ZENITH

Zenith Economic Quarterly

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MARITIME INFRASTRUCTURE:

The Nigerian Challenge, The Way Forward

Zenith Economic Quarterly

C O N T E N T S

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The Substructure As Pivot

Economy managers are wont to pointing to varieties of natural endowments and/or activities as drivers of their economies. Usually, these include agriculture; oil, mining and quarrying; manufacturing; telecommunications; banking and finance; wholesale and retail trade, among others. It is the aggregate of the 'monetary value' of the activities in these sectors that amount to the 'worth' of the economy or the gross domestic product.

But beneath all these is the 'real driver', the substrata—the infrastructure—the road networks, railways, airways, electricity, water supply, etc, that underpin the activities of all the economic agents. Across the globe, this pivotal place of infrastructure gets more pronounced year in year out—especially as it becomes more evident that the disparity in infrastructure quality is, to a very large extent, responsible for economic progress or otherwise among nations.

"As growth in the non-oil sector has started to outpace growth in the oil sector, it is time to set in motion, the architecture that will rejuvenate the real sector and accelerate Nigeria's economic growth. The starting point for this "is the basic raw underlying infrastructure that acts as an enabler to business..."

Quite cognizant of this reality, we offered you—our esteemed reader—an exploratory treatise on this topical issue in our January 2008 edition under the title: "frontier infrastructure: the way forward for Nigeria". Prompted by further insight into this 'bedrock' of economic growth and development, we elected to do more insightful and detailed pieces on various planks of infrastructure in the Nigerian economy. Here, under the *'issues'* section, we take off with the maritime infrastructure, as ports represent the critical interface between land and sea, and act as Nigeria's gateway to the world. Under the title: "maritime infrastructure: the pivot for sustainable development", the author avers that "with over 99% by volume and 95% by value of Nigeria's trade being seaborne, against a global average of 35%, the importance of ports to the country's economic viability speaks for itself".

Furthermore, as growth in the non-oil sector has started to outpace growth in the oil sector, it is time to set in motion, the architecture that will rejuvenate the real sector and accelerate Nigeria's economic growth. The starting point for this "is the basic raw underlying infrastructure that acts as an enabler to business, creates a framework for progress and removes any competitive disadvantage that Nigeria needs to overcome in order to become truly relevant on the global stage."

Still on the infrastructure theme, we have a piece titled: "aviation: addressing the fundamentals", in which the writer takes a detailed but panoramic view of the aviation industry in Nigeria. Acknowledging the progress recorded and lingering challenges of the sector, the author asserts that "in our march forward to 2020, if we do not make serious efforts to upgrade and keep functional, the Nigeria College of Aviation Technology (NCAT), Zaria, to churn out vitally needed technical manpower for the industry, we will pay dearly either through capital flight or retardation owing to shortage of manpower". Completing this section is a treatise on the problem of fraud in the banking industry—types, causes and consequences.

In the section *'foreign insights'*, we examine Nigeria's relations with China—pointing out imbalance in trade that is heavily skewed in favour of the leading Asian nation. The relationship is however mutually rewarding, and yet promising. In this section too, is a piece on "helping build democracy that delivers" which examines the components of democracy and their importance to business. Our *'global watch'* section deals with the lingering global credit crunch and its deleterious ripple effects on capital markets across the world.

Our other sections—*periscope*, *policy* and *facts and figures*—all add up to complete this package—another *treasure* for our teeming discerning readership. Enjoy it!

Marcel Okeke

I write to acknowledge the receipt of a copy of the January 2008 edition of the Zenith Economic Quarterly (ZEQ) forwarded to Covenant University. We have found the Zenith Economic Quarterly of immense benefit for our context particularly in keeping in touch with current paradigms and process in the Banking and Business world. The perspective that we are opened up to are really inspiring. Please keep up this great capacity development initiative. Our best wishes as you strive to access greater heights along the Banking and Corporate contexts.
Thank you and God bless you.
Professor Aize Obayan
Vice Chancellor
Covenant University
Canaan Land
Ota, Ogun State

I am directed to acknowledge with thanks, receipt of your letter dated 06 March 2008, conveying a copy of the above named Journal. This in-depth package of key issues on the Nigerian economy is a brilliant contribution to literature on the country's economy and would no doubt serve as a valuable reference material in this direction, in view of the topical issues addressed in the publication. Please accept the Ambassador's warm gratitude and the assurances of his highest consideration.
A.E. Adeyemi
For: Ambassador/PR
Embassy of Nigeria,
Addis Ababa
Ethiopia

On behalf of the Vice-Chancellor and Management of Delta State University, Abraka, I wish to thank you very much for sending to us one copy of your "ZENITH ECONOMIC QUARTERLY" Vol. 2 No. 12 for use in our University Library. The publication is rich with topical issues on the Nigerian economy, and will be invaluable to our scholars, especially those involved in business-related courses. Your contribution towards the enrichment of our University Library is highly appreciated.
Yours faithfully,
Dr. (Mrs) R.B. Okiy
University Librarian
Delta State University, Abraka

I am directed to acknowledge with thanks, the receipt of your letter dated 04/12/2007 which forwarded the September 2007 edition of the Zenith Economic Quarterly (ZEQ). The Embassy has found the Journal very useful and there is no doubt that the information therein will go a long way in educating our intending Thai investors to Nigeria.
Thanks.
E.M. Ele
For: Charge d' Affaires a.i.
Embassy of Nigeria
Thailand

I write to acknowledge your letter of 6th March, 2008 on the above topic in which you donated a copy of the January 2008 edition of the Zenith Economic Quarterly (ZEQ) to us. Our members of staff will cherish and use it judiciously.
Thank you very much.
Yours sincerely,
Professor A.A. Olowu
Dean, College of Management Sciences
Redeemer's University (RUN)
Redemption City,
Ogun State, Nigeria.

We wish to acknowledge receipt of the January 2008 edition of the Zenith Economic Quarterly (ZEQ). We find it very informative as it provides insight to key issues that are relevant to our economy. We thank you for regularly sending this publication to us.
Thank you.
Yours faithfully,
Marie-Therese Phido
KPMG Professional Services

We acknowledge with thanks the receipt of your letter dated March 6, 2008 on the above subject.
The publication will be added to the stock in our library for necessary use by our members and clients. We do hope you will keep us in mind during your subsequent publications.
Kind regards.
Seyi Adegbite
For: Director General
Manufacturers Association of Nigeria

Economy: Defying Grim Expectations

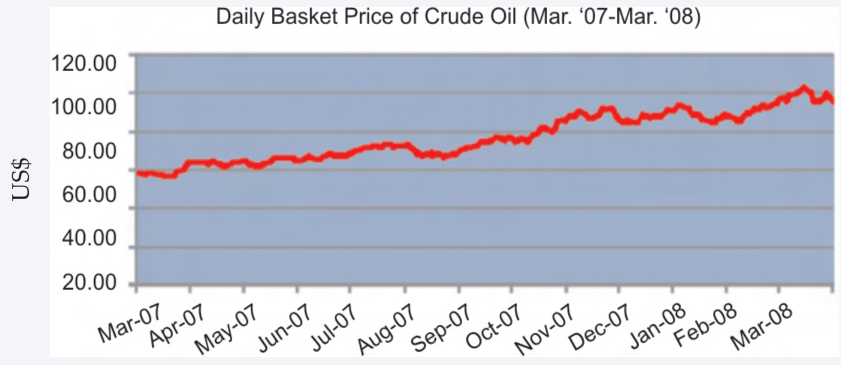
* By Marcel Okeke

Despite the apprehensions and grim expectations about the performance of the economy in the first quarter 2008 owing to the non-passage of the Federal Budget during the period, economic performance indices for the quarter have turned out rather robust.

Although some budget-dependent business calculations and projections by economic agents may have either been postponed or shelved outright, the economy all through the quarter remained on even keel—with no indicator showing significant deviation from prior projections. In fact, almost all moved in the desired directions.

While the 2008 Appropriation Bill presented by President Umaru Musa Yar'Adua on November 8, 2007, was yet undergoing scrutiny and legislative debates at the National Assembly, the economy during the first quarter 2008 was marked by buoyancy of the stock market, quantum accretion to foreign exchange reserves, largely stable money and foreign exchange markets as well as minimal movements in the rate of inflation. The unprecedented soaring price of crude oil in the international market, regulatory measures by the monetary authorities and reversal of some extant government policies equally influenced the trend and tempo of the economy during the first three months of the year.

Specifically, year-on-year (headline) inflation rose from 6.6 per cent at end-December 2007 to 8.6 per cent in January but fell to 8.0 per cent in February 2008; it dropped further to 7.8 per cent by the close of the quarter. The higher levels of inflation during the quarter vis-à-vis end-2007 level were mainly attributable to increase in food prices—a phenomenon that is fast becoming a "global food crisis". President Yar'Adua had by the close of the quarter, ordered the release of grains from the nation's strategic grains reserves in an effort to stem the largely food-price induced inflation. Also, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria, just at the close of the quarter (April 1, 2008), moved the Monetary Policy Rate (MPR) to 10 per cent from 9.5 per cent due mainly to its concerns about the levels of inflation in the first three months of the year and the likelihood of more inflationary pressure in the months ahead. Another factor that influenced the inflationary trend was the high liquidity in the system, occasioned by refund of excess deductions from statutory allocations to states during the quarter.



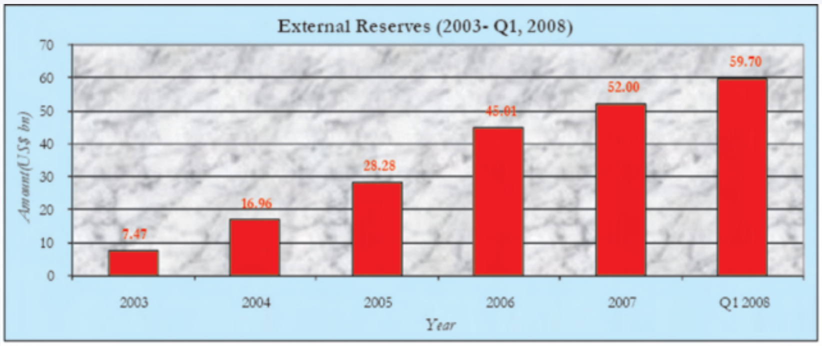
Source: OPEC

On the other hand, as in previous quarters, stability ruled the foreign exchange market during the period under review, with the national currency recording some appreciation against the dollar in all three segments of the market. This trend was driven mainly by the escalation in the price of crude oil in the international market which led to a more favourable balance of payment position for the country and improved macroeconomic environment. Thus, the Naira in the official segment of the foreign exchange market, appreciated by five kobo, from N116.78 in February to close at N116.73/US$1 at end-March. Also, the premium between the parallel market rate and the official market rate remained within five per cent throughout the quarter.

All through the first quarter 2008, Nigeria's external reserves maintained an upward trend, hitting an unprecedented level of US$59.70 billion at end-March—a value that is capable of supporting about 38 months of current foreign exchange disbursements. The reserves level was estimated at US$54.22 billion as at January 2008 and US$52 billion as at end-December 2007. Expectedly, favourable oil prices in the international market coupled with low external debt servicing were largely responsible for the reserves growth. The price of oil remained prevalently at about US$100/barrel during the period under review.

Like in the last quarter 2007, the capital market was very active during the first three months of this year, especially the primary segment of the market where there was a lot of fresh capital-raising by a number of companies from various sectors of the economy. Specifically, there were so many private placements by various capital market operators who had been mandated by the Securities and Exchange Commission (SEC) to increase their capital base. A number of banks were in the market to raise more funds to further beef up their capital base too. Some of the companies that came for fresh funds from the market during the quarter under review include: Partnership Investments Company Limited, Chams Nigeria PLC, Custodian and Allied Insurance and Standard Alliance Insurance PLC. And, from the communications sector came Daar Communications PLC to source about N14 billion.

A major development in the market during the quarter was the preponderance of massive over-subscription of virtually all the public offers, leading to 'substantial' amount of money being returned to the subscribers/investors. In point of fact, nearly all firms that went to the market in the last quarter 2007/first quarter 2008 had to contend with the challenge of "returned money", and with interest paid at discretionary rates. Although the payment of interest is not compelled by any law, the practice is fast becoming the norm. Thus, some of the companies that handled "returned money" during the quarter under review include Dangote Flour, First Bank PLC, Nigerian Aviation Handling Company, Nigerian Bag Manufacturing Plc, among others.



Source: CBN

Nigerian Stock Exchange Indices (Q1, 2008)

Date	All-Share Index	Market Cap. (=N= Trn)	Value of Traded Equities (=N= Bn)
28-Dec-07	56,863.41	9.98	14.43
04-Jan-08	33,163.94	4.22	1.71
11-Jan-08	58,130.74	10.57	16.99
18-Jan-08	58,211.69	10.59	13.91
25-Jan-08	57,845.50	10.51	12.48
01-Feb-08	59,125.58	10.79	14.80
08-Feb-08	62,516.07	11.49	18.24
15-Feb-08	62,961.79	11.62	24.84
22-Feb-08	63,936.64	12.15	16.57
29-Feb-08	65,075.02	12.38	22.02
07-Mar-08	66,120.19	12.59	14.79
14-Mar-08	65,005.48	12.39	30.64
20-Mar-08	63,986.50	12.31	15.26
28-Mar-08	63,147.04	12.15	13.80

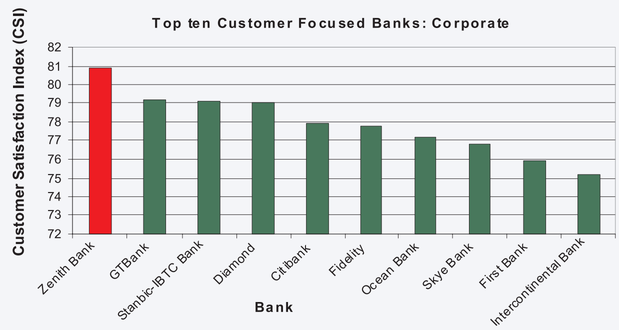
Source: Nigerian Stock Exchange

The secondary segment of the capital market, like in the last quarter 2007, opened 2008 on a bullish momentum, but slowed down a few weeks into the year. Specifically, in January 2008, the market slowed down because of the various public and primary offers as investors adjusted their portfolios in favour of private placements. Thus, the Nigerian Stock Exchange (NSE) All Share Index (ASI) appreciated by 0.99 per cent in January; 13.0 per cent in February, but reduced to 8.70 per cent at the close of the quarter following the return of the bears in early March—after the ASI and Market Capitalization had hit record highs of 66,371.20 and N12.60 trillion respectively. The slight appreciation of the ASI during the first quarter was mainly due to profit taking by investors following the overheated fourth quarter 2007.

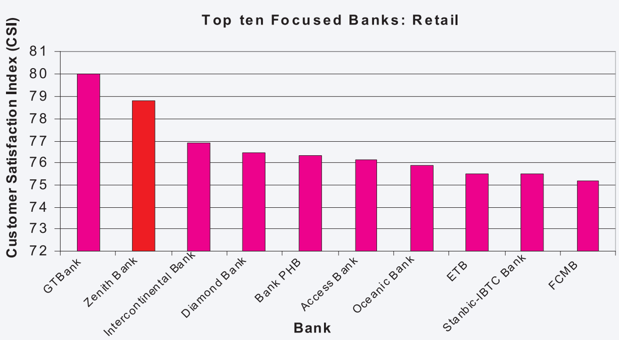
Overall, the quarterly performance of the equities market in 2008 shows that it made a return of 8.67 per cent in the first quarter, rising from 57,990.220 points to close at 63,016.56 points compared with the gain of 30.93 per cent achieved in the corresponding period of 2007. In a similar vein, the Market Capitalization recorded a growth of 19.11 per cent (Year-to-Date) to close at N12.13 trillion, from N10.18 trillion at the end of the fourth quarter in 2007. A total of 67.055 billion shares worth N967.810 billion were traded in 1,179,741 deals during the quarter—an increase of 161 per cent above the 25.75 billion shares valued at N334 billion invested in the corresponding quarter of 2007.

The bond market was active during the first quarter 2008, as the Debt Management Office (DMO), on behalf of the Federal Government, offered a total of N150 billion worth of FGN Bonds—a rise by 36.4 per cent, from a total of N110 billion offered during the corresponding period in 2007. The total subscription was N243.20 billion, down slightly by 11.20 per cent from N273.70 billion subscribed in the first quarter 2007. The lowest coupon rate on 3-year FGN bonds issued in the first quarter 2008 was 9.00 per cent; a total of N90 billion worth of this bond tenor was sold during this period—an increase of about 125 per cent compared with the N40 billion sold in the corresponding quarter of 2007. However, the lowest coupon rate on 5-year FGN bond issued in the first quarter 2008 (at 9.50 per cent) was the same as the coupon rate on the same instrument issued during the corresponding period in 2007. A total of N60 billion 5-year FGN bond was sold during the first quarter 2008, up by 71.5 per cent, compared to N35 billion sold in the corresponding quarter of 2007.

The Securities and Exchange Commission (SEC) during the quarter under review, took some measures to further strengthen transparency and public confidence in the capital market. It placed the stocks of a few quoted companies on technical suspension and investigated alleged 'insider dealings' on them. SEC also ordered stock broking firms to stop fees they charge for share certificates verification for shareholders—this is to further reduce transaction costs in the stock market. The apex regulatory agency also introduced the 'electronic dividend' (e-dividend) payment policy under which all quoted companies shall be crediting the accounts of their shareholders electronically with dividend due. Affected companies have been directed to begin the setting up of necessary infrastructure for the implementation of the policy (January 2009).



Source: KPMG



Source: KPMG

BANKING AND FINANCE

Market-induced consolidation and competition still ruled the banking sector as in the quarters in 2007; mergers and acquisitions, public offers, rights and bonus issues as well as 'fight' for market share remained features of the industry. The long-drawn merger negotiation between IBTC Chartered Bank Plc and Stanbic Bank (Nigeria) Limited got consummated during the quarter—with the launch of Stanbic IBTC Bank Plc as a new member of the Standard Bank Group (International). Also, the merger talks between Ecobank Nigeria and Sterling Bank continued, just as Societe Generale Bank Nigeria (SGBN), sequel to a court ruling against the withdrawal of its license by the Central Bank of Nigeria, was permitted to "complete all the processes relating to its acquisition by another bank" within 30 days. This, in a way, amounted to the 'return' of one of he hitherto liquidated banks—sequel to the completion of bank consolidation in 2005.

Concomitant to the heightening competition in the banking industry during the quarter under review has been improvement in the variety and quality of service(s) delivery among the operators. This has prompted a survey by KPMG Professional Services in which it noted that "service quality has displaced financial stability as the most important factor in the choice of a bank by Nigerian customers in 2008". The KPMG survey which focused on service quality show that "in the 'most

customer-focused' corporate category, Zenith Bank maintained its lead position as in 2007". GT Bank, Stanbic Bank and Diamond Bank clinched the second, third and fourth positions respectively. Guaranty Trust Bank topped the retail customers segment of the survey, followed closely by Zenith Bank while Intercontinental and Diamond Bank clinched the third and fourth respectively.

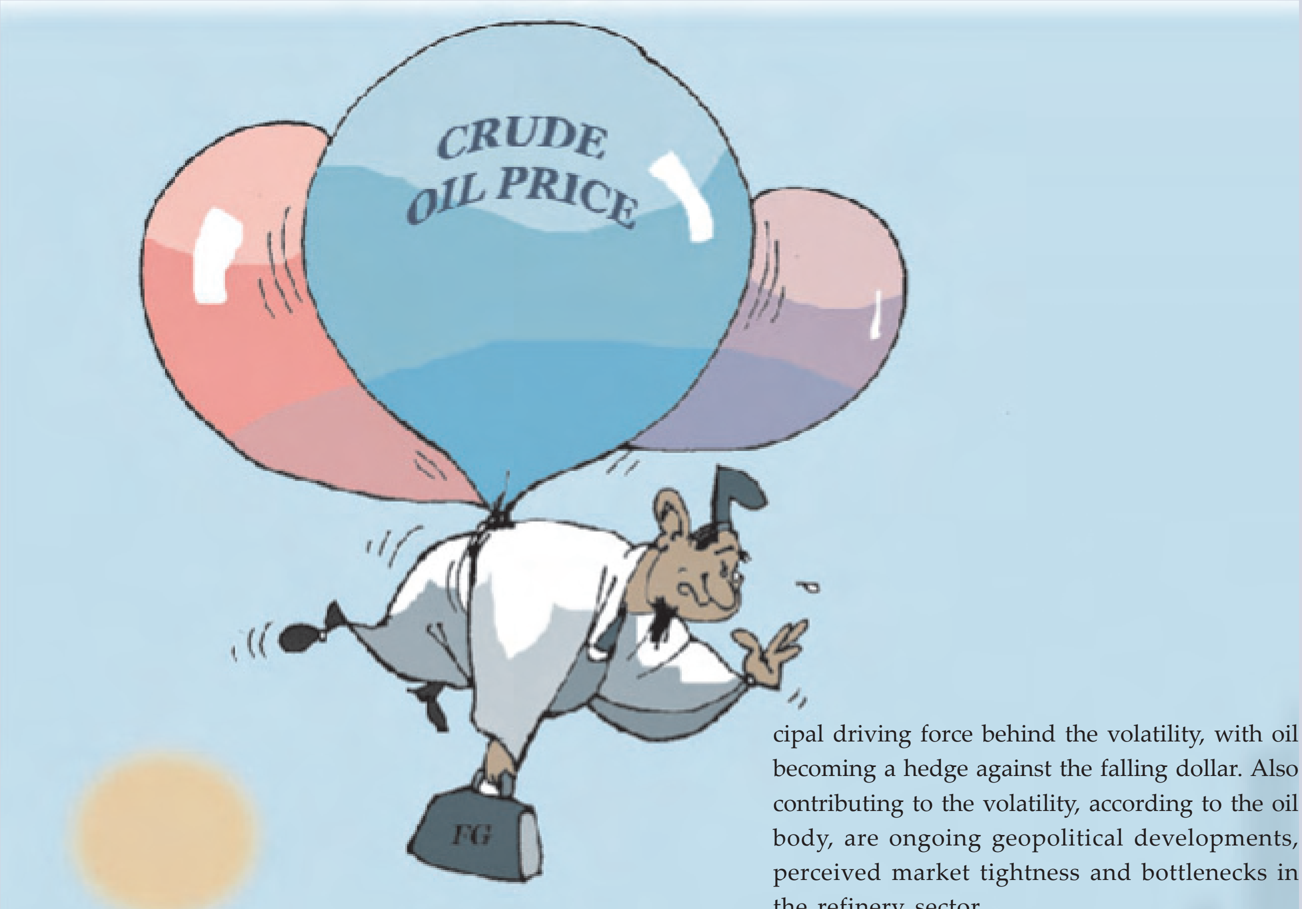
During the quarter under review, the Bankers' Committee scrapped the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) through which banks had been funding small and medium-scale enterprises (SMEs) since 2001. In its place, a new micro-credit policy was adopted, under which the amount to be set aside by each bank for SME funding was reviewed downwards from 10.0 per cent to five per cent of their profit after tax (PAT). Under the new arrangement, banks will partner the various states in making the funds available for lending through microfinance institutions (established by the state governments or the universal banks); each state government shall set aside one per cent of their annual budget for the scheme.

In pursuit of all this, a N50 billion Micro Credit Fund (MCF) –projected to grow to N100 billion by 2010—has been launched. The MCF has commenced operations with the balance of the SMEEIS funds as at December 31, 2007 (about N20 billion). According to the MCF guidelines, a state may obtain a loan from the Fund at an interest rate of not more than 8.0 per cent per annum (and shall not be subjected to any other fees/ or charges). As a concomitant to the adoption of the new (MCF) policy, the CBN and the Nigeria Deposit Insurance Corporation (NDIC) expedited the licensing of micro-finance banks, such that by end-March 2008, there were 746 of such banks across the country.

Also, the NDIC as part of the ongoing reforms in the banking sector, introduced differential premium payment system for banks. The policy which takes effect this year would see banks paying different premium according to their respective risk profiles as against the old practice of uniform premium. Although Primary Mortgage Institutions (PMIs) and Microfinance Institutions (MFIs) are not part of the new arrangement, the NDIC also introduced deposit insurance to cover N100,000 per depositor of Microfinance Banks.

OIL, GAS AND PETROLEUM RESOURCES

The phenomenal rise in the prices of crude oil which characterized the closing part of last year continued during the first quarter 2008. Thus, Nigeria's Bonny Light crude which closed last year at an average price of US$95.20 per barrel, shot up beyond US$100.02 per barrel as at end-March 2008. In fact, oil prices in the international market remained largely above this average figure. This trend has remained a source of concern both to



oil producer/exporting and consumer nations—leading to pressures on the Organization of Petroleum Exporting Countries (OPEC) to increase output/supply to the market. But during its 148th meeting in Vienna, Austria in March, the oil body resisted the pressure, and pointed out a number of issues that account for the soaring prices of oil.

According to OPEC, the record high prices is driven not by supply shortfall, but by a weak dollar, speculations, rising inflation, significant flow of funds into the commodities market and political strife—reasons all beyond OPEC's control. The oil body, rather than raise production/supply, resolved to rollover its current production target of 29.67 million barrels per day. At an International Energy Forum (IEF) in Italy, OPEC Secretary General, Abdalla Salem El-Badri, gave an outlook of the oil industry, saying that volatility continues to have serious impact on the oil market with persistent upward pressure on prices—and blamed this on 'non-fundamental' factors. OPEC insists that the heightened levels of speculation have been a principal driving force behind the volatility, with oil becoming a hedge against the falling dollar. Also contributing to the volatility, according to the oil body, are ongoing geopolitical developments, perceived market tightness and bottlenecks in the refinery sector.

The upshot of all these for Nigeria has been a windfall of foreign exchange earning arising from oil sales at prices far above the 2008 Federal budget benchmark of US$59 per barrel. Concomitantly however, sporadic refined petroleum products scarcity has been a feature of the Nigerian polity so far in year 2008. The epileptic workings of the local refineries (worsened by incessant pipeline vandalism) and dependence on massive importation of refined products for local use have posed a huge fiscal burden on the government and its agencies. None of the private refineries, licenses for which were issued close to two years ago, has come on-stream—and so, they could not augment refined products' importation.

During the quarter under review, the Federal Government approved a new National Gas Pricing Policy and Regulations. Under the initiative, Nigeria's gas will be supplied "at the lowest commercially sustainable prices to the strategic domestic sector which provides electricity for residential and light commercial users". The policy further stipulates that all operators in the country's oil industry "must realign their gas development portfolios in order to ensure that gas resources which are rich in natural gas liquids (NGLs), including condensates and LPGs, are directed to strategic domestic sectors". Also, under the new policy regime, all oil and gas developers in the country are expected to allocate a specified amount of gas from their reserves and annual production to the domestic market.

Also during the first quarter 2008, the Federal Government announced the adoption of the first Nigerian Gas Infrastructure Blueprint—which essentially contains all new projects to be set up to boost gas production in the country. Essentially, the blue-print provides for the stimulation of the multiplier effects of gas on the domestic economy; positioning of Nigeria competitively on the high value gas export markets; and the guarantee of long-term energy security for the nation. In the short-term, the blue-print aims to double domestic gas supply to 140mmcf/d by the end of 2008 and triple it by the end of 2009. The plan also envisages that power generating capacity will grow to about 4.5GW (excluding hydro) by the end of 2009.

The Federal Government also during the first quarter 2008, revoked the 22-year old Memorandum of Understanding (MoU) under which it granted certain monetary incentives to multinational oil companies operating in the country. The MoU between the Government and the oil firms was signed in 1986 to strengthen the oil multinationals following a crash in the international prices of oil and the attendant reluctance of some of the oil producing companies to invest in oil and gas activities in the country. The new position of the Government, sequel to the recommendations of an oil sector reform committee, follows the rising prices of oil in the international market and huge investment in the upstream sector—all of which have overtaken the circumstances that necessitated the MoU 22 years ago.

The influx of foreign investment into the oil and gas sector continued during the period under review. A United Kingdom listed oil and gas giant—Afren Plc, German company—E.O.N. Ruhrgas and African LNG Holdings Limited have sealed an agreement to commence the exploration of the availability and accessibility of natural gas in Nigeria. They are focusing on the Anambra Basin and parts of the South East and are poised to jointly develop, collect and monetize the gas for domestic and export purposes in line with the new Gas Policy of the Federal Government. Also as part of the expansion of its services to operating companies in the country, Oando acquired two swamp rigs for upstream operations in the Niger Delta. They are to be managed by Oando Energy Services, in partnership with Frazimex, an indigenous company, with technical assistance provided by Transocean International.

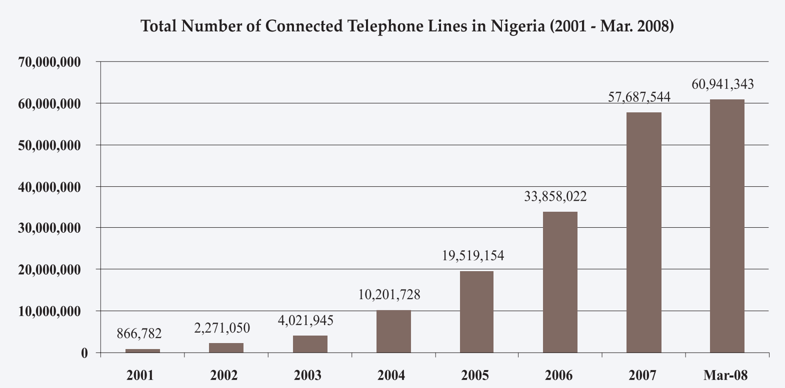
The epileptic workings of the local refineries (worsened by incessant pipeline vandalism) and dependence on massive importation of refined products for local use have posed a huge fiscal burden on the government and its agencies.

ENERGY, POWER AND STEEL

In pursuit of the seven-point agenda of his administration, President Musa Yar'Adua during the period under review, inaugurated an 11-member Presidential panel on the Accelerated Expansion of Nigeria's Electricity Infrastructure. The core mandate of the committee is the formulation of plans and strategies to boost Nigeria's power supply capacity by 6,000 megawatts within 18 months, with an additional 10,000 megawatts by 2011. The committee after its 30 days life span, has reported that the target of 6,000 megawatts within 18 months can easily be exceeded with the ongoing investment of about US$2.7 billion and the Federal Government's direct intervention. According to the committee, 1,450 additional megawatts can be realized from existing PHCN plants, 3368 megawatts from ongoing NIPP projects, 640 megawatts from the Shell Petroleum Development Company's Afam/ Okoloma Joint Venture and 805 megawatts form Legacy Independent Power Projects.

During the quarter under review, the Federal Government commenced work on two new power transmission stations in Karu and Kubwa areas of the Federal Capital Territory (FCT)—all at a cost of about US$24 million. Contract for these are being executed under the National Energy Development Project (NEDP) through the assistance of the World Bank. Ogun State is partnering with West COM Technologies and Energy Limited to establish a power plant in Shagamu; the plant is projected to be generating 1,000 megawatts of electricity that will, through the PHCN, be connected to the national grid.

Other new investment in the power and steel sector include that of Global Steel Holdings Limited, currently managing the Delta Steel Company Aladja—which plans to expand its operation in Nigeria to the tune of US$200 million. A Hungarian company, Frikober Mernoki Group, is also establishing a power plant in the country at the cost of N234.5 billion. The plant, a diversified one, will comprise solar, wind and water energy plants.



Source: Nigerian Communications Commission (NCC)

TELECOMMUNICATIONS

The telecommunications sector maintained its vibrancy during the quarter under review with Nigeria's fifth mobile network and a new wireless service provider joining the industry. The service provider, Visafone, bought three existing telecommunication companies—Cellcom, ITN and Bourdex Telecoms. The company received its Unified Access Service license as a telecom operator from the Nigerian Communications Commission (NCC) following its acquisition of Cellcom. Visafone aims to offer the very best of Voice, High Speed Data 3G (EVDO) internet and other innovative value added services to individual subscribers, corporate organizations as well as small and medium scale enterprises in the country. It launched its full commercial services across Nigeria in 12 states and over 40 cities, including the FCT Abuja as the newest and wholly owned Nigerian mobile phone company.

The fifth mobile network—Emerging Markets Telecommunications Services (EMTS), the operator of the Mubadala/Etisalat GSM license—was granted Unified Access License by the NCC in January 2007 for a consideration of US$400 million. The license enables Mubadala to offer fixed line and GSM 900/1800 mobile services. On its own part, the MTN Group has contracted Cambridge Broadband Networks to deploy VectaStar microwave equipment for MTN Nigeria's new 3G network, initially in six main cities before spreading to cover the entire country. The VectaStar deployment is believed to be a crucial Step in MTN Nigeria's plans to migrate to an all-IP network.

Growth in the subscriber base of the telecom industry gained more momentum during the quarter under review—with the number of subscribers rising from 57.7 million as at end-December 2007 to 61.0 million at end-March 2008. Similarly, the number of active lines rose from 42.0 million to 46.0 million within the same period. Total installed capacity also increased by about 4.5 per cent, from 85.0 million to 88.5 million within the three months. Mobile GSM has the highest installed capacity of 79,625,308, mobile CDMA has an installed capacity of 3,170,000 while Fixed Wireless has 5,676,481. Overall, teledensity improved from 30.65 to 32.79 during the first three months this year.

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

SEC's Code of Corporate Governance in Nigeria

Long before the highly publicized corporate scandals and failures worldwide, the global community has shown increasing concern on the issues of corporate governance. The reason for this trend is not far to seek. There is growing consensus that corporate governance, which has been defined as the way and manner in which the affairs of companies are conducted by those charged with the responsibility, has a positive link to national growth and development.

Little wonder therefore that several studies and initiatives have been undertaken by countries and International Institutions on the subject "Corporate Governance". As a result of the foregoing, several Codes of Corporate Practices and Conduct have been fashioned out and are in use in various jurisdictions.

Realizing the need to align with the International Best Practices, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission inaugurated a seventeen (17) member Committee on June 15, 2000 in Nigeria and mandated it to identify weaknesses in the current corporate governance practice in Nigeria and fashion out necessary changes that will improve our corporate governance

practices. Membership of the Committee was carefully selected to cut across all sectors of the economy including members of professional organizations, organized private sector and regulatory agencies.

The Committee submitted a draft Code, which was published in several newspapers and was further reviewed at three (3) locations across the Country, namely: Lagos, Abuja and Port Harcourt. This extensive exposure was designed to elicit stakeholders input before the Code was finalized. Subsequently, the final report was approved by the Boards of the Securities and Exchange Commission being the regulatory authority of the Capital Market and the Corporate Affairs Commission being the regulatory authority of Companies in Nigeria as the Code of Best Practices for Corporate Governance.

THE CODE OF BEST PRACTICES

A code to make provisions for the best practices to be followed by public quoted companies and for all other companies with multiple stakeholders registered in Nigeria in the exercise at power over the direction of the enterprise, the supervision of executive actions, the transparency and accountability in governance of these companies within the regulatory framework and market; and for other purposes connected therewith. This Code may be cited as the Code of Best Practices on Corporate Governance in Nigeria.

PART A - THE BOARD OF DIRECTORS

1. RESPONSIBILITIES OF THE BOARD OF DIRECTORS

(b) The Board of Directors should be responsible for the affairs of the company in a lawful and efficient manner in such a way as to ensure that the company is constantly improving its value creation as much as possible.

(c) The Board should ensure that the value being created is shared among the shareholders and employees with due regard to the interest of the other stakeholders of the company. The Board's functions should include but not be limited to the following: -

i. Strategic planning

ii. Selection, performance appraisal and compensation of senior executives

iii. Succession planning

iv. Communication with shareholders

v. Ensuring the integrity of financial controls and reports

vi. Ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria.

1. **COMPOSITION OF THE BOARD OF DIRECTORS**

As much as possible, the Board should be composed in such a way as to ensure diversity of experience without compromising compatibility, integrity, availability, and independence.

(a) The Board should comprise of a mix of Executive and Non-Executive Directors headed by a Chairman of the Board, so however as not to exceed 15 persons or be less than 5 persons in total.

(b) The members of the Board should be individuals with upright personal characteristics and relevant core competences, preferably with a

record of tangible achievement, knowledge on board matters, a sense of accountability, integrity, commitment to the task of corporate governance and institution building, while also having an entrepreneurial bias.

(c) Executive directors' remuneration should be set by a Remuneration Committee made up wholly or mainly of non-executive directors.

2. CHAIRMAN & CHIEF EXECUTIVE OFFICER POSITIONS

(a) A Board should not be dominated by an individual. Responsibilities at the top of a company should be well defined.

(b) The position of the Chairman and Chief Executive Officer should ideally be separated and held by different persons. A combination of the two positions in an individual represents an undue concentration of power.

(c) In exceptional circumstances where the position of the Chairman and Chief Executive Officer are combined in one individual, there should be a strong non-executive independent director as Vice Chairman of the Board.

(d) The Chairman's primary responsibility is to ensure effective operation of the Board and should as far as possible maintain a distance from the day-to-day operations of the company, which should be the primary responsibility of the Chief Executive Officer and the management team.

3.PROCEEDINGS & FREQUENCY OF MEETINGS

(a) To maintain effective control over the company and monitor the executive and management, the board should meet regularly, and not less than once in a quarter with sufficient notices, and have a formal schedule of matters specifically reserved for its decision.

(b) Company meetings should be conducted in such a manner as to allow free flowing discussions. There should be enough time allocated to shareholders to speak and to enable them contribute effectively at the Annual General Meeting.

4. BOARD OF DIRECTORS

(a) The Board should have a formal schedule of matters specifically reserved for it to ensure that the direction and control of the company is firmly in its hands.

(b) There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice if necessary, and the company should bear the expense.

(c) All directors should have access to the advice and services of the company secretary, who is appointed by the board and who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The removal of the company secretary should be a matter for the Board.

(d) All directors should have access to the advice and services of other professionals in areas where such advice will improve the quality of contribution of the directors to the overall decision-making process.

5. NON-EXECUTIVE DIRECTORS

Non-executive directors should be of such calibre as to make constructive contributions and for their views to carry significant weight in the board's deliberations.

(i) Non-executive directors should bring independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

(ii) Directors' service contracts should not exceed three years without shareholders' approval.

(iii) Non-Executive directors should not be dependent on the company for their income other than their director's fees and allowances. The non-executive directors should ideally be independent and not be involved in business relationships with the company that could fetter or encumber their independent judgment.

(iv) Non-executive directors should neither participate in share option schemes with the company nor be pensionable by the company.

(v) Non-executive directors should be appointed for a specified period. Re-appointments should be dependent on performance.

(vi) The appointment of non-executive directors should be a matter for the entire board and a defined formal selection process should be utilized.

(vii) The newly appointed Directors should undergo proper company & board orientation and where necessary be given formal training at the company's cost, aimed at making them effective in the discharge of their duties.

(viii) Skills mix of non-executive directors should reflect the range of the competency needs of the company.

6. EXECUTIVE DIRECTORS

(a) There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid director, including pension contributions and stock options where the earnings are in excess of N500,000.

(b) Executive directors should not play an active role in the determination of their remuneration

7. COMPENSATION OF BOARD MEMBERS

(a) The remuneration of Executive Directors should be fixed by the Board and not in shareholders' meetings.

(b) There should be remuneration committees, wholly or mainly composed of non-executive/independent directors and chaired by a non-executive director, to recommend the remuneration of executive directors.

(c) The following disclosures should be made for directors' remuneration:

(i) Directors' emoluments and that of the Chairman and highest paid director.

(ii)Relevant information about stock options and any pension contributions.

(iii)Future service contracts.

8. REPORTING & CONTROL

(a) There is an overriding need to promote transparency in financial and non-financial reporting.

(b) It is the Board's duty to present a balanced, reasonable and transparent assessment of the Company's position.

(c) The prime responsibility for good internal controls lies with the Board.

(d) The Board should ensure that an objective and professional relationship is maintained with the auditors. External Auditors should not be involved in business relationships with the company.

(e) The Board should establish an audit committee of at least three non-executive directors with written terms of reference, which deal clearly with its authority and duties.

The directors should report on the effectiveness of the Company's system of internal control in the Annual report. The direc-

tors should report that the business is a going concern, with supporting assumptions or qualifications as necessary in compliance with the Companies and Allied Matters Act.

PART B - THE SHAREHOLDERS

9. SHAREHOLDERS' RIGHTS & PRIVILEGES

(a) The company acting through the Directors should ensure that shareholders' statutory and general rights are protected at all times.

(b) Shareholders should remain responsible for electing Directors and approving the terms and conditions of their directorships.

(c) The venue of a general meeting of shareholders should be carefully chosen in such a way as to make it possible and affordable (in terms of distance and cost) for the majority of shareholders to attend and vote, and not to disenfranchise shareholders on account of choice of venue, which is unreasonable or impracticable to reach.

(d) Notices of meeting should be sent at least 21 working days before the meeting with such details (including annual reports and audited financial statements) and other information as will enable them vote properly on any issue.

(e) The Board should propose a separate resolution at the general meeting on each substantial issue in such a way that they can be voted for in an organized manner.

(f) The Board should ensure that decisions reached at the general meetings are implemented.

(g) The Board should ensure that all shareholders are treated equally; and that no shareholder *(however large institutional or otherwise, vocal or passive)*

should be given preferential treatment or superior access to information or other materials.

(h) Boards should use general meetings to communicate with the shareholders and encourage their participation.

(i) Shareholders holding more than 20% of the total issued capital of a company should as far as possible have a representative on the Board unless they are in a competing business or have conflicts of interest that warrant their exclusion from the Board.

(j) As far as possible, there should be at least one Director on the Board representing minority shareholders.

10. INSTITUTIONAL SHAREHOLDERS

(a) The company or the board should not discourage shareholder activism whether by institutional shareholders or by organized shareholders' groups. Shareholders with larger holdings (institutional and non-institutional) should act and influence the standard of corporate governance positively and thereby optimize stakeholder value.

(b) Information made available to institutional shareholders should also be made available to other shareholders at the same time in such a manner as to ensure that neither group enjoys preferential treatment.

PART C – AUDIT COMMITTEE

(a) Companies should establish Audit Committees, with the key objective of raising standards of corporate governance.

(b) The Audit Committees should not act as a barrier between the auditors and the executive directors on the main board, or encourage the main board to abdicate its responsibilities in reviewing and approving the financial statements.

(c) The Audit Committee should not be under the influence of any dominant personality on the main board, neither should they get in the way and obstruct executive management.

(d) Audit committees should be comprised of strong, independent persons.

12. COMPOSITION OF THE AUDIT COMMITTEE

(a) Audit Committees should be established in accordance with CAMA Section 359 (3 & 4), with not more than one executive on them.

(b) A majority of the non-executives serving on the committee should be independent of the company (i.e. independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment as committee members).

(c) The Chairman of the Audit Committee should be a Non-Executive Director, to be nominated by the members of the Audit Committee.

(d) Membership of the audit committee should be for a fixed tenure. However, any member of the committee should be eligible for re-election after his tenure.

(e) The Secretary of the Audit Committee should be the Company Secretary, Auditor or such other person nominated by the Committee.

13. QUALIFICATION AND EXPERIENCE OF AUDIT COMMITTEE

(a) Members of the Committee should be **able to read and** understand basic financial statements, and should be capable of making valuable contributions to the Committee.

(b) Audit committee should review not only external Auditors' reports but also most importantly the Report of the Internal Auditor.

(c) Members of the Committee should possess the following qualities:

(i) Integrity

(ii) Dedication

(iii) A thorough understanding of the business, its products and services

(iv) A reasonable knowledge of the risks facing the company and the essential controls the company has in place.

(v) Inquisitiveness and dependable judgment

(vi) Ability to offer new or different perspectives and constructive suggestions.

14. TERMSOFREFERENCEF OR AUDIT COMMITTEE

The Committee should be given written terms of reference in line with Section 359 (6) a-e of the Companies And Allied Matters Act, 1990.

(a) The performance of the Committee and its members should be evaluated periodically. The form of such evaluation will be for the company to decide.

(b) The Committee should maintain a constructive dialogue between the external auditors and the board and enhance the credibility of financial disclosures and the interest of shareholders.

15. MEETINGS

(a) The quorum for the meetings of the audit committee would depend on the number of members of the Committee and should be specified in the terms of reference of the Committee.

(b) The Committee should meet at least three (3) times in a year.

(c) The audit committee should have a meeting with the external auditors at least once a year, without the executive board members present.

(d) Specimen Terms of Reference for an audit committee, compiled from the many examples that are available, are shown in the Schedule on Page 20 of this Report.

(i) The Terms of Reference are intended simply as a guide for companies who wish to adapt and build on them to suit their own peculiar circumstances.

(ii) The audit committee will assist the board in fulfilling its oversight responsibilities.

(iii) The audit committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations.

(iv) In performing its duties, the committee will maintain effective working relationships with the board of directors, management and both the internal and external auditors.

(v) To perform his or her role effectively, each committee member should seek to obtain an understanding of the detailed responsibilities of committee membership. They should also seek to obtain a thorough understanding of the company's business, operations and the industry specific risks.

PART D – INTERPRETATION

17. INTERPRETATION

In this Code, unless the context otherwise requires:-

"Company"	means a public company limited by shares registered in Nigeria.
"Law"	means the applicable Laws of the Federation of Nigeria.
"Regulation"	means the applicable regulation made under the Laws of the Federation of Nigeria.
"Director"	means a person duly appointed by a company to direct and manage the af fairs of the Company, and includes al ternate directors.
"Shareholder'	means a person who lawfully acquires shares in the capital of a company.
"Stakeholder'	means but shall not be limited to directors, employees, creditors, customers, depositors, distributors, regulatory authorities, and the host community(s).

PARTE SCHEDULES

SCHEDULE 1 SPECIMEN TERMS OF REFERENCE FOR AN AUDIT COMMITTEE (FOR GUIDANCE ONLY)

The duties of the Audit Committee shall be: -

i To consider the appointment of the external auditor, set the audit fee, and handle any questions of resignation or dismissal;

ii. To discuss with the external auditor (before the audit commences) the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

iii. To review the half-year and annual financial statements before submission to the Board, focusing particularly on: -

a) Any change in accounting policies and practices
b) Major judgmental areas
c) Significant adjustments resulting from the audit
d) The going concern assumption
e) Compliance with accounting standards
f) Compliance with stock exchange and legal requirements.

iv. To discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

v. To review the external auditor's management letter and management's response;

vi. To review the Company's statement on internal control system prior to endorsement by the Board;

vii. Where an internal audit function exists, to review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

viii. To consider the major findings of internal investigations and management's response;

ix. To consider other topics, as defined by the board.

Quality And Internal Control Challenges In Contemporary Nigerian Banking

* By CHUKS NWAZE

FRAUD: THE UNDESIRABLE DESTINATION: It is already an established fact that service quality and internal control are inseparable Siamese in the financial intermediation process otherwise called banking. The inevitable consequence of poor quality control or inadequate internal control is service failure which ultimately leads to fraud.

Hence, we are beginning our discussion with the undesirable destination in mind; by ex-raying the causes of fraud, it's consequences as well as the operational modalities of fraudsters.

CAUSES OF FRAUD

Although various categorizations are possible, but for the purpose of this discussion, we shall adopt the following as the major causes of fraud in our society:

- Institutional causes
- Social causes
- Legal constraints
- Personal habits

We shall now proceed to discuss them individually:

INSTITUTIONAL FACTORS

This refers to the specific factors that are peculiar to an institution and which engender fraud or fraudulent tendencies among the rank and file of staff working in those institutions.

(i) **Frustration:** Lack of congruence between the aspirations of staff and corporate objectives engenders frustration in the generality of staff which in turn breeds fraudulent tendencies. A sense of job insecurity has also been known to induce brain wave in the direction of fraud and whatever malpractices that can bring quick returns and hurt the organization.

(ii) **Staff Experience**: It is already an established fact that fraud is more frequent among employees with little or inadequate experience in relation to the functions assigned to them. Hence, they create avenues for fraud to take place without knowing it. More experienced staff do not create such opportunities unless they are active collaborators.

(iii) Inadequate Training: The need for comprehensive training and re-training not only on the theoretical but also on the practical aspects of the job cannot be over emphasized as this is the only way to equip the staff with confidence and the required level of sophistication to sniff out fraud even when it is still far away.

Management should not be unduly cost conscious in this regard as the result of lack of training is often counter productive.

(iv) Poor Internal Control: Ineffective or poor supervisory controls over critical demands such as cash, security documents, keys and other vital assets inevitably give rise to fraud. The cardinal principles of internal control which include segregation of duty and supervision should be respected at all times. We shall revisit this matter in a comprehensive manner in due course.

(v) Negligence By Staff: Staff could be inadvertently negligent for reasons bordering on inadequate technical knowledge, apathy, work pressure, poor memory, low intelligence, lack of supervision etc. Usually there is no deliberate fraudulent intent on the part of staff involved, but fraud is, nonetheless, induced by dereliction of duty, breakdown of communication, lack of vigilance arising from indolence, incompetence and ineffectiveness.

(vi) Inadequate Arrangement for Security Documents: Vital security documents are a veritable avenue for fraudsters to penetrate if such documents are not properly kept. These include items such as cheques, receipts, deposit slips, investment certificates, stamps, etc. All it

takes is to forge the signature of responsible bank officials and the coast is clear for a full scale fraud.

(vii) Improper Use of Sophisticated Equipment: In this age of technological explosion, without commensurate training of staff, veritable sources of fraud exist, while errors are committed which inexorably leads to unreliable records. In fact, staff with ulterior motives could deliberately employ these machines to omit entries, substitute genuine documents with fictitious ones and have his way.

(viii) Negligence By Customers: Customers and their idiosyncrasies constitute the major source of fraud as cheque books, statements of accounts, pay-in-slips, etc. are often not treated with the required level of confidentiality which invariably tempt their staff, wards, etc. Even while drawing their cheques, some customers leave wide gaps which can be filled with extraneous details for fraudulent purposes.

(ix) Recruitment Error: This is, perhaps, one major cause of fraud which, unfortunately, has not received its fair share of attention or publicity. It is common knowledge that criminals, crooks and several other individuals of shady character are wearing silk ties, Italian suits and shoes and parading themselves as bankers. These people were apparently employed hurriedly without adequate search and scrutiny once their educational qualifications and ability to generate deposits were confirmed. Sooner or later, however, they show the actual stuff of which they are made.

(x) Management Style: Certain actions or inactions of management might also trigger the wrong impression in the mind of staff and unwittingly give impetus to fraud.

- The absence or lack of enforcement of serious disciplinary action in proven cases of fraud to act as a deterrent to potential fraudsters.
- Over-reliance on a particular staff which breaches internal control and which can easily be capitalized upon to commit fraud.
- Approval or authorization limits which are either loose, too generous or non-existent, which results in abuse.

SOCIAL FACTORS

Several social issues encourage our people to fall into temptation and thus join the large army of fraudulent individuals in our society. Such factors include but not limited to the following:

- Honesty in offices or public places are no longer encouraged; on the contrary, such people are often despised and regarded as slow, foolish or stupid and not knowing how to utilize the opportunities at their disposal to make quick wealth.
- Much premium is placed on the accumulation of raw wealth in our society without sparing any thought about the source of that wealth. In fact, only a handful of parents care to ask their children or wards where they get the new books, dresses, bags or shoes that they bring home from school.
- In meetings, launching or similar social events, the cynosure of all eyes are usually those who are financially endowed and who are in a position to dole out cash or make mouth watering pledges or promises of what to do. These are the ones that are instantly recognized and respected. However, nobody

cares to ask how the money is made.

• The dispensing of chieftaincy titles and similar honours have become highly skewed in favour of the rich and those who pull the levers of power; even among this category of people, the highest bidders are also the front runners.

In a nutshell, it is clear enough that our value system has become so perverted that the noble concept of dignity of labour has been severely eroded and replaced with the get-rich-quick syndrome which is eating deep into the fabric of our society and encouraging fraud in all facets. The banking system has been badly hit by this malaise.

LEGAL CONSTRAINTS

Although the rule of law must be allowed to go its full length at all times, the inevitable process of the administration of justice often produces unintended monsters which favour fraudsters. Examples include the following:

• The British legal system that we are following assumes that everyone, including a fraudster, is innocent until proved guilty. However, the process of being proved guilty requires a detailed and long-winding investigation and possible prosecution which often takes a long time to the obvious advantage of the fraudster who may eventually manage to escape justice. Justice delayed is justice denied.

• A fraudster may also be able to escape justice on technical grounds or want of evidence. The issue of evidence which is a major plank on which our system of justice rests and the inability of the police or any person to produce acceptable evidence when it is required also defeats a case of fraud to the advantage of the fraudster.

The above constraints or legal bottlenecks are well known to potential fraudsters; they can commit fraud knowing full well that it is not easy to be found guilty under our laws within a short space of time and with unassailable evidence.

PERSONAL HABITS

The phenomenon of habit is one of the most difficult personal problems to overcome and this has a strong bearing on the persistence of fraud in our land. In fact, a HABIT has been described as a commodity which if the first letter (i.e. 'H') is removed, the person will still have 'A BIT' of it, and if the second letter (i.e. 'A') is pulled out, the person will have 'BIT' of it; even if the third letter (i.e. 'B') is removed, the individual who is already possessed must still have 'IT'.

Hence, although both the social and legal infrastructures can be rearranged while the corporate and professional bodies incorporate ethical codes in their modus-operandi, personal habits do not vanish overnight.

The consequences of these personal traits include the following:

• It is an open knowledge that certain individuals possess an endemic appetite for criminal adventures and this has nothing to do with their status in the society. Such individuals will steal if they have the slightest opportunity, coupled with an exit route. The problem, however, is that the exit routes are usually not fool-proof, hence the high profile fraudsters often have to contend with terrible disappointments, grief and regret if or when they are caught.

• Domestic grooming by parents is often late and even when it is early, it is lacking in the essential ingredients of moral rectitude and the dignity of labour. Worse still, many parents abandon this critical responsibility to the teachers and religious leaders in the hope that all will be well, only to be

disappointed at a later stage of adulthood, when the essential character of the child has already been irreversibly formed.

• The category of poorly brought-up children mentioned above are also the willing candidates for recruitment by professional criminals and fraudsters who want to extend their operational network or improve upon their striking force. At the end of the day, the larger society is the worse off.

• The influence of friends, peer groups and mentors is also a strong factor to contend with, even in cases where the parents have done their level best in the area of timely up-bringing of the child. Unless the moral up-bringing is really built on a very strong foundation, well brought-up adolescents and others can still be enticed and recruited into a gang of fraudsters. An interesting dimension to this is the fact that this category of people often come from influential or affluent homes and are often able to use their parental influence to slow down or impede investigation or even prosecution.

CLASSIFICATIONS OF FRAUD

In order to place our understanding of fraud in its proper perspective, it is necessary to analyze the profiles of fraudsters as well as their operational modalities in the banking environment. But as a starter we would like to give a working definition of a "fraudster"

For our current purposes, a fraudster is a person who commits fraud in order to obtain value to which he is not entitled. There are several categories of fraudsters depending on their mode of operation. We shall now attempt to put these categories in their proper context:

> Unless the moral up-bringing is really built on a very strong foundation, well brought-up adolescents and others can still be enticed and recruited into a gang of fraudsters.

Internal Fraud

If a fraud attempt is made on a bank by a staff of that bank, it is classified as an internal fraud. If it happens that the staff involved is unable to carry through the project alone as is often the case, he carefully recruits a team of collaborators to execute same and share the proceeds among themselves. This is the popular concept of "collusion" which is the shape that the majority of successful high volume frauds usually take; that is, collusion among staff of the bank. In such cases, there is always a mastermind or team leader who is the brain behind the project and who coordinates the activities of the group to ensure success.

External Fraud

This is the reverse of an internal fraud but experience has shown that it is not common for the obvious reason that you cannot overcome the various layers of internal controls which you do not understand because you are not in that system. Hence, the success rate is very low. Even collusion among outsiders does not record much success because the same handicap applies to all of them.

Internal and External Collaboration

This is the shape that most successful frauds take. In fact, there is a popular saying that although internal staff can successfully perpetrate fraud either in individual capacity or as a team, very few frauds can be successfully executed by an outsider without internal collaboration or assistance.

OPERATIONAL MODALITIES

As was earlier mentioned, a fraudster may choose to operate alone or organize an efficient syndicate around himself, depending on the level of complexity or sophistication of the system being targeted as well as the objective to be achieved. Hence, we have two scenarios to discuss: Sole perpetrators and syndicated frauds.

Sole Perpetrators

The sole perpetrator may be within or outside the bank but the essential ingredient is that he operates alone and also takes the entire booty if he succeeds and in the event of failure he sinks alone into the abyss of regret. The major characteristics of a sole perpetrator include the following:

• He is usually a staff of the bank. It has already been established that external sole operators are inconsequential and almost certain to fail.

• He is usually a junior member of staff such as cashier, bulk teller, clearing representative etc. who is performing a specific task in the branch, unit or department. Senior members of staff supervise the jobs being done by others hence they cannot be sole operators as they do not perform the tasks themselves.

• He is usually smart, bold and intelligent, with a clear and unambiguous understanding of his job function and where the loopholes exist. He has a good knowledge of the banks' operations manual as well as the "grey areas" where the manual is silent.

• He is often a long-tenured staff within the bank whom you would ordinarily vouch for his integrity, honesty and trust- worthiness, hence you will not suspect him in advance, neither would you gain any insight into his intentions through his demeanor.

• Frauds committed by this category of people are very difficult to detect, in fact, very often they succeed and go undetected while some are discovered after a long time.

• Even when they are detected, it is usually not on account of any error in planning or execution but due to sudden changes in their lifestyles which they could not conceal and which has attracted envy and anger from their colleagues who help to detect and expose them.

• Sole perpetrators often put several innocent people in trouble in the course of investigation as searchlight by management and security agents are beamed at the wrong targets.

Hence, considerable skill, patience and experience are required to detect sole perpetrators of fraud without undue inconvenience and hardship being visited on innocent and dedicated members of staff.

Syndicated Frauds: Organization

This is by far the most popular manner through which successful high volume frauds are consummated in the banking system today. For instance, it is almost inconceivable that a fraud of ₦100m could be planned and executed by an individual whether inside or outside a bank, no matter how highly placed and irrespective of his job function or level of intelligence.

• There is always a 'mastermind' who is the brain behind the entire operation. He chooses his agents and collaborators very carefully, whether inside or outside the bank. It is immaterial whether or not the mastermind himself is a staff of the bank; however, if he is an outsider then some members of his syndicate must be insiders.

Syndicated Frauds: Failure

Several reasons can be adduced to explain the frequent failure of syndicated frauds. These include the following:

• Since many people are involved, an error on the part of one person can railroad the entire plot and throw spanner in the works.

• If the amount involved is too large, which would obviously require the approval of senior management, an experienced executive might spot the unusual or unreasonable nature of the transaction and raise alarm.

• It is always the junior and inexperienced members of staff that are easily persuaded to join the

syndicate. Unfortunately, it is also the same category of staff that commit blunders or leave an obvious trail that exposes the team.

• Some of the syndicate members may be professional fraudsters who have already been blacklisted or declared wanted in several banks without their knowledge; hence they are immediately apprehended when they show up for a fresh operation.

• Technological advancement is gradually making it more difficult for syndicates to employ conventional methods and those who are not aware of these 'road blocks' fail woefully. Examples include GSM, close circuit television (CCTV) with events recording, electronically operated entrance doors, the regiscope, on-line signature verification and cheque confirmation etc.

• Usually, a mastermind could be any of the following

- A senior member of staff who is disgruntled or frustrated or who possesses innate fraudulent tendencies hitherto not put to use.

- A junior member of staff who commands respect among his colleagues and who is performing a key function.

- An ex-banker who understands the various processes and where the controls are weak.

- A generous customer with modest turnover but who is admired by the generality of staff.

- Walk-In-Customers without a visible business, vocation or profession but who make heavy lodgments in bank drafts into fixed deposit accounts without opening current account (this is unprofessional but some banks do not see anything wrong with it).

• Experienced syndicates often do a "trial run" with a small job before launching into the large scale fraud if everything goes well. The purpose of this is to test the potency of internal controls and confirm their view about the bank; an extensive research must have been conducted prior to the operation.

• Syndicated frauds are easier to burst than lone actors because the members are different human beings who may not be equally experienced or dedicated to the cause. As a chain is only as strong as its weakest link, it stands to reason that the success of a syndicate depends on the selection of members.

CONSEQUENCIES OF FRAUD

Successfully executed frauds have one thing in common: they leave indelible scars on the psyche of the generality of stakeholders in the bank; it is a scenario that is better experienced than described. Below are some of the common effects:

The Corporate Body: Lost Income

Since the ultimate objective of the fraudster is money or what money can buy, he is not usually interested in the stealing or conversion of physical assets or property. Even when he does this, he quickly looks for a buyer (at any price) to enable

him have access to cash which he then consumes or uses to acquire the assets of his choice.

As the physical cash in the vault of the bank has no colour or distinctive identification, it cannot be traced to the deposit of any particular customer. Banks are therefore, usually made to bear the full loss arising from the fraud committed against them, even if the customer is aware of the fraud. Hence, even if a customer's account is used to commit fraud, the bank still bears the loss, provided the fraud was not caused, induced or facilitated by the customer himself.

This amounts to a debit on the profit and loss account (or income statement) of the bank and represents lost income; whatever recoveries are subsequently made from the fraudster are also credited accordingly to income to reduce the earlier loss. If the cash is fraudulently collected across the counter it represents a decrease in physical cash available and also constitute subsequent decrease or debit to income.

The Government: Lost Tax Revenue

Since the amount of tax paid to the government depends on the amount of profit available, it stands to reason that less profit means less tax revenue for government.

The Shareholders: Loss of Confidence/ Dividend

The effect of fraud on shareholders is two-fold. The first is less dividend pay-out since the amount lost constitutes a deduction from distributable profit. The second effect is diminishing confidence on the board and management of the bank which will subsequently lead to a downward slide in the share price especially if the fraud is a regular occurrence in the bank. In due course, many shareholders will be inclined to dispose their shares which will in turn give rise to a glut of those shares in the market.

Customers: Decreasing Patronage

Although customers do not mark their money before taking them to the bank as earlier mentioned, they would still interpret a successful fraud as if their money has been stolen. They would be tempted to quickly move their hard-earned resources elsewhere for safety. In fact, a sustained fraudulent onslaught on a bank can give rise to a 'run' (i.e. panic withdrawals by several depositors).

Staff: Trauma

The traumatic experience of the generality of bank staff is better imagined, especially the innocent ones when a fraud goes through and police moves in. As is characteristic of the police during initial investigation, even innocent staff are often hounded into the station or even police cell for routine interrogation.

It is usually much later that the actual perpetrators are identified. This aspect of the investigation often results in considerable embarrassment, inconvenience, low esteem and loss of personal liberty, albeit temporarily.

Experience has shown that competent and confident staff members, who are treated in this manner despite their innocence, often look out for new jobs thereafter. In order to minimize such traumatic experiences and the aftermath of it, it is usually recommended that the bank's legal department should provide some level of shield or technical support to the generality of staff that will be under initial distress until the actual culprit is unmasked.

Regulatory Authorities: Surveillance

As a matter of procedure, regulatory authorities do not take kindly to frauds perpetrated in the banking system. Usually, they want to ensure that such cases are thoroughly investigated by the inspection or internal control department of the bank and the results communicated to them through the monthly returns on fraud and forgeries. The returns in question must reveal not only the nature of the fraud but also the individual actors and the part they played. If a member of staff is involved they also want to know what disciplinary action has been meted out to him/her.

Although the generality of banks are usually reluctant to make full disclosure, they are aware that they are contravening the regulations in that respect.

Law Enforcement Agents: Investigation

It is always the case that the police is invited to investigate a case of fraud in a bank, being the official organ of government entrusted with that responsibility. Sometimes, however, management is not interested in inviting the police, perhaps due to the disruptive effects of their procedures or to avoid publicity which is not good for the image of the bank. The aspect of it that banks avoid like a plague is the litigation or prosecution because of the negative public image. It is obviously cheaper to prevent fraud than to investigate it.

General Public: Bad Image

The stigma that follows a bank that losses a substantial amount of money to fraudsters is not a small one and the general public always has to make a choice between such banks and others that are considered 'safe'. Even competitors latch on the unfortunate or accidental circumstance to lure away both existing and potential customers.

The second part of this serial will focus on service failure and other manifestations of poor internal controls in a banking environment.

(* Chuks Nwaze is Managing Consultant, Control & Surveillance Associates Limited)

Aviation: Addressing The Fundamentals

* By Chris Azu Aligbe

Just a year ago, in our reflections on the Aviation Sector in the ZEQ Vol.2, NO.10 of April, 2007, we affirmed that inspite of a few reform related actions in the sector, Aviation suffered from the lack of sector-specific reforms.

Since then, although a new administration, the Presidency of Musa Yar'adua, came into being in May 2007, the situation has not changed. This is not peculiar to the sector. As with every sector of the economy, from petroleum, oil and gas, energy, education and health to housing, aviation is undergoing a pensive reflection and reassessment of the eight years of the Obasanjo administration. The objective, I believe, is not necessarily to identify culprits. Rather, it is, as the Minister of State for Air Transport, Mr. Felix Hassan Hyatt said, to move the sector forward.

No doubt, the Aviation Industry has its own good share of challenges and bewildering anomalies from the eight years of the past administration. Whether one is talking about the liquidation of the erstwhile national carrier, Nigeria Airways and the sale of its properties, the BOT for the new Domestic Terminal in Lagos, or the emergence of Virgin Nigeria, the deployment of the ₦19 billion aviation intervention fund or the Abuja Airport and other over forty concessions entered into in the industry during those years, each qualifies as a "thriller". The kind that Charles Dickens would refer to as "incredulous credulity".

• *MM2*

While these thrillers are not the subjects of this analysis, the aviation industry today is certainly a hostage of this past period. Two clear examples are, the Abuja Airport concessioned for US $10 million for twenty years and the BOT concessioned for twelve years initially and later extend to thirty-six years.

While the President has cancelled outright the Abuja Airport concession, the BOT, referred to as MMA 2 Lagos, is generating a lot of controversy that must be creating anxiety both for the operators/owners of the airport and investors.

Beyond the controversies trailing all the concessions, the most serious revelation that has emerged is that, most of the actions taken in the sector in the last eight or nine years, were not based on any Legal or Regulatory framework. Far reaching actions, such as the BOT, the emergence of Virgin Nigeria, the Abuja Airport and other concessions were carried out by political actors acting, either by themselves or, for a group, in most cases defying due process and transparency. Assessment of all the actions reveal that in most of the situations, the agreements that govern concessions and contractual obligations were either drafted by the beneficiaries themselves or the beneficiaries served as consultants to the government in drafting them. Hence, most of the concessions are skewed in disfavour of the government and the society.

The recent controversy between MMA 2 operators on the one hand, and Virgin Nigeria and Arik Airlines on the other, as well as between Virgin Nigeria and the government bring to the fore, the tremendous challenges confronting an industry whose vitally needed contributions to the economy

Without any fear of contradiction, one can say that a lot of sanity has returned to airline operations and a higher level of safety and safety consciousness now prevail.

is missing.

It is a fact that President Yar'adua has hinged the cardinal focus of his administration in the aviation sector on Public-Private Partnership – PPP. But there are fundamental questions needing to be resolved before any meaningful involvement of the private sector can sail through. These include;

• What is the legal status of all existing concessions when juxtaposed with the statute of relevant Agencies like Federal Airports Authority of Nigeria (FAAN)?

• Can private investors operate effectively and expect return on their investment with the existing framework of Legal and Regulatory void?

• How can new investments thrive within the present scope where most of the operating concessions have exclusive rights that permanently close out or hinder competition?

• Can the industry ever move forward without necessarily reviewing all existing concessions to bring them in line with new common frameworks?

• If not, how can such a review be made without irreparable damage to investment calculations of the present investors. Moreso, given the fact that if comfort is not created for present "real investors", new investment is unlikely to flow in?

• How can coming concessions be structured to avoid the emergence of monopolies that stifle free markets?

• How can new investments be best protected from political risks and interference?

• What will be the institutional machinery for conflict resolution without recourse to the courts?

• How comfortably can investments thrive in the sector without antitrust and anti-competition laws?

Answers to these and many more questions need mandatorily be given in order that investors and financial institutions can find the sector attractive enough to play in.

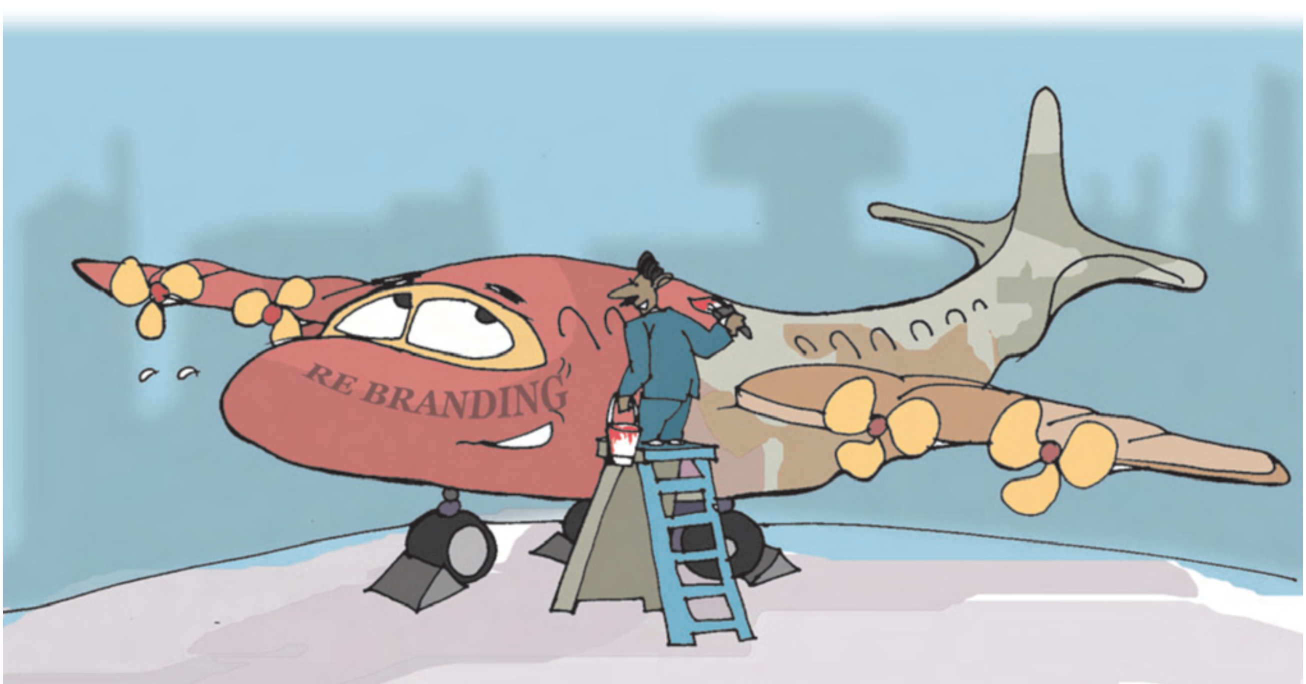
PRESENT OUTLOOK

An analysis of the present outlook will indicate that the major success achieved in the last dispensation is the coming into being of a credible and professional Civil Aviation Authority – NCAA.

The bunch of industry-returnee professionals, led by Dr. Segun Demuren, have no doubt reduced the anxiety of the flying public who hitherto shunned air travel on account of safety concerns after the air disasters of 2005/06.

As a regulatory body, the Nigeria Civil Aviation Authority has no doubt acquitted itself in the area of safety oversight and regulations. Without any fear of contradiction, one can say that a lot of sanity has returned to airline operations and a higher level of safety and safety consciousness now prevail. It is remarkable that no air disaster has occurred in the last two years.

The airport subsector remains the achilles heels of the industry. It is true that the Federal Government belatedly released an intervention fund to the tune of ₦19 billion into the aviation sector to address the deplorable and



• *Kano Airport*

safety-imparing states of Nigeria's four major airports – Lagos, Abuja, Kano and Port Harcourt. Unfortunately, the disbursement and utilization of the fund is now an issue of public hearing and investigations.

The Federal Airports Authority of Nigeria – FAAN, has twenty-one(21) airports under its management. Out of these, only two – Lagos and Abuja attracted serious attention in the last nine years.

Although, over 180 projects are ongoing at the airports ranging from resurfacing of runways to refurbishing of terminal buildings, it is inexplicable that hitherto bubbling airports, like Mallam Aminu Kano International Airport (MAKIA) Kano, Port Harcourt International Airport (PHIA), Port-Harcourt were literally abandoned and left to decay.

All attention appears to have been focused on Lagos as if aviation begins and ends in Lagos. Yet Murtala Muhammed Airport (MMA), the new Domestic Terminal (MMA 2) and the General Aviation Terminal – GAT did not fare well. The resurfacing of the runway in Lagos is behind scheduled completion. The International Terminal is choked and grossly inadequate for today's operation. Also, each of the two Domestic Terminals is inadequate for the present domestic passenger thruput. While MMA2 is generously spacious on the landside, and the waiting lounges, it is largely inadequate on the airside. On the contrary, the GAT where Arik Airlines has moved to is inadequate both at the check-in hall and the two hundred (200) seating capaciting waiting lounge. Baggage handing facility is non-existent. But on the airside it offers fairly comfortable parking bay.

When Nigerians were made to believe that Nigeria Airways was a problem, it was liquidated. When airlines started crashing, safety and, only safety, became our concern.

All the terminals therefore require one form of expansion or the other to correct the present obvious deficiencies.

One basic truth is that neither FAAN nor the Federal Government has funds to meet the daunting challenge of airports upgrade.

In the last two years, FAAN has been running on deficit as can be gathered from the Income/Expenditure profile released by FAAN Managing Director, Richard Aisuebogun.

For 2008, FAAN has a proposed balanced budget of ₦25.40 billion. Of this sum ₦24 billion is expected to be generated by FAAN while the Federal Government is to provide the balance of ₦1.40 billion.

However, a clear sighted evaluation of six international airports, Lagos, Abuja, Kano, Port Harcourt, Maiduguri and Enugu (recently approved by the President for upgrading to international status) will show that a budget of about ₦80 billion will be needed to bring them to acceptable international standards.

The President has said the nation cannot afford that and has directed the Minister to seek Public Private Partnership (PPP) arrangements for all the airports.

Towards the implementation of the President's directive, the Minister set up a "Committee on Upgrade/Development of Airports in the country". The 12-man Ministerial Committee chaired by a seasoned aviation professional, Engineer Angus Ozoka submitted its report by the end of March, 2008.

• *Air traffic control room*

The close-to 200 page report is a compendium not only of the sorry state of our airports and their infrastructure, it is also a bold pointer to the direction forward.

The report contains several recommendations on areas feasible for Public Private Partnership (PPP).

Inspite of all the well intentioned actions taken so far, the fundamental challenges in the industry still persist. This reflects an absence of a holistic approach to the problems of the industry.

When Nigerians were made to believe that Nigeria Airways was a problem, it was liquidated. When airlines started crashing, safety and, only safety, became our concern. Today airport infrastructure is our critical challenge. Why, one should ask, have we not learnt over the years that all subsectors of the industry are intricately webbed together in a symbiotic relationship? For example, both airports and airlines come into being because of the existence of sufficient air travelers to sustain them. And their growth depends on the growth in air traffic. The higher the thruput, the higher the revenue an airport generates. In essence, airports revenue is fundamentally a function of the volume of passengers and the number of flights. Unfortunately 80% of the variables that affect traffic growth are external to airports and airlines.

This is the crux of the challenge. With twenty-one airports in Nigeria, the total passenger volume is only 8.4 million with MMA (International and Domestic) accounting for 3.9 million and Nnamdi Azikiwe International Airport Abuja (International and Domestic) 1.9 million.

This figure is not likely to grow dramatically as the average growth rate since 2001 has been around 3.2%; from 6.63 million passengers in 2001 to 8.4 in 2007.

This growth rate fall by far behind the country's growth rate of 7%.

The airports therefore, present a difficult nut for investors to crack. As at date, only Murtala Muhammed Airport is said to be viable while Abuja, Port Harcourt and Kano are said to be potentially viable.

Enugu and Maiduguri airports offer little or nothing, at present, to potential investors. While Maiduguri offers more prospects, Enugu's domestic traffic is below 200,000 passengers as against Maiduguri's 325,000 as at 2007. Although, one must keep in perspective the fact that Enugu as an international airport will be sitting within one of the six traffic emporia in the country.

Also, while a measure of improvement has been achieved in airspace management and provision of weather information services, we are yet to address them with the seriousness they both deserve.

The much needed Total Radar Coverage – TRACON for the country recognized and started in 1996 by Air Marshal Nsikat Eduok, then Minister of Aviation, is still lingering on. This is inspite of its critical role in airspace management and the series of air disasters in recent time. This sad situation has again been brought to the front burner by the still missing Beach Aircraft from our airspace. The National Airspace Management Agency is still poorly funded and its technical competence has been negatively impacted on by politically motivated removals and appointments of staff.

This situation becomes more disturbing when we realize that the world is gone into satellite communication management of airspace and weather forecasting. In Africa, countries of the Southern African Development and Economic Community are already vigorously working on joining the global satellite network for airspace management.

As at today, the standard of our weather forecasting has remarkably improved with 22 weather stations at all airports relaying instant weather situation to the Control Towers for timely briefing to Pilots and airlines. In the next months, Doppler Weather Radars to give accurate reading regarding windshear and wind movements round the country will be installed.

Though NIMET has quite some experienced technical and professional staff, funds are required not only for vital forecasting equipment but also for continuous training and retraining to meet the challenges of a rapidly advancing technologically driven industry.

To some extent, strides have been taken in the airline subsector by operators like Arik, Virgin and Aero, basically, in two directions; route expansion where Arik leads with nineteen (19) domestic route network and in the order of new equipment totaling thirty-four between them.

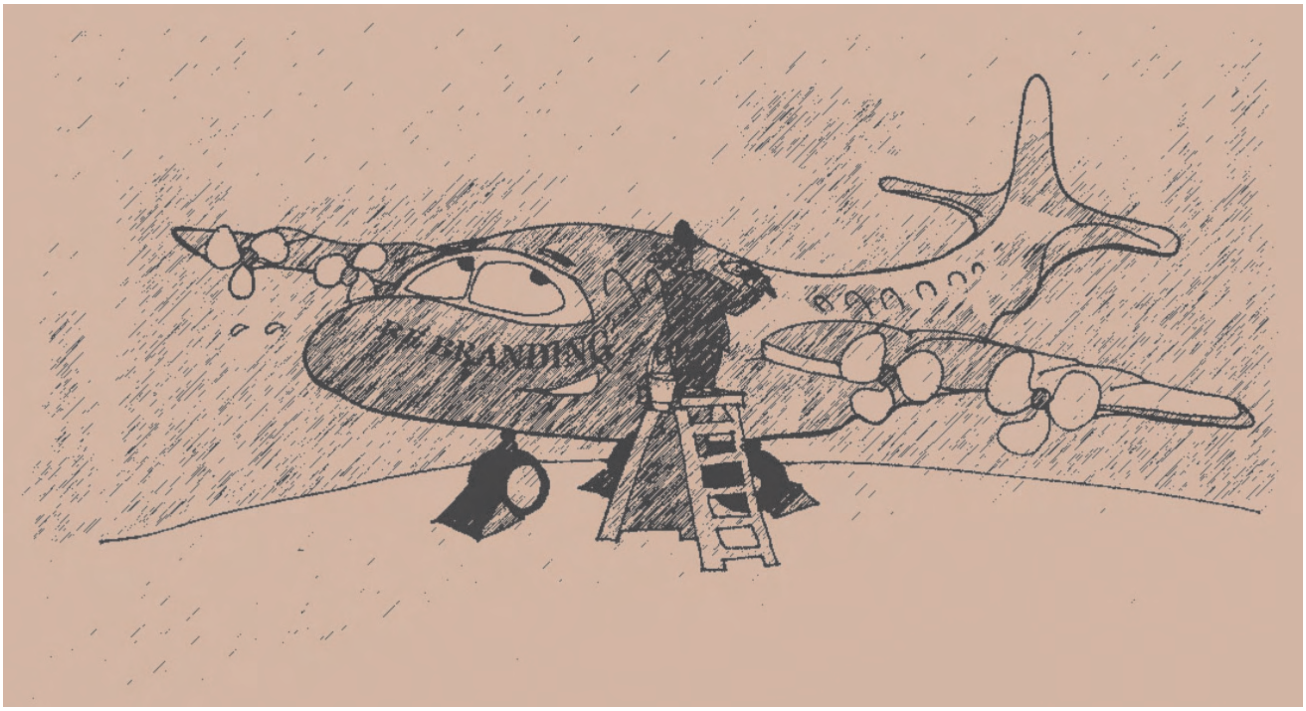
However, the state of financial health of all the airlines is still a major concern to the industry. All of them are debtors to varying degrees. Operational level is not very high and projected growth rate is not very significant. The consequence is that the operational levels today are most unlikely to drive significant airport development or growth. This will likely imperil the coming concessioning or Public Private Partnership (PPP) as is being proposed by the government of the day.

It is therefore clear that unless ingenious strategies and policies are adopted before going ahead with the policy to concession and evolve Public Private Partnership – PPP platforms, we may set into motion another vicious circle of uncoordinated efforts.

COPPING WITH THE PROBLEMS

As has earlier been pointed out, a lot has to be done in the area of policy. Unless, and, until there is in place Legal and Regulatory frameworks to underpin all concessions and Public Private Partnership (PPP), existing and those to come, all investments are likely to be imperiled and fruitless.

Also, to ensure that airports are effectively brought to the level where they make the expected contributions in the nation's match to 2020, their management must be decentralized, FAAN should still hold the government's equity in the airports, exercise oversight functions and provide common services like security. It should however, be structured into a Holding Company in order not to hamper the management of airports by concessioneers. It will be very critical to the sur-



vival of airports if concessions are limited to airports or group of airports rather than making them national in scope.

Also, since airlines are the drivers of airports, the government needs to be bold and muster the will power, to;

- further liberalize the airspace through open skies, multiple designations, open-minded entry policy which can start with UK, Dubai, West Africa etc.
- movement from a single hub policy to zonal hub policy reflecting the existing traffic emporia in the country and their destinations profile
- actively engage in the establishment (not running) of a new "real national" flag carrier for Nigeria which will actively compete in the global setting and thus reduce capital flight as well as return hope to Nigerian passengers. Kenya Airways offers a model for us.

In our march forward to 2020, if we do not make clear and unambiguous serious efforts to upgrade, and keep functional, the College of Aviation Technology (NCAT), Zaria, to churn out vitally needed technical manpower for the industry, we will pay dearly either through capital flight or through retardation due to manpower. The present effort by Virgin Nigeria to train new pilots and engineers for its services is the right way to go. But in addition, an aviation manpower development fund must be put in place.

There is no doubt that the major problem of the industry is finance. Our banks are stepping out and there are international financing institutions ready to come. But for them to come in, Legal and Regulatory frameworks, transparency, due process and clarity about sources of investment funds as well as guarantees of sound corporate governance are critical.

Nigerian banks are beginning to fund aviation but one very clear thing is that they are yet to come to terms with the fact that they need expert advise which exists in the aviation industry rather than in the banks. They are presently "suffering" from this omission in the financing they have been involved in, in the sector.

They are committing more time, manpower and other resources in making sure that they recover the funds they injected in the sector.

All said, the future has a lot of hope and potential. One only hopes that we can move beyond potentials to actuals; the long standing bane of our national development.

(* Chris Azu Aligbe is Chief Consultant, Belujane Konzult)

Maritime Infrastructure:
The Pivot for Sustainable Development

* By Elaine Delaney

Rome was not built in a day, so the saying goes. Equally, the rebuilding of Nigeria's infrastructure is a Herculean task. Ancient Rome was a megalopolis in its time, building a vast and intricate network to support the highly urbanized populace, a thousand years later after the fall of Rome, many of these roads still exist across Europe. The creation of this vast network is accredited as one of the major contributors to the power and influence of the Roman Empire – making Rome the centrifugal point of trade as supported by the "All roads lead to Rome". The Roman government, as early as 500 BC, recognized that the sprawling populace required a supporting infrastructure in order to solidify its position as the centre of civilization. As a result, the city of Rome was served by eleven aqueducts spanning over 350 kilometres, supplying fresh water to the city to support agriculture and the industrialization process.

The Romans developed a complex sewage system whereby by 100 AD individual homes were linked to the system by underground channels. The "Great Sewer" developed by the Romans also served to protect the agricultural sector by insulating the topsoil from heavy rainfall. The importance of infrastructure to trade is therefore not a new phenomenon nor a fad: the fundamental importance of infrastructure has been recognized since ancient times. If Nigeria wants to maintain herself as the powerhouse of Africa and become the 12th largest economy in the world as predicted by Goldman Sachs, she needs to ensure that the basic infrastructure is in place. Having previously examined the issues surrounding power and inland transport, we turn our attention to the deficit of port infrastructure that plagues the 6th largest producer of oil and which traverses every facet of social, economic and political fibre of Nigeria.

When in Rome, do as the Romans do

When the Romans conquered Britain in AD 43 it was not merely with swords and footsoldiers: it was with bridges, ports and roads that they imparted their cultural superiority. Military might is one thing, but colonialisation includes implanting a complete footprint upon the conquered nation. Nigeria is testament to such as demonstrated by the colonial influences upon her landscape: the conquering nation may have pillaged the country but in return created a basic infrastructural foundation that can be leveraged as a platform for development. Sadly, since the democratization of Nigeria, successive administrations have failed to catalyse on the initial framework afforded to them. Esssentially, we are looking at a blank sheet scenario, whereby every aspect of infrastructure ought to be examined from scratch. This poses both opportunities and challenges, as the lack of legacy assets creates an opportunity to employ the best in class approach whilst the cost of such may be prohibitive. It is easy to lament on Nigeria's woes, given the depth of human and natural resources, it is far more difficult to devise an implementation plan to engage such appropriately. Nigeria is a land of contrasts, from its landscape, to its people, to its poorly distributed wealth; Nigeria is wrapped in puzzle wrapped in a mystery, wrapped in a conundrum. However, the enigma that is Nigeria is rapidly evolving: the reforms that trailblazers like Charles Soludo have put in place have set the country on what is, hopefully, an irreversible path of progress. Inflation is down, the currency is stable, the capital markets are deepening, the reserves are strong, democracy is assured; all of these factors conspire towards creating Africa's powerhouse. What remains to be seen is how the infrastructure deficit is going to be repaired to make Nigeria Africa's Roman Empire.

In hot water

From ship to shore, the problems plaguing Nigeria run deep. The ability to transport goods and services across the terrain can only be possible with a developed port system supported

Trevi Fountain, Rome, Italy

Lagos Port, Apapa.

by a matrix of distribution channels. Ports represent the critical interface between land and sea and act as Nigeria's gateway to the world. With over 99% by volume and 95% by value of Nigeria's trade being seaborne, against a global average of 35%, the importance of ports to the country's economic viability speaks for itself. The 800km coastline is unarguably a valuable natural asset that can be leveraged to propel Nigeria away from the Third World country shackles. Being a net importer across almost all consumer goods places undue foreign exchange risk upon the nation and robs local industry of the opportunity to service local demand. Trade barriers are reducing and as globalization continues to drive markets, the time is ripe to examine how Nigeria can play a greater role in global trade. Infrastructure issues are correlated: without an adequate power supply, local industry cannot compete effectively; without adequate roads, goods cannot be transported competitively and without adequate port infrastructure, Nigeria cannot export optimally. This interwoven tapestry of infrastructural requirements begs for a cohesive approach to integrating the country's national assets.

Looking back

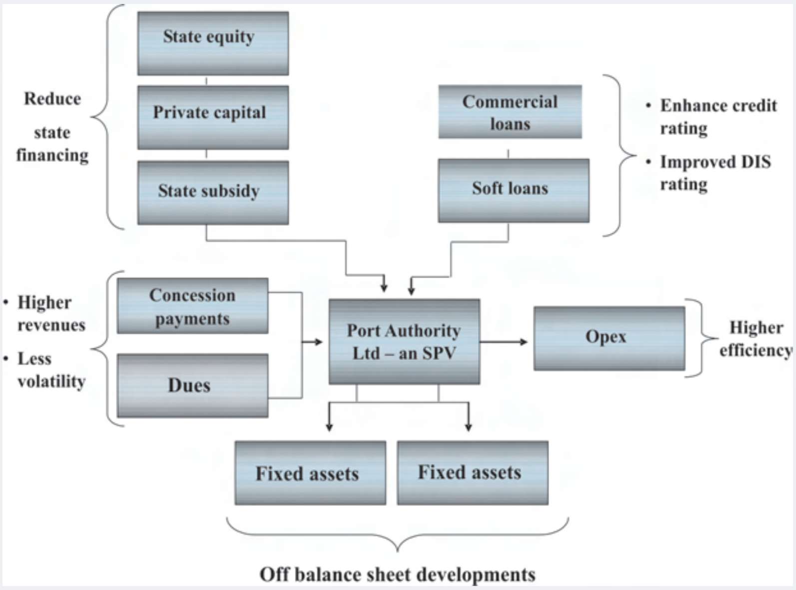
The development of the ports in Nigeria stretches back to the early 1900s, with the arrival of the first mail-steamer, S/S Akoko, to Lagos in 1914. The first four deepwater berths at Apapa commenced construction in 1921 and were further extended downstream in 1948. 1913 saw the launch of the Port Harcourt port driven by the discovery of coal in Enugu with a connecting rail line soon following. Port development globally has suffered from a lack of forward-looking thinking and Nigeria has been no exception to the rule. Different government bodies were responsible for different aspects of the ports, depriving the ports of a cohesive foundation. In order to address the fragmentation, the Nigerian Ports Authority was established by the Ports Act of 1954. The Act made the NPA responsible for the operation of quay facilities, maintaining harbours and approaches, dredging, provision of navigational aids and regulatory oversight of all aspects of the ports. The first ten years of their operations saw a modest but laudable expansion programme of Apapa and Port Harcourt, with the addition of six berths of 943m and four berths of 506m respectively. Progress stalled, however, with the outbreak of the civil war in 1967 leading to the closure of Port Harcourt to foreign traffic and the requisition of previously private ports at Warri, Burutu and Calabar. The mass importation of heavy wartime goods placed immense strain on the sole functioning port to the extent that an armada of cargo plagued the port post-war. The government's response was to reconstruct and recommission Bonny, Calabar, Lagos and Port Harcourt ports. However, the government instigated a second armada, the infamous "Cement Armada" by placing an order for 20m tons of cement to be delivered over a 12 month period into a set of ports with total capacity of 6.5m tons of general cargo. The result: over 450 ships queuing for periods of up to 180 days to discharge. The response: the building of the Tin Can Island port, Warri and Calabar. The additional port facilities went some way towards alleviating the pressure valve only to be faced with a significant downturn in the economy. The 1980s oil price collapse put stay on infrastructure spending across the board. Ports suffered two-fold, the decrease in government spending was coupled with a decrease in import/export activity, threatening the economic viability of the entire port system. NPA was thus "commercialized" in 1992 to act as a profit-making venture without governmental support. Attracting private sector investment in light of the government ownership and control proved an insurmountable task at the time. Merely decreeing that the NPA should be commercial is wholly inadequate to achieve such. Private sector monies are particularly averse to poorly managed, "bottomless pits" that are subject to extensive governmental intervention. An entire supporting framework needs to be in place in order to ensure the viability of the project. That is precisely what the government sought to undertake in 2004.

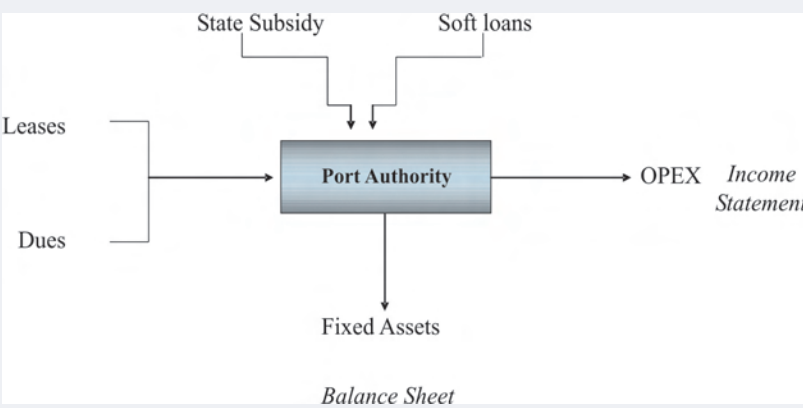
The tide is changing

Port sector reform did not lack for ambition: the government sought to undertake one of the largest concessioning programs in the world ever. Within two years over 20 long-term port concessions had been awarded with six more in the pipeline. Supporting legislation had been proposed in line with the recommended reforms of the Haskoning Study. This study was commissioned at the end of military rule by the National Council for Privatisation, funded by the Public-Private Investment Advisory Facility. The Dutch maritime advisory firm and the largest port development consultancy in the world, Royal Haskoning BV were mandated to undertake the analysis. Central to the failings of the Nigerian ports, was the extent of centralization that characterized the sector. All key decisions were taken by the President or the Ministry of Transport, effectively rendering the NPA inept. The authority that did remain with the NPA was its ability to set its own tariffs and given the constraints placed upon it, had little incentive to increase efficiency and instead merely increased tariffs to meet budgetary requirements. At the time of the Haskoning Study, Nigeria was characterized as one of the most expensive ports in the world and furthermore, one of the slowest; a major handicap to the 6th largest producer of crude. Nigerian ports were plagued with corrupt practices, excessive charges, an unproductive workforce and lax security for cargo. The Study examined all the options available to restructuring the sector and concluded that the "landlord model" would offer the optimal approach to rejuvenate the sector. The landlord model segregates responsibilities between the public and private sector. The former undertakes regulatory aspects, planning and owns the underlying port infrastructure whilst the latter will operate, build and own the superstructures and operate the terminals, hence the name, landlord model. The Study put forward four key recommendations for the government to adopt:

1. The Federal Government of Nigeria should be responsible for the development of mari-

Tin Can Port Apapa, Lagos.





time policy through the Ministry of Transport.

2. The NPA should be subdivided into different autonomous authorities by geography.
3. The operational and servicing aspects of the ports should be undertaken by the private sector.
4. Concession contracts should be the preferred methodology to manage the interface between public and private.

Portable structures

The responsibility for development of maritime policy vested with the FGN and Ministry of Transport should encompass all aspects of the framework required to entice private sector participation, from the regulatory to the economic to the institutional; every facet of the framework should be couched within a larger overall transport policy. Hinterland infrastructure should also fall under the same authority to ensure that a comprehensive approach to the port development is achieved. The supporting road network, the pipelines, railways and waterways that all act as supporting arteries to the port are critical to ensure that a port's operations are seamless. Emancipating the NPA by geography should create greater transparency and accountability; creating several streamlined organisations that will be operationally and financially more lean. Each subdivision should be held responsible for planning and developing the port infrastructure, owning and concessioning the land, implementing tariffs and providing supporting marine services. Terminal operations, cargo handling, warehousing, towage mooring and bunkering would be the responsibility of private companies. In addition, the private operator would be required to invest in port superstructures and provide maintenance of vessels for nautical-based services. Shippers should undertake direct contracts with the concessionaires, thereby paying the operators directly without the need for the port authority's involvement.

Monies flooding in

In December 2004, the Bureau of Public Enterprises appointed CPCS Transcom as the legal, restructuring and concessionaire advisors to propose a legal and regulatory framework, formulate the restructuring process, prepare the concession plan and assist in the bidding process and subsequent negotiations. The mandate was further widened to provide technical support to the Presidential Task Force on the Ports Reform. The concessioning programme was one of the most successful of its kind in Nigeria, executing over 20 contracts and succeeding to conclude on negotiations with the labour unions. AMP Terminals, owned by the AP MØller-Maersj Group, competed with 26 other bidders to secure the 25-year contract for the Apapa container terminal for over US$1 billion. It is believed that over US$300 million will be spent on capital expenditure. AMP Terminals are required to invest in new cargo handling facilities in order to increase the overall capacity.

Harbouring poor practices

At its worst, 29 Nigerian government agencies are involved in the inspection and clearance of goods. This is clearly sub-optimal, as in reality there should be no more than four agencies involved at the ports: the NPA, Customs, police and the State Security Service. The additional 25 operators have their status often enshrined in law and it is therefore a cumbersome task to repeal such in order to remove their vested powers. Undertaking such reforms is a prerequisite to the successful engagement of the private sector. No reform is complete without an overhaul of Customs itself. Endemic corrupt practices prohibit the efficient and timely movement of goods, further exacerbating the high transactional cost of shipping into and from Nigeria. Customs clearance issues will also need to be addressed as the current regime is unsustainable for a globally competitive Nigeria. Personal experience has taught me the high cost of clearance, the lengthy delays and the acts of pilferage that accompany importation to Nigeria. The government has set in motion a range of reforms including a Presidential task force and a "cleaning shop" exercise that saw the dismissal of over 90 senior Customs officers. The extent of the problems frustrating the customs and clearance processes necessitate a complete overhaul of the system, with the major thrust driven by the Government. Nigeria's global competitiveness depends on such and the efforts made thus far should be both magnified and accelerated.

The port of kings

Ports have evolved from a labour-intensive industry to a capital-intensive one, given the move towards increased containerization. Containerisation has brought down the costs of cargo handled but requires deeper pockets to meet the increased capital costs associated with specialized terminals, gantry cranes and the underlying supporting infrastructure. As the containers grew, so did the ships and naturally the ports to service same. In order to accommodate larger vessels, ports must be built with deep water in the approach channels and at the berths. Cargo-specific terminals need to built in order to efficiently manage the different properties of their wares. An ideal port should be flexible enough to handle a vast array of goods, from bulk to containers, vehicles to general cargo; each terminal will have to meet specific requirements. Each port is individual, reflecting the nature of trade that passes through her waters. Competition is intense amongst ports, Hong Kong competes with Singapore, Rotterdam with Hamburg; the key differentiator in the cut-throat world of ports is the investment made in facilities. Nigeria loses out on many occasions to her neighbours, even for goods destined for Nigeria because of the poor state of port facilities. Given Nigeria's

Singapore is the largest port in Southeast Asia and one of the busiest in the world.
It is located at a major focal point of international shipping and air routes and has long been an important center of transport and communications.

Port of Rotterdam, Netherlands.

geographical positioning, her abundance of resources and inland waterways, there is no natural barrier to Nigeria becoming the destination of choice for shippers, subject to adequate investment in her port facilities.

Leapfrogging ports

Typically, ports can be divided into four major groups: small local ports, large local ports, large regional ports and regional distribution centres. Small local ports, as their name suggests, are small ports serving local needs, accommodating small ships and are generally found in emerging markets or rural areas of developed countries. As the volume of trade grows, investment in ports becomes economic leading to large local ports with dedicated facilities. High volumes of deep sea cargo will ordinarily be channeled through a large regional port, particularly for high volume commodities such as coal, grain and oil. Rotterdam, Hong Kong and Singapore are clear examples of regional distribution centres that are equipped with dedicated facilities to handle a vast array of cargo. Unit load terminals serve timber, iron, steel and roll on – roll off cargo whilst homogenous bulk cargoes e.g. grains, iron, coal, cement and oil are catered for by purpose built terminals. Each centre has world-class trans-shipment facilities and can handle extremely large vessels. Information technology has begun to play an increasingly important role at ports; shipowners have been effectively converted into value-added logistics service providers. Terminal operating systems, intra-port communications and data systems increase the overall efficiency of ports and lowering the costs to shipper. Electronic transmission of customs documents, manifests and bills of lading has reshaped the shipping industry. The relentless onward march of progress driven by information technology should form the blueprint for Nigeria entering the world stage as a serious contender.

All aboard

Ports are not merely of interest to government and commerce; they also act as an attractive investment to investors, if structured appropriately. The conditions to foster a supportive investment environment include:

1. High rate of container trade growth relative to GDP
2. Terminal's trade from a local hinterland less than 500km from the port
3. Limited regional competition for trans-shipment
4. Freedom to adjust prices
5. First right of refusal over any new berths as they become available
6. Liberalized employment market

The key characteristics of port investing are similar in nature to those of most infrastructure projects, namely:

– Significant economies of scale and network economies can arise

– Investment costs are "sunk" leading to exit barriers and a natural bias towards monopoly assets

– The time horizon is particularly long, with an extensive planning and design period, protracted payback period and a long economic lifetime.

– Profitability is at least in part indirect, given that they form part of collective capital, which acts as a location factor for business activities

The conditions are conducive for a renaissance within Nigerian ports. Attracting risk capital in the current environment for such projects is not too daunting a task. The global credit crunch has taught the investment world the real value of diversification. The benefits of a port investment, in addition to any direct profits achieved, are both macro and microeconomic. The microeconomic benefits accrue to the shippers via cost reduction whilst the macroeconomic benefits include the catalytic effect of increased employment. Under Keynesian theory, this will then have a multiplier effect, increasing production, earnings and consumption.

Choppy waters

The interplay between the shipping industry and ports cannot be ignored. The shipping industry is the third largest sector globally and is cursed with significant cyclical swings. Recent times have witnessed soaring resale values for ships, a healthy newbuild market and shipowners commanding ever increasing freight rates. The money men soon followed, with a host of shipping IPOS. The significant influx of investment has historically created a boom and bust market that is highly fragmented by type, owner and use. The shipping game has been often compared to that of poker; whereby probability, strategy, psychology and luck are all crucial to success. Only the stakes are much higher, with ever increasing vessel size comes ever increasing price tags with the potential to further exacerbate the swings and roundabouts of the shipping trade. The mistakes of the past need to be avoided so that the planning for port infrastructure is not subject purely to the vagaries of oil price alone.

Poseidon meets Olukon

Nigeria's overwhelming dependency on oil is at the expense of all other industries. The stranglehold that oil holds over the economy creates an uneven playing field whereby the limited port facilities that are available are biased towards oil imports and exports. As growth in the non-oil sector has started to outpace growth in the oil sector, the time is ripe to set in motion the architecture that will rejuvenate the real sector and accelerate Nigeria's engine of growth. The starting point for this is the basic raw underlying infrastructure that acts as an enabler to business, creates a framework for progress and removes any competitive disadvantage that Nigeria needs to overcome in order to become truly relevant on the global stage. The engines have started; in order to progress at top gear requires that a basic supporting platform be in place. The role that ports will play in fuelling this growth curve should not be overlooked. The importance of the sea has been recognized and worshipped since ancient times. In Roman mythology, after the defeat of their father Saturn, his three sons carved the world into three: Jupiter took the sky, Pluto the underworld and Neptune the sea. As god of the sea, Neptune wielded a three-prong trident which gave him immense powers to shatter rocks, create and subdue storms and cause earthquakes. The power of the sea and waterways to Nigeria's economy is similarly immense but only requires mere mortals to manage.

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Neptune was the name that ancient Romans gave to the Greek god of the sea and earthquakes, Poseidon.

Helping Build Democracy That Delivers

Why is the business community important to democratic development? In a democracy, all parts of society must count, and business people too must be free to express themselves politically. Often a majority of legitimate business interests are not represented in the political process. This is because business does not operate as a single entity. While a handful of powerful business elites and cronies may monopolize access to the government, smaller firms, competitive firms, and informal entrepreneurs will have very different interests (see figure 1).

This broader business community must become engaged in the reform process to ensure that fair competition prevails and business involvement in politics is open and clean. Fair economic competition strengthens business diversity and pluralism, which creates a strong context for healthy political competition and checks on government power. Democracy flourishes in countries with open economies; equal opportunity; and responsible, prosperous businesses.

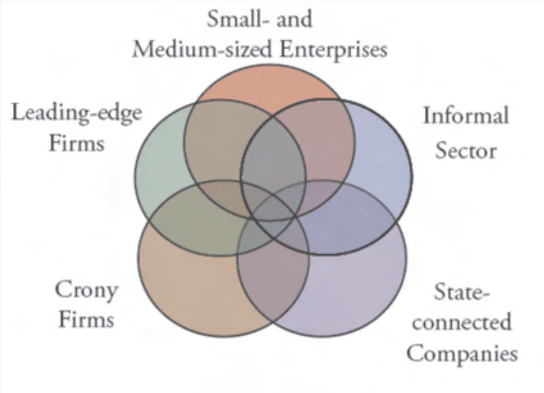

Figure 1. ***The Diversity of Business Interests***

Democracy that Delivers: Improving Governance

In many countries where democracy has made inroads and elections have been held, the majority of the population has yet to experience tangible improvements in their lives. In these countries, many may question the practicality of democracy or acquire a distorted understanding of what democracy really entails. They may become susceptible to populist or authoritarian appeals that are camouflaged as democracy. The best way to improve the lot of these people is to achieve greater reform and more complete democracy, not to compromise political or economic freedoms. The paramount need is for better governance. While elections create a basis for popular representation, a working, responsive government is the sine qua non for improving people's lives.

Similarly, in many countries where markets have been substantially liberalized, the majority of the population has yet to benefit from growth. The solution is not to roll back liberalization but to complete reforms by putting in place market institutions that promote responsible behavior and protect the economic freedoms of all. Citizens must be given the opportunity to participate in markets, to have their economic rights protected, and be part of the legal economy. These reforms depend on good governance.

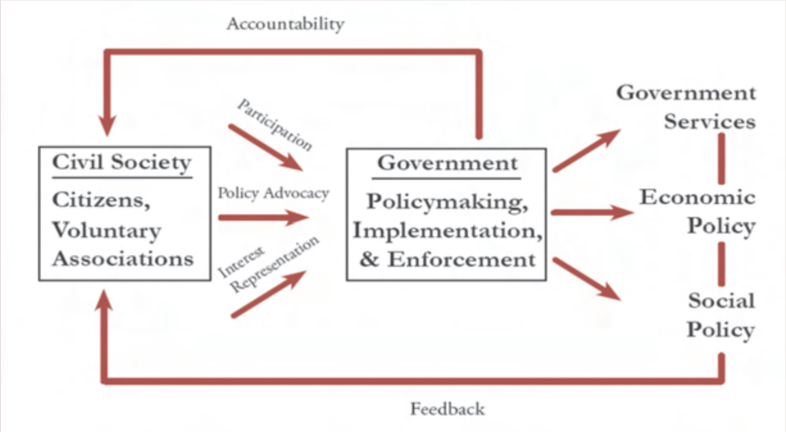

Figure 2. ***Democratic Governance Process***

HOW DEMOCRACY MUST DELIVER

To make a meaningful difference, democracy must deliver in three ways (see figure 2). First, the government must produce outputs in the form of social services, security, justice, and so on. For example, the government is expected to provide schools, roads, police, and vaccinations. Second, the government must facilitate economic growth to improve standards of living. This does not mean the government must direct the economy. Rather, it should uphold market institutions, create a positive investment climate, and allow the private sector to flourish. Third—and this distinguishes democratic governments from other forms of government—the government must be responsive to public needs and demands. This means, in addition to legislating policies that address public concerns, the government must follow through on these commitments. Proper follow-through depends on both an administration that is capable of implementing its policies as well as mechanisms for the public to hold the government accountable for its commitments.

For democratic governments to deliver outputs and policies that respond to real public needs, the capacity of the state and civil society must be augmented. Often, a state fails to perform its basic functions due to a tangled legal framework, the excessive discretion granted to officials, and the degrading influences of corruption on administration. The quality of a state is also shaped by the strength of civil society. A vigorous civil society can direct the state's focus to areas of greatest public interest and prevent the extension of state authority in areas that stifle private freedom and initiative. Civil society organizations form crucial links between society and government. They channel citizen participation into the political process, providing the government with information about what it should be doing. They also monitor the government and channel information back to citizens, helping to hold government accountable and keep it responsive to citizens' needs. Government can also be more effective if it entrusts certain tasks to the private sector and concentrates on improving its own performance.

Economic Underpinnings of Democratic Development

Democratic development requires progress on three levels: individual freedom, independent associational life, and institutions. Freedom allows individuals to develop their potential and shape their own destiny. Independent associations form the lifeblood of pluralism, necessary to healthy interest representation and restraints on authority. Institutions safeguard rights and maintain the processes of nonviolent, participatory decision-making and free and fair competition. When most people think about these levels within democracy, examples such as civil liberties, political parties, and elections come to mind. But in addition to these and other political essentials, there are also essential economic freedoms, associations, and institutions that underpin democracy.

On each level, the state of a society's economic life influences the quality of its political life (see figure 3). Economic freedom amplifies political freedom. An open economy with a dynamic private sector permits pluralism to flourish. Market institutions, like democratic institutions, promote the values and practice of fair competition governed by a common set of transparent rules.

Where economic freedom, an open economy, and market institutions are absent, the consequences for democratic development are severe. Autocrats expropriate the property of political opponents. Cronies of political elites dominate access to government resources and policymaking. Corruption distorts policy outcomes while corroding rule of law and legitimacy. State control over the economy renders citizens dependent and officials unaccountable. All in all, opportunities and resources for independent political action dry up.

Political freedom cannot be grasped when economic freedom is out of reach. Thus, successful democratization depends on economic reform on multiple fronts, including the creation of market institutions, the advancement of informed debate on economic policy, and the empowerment of the private sector. A competitive, responsible private sector in an open economy provides an important counterweight to the state, injects dynamism into political discourse, and makes possible a vibrant civil society.

This chapter explains the essential linkages between democratic development and economic development led by the private sector.[1] It analyzes democracy in its component parts, describing the economic requirements for each component. The chapter concludes with the ingredients of a plan for action.

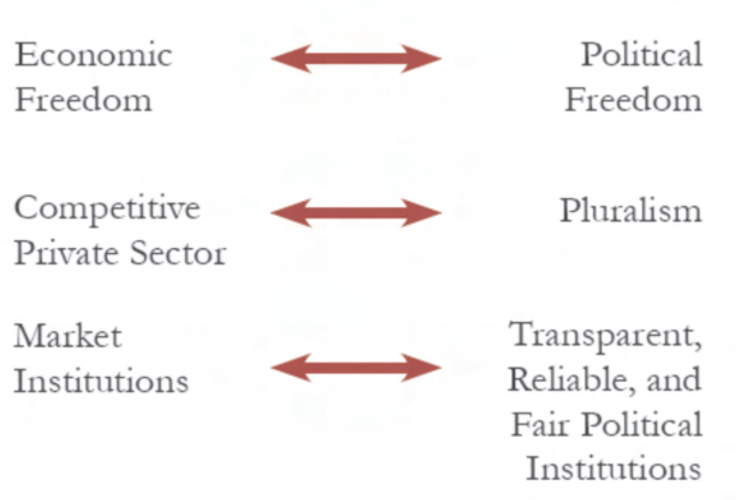

Figure 3. ***Economic Corollaries of Democracy***

THE COMPONENTS OF DEMOCRACY

Recognizing that democracy is a multifaceted concept and that the quality of democracy matters, Larry Diamond and Leonardo Morlino have constructed a framework for evaluating the quality of democracies on eight dimensions.[2] Their framework, designed with consolidated democracies in mind, has relevance for countries undergoing democratic transformation, too. The following section outlines how the components of a market economy intersect with and reinforce the components of democracy.

Rule of Law – Essential to the maintenance of both democracy and a market economy, the rule of law protects rights and guarantees commitments. Whether in economic or political life, the rule of law preserves individual autonomy vis-à-vis the state and reinforces the social capital needed to make open societies work. "Both economic reform and democratic consolidation encompass the creation of stable expectations and rules about behavior," which provide guarantees to investors and competing political groups.[3] Investors and entrepreneurs have often been ardent proponents of the rule of law and the institutions that sustain it. Once created, these have become available to all citizens for the defense of their rights.

Competition – Robert Dahl has argued that competitive politics requires a pluralistic social order, which in turn requires a decentralized economy.[4] This implies at a minimum that economic power be dispersed beyond the state sector, that oligopolies be kept in check, and crony business interests be denied preferential access to the government. Market economies, by permitting and encouraging open competition, stimulate greater pluralism and regular renewal. They therefore complement the marketplace of ideas and generate more sources of information.[5] Moreover, a market economy, or capitalism as Peter Berger describes it, "provides the social space within which individuals, groups, and entire institutional complexes can develop independent of state control…. Capitalism creates space and opportunity for civil society."[6]

Conversely, statism crowds out private sector competition and makes "community as well as individual advancement dependent on control of the state."[7] This can lead to unhealthy, unproductive, and even violent competition over state resources. Democratic competition, like market competition, must be open and legitimate, governed by universally applicable rules of the game with regard for the rights and property of individuals.

The Daniel Pennock Democracy School, Penssylvania.

Democratic competition, like market competition, must be open and legitimate, governed by universally applicable rules of the game with regard for the rights and property of individuals.

Participation – Participation by citizens and civil society organizations brings meaning and life to democracies. Business groups, like other social and economic interests, have a right and a responsibility to participate in policymaking, debate, and other political activities. Business associations, as a key component of civil society, participate by representing business interests, sharing information with government and the private sector, educating the public on economic issues, and making policy recommendations.

In many countries, oligopolists or cronies abuse their access to government to obtain rents or block new entrants to the market. Therefore, it is crucial to broaden business participation to include smaller firms, competitive firms, and informal businesses. Their participation contributes to more progressive, effective economic policy and at the same time enlarges the constituency for democratization.

Accountability – Governments must be held accountable for economic performance. Not only does economic performance create a context for democratic transition and consolidation,[8] it is also a subject of vital importance to people everywhere. If citizens are to enjoy tangible benefits from democracy, they must demand good economic performance and support policies that sustain it. A strong middle class and strong business organizations often lead the way in making such demands and holding government accountable.[9] Spreading responsible practices throughout the economy is another way to buttress accountability in the political system. As individuals and corporations adopt values of responsibility and transparency, they come to expect the same from government officials. They also close off the space for corrupt exchanges, since well-governed corporations do not supply graft.

Freedom – Political freedom cannot be achieved without economic freedom. Classical liberals fought for both kinds of freedom. They were primarily concerned about threats to freedom from the state. The same government that could arbitrarily seize private property could violate fundamental civil rights, repress opposition, and rule without the consent of the governed.

Freedom unlocks individual initiative and creativity, allowing individuals and societies to achieve their potential. Competition and choice in economic and political markets permit citizens to pursue their dreams and attain more of what they desire. A culture of entrepreneurship, based on initiative and risk-taking, promotes a political culture of citizen involvement and leadership.

Freedom of information expands opportunity and improves decision-making in both types of market. Once channels are opened for the communication of economic information, it becomes very difficult to restrict the flow of other kinds of information.[10]

Diamond and Morlino list the rights to private property and entrepreneurship as "civil economic rights." Another essential economic right is freedom of association, vital to private firms, business associations, labor unions, and other economic associations. The defense of these economic rights, by citizens, economic associations, and legal institutions creates a sound foundation for the defense of political freedoms.

Equality – Democracy requires equality before the law and equality of opportunity. Market systems, too, are founded on equality of opportunity, often referred to as a "level playing field." In other words, both systems are premised on opportunities to participate and be treated fairly. Two points of market systems are commonly overlooked. First, open markets are the best mechanism for job creation, which is how opportunity is created for a majority of the population. Second, in many developing countries a large informal sector constitutes a pool of entrepreneurial talent that is shut out of the formal market economy. The integration of this sector into the formal system would expand opportunity for some of the poorest segments of the population and give them a stake in a democratic, market-oriented system.

Responsiveness – Responsiveness refers to democracies' ability to produce the policy outputs desired by citizens. Economic performance requires good policies and also generates resources that support the implementation of policies. Functioning markets in particular benefit economic policy by providing price signals, which are unavailable in command economies. Independent business organizations are another valuable source of economic information. Moreover, business organizations can ease the burden on government by serving various private-sector needs directly. Accordingly, the government can create a more effective policy environment by supporting market formation and freedom of association in the private sector.

The Democracy Monument, Bangkok, Thailand.

The silent sentinel of freedom

WHAT NEEDS TO BE DONE

Democracy without a market economy is almost inconceivable. There is no good example to be found of a consolidated democracy that lacks market institutions and an independent private sector.[11] While there is no single path from authoritarianism to democracy, it is evident that successful democratization entails the establishment of a market economy.

Because of the numerous interrelationships between economic and political development outlined above, the failure to reform economic institutions impedes democratic progress. Conversely, the promotion of a free, competitive private sector generates multiple opportunities to positively influence the political transformation. Here, in summary, are key steps to be taken:

Build market institutions – Market economies are based not on the absence of governance but on a set of institutions. Property rights, contract law, and anti-trust law are important examples. These institutions should entrench values such as transparency, responsibility, and fairness, values which uphold democracy as well.

Build rule of law – Market institutions facilitate individual initiative and commerce among strangers. To be effective, they must be backed by rule of law and enforced impartially.

Create space for the private sector – Limit the scope of the state sector. Reduce burdensome regulations on doing business. Encourage the uninhibited flow of economic information. Allow freedom of association to voluntary business associations.

Develop private sector input – Good economic policymaking depends on accurate economic information as well as micro-level perspectives. Engaging business groups in open, democratic debate serves the dual purposes of creating a new constituency for democracy while improving economic policy.

Develop political institutions – The institutions of elections, governance, and representation are as important to the private sector as they are to citizens overall. They should sustain market institutions, and in turn will be sustained by them.

Freedom of information expands opportunity and improves decision-making in both types of market. Once channels are opened for the communication of economic information, it becomes very difficult to restrict the flow of other kinds of information.

The Role of Business in Democratic Development

Democracy is built and sustained by the participation of a wide range of citizens and interest groups. Together with other citizens and segments of society, the business sector must play its part in democratic development. As a key component of civil society, business possesses resources, human capital, and problem-solving capabilities that can benefit society as a whole. A politically engaged private sector can improve policymaking, represent legitimate economic interests, and defend democratic rights and institutions.

Business has a stake in democracy. Democratic governments are more likely than authoritarian governments to refrain from arbitrary seizure of property, protect the free flow of information, receive input on economic policy, and strive for a prosperous economy overall. Liberal democracies respect rule of law, individual rights and initiative, and transparent policymaking, all of which benefit the business community and society as a whole. Under authoritarian rule, a narrow set of economic elites may prosper, whereas in a democratic society a full range of businesses can capitalize on economic opportunity and serve the population.

THE PRIVATE SECTOR AND PLURALISM

An independent private sector contributes to democracy largely by expanding pluralism in society and in politics. "A vigorous social pluralism," as Carl Gershman, president of the National Endowment for Democracy, has noted, "is vital at every stage of democratic development." In society, voluntary associations provide "space for autonomous social and intellectual activity." In politics, "they provide channels for citizen participation and a check on the unwarranted extension of government power."[12]

In the course of its normal activities, an independent private sector increases diversity and pluralism within society. A multiplicity of competitive firms, serving varied needs and continually exchanging business, generates independent centers and networks of economic and social activity. Individualism flourishes in a competitive, entrepreneurial environment. When individuals come together in firms and trade associations, they develop organizational skills and self-reliance.[13]

Authoritarian governments frequently restrict economic freedoms, yet in so doing incur heavy costs. These costs affect the economy in general as well as the resource base and the legitimacy of the government. Coercion is not an effective means of inducing investment, fostering innovation, and allocating resources efficiently. As a result, some authoritarian governments, such as the former Korean and Taiwanese regimes, have refrained from stifling economic actors and so allowed room for social pluralism and the beginnings of democratization.

BUSINESS ASSOCIATIONS AS CIVIL SOCIETY ORGANIZATIONS

Businesspeople can play an active role in democratic development if they unite to demand good governance and good policy. Voluntary business associations constitute an important segment of civil society. By representing business interests and facilitating private sector participation in open policy debate, they engage the business community in democratic processes. This serves the dual ends of nurturing business support for democracy and bringing pressure to bear on government to respond to democratic processes.

The positive effects of business associations have often been overlooked due to the prevalent belief that all collective action by business involves attempts to redistribute public wealth without generating productive value. In fact, collective action by business can improve government policy and eliminate regulatory distortions that encourage corruption. There are two keys to improving social wellbeing and augmenting democracy through concerted business action. The first is that associations should support and demand policies—not favors—that benefit a broad spectrum of firms and entrepreneurs. Such policies are good for the economy as a whole, including workers who benefit from job creation, and consumers who benefit from cheaper, better goods and services. The second key is that associations should set an example of good democratic practice by making their demands transparently—not behind closed doors—so that all can learn, debate, and ultimately hold government accountable for policy decisions.

DEMOCRATIC FUNCTIONS OF BUSINESS ASSOCIATIONS

There are several positive functions independent business associations can perform that help create or consolidate democratic systems. First, associations represent business interests. They determine the preferences of businesses, then aggregate, reconcile, and channel them to produce cohesive recommendations on policy. Because the private sector is so diverse, associations play an essential role in building consensus and articulating the voices of smaller economic players. Representation by business associations complements interest representation by political parties and may draw attention to economic issues that are not priorities on the partisan agenda.[15]

Second, organized business can act as a counterweight to the state, resisting abusive or arbitrary state action and demanding accountability. Also as part of civil society, businesspeople and their organizations participate in the open exchange of opinions and public debate. Business organizations both contribute to the plurality of expression and provide a public platform such that business articulates its opinions openly and participates transparently in policymaking.16

Third, by sharing data with the government, business associations support better-grounded economic policymaking. Associations share a variety of information with their membership, too, including information on legal and regulatory processes and their rights and obligations. Associations serve as a forum where members can exchange views and experiences on matters of common concern to the business community and society.[17]

Fourth, businesses acting in concert can solve governance problems, thus lightening the burden on the state. A number of problems within the private sector can be handled through self governance and services provided by associations. On occasion, associations assist governments with policy implementation.[18]

Finally, associations can institutionalize business involvement in democratic processes. When diverse members of the private sector, from leading corporations down to grassroots small businesses, see that they have a voice in decision-making and that they can be a force for positive change, they can become an important constituency for democracy.

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

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Nigeria-China Trade Relations: The Yawning Gaps

* By Tony Monye

If Goldman Sachs' report of December 2005 is taken in completely on the basis of its predictions, then the future outlooks for the two economies, China and Nigeria can be considered blissful. According to the renowned institution's account, the two countries in 2050 will be regarded as the largest economies on different plains; China will be the world's largest economy while Nigeria will be Africa's prime. This is not the only scenario where the two countries are in tandem with each other with respect to other nations of the world. At the moment, the two nations also share one other similar characteristic but of a different size. They are, China and Nigeria, respectively the world most populous and Africa's most heavily populated nations. Also, it appears that the bonds of economic relations between them are firming up especially since the re-introduction of voting power in the West African nation towards the end of the just-gone century. Looking through some of Nigeria's major cities, the Chinese are a common sight these days; from Lagos through Abuja, Abeokuta, Suleija, Benin City, Kano, Enugu etc the presence of citizens of the Asian nation is quite banal.

Demographics: Nigeria V China

Demographically, Nigeria and China are both giants. It is said that one out of every four persons in the world is a Chinese according to figures emanating from World Population Studies. On a much smaller plain, the Western African nation, Nigeria, can boast of being home to one-fifth of the inhabitants of the least developed continent, Africa. Nigeria's population has crossed the 150million mark as at the end of 2007 according to figures from the United States' Central Intelligence Agency (CIA). China's is fast approaching the 1.5billion score, making it, as stated before, the most populous nation on the face of the earth. The difference between both, of course, is clear. On the other hand, the effects of birth control (through natural means and by fiat) could be noticed in China as it had a population growth rate of less than one per cent. With this annual net addition rate, China ranks as the country with the least population growth rate in the world. Nigeria's population growth rate on yearly basis is estimated to hover under the 2.5 per cent mark. It is therefore left to the imagination when the Nigerian population figure might catch up with her Chinese counterpart, that is, if it is desirable. The Chinese, on the average, are expected to live much longer than her Nigerian equal. With a total population life expectancy figure estimated at just below 74 years of age; the average Chinese is anticipated to live about one and a half times more than the Nigerian whose life expectancy for the total population is put at below forty-eight years. Female citizens in both countries live slightly longer than their male peers. Chinese women live about four years more than the average Chinese man. Nigerian women live slightly over a year more than Nigerian men on the average.

The average Nigerian woman is regarded as being more fertile than the average Chinese lady. Nigerian women are, within the course of a lifetime, expected to have between five and six children with a total fertility rate of about 5.41 per cent. The Nigerian figure is quite high compared to the Chinese women who have, through acceptance of effective birth control measures, education and state fiat, fewer than two children on the average.

With a land area of about ten million square kilometres, China (mainland and otherwise) is quite massive benchmarked against Nigeria with less than a million square kilometres. China is regarded as the fourth largest country in the world in terms of land mass behind countries such as Russsia (17.075million square kilometres), Canada (9.976 million square kilometres) and the United States with 9.629million square kilometres. Nigeria is Africa's twelfth largest in terms of land mass. Compared with other west coast countries of the continent, Nigeria is ranked fourth. With over 270 thousand square kilometres, the Chinese' waterways are over twenty times more than her Nigerian counterparts put at thirteen thousand square kilometres. In percentage terms, Nigeria's arable land as a proportion to the total is over thirty-three per cent while that of the Chinese is less, at about fifteen per cent. The two countries have different administrative structures. Nigeria has since abandoned the arrangement

Key Demographic Measures and Physical Features: Nigeria and China

Index	Nigeria	China
Population (millions)	148.5 (June 2007)	1,330.044
Population Growth Rate (%)	2.382 (2008 est.)	0.629 (2008)
Life Expectancy at Birth:		
Total Population (years):	47.81	73.18
Male (years):	47.15	71.37
Female (years):	48.5 (2008 est.)	75.18 (2008 est.)
Total Fertility Rate (TFR):	5.41 Children born / Woman (2008 est.)	1.77 children born / Woman (2008 est.)
HIV/AIDS Adult Prevalence Rate	5.4% (2003 est.)	0.1% (2003 est.)
Land Area:		
Total (sq. km)	923,768	9,596,960
Land (sq. km)	910,768	9,326,410
Water (sq. km)	13,000	270,550
Land Boundaries (km)	4,047	22,117
Land Use:		
Arable Land:	33.02%	14.86%
Permanent Crops:	3.14%	1.27%
Others:	63.84% (2005)	83.87% (2005)
Administrative Divisions	36 States and a Federal Capital Territory (FCT) Abuja	23 Provinces

Source: Central Intelligence Agency and other websites

Africa's Largest Countries in terms of Land mass area

S/No.	African Country	Capital City	Area (million Sq. Km.)
1	Sudan	Khartoum	2.506
2	Algeria	Algiers	2.382
3	Congo Democratic Republic	Kinshasa	2.345
4	Libya	Tripoli	1.760
5	Chad	NDjamena	1.284
6	Niger	Niamey	1.267
7	Angola	Luanda	1.247
8	Mali	Bamako	1.240
9	South Africa	Johannesburg	1.220
10	Egypt	Cairo	1.001
11	Tanzania	Dar es Salaam	0.945
12	Nigeria	Abuja	0.924

Source: World Fact book

left behind by her British colonialists in preference to the American system of states composition. It is in this sense that the West African nation has in place a thirty-six state structure with a Federal Capital Territory, Abuja against the Chinese who have a twenty-three province makeup, with Beijing as capital.

Political Relations: Nigeria and China

It took more than a decade of political independence before the Nigerian-Chinese relations came into existence. In fact, it was in February 1971 during the time of General Yakubu Gowon as Nigeria's Head of State and the Great Chairman Mao of Peoples Republic of China that ambassadorial exchange agreements were signed. Over the years, leaders and high government officials from both countries have consistently paid courtesy and diplomatic visits. To underline the growing importance of the relationship, the former Nigerian leader, Olusegun Obasanjo visited China twice in two years, 1999 and 2001 with a return call by President Jiang Zemin in April 2002. Lately the new Nigerian leader, Umar Musa Yar' Adua paid a highly successful state visit to the Asian country in the early part of the year. These meetings have witnessed the signing of a number of agreements on trade, economic and technical cooperation, science and technology even in areas of investment protection. Both Hu and Yar'Adua agreed that the two countries ought to advance exchanges of personnel at all levels and be ready to work better for further cooperation especially on international issues. In the past, there hadn't been much notable issues in international fora that drew the two nation close. That has not placed any view on the shape of what the future will be for them either.

Comparing Economies: Nigeria V China

On the basis of gross domestic product (GDP - at purchasing power parity), China is one of the largest economies in the world. In fact, according to the dataset from the Central Intelligence Agency, China with USD7.043trillion as GDP at the end of 2007 ranked second only to the World's existing only superpower, the United States of America with USD 13.86trillion which was almost twice the Chinese figures. Nigeria does not belong to the premier league of the World's leading economies at the moment but she can pride herself as being a top member of Africa's elite markets. As at the end of 2007, Nigeria with US$294.8billion ranked as the third largest economy in Africa behind South Africa (USD 467biliion) and the land of the Pharaohs, Egypt (USD 431.9billion). The issue about the growth of the African nation economy is often regarded as, when would she reach the one trillion dollar mark - a prime class? Comparatively, the Chinese economy as at the end of 2007 was about thirty times that of her Nigerian counterpart. The Asian nation economy witnessed some commendable real GDP growth of over eleven per cent in 2007 against the Nigeria's slightly over six per cent. One of the factors that would have helped to a large extent in the growth of the Chinese economy was its foray into the African market – one that has largely been neglected by Europe and America. With rising per capita income level in the poorest continent, the purchasing power of the average African has continued to receive a shot in the arm, which the Chinese are taking great advantage of with an increasing supply of cheaper goods – good substitutes to European manufactures. On the other hand, Nigeria's economic growth was largely assisted by growth in the contributions from the non-oil sectors to the GDP and improvements in the macroeconomic management by the authorities charged with it. This list is however not exhaustive! According to figures from Goldman Sachs, Nigeria's real GDP growth projections will overtake that of China in the five year period, 2015 – 2020. During this period, it is estimated that Nigeria's real GDP growth will be 5.7 per cent as against China's figure of 5.0 per cent.

With US$5,300 as GDP per capita at purchasing power parity as at the end of 2007, the average Chinese grossed about two and a half times his Nigerian counterpart whose value was US$2,200. The huge Chinese population must have had some dampening effects on its per capita income value relative to the Nigerian figure if other factors are kept constant. For both countries, the GDP per capita falls well below the USD 15,000 benchmarks. What it means is that the standard of living in the two countries could not be compared with that obtainable in economies such as the United

Key Economic Measures: Nigeria and China

Index	Nigeria	China
GDP (Purchasing Power Parity)	$294.8 billion (2007 est.)	$7.043trillion (2007 est.)
GDP (Official Exchange Rate)	$126.7 billion (2007)	$3.249trillion (2007 est.)
GDP - Real Growth Rate (%)	6.3 (2007)	11.4 (2007 est.)
GDP Per Capita (PPP)	$2,200 (2007)	$5,300 (2007)
Military Expenditures - % of GDP	1.5 (2006)	4.3 (2006)
Foreign Reserves	$50.33 billion (2007)	$1.493trillion (31 Dec. 2007 est.)
GDP Composition by Sector: Agriculture: Industry: Services:	 17.6% 53.1% 29.3% (2007 est.)	 11.7% 49.2% 39.1%
Exchange Rate to the US$	N117	7.61 (2007)
Labour Force: Labour force - by occupation Agriculture: Industry : Services : Unemployment Rate:	50.13 million (2007) 70% 10% 20% 5.8% (2006 est.)	803.3million (2007) 43% 25% 32% 4% (2006 est.)
Investment (Gross Fixed)	24.3% of GDP (2006)	42.2% of GDP
Stock of Direct Foreign Investment at home: Stock of Direct Foreign Investment abroad:	$31.66billion (2006 est.) $12.44billion (2006 est.).	$758.9 billion (2007 est.) $93.75billion (2007 est.)
Budget: Revenue: Expenditures:	 $20.5 billion $21.82 billion; including capital expenditures. (2007)	 $640.6billion $634.6billion (2007 est.)
Inflation Rate (Consumer Prices):	6.5% (2007)	4.7% (2007)
Public Debt:	14.8% of GDP (2007)	18.9% of GDP (2007 est.)
Debt External	$5.815 billion (2007)	$363billion (31 Dec. 2007 est.)
Agriculture - products	Cocoa, peanuts, palm oil, corn, rice, sorghum, millet, cassava (tapioca), yams, rubber, cattle, sheep, goats, pigs; timber, fish etc.	Rice, wheat, potatoes, corn, peanuts, tea, millet, barley, apples, cotton, oilseed; pork; fish etc.
Natural Resources:	Natural gas, petroleum, tin, iron ore, coal, limestone, niobium, lead, zinc, arable land etc	Coal, iron ore, petroleum, natural gas, mercury, tin, tungsten, antimony, manganese, uranium, hydropower potential (worlds largest).
Exports: Total: Commodities: Key Partners:	 $61.81 billion f.o.b. (2007) Petroleum and Petroleum products, 95%, Cocoa, rubber. US. 48.9%, Spain 8.0%, Brazil 7.3%, France 4.2% (2007)	 $1.221 trillion f.o.b (2007 est.) Machinery, electrical products, data processing equipment, apparel, textile, steel, mobile phones etc US. 21%, Hong Kong 16%, Japan 9.5%, South Korea 4.6%, Germany 4.2%
Imports: Total: Commodities: Key Partners:	 $30.35 billion f.o.b. (2007) Machinery, Chemicals, transport equipment, manufactured goods, food and live animals etc. China 10.7%, US. 8.4%, UK5.8%, Netherlands 6.2%, France 5.6%, Brazil 5.1%, Germany 4.5% (2006).	 $917.4billion f.o.b (2007 est.) Machinery and equipment, oil and mineral fuels, plastics, LED screens, data processing equipment, optica and medical equipment, organic chemicals, steel, copper etc. Japan 14.6%, South Korea 11.3%, Taiwan 10.9%, US. 7.5%, Germany 4.8% (2006)

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

A man sells noodles and other products at a market in Shanghai.

States, Germany, Japan, Canada etc. Nigeria and China have consistently, since the beginning of the decade, continued to amass wealth in the form of foreign reserves. With US$1,528.20billion as her stock of reserves holding, China led the other countries of the world as at year-end 2007. Nigeria accounted for about US$51.32billion in her reserves position as at 2007. In the years between 2001 and 2007, foreign reserves positions in the two countries went up astronomically. China's holding rose by over 720 per cent; from US$212.2billion as at year-end 2001 to US$1,682.0billion as at the end of first quarter 2008. Though on a smaller scale, the Nigerian position too went up by over 492 per cent for the same period; from USD.10.416billion to USD.59.70billion. China's situation was helped largely by its favourable terms of trade in her relationship with almost all the other countries of the world. On the other hand, rising crude oil prices positively impacted on the Nigerian figures.

The composition of the contributors to the gross domestic product of any economy greatly reflects its level of development. It is in this sense that both the Chinese and the Nigerian economies could be said to share some similarities as the industry sectors were the greatest contributors to the GDP in 2007. Both nations' services sectors were second largest contributors to GDP; with a higher share of 39.1 per cent to the Chinese economy while 29.3 per cent was contributed to the Nigerian economy. Agriculture was the least contributor to the two economies GDP in the period; with 17.6 per cent coming from Nigeria's farmers and allied industries as against 11.7 per cent to the Chinese economy. Furthermore, agriculture provided the largest available jobs to the citizens of both countries; with over 70 per cent of the Nigerian labour force engaged in the sector as against 43 per cent for the Chinese. The industry sectors in both nations absorbed the least number of people in the labour force; with 25 per cent for China as against 10 per cent of the Nigerian labour force.

Unemployment rate for the Nigerian economy has shrunk to about 5.8 per cent as at the end of year 2007 as against 4 per cent for the Chinese. This is understandable. China's real GDP growth rate for the period was in double digits while the Nigerian figure was in single. The higher demand of Chinese manufactures has not

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

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

Source: CIA/World Fact book – 2007/ Research & Economic Intelligence Group, Zenith Bank reflected in higher prices. This can be attributed to the fact that such demands were coming from abroad and that the Chinese authorities must have found ways to maintain both demand and supply at near equilibrium at home. In this way, the Chinese authorities have continued to ensure that its inflation rate is maintained at figures comparable to Western economies of United Kingdom, France and the United States. One of the reasons why the Chinese might have placed emphasis on inflation control could arguably be the need to ensure international competitiveness of her products as against other major suppliers to the world markets. This has, in a way, helped boost the Chinese economic growth.

The two countries, Nigeria and China, have significantly maintained enviable public debt profiles compared to other countries of the world. As at the end of 2007, Nigeria's public debt was just a mere 14.8 per cent of the nation's GDP and the Chinese also had about 18.9 per cent. With public debt maintained at far below the threshold level, there is therefore adequate and reasonable 'playroom' for the authorities in both economies to raise funds via debt instruments. External debts in both countries showed noteworthy but diverging trends. At US$5.815billion at the end of 2007, the Nigerian figure was over sixty times less than its Chinese counterpart put at US$363billion. It should however be stated that debt accumulation is not entirely bad in itself but rather what the borrowed funds were expended on. The Chinese, at this rate, are likely spending more on debt servicing and repayments; using funds that would have otherwise been used for development purposes.

In terms of agricultural endowments, both countries could be said to be topnotch producers/suppliers to the world markets. The Chinese are noted for feeding the world with rice and the Nigerians do so with her cassava produce. Cocoa that hitherto was Nigeria's major export in recent times seems to be on the rising trend as the world increased its consumption of the product. In the area of natural resource endowments, China and Nigeria are really blessed with similar wealth. Petroleum, natural gas, tin, iron ore, coal are minerals found in great commercial quantities in both countries. Nigeria, a member of the Organisation of Petroleum Exporting Countries (OPEC) supplies a greater percent-

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

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

Source: Central Intelligence Agency World Fact book - 2007/ Research & Economic Intelligence Group, Zenith Bank

Foreign Reserves Positions – China V Nigeria in Billions of US$

S/No.	Year	China	Nigeria
1	2001	212.2	10.416
2	2002	286.4	7.681
3	2003	403.3	7.468
4	2004	609.9	16.955
5	2005	818.9	28.279
6	2006	1,066.3	41.90
7	2007	1,528.2	51.32
8	March 2008	1,682.0	59.70

Source: CBN/China Ministry of Economic Planning

Top-10 Foreign Reserves Holding Nations–Billions of US$

S/No.	Country	Figures (Billions of US$)	As at (Year)
1	China	1,682.00	March 2008
2	Japan	1,015.59	March 2008
3	Russia	529.50	April 2008
4	India	313.35	April 2008
5	Republic of China (Taiwan)	286.86	March 2008
6	South Korea	264.30	March 2008
7	Brazil	195.85	March 2008
8	Singapore	177.63	March 2008
9	Hong Kong	160.70	March 2008
10	Germany	150.38	March 2008

Source: Wikipedia

Top-5 African Countries - Foreign Reserves Holdings

S/No.	Country	Figures (Billions of US$)	As at (Year)
1	Algeria	126.91	March 2008
2	Libya	79.00	September 2007
3	Nigeria	59.70	March 2008
4	South Africa	34.39	March 2008
5	Egypt	32.92	February 2008

Source: Wikipedia

Nigeria's Imports from the BRIC's Economies (N'millions)

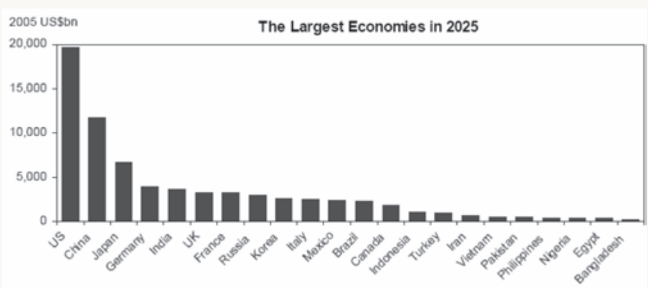
Year	Brazil	Russia	India	China	Yearly Total	Chinas % of Yearly Total
1999	13,840.38	-	17,975.94	16,091.72	49,908.04	33.59
2000	18,211.30	19,856.90	20,240.30	25,693.50	84,002.00	30.59
2001	19,420.30	12,855.90	35,113.80	58,595.50	125,985.50	46.51
2002	21,686.90	19,949.90	37,325.40	89,138.10	168,100.30	53.03
2003	23,595.50	18,796.20	48,772.80	137,917.20	229,081.70	60.20
2004	21,515.60	28,193.10	43,494.80	147,913.60	241,117.10	61.35
2005	25,708.70	-	49,340.10	244,653.70	319,702.50	76.53
2006	58,593.30	28,625.10	141,590.20	403,337.90	632,146.50	63.80
Total	202,571.98	128,277.10	393,853.34	1,123,341.22	1,848,043.64	60.79

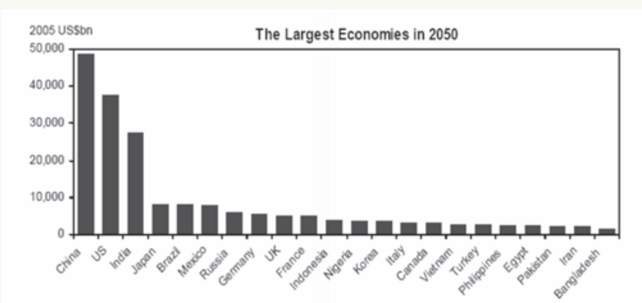
Source: National Bureau of Statistics (Nigeria)

Nigeria's Exports from the BRIC's Economies (N'millions)

Year	Brazil	Russia	India	China	Yearly Total	Chinas % of Yearly Total
1999	64,178.97	-	301,473.84	19,662.84	385,315.65	5.10
2000	74,649.60	-	412,279.80	14,265.60	501,195.00	2.85
2001	116,925.90	13.30	231,685.0	14,127.20	362.751.40	3.89
2002	113,479.80	-	290,113.10	8,812.20	412,405.10	2.14
2003	211,362.90	-	309,045.20	15,954.20	536,362.30	2.97
2004	410,182.30	-	542,339.60	70,531.60	1,023,053.50	6.89
2005	561,845.20	1,270.30	893,990.90	46,742.40	1,503,848.80	3.11
2006	319,463.30	-	703,176.30	527.40	1,023,167.10	0.05
Total	1,872,087.97	1,283.60	3,684,103.74	190,623.44	5,748,098.75	3.32

Source: National Bureau of Statistics (Nigeria)





Projected Real GDP Growth – The BRIC's Economy and Nigeria

Avg. % YoY	Brazil	Russia	India	China	Nigeria
2005 2010	4.0	4.5	6.2	**7.6**	**5.0**
2010 2015	4.0	3.4	5.7	**6.0**	**5.5**
2015 2020	3.7	2.9	5.5	**5.0**	**5.7**
2020 2025	3.7	2.8	5.4	**4.5**	**6.1**
2025 2030	3.8	3.0	5.7	**4.0**	**6.6**
2030 2035	3.9	2.6	5.8	**3.8**	**7.0**
2035 2040	3.8	2.2	5.7	**3.8**	**7.1**
2040 2045	3.5	1.8	5.3	**3.4**	**7.0**
2045 2050	3.4	1.5	4.9	**2.8**	**7.0**

Source: Goldman Sachs

age of her oil to the world market. The Chinese produce largely for home consumption and still import from the West African nation to meet up with the rising demand for energy at home. In fact, the Chinese are regarded as the greatest energy guzzlers at the moment after the United States.

In 2007, China contributed massively to the world's export trade with over US$1.221trillion worth of goods and services, a figure that was about twenty times the value of the Nigerian exports for the period put at US$61.81billion. The Nigerian exports were made largely of products from the extractive industry as against the Chinese whose offers to the world were in manufactures. Petroleum and petroleum products, cocoa and rubber took more than 97 per cent of the West African nation's exports. The Chinese exports were skewed in favour of machinery, electrical products, data processing equipment, textile, steel and mobile phones. Both countries had in 2007, the United States as their most favoured export destination with the West African country exporting as much as 48.9 per cent of her total to the U.S while the Chinese offered to the Yankees less than the Nigerian value in percentage terms. It seems China prefers to export more to her neighbours unlike Nigeria as she sold more to countries like Hong Kong, Japan and South Korea. On the other hand, the Nigerians exported more to Spain, Brazil and France. This could be as a result of the dissimilarities in the offers to the world market.

Chinese goods are quite popular in Nigeria. It was for this reason that Nigeria has assumed the West African most favoured import source. Nigeria imported as much as US$30.35 billion worth of goods and services of her consumption in 2007 with over ten per cent came from the Asian nation, China. United States with over eight per cent came next with Netherlands and the United Kingdom coming third and fourth respectively with 6.2 and 5.8 per cent of Nigeria's imports for the year 2007. Most of Nigeria's imports from these countries consisted principally of machinery, chemicals, transport equipment, manufactured goods, live animals etc. On the other hand, the Chinese preferred goods from her Asian neighbours, Japan, South Korea and Taiwan with 14.6, 11.3 and 10.9 per cent of her imports, respectively for the year 2007. The Chinese imported more of machinery and equipment same as Nigerians. They also bought goods from other countries such as, plastics, LED screens, data processing equipment, optical and medical equipment. The Chinese also imported fuels and in fact, some of which came from Nigeria to meet with her consumption needs.

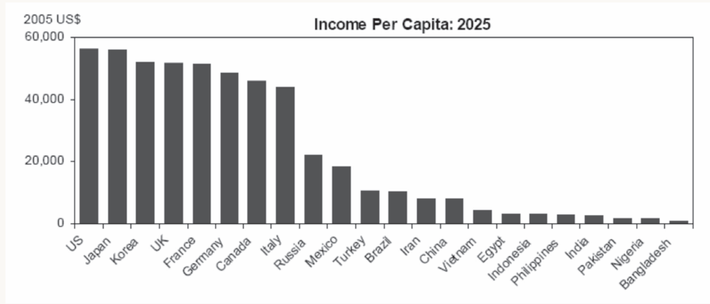
Foreign Reserves Positions – The Chinese and Nigerian Experiences

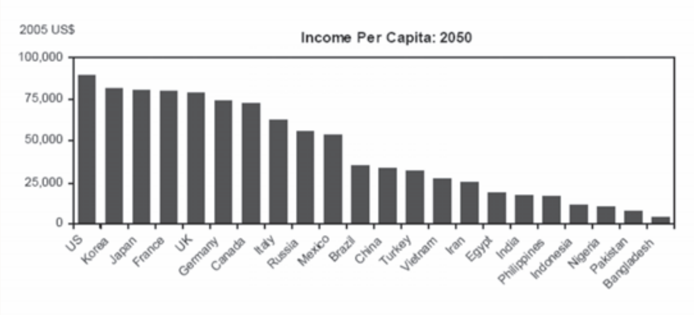
Never have nations of the world experienced the massive crave to hold national wealth and assets in the form of foreign reserves. With over US$1.682 trillion in her position as at end-March 2008, China is at the forefront of nations doing so followed by the Japanese with US$1.016trillion. Germany, with US$150.38billion in her coffers is at the bottom of the top-10 list. On the African front, Nigeria, with US$59.70billion ranks at the third position in the continent led by North African countries of Algeria and Libya as first and second with US$126.91billion and US$79.00billion, respectively.

Between 2001 and the end of first quarter 2008, foreign reserves positions grew in both countries, China and Nigeria. For the Chinese, her reserves holding went up by as much as 792 per cent in the almost eight year period, from US$212.2billion as at the end of 2001 to US$1,682.0billion as end-March 2008. Nigeria's foreign reserves holdings went up too but by 573 per cent, from US$10.416billion as at year-end 2001 to US$59.70billion as at the end of the first quarter 2008. The Nigerian case has been helped by the continuous rise in the price of crude in the world market which has remained above the US$100 per barrel mark throughout the first quarter of 2008.

Nigeria – China Trade

Historically trade relations between the two countries, Nigeria and China have stayed





Palm Beach Resort & Spa, Sanya, China

Tinapa Resort, Calabar, Nigeria

Passengers in a China subway

slanted in favour of the Asian nation. This does not appear to be a peculiar case as it is like that with most of China's trade partners. This is as a result of the tight controls in place over imports in China whilst at the same time encouraging exports. One of the measures the Chinese authorities has consistently applied to drive exports is to restrict the float bandwidth of the Chinese currency, the Yuan. One country, the United States, has consistently protested against this artificial restriction. The authorities in China at last hearkened to the cries of the U.S. after the Americans threatened to take actions that might not augur well for the Chinese by raising the value of the Yuan by fiat against other currencies via the dollar.

Nigeria-China Trade Relations: Import Figures–Through the BRIC's Periscope

The BRIC's (Brazil, Russia, India and China) economies are those Goldman Sachs claims have the means and the wherewithal to challenge the other major economies - the Group of Seven countries (G7), the United States, Japan, United Kingdom, Germany, France, Canada and Japan. Nations classified as the BRIC economies have one peculiarity at the least – they all come with very large populations. That is, potentially large markets. China and Nigeria's trade relations looked through the prism of the BRIC economies for the eight-year period (1999 – 2006) generally went up; in a case (that of China) spectacularly. According to statistics from the Nigerian official database, the National Bureau of Statistics (NBS), China, on the average took over 53 per cent of the West African nation's imports from the BRIC's economies in the studied period. Beginning in 1999, imports by Nigeria from China went up by a whopping 2,400 per cent, from over N16,091million to over N403,337million as at the end of 2006. That is, an additional gain of about 30.21 per cent of the Nigeria's total imports from the BRIC's economies; from 33.59 per cent of the BRIC in 1999 to about

63.80 per cent in 2006. Chinese exports to the West African nation without fail went up unlike what was experienced with the other members of the BRIC nations especially Russia. Exports from Vladimir Putin's country to the West African nation were haphazard. India, amongst the BRIC, happened to be the second most favoured imports source for the Nigerians. Several factors could be said to account for this rapid rise in imports from China by Nigeria, chief among which would be improved political relations especially since the return of democracy, the breakdown of barriers to trade, improvement in the economic wellbeing of the citizens of both countries. One other factor would be cheaper substitutes for Western products being provided by the Chinese for the West Africans.

Nigeria-China Trade Relations: Export Figures - Through the BRIC's Periscope

Unsurprisingly, Nigeria's exports to China present a not-too-good imagery. Looked otherwise, it could be said to afford the West Africans opportunities for growth. In the eight-year investigated period, the Chinese, on the average, consumed less than 4 per cent of the entire BRIC economies imports from Nigeria. A huge contrast when compared to the West African nation's imports from China. This is worrisome as the trade imbalance should not be allowed to go on much longer than it is necessary. The Chinese imports distinct sharply with that of the Indians that, on the average, rose sharply by as much of 66.69 per cent of the BRIC economies' imports from Nigeria. There was notable consistency in the decline of Nigeria's exports to the Chinese over the studied years – beginning in 1999, the Chinese imports from the Western African nation dropped from N19,662.84million to about N14,265.60million the following years. This trend continued all through the eight years period with the exception of 2003 and 2004. These years witnessed an increasing of Chinese imports from Nigeria by over 81 per cent in 2003, from N8,812.20million worth of goods and services in 2002 to N15,954.20million the following year. In 2004, Nigeria's exports to China further rose by over 342 per cent to N70,531.60million, the highest it ever attained. Beyond this period, exports from Nigeria to the Chinese have gone remarkably down. This calls for concern on the authorities saddled with the responsibility of maintaining relations with the Chinese, trade and otherwise. On the other hand, Nigerians took advantage of the demands of their products by the Indians as exports to the land of the Mahatmas pointed northwards. The only year the Indians' imports from Nigeria were southward bound was in 2001 when they dropped by over 43 per cent, from N412,279million achieved in 2000 to N231,685million the following year. Thereafter, the Nigerians have since been struggling to cope with the increasing appetite by the Indians for made-in-Nigeria products and services.

Historically trade relations between the two countries, Nigeria and China have stayed slanted in favour of the Asian nation. This does not appear to be a peculiar case as it is like that with most of China's trade partners.

Nigeria-China: The future as foretold by Goldman Sachs

The two nations, China and Nigeria, are headed in the same direction but different destinations. According to Goldman Sachs, one of the two countries, China, will be at the zenith of the world economy while Nigeria will be seated at the helm of a continental economy, Africa in 2050. That is, just about forty years from now. The drive to the top by the two countries will be supported by enviable projected real gross domestic product (GDP) growth rate. Between now and 2025, it is estimated that the average real GDP growth rate for Nigeria will be 5.58 per cent while the figure for the Chinese is slightly better at 5.78 per cent.

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

Global Financial Crisis: Emerging Challenges for Capital Markets

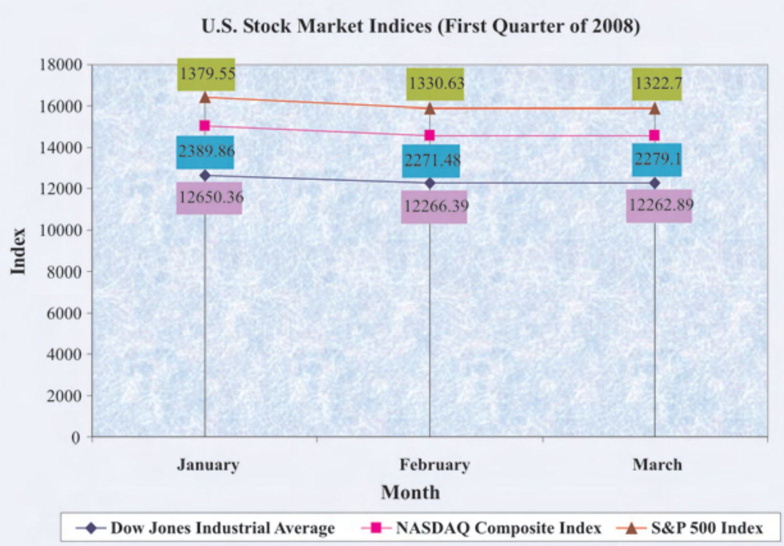
By Sunday Enebeli-Uzor

The financial crisis that engulfed the U.S. subprime mortgage market in August 2007 has spread in unexpected ways, to inflict widespread damage on markets and institutions. The crisis started as mere deterioration in portions of the U.S. subprime market but has metamorphosed into severe dislocations in broader credit and funding markets that now pose risks to global macroeconomic outlook. This underscores the interrelationship amongst economies. While some analysts believe that the global economy is already in recession, others argue that the bad days are not here yet. Be that as it may, the plummeting condition of major stock markets around the globe and job cuts in major economies are indicators that if the bad days are not here already, we may not be too far away.

The International Monetary Fund (IMF) had in recent times reviewed downwards its growth forecast for the global economy and major economies of the world. The Fund expects the pace of global growth to slow to 3.7 per cent this year (the lowest forecast in six years), down from its January forecast of 4.1 per cent and lower still from the 4.8 per cent rate it predicted in October last year. The International Monetary Fund cut its forecast for British economic growth this year to 1.6 per cent from its October forecast of 2.3 per cent growth rate for the year. The Fund has also cut the European region's growth to 1.3 per cent in 2008 from its 1.6 per cent projection in January. The Fund also lowered its forecast for U.S. economic growth to 0.5 per cent this year, below the 1.5 per cent prediction it made in January. Japan's economy is expected to grow at 1.4 per cent in 2008, less than the 1.5 per cent the IMF predicted in January. China is expected to grow at 9.3 per cent this year, slower than the 10 per cent projection earlier made by the Fund. The Fund expects Nigeria to grow at 9 per cent, as against 11 per cent growth projection for the year by the Federal Government while it expects overall economic growth in the African region to average about 6.5 per cent. This will be driven mainly by oil export from Nigeria, Angola and Gabon. The Fund however noted that growth is expected to taper off modestly to about 5 per cent amongst the region's oil-importing countries.

The Merrill Lynch Bull

In the face of growing global recession worries, Citigroup announced 9,000 new job cuts mid April, on top of about 21,000 it shed globally in the past year. Merrill Lynch revealed a further $6.5 billion hit mid April and said that it would cut another 4,000 jobs worldwide. UBS also revealed that it was preparing to cut 900 banking staff in London. About 10 per cent of its workforce in the City



Source: Google Finance

will go as part of a larger global cutback that could involve the loss of 4,000 jobs. Wachovia, the fourth-largest bank in the US plans to shed 500 jobs. Also, JPMorgan estimates that 40,000 jobs could go in the wake of the credit crunch. The Centre for Economic and Business Research estimates that about 15,300 jobs will be lost in London.

In March 2008, employment rate in the U.S. declined, a total of 80,000 jobs were shed. This was the third monthly decline in a row, after a drop of 76,000 jobs in the previous month. This represents the sharpest decline in employment in the past five years. Consequently, unemployment rate rose sharply from 4.8 per cent in February to 5.1 per cent in March, its highest level since September 2005.

The University of Michigan's Index of U.S. consumer confidence declined in March to its lowest level since 1992. Gross Domestic Product (GDP) expanded by only 0.6 per cent in the fourth quarter of 2007, its slowest pace since the U.S. economy emerged from the last recession.

The stock market crash of 1929 led to a paradigm shift for many capital markets around the world. The decline in share prices was monumental. The depth and speed with which market indices fell showed the loss of confidence in the capital market. The capital market is driven by investors' confidence which when shaken is difficult to restore. Since the 1930s, the world has witnessed changes in many different ways. For example, the world has become closely linked such that economies

of different countries are interrelated in terms of trade and capital flows. Also, technological changes of unforeseen proportion have improved transportation and communications. The wind of globalisation has swept through the world and integrated the world economy in an unimagined fashion especially in the last two decades. The movement of goods, services, ideas and capital across national borders has increased tremendously. Events in one part of the globe now quickly reverberate through the globe and impacts on economic activities all over the world. Economic activities are now also much more complex than they were in earlier times, and capital markets are more sophisticated and inter-linked than they were three decades ago. This has heightened worries of a global capital market collapse if urgent steps are not taken to curb the decline of major capital markets in the world.

Capital Market Indicators of Some Major Economies:

The United States: As at the end of the first quarter of 2008, the Dow Jones Index has declined by 3.06 per cent relative to its position at the beginning of the year. The NASDAQ Index also dipped by 4.63 per cent, while S&P 500 Index dropped by 4.12 per cent in the same period.

The European Block: As at the end of March 2008, the FTSE Index slipped by 7.90 per cent relative to its position at the beginning of the year. The DAX Index and the CAC Index declined by 16.16 per cent and 12.70 per cent respectively during the same period.

Asia and Emerging Markets

The Nikkei 225 Index dropped by 13.16 per cent, while the Hang Seng Index shed 12.76 per cent within the first quarter of 2008. The Xinhua 25 Index also declined by 15.56 per cent within the same period.

African Exchanges

The Nigerian Stock Exchange which experienced unprecedented growth in 2007 is also beginning to show signs of slow down. The All Share Index grew by 74.86 per cent between January and December 2007 while Market Capitalisation grew by 141.02 per cent within the same period. Within this period, the Nigerian Stock Exchange was adjudged to be one of the fastest, if not the fastest growing exchange in the world. However, since the beginning of 2008, the exchange has grown marginally. The All Share Index grew by about 11.11 per cent between January and February but declined by about 3 per cent by the end of March. Similarly, Market Capitalisation grew by 15.90 per cent between January and February but fell by about 2 per cent by end of March.

The slow growth rate and the recent downturn of market indices in the Nigerian Stock Exchange have been attributed to profit taking by investors who are beginning to

European Stock Markets

Index	Change since the beginning of the year
FTSE Index	-7.90%
DAX Index	-16.16%
CAC Index	-12.70%

Source: First International Bank of Israel

Asia and Emerging Markets

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Nikkei 225 Index	-13.16%
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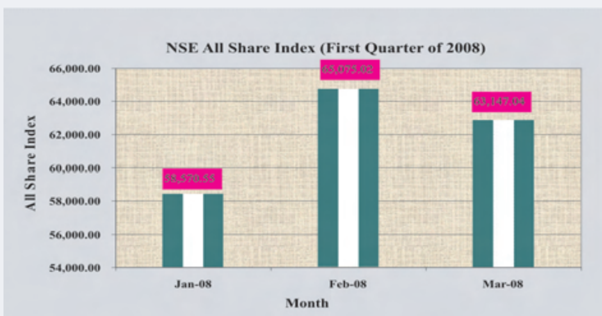
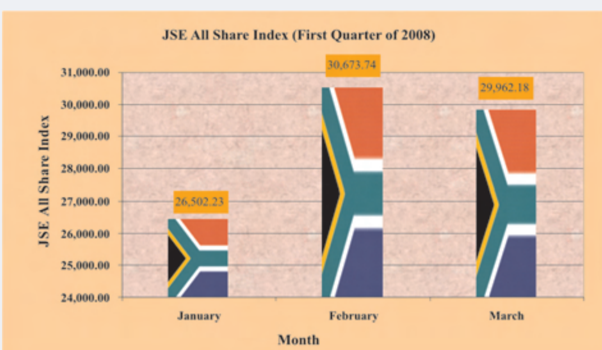
Source: First International Bank of Israel

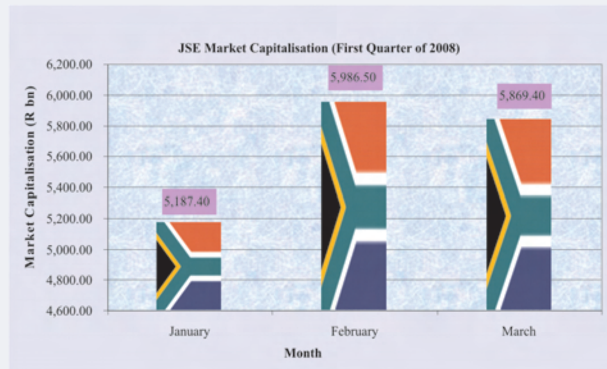
Source: Nigerian Stock Exchange



Source: Nigerian Stock Exchange



Source: JSE



Source: JSE

be eager to reap profit from their investments in the capital market and this translates to fund crunch in the market.

Indices of the Johannesburg Stock Exchange are also beginning to show negative signs in recent times. Market Capitalisation of the JSE grew by 15.40 per cent between January and February 2008 but declined by about 2 per cent between February and March. The All Share Index also rose by 13.15 per cent between January and February but fell by 2.32 per cent between February and March 2008.

The International Monetary Fund (IMF) says the global credit crunch that started in the United States has spread well beyond mortgage markets and could result in losses of nearly $1 trillion worldwide. The Fund's estimate is the latest indication that the crisis, which started last year is yet to abate. Between last year and now, the global lender said financial institutions faced a total of over $240 billion in losses on bad mortgages and related securities. The global lender blamed the unanticipated virulence of the crisis on collective failure by authorities to understand how much debt financial institutions took on in recent years. The use of borrowed money to purchase securities led to outsized gains while markets were rising. Such leverage likewise aggravated the losses as markets began to decline. The fund also warned that loan defaults are likely to increase for consumer credit, commercial mortgages and corporate debt, which could lead embattled banks to


JPMorgan Chase Tower

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tighten lending standards. The economic consequences are likely to be broader, deeper, and more protracted than expected. The need for a concerted effort to forestall a breakdown of the world financial services industry cannot be overemphasised.

Some economic analysts are of the view that the crisis currently ravaging the global financial system would need strong and organised government intervention to curb the scourge. The self correcting/adjustment mechanism of the market can no longer do the trick. The recent rescue of Bear Stearns in America, as well as the US Federal Reserve's swift response to the credit crisis is instructive. A run on Bear Stearns brought Wall Street's fifth-largest investment and securities firm down to its knees, but with the help of the Federal Reserve, JPMorgan Chase & Co. agreed to buy the venerable. The Fed also lowered the rate on direct loans to banks, hoping to prevent a broader market panic.

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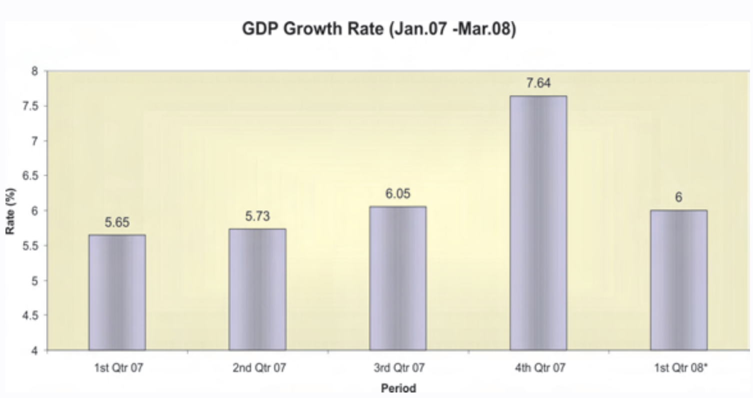
- Ibrahim Abubakar

MACROECONOMIC ENVIRONMENT

The Nigerian economy recorded growth in several parameters in the first quarter of 2008. Some of the macroeconomic indicators continued to perform above expectations with unprecedented results. Gross Domestic Product (GDP) in the first quarter 2008 started with a seasonal dip. Inflation results started on the high side but reversed with a downward trend. The nation's external reserve continued to cross milestones due to surging oil prices in the international oil market. The Naira exchange rate remained stable against the United States dollar and other major world currencies during the quarter. The Monetary Policy Rate (the benchmark rate) remained stable throughout the quarter. Activities in the capital market were mixed, however, it showed improvements over the previous quarter. There were record prices and strong earnings coming from the international crude oil market.

GROSS DOMESTIC PRODUCT

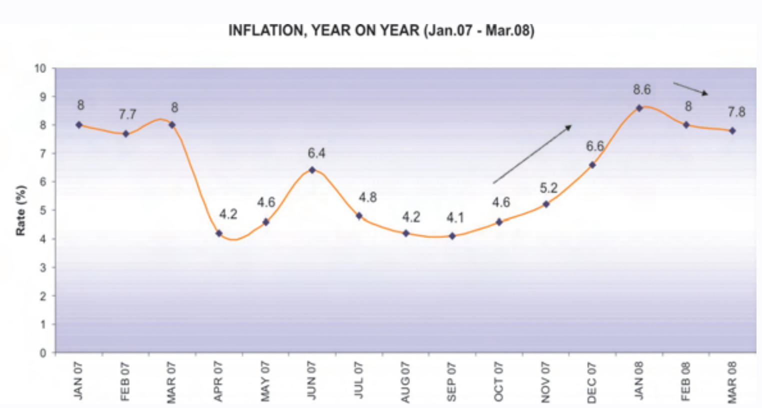
In the first quarter, GDP growth rate was driven mainly by the non-oil sector. The Central bank of Nigeria (CBN) has forecast real GDP to grow at 7 percent for the rest of this year. Compared with similar period last year, non oil share of GDP was 75.6 percent and oil share was 24.4 percent. Agriculture continues to lead as the major contributor to GDP. For the oil sector, the lingering crises in the Niger Delta continue to stall production to 2.047 million barrels per day, short of the 2.45 million barrels estimated. GDP growth rate started with a seasonal dip; from 7.64 percent in the previous quarter.



*Source: CBN/ *Research and Economic Intelligence Group*

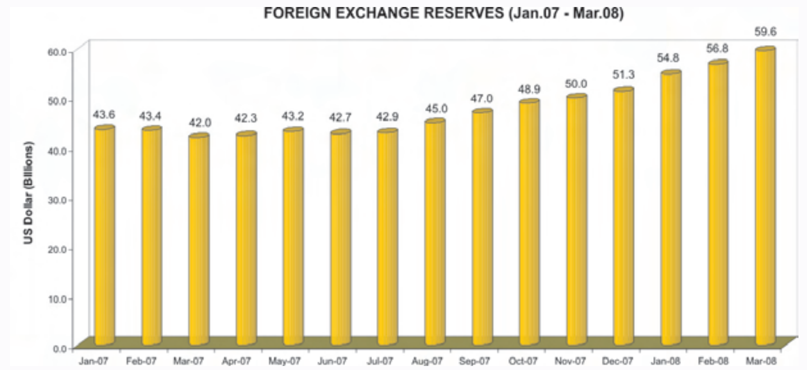
INFLATION

The year on year inflation went down in the first quarter of 2008. However, this is coming after a sustained period of rising rates witnessed in the previous quarter. The first quarter opened with inflation reaching 12 months high of 8.6 percent, similar to the rates experienced in the same period last year, although 60 basis points higher. In the first quarter, inflation declined by 80 basis points to close the quarter at 7.8 percent, although lower than the rates seen during the same period last year. Factors that contributed to the rise in inflation in the opening month of the year are: surging food prices; and the expansionary fiscal injection at government level. However, the fall in inflation in February and March was due to a fall in prices of some staple foods as a result of the release of grains from the strategic reserves.



Source: National Bureau of Statistics

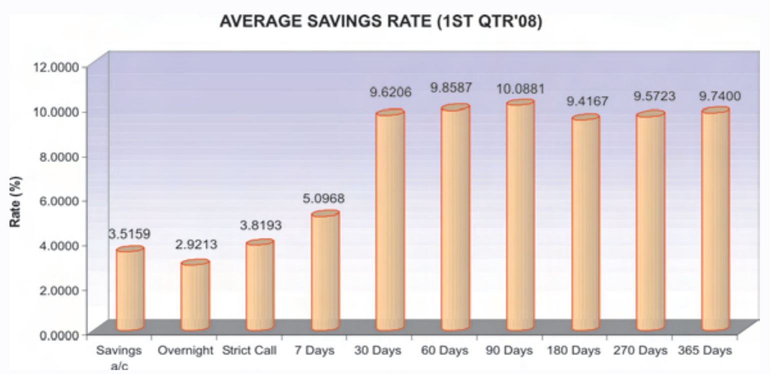
EXTERNAL RESERVES



Source: CBN

The stock of the nation's external reserve increased in the first quarter of 2008. It is the highest increase within a single quarter over the last 12 months. The rate of increase has been around 10 and 9 percent in the third and fourth quarter last year respectively. Compared to the first quarter last year, the period under review closed with the level of reserve increasing by 16.17 percent; from US$51.3 billion as at year end to US$59.6 billion by March. This is an unprecedented level of foreign exchange reserve in the country, representing an increase of US$8.3 billion. The amount saved into the nation's external reserve during the first quarter is 7.8 percent higher than the entire amount added throughout 2007.

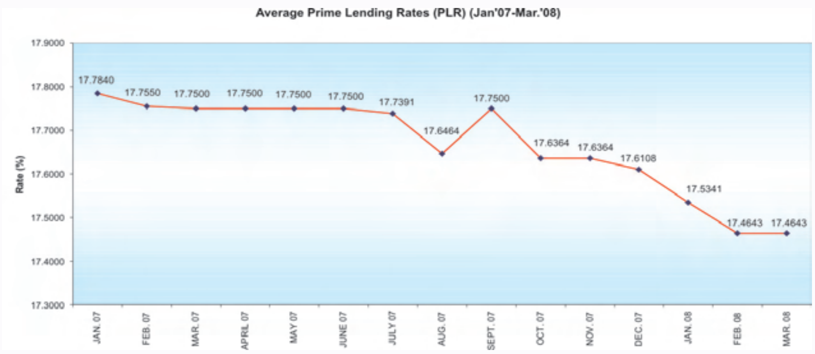
INTEREST RATE



Source: Money Market Association of Nigeria (MMAN)

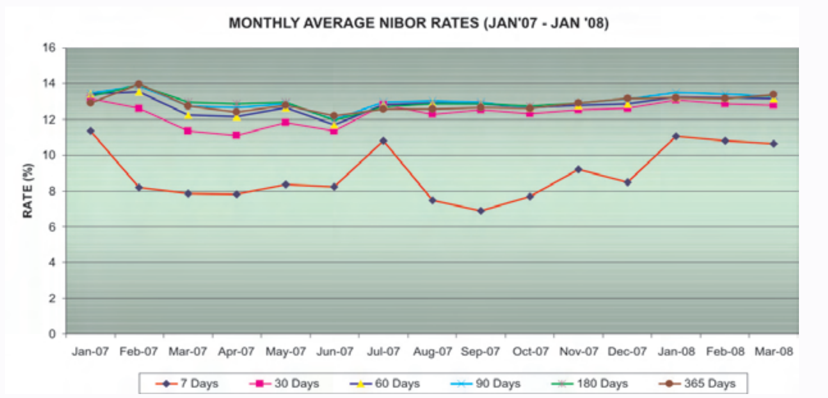
The Monetary Policy Rate (MPR), which is the benchmark for all other rates, remained at 9.5 percent during the first quarter. The CBN had in the previous quarter raised rates by 50 basis points; from 9 to 9.5 percent. The MPR remained at the prevailing rate due to the slow and gradual takeoff of activities in the beginning of the year after the festive season. The quarter, however, opened with fear of rising inflation coming from surging food prices and the delayed impact of the supplementary budget of 2007, exerting pressure for a further rise in the MPR.

The rates in the inter-bank market went up across most tenors with marginal volatility in the first quarter. Compared to the previous quarter, there were more pressure on the 7 Days and 90 Days tenors, which increased their rates by 236 and 50 basis points respectively. All other tenors went up by more than a quarter basis points. The inter-bank rates went up due to the upward review in the MPR. The average Prime Lending Rate (PLR) decreased marginally in the first quarter. Volatility on the PLR was minimal, with a slight downswing of 15 basis points; from 17.61 in December to 17.46 by March 2008. The prevailing rate as at the end of the first quarter was 29 basis



Source: Money Market Association of Nigeria (MMAN)

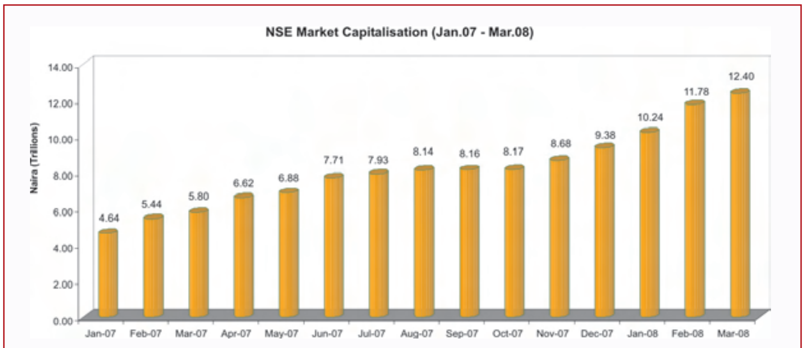
points lower than the rate witnessed at the end of the same period last year. The average deposit rate remained relatively stable with minimal volatility across most investment horizons, with the exception of the overnight rate and the 270 Days, both having upswings of 24 and 31 basis points respectively; from 9.26 and 2.68 in the previous quarter to 9.57 and 2.92 by the end of first quarter 2008 respectively. Compared with maturities in the same quarter last year, volatility was also more apparent on the overnight rate which increased by approximately 62 basis points; from 2.3 percent in 2007 to 2.92 percent by 2008.



Source: Money Market Association of Nigeria (MMAN)

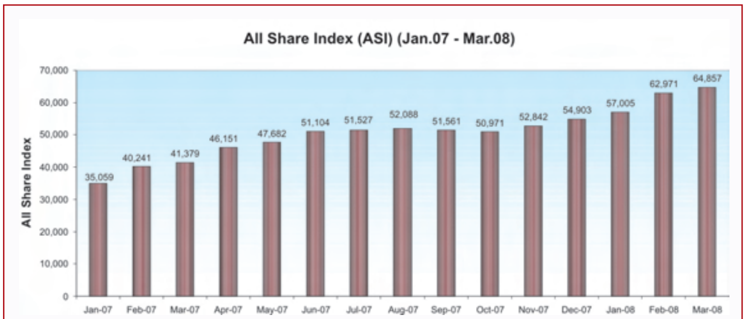
CAPITAL MARKET

The All Share Index (ASI) and market capitalization of the Nigerian Stock Exchange (NSE) both showed positive trend in the first quarter of 2008. This upswing came after a bullish market witnessed in the previous quarter. Market capitalization increased by 21.1 percent; from a monthly average of N10.2 trillion in January to N12.4 trillion by March. However, the gain witnessed in the first two months of the year was short-lived as the market ended the quarter on a bearish trend. Compared to the same period last year, both market capitalization and the ASI closed the quarter higher by 113.7 percent and 56.7 percent respectively, from N6.1 trillion in March 2007 to N12.1 trillion by March 2008 and 41,379 in March 2007 to 64,857 by March 2008.



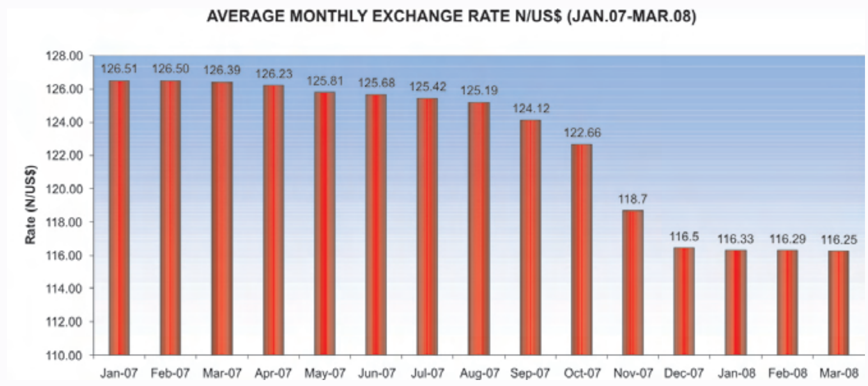
Source: NSE

Factors responsible for the growth in the capital market during the opening months of the quarter were: Inflows from foreign investors and increased activities in the primary market coming from a number of public offers such as Zenith bank Plc, Skye Bank and First Inland bank among others. The downswing can be attributed to profit taking among investors; and also major financial institutions were recalling loans as they approach year ends. The delisting of Afroil, Capital Oil and other on going investigations into possible malpractices may have caused investors to take a more cautious approach to the stock market in the short term.



Source: NSE

EXCHANGE RATE

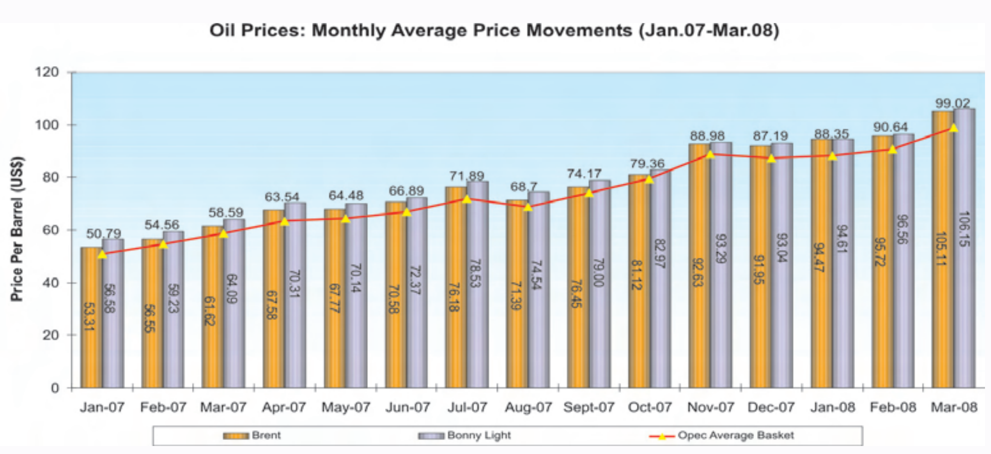


Source: CBN

The Naira exchange rate remained relatively stable in the first quarter of 2008. However, after a strong rally from the previous quarter, the momentum was not carried forward in the opening quarter 2008. The nation's currency maintained its ground against the United States dollar in the opening months of the year with marginal appreciation of 0.21 percent; from N116.5/US$ in December to N116.25 by March 2008. This represents a gain of 0.25 kobo on the dollar. Compared to the average exchange in the same quarter last year, the Naira made remarkable gains on the weakening dollar. It gained approximately 8.7 percent; from N126.39/US$ in March 2007 to N116.25/US$ by March 2008. Currency analysts believe that the appreciation of the Naira was driven mainly by private foreign exchange inflows. Also, fear of a recession in the United States is contributing to the rise in many world currencies against the dollar.

OIL PRICES

The international crude oil market witnessed surging prices of over US$100 per barrel in the opening week of 2008. Nigeria's crude oil production fell by 5.4 percent; from 2.158 million barrels per day in December to 2.047 million barrels per day by March 2008. Almost all OPEC member states witnessed a decline in production within the first quarter, averaging 32.06 million barrels per day. The price of Nigeria's brand of crude oil, Bonny Light, rose remarkably by 14.09 percent; from a monthly average of US$93.04 per barrel in December to US$106.15 per barrel by March 2008. Compared to the same period last year, the price of Bonny Light was 65.6 percent higher by the end of the first quarter 2008. Another milestone was crossed as the price of light crude oil reached as high as US$110 in March. Industry analysts argue that factors responsible for the surging oil prices are growing world demand outside the United States coming from China and India. This is expected to keep oil prices well above US$100 for the rest of 2008. Also, disruptions in the Niger Delta have kept production levels short of the 2.45 million barrels per day projected levels.



Source: Energy Information Administration (EIA) / OPEC