ZENITH

Zenith Economic Quarterly

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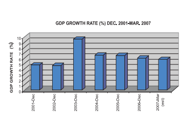
REFORMS - 2

The Journey, The Milestones

Zenith Economic Quarterly

C O N T E N T S



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Ending the *Unending* Journey?

The slogan of one of the most prominent parastatals of the Federal Government of Nigeria says: "we touch your life in many ways…positively". This, in a way, is an affirmation of the ubiquitous presence of the 'products' of that agency in the socio-economic life of all Nigerians. Analogously, the pervading reform, rooted in the National Economic Empowerment and Development Strategy (NEEDS), and which is the hallmark of President Olusegun Obasanjo Administration, has touched virtually all facets of life of the people. Which is why in the January, 2007 edition of this journal, we elected to analyze the strides and milestones achieved by the pervasive reforms under the elapsing national development roadmap—NEEDS.

Given the very widely spread tentacles of the reforms, a fair analysis of the programme could not be achieved in one edition; hence, the continuation of the effort as part two of the January issue. Even so, only a number of sectors that had undergone reforms in the past eight years could be analyzed. In doing this, we ensured that each analysis comes from the 'best brain and mind' in each sector. Thus, under—***issues***—masterful pieces on two key sectors were produced by persons with very rich theoretical and practical exposure in their specialties. Under the topic: 'Reforms and the Information and Communications Technology (ICT) sector in Nigeria', the Founder/Chief Executive Officer of Jidaw.com—an online web initiative and front liner in bridging the digital divide—x-rays the place of ICT in today's 'knowledge economy'. The Jidaw boss also explores the place of Nigeria in the emerging scenario; the strides since the deregulation and liberalization of the telecomm industry; Government's initiatives to improve access to ICT; Nigeria's software industry as well as the attendant human capital issues. He concludes that the future of the ICT industry in Nigeria is quite bright.

Yet, another consummate professional and expert in strategic information management in the aviation industry, in the piece: 'Reforms and the Aviation Sector' explores the manner, pattern and impact of reforms in that sector. He posits that a number of policies and programmes in the industry were merely targeted at ending years of wastage of public funds and were not driven by true reform motives as was the case in other sectors. This, he opines, was responsible for the mixed (positive and negative) impacts recorded by the reforms in that sector. For example, in the five years between 2000—2007, about 14 domestic airlines became moribund or completely dead, just as nine foreign ones entered the market with vibrancy.

The third topic in the ***issues*** segment deals with risk management and its relevance in all human endeavours. Citing examples from across the globe, the author, an authority on the subject, illustrates how inadequate premium on the critical place of risk management had caused the collapse of a number of otherwise reputable and successful organizations. The author also explores a number of theories of risk, measurement and management of risks and summed up that the push by Nigerian banks into the global market imposes on them, the task of "bringing the middle office to the front" which today's risk management demands.

"Corporate governance issues in family-owned enterprises" is expertly discussed in the segment—***foreign insights.*** The authors contend that family-managed firms have some distinct advantages…if well managed, costs are reduced and owners diligently watch over the firm as managers. It is also their view that, by instituting corporate governance best practices, family-owned firms will play a positive role in democratic and economic reform. In this segment is also a treatise on "intra-ECOWAS trade: the place of Nigeria"; in it, the author traces the scanty flow of trade amongst the member-states of the sub-regional body, the whys and wherefores of the situation and future prospects. Using international trade statistics, the author also explores the tendency of all the ECOWAS nations to trade more with countries in other regions of the world—thus exposing the centrifugal force that appears to tether each country to the apron strings of its erstwhile colonial master.

...the push by Nigerian banks into the global market imposes on them, the task of "bringing the middle office to the front" which today's risk management demands.

Our ***globalwatch*** segment contains a piece on "reforms: developed economies as lessons for third world", which examines reforms in developed economies, their contents, scope and duration vis-à-vis those of the developing world. In all cases, the manner of reform is determined by the existential socio-economic circumstances of the implementing nation; that is to say that the focus and content of the reform package changes from time to time. The author is however of the view that , while Third World nations direly need reforms, the developed ones also have to embark on reforms to maintain their status as global leaders and for their citizens to continue to enjoy the high quality of life that they are used to. This goes to debunk the impression that reforms (especially liberalization and privatization) are for 'imperfect systems' such as those of most developing economies.

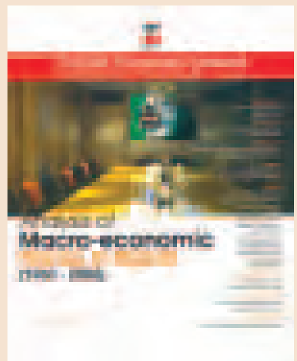
This edition of ZEQ is also not without other regular segments such as ***policy, periscope*** and ***facts & figures***, which contains an analysis of key economic indicators during the quarter under review. And, as usual, the entire package turns out another irresistible ***vade mecum*** for our teeming discerning readership across the globe. We cherish you!

Marcel Okeke

from our mailbox

I have sent you the enclosed peer reviewed journal published by Cambridge University Press for three reasons, one of them being that the Zenith Economic Quarterly has been repeatedly cited in the journal. As you will know, the citation of a periodical in peer reviewed journals is what provides it academic and international prestige. The journal of African Law, like all other Cambridge University Press journals, is read in all the "thought capitals" of the world.

As an academic, I commend you and your editorial team for the foresight in creating the ZEQ and for a splendid job in executing it. As an investor in Zenith Bank I also applaud you for deepening the brand through one more route.
Dr. Tunde Ogowewo
School of Law, King's College
University of London.



This is to acknowledge the receipt of a copy of your magazine, Zenith Economic Quarterly, forwarded under a covering letter dated 16th March, 2007. We are indeed grateful for this kind gesture.

The magazine is believed to be concise and handy. Furthermore, it is found to be a good source of information on current developments in the economy, particularly for Nigerians in Diaspora. It is also a useful reference material for students and researchers in general.

The Embassy will appreciate it very much if it could be availed of future editions of the magazine on a regular basis. Please, accept the assurances of our highest considerations.
Alani Bello
For: Head of Mission
Embassy of the Federal Republic of Nigeria
Kuwait.

We are happy to acknowledge our receipt of one copy of your publication, Zenith "Economic Quarterly (ZEQ)"; Vol. 2, No. 9; January, 2007.

We appreciate your donation which highly enrich our stock and greatly aid our learning, research and teaching activities especially in the banking and socio-economic aspects.
Nonye Okechukwu (Mrs.)
The Librarian, LBS Pan-African University.

I am directed to acknowledge with thanks receipt of your letter dated 16th March 2007 and its attachment regarding the Zenith Economic Quarterly (ZEQ).

I am to inform you that the publication has been found to be very useful and point of economic reference for Turkish Enterpreneurs wanting to invest in the Nigerian Economy. It would be highly appreciated if the Embassy in the future could receive two copies of the publication.
I. A. Olatidoye
For; Ambassador, Embassy of the Federal Republic of Nigeria
Ankara Turkey

I am directed to refer to your letter of 16th March, 2007 and to acknowledge with thanks the receipt of the Zenith Economic Quarterly.

I find the journal rich and informative. It is indeed a veritable tool for corporate communication as it falls squarely within the scope of the on-going socio-economic reforms in our country.

On behalf of the High Commissioner, I wish you continuous success in the corporate world.
O. B. Okongor
For: High Commissioner
Nigeria High Commission, Banjul, The Gambia

I write on behalf of the Vice-Chancellor of this University, Prof. Adebisi M. Balogun, to acknowledge with thanks the receipt of a copy of the Zenith Economic Quarterly.

The University shares in the vision that informed the publication and wishes the bank success as it forges ahead in the new dispensation.

Once again, please, accept our sincere appreciation.

Closed with warm regards.
A. A. Bobola
PAR (VC's Office)
The Federal University of Technology
Akure, Ondo State.

I write to acknowledge the receipt of your letter dated March 19th 2007, regarding the Zenith Economic Quarterly and the accompanying book.

We appreciate the material sent to our office and we will definitely find them informative ad useful while working towards achieving the economic reform our country is striving for.

Thank you and please, accept the assurances of the Director-General's highest regards.
Patience Ngboma
Research and Documentation Unit
Debt Management Office, The Presidency.

We acknowledge with gratitude 2 copies of the Zenith Economic Quarterly which you donated to us.

The journal will be of great benefit to both staff and students of the University and will be kept in the library. May the good Lord continue to bless the dreams and aspirations of Zenith Bank.
Dr. M. A. Olaosun
University Librarian
Crawford University
Igbesa, Ogun State.

Reforms: The Last Lap, A New Beginning

* By Marcel Okeke

Even in the heat of the build-up to the general elections in April, the tempo of reform efforts remained quite high during the first quarter 2007, affecting the shape and trend of all socio-economic indicators. The fast-tracking and consolidation of some reform programmes and projects that marked the close of 2006 continued into 2007. New policies and projects in sectors like financial services, energy and power, oil and gas, solid minerals, aviation, telecom and maritime were carried on with renewed gusto. Reforms in the public service, agriculture, tax, external debt management, privatization, socio-economic infrastructure, among others, also received serious attention during the period.

In specific terms, the quarter was marked by the conclusion of the consolidation exercise in the insurance industry (on February 28, 2007); avalanche of new supplementary offers by banks seeking to further increase their capital base; the introduction of new coins and redesigned bank notes into circulation; inflow of foreign equity investment into a number of banks; BB-- rating for the country—the second time by Fitch Rating Agency and Standard and Poor's. Other features of the quarter include pursuit of Nigeria's exit from the London Cub of Creditors; increased foreign exchange earnings owing to high oil prices in the international market; re-capitalization in the aviation industry and revocation of refinery licenses, among others.

These developments culminated in various economic indices attaining or surpassing projected outcomes; thus, inflation rate (year-on-year) not only stabilized at single digit, but dropped from 8.2% as at end-December 2006 to about 7.5% by the close of the first quarter 2007. It stood at 7.7% at the end of February. These are already below the 2007 Appropriation Act inflation rate benchmarked at 9.0%. This trend is attributable to a number of factors, including relative stability in the cost of fuel/transportation, low prices of a few food items and some monetary management measures during the period. Similarly, the national currency recorded marginal appreciation against the dollar during the quar-

ter: from N127/US$1 at the end of last year to N126.98/US$1 at end-March 2007. All through the period too, the gap between the parallel and official market exchange rates also kept narrowing. The Central Bank of Nigeria, in demonstration of its confidence in this heartening development, increased banks' Open Position Limit (OPL) in the market, to enable them handle big ticket transactions in foreign currency.

All through the quarter, interest rate dipped due mainly to sustained excess liquidity in the system. The average monthly interest rate measured by the Nigerian Inter-bank Offered Rate (NIBOR) thus dropped to about 11.5% at end-March compared to its level of 12.20% in February and 13.0% in January. This was as a result of the injection of some excess crude funds, monthly statutory Federation Account allocations and spending by politicians towards the general elections in April. It is also observed that the introduction of the Monetary Policy Rate (MPR) late last year has largely stemmed the usual volatility in the inter-bank rate, leaving it within the lending and deposit standing facility rates of the CBN at 13% and 7% respectively.

Favourable oil prices in the international market, especially towards the close of the quarter, aided the sustenance of the country's robust foreign reserves trend. Oil prices have been consistently above the USD$40/barrel that is the benchmark for the 2007 budget; in fact, all through March, prices remained around the USD$60/barrel level. Thus, despite exit settlements to Paris and London Clubs of creditors, Nigeria's external reserves still remained in excess of USD$40 billion by the close of the quarter.

In the capital market, activities were upbeat both in the primary and secondary segments of the Nigerian Stock Exchange. Thus, market capitalization which stood at N5.12 trillion at end-December 2006, closed the quarter at N7.133trillion, an increase of 10.58% over the N6.45 trillion recorded in February. These increases were attributable mainly to the gains recorded by highly capitalized stocks—examples are First Bank and Zenith Bank which recorded capitalizations of N393.67 billion and N370.62 billion respectively at the end of March to remain at the top of the market capitalization ladder. The Nigerian Stock Exchange All-Share Index (ASI) which stood at 33,189.30 at end-December 2006, closed the first quarter 2007 at 43,456.14.

The bond segment of the capital market was very much alive during the first quarter 2007. The Debt Management Office on behalf of the Federal Government, offered and sold a total of N110 billion worth of FGN bond of different maturities during the quarter. The January auction of the First Series of the 4th FGN 2010 Bond received the highest subscription level of 312.15 per cent while the February auction of the Second Series of the 4th FGN Bond 2012 received the lowest coupon rate of 9.50 per cent. However, compared to the bonds issued last year, the coupon rates for all the bonds issued in the first quarter 2007 were low. The 3-year bond dropped from 12 to 10.75 per cent; 5-year bond from 12.90 to 9.50 per cent, while 7-year bond dropped from 12 to 10.70 per cent. This was attributable to a number of factors including the persistent high liquidity in the market, drop in inflation rate as well as the take off of the primary dealership and active secondary segment of the bond market, among others.

BANKING & FINANCE

The new phase of consolidation in the banking industry, mainly market induced, continued with momentum during the quarter—with a number of banks rushing back to the capital market with hybrid offers to raise additional funds from the public. Others negotiated and sealed deals with reputable foreign equity investors, just as some had to play in the global Eurobond market. Negotiations of mergers and acquisitions between some foreign and Nigerian banks also progressed substantially. The acquisition of a number of the 'failed banks' by some of the 25 existing banks by way of "cherry picking" also continued during the quarter. A number of banks cashed in on the consolidation in the insurance sector which ended during the quarter, to either fully acquire some of the insurance firms or increase equity holding in them. Intensifying competition, positioning and quest for greater market share by all the banks gave rise to the churning out of a plethora of new products/services—mainly consumer-oriented and e-based.

Specifically, no fewer than four banks wrapped up their plans or actually made public offers to raise money in the capital market during the first quarter. While United Bank for Africa and Oceanic Bank came to the market to raise N54 billion and N55 billion respectively, First Bank got set to mobilize N100 billion. Ecobank Transnational Incorporate (ETI) was also set to raise fresh N38.1 billion (USD$300 million) from the Nigerian Stock Exchange, Ghana Stock Exchange and the stock exchange in Abidjan, Cote D'Voire. This is part of its drive to hit a capital base of N152.4 billion (USD$1.2 billion). Applications by a few other Nigerian banks to raise various sums in the capital market were, by the close of the quarter, at different levels of processing by the regulatory authorities.

A number of banks cashed in on the consolidation in the insurance sector which ended during the quarter, to either fully acquire some of the insurance firms or increase equity holding in them.

On their part, some other banks sealed deals with foreign investors who were partaking in their ownership through equity investments. A consortium led by Actis Capital LLP, is injecting USD$130 million (N16.78 billion) into Diamond Bank; the equity investment which has been endorsed by the consortium and the board of the bank, is undergoing necessary approvals by the regulatory authorities. Also, some foreign institutional investors led by Helios Investment Partners, as strategic investor, acquired about 16 per cent shareholding worth N10 billion in the First City Monument Bank. Other prominent investors include: CDC, an investment arm of the British Government; Soros Private Equity Funds and Overseas Private Investment Corporation (OPIC), an agency of the United States Government.

Also during the quarter, the International Finance Corporation (IFC), the private sector arm of the World Bank Group granted a USD$50 million (N6.5 billion) convertible loan to UBA; this convertible debenture when converted gives IFC control of about two per cent equity of UBA. Moves by UBA to acquire City Express Bank and Metropolitan Bank through "cherry picking" also continued during the quarter. Intercontinental Bank has also sealed a deal with a consortium of five international financial institutions, including Vectis Capital from Greece, for a USD$161 million (N20.25 billion) investment in the bank. The investment is in form of a convertible preferred equity. Guaranty Trust Bank, on its part, played on the international capital market, where it issued a five-year USD$300 million Eurobond that was over-subscribed.

The merger arrangement between IBTC-Chartered Bank and Stanbic Bank (a subsidiary of Standard Bank of South Africa) advanced further, with the Central Bank of Nigeria granting its Approval-in-Principle (AIP) to the deal. Approval processes by other regulatory agencies, including the Securities and Exchange Commission and the Nigerian Stock Exchange are yet ongoing. Under the merger deal, the enlarged IBTC will retain its brand name and operate as a Nigerian bank and remain quoted on the Nigerian Stock Exchange. It will however, become a member of the Standard Bank Group.

Banks also continued with vigour, their branch network expansion efforts, moving into semi-urban areas and the countryside—places hitherto poorly banked or completely un-banked. The efforts also continued offshore, where a number of banks either opened new branches, representative offices or full subsidiaries. Notable outing in these regards was the opening of Zenith Bank (UK) Limited in London—a wholly owned subsidiary of Zenith Bank (Nigeria) PLC. Zenith Bank obtained the banking license from the UK Financial Services Authority after meeting very stringent requirements; thus, it became the first Nigerian bank to be granted license to set up a bank in the UK. Other Nigerian banks had operated either as branches or subsidiaries of their UK parent banks. Zenith Bank also opened a Representative Office in Johannesburg, South Africa.

In its own expansion drive, UBA commenced operations in the United States of America with a branch in New York. Skye Bank on its part, sealed a partnership deal with the Deutche Bank of Germany—the two banks are to work together in the areas of external reserves management, private equity investment, risk management, funds administration and training. The Ecobank Transnational Incorporated (ETI) carried on with its own expansion, by purchasing majority shares in the International Bank for Africa in Chad Republic. An agreement in respect of the takeover was signed in N'djamena, Chad's capital city.

Banks, as in the last quarter 2006, continued to attract lines of credit from several reputable multilateral financial agencies, just as they increased their presence in the funding and execution of big ticket transactions hitherto treated as the preserve of foreign banks and institutions. Thus, in the first quarter 2007, Zenith Bank led five other banks to arrange N20 billion loan facility for the completion of the Aviation Terminal II at the local wing of the Murtala Mohammed International Airport, Lagos. Zenith Bank was also the lead arranger and its subsidiary, Zenith Capital, the financial adviser for a USD$1.5billion (N193 billion) facility by a consortium of 10 banks for Zenon Oil. The consortium included the French BNP Paribas.

Despite exit settlements to Paris and London Clubs of creditors, Nigeria's external reserves still remained in excess of USD$40 billion by the close of the quarter.

In a similar vein, Standard Bank (through its Nigerian wing: Stanbic Bank Nigeria) in collaboration with some Nigerian banks, raised USD$125 million (N16 billion) of project financing for Eleme Petrochemicals plant, Port Harcourt (Rivers State). The fund is for the revamping of the ailing plant. Seven Nigerian banks also collaborated with five other financial institutions in the country to syndicate a USD$222 million (N28.80 billion) credit facility for Notore Chemical Industries Limited (former National Fertilizer Company of Nigeria (NAFCON) for its turnaround.

During the quarter under review, the CBN came up with a number of policies in its monetary management efforts. Among them was the release by the apex bank to deposit money banks, some of the funds (8 per cent of their cash) it sterilized late last year in a bid to control inflation. The CBN also early in the year, appointed 17 banks and three discount houses as dealers in money market instruments. The appointed primary dealers now conduct the sale of treasury bills in a manner to fast-track the actualization of the CBN's monetary management policies. The CBN has also commenced its electronic Financial Analysis and Surveillance System (eFASS) in full—the test-run began October 2006. The system enables deposit money banks and discount houses to submit electronic copies of the summary of their daily operations to the CBN within 48 hours.

The 18 month recapitalization exercise in the Nigerian insurance industry ended on February 28, 2007. Consequently, the industry's regulator—the National Insurance Commission—re-licensed a total of 71 operators out of the 164 insurance and reinsurance companies that existed before the exercise. These comprise 43 non-life insurance companies, 26 life insurance companies and two reinsurance companies. The recapitalization exercise was marked by numerous mergers and acquisitions, private placements as well as offers for subscription.

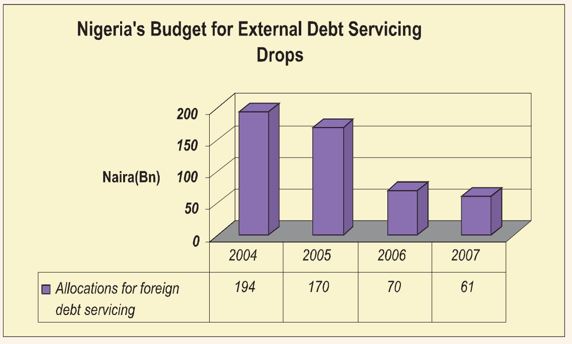
The Federal Government on September 5, 2005, mandated insurance and reinsurance companies operating in Nigeria to raise their minimum capital base as follows: N2 billion for life business; N3 billion for non-life business, and N10 billion for reinsurance business.

Recapitalized Insurance Companies

S/N	Firms	Category
1	ADIC Insurance Company Limited	General
2	Aiico Insurance Plc	General
3	Alliance & General Insurance Company Limited	General
4	Anchor Insurance Company Limited	General
5	Cornerstone Insurance Plc	General
6	Consolidated Hallmark Insurance Plc	General
7	Crusader Insurance Plc	General
8	Custodian & Allied Insurance Company Limited	General
9	Equity Indemnity Insurance Company Limited	General
10	Fortune Assurance Company Limited	General
11	Goldlink Insurance Company Limited	General
12	Guardian Trust Insurance Company Limited	General
13	Guaranty trust Assurance Plc	General
14	Guinea Insurance Plc	General
15	Great Nigeria Insurance Plc	General
16	Industrial & General Insurance Plc	General
17	International Energy Insurance Company Limited	General
18	Investment and Allied Insurance Company Limited	General
19	Kapital Insurance Company Limited	General
20	Leadway Assurance Company Limited	General
21	Lasaco Assurance Plc	General
22	Law Union & Rock Insurance Plc	General
23	Linkage Assurance Plc	General
24	Mutual Benefits Assurance Corporation	General
25	Nicon Insurance Plc	General
26	Niger Insurance Plc	General
27	Nigerian Agricultural Insurance Corporation	General
28	Nem Insurance Plc	General
29	Oasis Insurance Plc	General
30	Oceanic Insurance Company Limited	General
31	Prestige Assurance Plc	General
32	Regency Alliance Insurance Plc	General
33	Royal Exchange Assurance (Nigeria) Plc	General
34	Sovereign Trust Assurance Plc	General
35	Standard Alliance Insurance Plc	General
36	Standard Trust Assurance Plc	General
37	Sterling Assurance Nigeria Limited	General
38	Union Insurance Company Limited	General
39	Unitrust Insurance Company Limited	General
40	Universal Insurance Company Limited	General
41	Wapic Insurance Company Limited	General
42	Yankari Insurance Company Limited	General
43	Zenith General Insurance Company Limited	General
44	ADIC Life Insurance	Life
45	African Alliance Insurance Company Limited	Life
46	Aiico Insurance Plc	Life
47	Alliance & General Life Insurance Company Limited	Life
48	Capital Express Insurance Company Limited	Life
49	Cornerstone Life Insurance Company	Life
50	Crusader Life Assurance Plc	Life
51	Equity Life Insurance Company Limited	Life
52	Goldlink Life Insurance	Life
53	GNI Life Assurance Limited	Life
54	GT Life Assurance Limited	Life
55	Guardian Express Assurance Plc	Life
56	HEIRS Life Assurance Company Limited	Life
57	IGI Life Insurance Company Limited	Life
58	Lasaco Life	Life
59	Leadway Life Assurance Company Limited	Life
60	Mutual Benefits Life Assurance Company Limited	Life
61	Nicon Assurance Plc	Life
62	Niger Life Insurance Plc	Life
63	Oceanic Life Assurance Company Limited	Life
64	Royal Prudential Life Assurance Plc	Life
65	Standard Life Assurance Plc	Life
66	Unic Insurance Plc	Life
67	Union Life Assurance	Life
68	Wapic Life Insurance Plc	Life
69	Zenith Life Insurance Company Limited	Life
70	Continental Reinsurance Plc	Reinsurance
71	Nigeria Reinsurance Corporation	Reinsurance

EXTERNAL DEBT EXIT

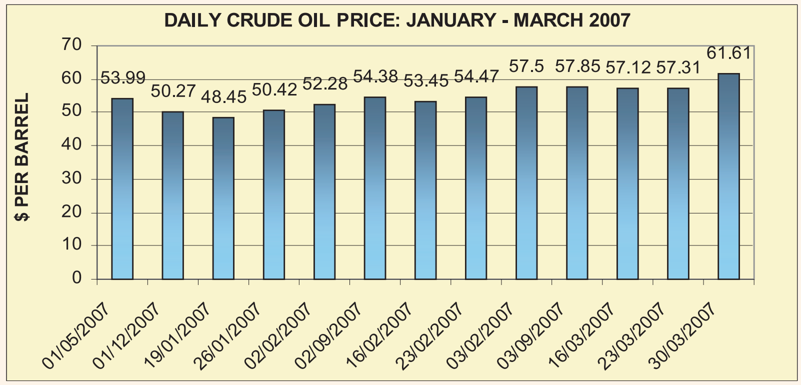
By the close of the first quarter, all was set for Nigeria's exit from the London Club of Creditors: the Debt Management Office (DMO) had commenced the process of fully redeeming 1.76 million units of oil warrants, totaling USD$388 million held by creditors in the Club. Earlier on, the Federal Government had settled USD$500 million promissory notes debt, which was part of about USD$2.4 billion owed to the London Club of creditors. Nigeria's London Club debt stock comprised three parts: Par Bonds valued at USD$1.486 billion which was paid last December; promissory notes worth about USD$500 million and 1.76 million units of oil warrants estimated at about USD$400 million. Nigeria had in April last year exited the Paris Club debt, following the successful completion of the USD$30 billion exit agreement with creditors' cartel. With Nigeria's exit from the London Club debt, her debt service ratio to Gross Domestic Product (GDP) is about 3.5 per cent, one of the lowest in the world.



OIL, GAS & PETROLEUM PRODUCTS

Prices of crude oil in the international market which remained at an average of USD$54 per barrel in the first two months of 2007, shot up to about USD$60 per barrel in March. This is unlike the situation late last year, when oil prices maintained a downward trend that prompted 1.2 million barrels per day production cut by Organization of Petroleum Exporting Countries (OPEC) members. The body in February 2007, effected yet another production cut—half-a-million barrels per day—all in an effort to shore up oil prices. But at its 144th conference in Vienna, Austria, mid-March, OPEC agreed to maintain the current production levels of its members, just as prices continued to stay above the

USD$60 per barrel mark. Nigeria's 2007 Appropriation Act has an oil price benchmark of USD$40 per barrel.



Source: OPEC

Among factors responsible for the oil price rebound were: Iran's capture of 15 British sailors and marines and fears over the likelihood of a disruption of shipments from the Persian Gulf if the brewing standoff between Iran and the international community gets out of hand; renewed tension between Iran and the United Nations over refusal by the former to halt the construction of a nuclear facility (the UN Security Council in March voted to tighten sanctions against Iran). Other factors include the lingering hostage taking of oil workers in the Nigerian Niger Delta and the resulting tension; the cumulative effect of the consecutive output cuts by OPEC in November 2006 and February 2007; speculations about oil stock levels and weather condition in the U.S.; demand and supply dynamics.

While the prices of oil in the international market were robust during the quarter, the refining and supply situation of the commodity in Nigeria faced challenges. Neither the Government-owned/operated refineries nor the private ones could make any significant impact on the supply situation. In fact, refined products importation (including petrol) was the major supply source, while the local refineries were either not functional or operated at minimal capacity. Apparently irked by the products supply situation, the Federal Government revoked the licenses it granted to 17 indigenous oil companies to construct refineries. This came five years after they were issued with 'Approval To Construct' (ATC) private refineries in 2002.

The firms whose licenses were revoked are: Starrex Petroleum Refinery Ltd., Akwa Ibom Refinery and Petroleum Company (Resource Petroleum Ltd.), Union Atlantic Petroleum Ltd., Obat Refinery Ltd., Amakpe International Refinery, Total Support Refineries, Badagry Petroleum Refinery Ltd., Clean Water Refinery, Niger Delta Refinery and Petrochemicals Ltd., and NSP refineries and Oil Services Ltd. Others whose licenses were also revoked include: Ode Aye Refinery Ltd., SouthWest Refineries and Petrochemicals Company Ltd., Choice Wood Consortium Nigeria Ltd., Orient Petroleum resources Ltd., Qua Petroleum Refinery Ltd., Rivcats Petroleum and Energy Ltd., and Sapele Refinery Limited.

Although some of these firms had reached advanced stages in their construction work plans, the decision to revoke their licenses, according to the Government, followed an appraisal which showed that none of them had concrete arrangement for full takeoff. But according to the Department of Petroleum Resources—the oil industry regulatory body—any of the de-licensed operators could re-apply for a license. Such firms would have to meet new conditions, including the payment of new licensing fees, "since whatever payments may have been made for the old licenses, have expired with the revocation." The private refineries initiative was taken by the Federal Government to increase local content in the oil and gas industry as well as ensure improved supply of refined petroleum products for local use and for export. But five years on, beneficiaries of the licenses were hamstrung by lack of funds and technical manpower; thus, defeating the objectives of the initiative.

During the first quarter 2007, the first phase of the USD$1.1billion West African Gas Pipeline (WAGP) was completed and scheduled for commissioning and ready for gas delivery. The pipeline traverses 1,000 kilometres onshore and offshore, from the Niger Delta in Nigeria to its planned terminus in Ghana; and it will transport competitively priced natural gas from Nigeria to customers in Ghana, Togo and Benin Republic. The four nations had signed a 20-year agreement since 1982 on the implementation of the pipeline, providing for a comprehensive fiscal, legal and regulatory framework as well as a single authority for the implementation of the project. The pipeline is owned and operated by the consortium of Chevron (38 per cent), NNPC (25 per cent), Shell (17 per cent), Takoradi Power Company Limited (16 per cent), So-To-Gas (2 per cent) and So-BeGas (2 per cent).

While the prices of oil in the international market were robust during the quarter, the refining and supply situation of the commodity in Nigeria faced challenges.

Telecommunications

Activities in the telecomm sector, like in the previous quarter, remained upbeat in the first three months of this year, with the industry regulator, Nigerian Communications Commission—churning out more creative policies. Thus, during the period, NCC issued Mubadala Development Company of the United Arab Emirates (UAE), a license to operate GSM service as Nigeria's fifth GSM operator. The four existing ones are: MTN Nigeria, Celtel Nigeria, Glo Mobile and Nigerian Mobile Telecommunications Limited (Mtel). The unified license offered Mubadala includes a mobile license and spectrum in the GSM 1800 and 900 MHz bands at a price of USD$400 million.

Following the NCC's plan last year to license spectrum in the 2 GHz bands (3G), the agency last February called for the expression of interest by prospective operators. And sequel to the consideration of bid applications received, four applicants were issued the 3G license at a fee (reserve price) of USD$150 million each. The successful applicants include: MTN Nigeria, Celtel Nigeria, Globacom and Alheri Engineering Company—owned by the Dangote Group. With this development, Government has earned USD$600 million (N70 billion) from the 3G license, in addition to the USD$400 from the fifth GSM license issued Mubadala.

Nigeria earned USD885 million from the GSM license granted four companies in 2001 and another USD$200 million for the award of the Second National Operator (SNO) license to Globacom in 2003. Thus, altogether, licenses for the SNO, GSM and 3G have fetched the Government USD$2.8 billion; this is apart from the money earned from Unified License granted eight companies. Apart from earnings from the issuance of these licenses, other substantial investments also came into the industry during the quarter. MTC Group, the owner of Celtel Group International, parent company of Celtel Nigeria, announced the injection of an additional USD$1.4 billion (N182 billion) into Celtel Nigeria, this year. Globacom also signed a network expansion contract worth over USD$600 million (N78 billion) with Alcatel-Lucent.

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Consumer Credit Policy And Regulatory Framework

1.0 Introduction

Government's primary objective since the inception of this Administration in 1999 has been to restructure and revitalise the Nigerian economy through a wide range of coordinated sector reforms targeted at a private sector driven economic growth and social development.

Thus Government has continued to encourage and promote private sector development as encapsulated in the NEEDS document. The primary strategy has been to institute policies, procedures and structures and other necessary mechanisms that would help unlock the hidden potential in every sector of the Nigerian economy to stimulate growth in such a manner that minimises social cost, whilst conferring long term economic benefits to all.

In this regard, Government has been playing a leading and enabling role that would enthrone a level playing field for all economic actors – private, public, enterprises and the consuming public – to work towards achieving their legitimate aspirations and thereby the common good of all citizens. The aim is to build an economy that would meet the needs of all the economic citizens of Nigeria: the poor, middle class and the rich.

Government recognizes that the establishment of a sustainable consumer credit system is a strategic imperative for economic development. It is indeed one of the important tools for actualizing government's initiative for sustainable development and the fight to alleviate poverty. The Consumer Credit Sector has significant economic benefits which if well exploited and developed, would lead to new economic opportunities that would help create jobs and therefore contribute towards wealth creation and poverty alleviation. Such a market would need to be properly guided if the economic benefits are to accrue to all.

However, there are impediments to the development of the system. In particular, government recognizes that there are weak institutional capacities for dealing with access to credits by the citizenry, especially the low income group. Where institutions exist for this in the financial sector , they are too weak (capital base) to service the market adequately. The consumer credit market in Nigeria is very huge and largely untapped given Nigeria's current estimated population of 130million.

Given the interest of local and international investors, the need to further stimulate effective demand that would ultimately facilitate the utilization of the SMEEIS Fund and implementation of government's NEEDS programme, a policy framework for the development of a consumer credit system is imperative.

It is for this simple reason that Government has considered it very expedient to enunciate a policy on the consumer credit system in the conscious hope that this would facilitate an orderly development of the sector in Nigeria. This policy framework provides the basis for a regulated consumer credit market in Nigeria that would contribute positively to the economic growth and development of Nigeria whilst minimising the social and economic costs of developing such a system on the populace.

2.0 The Case for Developing a Consumer Credit System in Nigeria

The role of credit in an economy cannot be overemphasized. Credit transactions come into play when a person wishes to obtain a service or product for which he chooses not to pay in cash or by way of exchange in kind or he simply cannot pay for it immediately.

'Credit' affords an individual the use of a service or product, which ordinarily, by circumstance of his salary (say monthly) he is unable to pay for it at once (but is now able to do so over a period of time). Indeed there are so many items that the ordinary Nigerian would normally wish to purchase but for reason of cash flow constraints he is unable to do so. With credits, he is able to do so and spread payments for such services or items over a period of time. Thus a virile consumer credit system can enhance the purchasing or spending power of the average Nigerian and this would assist in alleviating poverty by enabling ordinary people and the poor to live on credit subject to the limits of their individual circumstances and the impositions of the credit system itself.

An economy that imbibes a consumer credit culture will therefore raise national productivity, increase employment, provide an added dimension to our education ethos as well as improve infrastructure, alleviate poverty and create wealth and prosperity for our people. A consumer credit system will stimulate economic growth as there is a direct relationship between consumer credit and GDP growth. Consumer Credit is therefore critical in fuelling growth in aggregate demand.

A strong consumer credit culture and banking system will strengthen financial intermediation as this enhances the capacity to mobilize and deploy savings to critical (credit seeking) sectors of the Nigerian economy.

A consumer credit system, if properly established, operated, managed and sustained will contribute immensely to the production dynamics and the GDP growth of Nigeria.

Credits thus help unlock a diverse range of opportunities which would impact positively on economic activities in the country as well as the standard of living of the citizenry.

The above benefits are not only at the heart of Nigeria's people empowerment strategy as embodied in the NEEDS programme but would go a long way towards ensuring that Nigeria meets the Millennium Development Goals (MDGs) by the target date of 2015.

The credit market is however not a risk-free one and where access is unregulated it can lead to high levels of debt and indebtedness. It is therefore necessary to have a considerable level of balance between the providers and consumers of credit within the economy.

Accordingly this policy document has considered the need for clear rules of engagement in dealing with access to credit, compliance with requirements, effective debt recovery and consumer protection measures. It seeks to strike a balance between consumer protection measures with the regulatory burden imposed on credit providers.

3.0 Consumer Credit Policy

3.1 Direction of Policy

As part of the strategy to transform the economy, the NEEDS document highlights the importance of a well developed and stable financial sector in Nigeria. The recapitalization programme which started in July 2004 has recorded a huge success with 25 banks meeting the N25 billion minimum capital requirements. The progress in recapitalisation has however, not completely mitigated the shallowness of the nation's financial system, especially with respect to providing (access to) consumer credit.

This policy framework for the development of a National Consumer Credit System (NCCS) in Nigeria will complement existing policy initiatives in the financial sector and in particular, the microfinance policy, regulatory and supervisory framework towards a further broadening of the scope of the sector reform programme to improve the overall consumer and micro-lending environment, increase the capacity of the financial system to meet the unfulfilled financial service needs of the people, and achieve government's commitment to policy coherence.

3.2 Policy thrusts

The two key thrusts of the policy are::

i. To institutionalise a Consumer Credit Culture by applying the Consumer Credit mechanism, as a key stimulant for economic growth, sustainable de velopment, and empowerment strategy for Nige rians to create wealth and prosperity for the com mon good; and
ii. To establish and deploy a trusted, functionally eff-ective and secure framework for the enhanced de livery of services within an efficient Consumer Credit System as the strategic engine to stimulate and accelerate economic production processes and enhance the growth of our Gross Domestic Prod-uct (GDP)

3.3 The Policy Objectives

The overall policy objective is the promotion of an en-abling institutional, legal, growth-enabling regulatory, tech-nological, and infrastructural environment for the sustain-able development of a Consumer Credit System in Nige-ria. Its specific objectives are to:

i. Increase access to consumer credits at reason able rate from reputable credit providers;
ii. Make the consumer credit market function more cost effectively and promoting a fair and sustain able competitive market;
iii. Ensure that increasing access to consumer credit does not lead to 'debt addiction';
iv. Ensure consumer education and informed choices that would further enhance consumer protection;
v. Encourage the growth and development of the ca-pacity of private sector-driven Consumer Credit Institutions (CCIs); (including the establishment of new credit providers, credit bureaus, and a regulatory body,) in order to make credit and other financial services more accessible to a larger seg ment of Nigeria's potentially productive population which otherwise would have little or no access to consumer credit services;
vi. Promote the harmonization of sectoral policies to avoid inflationary credit creation, and delineate the role and responsibilities of each player in the public and the private sectors;
vii. Promote the pooling together of small savers who may want to access consumer credit under Coop-eratives especially in the informal sectors with a view to mainstreaming them into the formal na-tional financial system;
viii. Improve awareness and understanding of the CCSN and to help consumers make informed fi-nancial choices;
ix. Enhance service delivery by CCIs to consumers thereby increasing aggregate demand and employ-ment;
x. Promote linkage programmes between universal/ development banks, specialized institutions, microfinance institutions and other CCIs;
xi. Ensure an integrated and coherent effort and co ordination between states and the federal govern ment in the development of the system.

3.4 Policy Targets

Based on the objectives listed above, the targets of the policy are to:

i. Increase the number of active CCIs in 2005 by 100% by the end of 2007, and to ensure the establish ment of at least one functional CCI in each State of the federation by 2010;
ii. Build adequate capacity by providing relevant IT know how to improve service delivery by CCIs to conform with the SERVICOM CHARTER;
iii. Complement other efforts of government at in creasing the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent by 2020, and the share of microcredit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent by 2020;
iv. Cover the majority of the poor but economically active middle class population by 2010 thereby im proving their living standards, whilst creating mil lions of jobs and reducing poverty for the lower class;
v. Increase the number of collaborative credit syndi cation among universal banks, development banks, specialized finance institutions and CCIs by 10% annually over the next five (5) years;
vi. Develop the credit culture and information data bank of the middle class population by 2010 thereby enhancing non-cash based transactions towards improved management of the national cur-rency.

3.5 Policy Strategies

To accomplish the above stated objectives and targets the following strategies are proposed:

i. Government will boost low cost and long term sources of funds by:
   a) Strengthening and expanding the National Pension Fund administration,
   b) Development of the Bond market especially to finance mortgages;

ii. Acceleration of the National ID Project to provide standardised and secure national system of identi fication which the CCS will leverage on;

iii. Government funding of appropriate IT infrastruc ture that will provide market players with easy ac cess to comprehensive database for the proper functioning of an E-commerce consumer credit system, and unencumbered private sector participation in the take off of the CCS;

iv. Immediate commencement of an update and strengthening of existing financial system's legal framework for the establishment and regulation of operators in the CCS;

v. Establishment of the National Consumer Credit Regulatory Commission (NACCREC) which would be responsible for registering, accrediting and regulating CCIs, promoting fair competition, con sumer education, management of credit informa tion and generally guide the orderly development of the market

vi. Registration (and where applicable, re-registration) and accreditation of new and existing CCIs, (espe cially non-financial, including NGO-based con sumer credit institutions), with the NACCREC in order to conform with the new policy guidelines;

vii. Promotion of private participation in the consumer credit industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to improving infrastructure for consumer credit initiatives in rural and sub-ur ban areas;

viii. Provision of generous incentives (such as tax relief for the first five years of operation of CCIs, Credit Bureaus and the application by the CBN of zero general provision on Consumer Loans subject to a maximum of 10-20% of Shareholders Funds), to boost private sector driven development of the sector.

4.0 REGULATORY AND SUPERVISORY FRAMEWORK

4.1 Introduction

The primary objective of regulation is not to stiffle but promote the growth of the sector in such a manner as would facilitate the overall objective of policy, in this case to improve access to consumer credit at affordable and reasonable terms.

In both developed and undeveloped economies, the need for some sort of regulation is imperative. However, the regulatory strategy adopted (whether self or non-self regulatory mechanism) is a function of the stage of development of the system in particular and the economy in general. In any case regulation should be minimal in order not to stifle consumer lending. This is the goal of regulation intended in this policy.

The overall aim of the Consumer Credit System in Nigeria (CCSN) is to promote sustainable growth of the consumer and micro-lending industry, to serve the yenning credit needs, while ensuring that both lenders and consumer rights are protected.

Given the right policy framework, a consumer credit system thrives on an appropriate growth-enabling, regulatory framework that promotes the development of standards, regulations, rules, laws, sanctions, incentives and the adoption of global best practices to strengthen and sustain the system.

Generally speaking there are two broad approaches to regulating the industry:

i. The principles and strategies espoused in the na tional policy framework could include certain pro visions in the country's financial sector laws that are specifically focused and related to the consumer credit system, and a body charged with the enforcement of the provisions;

ii. There may be no legislated rules and regulations but the industry develops mechanisms to regulate itself in order to survive.

Although self-regulation appears to be the practice in several developed countries, the lack of strong rewards/incentives for conformers and penalties for infringers in underdeveloped credit systems immediately suggests that Nigeria falls into the former category.

4.2 Existing Regulatory Framework

Existing regulatory framework in the financial system does not provide for adequate capacity to support the regulation of the consumer credit system in Nigeria. Although the recent micro-finance policy has covered significant grounds, there is still the strictly non-financial sector credit providers/CCIs and other regulatory issues to deal with including the operations of credit bureaus.

In addition to the small consumer credit portfolio of the universal banks, there are only a limited number of institutions involved in the delivery of consumer credit services and micro-financial services, e.g. the community banks, savings and loans, credit cooperatives and the micro-finance NGOs.

Mortgage banks and community banks are currently being supervised by the Central Bank of Nigeria (CBN), while the credit cooperatives are legally under the supervision of the Cooperative Development Agencies (CDA). The consumer credit NGOs are not being supervised nor regulated by any government regulatory agency (except for the provisions of the micro-finance policy, regulatory and supervisory framework).

Most banks are not keen on providing consumer credit services, primarily due to the non-existence of the trust-element, security/privacy and confidentiality required by consumer credit service delivery system, amongst other reasons.

The other aspects of the regulatory framework that are legal in context are highlighted elsewhere in this policy document. However current regulatory structures, processes and practices have created and or introduced a number of inconsistencies with different and inconsistent regulatory requirements applying to financial transactions that are inherently similar.

Not only does this lead to the existence of different regulatory standards, it also leads to regulatory circumvention and violations, including for example distortions that are introduced into the market by the different application of interest rate regulations, etc.

This limits the scope of fair competition and brings to the fore the need for a growth-enabling single regulatory system for the consumer credit market in such a manner that enhances fair competition, consumer choices, information management and therefore the orderly growth and development of the market.

4.3 The Consumer Protection Council of Nigeria

The Consumer Protection Council (CPC) was established in 1992 by the Federal Government to take care of the special needs of the consumer. The primary concern was not the issue of access to credit in the sense being proposed in this policy.

However, the functions of the CPC as contained in Part 1: 2, apart from a general reference to providing speedy redress to consumers' complaints through negotiations, mediation and conciliations, are clearly focused on the industrial and real sectors and not the financial sector per se, less so for the almost non-existent micro-credit sub-sector.

4.4 The National Consumer Credit Regulatory Commission

In line with best global practice, this policy proposes the establishment of the National Consumer Credit Regulatory Commission (NACCREC) to carry out the functions of regulating and over seeing the orderly development and operation of a private sector driven consumer credit sector in Nigeria.

The NACCREC shall be the National Regulator (NR) of consumer credit and information and shall have the primary function of rule-based accreditation and registration of credit providers, credit bureaus, education and communication with the lenders and consumers, monitoring and ensuring compliance with the rules and regulations, complaints and enforcement, investigation and prosecution of cases that require litigation, registration of credit bureau, promotion of fair access to consumer credit and prohibition of unfair credit market practices.

5.0 LEGAL FRAMEWORK

5.1 Introduction

The policy and regulatory framework enunciated in the foregoing sections provide the basis for the purely legal aspects of this policy and in particular, the proposed Bill for the establishment of the National Consumer Credit Regulatory Commission (NACCREC) which is the primary legislation for the consumer credit system in Nigeria.

5.2 Required Legislations

Two different legislations would be required to give effect to the components of this policy and operationalisation of the Consumer Credit System in Nigeria:

i. Amendment of existing laws – to bring them into conformity with the intentions of this policy and the primary legislation for the sector - this is included as part of this policy document as Annex 1 and includes such legislations as the Consumer Protection Council Decree No 66 of 1992; the Nigerian Deposit Insurance Corporation Act; the Banks and Other Financial Institutions Act (BOFIA) of 1991

ii. An enabling Act establishing the National Consumer Credit Regulatory Commission (NACCREC), which shall be the National Credit Regulator

5.3 The proposed Act for the establishment of NACCREC

The object of the Act is to provide for the establishment of the NACCREC for the general regulation of consumer credit and information in Nigeria, registration of credit bureaus, credit providers and for the promotion of fair access to consumer credit and economic empowerment of Nigerians and for the prohibition of unfair credit marketing practices and other matters therewith.

5.3.1 Purpose

The purpose of the Act for the establishment of the NACCREC and matters related thereto include the following:

(a) Establish the National Consumer Credit Regulatory Commission with its functions and Governing Board as the main institutional, regulatory and legal framework for consumer credit in Nigeria;

(b) Promote fair access of Nigerians to consumer credit, leading to advancement in economic empowerment, social and economic well-being of Nigerians;

(c) Promote a transparent, responsible, sustainable, efficient, competitive and effective credit market in Nigeria;

(d) Protect consumers by -

(i) making the credit market in Nigeria accessible to all Nigerians especially those in the low and medium income sector

(ii) improvement of consumer credit information, monitoring and reporting and educating consumers about credit and their rights;

(iii) promoting a responsible credit market that would encourage responsible borrowing and fulfillment of financial obligations by consumers;

(iv) making adequate standard information available to consumers to enable them make informed choices

(v) sustainable regulation of credit bureaus, credit providers and debt collectors and the different credit products;

(vi) provision of mechanism for the resolution of over-indebtedness by consumers and disputes arising from credit agreements;

(vii) provision of a consistent and sustainable system of debt restructuring by credit providers

5.3.2 Application and Scope

The application and scope of the proposed Act includes but is not limited to the following:

(1) Every credit agreement between parties made within or having effect within the Federal Republic of Nigeria.

(2) The provisions of the Act shall not apply to a credit agreement in which the consumer is -

(i) The Federal Republic of Nigeria or any of its Agencies;

(ii) The Judiciary or National Assembly of the Federal Republic of Nigeria;

(iii) The Central Bank of Nigeria;

(iv) A juristic person whose asset value or annual turnover is specifically exempted by the Act

(3) It shall apply to a proposed credit agreement or a credit agreement whether the credit provider -

(a) Has its principal place of business or is resident within or outside Nigeria, or

(b) Is an agency or organ of the Federal Republic of Nigeria.

(4) If this Act applies to a credit agreement -

(a) It continues to apply to that agreement even if a party to that agreement ceases to reside or have its principal place of business in Nigeria;

(b) It applies in relation to every transaction, act or omission under that agreement, whether that transaction, act or omission occurs within or outside Nigeria.

5.3.3 Major provisions of the proposed NACCREC Act

The proposed Bill covers a wide range of issues including:

(i) Establishment, functions and staff of the NACCREC

(ii) Financial provisions

(iii) Eligibility, procedures and criteria for the registration of credit providers, credit bureaus and debt collectors

(iv) Consumer rights, confidentiality of consumers and personal credit records
(v) Consumer credit agreements
(vi) Establishment of dispute resolution mechanisms including establishment and functions of consumer credit tribunals
(vii) Miscellaneous provisions

6.0 Towards a Competitive and Sustainable Market

Government's strategic objective is the establishment of an efficient and sustainable consumer credit market for Nigeria. This policy proposes through a combination of measures, over time, to ensure standard market practices and information management to achieve this objective. Accordingly the policy provides for the following:

6.1 Consumer Choices

6.1.1 Disclosures

Information in the consumer credit market can be particularly asymmetric due in part to weak disclosures of the full cost of credit. Also because of financial complexities of some products, it is difficult for consumers to understand the risks and make informed choices. It is therefore important that standard information in a simple, understandable and comparable manner is available to aid consumers in making their choices:

Accordingly this policy proposes that the following minimum disclosures are essential:

(i) Credit providers and lenders are required to dis close costs including fees and 'add-ons' in a standard manner that sets out the total cost that may be charged.
(ii) Marketing, Advertising, Sales and other solicita tion and communication materials should include standard minimum index of the total cost of credit.
(iii) Disclosures in legible manner is mandatory to en able consumers take note and read without diffi culty such disclosures before signing, as, typically their interest in securing the credit override their concerns about the terms and conditions.
(iv) As in the case of banking practices advertisement would be approved by the NACCREC to avoid sharp and unprofessional practices that may threaten the sustainability of the system.

6.1.2 Standard Contracts

To ensure the orderly development of the market, credit providers would be required to conform to a minimum standard in their contractual disclosures and clauses as follows:

(i) A written offer, that is a pre-contractual disclosure, which would be binding on the credit provider for a minimum period provided the consumer's circumstances do not change, is mandatory. This would give the consumer enough time to collate the needed information and enable them make better choices between cash and credit transactions and different credit providers
(ii) Contract documents should be written in simple unambiguous language to aid the consumers' un derstanding and choice. They should be made available before the transaction is concluded.
(iii) To avoid unfair practices the NACCREC shall have powers to make regulations and guidelines that would seek to eliminate sharp practices and or prohibit the use of specific undesirable contract clauses and contractual practices in all consumer credit contracts.

6.2 Consumer education

The consumer credit market needs adequate information flow to thrive. More discerning and knowledgeable consumers is good for the market as this will increase competition in the industry and raise quality of supply.

Ensuring that there is full information disclosure is an important aspect of the market dynamics and therefore this policy envisages the constant updating of information by operators in the system.

It is therefore part of the responsibilities of the NACCREC to undertake specific programmes aimed at consumer education and information as regularly as developments in the market demands.

The activities of the Consumer Protection Council would be complementary in this regard and both institutions would be expected, as part of their annual report, to submit a report on the achievements of set consumer education target to their respective supervisory authority.

6.3 Debt Issues

This policy seeks to discourage 'debt addiction' and proposes that in addition to provisions in existing legislations, which would be further strengthened, specific provisions would be made in the enabling legislation for the

NACCREC so as to discourage over-indebtedness.

Also the policy proposes that credit providers would have to be monitored by the NACCREC (and other regulatory and supervisory agencies) to ensure that they do not exploit the consumer and create the debt trap, as well as ensure that thier activities do not lead to a distortion of macro-economic fundamentals.

Accordingly institutional and regulatory framework for enforcing provisions of existing legislations would be strengthened and or amended so as to ensure that this problem does not arise.

In specific terms therefore this policy seeks to:

(i) Restrict the range of unsolicited credit permissible in the system (including the types of marketing, relationship between the credit provider and con sumer consistent with existing consumer protection regulations.) through specific provisions em powering the NACCREC to make regulations in that respect;

(ii) Address the issue of Indebtedness and over-in debtedness by requiring that all credit providers should undertake an affordability assessment be fore confirming any credit facility to a consumer. NACCREC would monitor Credit providers' compliance with these credit checks and where non compliance is observed, request the operator to take appropriate steps to comply accordingly;

(iii) Institute access to an integrated credit informa tion infrastructure (virtual national credit register) at the NACCREC Head Office to facilitate oversight functions and any requirements for national security.

(iv) Ensure that structured access to and exchange of information amongst operators, consistent with constitutionally guaranteed rights of the individual is facilitated, in order to improve the ability of credit providers to conduct affordability assessments;

(v) Facilitate the establishment of a virtual national credit register or structured access to any where it currently exists (like at the Central Bank of Nigeria) at the NACCREC Head Office for all credit trans actions. It will be critical that such infrastructure is efficient, up to date and accurate, as it will impact significantly on both consumers and credit provid ers;

(vi) Establish a credible credit information system and thus make it obligatory on the consumer to make available to the credit provider accurate information on him and his credit transactions;

(vii) Institute a national network of professionally quali fied competent and regulated debt counselors, recovery and collection agents who would be employed by operators of the system in the course of dealing with debt issues, particularly with respect to renegotiations, debt commitments/recoveries, etc on behalf of consumers and providers.

6.4 **Compliance Issues**

Strict compliance with regulatory measures is essential for the proper development of the system. Accordingly the policy envisages:

(i) Periodic surveys on the levels of indebtedness, so that the trends can be monitored and the adequacy of the protective measures can be reviewed regularly;

(ii) Continuous improvements in the regulatory infra structure in order to improve access to redress for consumers and ensure compliance by credit providers to regulatory measures;

(iii) Effective consumer protection and effective access to redress, without undue interference in the relationship between the credit providers and their customers;

(iv) Effective enforcement and the quick resolution of complaints to reassure reputable operators in the system of the capability and integrity of the NACCREC;

(v) Proactively investigate and undertake systemic market conduct problems and violations of consumer rights, approve industry codes and guidelines for the resolution of complaints, and monitor the enforcement of such codes and guide lines;

(vi) Promote access to redress, resolve complaints against credit providers, where necessary, refer matters to appropriate institutions and ensure effective enforcement of sanctions;

(vii) Registration of Consumer Credit Providers, monitor and inspect their performance and gen eral compliance with the provisions of the Con sumer Credit Act;

(viii) Support as appropriate, finance and social devel opment institutions and activites , as well as indi viduals with specific expertise in the area of credit extension and consumer protection to further en hance compliance with the provisions of the Act.

6.5 Complaints Resolution and establishment of Credit Tribunal

This policy envisages that in view of the volume of complaints and investigations anticipated in such an emergent market in our economy, there would be need for appropriate mechanisms for addressing such complaints. Accordingly the policy proposes a complaints resolution mechanism that includes the establishment of a consumer credit tribunal.

The policy further proposes a collaborative effort by all stakeholders in the complaints resolution mechanism while the Act would provide for the establishment of the tribunal.

The role of industry in complaints resolution and redress as envisaged by this policy include the following:

i. Structured and unstructured interaction between the credit provider and the client in the most cost-effective way without government intervention in the relationships between credit providers and millions of clients.
ii. Industry-based self-regulatory mechanisms have an important role to play since they provide access to redress for consumers who cannot obtain such redress from the credit provider.
iii. Any industry-based mechanisms established would be supported by government and the NACCREC is expected to foster the establishment of such mechanisms with well spelt out codes of conduct and rules of engagement.

For NGOs and CBOs their role would continue to be predicated on the substantial persuasive influence of the group on its members to be of good conduct and integrity.

Government through the NACCREC would encourage and support alternative dispute resolution mechanism to reduce the incidence of disagreements.

This policy envisages the establishment of Tribunals as part of the dispute resolution mechanism for the sector. The Tribunals would be expected to, amongst other things:

(i) Adjudicate contraventions of the Act and have the power to impose administrative mechanisms and sanctions and issue orders.
(ii) The proceedings before the Tribunal would allow for maximum but expeditious participation and cost effective resolution of cases.

7.0 Funding and supervision of the NACCREC

Government recognizes that the development of a potentially huge consumer market requires a well structured regulatory framework with the necessary independence and commensurate autonomy that would enable it respond to market developments as and when the need arises. The regulatory responsibility proposed in this policy is enormous and only an independent National Credit Regulator sufficiently financially independent would be able to discharge its duties effectively.

To ensure its independence and integrity it is proposed that NACCREC shall be self accounting and be under the direct supervision of the Presidency. Its funding shall be:

(i) By way of initial take off-grant and annual budgetary provisions from the Federation Budget;
(ii) Registration fees and other charges, levies from its operational activities;
(iv) Donations, gifts and sponsorships provided such other monies are received in accordance with the provisions of the NACCREC Act.

8.0 The Credit Bureau Network

8.1 Introduction

Credit Bureau networks are essential to the establishment of a consumer credit system. Credit bureaus (also known as credit reference agencies, credit registries or credit reporting agencies) are organisations that collect process and store public record/data, statutory information, credit transactions and payment histories of consumers and businesses. This resulting information can either be positive or negative indicators that can be used to determine the relative level of risk of existing and potential borrowers.

Credit Bureaus are set up in response to needs which include but are not limited to the following;

i. Lenders need information about borrowers (credit behaviour and status) to make better lending decisions;
ii. Borrowers (consumers and businesses) need essential information about their satisfactory credit behaviour to improve access to credit;
iii. Governments and Central Banks need reliable credit information to manage consumer and business indebtedness and ensure a healthy financial service industry.

While Credit Bureaus provide information to aid the credit decision making process, they in themselves do not make or participate in credit decisions.

The existence of Credit Bureaus helps to improve risk management, enables lenders to increase the amount of lending, reduces default rates, enables borrowers to develop credit profiles, and prevents borrowers from becoming over-indebted.

The efficient functioning of a Consumer Credit System requires extensive voluntary information sharing among stakeholders, application of the principle of reciprocity, use of sophisticated scoring models, and full-file (positive and negative) credit reporting. It also requires fixed reasonable data retention periods, legitimate and non-judicial dispute resolution mechanism that resolves disputes between consumers and Credit Bureaus or their subscribers.

The establishment of Credit Bureaus is therefore a sine qua none for effective and efficient implementation of the consumer credit system in Nigeria. This Policy recognizes that a pioneer work in this respect has been done by the Central Bank of Nigeria by virtue of sections 28 and 29 0f the CBN Act, 1991, which led to the setting up of Credit Risk Management System. However, there is a need to improve on this by opening up the system and redefining roles and relationships.

This Policy recognises the need for enthroning growth enabling-regulations where necessary, in all aspects of the system. It proposes to encourage the formation of privately owned credit bureaus which would be registered by the NACCREC so as to enlarge the network of credit bureaus.

Government's role would be limited to policy direction, licensing/registration, legal oversight, enforcement, penalties and supervision.

Accordingly, and in line with best practice, detailed guidelines for the registration, operation and supervision of credit bureaus will be provided by the proposed regulator, NACCREC upon establishment.

8.2 Benefits and the Impact of Credit Bureaus on Lending Activities

The benefits of credit bureaus are significant, and can be directly linked to lending as well as non-lending activities.

The impacts on lending activities include:

i. Lenders are better able to objectively price for risk resulting in more appropriate interest rates that reflect the risk inherent in individual credit exposures;
ii. Borrowers with good credit histories can borrow more easily as well as receive lower interest rates. Such borrowers also have improved access to a wider range of credit products;
iii. A healthy credit culture is created as borrowers become aware that the market rewards and sanctions them based on their credit behaviour;
iv. There is increased access to credit for a larger segment of the population, thus improving general standards of living, encouraging investment and stimulating economic growth.

9.0 ICT Infrastructure for the Consumer Credit System

An effective and functional consumer credit system requires a reliable national ICT infrastructure backbone. The ICT infrastructure backbone will provide the network connectivity, communications and a central database engine for dynamic interaction between the regulatory institutions, credit bureaus systems, consumers (especially in terms of transaction non-repudiation and secure identification with integrity), financial services providers and other stakeholders in the system.

The following issues were considered in proposing an ICT infrastructure for the consumer credit system:

i. Scope and required capacity of a National ICT En abling Environment, evaluation of existing major ICT Projects nationwide; and minimum required for the smooth take-off of the CCS;
ii. Classification of ICT Infrastructure in the Private and Public Sectors - (Hardware/Software/Connec tivity);
iii. The Implementation Costs.

Accordingly this policy proposes the following basic requirements for ICT infrastructure backbone for the CCS:

i. Hardware:High Speed Computer Networks & Tele communications Connectivity;
ii. Software: Centralized National Database System and Consumer Credit Application Software Solutions;
iii. End-to-End Security Systems and Transaction In

struments: Firewall, SSL Access Levels and Authentication Process, Encryptions and Bio-metric Solu tions;

iv. Public Key Infrastructure needed – to provide high level security for on-line business transactions – confidentiality, integrity, non-repudiation and au thentication;

v. The Galaxy Infrastructure Backbone Plc would pro vide the national ICT infrastructure backbone (especially in collaboration with owners of existing backbone to ensure full coverage and avoid unnecessary cost).

10.0 Secure Identification System

A reliable and secure identification system is essential to a consumer credit system. Currently there are several identification systems in the country but none is sufficiently adequate for the level of secure identification, authentication, integrity and non-repudiation required for the consumer credit system.

Government therefore proposes the introduction of a new national identification scheme and a natonal identity management system which would support the consumer credit system envisaged in this policy.

The new identification system would be based on the smart card (chip technology). It would be a general multipurpose card (GMPC) and would be secure, non-repudiating with unique numbering and biometrics. It will be integrated with existing identification systems through the proposed National Identity Management Commission.

11.0 Postal and Addressing System Upgrade

To ensure the integrity of the proposed system, it is important that the consumer can be uniquely identified. It is also important that his location address is easy to determine and subsequently identified. An upgrade by way of proper codification in the national addressing system requires urgent attention. This policy envisages that the postal addressing system nationwide would be upgraded by a collective effort between the NIPOST, Local, States, and Federal Government, following the model already being worked out by NIPOST and the GPS system adopted by the FCT.

12.0 Consultation with Stakeholders

The overall objective of policy is to provide direction on the development operation and regulation of the consumer credit market in Nigeria which by its very nature involves a broad range of industry operators and millions of consumers.

The latter include some of the lowest income earners as well as the very highest earners. Given the diversity of consumer and business interests that would be affected by this policy, government proposes to hold continuous consultation and interaction with stakeholders.

Government also proposes to undertake extensive public awareness campaigns in respect of the consumer credit system and the new chip technology-based general multipurpose identification card system that would support it to inform and educate the citizenry on the importance and vast economic benefits of the system.

It is government's belief that continuous dialogue and public awareness campaigns can only lead to further improvements in the policy and therefore the development of the system in Nigeria.

13.0 Policy Implementation Process

Government has approved a presidential implementation committee to over see the implementation of the provisions of this policy document under the chairmanship of the Secretary to the Federal Government. The implementation plan is attached to this document as Appendix II.

14.0 Conclusion

There exists a huge and untapped consumer credit market in Nigeria which if properly developed would help leapfrog economic growth and sustainable development in Nigeria.

It is Government's strong believe that credits help unlock a diverse range of opportunities which would impact positively on economic activities in the country as well as the standard of living of the citizenry. This consumer credit policy and regulatory framework for Nigeria is government's major policy action towards the development of the system.

The Act for the Establishment of the National Consumer Credit Regulatory Commission is the primary legislative instrument for giving effect to this policy which shall be subject to review from time to time by Government.

Reforms & the ICT Sector in Nigeria

* By Jide Awe

The Nigerian National Economic Empowerment and Development Strategy (NEEDS), launched in 2004, provides the roadmap for achieving sustainable national development. What role has the Information and Communications Technology (ICT) sector played in pursuit of this development objective? To capture the role of the ICT sector, we must consider the objectives of the federal government's economic reforms as well as the challenges and opportunities introduced by ICT in today's world.

Nigeria is Africa's most populous nation with a population of 140 million[1] and one of Africa's busiest business destinations. Nigeria is one of the world's leading producers and exporter of petroleum - crude oil revenue earnings account for 90% of export earnings[2].

Oil has however been unable to improve the quality of life of the Nigerian populace. In the 21st century, crude oil exports alone cannot engender economic growth. A key imperative of the NEEDS strategy is to de-emphasize the role of oil production while facilitating the diversification of the economy.

Knowledge Economy

Can the country make progress, and can the NEEDS objectives be achieved, if the economy is not knowledge-driven? The non-oil sector and exports certainly require attention. However, in today's knowledge-driven world, wealth creation, poverty reduction and job creation must be approached with knowledge. ICT is such a

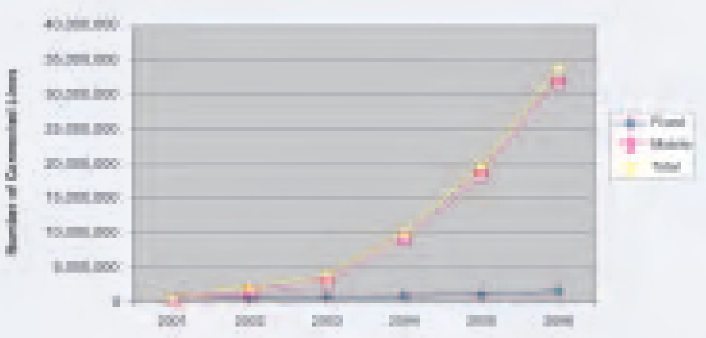
[1] *National Population Commission of Nigeria Website (http://www.population.gov.ng/ 2006 Census Results http://www.population.gov.ng/pop_figure.pdf*
[2] *National Bureau of Statistics – Foreign Trade Statistics. 2005*

key enabler because it facilitates knowledge utilization and innovation. The world has moved on. Land mass, mineral resources and physical infrastructure aren't enough for wealth creation. Knowledge workers and professionals use the digital environment to make a difference. New ICT enabled value chains and economic concepts have changed the world.

ICT enables individuals and organizations achieve strong gains in performance in all fields of economic activities. Information, knowledge and ICT epitomize the digital era. The impact of ICT on the world in terms of economic and social benefits is nothing short of revolutionary. ICT drives up growth and performance through: availability of timely information for management and decision-making; lower search and transaction costs; more efficient organization, among others.

Figure 1

Growth in Connected Lines



Source: NCC

ICT enables the exploitation of information in all sectors – in the workplace, at home, in the provision of public services and in the performance of the private sector. How well is the Nigerian nation utilizing the infrastructure of ICT and the world of new ideas and innovation, for progress – for learning, work and recreation?

Implementing the federal government's economic reform program means developing a knowledge-driven Nigerian economy that increases the ability of Nigerians to participate in the information age. A strong, vibrant Nigerian ICT sector is a necessity, not a luxury.

Indeed a positive impact of the reform has been the explosive growth in the telecom sector. The impact of the GSM revolution in terms of jobs and wealth creation is obvious and felt in nearly all sectors. Mobile communications, especially GSM telephony has changed the way Nigerians interact, network and conduct business.

Growth in Telecom Infrastructure

One of the obvious gains of the economic reform programs has been the vast improvement in telecom infrastructure[3] over the past few years. Nigeria's government provided the impetus for liberalization by setting up the Nigerian Communications Commission (NCC).

GSM technology kick-started the process of explosive growth in the telecommunications sector. Growth has been fast and furious in mobile telephony, according to the NCC, as shown in Figure 1, mobile lines grew from 1.56 million in 2002 to 20 million in March, 2006 to 32.2 million as at December, 2006. Fixed lines have also grown but at a much slower rate than mobile lines. The total number of connected mobile telephone lines of 32.2 million, as at the end of 2006, represents a whooping 11,984% increase over the 266,461 lines recorded in December 2001. On the other hand, the number of fixed telephone lines increased by a much lower 167% from 600,321 in 2001 to about 1.6 million in December 2006.

Trends appear positive with the award of a Unified Access Service License to the Mubadala Development Company of the United Arab Emirates (UAE) in January 2007. The UAE entry into Nigeria's telecom space further highlights another important trend. The telecom sector has become the largest generator of Foreign Direct Investment (FDI) after the Oil and Gas industry[4]. The 400 million dollars Mudabala paid for the license is the highest amount ever paid for a telecom license in Nigeria. Gross investment in the sector has jumped to 8.5 billion dollars compared to less then 5million dollars in 1999[5].

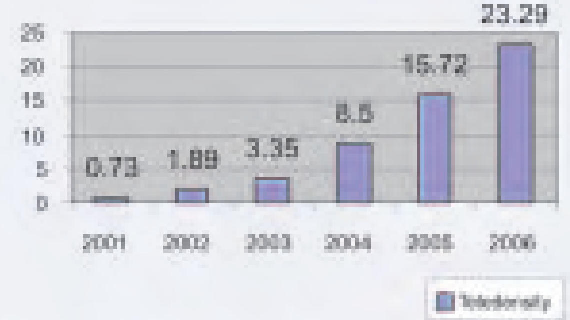
Internet, Convergence

Beyond basic telephony, growing awareness of the opportunities provided by the Internet has heightened demand for Internet services. More individuals and businesses are using the Internet to meet real information and communications needs. Convergence is certainly playing a major role. For example, Voice Over Internet Protocol (VOIP) - the technology used to transmit voice conversations over an Internet connection instead of the regular telephone

[3] *Awe: Bridging the Infrastructure Divide http://www.jidaw.com/telecom/telecomm8.html*
[4] *NCC: Trends in the Telecommunications Market June 2005*
[5] *NCC's Vice chairman Ernest Ndukwe in Daily Trust 31-Jan-2007 http://dailytrust.com/archives4/wed31_01_07/business.htm*

line - has become the main driver of international telephony in Nigeria. The massive growth in awareness especially in the urban areas has made the data and Internet market attractive unlike during the Nitel monopoly period before the reform-induced deregulation of the sector. A wide range of data, networking and telecom services are now provided by Private Telephone Operators (PTOs), Fixed Wireless Access (FWA) providers, Internet service providers and VSAT (Very Small Aperture Satellite) operators. The aggressive competition for opportunity is evidence of the rapid growth in the demand and usage of data and related services.

Figure 2 Teledensity Growth



Source: NCC - Aug. 2006

With the telecom regulator providing an enabling environment, Nigerians should expect further opening up of the converging data-networking-telecom space. Celtel's entry into Nigeria's telecom market, as well as that of Transcorp through the acquisition of Nitel should boost the provision of Telecom infrastructure. The merger of the National Broadcasting Commission, NBC, and the NCC following the fusion of the Communications Ministry with that of Information should build on the bridge already built by telecom growth.

To widen opportunity and provide more wireless communication access opportunities, NCC is auctioning 3G frequencies to enable operators provide third generation mobile broadband communications services.

However, though infrastructure growth has been rapid, an urban-rural digital divide still exists. For commercial reasons, most operators focus on the high margin opportunities in the urban areas. While there are pockets of activity in the rural areas, infrastructure concentration is mainly urban. Furthermore, despite steady and massive telephony growth, as figure 2 shows, because of Nigeria's population, this only translates to a teledensity of 23.29%.

With the telecom regulator providing an enabling environment, Nigerians should expect further opening up of the converging data-networking-telecom space.

Furthermore, though pricing of sim cards, PTO landlines and Internet service have all combined to reduce the cost of access, private sector profit must be balanced with pubic expectations. Poor quality of service (dropped calls, inferior after-sales support, billing problems and network outages) as well as high call rates need to be addressed to improve access. Though the NCC created the Consumer parliament to address these concerns, the persisting poor quality of service, indicates that additional creative and effective measures need to be taken, to protect the Nigerian consumer.

Access to Information Technology

Although many organizations provide computer supply, repairs and maintenance services, most of them are located in the urban areas, especially Lagos. Lagos is home to the always-bustling Ikeja computer village business cluster. The computer village is an ICT hub that attracts patronage from across the West African sub-region. It has grown from a 10-shop computer market to a huge marketplace that now provides employment, as well as business opportunities for private enterprise and investment and computer education. The computer village however has problems of space and security.

In order to promote access to technology and the benefits of technology, the concept of an ICT hub doesn't have to be limited to Lagos or other urban areas. Setting up similar clusters in other parts of the country will boost availability and the use of ICT.

PC access and availability has improved, due to the cheap imports from Asia, falling tech prices and the growth in the second-hand PC market. Most vendors stock products of the leading manufacturers. In addition, Zinox Technologies and Omatek Computers now produce Desktop and Laptop computers locally in Nigeria. The President, Chief Olusegun Obasanjo has supported these efforts by directing all government offices to patronize the indigenous system builders.

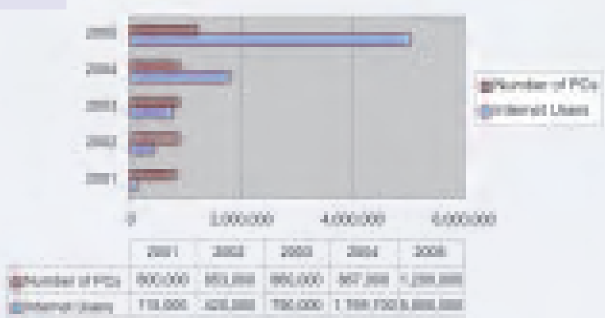
However, the majority of computer clones and products in the Nigerian market are those produced by the established manufacturers such as IBM, Dell, Compaq, Hewlett Packard, etc. Nigeria therefore still imports most of the computer and peripheral equipment it uses. Import costs as well as pricing of built-in-Nigeria PCs means that though access has improved, cost is still a major challenge to most people. Penetration is still low considering Nigeria's size and population as figure 3 shows.

The ICT sector can't have much impact without affordable computing facilities. More people, not just businesses, need to have access to reasonably priced computers for education, recreation, business and other creative activities.

To close this gap, the government launched "Computer for All Nigerians Initiative" CANi[6] a Public-Private-Partnership, in 2006. The initiative aims to make personal computers available to Nigerians at more affordable prices and also ease payment costs. CANi sources aim to provide 300,000 computers and laptops to both public and private workers. The scheme will however require effective and committed project management. More creative ideas and programmes that involve Public-Private partnerships would still be needed, since the 300,000 PCs to be provided under CANi will be too few for Nigeria's population.

Internet Indicators for Nigeria: Users and Number of PCs

Figure 3



Source: ITU

As figure 3 shows, growth in Internet users has outpaced growth in number of PCs. Cybercafes have played a major role – providing opportunities through shared access and not necessarily system ownership. Because the cost of ICT is still relatively high for most individuals, the cyber cafés have significantly improved accessibility to the Internet in Nigeria.

This is particularly significant, since according to the ITU: "if information is power, then the internet must be the easiest way of empowering those that have traditionally been left behind." In realization of this and to deepen Internet penetration, the NCC and Nigerian Internet Service Providers (ISPs), represented by Internet Service Providers Association of Nigeria (ISPAN) are setting up Nigeria's first National Internet Exchange.

Local direct connection through the exchange is expected to usher in improved and cheaper Internet services.

There is also a need to explore ways of harnessing SAT-3 opportunities. The essence of the SAT-3 submarine optic fibre cable project is to provide cheaper and high quality telecom alternatives to satellite links. If well utilized, it will in addition, enhance the growth of Internet connectivity and related services in Nigeria.

Nigeria's Software Industry

Software is at the heart of the global knowledge economy. The increasing adoption of ICT enabled tools and technologies further enhance the value of software. Software presents Nigeria with an opportunity to take a significant position in the global ICT value chain. The value chain consists of the creators, distributors, resellers and consumers. To make sense of the ICT revolution, forward-thinking countries ensure that they carve out a niche in the high value, creative portions of the value chain. With its large, youthful, educated and enterprising population, Nigeria can exploit a lot of opportunities in the software sub-sector.

The IBM global financing report in 2005 said that software and services form the largest and fastest-growing part of the information technology market. In recognition of the importance of software, Nigerian government in conjunction with Nigerian software practitioners developed the Nigerian Software Development Initiative (NSDI)[7].

Software is required for the effective use of ICT - PCs, handhelds, mobile phones, the Internet, GSM, wireless telephony, network devices, telecom equipment, etc. In Nigeria, System software – operating systems, network software, development tools - is 100% imported. The case is also the same for packaged applications (word processing and spreadsheets). This isn't too unusual as in other countries, most System software and packaged applications in use are those manufactured by global industry leaders, e.g. Oracle, Microsoft, etc for reasons of support,

[6] *Computers for All Nigerians Initiative (CANi) http://www.cani-nigeria.org*
[7] *The Nigeria Software Development Initiative (NSDI) http://www.nsdi.org.ng/*

manufacturer's Research & Development (R&D) investment and compatibility.

The most obvious opportunities for the local software industry therefore are the specialized application development markets – producing software for accounting, legal, banking, financial services, personnel, payroll, information management, games, etc.

However, the local software industry faces the challenge of patronage. Local developers are losing out to ignorance and foreign software providers. Most Nigerian businesses, especially the small ones, don't invest in specialized software; for them, the packaged / office applications are all that is needed. Awareness is low about the benefits of software. And for most of the large corporate organizations that do invest in niche software, foreign software is regarded as the better option.

The strength of the ICT industry comes from the internals. A strong local software industry will save foreign exchange - money spent on foreign software goes to foreign organizations; money spent on local software stays within the Nigerian economy. It will provide career and business opportunities for the youth locally and globally in - outsourcing, application and web development. Nigeria should take a cue from India, a country that has benefited tremendously from Business Process Outsourcing (BPO) and software outsourcing.

The awareness and demand of the local market for software products and services need to be increased, so that it can stimulate the market and support the software industry. Government should work with NSDI, Nigerians in the Diaspora, the Nigeria Computer Society (NCS) and the Institute of Software Practitioners of Nigeria (ISPON) to create greater awareness of the benefits of software and promote the local industry. Local and global (software export) opportunities should be highlighted all the way.

Tax incentives should be provided for local software developers. And just like the made-in-Nigeria PCs, government should patronize and give preference to locally developed software. Furthermore, the development of Software technology parks should be encouraged. Such parks would provide developers with constant power supply, security, subsidized office space, IT infrastructure, soft-

ware education and other incentives.

Opportunities and strategies in open source should also be explored for possible cost benefits, promotion of local ICT capacity development, legal software usage and development as well as creativity and localization. Software localization promotes digital inclusion for all through the adaptation of software (translation, design, icons and graphics) to fit a local cultural context and environment.

e-business, e-banking, e-payments

ICT underpins all sectors of the economy. There are no industrial or geographic boundaries. New services and opportunities are increasingly being developed and made available through varied ICT platforms such as computers, telecom equipment (telephone, mobile phones, fax, Internet (Web, e-mail), etc. Examples include, e-learning which enables the delivery of education through the Internet, the use of Automatic Teller Machines (ATMs) by banks, and other services provided by hotels, insurance companies, government agencies, hospitals, supermarkets using ICTs.

The transformation of retail-banking business through (Automatic Teller Machines) ATMs has been the most visible face of e-business in Nigeria. To improve the efficiency of the payment system, the Central Bank of Nigeria (CBN) in 2004 issued broad guidelines on electronic banking (e-banking). Nigerian banks, aided tremendously by the telecom-enabled environment, subsequently developed e-banking solutions. Bank customers can now acquire Debit Cards (payment cards) for convenient banking and payments - to make purchases online, pay for services, transfer funds and withdraw cash from ATMs.

Due to competition among banks, ATMs have grown tremendously from about 68 ATMs in the pre-consolidation era, to thousands in the present dispensation – making Nigeria one of the fastest growing ATM markets in Africa.

The Nigerian Banking industry has always been the highest ICT-spender, fuelling innovation in the economy. Trends indicate continued large-scale deployment of ATMs due to increased public awareness and confidence, as well as industry competition. Zenith Bank PLC, for example, has introduced the first automated teller machine (ATM) Gallery - the first full-fledged teller-free branch of a bank in Nigeria.

Local e-payment initiatives have enabled the use of multi-channel payment solutions – cards, POS terminals, mobile phones, Internet, etc. Integral to the transformation of the e-payment landscape in Nigeria have been the switching and payment processing companies - Interswitch and e-tranzact.

The future of e-payment and e-business appears very bright. Some banks have also introduced Naira credit cards for the local market. The e-payment infrastructure however needs to be enhanced to enable increased participation in global online business. Several banks issue international credit cards and solutions from MasterCard and VISA cards, though the use of the cards depends on acceptance by merchants. This is often a problem due to the activities of Internet fraudsters.

But beyond e-payments, more individuals and businesses need to embrace e-business. A few are already benefiting but most are unaware. Small and Medium Enterprises (SMEs) and manufacturers need to perform better and be globally competitive using ICT. E-business[8] means applying new, innovative ways of reducing costs, earning revenue, expanding market-reach, managing information, participating in value networks and promoting products or services.

Growth of ATMs in Nigeria

Year	No of ATMs
2000	3
2001	43
2002	68
2003	NA
2004	193
2005	352
2006	996

Source: CBN Economic Report for the first half of 2005; CBN - Report of the Technical committee on Electronic Banking 2003;

New "born-online" opportunities are created through the electronic delivery of products and services (such as publications, software, music, video, consulting, education, etc). The environment presents tremendous opportunities for innovative startups and entrepreneurs. Small players with big ideas, the right knowledge and mindset are getting great results online. To gain a foothold in the global online business space, Nigeria needs to grow and fos-

[8] *e-business: Getting down to doing Business on the Net: Benefits of e-business Awe and Olubamise 2006*
[9] *European Commission Study 'Interactive Content and Convergence: Implications for the information Society' January 2007*

ter innovative, ICT-enabled entrepreneurship.

The growth of e-business in Nigeria will depend on creating the demand and awareness in society. For example, online digital content (such as films, TV, publishing content, radio, music and games) is a big, untapped market attracting global attention and growth for the promotion of culture and market opportunities. Creative, online content is expected to grow by over 400% in five years in Europe alone, according to a recent European commission study[9].

Human Capital Development

Sustainable growth in Nigeria's ICT market will depend on the level and quality of human capital development. The main source of value and competitive advantage in the new economy is human and intellectual capital.

In the knowledge economy, Nigerian citizens need digital literacy to be able to fully participate in society – digital inclusion. Digital literacy has become an essential life skill. User skills are needed to be able to apply ICT to achieve objectives that may not be related to ICT. For example digital literacy is about teachers using the Internet to learn and teach. It's also about artists using ICT to communicate and interact with fellow artists, or using the online environment for marketing and publicity.

People who do not have the right skills are suffering major disadvantage in terms of work, business, learning opportunities as well as social integration. Many Nigerians are investing in user skills, the divides are narrowing even though a large proportion of the populace are still outside the digital literacy loop. Many in the rural areas have no knowledge of ICT. Most in the informal sector – market men and women, SMEs, cottage industries, etc – don't use ICT, other than mobile phones, to drive their business. To truly have a knowledge-based society, there is a need to grow more ICT skills in the informal sector.

The development of the knowledge economy has been dependent on the availability of a large pool of qualified ICT personnel that are able to develop local and global solutions. The right human capital is a requirement for a robust, growing and sustainable ICT sector. Individuals with such skills are involved in designing, developing, maintaining, installing, configuring and managing ICT systems, as well as services facilitated by ICT.

The formal education route is the traditional route used by many interested in developing careers in ICT. Most Nigerian universities, technical colleges and polytechnics all provide ICT learning through degree and diploma programs. A major problem of formal education has been its disconnect with industry. Academic issues must be combined with both the technical and business aspects of industry.

However, the growth in ICT development has created other routes for acquiring technical ICT skills and knowledge. Private training providers run professional computer education courses and training for practical ICT programs, public exams and globally recognized certifications. Such organizations provide learning opportunities for career changers, fresh graduates and ICT professionals. The wide range of programs offered with varying content and duration provide individuals and organizations with flexible learning opportunities.

E-business skills are strategic business flair required by the new economy. Business skills for the new economy are required to develop creative online solutions, establish e-business strategy, manage innovation, to explore and develop new ways of organizing the enterprise and conducting business. It is quite challenging to find the right e-business training. Very few institutions in Nigeria offer comprehensive e-business training programs. Opportunities for acquiring e-business expertise aren't as well known and as well structured as education for other ICT areas.

The development of the knowledge economy has been dependent on the availability of a large pool of qualified ICT personnel that are able to develop local and global solutions.

Presently, ICT skills are unevenly spread in society – some areas experience shortage, while others experience oversupply. For example, there are shortages of experienced professionals with the right combinations of technical and soft skills, including project management, business development, and leadership.

Government's initiative in the area of ICT education includes Computer in School Initiative (CISI) and the Internet in School Initiative (ISI) – to increase PC and Internet penetration in schools. These initiatives are important for early access to computers and computer education for children.

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[10] *Nigerian Cybercrime Working Group (NCWG) http://www.cybercrime.gov.ng/site/index.php*
[11] *Small and Medium Enterprises Equity Investment Scheme (SMEEIS): http://www.cenbank.org/documents/smeeis.asp*
[12] *The Nigerian National eGovernment Project http://www.enigeria.com.ng/*

Barriers to ICT education include inadequate counseling, a lack of awareness, perceived lack of the need, ineffective apprenticeship, absence of local language opportunities, as well as costs. Fostering a culture of e-business and lifelong learning is essential. The ICT sector also needs comprehensive human resources development planning to address present imbalances and future needs.

The Environment

ICT thrives in a trustworthy environment. In the networked world, Information security is critical to building confidence in the economy. "419" scammers have however already given Nigeria a negative image. Nigeria therefore needs to take proactive measures to improve the country's information security climate. Moves are on to ensure that the legal system and law enforcement effectively addresses electronic transactions, fraud, Cybercrime, intellectual property, integrity and availability of information assets, e-business, electronic contracts, dispute resolution and consumer protection.

In response to the threats to Information security and information assets, the Federal Government of Nigeria established a Cybercrime working group in 2004. The inter-agency working group produced the Computer Security and Critical Information Infrastructure Protection Bill 2006[10]. Though it has not yet become law, the bill aims to secure computer systems and networks in the country, while providing criminal liabilities and penalties for undesirable activities carried out using computers and other ICTs.

In an additional effort to build confidence in the business environment, the "Advance Fee Fraud and Other Related Offences Act 2006", was signed into law on June 5, 2006 by President Olusegun Obasanjo. It was enacted to add bite to the fight against Advanced Fee Fraud, Cybercrime and other related online fraud.

The not-so-conducive operating environment has been a major challenge hampering e-readiness – the ability of consumers, businesses and governments to use ICT to their benefit – growth in Nigeria. The ICT sector requires an atmosphere that encourages investment, innovation, newer services, better access and lower prices.

The high cost of business setup, multiple taxation, pricing, weak infrastructure base, as well as inefficient and corrupt business practices cannot help in making the Nigerian environment e-ready. The e-readiness table (below) highlights the important indicators as well as Nigeria's performance so far.

Nigeria has launched several initiatives - Small and Medium Enterprises Agency of Nigeria (SMEDAN), Small and Medium Enterprises Equity Investment Scheme (SMEEIS)[11], Microfinance policy - to provide realistic funding and support for micro and small organizations. The business, social and cultural environment however needs to encourage knowledge, computer education and e-business through the promotion of lifelong learning and innovation. Infrastructure is another nagging issue affecting Nigeria's e-readiness. Global competitiveness will be difficult without attending to the problem of power supply. Today most businesses rely on alternative power for almost all their power needs. Nigeria needs to act fast on the long overdue power sector reforms.

Beyond the provision of static websites, government has started taking the lead in e-solutions with high quality online provision of government information and services. Already the National eGovernment Strategies Limited, NeGSt[12] was established in March 2004 as a Public-Private Partnership (PPP) targeted at driving Nigeria's eGovernment initiative. Presently all the major examination agencies of government - the Joint Admissions and Matriculation Board (JAMB), West African Examinations Council (WAEC) and National Examinations Council (NECO), etc. provide online results service, online registration and examination news. Other government initiatives include the National Rural Telephony Project, the State Accelerated Broadband Initiative, SABI, the Galaxy Backbone Project, Wire Nigeria, WIN and Nigeria's Communications Satellite (NIGCOMSAT-1)

[13] *National Information Technology Development Agency (NITDA) http://www.nitda.gov.ng/project.htm*

In addition to all schemes, government should further stimulate the environment through online procurement policies to: enhance public sector efficiency; encourage more ICT and e-business adoption and awareness; generate significant spinoffs in other areas of society.

Policy

In recognition of the enormous potential of ICT as a key enabler of the economy, Nigeria's Federal Executive Council approved a national IT policy in March 2001 and the implementation started in April with the establishment of the National Information Technology Development Agency (NITDA)[13], charged with the implementation responsibility.

However, due to changes and advances in ICT globally and in Nigeria, the Information Technology policy passed in 2001 is completely out of date and in need of review. In this light, the government set up the Nigerian National ICT for Development (ICT4D) Strategic Action Plan committee made up of various stakeholders (private, public and civil society) to develop a new ICT policy for development as the ICT action plan / roadmap for the nation. Already a lot of time and effort has been invested in developing the new policy by the committee using various inputs including: market data, sector expertise from consultants, desk research and, most importantly, extensive consultation with stakeholders (multi-stakeholder approach).

The plan will provide concrete implementation strategies for the key sectors -health, education, infrastructure, human resource development, agriculture, legal/regulations, private sector/industry, media/community, amongst others - as part of an integrated approach to achieving national development objectives as advocated through NEEDS.

The essence of the ICT roadmap is to show clearly how ICT fits into the national picture. No nation can perform at its best without concrete, well-thought-out and working ICT strategies. In view of the fast pace of change in the new economy, NITDA needs to urgently work with the Strategic Action Plan committee to ensure that the plan is completed without delay. Lack of a coherent and comprehensive policy often leads to redundancy, waste of resources, ineffective ICT diffusion and development, contradictory, duplicated and irrelevant initiatives and an inability to tap into global ICT opportunities.

Initiatives from all sectors (public and private) should be encouraged, but without coordination and prioritization such schemes are on their own not enough to make Nigeria an ICT-capable country or a key player in the global ICT revolution. Furthermore since ICT is a priority for growth, ICT policies should be mainstreamed into national development programs (strategies, policies and implementation).

Implementing the policy is one thing; and making a visible impact is another. There is however a dearth of statistics on the ICT sector in Nigeria, the impact of various ICT initiatives and the effect of ICT on other sectors. Such information is critical for planning, policy analysis and decision-making. A lot needs to be done to monitor the use and measure the impact of ICT. Evaluating the quality and effectiveness of ICT in society is a necessity for future planning and decision-making.

The future is bright

• The future of the ICT in Nigeria is indeed a bright one. The telecom revolution made possible by the government's reform programme has opened up a new world. In the new world of opportunities and innovation, availability of technology is critical but attitudes die-hard. Nigeria must leverage on the mobile boom and use the e-banking, e-solutions lifestyle as a platform to engender an all-inclusive ICT revolution.

• Penetration must be improved as part of the economic reform process driven by ICT. While Nigeria has improved in terms of access, penetration is a major issue considering Nigeria's size and population. Low ICT penetration means growth will be uneven and may not have the desired national impact.

• Creative mobile and wireless solutions need to be explored and encouraged, as well as the opportunities and challenges of digital content and convergence.

• Research, awareness, local language content, ICT localization and human capacity development are keys to the future. To bridge the divides and for long-term sustainability, there is a need to encourage research and development as well as local manufacture of ICT equipment.

By virtue of its size, population and location Nigeria is well positioned to be the hub of economic activities in Africa. ICT is an opportunity to drive economic development to bridge the digital divide. ICT has offered Nigeria a way to leapfrog into the knowledge economy and the information society. It's simply a matter of keeping up the momentum.

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* By Chris Azu Aligbe

Globally, the role of aviation in economic development is no longer a matter of controversy. Its immense contributions, both in tangible and intangible terms have become critical variables in economic planning in virtually every nation. Even countries without visible capacities in the aviation sector, have found ways to maximize revenue from the sector using for example, instruments like Bilateral Air Services Agreement (BASA). Countries like Nigeria, with vast population, made up of one of the world's most "mobile" and itinerant people, direct specific efforts to develop and exploit the vast market potentials implicit in such population. This is normally done through specific sector reform policy and programme of action aligned properly as an integral part of an all encompassing national reform programme.

Unlike in the solid minerals, banking, oil and gas, telecommunications, and agricultural sectors, where there were specific sector reform agenda, aviation did not attract such attention. The move to privatize Nigeria Airways, taken in the earliest days of the administration, though based on very clear thinking and perception, appear to have been driven more by the determination to end years of wastage of public funds than a reform motive. If it had succeeded, it would have fitted into one of the driving motives of government's reform policy which is intended to return government-run enterprises to the commanding heights of the market. But in the end, it achieved less than the desired result, owing to some factors, including inter-ministerial and intra-executive bickering, in spite of the tremendous effort of the International Finance Corporation (IFC), the private sector arm of the World Bank.

Although the reform agenda has not necessarily focused on the aviation industry, it will be unfair, not to accept that, somehow, the exercise has impacted positively on the sector.

The impact can be seen in two broad perspectives:

i. Liberalised thought process, thinking and new perceptions

ii. Snowball or trickle-down effects from successful reforms in other sectors, especially the banking sector.

The first gave rise to the on-going liberalization of Nigeria's Bilateral Air Services Agreement (BASA), beginning with "Open Skies" Agreement with the United States in 2001 and "Dual Designation" on the United Kingdom route same year to the triple designation on the same

United Kingdom route in 2006.

Before 2001, only one airline could be designated by either United States or United Kingdom to Nigeria and only one by Nigeria to each of UK and US. But since 2001 as many as 10, 20, 50 airlines can be designated by both Nigeria and US on the US- Nigeria Route without limitation on frequency, capacity and destination. On the United Kingdom route, today, unlike in the past when only Nigeria Airways could go to United Kingdom and British Airways to Nigeria , three Nigerian carriers, - Virgin Nigeria, Bellview Airlines and Arik Airlines have been designated to the UK route. In addition, six private airlines, Virgin Nigeria, Bellview, Arik, Chanchangi, Afrijet and Aero are beneficiaries of international route allocation which was not possible before 2002.

Also, liberalized perception brought in its wake in 2000, a deregulated airline operation environment which allowed the entry of over fifteen (15) new scheduled operators. Capacity offered improved on all routes, increasing at the rate of 20%, to over 100% on the Lagos/Abuja route, from what they were in 2000. During the period, commuter airlines and niche carriers, like Overland Airways, emerged connecting hitherto abandoned destinations like Ibadan and Ilorin from Lagos and Abuja. Ilorin and Calabar are classic examples of how well articulated reforms can impact on aviation, although in the two cases, the reforms could be attributed to state governments.

The Donald Duke-led administration's reform on ecotourism made Calabar a choice destination, while Bukola Saraki's agro-revolution and refurbishment of the Ilorin International Airport, abandoned for years, opened up Ilorin again. The growth rate (see table) is quite informative.

Passenger thruput at Calabar airport rose from 73,959 in 2001 to 127,158 in 2002 and 135,801 in 2005 to 167,767 in 2006, showing a record growth rate of 507.61% on international traffic and 22.51% on domestic traffic.

Similarly, Ilorin's international traffic which was zero in 2001, showed a growth rate of 368.30% from the 2005 figures of 1,183 with a thruput of 5,540 in 2006.

Although airports like Owerri recorded a growth rate of 422.11% with a thruput of 345,078 passengers in 2006 from its 2005 figure of 66,093, it is rather the impact of the closure of Port Harcourt airport than any reform.

The table shows traffic figures of 2001 and 2002 when reforms started and 2005 and 2006 when their impacts became noticeable; there are both positive and negative

PASSENGER THRUPUT

AIRPORTS	*2001*	*2002*	*2005*	*2006*
ABUJA (Domestic)	1,132,730	1,153,060	1,894,114	1,644,836
ABUJA (International)	86,893	112,350	221,186	239,484
AKURE	1,472	2,858	2,671	1,906
BAUCHI	1,180	1,189		
BENIN	54,642	75,669	53,315	85,807
CALABAR (Domestic)	73,736	92,866	135,512	166,011
CALABAR (International)	223	6,428	289	1,756
ENUGU (Domestic)	156,373	162,192	197,783	173,559
ENUGU (International)	-	117		
IBADAN	11,779	10,345	13,778	8,998
ILORIN (Domestic)	14,687	5,268	13,632	8,680
ILORIN (International)	1,900	2,801	1,183	5,540
IMO	9,997	25,642	66,093	345,078
JOS (Domestic)	51,314	36,432	51,683	29,618
JOS (International)	-	27		
KADUNA (Domestic)	136,714	126,906	107,488	104,390
KADUNA (International)	15,778	18,953	18,779	21,475
KANO (Domestic)	124,275	137,540	142,087	140,276
KANO (International)	225,632	216,854	159,930	187,421
KATSINA	828	953	1,142	1,047
MAKURDI	543	466	1,452	1,235
MAIDUGURI (Domestic)	58,439	67,168	52,258	310,317
MAIDUGURI (International)	18,209	15,279	12,629	6,601
MINNA	313	3,397	2,261	2,148
MMIA (Domestic)	1,919,464	2,142,307	2,255,903	2,141,667
MMIA (International)	1,791,485	1,906,385	1,561,435	1,707,090
OSUBI	47,214	382,886	287,899	227,456
PORTHARCOURT (Domestic)	596,604	700,845	810,380	575,433
PROTHARCOURT (International)	45,801	53,807	106,771	103,849
SOKOTO (Domestic)	12,972	14,698	26,319	24,972
SOKOTO (International)	19,872	29,970	27,380	29,187
YOLA (Domestic)	27,935	36,246	55,371	55,401
YOLA (International)	64	12,701	15,095	8,923
TOTAL	**6,639,068**	**7,554,605**	**8,295,818**	**8,360,161**

impacts due mainly to the absence of specific sector reform in aviation.

The liberal thoughts that under-pinned the "Open Skies" policy with the US and Dual Designation with UK were no doubt externally induced, they nevertheless can be cited as part and parcel of government's reform. Both policies were criticized by industry analysts on the ground that they were taken at a time that Nigeria had little or no capacity to exploit and benefit from them. The "push-factor" theory, they argued, should have played a vital role. However, the other school of thought, made up of few "pull factor" theory adherents, reasoned that "Open Skies" offered Nigeria a tremendous opportunity which it did not respond to. They found no fault with it as a reform. Rather, they blamed the government for not helping the airlines respond to the attractions of "Open Skies". Even Virgin Nigeria which was floated to fill the yawning gap left by the liquidated national carrier, Nigeria Airways, could not also respond to 'Open Skies' because, in conception, ownership and management structures, in real terms, it violated some provisions of the open sky agreement. Added to this is that its core investor was embroiled in the US/UK BASA stiff positions on the North Atlantic route liberalization and this further made it unacceptable to the US.

AVIATION SECTOR: 2000-2007

Nigerian Operators (Out of Action)	Foreign Airlines (New Entrants)
Nigeria Airways	Kenya Airways
Kabo Air	Virgin Atlantic
Albarka Air	Emirates
Trans Sahara	Afriqiyah
ADC	Iberia
Sosoliso	North American
Slok	Turkish Airlines
Fresh Air	Qurtar Airways
Space World	South China Airlines
Skypower Express	
Okada Air	
Kings Airlines	
IRS	
Dasab	

Although the 'Dual Designation' on the UK route was entered into to attract into Nigeria one of British most successful investor-entrepreneurs, Richard Branson, who owns Virgin Atlantic Airways, it can also pass as a sort of reform. Again, the step was taken when Nigeria had no capacity to respond and the government did not quite see the need to help the indigenous airlines grow the needed capacity either by way of provision of loanable funds for aircraft acquisition or by designating them on the US and UK routes.

However, it could be said that the November/December 2006 BASA negotiation with UK which ushered in "Triple Designation" was some kind of reform action which marked a departure from the 2001 negotiation. This is because it was based on a "Push-factor" theory and was aimed at opening up the route for Nigerian private operators. Hence, Bellview airlines got directly designated as the third operator after Virgin Nigeria and Arik. On paper, Nigerian operators have twenty-one frequencies on the Lagos/UK route, to match, for the first time, the twenty-one frequencies operated by two UK carriers – British Airways and Virgin Atlantic for over two years now.

In the airline sub-sector, government's liberalization policy appears to have been more beneficial to foreign airlines than Nigerian airlines. A critical analysis of the table below will reveal that at the inception of liberalization, many scheduled operators entered the market to swell up the rank of Nigeria Airways, Okada Air, Kabo Airline, ADC, Bellview and EAS. At the peak, there were over twenty-two scheduled operators. By the end of 2006, thirteen of them had 'parked-up' or had fallen into coma mainly due new "reform" policies in the aftermath of the air disasters of 2005 and 2006. And in view of new government policy on recapitalization which requires N500 million for domestic operation, N1 billion and N2 billion for regional and international operations, respectively by end of April 2207, the stage is set for further exit as not more than four domestic airlines are likely to make it. Foreign airlines present a scenario at an opposite end of their domestic counterparts.

Between 2000 and 2007, about 14 domestic airlines became moribund or completely dead, just as nine foreign ones entered the market with vibrance (see table).

A further analysis will show that while seat capacity offered and even passenger traffic from 2006 figures are declining at the domestic level, there is an astronomical increase at the international level. The decline is due to various factors, chief of which are: the new stringent policing of a new respectable professional Nigerian Civil Avia-

Passenger Growth Rate

AIRPORTS	2002	2003	GROWTH RATE	2005	2006	GROWTH RATE	
ABUJA	1,153,060	1,416,006	**22.80**	1,894,114	1,644,836	**-13.16**	**Dom.**
	112,350	133,324	**18.67**	221,186	239,484	**8.27**	**Intl.**
LAGOS	2,142,307	2,308,770	**7.77**	2,255,903	2,141,667	**-5.06**	**Dom.**
	1,906,385	1,840,037	**-3.48**	1,561,435	1,707,090	**9.33**	**Intl.**
KANO	137,540	167,060	**21.46**	142,087	140,276	**-1.27**	**Dom**
	216,854	222,228	**2.48**	159,930	187,421	**17.19**	**Intl**
PHC	700,845	852,521	**21.64**	810,380	575,433	**-28.99**	**Dom**
	53,807	65,756	**22.21**	106,771	103,849	**-2.74**	**Intl**
CALABAR	92,866	121,939	**31.31**	135,512	166,011	**22.51**	**Dom**
	6,428	5,219	**-18.80**	289	1,756	**507.61**	**Intl**

tion Authority (NCAA) and passengers' response to the shocking air disasters of 2005 and 2006.

What these analyses show is that domestic capacity will sooner than later become a problem facing the passengers who are gradually being confronted with oligopolistic market tendencies.

The situation is more frightening at the international level as the figures below show:

Market Share (Nigerian Operators)

Europe - Approx. 10% or less (Bellview, Virgin Nigeria)
Africa - Approx. 16%
US - 0%

What this indicates is an incredible capital flight in terms of remittances by airlines mainly on profit repatriation and sundry payments. As at the end of 2006, over $1.6 billion US dollars is reckoned to be involved between 2000 and 2006. Apart from passenger operation, the explosion in cargo tonnage which rose by 20.65% from 77,268,904Kg in 2005 to 93,248,313.4Kg in 2006 was almost totally handled by foreign airlines.

It is however hoped that the airlines being now strengthened and repositioned by the reforms namely, Arik, Bellview, Aero, Virgin and probably Chanchangi, will eventually become significant players in the years ahead. No less a factor is the fact that Nigeria has finally consummated and domesticated the Cape Town Protocol which has made it a lot easier for Nigerian Operators to acquire modern aircraft. Nigeria deposited the Document with ADROIT in Rome on March 27, 2006 in time enough for Nigerian airlines to benefit from some concessions attached. As at today, a Nigerian Operator has booked for:

- 2 new B737-700 (coming end of April)
- 3 new B777 and
- 4 new B787 (the dreamliner)

Another outcome of the reforms carried out in the area of liberalization in the aviation sector is public/private sector partnership on a scale that did not exist before and in areas that could not have been imagined before 1999. One of these areas is in the adoption of "Concession Management" approach in all areas of the industry. As at today, there are over thirty companies holding concessions from Federal Airports Authority of Nigeria (FAAN). The range runs from provision and management of Trolleys, Toll Gate Collection, Car Park Management, Branding, Space rental and Leasing to Lounge Management and Cargo Operation, to mention but a few. But the two most remarkable efforts in this area are Concession Management of Nnamdi Azikwe International Airport Terminal held by Abuja Gateway Consortium in an agreement entered into with FCDA and FAAN in 2006.

The second and by far the most stupendous is the rebuilding of the burnt Domestic Terminal in Lagos under a Build, Operate and Transfer (BOT) (the first of its kind), arrangement between the Federal Government and Bi-Courtney Limited, a company led by a Nigerian "Reform" entrepreneur, Dr. Wale Babalakin. The edifice which promises to be one of its kind in Africa, is billed to become operational within the year.

Since the success of the banking reforms, it has become fashionable for political appointees to refer to any of their actions as "reform". Retrenchments of even excellent officers or dismantling of institutional structures have even been tagged "reforms".

It is noteworthy that apart from the ill-fated Nigeria Airways, the government, as it were, forgot the aviation sector until the air disasters of 2005 and 2006. The two committees, Air Vice Marshal Paul Dike's set up by the President and the Engineer Folasade Odutola's set up by the then Minister of Aviation Prof Borisade, to inquire into the industry were as remarkable as their reports. Both committees threw up, as in volcanic eruption, the debris of a decadent industry begging for, and in dire need of reforms. From airport to airspace management infrastructure and from airline operation to manpower development and most importantly, regulation, everything was overdue for reform.

However, the most fundamental of the challenges was the absence of a respectable professionally run regulatory agency to put the sector in check and lay a firm foundation for any reform to take root. A "Central Bank" counterpart was needed for the industry; that is, a Regulatory Authority that could give the industry a new beginning. Although this body, NCAA, existed, it was like it existed only in name. The soul-committing effort of the then Minister, Prof. Borishade, who identified this as the "premium mobile" for reforms, led both the industry and the legislature to pass a Bill for an autonomous Civil Aviation Authority. This was signed into law as an Act of Parliament in October 2006 by President Obasanjo.

With this Act in place, the next stage was to ensure that the arrowheads for the Authority must be professionals of repute and good standing in all ramifications. By October 2006 the International Civil Aviation Organization – ICAO, the global "policeman" in standards and safety regulation, came to carry out a "Safety Audit" of the NCAA and the aviation industry. The sole purpose was to see whether Nigeria has in place a reliable institution and suitable personnel that can carry out an oversight and guarantee standards in all facets of civil aviation. The ICAO Audit Report is as stunning as it is elating and reassuring. An excerpt of the report below speaks for itself.

ICAO SAFETY AUDIT REPORT WHICH GRADED NIGERIA

NO	AREAS	NO OF PROTOCOLS	ICAO FINDINGS	PERFORMANCE INDEX %
1.	Legislation & Regulation	32	3	90.6
2.	Organisation	19	2	89.5
3.	Personal Licensing	95	4	95.8
4.	Operations	141	10	92.9
5.	Airworthiness	199	3	97.5
6.	Air Navigation Services	213	17	92.0
7.	Aerodromes	176	16	90.9
	TOTAL	**795**	**55**	**93.1**

Today, the implementation of aspects of the report through some institutional reforms is beginning to show in airline operations and airport/airspace infrastructure management. Port Harcourt Airport owes its closure to NCAA who identified its state as unacceptable while the airlines now out of operation were grounded for "safety" reasons. There are certainly fewer aircraft in operation but they are as safe as humanly possible. Also, Nigerians can beat their chest with respect to the health of aviation crew and contact personnel because a new well manned Aeromedical Directorate in NCAA oversees and guarantees this.

Further institutional reforms have been carried out affecting the Ministry of Aviation which is now merged as a Department under the Ministry of Transport. This also affected parastatals like the Nigerian College of Aviation Technology, (NCAT) and Nigeria Meteorological Agency (NIMET). The reform actions taken which included over 1000% increase in funding are too recent to make result visible. However, NIMET forecasting capability has risen by over 30% and more equipment are being installed. No doubt, the present administration can beat its chest gleefully, that the greatest success in the sector in eight years is NCAA.

Looking ahead, it should be clear that the successes in the sector came from non-specific sector reform as pointed out earlier. Yet, the successes are just a tip of the iceberg. They indicate what can happen with well targeted specific sector-reform for aviation. This is quite crucial because there are at least six major areas waiting to explode if invested in. As the country heads for a new dispensation, no effort should be spared to pull out the aviation sector from an umbrella reform approach. While reforms should be holistic, sectors and sub-sectors should be treated in specific terms as integral parts of the whole.

In the coming dispensation the banking industry which has recorded visible success in reforms and has become classic example for other sectors, should lead this sector-specific reform which has so much potential for investment. To do this however, the banking industry must re-equip itself for key role in the aviation industry. It must abandon its "cocoon of caution" and "withdrawal attitude" towards investing or financing investment in the sector. Aircraft acquisition and airlines are not the only or main areas of investment in the sector. Luckily, some banks are beginning to take interest in creating aviation desks in their establishments.

- Primary Source of Data: NCAA.

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Risk Management:
Bringing the middle office to the front

* By Elaine Delaney

The Governor, Central Bank of Nigeria, Prof. Chukwuma Soludo recently called for the banking system to focus on the issue of risk management; it therefore seems an opportune time to heed this call and explore the role that risk management plays within the financial arena. This article examines the techniques that can be applied to measure banking risks and provides real-world examples of how failures have materialized in the absence of appropriate risk management techniques.

A House of Credit Cards

It is widely accepted that a bank faces five major categories of risk: credit risk, market risk, interest rate risk, liquidity risk and operational risk. The goal of risk management is not to reduce risk; it is really to establish a set of policies and management techniques to measure, monitor and control risks. Banks are in the business of taking risk – their ultimate success rests heavily on their ability to manage their risks appropriately. Individual banks must adopt risk management techniques appropriate to their books; however, this should be couched within an overall risk management framework across the industry. A disincentive is introduced to the machinery if the contagion effect of an individual bank's failure can induce systemic failure. The intricate nature of the relationships and the density of interdependencies of the financial system requires careful consideration to avoid a domino effect.

Pricing a free lunch

The Nigerian banking system is evolving at a rapid pace; the temptation exists to develop innovative and sophisticated products to create a competitive advantage and to indulge consumers' increasingly sophisticated palettes. There is also the danger that in creating such offerings, the risks are not clearly delineated and priced appropriately. Equitable Life, the world's oldest mutual insurance company, failed to recognize the cost of an imbedded option within their annuity product range; an expensive oversight estimated at some $10bn. At the time of writing the annuities, interest rates were double-digit, averaging around 15% against a backdrop of sustained high inflation; offering a guaranteed rate which equated to 6% at which policyholders could purchase annuities was assumed to be cost-free and merely an excellent marketing tool. As a result, adequate reserves were not set aside, leading to the ultimate demise of Equitable. Such mistakes should serve as a cautionary tale for pricing products in the Nigerian market – the economic backdrop is not dissimilar and the drive to offer "risk-free" guarantees may be compelling, given the extent of competitive forces in the marketplace. A guarantee is almost guaranteed to cost. In the absence of clearly defined regulations, the onus is placed on the financial institution to identify and adequately price any guarantees and options embedded in their product range.

In the absence of clearly defined regulations, the onus is placed on the financial institution to identify and adequately price any guarantees and options embedded in their product range.

Developing an equitable solution

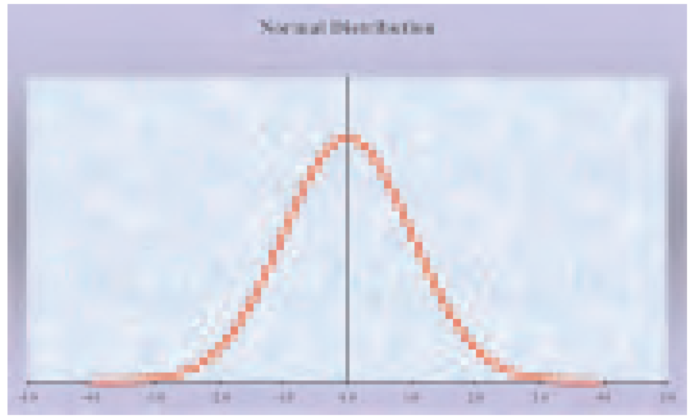
Financial regulations are not a panacea to the issues posed to the banking industry. Initially, banking regulations were loosely defined and operated on national levels. The notion of "prudence" was the governing theme for policymakers. The banking system was segmented along product lines against a passive backdrop of conservative rules. Such an approach had the undesirable effect of creating a two-tier system whereby individual players were endowed with different capabilities. Without a level playing field, competition was stifled and emphasis shifted towards circumventing legislative constraints rather than innovation. It became apparent that a system founded upon an ill-defined notion of prudence and its consequent overregulation was untenable. The subsequent banking failures proved the catalyst for a volte face of regulatory approaches. The Basel Accord was born.

Cooke-ing the books

The Cooke ratio was introduced to the banking world in 1988 and acted as the foundation stone for the Basel Accord. The new regime focused upon "capital adequacy" and "risk-based capital". A new philosophy was born based upon the central principle of maintaining adequate capital to meet future losses arising from current risks. Adopting an ex-ante approach allows for pre-emptive measures that are in tangent with the traditional ex-post policies. The Cooke ratio was used to set forth the minimum capital adequacy ratio that an institution should hold by equating the amount of capital a bank holds to its risk-adjusted assets. The First Basel Accord required a minimum ratio of 8%. The Accord required all internationally active banks in the G10 group to hold at least half of their assets in core equity, Tier 1 capital. The ratio assigned different ratings according to the nature of the counterparty, starting at a base of 0% for public counterparties to 100% for private enterprises. The new regime which sought to level the playing field, introduced new imbalances. Primarily, account was not taken for the differences in credit quality of private companies, thereby requiring the same amount of capital to be held for an AAA-rated institution and a shopkeeper. Regulatory arbitrage was also encouraged as short lending was zero-weighted whilst lending long was fully weighted. The impact of diversification on a banker's book did not feature in the calculation given that the calculation was merely an arithmetic sum of individual risks. All these drawbacks would soon be addressed with the Second Basel Accord.

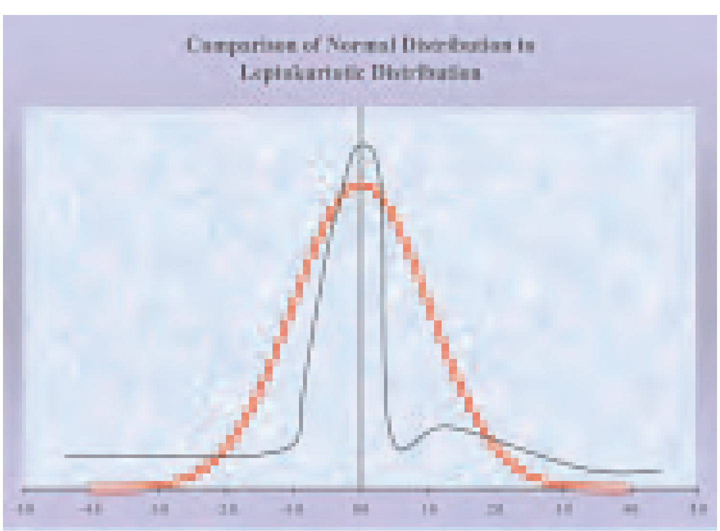
Losing one's bearings

It is no coincidence that major amendments to the Basel Accord were introduced in the wake of the collapse of Barings Bank. The collapse of Britain's oldest merchant bank was brought about by a single trader, Nick Leeson, in a small office in Singapore. Losses of over $1.6bn were accumulated in a secretive trading account from ill-conceived bets on the Nikkei and JGB futures market. Barings was subsequently sold to the Dutch bank, ING, for £1. Baring's risk management techniques were woefully inadequate. Nick Leeson was responsible for both the back office and front office operations – essentially effecting the trades and completing all the back office attendant paperwork. A middle office function did not exist – the traditional venue for conducting risk measurement and management. Following the collapse, significant changes were enacted to the Accord by the Committee. Trading positions in equities, bonds, forex and commodities were removed from the credit risk framework leading to a separation between banking books and trading books. Explicit capital charges were developed for the open market positions of the trading books. This introduced the concept of market risk to the equation.



Risky Business

The concept of market risk has proved to be the risk management world's Helen of Troy, launching innumerable models for risk measurement. The amendments to the Accord allowed banks to adopt measures based on their own internal risk measurement approaches, subject to minimum standards of rigour and robustness in respect of the models and processes adopted. The central risk measure for market risk is VaR—Value at Risk. This measure calculates the expected loss over a given time period at a specified probability level for a portfolio of risks. These proprietary models allow for the net effects of risk exposures; for example, if a long and short position is held in the same underlying instrument, the net effect is that the risks are offset. Furthermore, the correlation of instruments can be taken into account thereby rewarding diversification. The exponential growth in the derivatives market has posed some interesting challenges for financial modelers. Understanding the inherent risks embedded in derivatives is no mean feat. Translating these into measurable and monitorable quantities can prove a daunting task. Traditional measures of risk only tend to capture two facets of the risk equation: the probability of the risk event occurring and the likely loss. The inter-relationships between the different factors need to be incorporated. Traditionally, this has been the role of correlation.



The Evolution of Theory

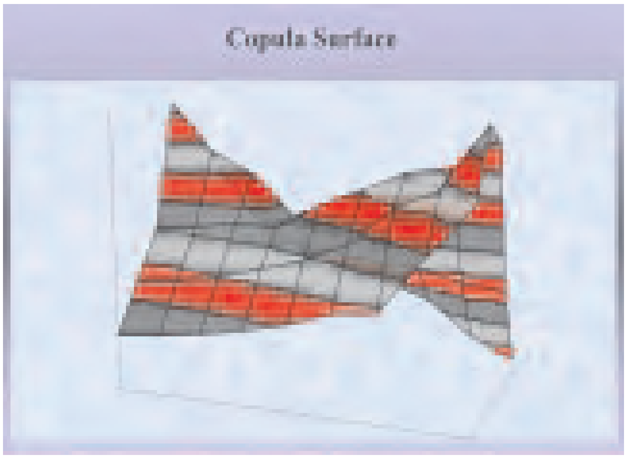
Correlation has been the mainstay method of measuring the relationship between two variables. The most popular measure of correlation is the Pearson product-moment correlation which, despite its name, was discovered by Sir Francis Galton, a cousin of Charles Darwin. The correlation measure is elegant in its simplicity – a measure of one implies a pure relationship between two variables. That is, an increase of 10% in one variable will equate to an increase of 10% in the other. A perfectly negative correlation has a measure of -1 and will see a 10% shift in one variable equating to a -10% shift in the other. At the fulcrum, a measure of zero implies no relationship between the two quantities. The main problem with using correlation as a measure is that it assumes a linear relationship between the variables. Thus, this measure is only useful when risks follow a Normal distribution as depicted in the Normal distribution.

It has been well-proven that the above distribution does not adequately model risks in the financial world. In statistical jargon, a more accurate model would be more leptokurtotic. For the English-speaking readers, this means a longer tail and a more defined head as depicted in the Leptokurtotic distribution.

Fitting the appropriate distribution that adequately models the distribution of returns to individual or portfolios of risks is the holy grail of financial modelling. A balance needs to be struck between the robustness of the model and its flexibility. Model fitting can become more art than science; the fluid nature of risks ensures that a model that can adequately capture the statistical properties of the current market conditions may not be nimble enough for future conditions.

Financial time-bombs

A derivative by its construction is not likely to have a symmetric distribution of returns. The easiest way to demonstrate this is to consider a simple option. If an option to buy a share at N100 is purchased, at a cost of N10, the holder will lose up to N10 until the price of the share rises above N110 after which a profit will be achieved. Therefore, even accounting for the simplest of options requires sophisticated modeling techniques. Monte Carlo simulation is widely employed to quantify asymmetrical risks. The Monte Carlo method was invented by Stanislaw Ulam, the inventor of the hydrogen bomb. Inadequately capturing the nature of risks in complicated structures can be a financial institution's Nagasaki. Risk management has typically played catch up with the financial innovations that it is seeking to measure – it is only when the risks materialize that they seem to factor into financial models.



Long Term Capital Mismanagement

Nobel-prize winning economists have fallen foul of a poor understanding of risks as evidenced by the spectacular collapse of Long Term Capital Management (LTCM). LTCM was founded by John Meriwether, former vice chairman and head of bond trading at Solomon Bros, the US investment banking house. Myron Scholes and Robert C. Merton were on the Board. Anyone familiar with the mathematics of derivatives will recognize Myron Scholes contribution to the subject by way of the Black-Scholes pricing model and similarly Robert C. Merton's "Merton Model". Both pre-eminent mathematicians oversaw the collapse of the hedge fund with a $3.7bn bail-out. The hedge fund initially developed complicated trading models to taking advantage of mispricing of long-term government bonds. Their success was spectacular, attracting a significant inflow of capital. Of course, this capital needed to be invested somewhere – there is a limit to the amount of arbitrage profits that can be achieved from government bonds. LTCM started to venture outside its comfort zone. In order to continue to post superlative returns, the fund leveraged heavily. LTCM had equity of over $4bn with assets of approximately $129bn. Borrowings stood at $125bn with off balance sheet positions of $1.25 trillion, over 10 times the GDP of Nigeria. The Russian government's default on their debt obligations signaled the collapse of the fund as the contagion effect of such an action created turmoil for global government debt markets and a divergence of prices. The Federal Reserve Bank of New York organized a bail out in order to avoid systemic collapse. LTCM's collapse has provided excellent fodder for the risk management industry. Liquidity risk is often the poorer cousin of market and credit risk; the difficulty of unwinding positions in extreme market events poses significant risks to the financial viability of an organisation. The greatest lesson learnt from the LTCM debacle, however, is that the co-relationship between assets is not stable and can vary over time. Ultimately, had this been factored in, the fate of LTCM would have been a much rosier one.

Copulating the financial way

Given that we now understand the limitations of correlation as a risk measure and the potentially catastrophic outcomes from miscalculating such, we should examine the alternative measures that can be employed to mitigate these issues. Enter the latest addition to a statistician's toolkit – the copula. We need not care about diversification when the going is good – in fact, we want strong positive correlation in such circumstances. If one asset is performing well, we want the other asset to perform equally as well. Diversification merely represents not putting all of one's eggs in the same basket. It is only if the basket drops do we become concerned. The same holds true in the financial world, if one asset cracks, we do not want our other assets to smash in a similar fashion. We should therefore place greater emphasis on the relationship between risks in the negative quadrant. In order to deal with this issue, many risk management practitioners have continued to use a Normal distribution in their VaR calculations and simulations but with a modification of the correlation for negative extreme events. Such ad-hoc adjustments might seem sensible and supported by rationale, however in reality statistical principles overrule. This approach does not work simply because over the long term these adjustments are diminished by the overriding properties of the distribution. In fact, such adjustments could potentially make the estimation of risk worse than otherwise would have been the case. The simple solution is to employ copulae. Copulae, however, are not simple in the least. Copulae functions are used to understand the relationship between multivariate outcomes and require an in-depth knowledge of statistical modeling techniques to ensure that they are employed appropriately. Essentially, the beauty of copulas is their ability to account for the asymmetry of risk. Rather than the one-dimensional approach that calculates a single number, as per the correlation calculation, a copula is a full surface linking the distribution of one phenomenon to another.

Bringing down the house

Addressing the issue of market risk represents only part of the battle against risks. A cohesive risk management policy needs to address the other sources of risk identified earlier. Quantitative techniques can be developed to tackle interest rate, liquidity and credit risk. The quantum of each set of risks varies in their magnitude; however, any of the aforementioned risks if left unguarded can wreak havoc with a bank's profitability. Liquidity gaps are conventionally measured as the algebraic difference between banking assets and liabilities. A dynamic approach to managing the asset and liability mismatch should be adopted that will allow for projected future assets and liabilities to be included with the amortization profile of the existing banking book. In a fixed rate environment with a liquid and transparent bond market, assets and liabilities can be mapped along the yield curve. The lack of a clear term structure of interest rates creates unique problems for any financial institution seeking to quantify its interest rate risk exposure. In the absence of such, the role of models becomes even more significant as extrapolation techniques are required to simulate the underlying curve. Such models can directly interact with treasury and trading operations in order to reflect market realities. The potential for arbitrage profits for the bank's proprietary trading book can be increased as the model can act as a feedback loop to the frontline traders.

A dynamic approach to managing the asset and liability mismatch should be adopted that will allow for projected future assets and liabilities to be included with the amortization profile of the existing banking book.

The most famous example of interest rate mismanagement can be attributed to the Old Lady of Threadneedle Street, the Bank of England. As a member of the ERM, the second oldest Central Bank established in 1694, was brought to its knees by George Soros in 1992. The Bank of England refused to raise interest rates or float its currency, a mistake which earned George Soros $1.1bn and the title "The Man who Broke the Bank of England" and cost the Bank of England $54bn.

The final quantitative hurdle to jump is set quite high in terms of financial impact and modeling complexity; credit risk is the core of commercial banking operations.

Bancus corruptus

Credit risk encapsulates the potential loss in the event of credit deterioration or default of a borrower. Credit risk can be broken down into its constituent parts, namely exposure at default, default probabilities, loss given default and recovery risk. The role of the yield curve is once again at the fore; in order to derive a market-based valuation on the credit exposure, a margin is typically added to the risk-free rate and the expected proceeds discounted using this risk-adjusted discount rate. The profile of risk varies over time across product ranges; the profile of project finance differs significantly, for example, to the risk profile of a committed credit line.

Defining default would appear straightforward; however careful consideration needs to be given as to the definition of a default event, particularly if this is to be translated into default probabilities. When modeling default events, Robert C Merton's approach is widely adopted, Merton views default in the economic sense i.e. when the assets of the borrower falls below the value of the debt. This approach to measuring economic default is widely used in commercial credit monitoring packages. The approach adopted by rating agencies attaches ordinal numbers to debt issues which can be used by banks under the Second Basel Accord framework to measure credit risk. Under this framework, banks are also able to adopt proprietary models to measure credit risk.

It is no great challenge to identify real-world examples of credit risks materialized – from the lowly sole trader to the Parmalats of capital markets. The word 'bankruptcy' is said to be derived from the Italian phrase "bancus ruptus", meaning broken bench, referring to the historic practice of breaking the bench from which a banker transacted when they became insolvent. It is ironic, therefore, that the largest credit default in recent times, Parmalat, was an Italian company. Parmalat collapsed under the weight of over •15bn debt and an overstatement of assets of some •16bn.

Accounting for fraud

The Second Accord defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Many casualties of poor operational risk management have found their way to the front page of the broadsheets – Barings, Allied Irish Bank, National Australian Bank, to name a few. The outcomes range from stock price plummets to financial meltdown. The crowning glory of failures is unchallenged – the cataclysmic demise of Enron is unparalleled. Enron was voted the "Most Innovative Company" for six consecutive years; it subsequently emerged that most of their innovation centred around their balance sheet- or more accurately - off their balance sheet. Record revenues of over $100bn were posted in 2000 whilst in reality the company was making a loss. In its wake, the scandal engulfed Arthur Anderson, leading to its untimely downfall, hastened by the paper shredding antics of one the firm's partners, David Duncan. The domino effect continued, Arthur Anderson's collapse lead to the exposure of the $11bn accounting fraud at Worldcom, once the second largest US telecoms company. Whilst operational risk is often overlooked, the billion dollar corporate implosions highlight the risk of so doing.

Local Shellshock

As the Nigerian banking system is clearly on the path towards global integration, the system will need to equip itself with market-leading methodologies in order to maintain competitive advantages. The partnering of local banks with global players can go some way towards introducing such concepts which can then be tailored to meet local market conditions. The Nigerian market may have an advantage in that banks do not need to contend with the integration of historical systems which can become a quagmire as many global players will testify. Rather, Nigerian banks can introduce cutting edge solutions that avail of the most sophisticated techniques. However, many have argued that given that the Nigerian market is in its infancy in many areas that such tools are unnecessary and are unduly complicated for the environment. The retort rests upon the traditional chicken and egg analogy. A bank which wishes to position itself at the fore of the industry will pre-empt the development that is almost guaranteed to come, leaving its competitors behind to play catch-up. Only time will tell who will prove to be the Nigerian equivalent of Equitable Life, Barings, Enron, Worldcom or Parmalat. Perhaps the gross overstatement of Shell's oil reserves will remain Nigeria's contribution to the global failings in risk management.

Risk Management: A Roadmap

The issue of risk traverses every aspect of our lives; not to recognize such, merely places risk management as a quantitative tool, a subset of probability theory for decision making. We manage risks from boiling water for coffee in the morning to turning out the lights at night. In order to ensure that we are not left with a fragmented picture, we therefore complete our journey through the risk management maze with a more holistic view of taking risk than any quantitative model could describe. In the words of Robert Frost:

Two roads diverged in a yellow wood,
And sorry I could not travel both
And be one traveler, long I stood
And looked down one as far as I could
To where it bent in the undergrowth;

Then took the other, as just as fair,
And having perhaps the better claim,
Because it was grassy and wanted wear;
Though as for that the passing there
Had worn them really about the same,

And both that morning equally lay
In leaves no step had trodden black.
Oh, I kept the first for another day!
Yet knowing how way leads on to way,
I doubted if I should ever come back.

I shall be telling this with a sigh
Somewhere ages and ages hence:
Two roads diverged in a wood, and I
I took the one less traveled by,
And that has made all the difference.
A Road Not Taken, Robert Frost

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

Corporate Governance Issues in Family-Owned Enterprises

* By Mahomed J. Jaffer & Syed Bulent Sohail

As competition for foreign and domestic investment is heating up, companies continue to search for ways to remain competitive. Good corporate governance is increasingly recognized as an effective tool to improve firm competitiveness as well as the overall economic climate in a country. In the South Asia region, while family-owned businesses are a major component of the economy, they increasingly face stiff competition from new market entrants. In response to issues of competitiveness and sustainability, family-owned businesses are coming to terms with the need to establish an institutionalized governance process, develop a succession plan, and separate ownership from control. The implementation of good corporate governance practices can help eliminate many of these problems. The following overview of corporate governance provides the context for an examination of issues specific to the adoption of corporate governance principles by family firms in South Asia.

Corporate Governance

Corporate governance is a relatively new term that describes a process that has been practiced for as long as there have been corporate entities. This process seeks to ensure that the business and management of corporate entities is conducted in accordance with the highest standards of ethics and efficacy, assuming that this is the best way to safeguard and promote the interests of all corporate stakeholders.

The basic principles of agency and trust are the founding concepts of corporate governance. There is a long historical precedent that under the law, directors are the agents of the company for which they act; the general concepts of the law of principal and agent regulate most aspects of the relationship between a company and its directors. In 1866, Lord Cairns defined this relationship:

What is the position of the directors of a public company? They are merely agents of the company. The company itself cannot act in its own person, for it has no person, it can only act through its

directors, and the case is, as regards those directors, merely the ordinary case of principal and agent, for wherever an agent is liable those directors would be liable. Where the liability would attach to the principal, and the principal only, the liability is the liability of the company.[1]

Directors also act as trustees or fiduciaries to a company. They are, according to Lord Selborne in 1872, "the mere trustees or agent of the company – trustees of the company's money and property; agents in the transactions which they enter into on behalf of the company."[2]

There is a long historical precedent that under the law, directors are the agents of the company for which they act

Due to the size of many corporate entities today and the increasing complexity of the business environment, basic agency and trust principles are inadequate to fully safeguard stakeholder interests. While globalization and financial market liberalization have opened up new international markets and the opportunity for enhanced profits, these changes have exposed companies to fierce competition and considerable capital fluctuations.[3] Traditional sources of funding may no longer be available in some instances, so there is a growing need for companies to attract adequate capital both nationally and internationally from non-traditional sources. Also changing the global business environment, a series of corporate scandals ranging from Enron and Arthur Anderson in the United States to the East Asian financial crisis has created substantial demand for good corporate governance globally.

While the term "corporate governance" is now used universally, there is no single accepted definition. Even so, according to the Cadbury Report of 1992:

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and the shareholders in general meeting.[4]

Further, the Organization of Economic Cooperation and Development (OECD) proposes that corporate governance relates to issues in five major areas: (1) rights and responsibilities of shareholders (2) role of stakeholders (3) equitable treatment of shareholders (4) disclosure and transparency and (5) duties and responsibilities of the board.[5]

Good corporate governance is desirable not only because it represents sound values, but also because it allows a company to maximize wealth in a legitimate way. Applying this to South Asia, the private sector must be convinced that it is in their interest to adopt corporate governance best practices. Efforts to encourage the adoption of these practices should be aimed at those who own, direct, or manage corporations,[6] and should be carried out in a regional context. The intense competition in the wake of globalization and liberalization must be addressed through education and awareness campaigns designed for local corporations and family-owned enterprises. These groups must be persuaded to adopt good corporate governance as an essential element of their overall long-term corporate strategy.

Corporate governance can be specifically suited to regional business requirements. There is a strong link between corporate governance and company performance; specifically, corporate governance allows companies to gain a competitive edge by facilitating access to capital for growth and development.[7] Globalization, economic liberalization, competitiveness, and dismantling controls in South Asia has reduced barriers to market entry and permitted new entrepreneurs to rise and even dominate in the corporate environment. For example, in India in 1991, 22 out of the top 50 firms were controlled by family groups; by 2000, 35 of the top 50 firms were professionally managed (of which 14 were first generation business) and only four were run by established business families.[8] While new entrepreneurs now dominate the very top tier of the region's firms, family-owned enterprises still comprise a significant sector of the economy.

Ownership and Control Issues

The most important feature of family-owned enterprises is the lack of separation of ownership from control, which blurs the essential distinction between directors and managers. Combining these functions may lead to serious credibility problems as there is no real system of checks and balances within the corporation (i.e. between shareholders, directors and managers). This problem is so pronounced that one Indian commentator has remarked that the majority of the boards in Indian private companies simply do not exist.[9]

One of the consequences of this problem is the absence of governance systems in which the duties, responsibilities, and rights of family members are clearly defined. According to a McKinsey & Company survey of 2002, only 15 percent of family-owned enterprises survive into the third generation.[10] This problem is compounded by the fact that in most family-owned enterprises, the family 'block' has the requisite voting power to unilaterally dismiss boards or management at a moment's notice. Thus the concept of independent directors may not, on its own, prove useful for family-owned enterprises. Instead, there must be a change in mindset; the directors and managers of family-owned firms should be encouraged toward self-discipline and professionalism through training and education.

Another obstacle to introducing good corporate governance arises in implementing these best practices. McKinsey's emerging market investor opinion survey of 2001[11] proposed that family-owned businesses are the most significant players in emerging markets, and that their presence and input must be explicitly recognized by all concerned. The survey further suggested that in order to implement corporate governance practices in emerging markets, it is necessary to provide greater incentives to family-owned businesses to enable them to share in the benefits of reform. One such incentive might be access to external equity financing. Additionally, over half (55 percent) of the survey respondents believed that lack of institutional reform in developing countries is as significant an issue as is corporate-level reform, reducing the probability of incentives for reform in family-owned enterprises.

International players are often reluctant to invest in emerging markets because they perceive an inadequate level of security for their investment. Investors responding to the McKinsey survey highlighted three main institutional areas in which reform needs to be prioritized:

1) Enforceability of legal rights, strengthened by the improved integrity of the judiciary and the legal system;
2) Macro-economic stability supported by effective regulatory systems; and
3) Accounting standards that prioritize the accuracy and timeliness of accounts.

Investors also highlighted the distinction between corporation and family interests, clearly defined governance arrangements, and accuracy of financial reporting as the primary issues to be addressed at the corporate level.

While the survey usefully illuminates some areas for institutional and corporate reform, it also reveals a weakness on the part of foreign investors to recognize the reality of family-owned enterprises in emerging markets. A change in mindset among family-owned businesses in South Asia must be met by a concurrent shift in perspective among international investors. South Asia has produced great visionaries in business and corporate social responsibility – the Tata Group, Reliance Industries, Ltd., Lakshmi Mittal, Muhammad Yunus (Grameen Bank), and His Highness the Aga Khan, to name a few. There is thus great potential for all sides to step forward on common ground, to achieve mutual benefit through a combination of policy development and legal processes, awareness and education, and incentive and opportunities.

Succession Planning Issues

One of the greatest challenges to family-owned enterprises is to ensure competent family leadership across generations. Many analyses have indicated that failure to provide adequate succession planning is the primary cause for the demise of family-owned businesses.[12] In Pakistan, one of the principal sources of family disputes results from unsuccessful succession planning in relation to family-owned businesses and enterprises. Recently, some prominent family-owned entities in Pakistan have addressed this problem by implementing succession planning.[13] Much remains to be done in this crucial area.

Family-managed firms have some distinct advantages. If managed well, costs are reduced and owners diligently watch over the firm as managers. However, the problem of succession inevitably arises when the founder-owner is nearing retirement or is otherwise unable to carry on management functions. The issue central to succession planning is the 'agency relationship' in which family owners are hesitant to relinquish control of the enterprise to outside managers (i.e., their agents). This issue also forms the distinction between family and non-family corporations. In non-family entities, independent boards and good corporate governance practices create greater transparency and accountability in the interest of stakeholders, while family enterprises may face more challenges in this area.

The key to successful succession planning is professionalism and selection criteria based on merit. Such a plan considers:[14]

1) **Established eligibility rules:** These clearly define when and under what circumstances family members (including children, grandchildren, cousins, siblings, and other relatives) are welcome to work in the business.

Family-managed firms have some distinct advantages. If managed well, costs are reduced and owners diligently watch over the firm as managers.

2) **Education and experience:** Educating young family members is essential for succession and is enhanced when coupled with outside work experience in similar businesses.
3) **Roles and responsibilities:** These rules outline what happens when family members join the business, specifically determining if a family member will fill a vacant position or if one would be created for them.
4) **Performance evaluation:** There must be a single set of job criteria for both family and non-family employees. A merit-based system should be used for the monitoring and evaluation of all employees. A board committee on human resources should comprise both family and non-family member in order to ensure continued evaluation on merit-based criteria.
5) **Compensation:** Salary and benefits should not be discriminatory and must consider that family members are also compensated by other means such as divi

dends.

6) **Ownership:** Inequitable distribution of shares may lead to conflict amongst family members. There should be an agreed-upon system for share distribu tion.

Corporate Governance Reform Recommendations

Empirical studies must be promoted in this area and literature generated as part of a confidence- and consensus-building exercise in South Asian countries individually and in the region as a whole. Initiatives should foster a corporate governance framework consonant with regional social and economic needs and that fosters cooperation between South Asian countries. Sharing experiences and lessons-learned will be instrumental in this regard.

-The private sector should take the lead in developing and implementing good corporate governance practices. Corporate governance issues should be viewed openly and private-sector leaders should set an example for others to follow. For example, India has established the High Level Expert Committee to review existing corporate laws and bring them in line with economic development goals, under the leadership of Tata Sons Director Dr. J. J. Irani.[21] A similar effort is underway in Pakistan by the Corporate Laws Review Commission (CLRC).

-Corporate leaders and the state share the primary responsibility to promote good corporate practices amongst state-owned or -controlled enterprises. Public companies or statutory corporations in Pakistan control vast resources and have significantly contributed to the corporate sector. The Government should institute sound corporate governance practices in the public sector and set the pace for accelerated growth and development.[22]

-Professional and technical expertise must be cultivated amongst owners of family-owned enterprises and professional managers. Pakistan has established the Pakistan Institute of Corporate Governance, a resource for stakeholders to institute good corporate governance practices in Pakistan.

-Decision-makers in South Asia should accelerate implementation of institutional reforms to create a better climate for investment and to mitigate investment security concerns. The recommendations of the CLRC for incorporating a governance code into company law should be implemented and made relevant to all companies. Private companies and family-owned enterprises will move towards good corporate governance and will ultimately find public confidence when going public.

-Education must take top priority in order to cultivate a professional managerial class and develop a competitive market for competent managers. Competent managers enable family business leaders to separate ownership from management and thus diversify their corporate holdings and spread their equity risk. This also strengthens national stock markets.

-Promoting economic reporting and training in economic journalism has been initiated by CIPE in Pakistan. Actions have included joint recommendations from all stakeholders including the Government, businesses and business associations, the media, academia, and the public.[23] CIPE Pakistan is also preparing an economic journalism handbook which includes a glossary of financial and economic terms with local examples and case studies.[24]

Turkey's Experience

Family-owned enterprises exist everywhere. Yet in emerging markets, they are in the forefront of economic activity and play a vital role in economic growth. The experience of Turkey provides a useful example for instituting corporate governance in family-oriented firms.[15]

Turkey has been instituting significant structural reforms since 2000 in key sectors such as banking, taxation, privatization, and public procurement to facilitate on-going liberalization of its economy. Both internal and external factors have encouraged these reforms, including the desire to attract foreign investment and maintain a competitive edge in the wake of globalization and the internal impetus toward general institutional reform. According to some Turkish studies, an overwhelming 95 percent of Turkish companies are family-owned, and further empirical analysis of the Istanbul Stock Exchange reveals that between 1992 and 1998 around 44 percent of listed companies belonged to a family or group of families, and that 30 percent were controlled by holding companies – constituting a total of 74 percent of listed companies under family control.[16] Additionally, corporate culture in Turkish firms has been characterized by non-formal relationships between owners and stakeholders (contractors, customers, financers, or the government) and is often based on traditional or personal ties.[17]

Currently, however, there is a general movement for reform and institution of good corporate governance. Taking a lead is the Turkish Industrialists' and Businessmen's Association (TUSIAD). TUSIAD established a Working Group on Corporate Governance in 2000 and has since translated and published the OECD's Principles of Corporate Governance as well as a corporate governance code for Turkish firms. TUSIAD aided in the establishment of the Corporate Governance Institute in Turkey and has initiated and undertaken important studies and policy advocacy. The foundation of TUSIAD's corporate governance reform platform is (1) the recognition that in order to succeed, family-owned firms must enhance their competitiveness based on of the principles of fairness, accountability, transparency, and responsibility, and (2) the Turkish private sector desire to mitigate overregulation by government inherent in the state's desire to institute structural reforms. The Turkish business community has responded to TUSIAD's initiatives by voluntarily developing and instituting corporate governance codes.

TUSAID's primary tool for reform is a non-binding code for directors, the "TUSIAD Corporate Governance Code of Best Practice: Composition and Functioning of the Board of Directors." The code promotes sound board practices and encourages family-owned enterprises to implement the separation of ownership from management. The code also encourages Turkish firms to go public. One of the key features of the TUSIAD code is that it addresses the apprehension of family owned enterprises associated with the risks of the separation of ownership and control, and specifically addresses these in a local context. Some of the features of the TUSIAD code are:

-The qualifications and independence of board members have a direct impact on a company's success. Hence, the board should be comprised of members who are able to contribute the required experience, skills, and specialized knowledge.

-Independent board members are more likely to be impartial and thus make decisions that are in the company's best interests. Hence, it is recommended that the majority of board members be independent. In all corporations the ratio of independent directors should be at least 25 percent initially, and should be increased to at least 50 percent at the earliest possible time.

-It is essential that a system of checks and balances be put in place to foster accountability and an honest appraisal of company and managerial performance, and to prevent possible conflicts of interest between the board and management. For this reason, the chief executive officer (CEO) must be the only board member who has a management role; all other board members should be non-executive directors. In addition, it is imperative that the chairperson of the board and the CEO be separate individuals.

In all corporations the ratio of independent directors should be at least 25 percent initially, and should be increased to at least 50 percent at the earliest possible time.

-The number of board members should be no less than five and no more than 15. This will help to ensure that decision-making is sound yet expedient.

-Each board member should have a single vote regardless of their share holdings and no member, including the chairperson of the board, should enjoy special voting rights or veto power. This will contribute to impartial, performance-based decision-making.

-The performance of every board member should be reviewed annually by the board. Re-election of board members should be conditional on performance, based on pre-determined and clear procedures, and should never be automatic.

-Board members should have competitive compensation packages with fixed and performance-based components.The board should institute a culture of full and transparent disclosure by adhering to the international accounting standards and establishing investors' relations and media relations departments.

-Board committees help ensure that the board operates professionally and in accordance with internationally accepted corporate governance principles. Although the number of committees require for sound board functioning may differ from company to company, certain committees are considered essential for all firms, worldwide. These include an audit committee, a corporate governance committee, a senior management training committee, and a career and remuneration committee. Sound corporate governance necessitates that the majority of committee members be independent and selected in a transparent manner.[18]

Implementing such reforms on a voluntary basis, TUSAID hopes, will ensure the survival and profitability of family-owned enterprises. The TUSIAD code fosters a corporate governance system that would be compatible with local culture; clear in implementing rules and procedures for family member's roles, duties, and responsibilities; represented by a qualified board capable of objective decision-making; and engaged in strategic and succession planning.[19] Other regions can draw from this Turkish example, as the challenges faced by family-owned firms are similar and have a direct effect on broader institutional reform.

Conclusion

Former Secretary General of the United Nations Kofi Annan remarked that "arguing against globalization is like arguing against the law of gravity."[20] Global competition is a huge challenge faced by corporate entities in South Asia. Good corporate governance is an effective tool to address this challenge. Also, corporate governance is an issue with interest and consequence for all stakeholders. Developing a locally-grown governance system ensures that such a system can flourish in the South Asian context. By instituting corporate governance best practices, family-owned firms will play a positive role in democratic and economic reform. Together, both the public and private sectors must take ownership of these reforms toward a more prosperous future.

(*CIPE Authors: Mahomed J. Jaffer and Syed Bulent Sohail. We are grateful to the CIPE for permission to publish this article.)

Notes

[1] Ferguson v. Wilson, L. R. 2 Ch. App. 77, 88 (United Kingdom, 1866).

[2] Great Eastern Railway Co. v. Turner, L.R. 8 Ch. App. 149. (United Kingdom, 1872).

[3] Catherine L. Kutcha-Helbing and John D. Sullivan, "Introduction: Instituting Corporate Governance in Developing, Emerging and Transitional Economies," In Search of Good Directors: A Guide to Building Corporate Governance in the 21st Century, (Center for International Private Enterprise, 2003) 1-2.

[4] The Committee on the Financial Aspects of Corporate Governance, London Stock Exchange, Financial Aspects of Corporate Governance, (December 1, 1992).

[5] OECD Principles of Corporate Governance, April 19, 1999. Also available at www.ifac.org, and refer to www.oecd.org/topic.

[6] Ira M. Millstein, "The Role of Boards and Stakeholders in Corporate Governance," In Search of Good Directors: A Guide to Building Corporate Governance in the 21st Century, (Center for International Private Enterprise, 2003). 35.

[7] Ibid, 34.

[8] Omkar Goswami, "India: The Tide Rises Gradually," Corporate Governance in Development: Experiences of Brazil, Chile, India and South Africa, (Center for International Private Enterprise, and OECD Development Centre, 2003). 106.

[9] Sumant Batra, "India: An Overview of Corporate Governance of Non-listed Companies." Recommendations on Corporate Governance of Non-Listed Companies in Emerging Markets, (Center for International Private Enterprise and OECD Development Centre, 2005). 175.

[10] McKinsey&Company, "Global Investor Opinion Survey: Key Find ings," (July 2002). Available at: www.mckinsey.com

[11] Available at: www.mckinsey.com.

[12] Eduardo Bocatto, "Family Owned Business Succession: The Influence of Pre-performance in the Nomination of Family and Non-Family Members: Evidence from Spanish Firms," paper presented at the Department of Economics de l'Empresa Jornada Conference, November 30, 2006. Available at: selene.uab.es/dep-economia-empresa/Jornadas/Programa_2006.htm.

[13] Zaffar A. Khan, "The Effectiveness of Corporate Boards in Pakistan: An Assessment and some views," Karachi Stock Exchange. For more information see: www.kse.pk

[14] Andrew Ross, "The Family Business: How to Avoid Turning Family Affairs into a Family Feud," Jobber News Magazine (November 2001). Also available at: www.pwc.com.

[15] Dr. Umit Izmen, "Instituting Corporate Governance in Family-Owned Firms in Turkey," Corporate Governance in Development: Experiences of Brazil, Chile, India and South Africa, (Center for International Private Enterprise, OECD Development Centre, 2003).

[16] Ibid, 326.

[17] Ibid.

[18] Ibid, 329-330.

[19] Ibid, 327.

[20] Kofi Annan, opening address to the 53rd annual DPI/NGO Conference. Available at: www.un.org/dpi/ngosection/annualconfs/53/sg-address.html

[21] Batra, 168-69.

[22] Khan suggests: "The OECD has put together governance guidelines pertaining to state-owned enterprises. Many of the issues and proposed guidelines are applicable to Pakistan. This is an excellent document and it should be given due consideration by our govern
[redacted]t/regulator. Pakistan's Public Sector entities are keen this should
[redacted]pen."
[redacted]nomic Journalism in Pakistan: A Business Policy Roundtable,
[redacted]ommendations by Stakeholders, (September 14, 2006). Avail
[redacted] at: www.cipe.org/regional/southasia/pdf/
[redacted]ommendationsRT.pdf.
[redacted] more information see: www.cipe.org/regional/southasia.

Intra-ECOWAS Trade
The Place of Nigeria

* By Tony Monye

In the year 1975, leaders of Nigeria and Togo in concert with other West African Heads of States took a bold step in a deliberate attempt at regional integration by establishing an economic bloc known as Economic Community of West African States (ECOWAS). The body is to act as a veritable and an indispensable platform for the transformation and growth of the sub-region's economy. To aid this laudable objective, ECOWAS is, amongst others, to serve as a conduit that would facilitate intra-regional trade by ensuring a gradual and purposeful elimination of barriers to trade. A few years after ECOWAS was formed, every state within the sub-region joined the body.

However, in mid-2002, Mauritania withdrew her membership, leaving the body with fifteen members. In recent times, the World Bank has categorized thirteen of the fifteen ECOWAS countries as belonging to some of the least developed countries of the world, Nigeria and Cote D'Ivoire merely slipped out of that grouping. ECOWAS, no doubt has achieved appreciable measure of success in its efforts at reducing the barriers to trade amongst the peoples of the sub-region. Trade is supposed to facilitate the growth of national ties among the countries of the sub-region and, consequently, integration. The amount of work yet to be done is, nevertheless, much. Issues such as free movement of goods, services and people; multiple-taxation and other uncompetitive or trade-inhibiting tariffs need to be addressed.

Nigeria, according to the 2006 census with a population of over 140 million, is home to more than half of the sub-region's population which has been put at 265 million. There has been no reliable headcounts of people in the sub-region. This figure puts Nigeria as the largest market in the sub-region as well as in Africa. The nation's dominance of the sub-region goes beyond the sphere of population. Nigeria, as at end-2005 had a GDP figure of about $99.147 billion, about 60.98 per cent of the sub-region's figure put at $162.582 billion. Cote D'Ivoire came a distant second with $16.373 billion, one-tenth of the sub-region's value. This is in spite of the fact that the country has been embroiled in a fratricidal war since year 2000, which is yet to give way to normalcy. These dominance factors no longer hold when we consider the per capita income of countries in the sub-region. Nigeria, with a per capita figure put at $862.62 according to the end-2005 figures of the International Monetary Fund (IMF) paper, ranked 3rd among the fifteen-member body. Cape Verde and Cote D'Ivoire, with per capita figures of $2,047.63 and $924.61 ranked first and second, respectively.

The sub-region's average per capita GDP figure for 2005 was $541.55; with 80 per cent of the countries falling below this figure. This shows not only the skewed nature of the distribution but also reflects the existence of pervasive poverty in the sub-region. Liberia's per capita GDP figure of $170.75 brought up the rear.

No doubt, Nigeria is the giant of the sub-region – both on the economic front as well as the political plain. The country is however, seen as a 'big brother' by her neighbours, as she has been relentless in her contributions towards peace efforts in the ECOWAS states.

INTRA-ECOWAS TRADE

Intra-West African trades date back to the period before the advent of colonialism. In fact, trade, intra-regional and intra-continental, built the empires of the past in the sub-region – from Mali, Ghana, Songhai to Kanem Bornu. The heartlands of these

Table 1: ECOWAS Countries' GDP Values (in billions of $)

S/No.	Country Name	GDP Value ($bn.)	World Position	Position in ECOWAS	Population (in Millions)
1	Benin	4.406	133rd	7th	6.15
2	Burkina Faso	5.635	127th	5th	12.275
3	Cape Verde	0.983	157th	12th	0.394
4	Cote DIvoire	16.373	87th	2nd	14.025
5	Gambia	0.461	169th	14th	1.151
6	Ghana	10.694	101st	3rd	17.832
7	Guinea	3.293	138th	9th	7.525
8	Guinea-Bissau	0.302	176th	15th	1.325
9	Liberia	0.530	167th	13th	2.255
10	Mali	5.390	129th	6th	1.325
11	Niger	3.439	137th	8th	2.315
12	Nigeria	99.147	49th	1st	141.155
13	Senegal	8.609	109th	4th	8.635
14	Sierra Leone	1.213	155th	11th	5.518
15	Togo	2.107	148th	10th	4.211
Total		162.582			226.09

Source: IMF; World Economic Outlook Database, September, 2006. 181 Countries.

Fig. 1: GDP Value (Billion of USD)

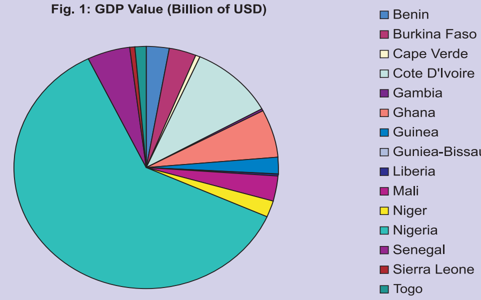


Table 2: Per Capita GDP at Current Prices in US Dollars (ECOWAS Countries)

S/No.	Country	2000	2001	2002	2003	2004	2005
1	Benin	327.79	336.58	366.20	449.21	496.47	518.75
2	Burkina Faso	213.87	226.25	250.06	324.39	385.66	408.03
3	Cape Verde	1,196.70	1,220.43	1,314.59	1,682.87	1,877.20	2,047.63
4	Cote DIvoire	638.28	629.61	674.43	809.76	898.85	924.61
5	Gambia	319.87	308.05	264.60	254.88	281.06	316.25
6	Ghana	250.55	261.42	296.73	359.43	397.89	470.00
7	Guinea	371.65	253.28	345.68	382.77	411.63	325.29
8	Guinea-Bissau	157.77	141.54	140.60	159.99	182.26	187.71
9	Liberia	182.98	171.79	174.44	135.08	151.86	170.75
10	Mali	229.24	252.84	267.37	336.94	368.08	383.29
11	Niger	141.41	148.74	163.70	193.29	206.82	232.48
12	Nigeria	572.74	526.96	537.77	622.98	682.51	862.62
13	Senegal	422.88	435.08	458.94	576.49	668.94	709.72
14	Sierra Leone	141.02	188.72	211.21	209.58	200.78	210.23
15	Togo	247.80	240.27	259.72	301.41	344.17	355.92

Source: IMF; World Economic Outlook Database, September, 2006. 181 Countries.

Fig. 2: 2005 Per Capita GDP Figures for ECOWAS Countries

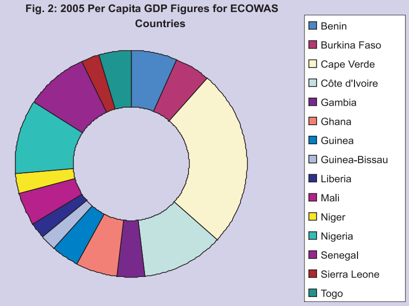


Table 3: Top 10 African Countries by Nominal GDP in 2005 (in Billions of $)

S/No.	Country Name	GDP Values (in Billions of $
1	South Africa	239.419
2	Algeria	102.026
3	Nigeria	99.147
4	Egypt	89.477
5	Morocco	51.621
6	Libya	38.738
7	Angola	32.810
8	Tunisia	28.674
9	Sudan	27.542
10	Kenya	18.730

Source: IMF; World Economic Outlook Database, September, 2006. 181 Countries.

Table 4a: Imports of ECOWAS from Other Regions of the World, 2000 – 2005 (Value in 1000 Dollars US)

Country/ Year	2000	2001	2002	2003	2004	2005
Europe	8,028,043.62	9,034,469.10	9,754,333.09	12,768,114.39	13,162,194.99	13,206,493.60
Africa	2,917,062.38	3,470,016.62	3,342,039.27	4,564,652.57	5,835,506.45	6,795,606.00
Central Africa	66,245.14	74,337,.47	133,349.94	104,799.45	127,358.39	197,125.07
North Africa	191,317.17	212,227.75	269,229.77	255,300.65	424,265.94	486,864.14
ECOWAS	2,324,414.42	2,631,925.37	2,415,755.65	3,458,726.82	4,327,851.01	5,361,394.17
East and S. Africa	335,085.65	551,526.03	523,703.90	745,825.65	956,031.11	750,222.62
America	1,798092.13	2135118.34	2,497,611.89	4,153,634.94	3,195,023.77	4,902,541.28
Asia	3,088,802.29	4,062,222.12	5,311,516.02	6,128,955.42	5,901,991.79	7,923,603.95
Australia - Ocian	83,046.02	96,575.96	123,120.58	151,899.55	174,691.74	153,557.94
Others not defined	81,464.69	78,255.38	59,544.09	2,321,359.11	124,523.33	167,860.34
Total Intra- Trade	2,324,414.42	2,631,925.37	2,415,755.65	345,8726.82	4,327,851.01	5,361,394.17
Total Extra Trade	13,407,654.12	16,241,270.63	18,668,086.11	26,625,215.30	24,051,106.47	27,763,349.34

Source: ECOWAS Website

Table 4b: Exports of ECOWAS from Other Regions of the World, 2000 – 2005 (Value in 1000 Dollars US).

Country/ Year	2000	2001	2002	2003	2004	2005
Europe	10,603,437.55	8,834,148.48	9,928,274.42	11,654,448.44	13,243,322.97	14,876,180.24
Africa	3,884,547.49	3,318,377.70	4,258,302.73	4,687,630.56	6,591,571.24	7,869,414.86
Central Africa	430,917.38	338,215.74	313,270.39	648,132.21	1,294,541.53	847,193.10
North Africa	123,049.66	102,176.80	133,381.51	145,955.50	188,581.95	205,504.94
ECOWAS	2,788,277.45	2,306,192.87	3,148,212.03	3,037,796.27	3,986,119.63	5,389,898.96
East and S. Africa	542,303.00	571,790.30	663,438.79	855,746.58	1,122,328.13	1,426,817.87
America	14,243,818.28	9,789,079.83	8,362,938.30	12,628,982.60	22,194,844.28	28,157,856.33
Asia	6,104,285.72	3,929,792.92	4,905,252.77	5,755,888.05	8,571,618.49	12,110,473.91
Australia - Ocian	36,524.38	16,825.50	295,832.14	91,123.43	36,332.45	22,654.04
Others not defined	173,598.65	393,120.02	486,108.67	466,358.22	405,146.22	366,398.41
Total Intra- Trade	2,788,277.45	2,306,192.87	3,148,212.03	3,037,796.27	3,986,119.63	5,389,898.96
Total Extra Trade	32,257,853.08	23,974,948.17	25,087,224.67	32,245,931.29	47,048,446.08	58,012,666.41

Source: ECOWAS Website

Table 5a: Exports of Goods and Services (% of GDP)

Country	Benin	B. Faso	C. DIvoire	Niger	Senegal	Togo	Ghana	S. Leone	Nigeria
1960	6.1	4.9	34.2	7.1	18.9	31.1	28.2		9.2
1965	7.3	4.7	36.8	9.5	19.7	32.0	17.1	28.9	10.9
1970	15.2	5.5	35.8	10.8	26.4	49.6	21.3	31.0	8.4
1975	14.5	7.3	36.7	19.2	35.4	43.4	19.4	25.1	18.3
1980	15.8	9.0	35.0	24.6	26.9	51.1	8.5	22.9	29.4
1985	23.7	9.6	46.8	20.7	28.6	48.4	10.7	14.8	16.1
1990	14.3	11.3	31.7	15.0	25.4	33.5	16.9	22.4	43.4
1995	20.2	12.4	41.8	17.2	34.5	32.4	24.5	17.4	44.3
2000	15.2	9.1	39.7	17.8	29.9	30.7	49.0	17.3	53.3
2003	14.0	8.5	46.7	16.0	28.4	33.8	40.3	22.4	50.0
Average	14.63	8.23	38.52	15.79	27.41	38.6	23.59	22.47	28.33

Source: World Development Indicator, WDI, 2005

Table 5b: Imports of Goods and Services (% of GDP)

Country	Benin	B. Faso	C. DIvoire	Niger	Senegal	Togo	Ghana	S. Leone	Nigeria
1960	12.1	15.8	22.9	7.4	16.2	31.5	35.4		16.9
1965	14.9	11.4	30.1	14.0	19.3	31.1	26.7	31.3	16.0
1970	24.5	16.1	29.1	18.1	30.0	38.8	22.7	29.3	11.2
1975	33.4	30.2	36.6	31.0	39.8	53.7	18.4	34.5	22.8
1980	37.3	31.3	41.2	38.1	43.6	56.4	9.2	38.2	19.2
1985	36.6	32.0	32.4	32.8	42.0	57.1	13.6	16.6	12.4
1990	26.3	24.3	27.1	22.0	30.3	45.3	25.9	23.8	28.8
1995	33.0	27.1	34.4	24.3	40.1	37.4	32.9	24.8	42.2
2000	28.1	25.3	32.8	25.7	39.8	50.7	67.5	33.3	37.5
2003	26.8	23.4	33.8	25.2	40.5	47.4	52..2	49.5	40.9
Average	27.3	23.69	32.04	23.86	34.16	44.94	25.23	31.26	24.79

Source: World Development Indicator, WDI, 2005

empires were reputed trade centres. Their demise, in some quarters, has been partly attributed to their diminishing trade importance. A look at tables 4a and b reveals the low level of intra-ECOWAS trade.

The sub-region's total imports in year 2000 amounted to $13,407,654,120; of this sum, intra-regional imports summed up to $2,324,414,420. This represents about 17.34 per cent of the sub-region's total imports. There was, however, a slight increase for the 2005 imports value to 19.31 per cent. These figures were even less than imports from other African countries with percentage values of 21.76 and 24.48 for 2000 and 2005, respectively. Imports from European countries led the chart with 59.88 per cent in 2000; the following five years witnessed a drop to about 47.57 per cent of the total imports.

Intra-sub-regional export figures did not fair any much better. Intra-ECOWAS exports figure for year 2000 was $32,257,853,080; of this amount, the sub-region's export figure was $2,788,277,450.00. This represents 8.64 per cent of the total exports. The intra-sub-regional exports value went up marginally in 2005 to 9.29 per cent. On the whole, intra-ECOWAS trade went up by between 0.65 per cent for export and 1.97 per cent for imports. Some negligible percentages!

America overtook Europe as the sub-region's most favoured export destination as at end-2005. The region took 44.16 per cent of ECOWAS member-countries' total exports in 2000 and also led the rest of the world's importers from West Africa in 2005, with 48.54 per cent - an increase of 4.38 per cent in five years. Europe came second with 32.87 per cent in 2000, falling by 7.23 per cent in 2005 but retaining the second slot.

Generally, while contiguity of countries did not appear to be a strong determinant of international trade especially at the sub-regional level, it however seemed a potent factor in deciding intercontinental trade, especially imports. Distance between the sub-region and her trading partners add to cost of both goods and services. It has inherent implication on the volume of demands if other factors are kept at constant. The export figure in favour of America might have been influenced by the United States' demand for Nigeria's crude oil and other seemingly favourable new trade policies by the U. S.

Tables 5a and b above show the trade figures (imports and exports) of nine of the largest economies in the sub-region for a period of 24 years, average values for five-yearly intervals. Generally, the volume of trade has moved up dramatically in the sub-region. One noticeable trend in particular, is clear all through – periods of boom, by way of increasing exports, led to a sharp rise in the volume of imports as nations have more spendable resources at their disposal. Togo, Cote D'Ivoire and Nigeria led the sub-region as chief exporting nations with on the average value of 38.6, 38.52 and 28.33 per cent of GDP, respectively. Burkina Faso's exports contributed the least to her GDP among ECOWAS states.

On the import side, Togo still showed the highest propensity to import, leading the sub-regions by spending, on the average for the period, about 44.94 per cent of GDP on imports. Senegal came second with 34.16 per cent, Cote D'Ivoire, third with a figure slightly above 32 per cent. Nigeria was a distant fifth with 24.79 per cent. Burkina Faso again brought up the rear, spending just about 23.69 per cent of her income on imports. From the data, there seemed to be a linear relationship between exporters and importers – high exporting nations are also high import-dependent ones.

On an aggregate basis, almost all the countries of the sub-region suffer from a deficit balance of trade with the rest of the world. Only two countries, the largest economies, Cote D'Ivoire and Nigeria enjoy some surplus. The other countries likely depend on overseas development assistance (ODA) to finance their annual budgets. Burkina Faso, with more than 15 per cent deficit-gap in trades leads the sub-region. On the other hand, Cote D'Ivoire is ahead of Nigeria, the only trade surplus countries, with 6.49 per cent on average basis.

INTRA-ECOWAS TRADE - NIGERIA

How have the countries in the sub-region faired in their trade relationship with one another? What has been Nigeria's position with respect to the others? Tables 6a and b will be used to provide answers to these questions.

Table 6a focuses on intra-ECOWAS imports, while table 6b pays attention to exports. In the six years studied, Cote D'Ivoire was intra-ECOWAS products most consuming nation as she spent on the average, $78,788,819.00; that is, more than 23 per cent of the total intra-regional imports. Senegal and Ghana came second and third with $52,792,220.00 and $51,918,400 respectively. Gambia was the least intra-sub-regional products consumer-nation with $2,335,322.00.

Nigeria's contribution to intra-regional imports was not significant as the country placed fifth with an average value of $32,512,563.00. On yearly consumption pattern of the sub-regional products, Nigeria's imports of goods and services from other ECOWAS member-states fell between 3.31 per cent consumed in 2000 and 14.58 per cent as at end-2005. Year 2001 witnessed a rise to 12.64 per cent, which fell to 3.46 per cent the following year. The figure rose to 10.45 per cent in 2003 and dropped in the succeeding year to 7.27 per cent.

Nigeria is intra-ECOWAS chief exporting nation, with an average of $132,198,305.00. This figure represents about 38.40 per cent of the sub-region's total. Cote D'Ivoire is on Nigeria's heels as she came second, with $121,086,240.00, about 35.20 per cent. These two countries contribute almost 75 per cent of the intra-ECOWAS export trade. Guinea-Bissau came last with $0.401 million.

The value of Nigeria's exports to ECOWAS countries has been experiencing mixed fortunes. It went down from 49.50 per cent of the sub-region's exports in 2000 to 35.46 per cent in 2001. It surged upwards by about two and half per cent the next year and dropped further by 1.71 per cent in 2002 to 36.23 per cent. In 2004, Nigeria's export to

Table 6a: Intra Community Imports of ECOWAS Member States, 2000 – 2005 (Value in 1,000 Dollars US)

Country	2000	2001	2002	2003	2004	2005
Benin	104,819.67	150,750.89	172,173.86	203,555.79	207,760.39	208,301.49
Burkina Faso	126,167.71	152,295.74	153,509.48	223,165.00	295,837.78	341,342.50
Cape Verde	2,621.72	5,745.02	10,676.21	39,933.79	38,945.10	46,966.25
Cote dIvoire	691,415.01	528,669.68	416,644.87	568,741.31	1,017,721.07	1,504,137.18
Gambia	25,838.20	13,642.65	13,051.70	12,924.89	36,612.15	38,049.74
Ghana	409,664.48	404,904.64	477,045.33	646,508.99	448,359.38	728,621.15
Guinea	70,397.05	93,111.86	105,272.76	61,368.13	181,446.12	236,962.83
Guinea-Bissau	0.00	0.00	0.00	11,530.07	21,509.47	44,639.68
Liberia	0.00	0.00	0.00	0.00	0.00	0.00
Mali	284,703.09	332,071.86	343,732.52	445,231.52	674,861.83	306,193.80
Niger	99,000.17	111,717.79	125,384.36	158,397.27	224,707.97	199,711.34
Senegal	336,947.04	373,971.75	403,479.10	578,576.59	706,851.73	767,706.97
Sierra Leone	36,384.62	76,015.69	54,820.39	64,102.85	56,996.24	74,563.95
Togo	59,557.38	56,387.38	56,402.67	83,328.32	101,557.31	82,591.38
Nigeria	76,898.31	332,640.41	83,562.40	361,362.29	314,684.48	781,605.91
Total	2,324,414.42	2,631,925.37	2,415,755.65	3,458,726.82	4,327,851.01	5,361,394.17

Source: ECOWAS Website

Table 6b: Intra Community Export of ECOWAS Member States, 2000 – 2005 (Value in 1000 Dollars US)

Country	2000	2001	2002	2003	2004	2005
Benin	15,545.03	27,716.13	51,557.57	64,485.70	78,156.37	90,069.40
Burkina Faso	32,865.63	39,962.03	40,358.85	47,855.37	116,655.52	292,390.00
Cape Verde	110.00	1,523.73	2,447.20	107.54	160.32	158.01
Cote dIvoire	912,671.25	897,513.97	1,238,502.27	953,900.77	1,463,074.46	1,799,511.65
Gambia	8,390.95	500.99	673.56	424.39	293.75	2,775.71
Ghana	129,060.74	136,378.02	169,296.03	194,558.99	161,621.03	218,457.35
Guinea	4,518.01	8,810.28	11,336.42	63,348.15	11,606.21	56,493.03
Guinea-Bissau	0.00	0.00	0.00	57.41	208.16	937.14
Liberia	0.00	0.00	0.00	0.00	0.00	0.00
Mali	69,368.55	92,178.52	74,609.33	89,349.30	101,539.53	329,136.33
Niger	97,031.65	75,601.80	75,455.57	82,700.09	93,998.41	114,536.21
Senegal	101,895.47	124,040.76	195,855.06	277,363.41	342,869.94	334,988.90
Sierra Leone	1,047.31	2,474.00	850.98	561.82	5.68	1,381.51
Togo	35,572.01	81,640.75	92,803.98	162,470.55	190,425.44	135,801.00
Nigeria	1,380,200.85	817,851.91	1,194,465.22	1,100,612.78	1,425,504.81	2,013,262.71
Total	2,788,277.45	2,306,192.87	3,148,212.03	3,037,796.27	3,986,119.63	5,389,898.96

Source: ECOWAS Website

Table 7: Foreign Direct Investments (FDIs): World Investment Report 2006 **(Millions of Dollars)**

Country/FDI Flows	1990 2000	2002	2003	2004	2005
Benin:					
Inward	40	14	45	64	21
Outward	4	1	-	-1	-
Burkina Faso:					
Inward	10	15	29	14	19
Outward	2	2	2	-9	-3
Cape Verde:					
Inward	19	12	14	20	19
Outward	1	-	-	-	-
Cote DIvoire:					
Inward	206	213	165	283	192
Outward	57	-4	23	-26	-4
Gambia:					
Inward	21	43	-1	2	24
Outward	5	5	7	10	13
Ghana:					
Inward	108	59	137	139	156
Outward	50	-	-	-	-
Guinea:					
Inward	21	30	83	98	102
Outward	1	7	-	-	-
Guinea-Bissau:					
Inward	4	4	4	2	10
Outward	1	1	1	-8	-4
Mali:					
Inward	30	244	132	101	159
Outward	6	2	1	1	2
Niger:					
Inward	14	5	11	20	12
Outward	10	-2	-	7	3
Nigeria:					
Inward	1,477	2,040	2,171	2,127	3,403
Outward	304	172	167	261	200
Senegal:					
Inward	57	78	52	77	54
Outward	6	34	3	13	30
Sierra Leone:					
Inward	7	2	3	26	27
Outward	1	-	-	-	-
Togo:					
Inward	17	53	34	59	49
Outward	8	2	-6	-13	10
ECOWAS (without Liberia):					
Inward	2,031	2,812	2,879	3,032	4,247
Outward	456	220	198	235	247

Source: World Investment Report 2006

the sub-region's total went further down by 0.5 per cent. The figure, however, reversed upwards by 1.59 per cent to 37.35 per cent the following year.

FDI Inflows and Outflows

What are the sub-regional foreign direct investment (FDI) inflow and outflow figures in aggregate sense? Which countries have led the others in FDI inflow and outflow? Which country has remained the least attractive to foreign investments? What has been the pattern so far? What is Nigeria's position to the rest of the ECOWAS countries in both FDI inflow and outflow?

Table 7 captures in detail the inflow and outflow of FDI between 1990 and 2005, with average figures for the 11-year period between 1990 and 2000. The figures for 2001 were omitted. As shown in the table, a total of $15.001 billion was invested in the sub-region between 1990 and 2005. On the other hand, $1.356 billion went out of ECOWAS member-states as FDI outflow. These figures exclude Liberia's values for both inflow and outflow because of the lingering civil war. Out of the total inward FDI to the sub-region, Nigeria took $11.218 billion, representing about 75 per cent. Cote D'Ivoire came a distant second with $1.059 billion, about 7.05 per cent. Guinea-Bissau offered the least attractiveness for foreign investment as it came last in FDI inflow.

Nigeria still topped the sub-regional figures on outbound FDI. On the average she had about 81.45 per cent of the total FDI outward figures. Cote D'Ivoire and the Gambia came joint second with about 3 per cent each. Burkina Faso, Cape Verde and Guinea-Bissau made no net addition to the outflow of FDI from the region.

The attractiveness of the Nigerian market as the preferred destination of FDI was sustained throughout the period, given her year by year dominance of the sub-regional figure. With the capture of a little over 72 per cent of the total FDI inflow by the end-2000, the country's share of FDI inflow to the sub-region went up to an all-time high of 80.13 per cent. It was only in year 2004 that her fortune dropped to 70.15 per cent, from 75.41 per cent achieved the previous year.

NIGERIA & INTERNATIONAL TRADE

Tables 8a and b below capture the naira values of Nigeria's external trade relationships with ECOWAS as a trade block and aggregated values for the continents of Africa, America, Europe and Asia for five years, beginning 2001. Nigeria's total imports value for the period is about N7.128 trillion; out of which imports from Europe took the lion share of N3.020 trillion; representing about 42.38 per cent of the total imports by Nigeria for the five year period. Asia came next with 28.12 per cent, followed by America with 18.45 per cent. Africa's exports to Nigeria came fourth with 7.36 percent; while exports from ECOWAS member-nations brought up the rear with a meagre contribution of 3.71 per cent.

The trend is very difficult to discern as continental figures maintained no consistent pattern. However, in the last two years of the data, imports from African nations suffered some decline like their counterparts in Europe. On the other hand, ECOWAS, American and Asian imports went up.

Nigeria's export trade with the rest of the world from 2001 to 2005 took a slightly different pattern compared to her imports. Nigeria exported both goods and services worth in excess of N19.657 trillion; of this total, America led other continental trade partners with 49 per cent, representing N9.720 trillion. Asia came second and Europe, a close third with 20 per cent and 19 per cent, respectively. Africa again was fourth with 7 per cent and ECOWAS, last with about 4 per cent of Nigeria's exports.

Export trades with ECOWAS countries got to a high of about 6.5 per cent in 2002 and continued its downward movement the following two years, getting to 3.59 per cent in 2004. It however, witnessed a marginal reversal in 2005 to 3.84 per cent. Export trades to African countries went up the first two years, 2002 and 2003. It has however, been on the downward spirals ever since. The other continents had similar experiences; periods of booming imports from Nigeria interspersed with periods of declining exports.

WHY INTRA-ECOWAS TRADE IS LOW

Tables 2, 4 and 7, in clear terms, have shown the very poor intra-ECOWAS trade. Why are the figures so much against trade between and among members of the sub-region, in spite of the countries' proximity and rich trade history? The reasons for this skewed trade distribution are not far-fetched. Some of them have been elucidated below:

First, as revealed in table 2, the per capita income of the countries in the sub-region is disturbingly low. Although, it has shown some improvement in the course of the six-year period, from $360.97 in 2000 to $541.55 in 2005; it is still very much below par, especially when benchmarked against other regions of the world. Demand can only be made effective if it is backed by both the ability and willingness to pay. Therefore, given low ability to pay for high quality goods and services, member-states of the sub-region are quick to look to other directions to trade.

Second, social conflicts and political tensions have in no way helped the development and improved intra-ECOWAS trade relationship. The sub-region has suffered so much from these conflicts; in the extreme, leading to war. From Nigeria to Senegal to Liberia – most of the countries have experienced one form of conflicts or the other.

Third, to say that the sub-region is in dire need of capital is ordinarily stating the obvious. Foreign direct investment (FDI) inflows, a veritable form of capital inflow that would aid the productive and investment bases in ECOWAS countries are remarkably low. The distribution of the few available FDI is skewed in favour of oil-rich Nigeria. The advent of the military men in the affairs of the states in the sub-region has done much to deter the inflow of FDI. Almost all the countries in the sub-region have experienced the reign of the 'men in khaki'.

Fourth, the sub-region also suffers from poor infrastructure development. Information and communication technology (ICT) facilities are some of the poorest in the world. It has been said that it is much easier to put a call through to countries in Europe than to any of the countries in the sub-region. Road networks are in poor states, cluttered here and there with potholes and craters. Intra-regional flight arrangements are poor. These are aid to trade. In their absence or inadequate supply, trade intra-region-

Table 8a: Nigeria's Imports by Region (N'million)

Regions	2001	2002	2003	2004	2005
Africa Total	80,646.80	50,063.90	99,580.70	135,893.10	158,311.60
ECOWAS	45,075.00	13,240.50	48,346.00	52,662.10	104,827.40
America Total	124,048.40	174,891.70	376,765.30	218381.3	421,472.20
Europe Total	436,696.50	445,112.50	700,043.50	783,207.60	655,196.30
Asia Total	241,749.40	379,695.50	454,224.30	400,454.50	528,170.40
Total	928,216.10	1,063,004.10	1,678,959.80	1,590,598.60	1,867,977.90

Source: Nigeria's National Bureau of Statistics – Foreign Trade Statistics

Table 8b: Nigeria's Exports by Region (N'million)

Regions	2001	2002	2003	2004	2005
Africa Total	127,501.90	178,782.40	259,781.80	414,849.00	453,896.70
ECOWAS	90,981.70	145,671.80	141,177.50	189,776.30	264,221.00
America Total	1,008,005.70	869,444.90	1,531,824.70	2,831,984.40	3,479,622.40
Europe Total	483,419.30	532,245.40	684,699.90	880,215.70	1,221,357.30
Asia Total	360,410.80	493,430.30	594,432.80	973,490.70	1,445,408.90
Total	2,070,319.40	2,219,574.80	3,211,916.70	5,290,316.10	6,864,506.30

Source: Nigeria's National Bureau of Statistics – Foreign Trade Statistics

ally nose-dived.

Fifth, the sub-region does not have a single uniting currency. As at present, there are over nine currencies in use in the sub-region. CFA, by the French-speaking countries of West Africa, Naira in Nigeria, Cedis in Ghana etc. Trade relationship between countries sharing a common currency is stronger compared to where there is none. The CFA countries are a case in point. Besides, most of the member-states in the sub-region are still strongly tied to their former colonial masters and have strong trade links with them. The CFA-zone countries are tied to France, like Cape Verde has a strong tie with Portugal.

Demand can only be made effective if it is backed by both the ability and willingness to pay. Therefore, given low ability to pay for high quality goods and services, member-states of the sub-region are quick to look to other directions to trade.

Sixth, product homogeneity has negative impacts on trades intra-regionally. Most of West African countries are classified as primary producers and have on offer similar products to the markets. Will Nigeria buy cocoa from Cote D'Ivoire or Ghana when she produces enough for home consumption and also enough to trade in the international commodity market?

ECOWAS in the 70s has changed tremendously to what is in existence today. The policies being churned out by the body have greater relevance to the realities of the present. Barriers to intra-regional trades are gradually being pulled down – the idea of a single currency, muted and accepted, is set for implementation. ECO, as the currency is to be known, will be launched in 2009 as more and more economies meet the convergence criteria. Improvements in infrastructure - improved road networks and mobility of the peoples, communication facilities among others, the sub-region member-states are poised to trade more with one another in the coming decade(s).

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Reforms:

Developed Economies As Lessons for Third World

*By Eunice Sampson

Like their developing counterparts, developed countries consistently pursue various reform agenda to meet set economic goals.

To reform is to 'change for the better'. By this description, there is no economic system that is too 'perfect' or too 'advanced' to be reformed.

It is a wrong assumption that reforms are for 'imperfect' systems like those of most developing economies. Now and in the future, reform will remain a key item in the activity chart of every progressive economy great or small. This article examines the nature of reforms in some developed economies, and emphasizes some experiences that could serve as useful lessons to the developing economies.

HOW DIFFERENT FROM THIRD WORLD'S?

As we will see later on, reform initiatives in most developed economies have all or some of the following focus:

- Macroeconomic stability
- Social Security and Welfare
- Tax & Income redistribution
- Employment generation
- Pension & retirement
- Savings and investments
- Consumer confidence and expenditure
- Globalization and Foreign economic relations

The reform goals of developed economies are therefore not too different from those of developing economies – the need to make life better for the corporate and individual citizens. However, how these goals are defined and attained by both classes of economies could differ, depending on the socio-economic and political structures already in place.

One very significant difference between the reform agenda of developed economies and that of the developing nations is that, the latter's, more often than not, focuses on building up from the scratch, structures that have been identified as vital for economic prosperity; that of the former mostly focuses on maintaining and upgrading already existing structures.

As Chancellor Gerhard Schröder puts it while defending his reform 'Agenda 2010' in 2005:

"We can only secure cohesion in our society if we are ready to change our policies. Change means we can maintain what we have got. After all, the system built up in Germany by a generation that is now getting older deserves to be maintained".

Another major difference is that, more often than not, Third World reforms are written and designed by the foreign fingers of economic super powers and multilateral organizations, with their own ideas of what Third World reforms should be; while those of developed countries are 100% homegrown and designed to serve the country's domestic and foreign interests. The latter is of course the ideal model as *advocated by Sebastián Royo in his piece,* "The European Union and Economic Reforms: The Case of Spain": *"The process of economic reforms must be a domestic process led by domestic actors willing to carry them out" – Suffolk University, Boston; 2006.*

REFORMS IN DEVELOPED ECONOMIES – EXAMPLES

The United States

United States, the world's biggest economy is perceived as the model of socio-economic, political and technological progress and in many instances, what smaller economies are striving to be.

Yet economic reforms still remain ongoing in this country; and as far as the American people are concerned, reforms are major yardsticks for measuring the efficiency or otherwise of successive governments.

Economic reforms in the United States in the last decade have focused on macroeconomic stability, social security, pension, employment, immigration, foreign trade relations, etc.

Social Security – Social Security has remained in the front burner of reform issues in the United States since it is the hope for many that loss of job, disability, age or retirement would not bring about a state of poverty; it determines the standard of living of the less privileged citizens at every point in time and measures the country's economic prosperity in actual terms.

Efforts have therefore been made in recent times to ensure that the scheme remains sustainable and effective, to meet growing public expectations.

Some of the recent reform proposals had advocated for enhanced benefits for low-wage workers and spousal survivors,

and adds a voluntary individual account option in exchange for a benefit reduction. This is designed to reduce the burden of social security on the federal budget while also ensuring that the interests of the financially vulnerable groups are protected.

President George W. Bush in a recent comment on the subject had said:

"We also have a fantastic opportunity as we strengthen and modernize Social Security to allow younger workers, if they so choose, to put a part — some of their own money, in a personal savings account so that they can take advantage of the compound rate of interest; a personal savings account they get to call their own, asset-base the government can't take away, an asset base that somebody can pass on to whomever he or she chooses, … as part of Social Security reform" ….. President George W. Bush.

Tax – Another key preoccupation of recent US economic reforms is taxation. Taxation is one of the oldest means of government income generation in the modern United States. In order to help pay for its war efforts during the American Civil War, the US government imposed its first ever personal income tax (which was, 3% of all income over $800) on August 5, 1861**,** under Article I, section 8, clause 1 of its constitution.

The US government has since then become highly dependent on its income from corporate and individual income tax, usually rated as high vis-à-vis percentage of income. It has also been criticized as complex and multiple in nature since states, cities and local councils also impose taxes in addition to the Federal tax.

US firms are placed at a comparative disadvantage in the global economy due to higher marginal corporate tax rates in their country relative to the tax burden on firms in other countries.

The high tax regime in the economy is hindrance to the international competitiveness of American businesses and is one of the reasons more American firms have moved their productions to low-wage, low-tax economies like India, China, Indonesia etc.

Recent tax reforms are therefore geared towards overhauling the US tax system to make it simpler, more competitive, more efficiently administered and less burdensome on the payers.

Some tax reform proposals like the ***FairTax*** *Bill* and the *HJR 16*, sponsored by Congressman Steve King actually call for an outright repeal of the income tax to be replaced with a national sales tax.

Outcomes of recent tax reform efforts in the United States include:

- Income tax rates cut
- Marriage penalty relief
- Dividend income tax cut
- Capital gains and small business owners tax cuts, etc

The US government is pushing for a legislation that would eliminate the double taxation of corporate income while a repeal of death tax is also being advocated.

These measures are expected to enhance household consumption and spending. The US Treasury estimates that calendar-year tax liabilities were reduced by almost $100 billion in 2003, with about $52 billion infused into the

economy that same year. It would facilitate investment and savings, since more money are left in the hands of the individuals.

In addition, ending the double taxation of corporate income will make corporate equities more attractive to investors; lower the costs for equity-financed investment, make US firms more globally competitive and could improve the growing US current account deficit (i.e., the broadest measure of the U.S. balance of trade in goods, services, and payments to the rest of the world) which in the first quarter of 2006 reached a record $900bn or 7% of GDP.

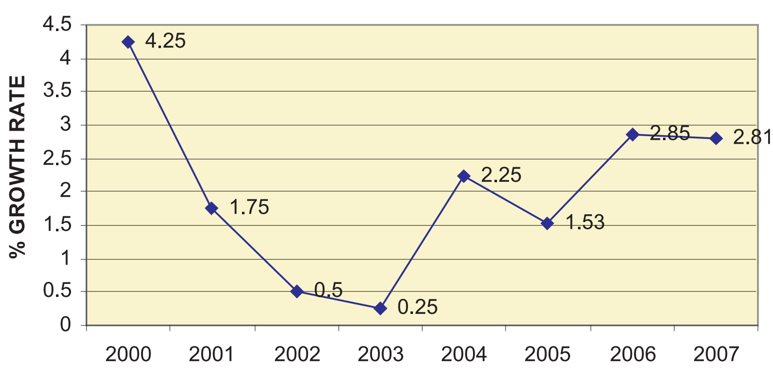
Technology – As a pioneer in information technology advancement, it is significant that US reform efforts still focus on further IT penetration.

The US government is currently working with relevant stakeholders to develop IT in healthcare delivery, one sector where it has not penetrated satisfactorily.

According to President George Bush:

"We're working to expand information technology in the field of medicine. If you've ever looked at the IT part of medicine, you'll be amazed at how backward it is. It's easier to get information on buying a car than it is on health care items. And that doesn't make any sense. So we've got a goal to computerize medical records that will help make America's health care more transparent and more efficient, which will help patients make rational choices and help doctors save lives"… President George W. Bush; Washington, D.C.; Oct. 2005; (http://www.whitehouse.gov).

EUROZONE GDP GROWTH: 2000- 2007



Foreign Policies – As the only surviving super power and the economic engine house of the world, the US continues to reform its external affairs policies to satisfy its growing economic interests overseas.

The recent granting of 'trade promotion authority' is one of the external policy reforms of the United States aimed at further opening up overseas markets for American goods and services. Under the initiative, the US has completed free trade agreements with 12 nations on five continents, creating a combined market of over 100 million consumers for American products.

An essential part of US external policy reforms is to influence 'smaller' economies and multilaterals to achieve a 'free', if not 'fair' global trading system, and expand the market to create room for more US goods. This policy has become even more critical at this point in time when global trade balance is not in its favour; and some fast growing developing economies like China are taking over a sizeable chunk of traditional US markets.

The European Union

As an economic bloc, the EU like other economies periodically comes up with reform initiatives that would further improve the economic status and growth potential of its member states.

Since the introduction of the Single Market in 1992, the euro area and EU countries have undertaken important reforms aimed at ensuring the actualization of the Union's common goals.

Why Reform?

- The Union has witnessed slow growth in the last five years at an average rate of 1.5% compared to 3.5% in the United States, their main rival.
- Unemployment rate is rising in the big economies of the Union, including France and Germany where about 10% of the employable population is jobless.
- The developing countries of Asia and Latin America are giving the EU countries a run for their money as global competition intensifies, especially in commerce and industry
- The problem of an increasing ageing population in Europe means that issues like social welfare and retirement packages have to be reviewed to address current realities
- The Euro zone has not recovered as fast from the dot.com bubble burst as its developed counterparts in North America and the United Kingdom.
- Very importantly, the introduction of the common currency, the euro, creates an urgent need for the union members to reform to accommodate the changes (such as the removal of entry trade barriers and market regulations) and grow their different economies

to close the existing economic gaps in member states.

The reform goals of the EU therefore would include achieving macroeconomic stability; increased economic growth; enhanced employment level; more efficient labour market; harmonizing the Single Market, and a more efficient management of ageing and social welfare schemes, which are some of the major problems in the EU. As an analyst puts it:

"The proportion of Europe's population over 65 is set to rise sharply. According to the United Nations, the average old-age dependency ratio in the EU will rise from 24 per cent in 2000 to 36 per cent by 2025 and 50 per cent by 2050, a steeper rise than in the US. Among the EU Member States, Spain and Italy are predicted to experience the most dramatic population ageing, with the UK among the least. An ageing European population will put upward pressure on age-related spending such as health care and pensions" …. *"The Single Market: A Vision for the 21st Century"*; HM Treasury; January 2007

To tackle these common problems, the EU has evolved several reform initiatives since the economic union came into being, more prominent of which is the '*Lisbon Agenda*'.

The Lisbon Agenda

This is one of the most comprehensive reform plans of the EU and continues to provide an important benchmark against which to measure the progress of member states in their reform efforts.

They are sets of reform policies on product, labour and the capital markets, set out by the European Council in Lisbon on March 2000 and designed to make the EU the most competitive and dynamic knowledge-based economy in the world by 2010. The goals of the Agenda include:

- To raise employment rate to 70% of the population; boost jobs by 20 million by 2010 and increase the numbers of women and older people that are gainfully employed
- To achieve an annual growth of 3% by 2010
- To encourage innovation by ensuring more spending on research and development
- To enhance support for small businesses and reduce stringent regulations
- To encourage more competition in telecoms and liberalize the gas and electricity markets as well as the financial services sector
- To protect the environment more efficiently by reducing greenhouse gas emissions and other pollutants

To achieve these goals, the Lisbon Agenda proposes a further integration of capital markets, a reduction in intra-EU barriers to capital transfers, integration of governments' bond markets, harmonization of accounting standards and an enhancement of co-operation between financial services regulators in different EU countries.

Other measures would include the integration of electricity and gas markets across EU countries to enhance efficiency and competition; and fostering closer ties between universities in EU countries in order to enhance educational standards.

The Agenda also proposes the use of flexible arrangements for labour contracts, such as the increased use of part-time and flexible workers, as well as improvements in the wage bargaining process to better take into account regional and firm-level disparities. When implemented, these reforms are expected to help EU countries reach the target of an employment rate of 70% that has been fixed by the Agenda.

In 2005 the European Council reviewed its progress and decided to relaunch the Lisbon agenda to focus it more sharply on the key priorities of jobs and growth. The comprehensive programme of change agreed in the 2005 spring meeting was designed to:

- Deliver a dynamic and competitive Single Market
- Establish the right climate for enterprise and innovation
- Promote flexibility and security in labour markets
- Establish a more outward-looking Europe
- Deliver environmental protection with competitiveness
- Strengthen and improve the governance of the Lisbon strategy

While the Agenda has not been implemented to the latter, yet all EU leaders are unanimous that the Agenda holds huge growth potential for the EU. The challenge before EU member states is the political will and determination to make 'Lisbon' work.

Spain

The quest to bridge the gap between it and the developed economies of Europe has been a propelling force behind the different reform initiatives of successive Spanish governments since the 19th century.

Series of economic liberalization, trade integration and modernization efforts by Spanish authorities in the 1950s and 1960s prepared the economy for the challenges of its eventual membership of the EU in 1986.

A privatisation programme was started in the early 1980s to reduce government's presence in the economy and make it private-sector driven for enhanced efficiency; the tax system was reformed, which, among other measures included the introduction of VAT and the reduction of import duties; other fiscal consolidation processes were also put in place.

Spain's Public Expenditure on Pension: Current Situation & Prospects

	Current Situation	Baseline Scenario			Increase in employment rate			Increase in employment rate and reduction of pension benefits		
	2003	2020	2040	2050	2020	2040	2050	2020	2040	2050
Dependency ratio	26.8	32.2	50.4	60.0	32.2	50.4	60.0	32.2	50.4	60.0
Employment Rate	61.1	65.0	70.0	70.0	65.0	70.0	75.0	65.0	70.0	75.0
Number of pensions / population 65+	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.05	1.00
Average pension / productivity	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.0	15.1
Pension expenditure/GDP	8.1	9.1	13.2	15.8	9.1	13.2	14.7	9.1	12.1	12.1

Source: OECD

EU Membership and Spanish Reforms

Since 1986 the Spanish economy has undergone profound economic reforms, partly to accommodate the changes resulting from its membership of the EU and partly to grow its economy and bring it at par with the level of other developed economies in the EU.

Some of the far-reaching economic policies it had adopted by virtue of its EU membership include the customs union, VAT, the Common Agriculture and Fisheries Polices and external trade agreements, the Single Market, Exchange Rate Mechanism (ERM) and the European Monetary Union.

Spain's modernization efforts have taken the following issues into consideration:

- Economic growth
- Wages and pension
- Liberalization and deregulation (including its financial services)
- monetary and exchange rate policies
- labour productivity
- Education standard and manpower quality reform
- Tax harmonization
- Institutional reforms
- Labour market reforms
- Reduction in government subsidies
- Internationalization
- Industrial restructuring
- Lower nominal interest rates
- Capital flow liberalization

Employment rates in selected groups of OECD countries (Per cent, 2003)

	Total				Male				Female			
	15-24	25-54	55-64	Total	15-24	25-54	55-64	Total	15-24	25-54	55-64	Total
Spain (1995)	28.6	59.5	32.4	48.7	35.1	78.6	48.4	64.6	21.8	40.3	17.5	32.9
Spain	36.8	71.3	40.8	61.1	42.8	86.0	59.3	75.0	30.5	56.5	23.4	47.1
Five best OECD Performers	56.6	83.1	63.9	76.7	57.3	87.9	71.0	81.5	55.8	78.3	56.9	71.8
EU15	40.3	77.2	41.5	65.4	43.5	86.5	51.4	73.9	37.1	67.9	32.0	56.7
OECD	42.9	75.3	50.1	67.1	46.8	86.7	60.8	77.4	39.0	64.1	39.9	56.9

Source: OECD database on Labour Force Statistics, December 2004.

Gains from Reforms and EU Membership

2006 marked 20 years of Spain's membership of the European Union. And in counting its blessings, it can be said that one of its biggest gains is effective reforms. In 20 years, Spain has bridged much of the prosperity gap between it and Europe's richest economies. Its membership of the EU had had the following impact:

- Per capita income has grown by 20 points, to about 90% of the EU-15 average. Spain had already reached the average of the EU-25.
- Since, 1996 annual growth has averaged 1.4% more than the EU average
- FDI has increased by about 90%; FDI more than tripled between 1980 and 1988
- Tourism traffic has risen by over 80%
- 74% of its exports and 66% of imports come form the EU
- Membership of the EU has opened more markets for Spanish firms and products.

Spain: **Pension expenditure relative to population aged 65+ and GDP per capita (2001)**

	Pension expenditure		Population aged 65 +1		GDP per Capita	Pension expenditure per person aged 65 +	
	Million €	% of GDP	Thousand	% of total population	€	€	% of GDP per capita
Spain	63,494	9.7	6,846	17.0	16,200	9,275	57.3
Austria	30,119	14.0	1,242	15.5	26,800	24,258	90.5
Belgium	28,426	11.2	1,738	16.9	24,700	16,355	66.2
Denmark	19,045	10.7	578	10.8	33,200	32,939	99.2
Finland	14,804	10.0	782	15.1	26,100	18,924	72.5
France	195,046	13.2	9,577	16.2	24,200	20,367	84.2
Germany	272,607	13.1	13,880	16.9	25,200	19,640	77.9
Hungary	5,146	8.9	1,548	15.2	5,700	3,324	58.3
Iceland	541	6.3	33	11.6	29,900	16,355	54.7
Ireland	4,218	3.7	431	11.2	29,700	9,782	32.9
Italy	179,117	14.7	10,460	18.1	21,000	17,124	81.5
Luxembourg	2,223	10.1	61	13.9	49,900	36,148	72.4
Netherlands	55,374	12.9	2,187	13.6	26,800	25,324	94.5
Norway	14,744	7.8	677	15.0	42,000	21,769	51.8
Portugal	14,049	11.4	1,694	16.5	11,900	8,293	69.7
Slovak Republic	1,689	7.2	614	11.5	4,300	2,751	64.0
Sweden	27,907	11.4	1,531	17.2	27,600	18,222	66.0
Switzerland	35,625	13.0	1,117	15.4	38,500	31,903	82.9
United Kingdom	188,016	11.8	9,149	15.9	27,100	20,551	75.8
Simple average		**10.6**		**14.9**			**71.2**

Source: Eurostat, New Cronos database and UK National Statistics, January 2005.

But it was not all rosy at the beginning. The Spanish example epitomizes the rigours of reforms and the sacrifices that must be made by government and the citizenry to pull them through. The industrial restructuring that followed the integration into the EU destroyed thousands of jobs, resulting in an unemployment level of over 23% in the early 1990s. The elimination of corporate tax and its replacement with VAT in the 1980s also came with its own initial challenges for the Spanish economic system.

Spain has done well in its economic reform efforts; but more changes are required in its information systems and telecommunications; entrepreneurship and innovation; Human capital and skills development, etc. Focusing on these areas would keep Spain on the path of sustainable economic growth and prosperity.

The United Kingdom

The United Kingdom is arguably the most robust economy in the European Union, having sustained good annual growth, high employment rate, stable macroeconomic indices etc. Its current prosperity is mostly attributed to the outcome of economic reforms embarked on in the 1980s and continued into the 1990s.

UK's first National Reform Programme published in October 2005, perhaps in line with the re-launch that year of the EU's 'Lisbon Agenda', details the channels to achieving even stronger macroeconomic stability, long term sustainable growth, employment for all, more enterprising economy, more efficient public service delivery, better environmental protection and a fairer society which closes the gap between the rich and the poor. The UK government also launched the 'new localism' agenda, which advocates greater involvement of local communities in efforts to improve the local environment. UK's series of reforms aim at:

- Putting in place a robust economy which can hedge external shocks prevalent in a highly globalized environment
- Building a strong and efficient welfare state to ensure socio-economic fairness to all
- Creating an enterprising and flexible business sector that can exploit the opportunities presented by a free and highly competitive global economy
- Taking the global leadership role in scientific research and technology innovation
- Increased efficiency in the use of energy and resources and efficient environmental protection
- Achieving at least 80% employment rate, using initiatives such as the roll-out of *Jobcentre Plus* offices
- Achieving and sustaining international competitiveness and remaining a leader in global policy decision making
- Improving the supply of affordable childcare by put-

ting in place at least 3,500 SureStart Children's centres across the country by 2008; and offering access to childcare for children aged 3-14, from 8am to 6pm on each weekday throughout the year by 2010.

In an economy like the United Kingdom where reform and development efforts have been priorities for centuries, current day reform initiatives have moved away from building structures to maintaining and or upgrading what is on ground in order to ensure that the people continue to have a good or improved life; and the economy remains globally competitive and relevant.

Germany

Germany, a Developed Economy in Dire Need of Reforms

Years after the fall of the Berlin Wall, Germany's economy has not attained full recovery. The central problem of the German economy is the high costs of labour, driven up by the burden of funding an extensive welfare state which is '*geared towards status maintenance rather than protection from poverty*'.

The German economy has suffered low domestic demand, high wage costs, dwindling investments, rising unemployment, and a welfare state that is a huge burden on government expenditure and budgets.

The ageing population has also become a problem. In May 2003, the federal subsidy to the pension insurance system amounted to no less than £54 billion, and the Ministry of Finance forecast that by 2050 it could rise to more than 50% of the federal budget. A disturbing projection!

Economic growth in Germany has been very slow at an average of 0.3% since 2001, with an unemployment level of about 10.5%; meaning that over four million people are jobless. In the midst of these, social and welfare benefits are at a record high, consuming almost half of government budgets; the cost of a skilled worker in Germany is almost 40% higher than that of employees with similar skills in the US, UK, or Japan, a major disincentive for FDI.

Germany is also beginning to lag behind other countries in high-technology sectors while the global competitiveness of its businesses is weakening as low cost, high quality products from Eastern European economies pose an increasing threat.

These economic setbacks, which have resulted in over four years of near economic stagnation, means that Germany definitely requires urgent reforms, especially being the world's third largest economy – after the US and Japan – and one which has the potential to maintain or even surpass that status.

Series of reform measures have been undertaken in recent years to remedy the situation. However, political differences have weakened reform initiatives and reduced their effectiveness in actualizing set targets.

The German authorities have tried to tackle the problem of unemployment with the introduction of relatively liberal unemployment benefits, attractive early retirement terms and extended periods of education. But these measures only increase the size of the circle as one of the key causes of the growing unemployment is yet to be addressed:

"An often-cited suspect is Germany's vast and expensive welfare state. Indeed, comparative research has produced convincing evidence that it is the particular characteristics of the Bismarckian welfare state – funded through social security contributions and geared to status maintenance rather than protection from poverty – that depresses the level of employment by inflating the costs of labour.

High non-wage labour costs interact with unemployment in a vicious circle. By making labour more expensive, they induce firms to downsize their labour force, in the past typically through early retirement ….. In the end, the very instruments used to make unemployment socially acceptable become a cause of even more unemployment " – "Economic Reform and the Political Economy of the German Welfare State"; Wolfgang Streeck & Christine Trampusch.

Other Reform Measures

A Pension reform act was enacted in 2001 (*Riester-Rente)* which "permits workers, among other incentives, to put a maximum of 1% of their pay into a private savings account, (this would rise to 4% in 2008); they can also take out private or occupational supplementary pension plans, while still enjoying government subsidy of up to £10 billion a year.

Pension was lowered to 40% of average gross earnings, from the previous 48%; while a gradual increase in the statutory retirement age from 65 to 67 by 2035 was initiated.

Also, to curtail expenditure on non-wage labour, the 2002 'Acts Promoting Modern Labour Market Services' tightened the rules on the kind of jobs an unemployed worker can refuse and the conditions for filling for welfare assistance on the grounds of unemployment.

These reforms have been hailed as some of the most significant achievements of Chancellor Schröder's first term. They signaled a cautious move from a public pay-as-you-go system towards a privately funded system that could lessen the burden of non-wage labour costs on the economy.

'Agenda 2010' and the German Economy

One of the most comprehensive economic reforms in Germany in recent years is a package of new initiatives tagged 'Agenda 2010' which was launched on May 14, 2003. 'Agenda 2010' focuses on pensions, healthcare, unemployment insurance etc, and is intended to make the German economy more 'flexible' and competitive. The Agenda proposed 'courageous' transformation measures such as:

- Income-tax cut by £21.5 billion in three years, (2003-2006) – On January 1, 2004, employees in Germany received a massive tax cut; rate of income tax was reduced to 16% (down from 25.5% as at 1998)
- Reduction in Germany's generous unemployment and other social benefits – For example, effective January 1, 2004, the subsidy for owner-occupied housing was cut by 30%; children's allowance was fixed at 800 euros; commuters' tax allowance was reduced to a uniform rate of 30 cents per kilometre between home and work, etc.
- Change in employment protection rules for SME companies, giving them more space to hire or fire employees
- Cut on levies on low-paid jobs
- Reduced pension contributions by employers and employees
- Improved workers' productivity to ensure that the country maintains its competitive edge in the global

market place
- More severe penalties for unemployed workers who turndown reasonable employment
- Introduction of a flat fee of £10 per quarter for visits to family doctors and restrictions on State funding of prescribed drugs.

The reform efforts are already paying off. After four years of near 0% growth, the economy seems to be finding its way back to the path of recovery. After a growth of 0.9% in 2005, the German economy advanced by about 2.0% in 2006. Its relatively strong growth in 2006 impacted positively on the overall improvement of the Euro zone, which grew from 1.3% growth in 2005 to 2.4% in 2006.

Germany's unemployment also dropped in the first quarter of 2007 from 10.5% to 9.8% as about 65,000 new jobs were created. Exports also improved in the last year, raising hopes that a further cut in labour and social welfare expenditure could guarantee sustainable economic recovery for Germany in the coming years.

While Third world countries are in dire need of reforms, the developed countries also constantly need to reform to maintain their status as global leaders and for their citizens to continue to enjoy the high standard of living they have known for decades.

Conclusion

Whether developed or developing, some economies are known to grow at a faster pace than others. One of the key determiners of pace of growth is the spate and efficiency of economic reforms.

As the global economy advances, the developed economies find themselves more compelled to improve existing economic structures to ensure sustainability and continued global competitiveness.

The rapidly growing economies of Asia, South America and Eastern Europe consistently pose a threat; and the developed countries are kept ever on their toes. China had in the last 5 years taken over the position of the United States as the highest recipient of global FDI inflow; China has also in the last couple of years displaced some traditional developed economies (e.g. the United Kingdom) in the ranking of the world's biggest economies; developing countries (including some in Africa) now grow at a far faster pace than their developed counterparts, with some recording double digit growth annually.

The increasing rise in global energy cost also puts pressure on the high energy consuming developed economies, heightening trade deficits to the advantage of Third World and developing economies which are mostly the major oil producers.

Also, globalization and the need to expand market reach for products originating from developed economies have made constant review of foreign policies and realignments necessary.

While Third World countries are in dire need of reforms, the developed countries also constantly need to reform to maintain their status as global leaders and for their citizens to continue to enjoy the high standard of living they have known for decades.

Finally, the current reform efforts of developed economies and the reasons for them should be a learning point for the developing countries even as they are still at the stage of nation building. A good example is the tax reform ongoing in almost all developed countries. It is a useful lesson for the emerging markets, that complex and cumbersome tax system is a disincentive to the real sector and renders the local firms less globally competitive than their counterparts in countries with more favourable tax system.

Another vital lesson is that, while generous social welfare packages are convenient ways of coping with unemployment and satisfying the yearnings of the less privileged, it is however more rewarding in the long run, to empower the citizenry by availing them of the needed skills for high productivity and entrepreneurship.

The lessons would not be complete if the Third World would not learn from the initial socioeconomic challenges that reform initiatives could throw up, especially when entirely new structures are being built. The case of Spain illustrates that comprehensive economic reform is a dark tunnel at the end of which, there is a bright light.

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

ZEQ DATABANK

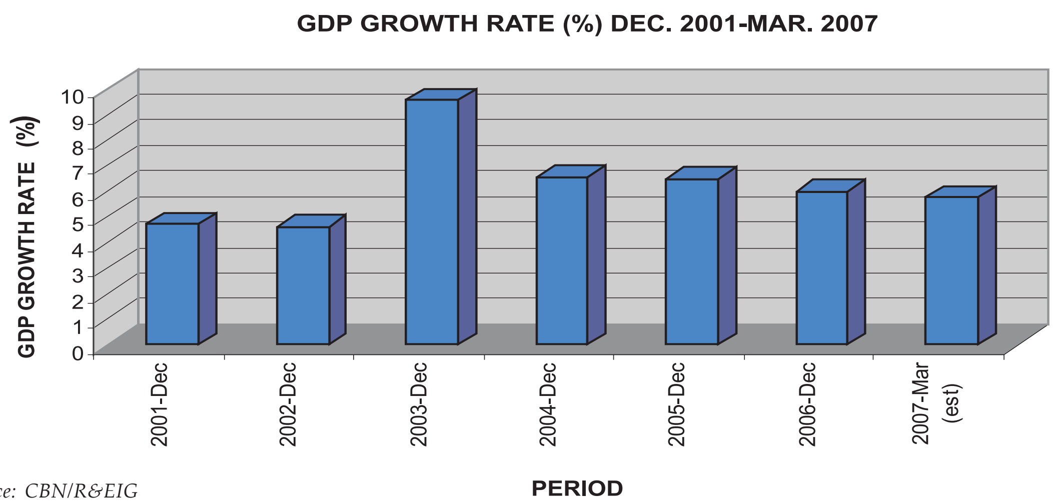
- Solomon Obembe

MACROECONOMIC ENVIRONMENT

Nigeria's macroeconomy performed impressively in the first quarter of 2007. There was remarkable improvement in almost all the economic indicators, leading to significant growth in the size of the economy. The improved growth performance was driven largely by some factors: the total exit from the Paris club debt and the massive reduction in the size of the London Club debt. Others are rise in crude-oil prices in the international market, foreign exchange stability and influx of foreign direct investment. However, restiveness in the Niger Delta region continued during the quarter, as militant groups and law enforcement agents manoeuvred each other ahead of the April elections, a phenomenon which reflected negatively on the nation's macroeconomic environment.

GROSS DOMESTIC PRODUCT

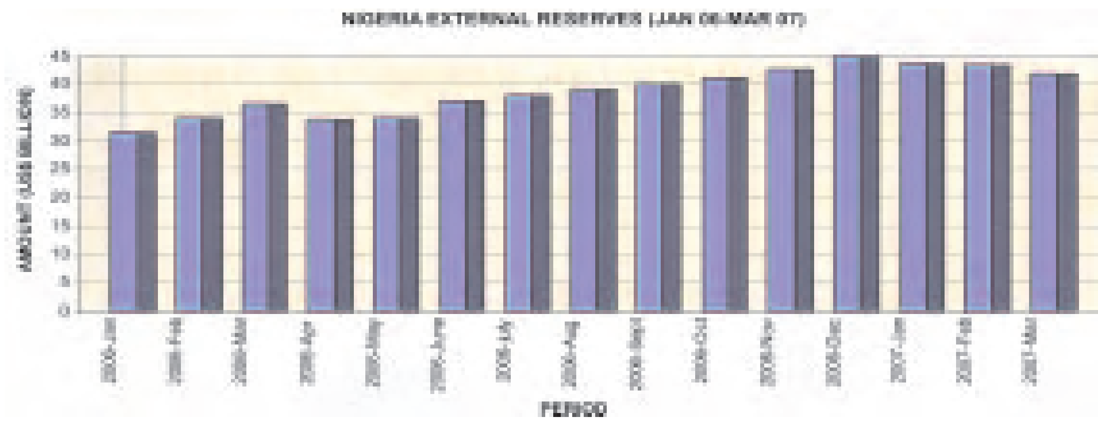
The CBN provisionally estimates Nigeria's real GDP growth in 2007 at 7.87 percent, robust rate by historical standards. This reflects the expectation of strong growth in agriculture, improved crude oil output, favourable crude-oil prices in the international market and growth in the non-oil exports. At end-2006, the GDP growth rate which was 6.01 percent; fell to 5.76 percent as at end-March 2007. This is due partly to the unrest in the Niger-Delta region which affected crude oil production as reported by the major oil companies in the country and also activities in the non-oil sector, especially manufacturing and in some ways, the Small and Medium Enterprises (SMEs) etc., were affected by shortage of power supply.



Source: CBN/R&EIG

EXTERNAL RESERVES

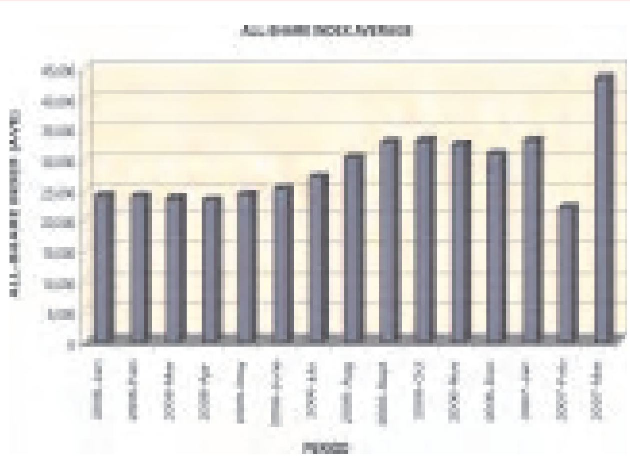
The nation's external reserves witnessed dramatic decline in the first quarter due to the payment of 369,159 oil warrants of the London Club debt, the activities of the official foreign exchange market - the Wholesale Dutch Auction System (WDAS), oil production disruption in the Niger Delta region, etc.The external reserves which stood at $45 billion in December 2006 fell by about 7.0 percent to $41.95 billion at the end of the quarter. According to the Central Bank of Nigeria (CBN) , this level of reserve can finance about 25 months of foreign exchange disbursement at the current rate of consumption.



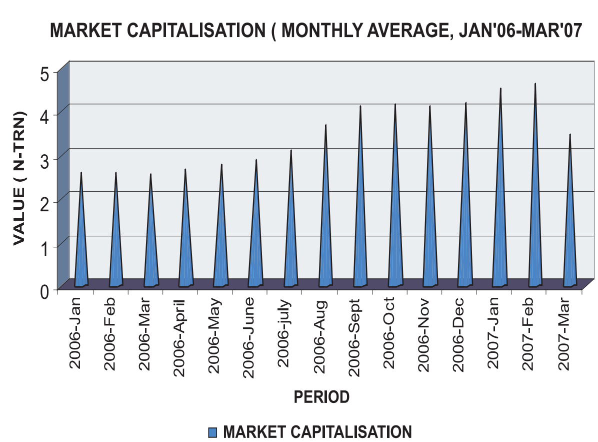
Source: CBN

CAPITAL MARKET

The capital market began the New Year on a very busy and impressive note due partly to the influx of new issues by companies looking to raise capital; initial public offerings by insurance firms massively impacted on the capital market as the deadline drew near for recapitalization. The market experienced tremendous increase in volume of shares traded in each successive months of the quarter with significant appreciation in share prices of some blue chip companies, most especially those of the banking, insurance, manufacturing, oil and gas etc. The average capital gain on the market stood at 30.93 percent during the first quarter, which is just 7 percent below the 38 percent growth recorded by the All-Share Index (ASI) for the whole of 2006. Consequently, turnover during the quarter totaled 26.2 billion shares valued at N335.62 billion; this represents 71.37% of the total turnover recorded in 2006. The market capitalization at the beginning of the quarter was N5 trillion. At end-quarter, it improved to about N6 trillion; about 20 percent that of the beginning of the quarter. The All share index (ASI) rose by 31 percent from 33,189.30 recorded in January to 43,456.14 at the end of the quarter, while putting the market in the tow for possible all-time record performance in 2007 with projected annual growth rate of 124 percent.



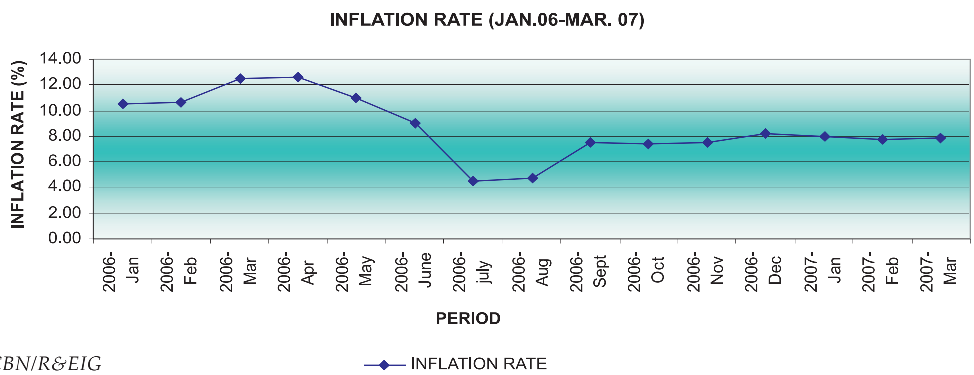
Source: NSE



Source: NSE

INFLATION

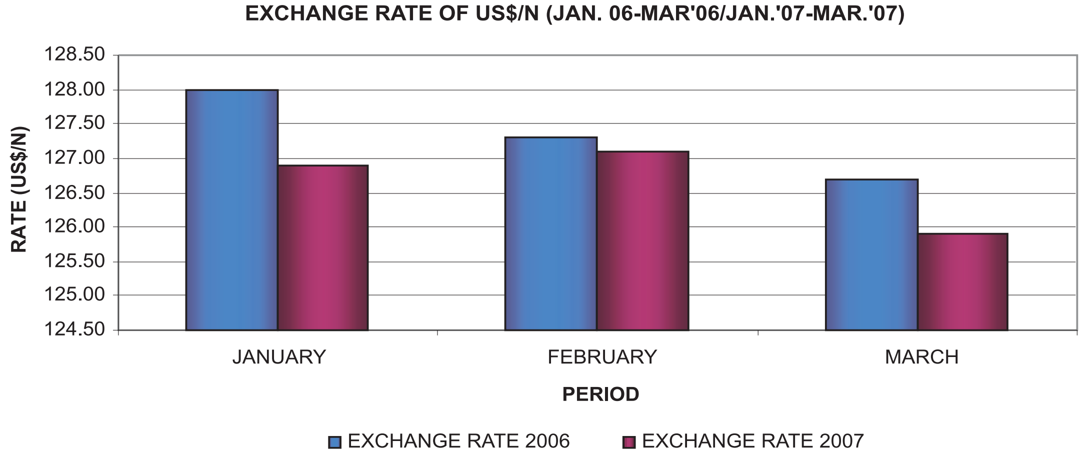
The year-on-year inflation rate which was maintained at 8.2 percent in December 2006 trended downward to 7.7 percent in February and moved up marginally to 7.9 percent in March 2007. The noticeable fall in inflation rate between December 2006 and March 2007 can be attributed to the Federal government's responsive monetary policy, bumper food harvest, stability of domestic fuel prices and the appreciation of naira against the major foreign currencies which has helped to keep the cost of imports down. The slight increase in inflation rate between February and March is attributed partly to electioneering spending and the general low propensity to invest as a result of political uncertainty.



Source: CBN/R&EIG

EXCHANGE RATE

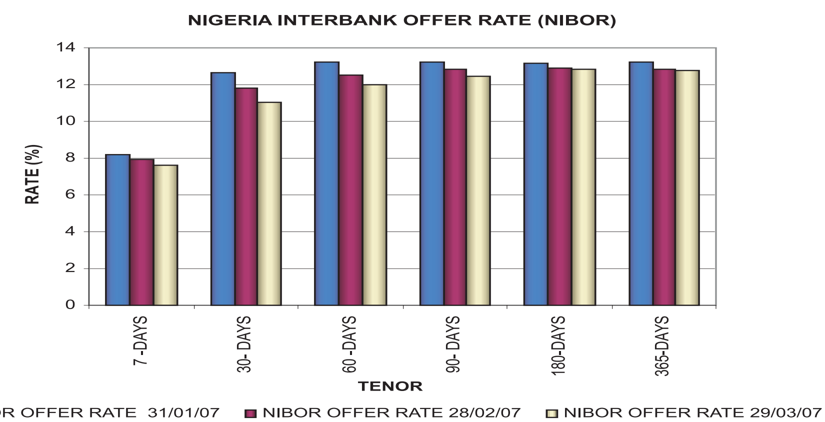
Exchange rate of Naira to major foreign currencies was relatively stable in the first quarter due partly to significant slide in the nation's foreign debt, huge external reserves, inflow of foreign direct investment coupled with high international oil price. The exchange rate stood at US$1/N125.9 at the end of the first quarter as against US$1/N126.7 recorded in the comparable period of 2006. Also, the sale of foreign exchange which stood at US$449.25 million in the last week of February fell heavily by 31 percent to US$282.1 million at the end of the quarter due to the boost in supply from some oil majors through the inter-bank market that led to a thin demand at the official segment of the market. However, the recent introduction of swaps in the foreign exchange market coupled with the high and stable crude oil price in the international market is expected to deepen the market in the near future.



Source: CBN/R&EIG

INTEREST RATE

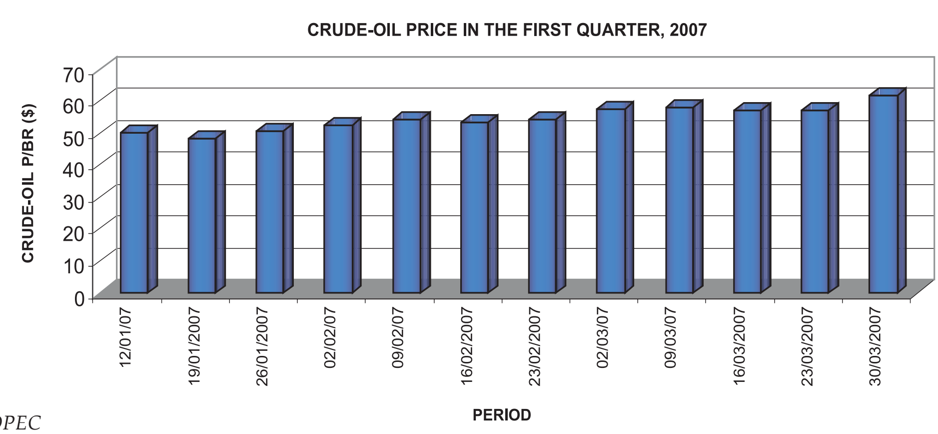
Activities in the money market started on a very slow note in January 2007 due to the low tempo of economic activity that characterizes the beginning of the year. During this quarter quarter, there was excess liquidity in the economy as reflected by some drop in interest rate and rise in capital market activities occasioned by the release of pension fund, statutory allocation and friendly investment environment. In March 2007, the excess liquidity in the economy was mopped up by some government activities such as the withdrawal of N31 billion as NDIC premium, NNPC withdrawal of N102 billion as grant to some major oil marketers for product supply, withdrawal of N87.15 billion through open market operation (OMO) and N5 billion withdrawal through Primary market activities (PMA). However, the Nigeria Inter-Bank Offered Rate (NIBOR) which averaged 2.15 percent in February fell to 1.77 at the end of the first quarter.



Source: Money Market

CRUDE OIL

Nigeria's Crude oil production declined dramatically in the first quarter of the year as a result of continuous restiveness in the Niger Delta that led to shutting down of many oil production facilities. The situation which characterized by inter-communal clashes, seizure and destruction of some oil facilities as well as kidnap of oil workers has, among others, led to production shortage and therefore drop in oil revenue. The production disruption reduced the nation's output of crude oil to 2.150 million barrels per day in February from the 2.250 barrels per day recorded in January 2007.



Source: OPEC

ZENITH ECONOMIC QUARTERLY

Editorial Guidelines for Contributions to the Zenith Economic Quarterly

Introduction

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

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

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

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

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

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

(ii) **Mode of Submission**

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

The following regulations should be observed:

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

(iii) **Identification of Author**

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

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

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

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

(iv) **Preparation of Manuscript**

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

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

(v) **Citation Forms: Illustration**

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

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