarity of both countries' natural endowments. It could not however serve as a reasonable excuse as there are many areas both countries could tap in to expand the spheres of trade and investment. Brazil, for instance, has some comparable advantage over Nigeria in the areas of bio-fossils and the use of ethanol as an alternative source of fuel. This is a veritable kind of diversification Nigeria could learn from given that her huge abundant oil reserves are not inexhaustible. On the lighter side, Brazilian football is miles above other nations', and in this light, Nigeria could benefit so much from the Brazilian expertise in the area of coaching and exchange programmes. Brazil and Nigeria could also expand their linkage areas beyond politics as was witnessed during the Africa-South America Summit under the auspices of South-South cooperation. Brazilian businesses and investments, apart from a handful, are not taking advantage of the largest market in Africa for profits, trade and investment expansion.

(*Tony Monye is an Asssistant Editor, Zenith Economic Quarterly)



google.com

Global Economic Outlook
For 2008 & Fears of U.S. Recession

* By Eunice Sampson

The **United States of America** emerged from thirteen disjointed British colonies on July 4, 1776, marking the birth of an entity that was to become the largest and most influential economy in the world. With GDP of about $14 trillion in 2007, the US constitutes over a quarter of the global economy. If the US economy goes down, a quarter of the world's wealth goes with it, that is, outside the spillover effect on other major economies.

It is no longer unfounded the growing fears that the US economy might go into recession in 2008. Nor can the threat this poses to the global economy be downplayed.

Global economic growth would usually decline significantly when more than one major economy recedes at the same time. And that is beginning to happen as a threatened US economy sends danger signals to different corners of the world, preparing all minds for an inevitable slowdown of the global economy this year, or maybe, beyond.

Changing Growth Projections

The International Monetary Fund (IMF), for the second time in three months had on January 29 reviewed downward its growth projections for 2008. According to the Fund, global GDP would grow by 4.1% this year, as against 4.9% in 2007 and an earlier projection of 4.8%.

The United States is expected to advance by a mere 1.5%, as against an earlier projection of 2.8% and a 2007 growth put at 2.2%. From 2.6% last year, the Euro-zone growth projection has also been lowered by 0.5% to 1.6%. Japan will not be any luckier as its growth projection is down from its 2007 position of 1.9% to 1.5%.

Emerging economies, the hope for any reasonable global economic advancement this year, is expected to also slow from the 7.8% recorded in 2007 to 6.9%. Even China with its mind-blowing growth in the last decade or more would slow, though slightly in 2008, from 11.4% in 2007 to about 10%.

However, the impact of the feared US recession is expected to be less damaging in emerging economies where rising domestic consumption, massive foreign exchange reserves and growing FDI inflow would keep the economies afloat. Most African economies are also expected to escape the slowdown as the IMF projects a 7.0% economic advancement for the continent after the 6.0% achieved in 2007.

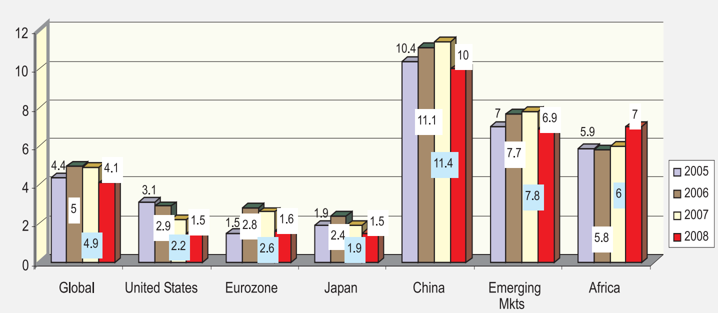
The Sub-prime crises

The United States is currently battling with an economic downturn exacerbated by subprime-mortgage crisis and rising home foreclosures. Over 35% of insured mortgage borrowers have defaulted, resulting in a near total collapse of the housing sector.

In the last few months, bad mortgage credits have pilled, with growing loan write-offs among financial institutions. Merril Lynch recently wrote off $11.5 billion in subprime assets and another $2.6 billion in complimentary assets, leaving it with a projected loss of almost $15 billion in 4th quarter 2007. UBS wrote off a total of $18.4 billion in its financial year ended Decemebr 31, 2007, recording a huge loss of $4 billion after a whooping net profit of $12.2 billion in 2006. Thanks to the sub-prime crisis, this is UBS' first loss ever, since its emergence from the merger of Union Bank of Switzerland and Swiss Bank Corporation in 1998.

Standard and Poor's, a US credit rating agency, on January 30 downgraded mortgage-backed securities valued at over $270 billion. Collateralized debt obligations (CDOs) valued at another $263.9

GDP Growth in Selected Economies (2005-2008)



Source: IMF, 'World Economic Outlook Update' January 29, 2008 billion was also downgraded with increasing possibility of default. The agency estimates as much as 13% decline in home prices by the end of this year.

The problem which first surfaced in August 2006 is the result of years of low interest rates in the United States. As rates were increased, the high risk subprime borrowers were unable to meet their credit obligations, triggering major financial crises that, by July 2007 had taken a global dimension.

What began as crisis in a particular sector (mortgage) is growing into full blown global financial crisis, leading to declines in stock markets worldwide; credit crunch for businesses and individuals; contractions in retail sales and profits, bankruptcy of several mortgage lenders and fears of a major global recession. Most global economic analysts have reviewed downwards their growth forecasts for the US, Japan, and Europe.

Spreading Signs of Recession

After seven straight year of expansion, a recession seems imminent in the US economy in 2008. While some optimists still believe that the resilient, $14 trillion-sized economy could absorb the sub-prime shock and move ahead unscathed, the current realities do not look so good.

All the signs of economic recession are manifesting – persistent slowed or negative growth; slowdown in business investments, drop in consumer spending and confidence, drop in income tax proceeds, rise in unemployment, mounting external debt ($3 trillion debt amassed in the last six years alone); near collapse of the mortgage system etc.

The dollar continues to weaken vis-à-vis its peers. In 2007, the dollar fell by over 15 per cent against the three major currencies, the pound sterling, the Euro and the yen.

The economy is also wrestling with a record high trade deficit put at near $900 billion in 2007. Credit crunch has worsened in recent months for businesses and households. Incoming economic data do not show any sign of reversal of the frightening trends.

In California, US biggest state economy, home sales have fallen 365, employment growth has stalled since last August, and unemployment is on the rise. Many economists have concluded that California is already in recession. The prolonged Hollywood screenwriters' strike is not helping the situation in a state economy that relies heavily on video entertainment for its livelihood.

In US stock markets, the blue-chip Dow is down 17.9 percent from its October 9, 2007 high of 14,164.53 and has fallen almost 10 percent in the first three weeks of 2008. The NASDAQ is almost 20 percent down from its October 2007 closing high as investors perceive a grim global economic outlook.

> Trends in major economies round the world since the last quarter of 2007 prove the truism in the aphorism: "When the US sneezes, the rest of the World catches a cold."

The broad US stock index, the S&P rose by a dismal 3.5% in 2007, less than the average inflation rate of over 4% that year.

On January 31, the US Labor Department reported employers' cut of 17,000 jobs that month, the first such reduction since 2003.

Observing the striking similarity between these developments and the signs that preceded the last major economic recession in 2001 – aftermath of the September 11 terrorist attack – for most, it is a foreclosed issue that the

US economy is entering into recession; the issue is how long the slowdown could linger.

The Spillover Effects

Trends in major economies round the world since the last quarter of 2007 prove the truism in the aphorism: "When the US sneezes, the rest of the World catches a cold."

In Europe and Asia, the spillover effect of the near economic recession in the United States is beginning to be felt, especially in their capital markets. Investors, worried about the global economic slump that could result from a full blown recession in the US are engaged in massive stock sell-off that has sent most market indices crashing down.

Japan – Reports from the International Herald Tribune on Japan show fear of a US recession taking its toll on the Asian giant. An economy that is only just recovering from almost two decades of stagnation, Japan currently struggles with low investors' confidence and a tumbling of its stock markets.

The economy is particularly vulnerable owing to Tokyo's heavy dependence on foreign investors which account for over 60% of trading on the first section of the Tokyo Stock Exchange. Worst hit are the highly favoured international equities like Toyota, Honda, Canon, etc which value have plunged by over 35% since July 2007.

Recent reports from the New York Times show that Japan's benchmark Nikkei 225 stock index has lost a third of its value since mid-July, and the Tokyo Stock Exchange has lost $1.3 trillion in market value.

On Tuesday January 22, the Nikkei plunged 5.7 percent, to 12,573.05, its biggest one-day drop since the September 11 terrorist attack. The Nikkei had declined by over 16 percent in January 2008 alone. Japanese authorities had last December cut its growth projection, from 2.1 percent to 1.3 percent, owing mostly to fears about a possible US recession and the impact it could have on the local economy.

Similar fears have permeated much of Asia since the start of 2008, as economists worry about the extent of damages a slowed US economy could do to domestic consumption and demands for their exports.

The US remains China's major export destination and with whom it enjoys massive trade surplus currently put at $163 billion. China's two major stock indices, the Hang Seng and Shanghai Composite are crashing. Between last October and January 2008, the Shanghai Composite, which had gained an impressive 300% in the last two years, dropped 13%. The Hang Seng is also down over 15%.

In India, Bombay's Sensex index dropped 7.4% on Monday January 20 alone, its second-worst single-day fall in history.

The development is heightening fears of a substantial drop in consumer spending in major Asian economies in the coming months.

European Union – In the EU, stock markets in most countries have been on the decline for weeks in reaction to speculations about a possible recession in the US economy.

Britain's FTSE 100 has lost 11 percent since the begin-

Falling Stock Markets Asia & Europe (January 21-24, 2008)

Nikkei 225	28-Dec	21-Jan	22-Jan	23-Jan	24-Jan
Close	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Change to Previous		[illegible]	[illegible]	[illegible]	[illegible]
Year-to-Date		[illegible]	[illegible]	[illegible]	[illegible]
Hang Seng Index	31-Dec	21-Jan	22-Jan	23-Jan	24-Jan
Close	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Change to Previous		[illegible]	[illegible]	[illegible]	[illegible]
Year-to-Date		[illegible]	[illegible]	[illegible]	[illegible]
Euro Stoxx 50	31-Dec	21-Jan	22-Jan	23-Jan	24-Jan
Close	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Change to Previous		[illegible]	[illegible]	[illegible]	[illegible]
Year-to-Date		[illegible]	[illegible]	[illegible]	[illegible]

Source: Wikipedia

ning of 2008 alone. On Monday January 20, the FTSE sank 5.5%, or 324 points, to 5,578; in Germany, the Frankfurt Stock Exchange's Dax index shed 7.2% to close at 6,790, its biggest one-day decline since September 11, 2001; in France, the CAC lost 6.8%, going down to 4,744.

In most of these European countries, especially Spain, UK and Ireland, the housing sector has relapsed in growth raising fears of possible economic slowdown.

Third World Economies – While most Third World capital markets could escape any significant fallout of a US recession, owing especially to their relatively low exposure to foreign investors, the major commodity exporters might not be so lucky. As the US economic prospects drop, so will global demand for, and prices of commodities in international markets.

Worst hit would be the oil-dependent economies like Saudi Arabia, Indonesia, Libya, Nigeria, Angola, etc.

Oil prices have since tumbled down from the $100 per barrel mark it attained in the first few days of 2008.

On Wednesday January 23, growing concerns about the direction of the US economy sank crude oil prices $2.22 lower to close at $86.99 a barrel on the New York Mercantile Exchange, the lowest closing price since October 23, 2007.

Global Stock Market Crash on Monday January 21, 2008

France (CAC)	-6.83
Germany (DAX)	-7.16
London/UK (FTSE)	-5.48
Japan (Nikkei)	-3.86
Hong Kong (Hang Seng)	-5.49
Canada (Toronto 300)	-4.75

Source: Afraidtotrade.com

Historically, oil price crash always follows every economic recession, a good reason why monoculture economies like Nigeria must put in place measures that could help them absorb any sudden crude oil price shock that could arise from a depressed US economy.

In recent weeks, global demand for oil has cooled; inventories have risen even as analysts express the views that the prolonged soaring price of crude is a key reason for ongoing economic slowdown. Oil price rose as high as $100.09 a barrel on January 3rd before slipping on recession worries.

Source: High Probability Trading; finance.yahoo.com

Arresting the Slide:

By the end of January, the world has more or less resigned to the possibility of a US economic slowdown from 2008. Top IMF officials have also warned that reversing the ongoing financial markets crises was not going to be an easy job.

So, what is the US government doing about it?

On Tuesday January 22, the U.S. Federal Reserve responded to a growing global panic stock sell-off by cutting its benchmark interest rate by three-quarters of a percentage point, the biggest single cut since October 1984.

The move was intended to flood the system with badly needed liquidity, halt the growing liquidity crunch that is paralyzing the financial sector and stimulate borrowing and, in turn, business activities.

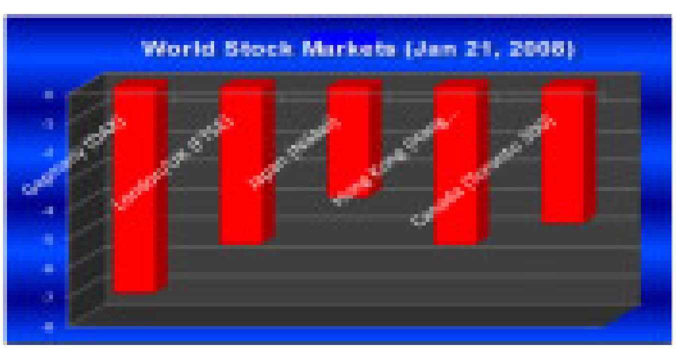
While economists are still divided as to the difference the rate cut could make, most stock markets at least responded quickly and positively as soon as the measure was announced.

The day after the unprecedented 0.75-point rate cut (Wednesday January 23), stock markets in the US, Asia and Europe, after weeks of slowdown, recorded huge gains of between 3-5% in one day's trading.

The Dow swung up 631.86 points - the largest single-day turnaround in more than five years. The Standard & Poor's 500 index rose 28.10, or 2.14%, to 1,338.60, while the Nasdaq composite index rose 24.14, or 1.05%, to 2,316.41.

On Tuesday (January 22), the London stock market recovered much of the day's losses after news filtered in that the US Fed had cut rates. Britain's FTSE 100 closed 2.9% up that day in response to the cheery news.

In Japan, the Nikkei also recovered some of its losses when it moved up 1.4% after the announcement.



Source: Afraidtotrade.com

google.com

Hong Kong Stock Exchange

Similarly, Hong Kong's Hang Seng index surged 10.72% – its biggest gain in 10 years – after falling 13.7% in the previous two sessions – thanks to the stimulating news that filtered in from the United States the previous day.

But the enthusiasm did not last, as most markets started falling back a couple of days later. On Wednesday (January 23), the FTSE 100 went down 3.7% to 5,528.7; in Germany, DAX fell 5.4% to 6,401.29; while France's CAC also dropped 4.2% to 4,614.

Much of the remaining trading days of January were characterized by market volatility in major stock exchanges around the world.

On Wednesday January 30, exactly eight days after the 0.75% rate cut, the Federal Reserve again brought interest rate lower to 3.0% when it cut off another 0.5% as data showed worsening economic condition in the fourth quarter. Analysts say the rates could be pushed further down to 2.5% this April. If this happens, it would be the 6th cut since mid September 2007.

In Europe, there are mixed reactions to the firm posture taken by the European Central Bank not to follow the US example. The ECB has hinted that it might even be contemplating raising rates in line with its anti-inflationary stance.

Aside from rate cuts, the United States President George Bush had in January proposed a stimulus package of about $160 billion as tax breaks for consumers and businesses.

The package will see income tax payers receiving cheques of up to $600 for single individuals and $1,200 for married couples in a move aimed at boosting the spending power of Americans. Although the initiative received widespread support among the two main political blocs – Republicans and Democrats – it also received some knocks, chief of which is that, like a similar package after the 2001 September 11 attack, it targets only the working class who pay income tax, leaving out 50 million poorest Americans who do not earn enough to pay income taxes. Senate Democrats are therefore pushing for other soothing measures that would directly benefit this category of Americans.

Many have interpreted these desperate palliative measures as government's affirmation that the US economy is indeed going into recession, though top government officials explain the moves as efforts aimed at preventing an economic slide.

Passing the Buck

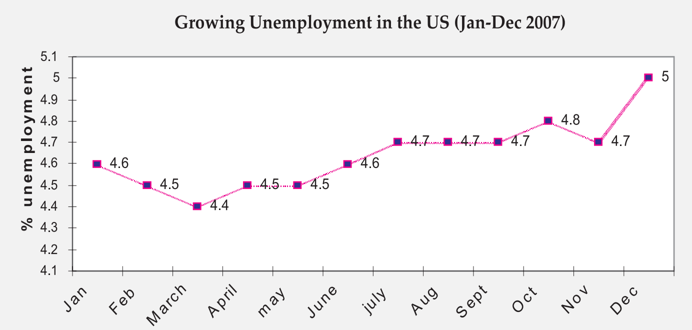
Many analysts blame US financial services regulators for the current housing sector crisis, which has spread not only to all sectors of the US economy, but also, to other major economies. The regulators are accused of not taking sufficient proactive measures to prevent the mortgage crises, or at least, nip it at the bud.

The Bush administration is also under serious criticisms for its unpopular foreign policies that have cost the economy billions of dollars, especially in the Middle East. The cost of the invasion and reconstruction of Iraq is estimated at over $200 billion. As if this is not enough, the growing pile of human casualties resulting from the invasion –Americans soldiers; allied forces; Iraqi civilians – is a gory sight that has kept the Bush administration very low on public polls and ratings. Americans and the world at large eagerly await coming US general elections, hoping that the outcome could make a remarkable socio-economic difference in the world's largest economy. As the elections later in the year get closer, public opinions show that the average American would put economic factors first in deciding who the next occupier of the White House will be.

Going Forward

It is now almost certain that the United States is going into recession.

But the economic super-power, owing to its sheer size and high level of advancement, has proven to be very resilient over the years. It will not be surprising if the economy recovers from the brewing recession quicker than anticipated.



Source: US Department of Labor; Bureau of Labor Statistics

However, the most vulnerable nations of Europe and Asia are already mapping out strategies to hedge the situation and reduce their exposures as much as possible.

Third World nations might not be so susceptible; yet it will not hurt if their governments take precautionary steps to arrest any surprising spillover, after all, the world has since become a global tribe.

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

- Ibrahim Abubakar

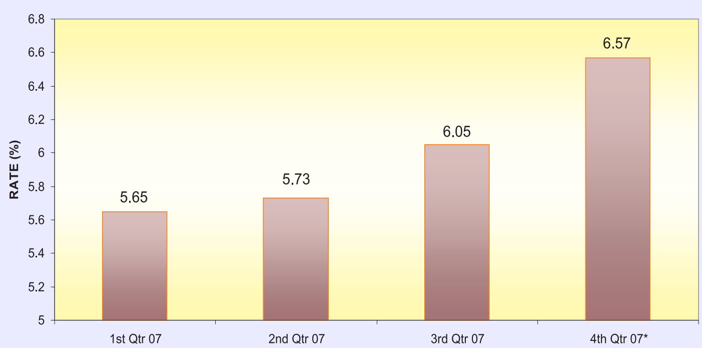
MACROECONOMIC ENVIRONMENT

The Nigerian economy in the fourth quarter 2007 recorded growth in several parameters. Some of the macroeconomic indicators crossed milestones, surpassing targets set earlier in the year. Gross domestic product (GDP) as at end of fourth quarter 2007, went up. Inflation took the opposite direction of the previous quarter with an upward trend. The nation's foreign reserves witnessed some rise due to higher prices of crude in the international oil market. The naira witnessed major strengthening against some major world currencies, especially the United States dollar. The Monetary Policy Rate (the anchor rate) was raised twice during the quarter. Activities in the capital market showed significant improvement over previous quarters. Earnings from oil improved due to rising crude oil prices in the international market.

GROSS DOMESTIC PRODUCT

In the fourth quarter, the non-oil sector continues to be the main driver of GDP growth. However, growth in the previous quarters averaged 5.81 percent falling short of planned target of 10 percent by year end. Being the harvesting period, agriculture was the leading contributor ahead of the industrial sector. For the oil sector, the lingering crisis in the Niger Delta saw oil production decline to 2.175 million barrels per day in December, short of the 2.5 million barrels per day estimate. GDP growth rate went up by 8.6 percent; from 6.05 percent in the previous quarter. This is attributable to bumper harvests following good planting season earlier in the year.

GDP GROWTH RATE (Q1 07 - Q4 07)

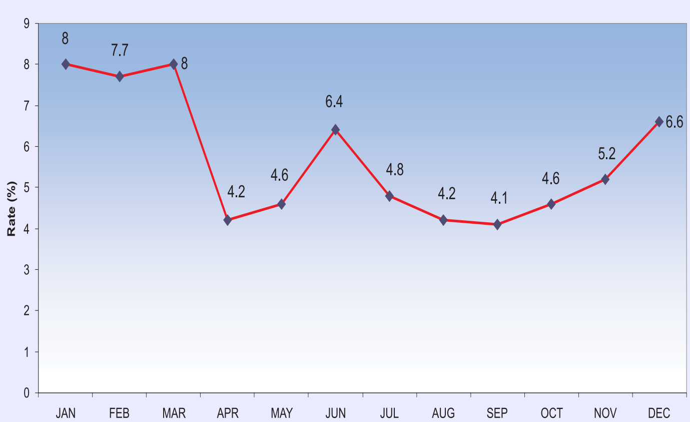


*Source: CBN/*Research & EIG*

INFLATION

The year on year rate of inflation went up during the fourth quarter of 2007. However throughout the year the rate of inflation has experienced spiral movements. In the first quarter, the rate of inflation was relatively stable, beginning and closing the quarter at 8 percent. The opening month of the second quarter witnessed a major but short-lived drop in the rate of inflation by 380 basis points to 4.2 percent in April 2007. However the declining trend did not continue throughout the second quarter, inflation increased by 220 basis points to 6.4 percent. Fears of surging inflation was however dampened in the third quarter, which experienced the longest period of consistently declining rates, with inflation reaching as low as 4.1 percent in September. The fourth quarter opened with reversal of the trend, and inflation rose by 200 basis points from 4.6 percent in October to 6.6 percent in December 2007. Analysts attributed the trend at close of the last quarter to injection of supplementary budget, growth in money supply, and the usual upward swing in demands as a result of the festive seasons.

INFLATION, YEAR ON YEAR (JAN. 07-Dec. 07)

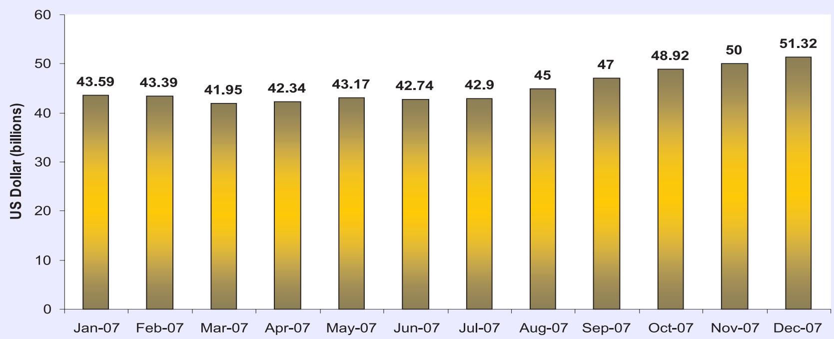


Source: NBS

EXTERNAL RESERVES

The stock of the nation's foreign exchange reserve increased in the fourth quarter of 2007, crossing the fifty billion dollar target set by the Central Bank of Nigeria (CBN). This is an unprecedented level of foreign exchange reserves holding by the country. Throughout the year, the level of the reserve increased by 17.7 percent, from US$43.59 billion in January to US$51.32 billion by December; that is, an increase of US$7.73 billion. The reserve level remained stable with marginal changes throughout the first and second quarter 2007, averaging at approximately US$42.98 billion and US$42.75, respectively. Major improvement in external reserves occurred in the third and fourth quarters. The level increased by 9.5 percent in the third quarter, from US$42.9 billion in July to US$47 billion in October 2007. Compared to the previous quarter, the rate of increase was less in the fourth quarter. The external reserves increased by 4.9 percent from US$48.92 billion in October to US$51.32 billion in December 2007.

FOREIGN EXCHANGE RESERVE (Jan. 07- Dec. 07)



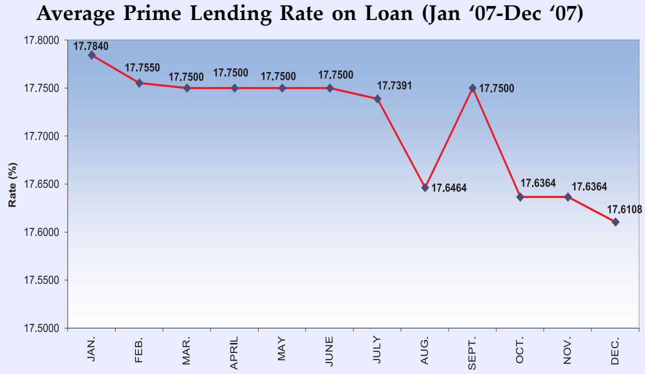
Source: CBN

INTEREST RATE

The Monetary Policy Rate (MPR) which is the major benchmark for all other interest rates witnessed two significant hikes in the fourth quarter of 2007. The first was a hike at the beginning of the quarter from 8 to 9 percent to mop up excess liquidity in the economy. However, in a surprise move by CBN, MPR was raised by 50 basis points to 9.5 percent in December to curb inflationary pressures, due to the supplementary budget of the Federal Government and expected rise in demand given the yuletide.

Rates in the inter-bank market remained stable with minimum volatility across tenors in the fourth quarter, however, there was a slight pressure on the 365 days, which pushed up the rate by 29 basis points from an average of 12.51 percent to 12.90 percent. For inter-quarter comparisons, rates in the third quarter increased across all tenors, with upswings from 30, 60, 90 days by 112, 70 and 48 basis points respectively, from an average of 11.42, 12.16, 12.51 percent to 12.55, 12.86, 12.99 percent respectively. Rates across all tenors were lower in second quarter than those observed in the first quarter. Volatility was higher on the short-term rates with the 7, 30 and 60 days declining by approximately 100, 94 and, 90 basis points respectively, from an average of 9.14, 12.37, 13.07 percent to 8.13, 11.42, 12.16 percent respectively.

Average Prime Lending Rate on Loan (Jan '07-Dec '07)

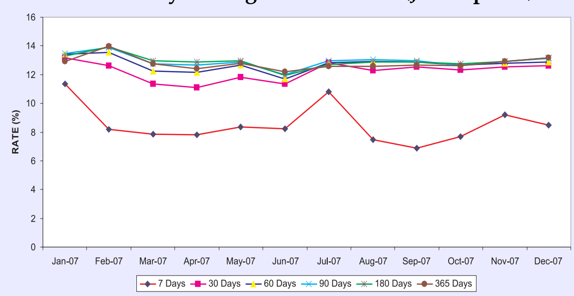


Source: Money Market Association of Nigeria (MMAN) / R&EIG

Average Prime Lending Rates (PLR) remained stable in the fourth quarter at 17.6 percent. Volatility on PLR throughout the year has been minimal with a mere 17 basis point drop; from 17.78 percent in January to 17.6108 percent in December.

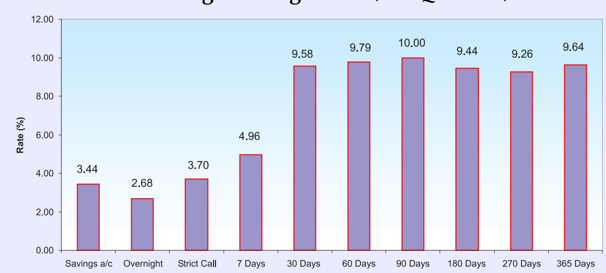
The deposit rates remained relatively stable with minimum volatility across most investment horizons in the fourth quarter of 2007. With the exception of the overnight rate which went up by 28 basis points from 2.4 percent to 2.68 percent, the rates on all other maturities went down by more than a quarter basis points.

Monthly Average Nibor Rates (Jan-Sept '07)



Source: Money Market Association of Nigeria (MMAN) / R&EIG

Average Savings Rate (4th Qtr 2007)



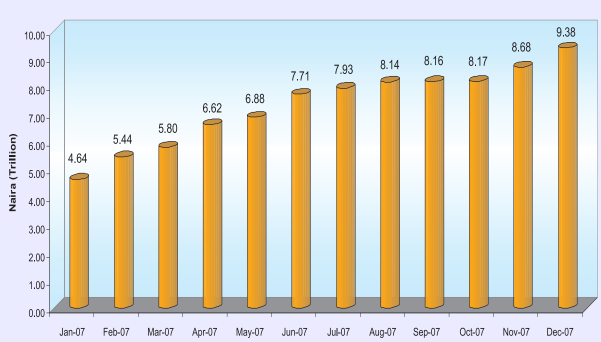
Source: Money Market Association of Nigeria (MMAN) / R&EIG

CAPITAL MARKET

The All Share Index (ASI) and market capitalisation of the Nigerian Stock Exchange both showed an upward trend in the fourth quarter of 2007. The ASI increased by 7.7 percent in the fourth quarter, from an average of 50,971 in October to 54,903 in December. Market capitalisation went up by 14.8 percent; from an average of N8.17 trillion in October to N9.38 trillion in December. Both market capitalisation and ASI closed the year at a record high of N10.18 trillion and 57,990.24 respectively.

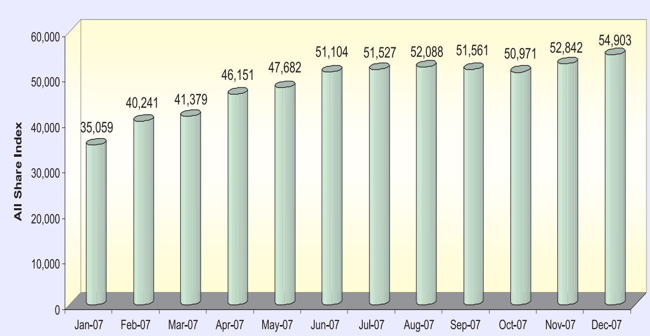
Factors responsible for the growth of the capital market in the reviewed quarter include increased activities in the primary market arising from a number of public offers. Zenith Bank offered for subscription 1.763 billion shares at N38.90 per share. Other banks including Bank PHB, FCMB, Afribank and Fidelity also made public offers during the quarter.

NSE Market Capitalisation (Jan-Sept. '07)



Source: NSE / R&EIG

All Share Index (Jan - Sept 2007)



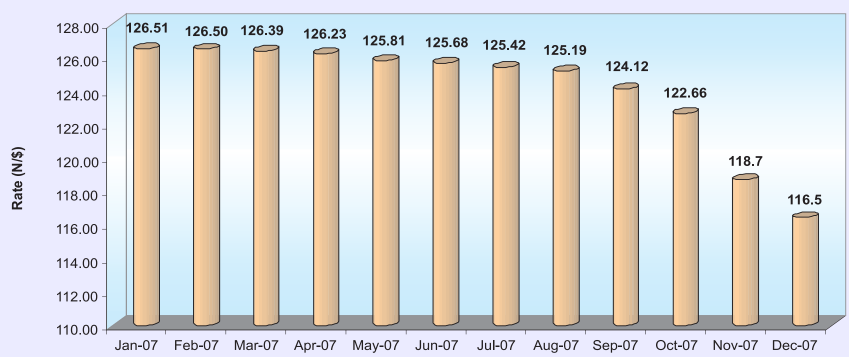
Source: NSE / R&EIG

EXCHANGE RATE

The naira appreciated considerably in the fourth quarter of 2007; a trend carried forward from earlier periods of the year. The naira appreciated against the US dollar by 8.59 percent in the twelve months period of 2007, from a monthly average of N126.51 to US$1 in January to N116.5 to US$1 in December. The rates that prevailed as the quarters closed started with slow gains of approximately 0.12 kobo and 0.55 kobo within the first and second quarter respectively. The strengthening of the naira against the US dollar came in the last two quarters of 2007, gaining approximately N1.30 kobo and N6.16 kobo in the third and fourth quarter respectively.

Although the percentage change of the naira during the first and second quarters left little in arbitraging opportunities, the naira appreciated by 1.05 percent and 5.3 percent during the third and fourth quarter respectively from N125.42 to US$1 in June to N124.12 to US$1 in August and N122.66 to US$1 in October to N116.5 to US$1 in December respectively. Currency analysts have attributed the rise in the value of the naira against the dollar to the following factors: foreign denominated currency inflows from multinationals; increased demand for the naira from Nigerians in Diaspora during the festive season; growing appetite for naira denominated assets by foreign investors taking positions in both equities and bond markets as well as the depreciation of the dollar against major currencies.

Average Monthly Exchange Rate N/US$ (jan-dec'07)

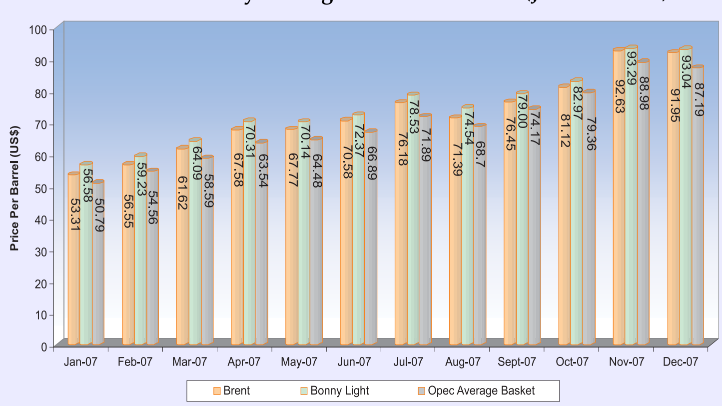


Source: CBN

OIL PRICES

The price of crude oil in the international market rose markedly in the fourth quarter 2007, almost US$100 per barrel. Nigeria's crude oil production increased by 1.87 percent; from 2.135 million barrels per day in October 2007 to 2.175 million barrels per day in December 2007. The price of Nigeria's brand of crude oil Bonny Light increased by 13.2 percent in fourth quarter 2007; from an average of US$82.97 per barrel in October 2007 to US$93.04 per barrel in December 2007. Throughout 2007, the price of Bonny Light increased remarkably by 64.43 percent; from monthly average of US$53.31 in January 2007 to US$93.05 in December 2007.

Oil Prices: Monthly Average Price Movement (Jan'07-Dec'07)



Source: EIA/OPEC

History was made as Nigeria's brand of Bonny Light reached a milestone crossing seventy dollar per barrel mark and resting on a weekly average of US$70.8 per barrel beginning of June 2007. It crossed the eighty dollar per barrel mark in the third week of the following month at US$80.03 per barrel and finally achieving the ninety dollar per barrel mark early November to close at US$91.42 weekly average. Oil industry analysts attribute the surge in oil prices to the following factors: growing tensions in the Middle East combined with operations of Turkey in Northern Iraq, weather related production shut downs and global economic expansion, among others.