ZENITH BANK PLC

Plot 84, Ajose Adeogun Street, Victoria Island, Lagos.

2005 Financial Reports and Accounts

BALANCE SHEET AS AT 30TH JUNE

	2005 ₦'000	2004 ₦'000
ASSETS		
Cash and Short Term Funds	**186,487,248**	121,801,453
Loans & Advances	**133,494,398**	53,391,209
Advances Under Finance Lease	**841,155**	847,881
Other Assets	**4,755,887**	3,206,490
Investment Securities	**4,138,083**	4,427,053
Fixed Assets	**10,979,151**	8,409,353
	329,716,911	193,321,469
LIABILITIES		
Deposit Liabilities	**233,413,428**	131,695,341
Other Liabilities	**56,013,477**	44,023,930
Taxation	**3,050,068**	1,363,879
Deferred Taxation	**448,875**	399,871
	291,926,848	177,647,121
CAPITAL AND RESERVES		
Called-Up Share Capital	**3,000,000**	1,848,003
Share Premium	**16,224,158**	-
Reserve for Small Scale Industries	**3,580,524**	1,858,721
Bonus Issue Reserve	-	916,165
Statutory Reserves	**5,545,400**	4,415,271
General Reserve	**4,409,779**	7,555,826
Shareholders' Funds	**37,789,062**	15,674,289
	329,716,911	193,321,469
Confirmed Credits and Other Obligations on behalf of Customers and the Corresponding Liabilities thereon	**41,004,156**	21,905,277
Total Assets plus Contingent Liabilities	**370,721,067**	215,226,766

Macaulay Pepple – Chairman

Jim Ovia – MD/Chief Executive

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE

	2005 ₦'000	2004 ₦'000
Gross Earnings	**34,813,483**	23,831,265
Profit Before Taxation	**9,164,787**	6,404,885
Profit After Taxation	**7,155,826**	5,150,768
APPROPRIATIONS		
Transfer to Statutory Reserve	**1,073,389**	772,615
Proposed Dividend	**4,200,000**	2,167,877
Reserve for Small Scale Industries	**715,583**	640,489
Transfer to bonus issue reserve	-	916,165
Profit for the Year Transferred to General Reserve	**1,166,844**	1,657,502
	7,155,826	5,150,768

AUDITORS' REPORT TO THE MEMBERS OF ZENITH BANK PLC

[illegible]

Respective responsibilities of Directors and Auditors

[illegible]

Basis of opinion

[illegible]

Opinion

[illegible]

Chartered Accountants
Lagos

18 July, 2005

Zenith Economic Quarterly

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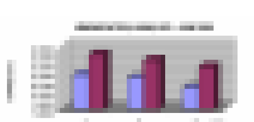

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EDITORIAL ADVISERS

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ZENITH BANK PLC

www.zenithbank.com

Sustainable Service Delivery

There is something about service delivery that makes it ubiquitous. Just reflect on the concept of service' and its many dimensions and you would realize how much human existence is predicated on service delivery and therefore the need for sustainability. Even pre-historic man with his stone- age technology bothered about how services were rendered and consumed without let or hindrance.

In contemporary times, service delivery processes have benefitted from advances in technological and product innovation robotics in manufacturing and assembly lines, aircraft engine manufacture, petrochemical industrial complexes, the vast information and communication technological systems supporting electronic banking and its many 'faces' - online real-time, internet banking, ATMs, POS, etc.

When Nobel Laureate Professor Amartya A. Sen wrote on development as freedom, (arguing for a focus on the capabilities of people to do and be what they value), he aptly captured the conceptual dimensions of the role of people in service delivery. As they say, people, technology and innovation make service delivery an interesting process.

Sustainable service delivery has become key to differentiating companies that survive and outperform competition. Seen as the provision of value in a chain process for meeting a specific need, or the production of service for direct consumption (as in banking and services of a personal nature), sustainable service delivery systems have become significant determinants of 'bottom line' or development.

And Jack Welch (former Chairman/ CEO of GE) made it seem so simple in the Six Sigma (a quality-improvement technique) which he said is '... the program that, when all is said and done, improves your customer's experience, lowers cost, and builds better leaders, through reducing waste and inefficiency and by designing a company's products and internal processes so that customers get what they want, when they want it and when you promised it.' Its application will trigger a chain reaction: customer satisfaction, loyalty and referrals all of which will impact positively on revenue. 'A huge part of making your customers sticky is meeting or exceeding their expectations, which is exactly what Six Sigma helps you do,' Welch concluded.

And Jack Welch (former Chairman/CEO of GE) made it seem so simple in the Six Sigma (a quality-improvement technique) which he said is '*... the program that, when all is said and done, improves your customer's experience, lowers cost, and builds better leaders, through reducing waste and inefficiency and by designing a company's products and internal processes so that customers get what they want, when they want it and when you promised it...'*

This edition of ZEQ is couched in this context. The African Peer Review Mechanism (APRM) of the NEPAD is really about service delivery competitiveness since governance is all about service excellence as Marcel Okeke clearly highlighted in the article ' 'Economic Reforms: Tool for Sustainable Service Delivery: As difficult as it seems, he argues that government has made giant strides in developing a set of service excellence parameters, which guide its actions.

Encapsulated in the NEEDS document, the various sector reforms and new pieces of legislation proposed/embarked upon by government, are ultimately aimed at inducing sustainable service delivery excellence in the public and private sectors in Nigeria. Come to think of it, would Nigerian firms ever be competitive given the 'build your own infrastructure' (BYOI) syndrome? Therefore, in terms of national and firm level competitiveness there would be significant improvement in service delivery across the board as the reform process is consolidated and the effect begins to manifest.

No doubt, sustainability of Nigeria's debt stock and the debt service burden had been major issues of concern to businesses, civil society and indeed all stakeholders for a long time. Again, this 'dimension' of service sustainability was recently addressed by the landmark agreement reached with the Paris Club to negotiate a debt reduction based on the Naples Terms. As the article on 'Debt Relief and Its Fallout' clearly demonstrates, sustainable service delivery in the social and physical infrastructure sectors would become more feasible as the expected 'savings' from the debt exit scenario becomes available and is successfully channeled into 'rebuilding/rehabilitating' and further developing our infrastructure and national institutions.

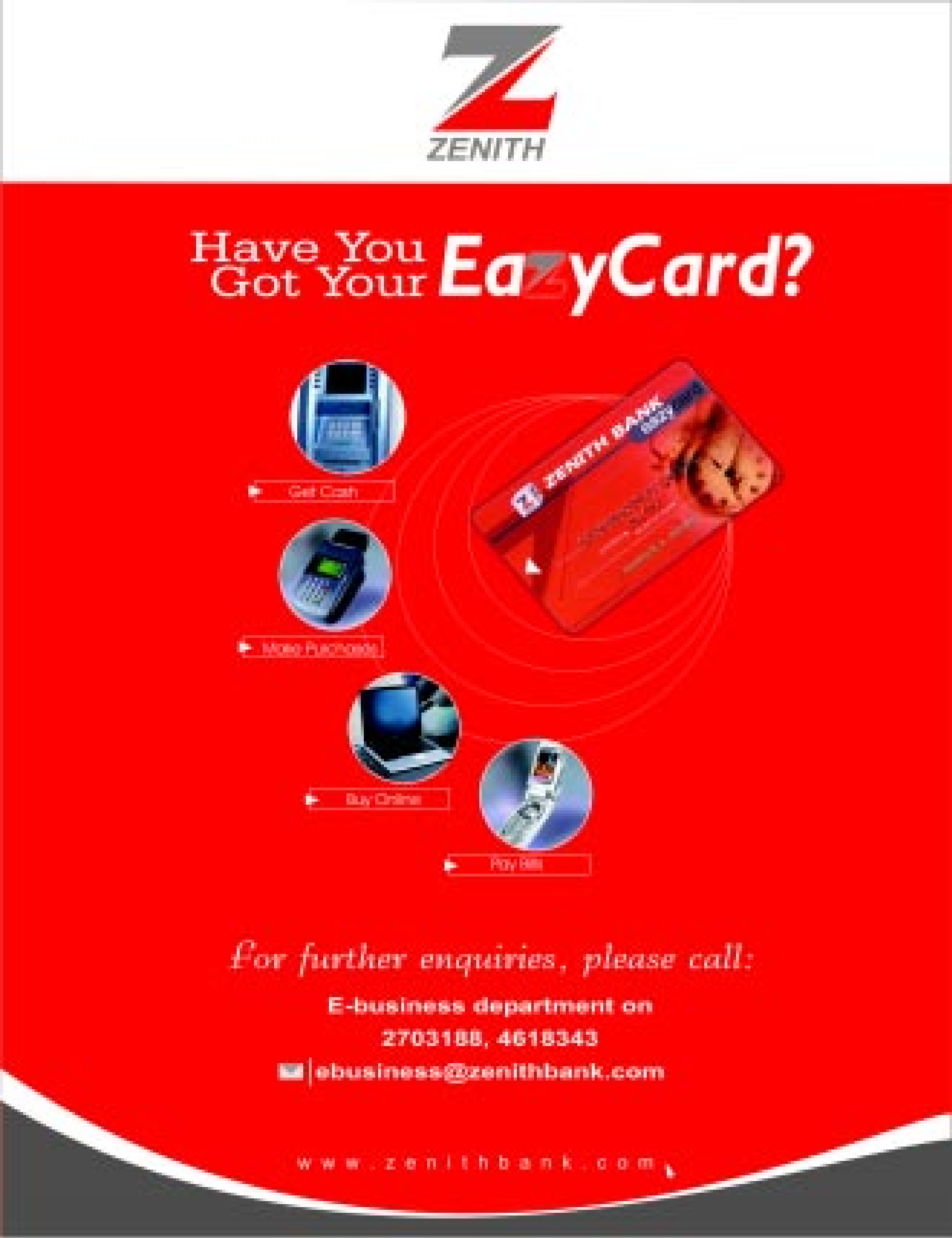
From the institutional perspective, service sustainability concerns not just the short to medium but also the long-term big picture. The reason is simple: corporate governance practices help ensure sound financial and corporate health of the organization. It also provides a basis for ensuring sustainable service delivery over and beyond customer expectation and shareholder value in the long term. The article on 'Good Governance, CBN Autonomy and Product Innovation' has been included for this reason. The article makes an interesting reading because of the visionary tone in which it was written.

Service delivery' conveys a notion of value giving or receiving. Information and communication technology (lCT) has facilitated organizational and country level ability to render services sustainably. Access to both local and international service providers has improved significantly. That is what the information economy is about. It can only get better as globalization and regional trade and investment reforms 'breakdown' (close-country) international barriers as the article on ECOWAS Common External Tariff illustrates, and business would rise up to the challenge of managing the fallouts, as the article on 'Managing Globalization: The Role of Business' also demonstrates.

The one, very important dimension to the issue of sustainable service delivery, at the level of the continent is aptly captured by Honourable Boateng's contribution on the mission and goals of the Commission for Africa. It is common knowledge that the G-8 countries have cancelled over $40bn debts owed by 18 HIPCs, **14** of whom are African countries. This kind of relief translates, nominally into more funds for the provision of social and physical infrastructure, an important development towards sustainable service delivery.

Finally, there is the peep into the future prospects for growth under the section 'Global Watch' and the inclusion of articles on the fastest growing economy in the world, China, predicted to slow down on its own, but challenged by the recent upsurge in the prices of crude oil. The section on Databank remains focused on bringing you up to date on developments on macroeconomic issues in Nigeria.

The soaring price of crude oil presents an interesting scenario: one that pitches the need to improve national service delivery systems with sustainable consumption levels. What path we follow as a nation would determine the country's future level of competitiveness. That would be the subject of another edition.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E-business department on
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ebusiness@zenithbank.com
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from our mailbox

I write to acknowledge with thanks the receipt of your letter dated 27/6/05 forwarding the first and second editions of Zenith economic Quarterly, the new economic journal of your bank. The availability of such a high quality economic journal is bound to enhance the understanding of current affairs by all – government officials, journalists, banking and business communities, etc. May God prosper and bless your personal and corporate endeavours.

O. Ola Vincent
Former Governor, Central Bank of Nigeria

As an industry leader, the birth of this new journal will be very well received and appreciated not only in the banking industry but also by the reading public as a whole. Given the Zenith pedigree the Quarterly is destined to be a rich source of knowledge in the areas covered. Most importantly to me, it will be a welcome addition to my library.

I fervently pray that the publication will be sustained over the years and will remain a rich source of knowledge about Nigeria and global economic developments.
God bless

John D. Edozien
Former MD/CEO Afribank

Thank you for two (2) copies of the Zenith Quarterly, which reached me last week. I shall be grateful to be put on your mailing list for constant supply because the journal is very informative and useful.

Prof. Bedford Fubara
Chairman,
1st Rivers State Economic Summit Group

I commend your vision in launching this timely and extremely relevant production. Indeed, this quarterly will definitely serve to educate and enlighten the Nigerian private and public sectors on critical economic issues.

I look forward to receiving copies of future publications for my review and for the LEAP library.

Ndidi Okonkwo Nwuneli (MFR)
Founder/C.E.O
LEAP Africa

Thank you for the recently received Economic Quarterly.
As an economist and CA well versed in African affairs, let me say how impressed I was both with the content and the overall presentation.
I believe that Nigeria is crying out for well-informed, professionally prepared journal such as yours.
Well done!

Jon Quirk
MD/CEO, AIICO Insurance Plc

We thank you immensely for your contribution to the field of research in a society hitherto devoid of research materials.

We do hope the publications will serve as a useful source of information to students and scholars in their pursuit of knowledge and know-how.

Chief Dafinone
Horwath Dafinone, Chartered Accountants

I congratulate your bank for scoring another first in producing a publication of high quality in all ramifications: content, packaging etc.
I wish you continuous success.

Adedoyin Soyibo, Professor,
Head of Department of Economics, University of Ibadan.

The content was useful and I must confess that the publication was well researched which is not a surprise to me considering that it emanated from the desk of the Research and Economic Intelligence Group of Zenith Bank Plc.

I wish you and the entire editorial team success as you continue to add your bit towards the success of the economic reform agenda of the Federal Government of Nigeria.

Charles Nwodo JNR
MD/CEO
XL Management Services Limited

It is such a lucid and rich documentation to have and a very good reference material as well.

I congratulate you for this achievement and your positive potential in the banking sector.

Prof. A. Alos
Vice Chancellor, Pan African University

We commend the rich content, robust coverage of contemporary economic issues and high quality production, and wish you more grease to your elbows.

Kindly include the Institute on your mailing list of subsequent editions of this and your other publications.
Congratulations!

The Chartered Institute of Bankers

We write to acknowledge receipt of your first and second editions of Zenith Economic Quarterly (ZEQ) packaged by your Research Team.
The Quarterly is very rich and informative and would definitely serve as reference source material. We look forward to receiving subsequent editions.

Nigerian Association of Small and Medium Enterprises.


REFORMS

Economic Reforms: Tool for Sustainable Service Delivery

*** By Marcel Okeke**

Today, virtually all the major national newspapers and magazines publish details of monthly revenue allocations to the Federal, state and local governments—a measure acclaimed as a statement in transparency in public finance management.

In his inaugural speech on May 29, 1999, President Olusegun Obasanjo stated, among others, that:

"One of the immediate acts of this administration will be to implement quickly and decisively, measures for the reforms and the difficult decisions and hard-work required to put the country back on the path of development and growth and restore confidence in governance…"

No doubt, many of these "measures for the reforms and the difficult decisions" have been taken in the recent years, with most of them encapsulated in the National Economic Empowerment and Development Strategy (NEEDS), the overarching economic development plan of the Administration. And in reference to the pivotal role of the reforms, President Obasanjo again referred to them during his national broadcast on the proposed debt exit scheme agreed with Nigeria last June with the Paris Club of creditor nations. He said: "we also put in place an economic reform programme and development strategy championed by a strong Economic Management Team (EMT) that was home-grown but globally recognised and endorsed…"All this point to the critical place of economic reforms as the fulcrum in the Government's development drive and sustainable service delivery.

One of the concrete steps of the Government in pursuit of a radical improvement in service delivery was the design and implementation of a "Public Service Delivery Programme (PSDP) for Nigeria", an effort that gave rise to "Service Compact with All Nigerians" (SERVICOM). President Olusegun Obasanjo and members of the Federal Executive Council adopted this pact in March 2004, as an initiative to improve the standard of service delivery in the public sector. Under the SERVICOM charter produced by each Government department, improvement in ser-

vice delivery is to be driven by the implementation of the relevant aspects of the economic reform agenda as they affect the entity.

Reform Content

The multi-dimensional economic reform package of the Administration has its 'core components' as macroeconomic stability, public expenditure management/ budget reform; accelerated liberalization and deregulation of the petroleum sector; governance and institutional strengthening; fighting corruption, improving transparency and accountability. Others include policies directed at addressing inter-governmental relations, the long-term power demand of the country and monitoring for enhanced efficiency of some extra-ministerial institutions like the National Emergency Management Agency (NEMA), Niger Delta Development Commission (NDDC), etc.

Soon after the inauguration of the NEEDS mid-2004, Government fashioned out a matrix of measures, sequencing and phasing, detailing the performance indicators, implementation timing and expected impact of the reform measures. In this regard, certain key ministries, agencies and parastatals were designated 'action points' to ensure that concrete steps are taken in pursuit of all planks of the reform agenda. The overall objective is to achieve improved and sustainable service delivery in the public sector.

Reform Mandates

Under the reform implementation matrix, the Federal Ministry of Finance, has as its focus, public expenditure management/budget reform, public revenue (tax/customs), budget transparency and monitoring as well as the restructuring and institutional strengthening of itself. In real terms, this translates to ensuring a high level of budget implementation, especially in the priority areas (roads, water supply, electricity, education, health and security); minimising mismatch of revenue and expenditure flows to improve fiscal discipline; ensuring the financing of deficit from non-inflationary sources (e.g. minimising resort to 'ways and means' financing from the Central Bank); systematizing and regularizing monthly salary and benefit payments to public sector employees.

The reform mandate of the ministry also includes driving the overhauling of Customs operations and tax administration, with a view to enhancing the efficiency and effectiveness of revenue collection generally. The ministry is also expected to publish in newspapers and on Internet, monthly revenue allocations to the three tiers of government; compile total allocations mid-year and end-year as well as publish on the Internet, capital allocations to Federal ministries and agencies. It is also the responsibility of the ministry to monitor the Federal budget and make quarterly reports to the executive, legislature and the public.

The pursuit of these reform mandates has given rise to such measures as the fashioning of the Fiscal Responsibility Bill, implementation of the New Oil and Gas unit, parastatals support unit and the anti-corruption unit. Today, virtually all the major national newspapers and magazines publish details of monthly revenue allocations to the Federal, state and local governments—a measure acclaimed as a statement in transparency in public finance management. The practice has availed all stakeholders, the privilege of knowing the quantum and pattern of flow of funds from the Federation account to all tiers of government. Also, all ministries and

"Nigerians have for too long been feeling short-changed by the quality of public service. Our public service offices have for too long been showcases for the combined evils of inefficiency and corruption, whilst being impediments to effective implementation of government policies. Nigerians deserve better. We will ensure they get what is better!"

- President Olusegun Obasanjo

public institutions such as the Central Bank of Nigeria, the Bureau of Public Enterprises, among others, now have functional anti-corruption units.

Macroeconomic Stability

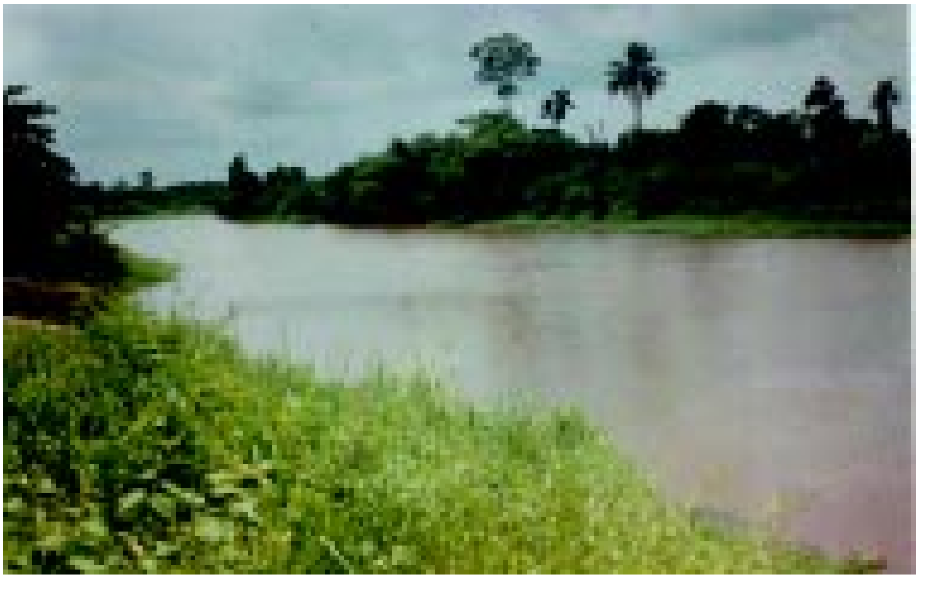
A key plank of the economic reform agenda is the pursuit of macroeconomic stability; this is so because it is a veritable means of making a meaningful impact in the quest for the badly needed conducive environment for growth and development. This essence is vividly captured in the NEEDS, with specific targets attached in the areas of GDP growth rates, exchange and inflation rates, foreign reserves, annual budget deficits, debt servicing/management, among others.

Today, most of these objectives/ targets have either been met or surpassed. For example, the national currency has enjoyed relative stability (even appreciation) in the past one year, such that by end-December, 2004, the Naira exchange rate vis-à-vis the US$ had appreciated by 3.1% (from N137.0/US$ to N132.9/US$). Also, against the target GDP growth rate of 5.0% for 2003 and 2004, 10.2% and 6.1% respectively were achieved during those years, just as the gross external reserves grew geometrically to hit $16.96billion by December, 2004, and almost $24billion by end-June, 2005, against the target of $7.69billion for 2004 and $8.69billion for 2005.

Together with other factors, the reforms (especially banking sector consolidation) have had mixed impacts on the financial markets. The (N25billion) minimum capitalisation requirement, with end-December, 2005 as deadline, has led to a spate of mergers and acquisitions and massive search for equity capital by banks from the capital market—resulting in sharp declines in virtually all market performance indices. In the money market, the problem of excess liquidity emerged and lingered, leading to a significant decline in deposit and lending rates. Intermittent withdrawals of some chunk of public sector deposits from commercial banks by the CBN could not attenuate the heavy liquidity burden. Longer-tenured Treasury Bills (of one to three years duration) were also introduced by the monetary authorities in seeking to affect the quantum of money in circulation.

Guided by the targets of the reforms, the Federal Government in its fiscal operations in 2004, recorded a modest deficit of N142billion, which translated to 1.7% of GDP. There was also no deficit financing (say, by 'ways and means') by the CBN during the year. By the second quarter 2005, however, the situation had altered; the Federal Government had applied to the apex bank for deficit financing facilities. Meanwhile, Government took steps to restructure its domestic debt portfolio and limit monetary financing of the deficits. Thus, by the last lap of the second quarter, 2005, the Federal Government had resumed local debt securitisation via the bond market. The Debt Management Office (DMO) had in November 2003, launched the FGN bond programme, during which N150billion medium and long-term tenor bonds were offered (although subscription level was N78billion). In the latest move, the DMO, on behalf of the Federal Government, early July 2005, commenced the offering of N140billion bond, in seven tranches of N20billion each.

By sheer coincidence, a week to the bond offering, primarily aimed at restructuring the local debt portfolio, the Paris Club of creditor nations wrote-off $18billion or 60% of Nigeria's (external) debt owed to its members. The outstanding $12billion or 40% is billed for settlement (likely in two tranches) within the year, in line with a Memorandum of Understanding (MoU) between Nigeria and members of the Club. All this is backed up by Nigeria's willingness to conclude a Policy Support Instrument (PSI) that would be approved by the Interna-



tional Monetary Fund (IMF). The impending exit from the Paris Club would leave Nigeria with an external debt of less than $6billion, all things being equal. And further to this, the Federal Government has crafted a Bill spelling out (stringent) framework/conditions for future borrowings that would sustain fiscal discipline and macro stability.

As further prop to the drive for the reforms, the Federal Government has evolved the use of Fiscal Strategy Paper, which inculcates a multi-year approach to budgeting. The FSP outlines the key elements of the nation's medium-term fiscal outlook, including aggregate public revenues, aggregate spending and borrowings or savings. The subsisting FSP is for 2005 to 2007, and provides the revenue and expenditure projections for the period. Part of the strategy document contains the trade and tariff policy, the objectives of which include simplifying the country's tariff structure, ensuring competitive tariff rates for raw materials, capital and intermediate goods, and the protection of selected industries through high tariff and import prohibition. This, in part, informed Nigeria's joining of the Common External Tariff (CET) regime of the Economic Community of West African States, ECOWAS, which was to start in July this year.

Under the economic reforms, each parastatal is now required to have focus by spelling out its goals, key initiatives that it is embarking on to achieve such goals and objectives, and to relate all these to the legislation that set it up. Further more, they have been given deadlines within which to get their audited accounts up to date and submit the same to the Auditor-General of the Federation. Also, these parastatals are now classified into 'commercial', 'semi-commercial' and 'purely social' groups and accordingly attract budgetary support, where necessary.

Public service reforms represent a key part of the ongoing reforms by the Federal Government. Already, a comprehensive central database of all public servants and pensioners has been built, using the most modern methods. This is to significantly improve human resource planning and help quantify pension liabilities under the Pay As You Go System and transition cost of moving employees to the contributory, fully funded scheme which took off in July 2004. Already a large dose of the reform package has been administered on some 'pilot Ministries', and the template is being used to extend the sensitive scheme to other ministries, departments and agencies.

One of the major planks of the public service reforms has been the monetization programme which effectively commenced in July, 2003. The programme was informed by a realisation that Government expenditure profiles from 1999 to 2002 had a trend in which recurrent expenditure was rising at the expense of the capital expenditure. In fact, the trend showed that over 60% of Government revenue was being used to sustain a work force of less than 1% of the nation's population, leaving very little for development. Monetization therefore aims to reduce to the barest minimum, such negative fiscal tendencies as waste, misuse and abuse of public facilities and, in their stead, enhance efficiency in resource allocation.

As shown in the Table, between 1999 and 2002, the recurrent expenditure rose sharply from N449.67 billion (1999), N461.61 billion (2000), N579.33 billion (2001) to N696.78 billion (2002), while capital expenditure was N498.027 billion (1999), N239.45 billion (2000), N438.7 billion in 2001, and N321.39 billion in 2002. Therefore, the percentage of recurrent to total expenditure was 47.45% in 1999, 65.84% in 2000, 56.91% in 2001 and 68.44% in 2002. It was essentially to check this trend, among others, that Government came up with the monetization programme. The list of benefits currently being monetized include: residential accommodation, furniture allowance, utility allowance, domestic servant allowance, motor vehicle loan, leave grant, meal subsidy, fuelling, maintenance and transport allowance, entertainment allowance, personal assistant allowance, etc.

FGN's Capital & Recurrent Expenditure, 1999 - 2002 (N'million)

Year	Recurrent Exp.	Capital Exp.	Total Exp.	% (Rec/Total Exp.)
1999	449,662.4	498,027.6	947,690.0	47.45
2000	461,608.5	239,450.9	701,059.4	65.84
2001	579,329.1	438,696.5	1,018,025.6	56.91
2002	696,777.8	321,378.1	1,018,155.9	68.44

Source: Federal Ministry of Finance

Fighting corruption, improving transparency and accountability also remains a core component of the ongoing reforms. Here, the issues of relevance include the Extractive Industries Transparency Initiative (EITI), essentially aimed at enhancing the transparency of oil and gas accounts; support to Economic and Financial Crimes Commission (EFCC); strengthening of the Independent Corrupt Practices Commission (ICPC); reform of Government procurement and enhancement of Due Process.

Pursuant to the EITI objectives, the Nigerian Extractive Industries Transparency Initiative (NEITI) Working Group (NSWG) was inaugurated in February, 2004, by President Olusegun Obasanjo. The NEITI secretariat has since embarked on consultations with select stakeholders, organised workshops for civil society groups and oil industry operators and fashioned out terms of reference for auditors to review annual accounts and tax filings of oil companies (including Government's oil accounts—NNPC, CBN, NDDC, etc.). An expatriate audit firm has since been commissioned to carry out the specialised audit. Also, an Oil and Gas accounts modelling and oversight unit has been set up in the Ministry of Finance to provide back-up technical support to EITI and provide better handle on oil revenue inflows and outflows.

By the close of the second quarter, 2005, NEITI had commenced workshops/road shows in the six geo-political zones of the country. According to the Minister for Solid Minerals and Co-ordinator of NEITI, Mrs. Obiageli Ezekwesili, these efforts are aimed at improving on the capacity of Civil Society Organisations to constructively engage government and ask the right questions about the reform programme.

Regarding the EFCC, government has provided supporting investigative resources and physical enabling environment; the agency's budgetary provisions rose from N400million (take-off grant) in 2003 to N752million in 2004, and much higher this year. A Financial Intelligence Unit (FIU) has been created within the EFCC, just as

The reform of Government Procurement and enhancement of Due Process has been pursued to achieve 'value for money' and transparency in Government contracting. Due Process has been extended to cover all Government agencies, and its Certification process has resulted in billions of naira savings for the Government.

the money laundering legislation has been reviewed to conform with the Financial Action Task Force (FATF) requirements. The new legislation was passed by the National Assembly in May 2004. In a similar manner, the ICPC got strengthened, leading to its accelerated prosecution of several high profile ex-public officials, ministers, top civil servants, judges, etc. One upshot of all these has been an improved Transparency International (TI) corruption perception index ranking for Nigeria, from 2nd to last to 4th to last by December 30, 2004. It is expected to improve further to 6th from bottom by December 30, 2005.

The reform of Government Procurement and enhancement of Due Process has been pursued to achieve 'value for money' and transparency in Government contracting. Due Process has been extended to cover all Government agencies, and its Certification process has resulted in billions of naira savings for the Government. New Procurement Guidelines have been published and disseminated to Government agencies and the public.

Liberalization and deregulation of the petroleum sector is another critical area of Government reforms; the objective is to improve the efficiency of the sector by getting Government out and allowing market forces to work to improve supply and availability of products under appropriate regulatory regime that balances consumer and supplier interests. Part of the strategy for achieving this is the adoption of market-determined exchange rates for NNPC imports (of refined products), the privatisation of the four existing refineries as well as the licensing of private ones. All these have, however, led to increases in the prices of refined products locally; savings of billions of naira in Government subventions for repair, rehabilitation, maintenance and running costs; improved local refining/supply of petroleum products, etc. Improved refining capacity of the existing refineries, complemented by some importation have ensured steady supply of refined products all through the first half of the year. At present, about 18 licenses for new refineries have been issued to private sector operators—a few are at various stages of construction/completion.

In the power sector, the pursuit of improved and sustainable service delivery has led to the enactment, early in the year, of the Electric Power Sector Reform Act 2005, (EPSRA) which paved the way for private sector operators to join in the generation and sale of electric power. Further to this, the National Electric Power Authority (NEPA) has transformed into the Power Holding Company of Nigeria, a step to the take over of its functions, assets and liabilities by some private sector companies later this year. The National Electricity Regulatory Commission (NERC), the key regulatory authority in the emerging dispensation, is set to commence operation in the third quarter 2005. The effort of some public and private sector establishments in setting up Independent Power Plants (IPP) also constitutes a potential boost to power supply and hence, improved service delivery in the critical electricity sector.

Similar to the EPSRA is the Public-Private Infrastructure Concessioning and Development Partnership Act, which seeks to regulate public-private partnerships in infrastructure development, with a view to improving service delivery. Thus, to date, some ports concessioning have been concluded, with a number of foreign and local companies now manning a few of the nation's sea ports. The Bureau of Public Enterprises (BPE) which is handling the concessioning deals as prelude to the privatisation of those bodies is replicating the same package in the Nigerian Railways, National Inland Waterways and the Nigeria Airways. In the Nigeria Airways, under a special concessioning, a new national carrier (Virgin Nigeria) is already on the ground, sequel to the liquidation of the Nigeria Airways Limited (NAL). All these are aimed at making all transportation infrastructure effectively play roles as catalysts in driving sustainable service delivery in the country.

Improved refining capacity of the existing refineries, complemented by some importation have ensured steady supply of refined products all through the first half of the year. At present, about 18 licenses for new refineries have been issued to private sector operators—a few are at various stages of construction/completion.

Related to what is going on in the transport sector is the increased tempo of privatisation and liberalisation activities in other sectors. Sequel to the restructuring of the BPE in the second quarter 2005, including a change of leadership, the agency has been fast-tracking the privatisation of a number of organisations. Thus, by end-June, 2005, requests for the expression of interest (EOI) had been initiated in respect of NICON Insurance, International Hotel (Sofitel), NICON Hilton Hotel, Nigeria Reinsurance Company, among others. The privatisation of the Daily Times of Nigeria, Afribank and a few others were also concluded.

The reform package of the Federal Government also captures initiatives to enhance inter-governmental relations as a necessary step towards sustainable service delivery. Thus, it is the mandate of the Ministry of Intergovernmental Affairs and Special Duties (MOIGA) to work out ways of ensuring collaboration amongst the three tiers of Government in providing services to the people, especially on issues that fall within the concurrent legislative list. This is being pursued through the elimination of duplication of efforts/services and ensuring of alignment in the reform programmes/agenda of all levels of government. MOIGA has conducted a study on how to improve the performances of various organs set up to promote collaboration amongst the three tiers of government.

Special attention is also being paid to areas of concurrent interest and authority to the three tiers of government, with a view to encouraging collaborative efforts. Some of the areas include rural development and job creation, education, health and security, among others. MOIGA also monitors the Ecological Fund, including projects financed with it, to ensure efficiency in the utilisation of the fund. It has also developed clear-cut approaches (including the tendering process) to accessing the Fund and utilising the same in a transparent manner.

The Minister in charge of MOIGA now conducts frequent site visits to projects financed with the Ecological Funds to ensure increased success rate in the implementation of such projects.

Local Government reform is also a key component of the overall economic reform agenda of the Federal Government. It is specifically aimed at promoting stability, accountability, efficiency, service delivery and grassroots democracy. The Federal Government has since constituted the Committee on Local Government Reforms, received its report, but is yet to issue any white paper. Reform is also ongoing in the area of national statistics and data gathering to ensure reliable and systematic database of information on the country's key economic and social indicators. Already, the role and structure of the Federal Office of Statistics (FOS) has been reviewed, just as a statistics masterplan is already fashioned to guide the collection of data.

There are also the Police, Legal and Judicial reforms directed at strengthening the rule of law, speeding up court cases and improving security for Nigeria households and businesses. One key upshot of these is the significant increase in the strength of the Police Force, from about 240,000 in early 2004 to close to 350,000 at present. The Legal and Judicial reform plan is already drawn up, and when implemented, would speed up resolution of cases at all levels of the courts.

The economic reform is also serving as a tool for service delivery in the areas of politics (e.g. electoral reforms), agriculture, health and education, where there has been a significant increase in the number tertiary institutions (especially universities) since 1999. This has helped in granting admissions to an increasing number of eligible university candidates whose strength rose from 418,928 in 1999 to over 700,000 last year. The number of private universities also grew, from zero in 1999 to about 12 at present, with more still in the pipeline. At the primary level, the Federal Government's Universal Basic Education (UBE) policy (since 1999) seeks to ensure that every child gets minimum basic education. The legal backing, UBE Act 2004, has even made it mandatory and free for every Nigerian child.

The launch on July 1, 2005, of the SERVICOM Index is further credence to the use of ongoing reforms as vehicles for achieving sustainable service delivery in the Nigerian public sector. The Index is a compendium of guidelines for the assessment of the service delivery of Federal ministries, departments and parastatal organisations. Thirteen ministries are now serving as models to fast-track the implementation of the service delivery programme.

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

Good Governance, CBN Autonomy And Product Innovation: The Impact On The Banking System

* By Jim Ovia

This occasion of the Banking Seminar of the Institute of Directors [Nigeria] is timely and auspicious, coming at the turn of political transition to democratic governance, with rising hopes and an attendant shift in policy formulation and implementation.

Given the strategic importance of the banking industry in terms of increasing and reinforcing investment opportunities across the various sectors of the economy, it is important for the new democratic dispensation in Nigeria to create an enabling environment for economic growth and also strengthen private investment without threat of immediate economic vulnerability.

The first part of this paper discusses good governance (principles and practices) and also highlights the interplay between good governance and corporate governance.

The second focuses on aspects of CBN autonomy, while the third section suggests some dimensions of product innovation facilitated by the Internet Technology, which manifests its strengths and advantages through the Automated Clearing System, the electronic settlement system enabled by the Independent Communication Network, which also supports the electronic Smart Card.

GOOD GOVERNANCE: PRINCIPLES AND PRACTICES

Good governance refers to a broad spectrum of issues of integrity and soundness of government, the administration and the judiciary. Its component focuses on: public accountability, transparency, adherence to the rule of law, legitimacy and credibility, equity and social justice, predictability of any government

Although this paper was presented a few years ago at a forum of the Institute of Directors (Nigeria), the seminal issues it raised are yet topical. The prescriptions and recommendations made in it seem to have guided policies in the banking sector since the return to democracy six years ago. This is evident in developments such as today's Automated Clearing System, CBN autonomy, electronic settlement system, electronic Smart Cards, and sundry aspects of the reforms in the banking system.

behaviour, etc.

These principal pillars of good governance are essential for sustainable development and critical to our efforts in building a strong domestic economy as well as restoring investors' confidence, which will strengthen private investment and promote stability in the banking system.

Let me expatiate on the building blocks of good governance as they form the kernel of a relevant State interested in channeling energies to enhance productivity, innovation and economic progress.

a] Public accountability - The power or ability to hold public officials and their representatives to a standard of behaviour and conduct that is in the over all public interest and for the common good. Weak accountability mechanisms engender abuse of public position for private or sectional gain.

b] Transparency - this entails prompt provision of accurate information about the economy for regulatory bodies, and participants in the economy.

c] Predictability of Government Behaviour - when policies are shrouded in secrecy, further compounded by lack of accountability and too much state intervention, government actions or policies become unpredictable. This gives ample room for lobbying, rent-seeking behaviour, etc. all of which are detrimental to economic and financial stability.

d] Adherence to the rule of law, equity and social justice - Constitutional and judicial reforms and the protection of human rights foster economic and social progress. Without good governance, countries run the risk of economic instability and recession.

Let us now look at the obverse of good governance to capture a vivid picture of this concept. According to the World Bank report "Development and Governance" [1992] the following are features of bad governance:

- Failure to make clear separation between what is public and what is private, hence a tendency to divert public resources for private gain;
- Failure to establish a predictable framework for law and government behaviour in a manner that is conducive to development, or arbitrariness in the application of rules and laws;
- Excessive rules, regulations, licensing requirements, etc. which impede the functioning of markets and encourage rent-seeking;
- Priorities that are inconsistent with development, thus resulting in a misallocation of resources; and
- Excessively narrow base for, or non-transparency in decision-making.

These features induce capital flight, inhibit foreign direct investment, dissuade investors while impeding economic growth and development.

The application of complementary good corporate governance practices and standards - fairness, transparency or accurate/timely disclosures, accountability and responsibility - from our various corporate bodies will further strengthen private investment, corporate performance and economic growth.

Corporate governance ensures that directors and management of businesses act in the best interest of investors, including creditors and shareholders. Therefore, directors and management should be mutually supportive in working for the common good of the organization in order to attain the best corporate performance.

A World Bank Discussion Draft on 'The Business Environment and Corporate Governance' [1998] reported "the crises being confronted by East Asian Countries, Russia and other transition and developing economies have laid bare underlying weaknesses in the corporate and financial sectors, among which corporate governance is at the forefront". *This implies that improving corporate governance is central in sustaining investor confidence, economic growth*

Central Bank, Abuja

and stability.

With what appears to be a re-awakening of investors' interest in Nigeria (also bearing in mind the volatility of international capital market) it is time for us to start reforming our code of best practices to re-launch ourselves into the international community and global market in order to reclaim our image as a nation with enormous intellectual capital.

In the wake of the economic and financial crises in East Asia, countries such as Korea, Thailand, Malaysia, Indonesia had begun corporate governance reforms with the assistance of the World Bank ***[*Discussion Draft, 1998 - World Bank Group on the Business Environment and Corporate Governance*]*.**

With Nigeria emerging as a fully democratized nation with attendant reforms underway, I suspect it will be instructive for IOD to re-appraise corporate governance principles and practices such as accountability, transparency, fairness and responsibility to align it easily with the challenges posed by the new political system.

CBN AUTONOMY

Autonomy ensures sound formulation of workable and growth-led economic policies. The Central Bank of Nigeria now has the unfettered freedom and total independence to formulate and implement any policy measure deemed fit to fast-forward the economy as well as ameliorate any anomaly.

These include:

- Foreign Exchange rate Management
- Inflation control
- Money supply management
- External debt and reserve management
- Interest rate regulation
- Promoting capacity utilization and employment growth.

In addition to the above, the CBN will be able to:

- respond quickly to early warning signals on market demands;
- allow for more creativity and innovation in its operations and services; and
- enhance the motivation, career and job satisfaction of staff.

All these advantages are further enhanced if information and knowledge are optimally shared and utilized to enable CBN to be more proactive.

Concerning inflation control, empirical studies have shown a positive correlation between independence of the Central Bank and low inflation rates. [1]**[Financial Derivatives, 1999 Budget Review, January 1999]** citing Alberto Alesina and Larry Sommer's work - **Central Bank Independence and Macro-Economic Performance.** "Inflation performance is found to be best for countries with most independent central banks. The study shows that Switzerland and Germany [with most independent central banks] had the lowest rates. Spain, Australia and Italy [with least independent Central banks] record the highest inflation rates".

I must caution, however, that autonomy of CBN on its own does not necessarily guarantee low inflation since other exogenous factors impinge on the economy to affect inflation rates.

With Nigeria emerging as a fully democratized nation with attendant reforms underway, I suspect it will be instructive for IOD to re-appraise corporate governance principles and practices such as accountability, transparency, fairness and responsibility to align it easily with the challenges posed by the new political system.

CBN AND PROSPECTS FOR PRODUCT INNOVATION

Product innovation implies a practical and proactive search for new opportunities and the ability to introduce or improve on the old ways of doing things that compare or compete with international standards aimed at enhancing efficiency. The language in today's organization is innovation as a key to enhancing productivity. Organizations and institutions should embrace product innovation in other to stay relevant and competitive in the global market.

As we peep into the next millennium the most dominant and superimposing force of product innovation is information technology. The phenomenal importance of Information Technology cannot be ignored by any Government, corporation, institution, NGOs, etc.

Government should therefore create the right climate and appropriate infrastructure for full deployment of information technology to enhance innovation in this respect. Today, irrelevance is a much-dreaded corporate affliction than inefficiency.

The choice is a simple one: invest in Research and Development aimed at information technology to stimulate innovation, or perish!

CBN AND THE INTERNET TECHNOLOGY

The Internet is the foundation for a new industrial order. It has already assumed pride of place in our daily lives and does not need further definition. It is presently estimated that millions of computers are linked up to the Internet and the number is increasing daily by geometric progression.

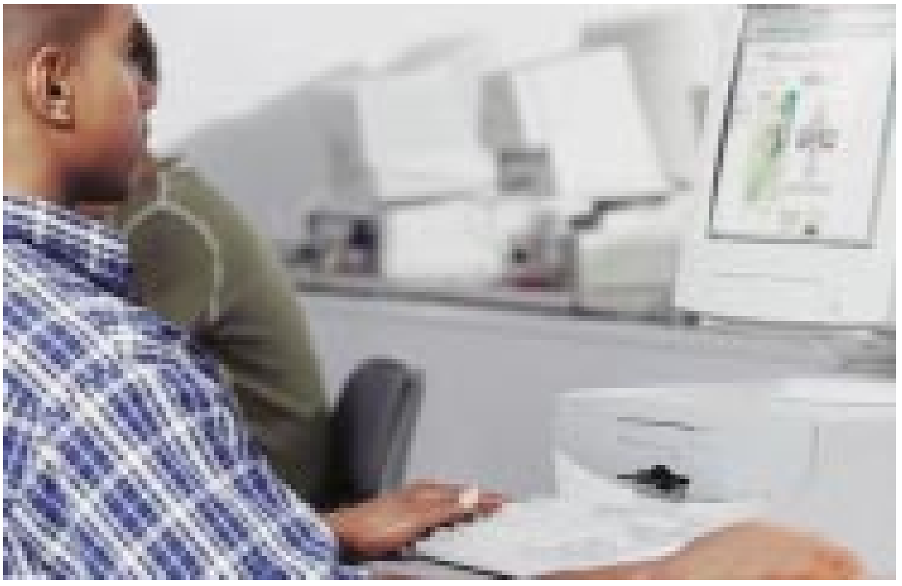
An Internet user has access to an array of services such as electronic mail [e-mail], file transfer, multi-media displays, shopping opportunities, electronic commerce and banking.

Electronic commerce, also known as E-commerce, is generating tremendous appeal and has been predicted to dominate commercial activities in year 2000 and beyond. It represents the 'ultimate triumph of consumerism' [2]**[Gary Hamel & Jeff Sampler, Fortune, Dec. 7, 1998].**

Most Central banks in developed economies offer supervisory and regulatory services on the Internet. Our CBN should be encouraged to utilise the Internet technology to at least distribute circulars, download foreign exchange requests from banks, update banks on new policies and developments.

Commercial banks on the other hand should deploy the Internet technology for the benefits of their customers: These benefits include:

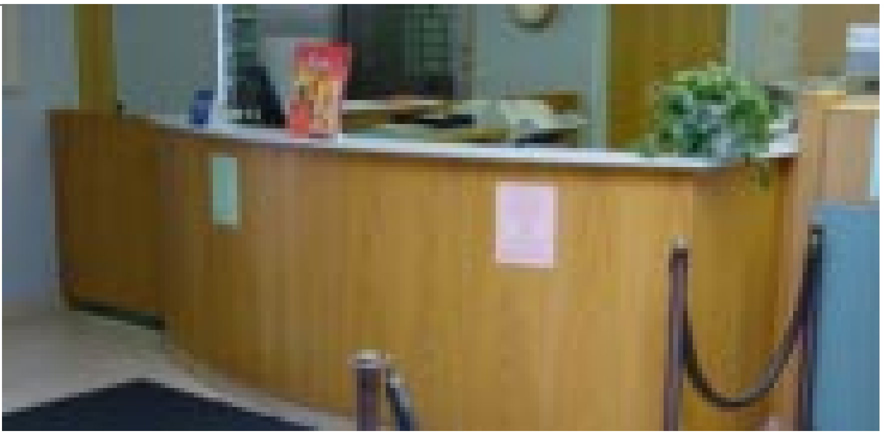
- Account verifications
- On-line access to bank balances
- Enlargement of a bank's market without building new offices
- Potential for full-fledged distribution channels of banking services



Various customers of commercial and merchant banks should be able to turn on their personal computers and use an Internet appliance to access various financial records not only from their specific bank but also over the information super highway. This cutting edge technology would eventually lead us to "virtual banking" which would ultimately offer the customer the maximum flexibility, convenience of time and place to perform banking transactions. We (bankers) are beginning to experience from the perspective of customers' desires and demands what the banks of the future would look like.

The CBN has a great role to play in supporting the proliferation of information technology in the delivery of banking products and services. I am optimistic that the CBN is already upgrading its processing and monitoring system to support the innovative activities of commercial and merchant banks. The CBN should invest significant resources towards the platform of information technology which includes multi-media computing, the Internet, etc. These undoubtedly will be key to survival in the next millennium. The current democratic dispensation and CBN's autonomous status provide a good platform to pursue and propel innovation.

Although, it is praiseworthy that the government of Nigeria has cur-



rently launched her website (www.Nigeria.com), we are not aware if the CBN has launched its own website. It is interesting to note that the Reserve Bank of South Africa (www.Resbank.co.za) launched its own website some few years ago.

Today, even politicians and various citizens' associations have found that the Internet holds a strong potential in strengthening democracy by way of:

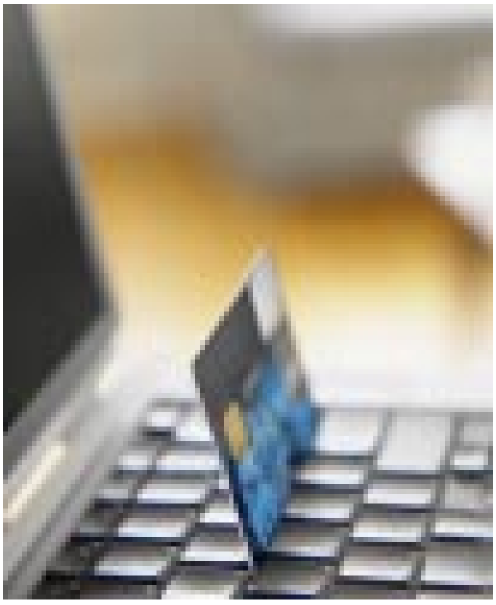
- Facilitating association by **group-to-group** communication;
- Gathering and disseminating information;
- Assessing information on party programmes, personalities and political trends;
- Increasing openness and making it difficult for government to hide issues;
- Decreasing opportunities for repression;
- Allowing expression of opinion on candidates and policies being formulated;
- Organizing grassroots constituencies; and
- Assisting citizens to express their views on the actions of the government.

Two good examples of the galvanizing effect of Internet websites are to be found in the e-campaign strategies of President Olusegun Obasanjo (www.Obasanjo-campaign.com.ng) and Governor Bola Tinubu of Lagos State (www.bolatinubu.org) and the resounding success that followed.

However, all these Internet potentials are hinged on the level of economic, social, cultural and political development.

AUTOMATED CLEARING SYSTEM

Over the years, the CBN has been co-ordinating and championing the Nigerian automated clearing system.



Besides helping to reduce clearing float, the main aim is basically to develop and integrate other electronic payment and settlement products thereby ensuring an efficient clearing system [cheques] based on electronic data presented.

When fully operational the Automated Clearing System would:

- Shorten the number of days of clearing, thereby reducing float;
- Ensure proper documentation of transactions for good audit trail;
- Reduce Human errors or omissions through automated balancing and reconciliation;
- Reduce incidence of fraud and
- Make banks debit and credit balances easily available on-line.

ELECTRONIC SETTLEMENT SYSTEM

For the CBN to have an effective and efficient Electronic Settlement System, they must first and foremost establish the necessary tools and infrastructure to ensure that all their remote branches, as well as those of commercial and merchant banks are interconnected to the CBN database. This would be made possible if CBN sets up its own independent communication network to ensure reliability of transmission, upload and download of data from or to their various remote branches. With the establishment of independent communication network, both merchant and commercial banks can easily access and transfer funds to CBN electronically.

With the CBN setting up an independent communication network, banks will easily enjoy the following facilities:

- Access to their CBN balances;
- Electronic transfer of funds to CBN Account;
- Log-in to upcountry/remote branches of CBN; and

• Eliminate delays (up to four weeks) in transfer of funds from CBN upcountry branch to CBN Central Processing Clearing base in Lagos

CBN can only plug in effectively into the new dispensation by having all its offices linked by V-SAT to speed up transaction time.

Although this requires huge capital outlay, the benefits far outweigh costs, as it will save the CBN from NITEL's daunting operational strictures. They should acquire their own V-SAT connectivity – with the central hub located at the CBN Headquarters instead of the Service Provider's site. Other banks can avail themselves of the opportunity to link up to CBN's hub.

SUPPORTING ELECTRONIC SMART CARD

It is gratifying to note that the CBN gave overwhelming approval for a group of banks to develop the use of Electronic Smart Card. The electronic payment phenomenon, which has in fact been recently introduced in more developed societies, is one of the ways in which Nigeria can leap frog into the digital global financial market.

As we all know, Smart card or digital cash card is an electronic plastic purse that can be used as an alternative to cash or bank notes. Whenever purchases are made, the monetary value decreases and can be recharged or reloaded from time to time to increase its value.

The recent introduction of the Valucard scheme is a laudable project, as this will enable consumers to pay for goods and services at designated merchant outlets equipped with a terminal with which to read the value of funds available in a specific smart card.

This digital cash card is convenient and secure and will herald greater opportunities in improving service delivery in the banking industry. It will also reduce the costs associated with currency printing and sorting. It will also reduce physical handling of notes, the nausea associated with handling dirty notes as well as cost incurred in acquiring bullion vans and building bigger bank vaults.

Regulatory authorities should be proactive in formulating legal framework, rules and regulations to protect banks and card users.

This is also an opportunity for CBN to introduce higher denominations of Naira notes to reduce the cost of sorting and processing smaller denominations.

CONCLUDING REMARKS

An autonomus CBN would be predicated on the pillars of good governance. These are: public accountability, transparency, predictability of government behaviour, and adherence to the rule of law, equity and social justice. A clement corporate governance climate will bring about the right reaction in terms of economic growth and development.

It is our hope that a healthy alliance will exist between regulatory authorities and the private sector financial operators to enhance productivity and innovation.

Today, competition is the name of the game and innovation is the primary driver. It is thus pertinent for regulatory authorities and corporate bodies to leverage competition through the acquisition and utilisation of information technology.

The Internet, for example, is generating tremendous appeal and has been predicted to dominate commerce in the year 2000 and beyond. Most successful and agile businesses are leveraging on its enormous potentials for wealth creation.

Also an electronic settlement system made possible by the establishment of an independent communication network by the regulatory authorities has the advantage of transforming the speed of service delivery that is much needed in our banking system. Product innovation through the use of Electronic Smart card and the automated clearing system will help Nigeria leapfrog into the digital global financial marketplace.

(*Mr. Jim Ovia, MD/CEO, Zenith Bank Plc, delivered this paper at the 1999 Banking Seminar organized by the Institute of Directors [Nigeria] in Lagos, on June 24, 1999)

[1]***[Financial Derivatives, 1999 Budget Review, January 1999]*** *citing Alberto Alesina and Larry Sommer's work -* ***Central Bank Independence and Macro-Economic Performance.***

[2]***[Gary Hamel & Jeff Sampler, Fortune, Dec. 7, 1998].***

ECOWAS Common External Tariff: Issues, Challenges & prospects

* By Marcel Okeke

Divergence in trade policies and deliberate focus to align with the interests of former colonial masters had in the past constituted major hindrances to intra- regional trade among countries in the various parts of Africa. Thus, for each country, trade with its neighbouring states was either non-existent or accounted for an insignificant part of its trading transactions, yearly. Even today, trade among the 15 member countries of the Economic Community of West African States (ECOWAS) amounts to only about 10% of the region's total, far less than the comparable level in other regional trade blocs.

However, the dictates of globalisation and the realisation of the enormous gains of regional economic integration, have in the past one decade triggered off changes and reforms in the trade policies of these states. At the core of these reforms is trade liberalization; that is, import liberalization and export promotion. With these has come the issue of trade policy reforms and harmonization to strengthen intra-regional trade.

Each regional bloc has used tariff measures as the foundational step in pursuit of a customs union (absence of tariff and non-tariff barriers) and full integration. The adoption of a Common External Tariff (CET) has remained central in all of these. Thus, in Central Africa, the adoption by Central African Economic and Monetary Community (CEMAC) of a CET, implemented from 1998, reduced the average import tariff rate of its member-countries (Cameroon, Central Africa Republic, Chad, Congo, Equatorial Guinea, and Gabon) to 18% within the range of 0-30%.

In the Southern African region, under South African Customs Union (SACU), a well established CET is already in place, with an average tariff rate of 11.4% within the range of 0-60% (as at 2002). Members of the West African Economic and Monetary Union, UEMOA,

had put in place a CET, as they transformed from a free trade area (FTA) into a customs union between 1994 and 1998. As a result, the member-countries currently have simple average import tariffs of 12% within the range of 0-20%.

The ECOWAS CET

Piqued by the above developments, other ECOWAS members outside UEMOA adopted a CET that took off December, 2004. It was expected to be launched on May 28, 2005, as part of the 30th anniversary celebration of the ECOWAS. Known as the ECOWAS Common External Tariff (CET), the new arrangement implies that all goods entering the customs territory of any ECOWAS country will be assessed on the same rate of customs duty, thereby facilitating closer economic integration and increased trade. In Nigeria, President Olusegun Obasanjo said in his 2005 budget that the CET would become effective in the country in July, 2005.In his words, "With this budget, I intend to lay out clear directions for policy which would begin to take effect by mid-2005". The ECOWAS tariff regime consists of four (import) tariff bands: 0% for items in the sectors that meet social needs such as health, education and information technology; 5% for primary products like raw materials and manufacturing equipment, 10% for intermediate goods and 20% for finished/consumer products. However, President Obasanjo noted that "additional tariffs can and will also be added to finished goods imports to protect selected sectors where the country has a comparative advantage and just needs sometime to develop".

With the CET, Nigeria's unweighted average tariff will adjust to 18% from a level of 30%; and generally for all member-countries, CET would be a low tariff regime. Also, the number of tariff lines will be reduced from 20 to 5 (see table).

After the commencement of CET, duty concessions will no longer be granted by government. This means that the trade and tariff policy of government will become more stable and more predictable. Hitherto, Nigeria had lost much revenue through an assortment of waivers and concessions granted by the Government and its agencies. The new arrangement (CET) has a three-year transition period, ending 2007 during which member-countries should harmonise their tariffs for the attainment of a Customs Union.

Proposed CET Structure

S/N	Description	Tariff (Rate)
1	Necessaries e.g. books, medicines	0%
2	Raw materials and Capital Goods	5%
3	Intermediate Goods	10%
4	Finished Goods in unprotected Industries	20%
5	Finished Goods in protected Industries	50%

Source: Fiscal Strategy Paper (2004 - 2007)

IMPLICATIONS AND CHALLENGES OF THE CET

Volume of Trade

With the ECOWAS CET, most of the hitherto illegal/ informal trading between Nigeria and her neighbouring countries would be captured under a low/ common tariff band. Nigerian businesses that hitherto routed their imports through other ECOWAS countries would very likely have no incentive to do so any more, since CET harmonises member-countries' tariffs. Smuggling would either disappear or be reduced to the barest minimum. This is because under the new tariff regime, importers will know exactly what the tariff rate is for products entering the ECOWAS customs territory. That is to say that the incentive to smuggle would diminish drastically. This amounts to actual integration of the informal sector into the formal system and stands as evidence of a journey to economic integration.

Nigeria's Current Tariff and proposed CET Structures

S/N	Description	Current	Proposed
1	No. Of Tariff Lines	20	[illegible]
2	Minimum Tariff Rate	0%	0%
3	Maximum Tariff Rate	[illegible]	[illegible]
4	Unweighted Average Tariff Rate	[illegible]	[illegible]
5	% Of Tariffs between 0% and 20%	[illegible]	[illegible]
	Sectoral Average Tariff Rate		
1	Agriculture	[illegible]	[illegible]
2	Mining	[illegible]	[illegible]
3	Manufacturing	[illegible]	[illegible]
	Average Tariff – Manufactured Goods		
1	Consumer Goods	[illegible]	[illegible]
2	Intermediate Goods	[illegible]	[illegible]
3	Capital Goods	[illegible]	[illegible]

Source: Fiscal Strategy Paper (2004 - 2007)

However, for most other countries joining the CET, there is the likelihood of loss of revenue. In anticipation of this, the ECOWAS Secretariat in conjunction with the ECOTRADE Project, has been assisting the governments of those countries in analysing ways of broadening their tax bases " to make up for lost revenues". Studies are also ongoing to identify and examine the implications of the CET for existing bilateral trade agreements and special export zones, among others.

Ports Activities

In Nigeria, the sea ports of Lagos, Calabar and PortHarcourt are likely to witness an upsurge in the volume of import/export transactions. The ongoing reform in the Nigeria Customs Services (NCS) is also expected to facilitate operations at the ports; thus, removing the impediments that hitherto compelled importation through the sea ports of other countries. Apparently to fast-track this development, the Federal Government by end-June, 2005, embarked on a sensitisation programme, targeted essentially at optimising the utilisation of the Calabar and PortHarcourt ports. With the theme: "Realising the ideal ports in the Nigerian economy", the programme was a joint effort of the Presidency, the Bureau for Public Enterprises and the Nigerian Ports Authority.

Foreign Exchange Inflow

Again, for Nigeria, since most export transactions would become legal, it is expected that foreign exchange inflow would rise as a result of improved trading activities. This, in turn, would encourage local (Nigerian) manufacturers of the goods and services highly demanded by consumers in neighbouring countries. The SMEs, especially those that produce for export, are likely to experience some boom. Conversely, Nigerian businesses that were hitherto patronising the 'black' market in their business dealings are likely to begin to patronise the DAS (to source foreign exchange) and have proper documentation to take advantage of the (new, lower) official tariffs.

Economies of scale

With the unfolding shape of CET, ECOWAS enterprises (both small and large) are likely to enjoy more efficient allocation and management of available regional resources among members, based on each country's comparative advantage. The resultant enhanced efficiency within the region would further stimulate production for export to the outside world. On the side of the consumers within the region, the lower prices (arising from allocating production to the cheapest per unit cost location of a product within the region), and the greater variety of consumables are capable of increasing the general welfare of citizens within the sub-region. The consumer will, however, lose some welfare by not buying from the cheapest supplier in the world, as regionalisation will inevitably divert their consumption to the cheapest producer within the ECOWAS sub-region.

Improved investment

The CET will facilitate the completion of the Free Trade Area as well as help to attract investment to the region, as investors will be able to realize economies of scale in selling to a 15-country large market with over 234 million consumers spread over a surface area of 6.4 million square kilometres. Market size has remained a major consideration in international trade and global mobility of capital. Therefore, the urge by businesses to take advantage of the attractions arising from CET implementation would likely boost the gross domestic product (GDP) of the ECOWAS member-states. Currently, the region's GDP stands at about US$105billion, of which Nigeria accounts for 51 per cent.

Regional Economic Clout

Resulting from the above would be the boosting of the economic clout of the region as well as decline in the dependence of the individual countries on imports from outside the region, all things being equal. Given that each region of the African continent is undergoing some integration process, the outcome of all this would amount to a stride towards the realisation of a key objective of the New Partnership for Africa's Development (NEPAD), namely the economic empowerment of the continent.

Alignment With WTO

The implementation of CET in the region will provide the needed platform for the European Union's negotiations for a comprehensive free trade agreement (with the region) in line with the World Trade Organisation (WTO) terms. Doing this with all the regional blocs in the continent would, in turn, fortify the place of Africa in the world trade body. Hitherto, dealing with disparate/individual countries within the various regions of the African continent had posed serious challenges to the WTO, and usually diminished the place of the continent in global trade.

Roadmap to Customs Union

Adoption of the Common External Tariff is but one of the actions articulated in the "Roadmap to the ECOWAS Customs Union". The roadmap includes six broad categories of actions, including the achievement of free trade area, the common external tariff, harmonisation of indirect tax policy (for example, excise duties and value-added taxes) or the transfer of competence to the regional organisation in regards to trade policy or competition policy, own resources for ECOWAS, and reform of the institutional framework.

The roadmap lays out the "mile markers" along the road to reaching the Customs Union by the end of 2007, specifying, step-by-step, what the ECOWAS Secre-

Nigerian Customs Regulations for Selected Consumer Products, 1995 - 2005

From prohibition to the application of customs duties

Product	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cooking oil	Prohibited	Prohibited	Prohibited	Prohibited	[illegible]	[illegible]
Poultry	Prohibited	Prohibited	Prohibited	[illegible]	[illegible]	[illegible]
Beer	Prohibited	Prohibited	Prohibited	[illegible]	[illegible]	[illegible]
Wine	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milk	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cheese, butter	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tinned tomatoes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Second-hand clothes	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
Tyres	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
Wheat flour	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
Second-hand vehicles	Prohibited	Prohibited	Prohibited	Depending on engine size	Depending on engine size	Depending on engine size
Fabric, garments	Prohibited	Prohibited	[illegible]	[illegible]	[illegible]	[illegible]
Frozen fish	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sugar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tobacco, cigarettes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Medicine				[illegible]	[illegible]	[illegible]
Water	Prohibited	Prohibited	Prohibited	Prohibited	[illegible]	[illegible]
Fertiliser				[illegible]	[illegible]	[illegible]
Rice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

source: OECD, 2001

tariat needed to do to help its member-states arrive there on time. In addition, the roadmap offers a means of evaluating and monitoring progress and compliance in each country, to keep the initiative rolling in the right direction.

The present EU/ACP agreement is not considered to be compatible with the terms of the WTO, and the EU has negotiated a WTO waiver until the end of 2007, to normalise the situation by negotiating comprehensive free trade agreements with the ACP's regional sub-groups, such as ECOWAS, CEMAC and others.

The CET and Free Trade Area, two constituent parts of a Customs Union, were both agreed to by the ECOWAS Heads of State in the 1975 ECOWAS Treaty and again in the 1993 Revised ECOWAS Treaty. To reinvigorate the process, and in the face of the need to integrate the EU/ACP relationship into the World Trade Organisation (WTO) system, the ECOWAS Heads of State and Government agreed in December 2000 that the CET of the West African Economic and Monetary Union (WAEMU, or UEMOA in French) would form the basis for the CET. Thus, the new CET regime is an adaptation of the tariff structure already in force among the Franco-phone ECOWAS member-states.

Implementation of CET

With a transition period of three years, during which all countries are expected to harmonise their tariffs, CET is to be firmly in place by end of 2007. This timing coincides with the European Union deadline to negotiate Economic Partnership Agreements (EPAs) with African, Caribbean and Pacific (ACP) group, long-time partners with the EU under the Lome Conventions (and now the Cotonou Accord). The present EU/ACP agreement is not considered to be compatible with the terms of the WTO, and the EU has negotiated a WTO waiver until the end of 2007, to normalise the situation by negotiating comprehensive free trade agreements with the ACP's regional sub-groups, such as ECOWAS, CEMAC and others.

Thus, the EU initiative, in part, informed the zeal and compelling steps being taken by the ECOWAS members to make the 2007 CET deadline. At a meeting with the immediate past World Bank President, James Wolfensohn, March 2004, in Accra, Ghana, Heads of States and Governments of ECOWAS, adopted a short-term plan of action to push for the accelerated regional integration as well as the implementation of the New Partnership for Africa's Development (NEPAD) in West Africa. One of the three priorities of that plan is the establishment of a free trade area and customs union by the end of 2007, along with improved international market access for West African exports. At present, trade among the 15 ECOWAS states amounts to about 10% of the 15 countries' total, far less than the comparable level in other regional trade blocs.

As a prelude to the CET, the ECOWAS Trade Liberalisation Scheme (TLS) aimed at eliminating tariff and non-tariff measures that obstruct the free flow of trade in the sub-region, was inaugurated mid-last year. Under the scheme, products with 60% local material content and 30% added value are specially promoted for the international markets. About 800 companies and 2,500 products have so far been admitted into the ECOWAS TLS, out of which 320 companies and 890 products are from Nigeria. This trend confirms the improving pattern of Nigeria's trade relations with many ECOWAS member-states, a development that has seen Nigeria move from outright prohibition to the imposition of customs duties on imports from within the region.

Thus, between 1995 and 2000, most consumer products that were prohibited, had been brought under various levels of customs duties. As shown in Table 3 below, only eight of the 20 products featured attracted duties in 1995, but by 2000, all but three had been removed from the prohibition list.

Within the two periods, even the levels of customs duties were also reduced, such that in 2000, several items attracted duties as low as 5%, a rate that only one item (frozen fish) attracted in 1995.

Possible Threats to CET

(1) Deeply entrenched taste for foreign goods among consumers in various countries of ECOWAS could frustrate the quest for intra-regional trade which CET is intended to facilitate. Over the years, dependence on foreign goods has impeded industrial growth and development in virtually every state in the region. It will therefore be difficult to achieve a sudden switch in taste among these consumers. This, therefore, calls for a high level of patriotism and suasion by the relevant authorities in the parties to the CET.

(2) The noble objectives of CET could be frustrated by smugglers who might resort to importing high quality but cheap foreign goods and "dump" on neighbouring countries where the cost of production of local equivalents/substitutes is prohibitive/ uncompetitive. In fact, there is the danger of 'trade diversion' through resort to the substitution of low-cost external producers with high-cost internal producers. Even at present, the prohibitive cost of doing business in a number of ECOWAS member-states has compelled many multinational corporations in those countries to serve as mere 'manufacturers representatives' for their home offices. This way, they 'import' the finished goods and repackage them instead of producing those items locally.

(3) Individual member-countries of ECOWAS still have existing industrial/trade policies under which some of their 'infant' industries are being protected, and some still enjoying 'pioneer status'. Such countries could see the emergence of CET as a threat to their own growth and development. They might therefore not easily subordinate their national development interest to the regional agenda. This, in part, informed the criticism and opposition mounted by bodies like the Manufacturers Association of Nigeria (MAN) to the adoption/application of the CET in Nigeria.

Over the years, dependence on foreign goods has impeded industrial growth and development in virtually every state in the region. It will therefore be difficult to achieve a sudden switch in taste among these consumers. This, therefore, calls for a high level of patriotism and suasion by the relevant authorities in the parties to the CET.

(4) Most countries of the region are agricultural/primary producers; it will therefore be difficult for many of them to identify/exploit any comparative/competitive advantages under the CET regime. And when a state faces the danger of getting worse off in the union, its allegiance to the regional agenda could become weak/ shaky. This could create an avenue for relapse to otherwise suppressed allegiance to colonial cleavages/tendencies.

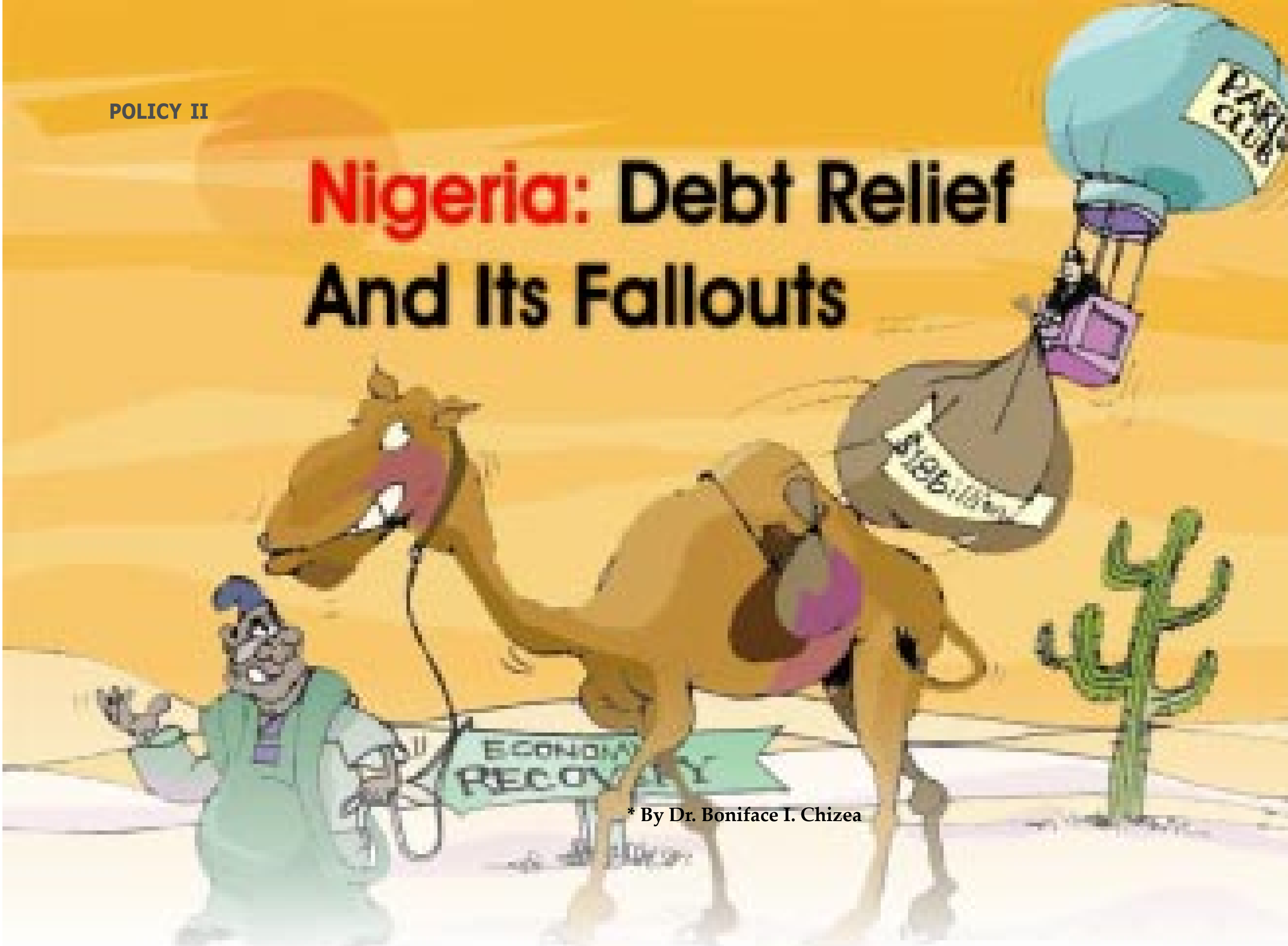
(5) Within the West African sub-region, revenue derived from import and export duties has consistently accounted for a substantial part of each country's annual budgets. It follows therefore, that unless an opportunity is created to adequately cater for revenue loss arising from the dismantling of customs duties, the loyalty towards the common market would be affected. With CET, as businesses gravitate toward the 'better endowed' and more developed countries in the region, the rest could get more impoverished, losing much revenue to the union.

(6) In the final analysis, the lingering mutual distrust between the Anglophone and Francophone members of ECOWAS remains a potent threat to eventual harmonisation of CET in the region. While the CET among the UEMOA states thrives on the members' common monetary ancestry/policies anchored on the French Franc, the rest of the countries subscribing to the ECOWAS CET suffer severe divergence in their monetary/fiscal policies and levels of economic development. This poses a serious challenge to the realisation of a harmonised CET in the West African sub-region.

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

Note: As we were about to go to press, the implementation of the ECOWAS CET got postponed to 2008.

Nigeria: Debt Relief And Its Fallouts



* By Dr. Boniface I. Chizea

The expectation has been palpable. It has been long awaited. And when at last the news came it made such an impact. The relief in the land or at least amongst those sensitive to the full implications of the debt overhang was resounding. The Paris Club, a group of Official Creditor Nations to which about 70 per cent of the national debt is due has agreed to write off about 20 billion dollars of the nation's debt. This development rides on the country's willingness to conclude a Policy Support Instrument (PSI), which would be approved by the IMF. This should not be difficult since the country had all along received the support and approval of IMF and World Bank in the articulation of the National Economic Empowerment and Development Strategy (NEEDS). This agreement also envisages that the Country pays off about 6 Billion dollars of accumulated arrears and buys back at market related discount the remaining eligible debt after the reduction. It is expected that this relief would culminate in the welcome situation whereby the country would take its exit from the Paris Club, taking full advantage of the prevalent exceptional liquid circumstances of the Nation's External Reserves. The External Reserve has just been reported to have accumulated 23 billion dollars. The development regarding this debt relief is such a momentous one that for the first time in recent memory the country is actually at the threshold of having to conduct its affairs without undue worry regarding debt repayments, debt arrears, moratorium etc. To put this development in perspective those who have

We must give credit where it is due. This relief qualifies, for most informed commentators, as the one true dividend of democracy. In the first place the relief could not have been contemplated in a non-democratic dispensation.

been around for a while would recall that since the early eighties we have organized international seminars to crystallize a consensus on the 'way forward regarding the albatross which the national debts have come to represent.

NIGERIA: Public Sector Gross and Net Debt, 1990 - 2003

(In billions of naira, unless otherwise indicated)

	1995	2000	2000	2001	2002	2003 est.
Public sector gross debt	1,174	3,010	3,998	4,373	4,977	5,624
Public sector net debt	1,437	2,486	3,022	3,422	4,303	5,398
Domestic debt-by instrument	218	560	898	1,017	1,166	1,330
Treasury bills	83	275	466	585	734	825
Treasury bonds	97	283	431	431	431	503
Treasury certificates	34	0	0	0	0	0
Development stock	4	3	2	2	2	1
Other	0	0	0	0	0	0
Domestic debt - by holder	209	560	898	1,017	1,166	0
Banking sector	183	515	856	938	993	0
Central bank	164	410	714	739	532	...
Commercial banks	23	97	133	199	460	...
Merchant banks	5	8	9	0	0	...
Nonbank sector	40	45	42	79	173	...
External public sector debt	955	2,447	3,091	3,324	3,787	4,295
Multilateral	136	316	342	340	362	398
Bilateral	632	1,797	2,393	2,610	3,108	3,589
Commercial banks	187	334	357	374	317	308

Source: IMF, 2004

We must give credit where it is due. This relief qualifies for most informed commentators as the one truly dividend of democracy. In the first place the relief could not have been contemplated in a non-democratic dispensation.

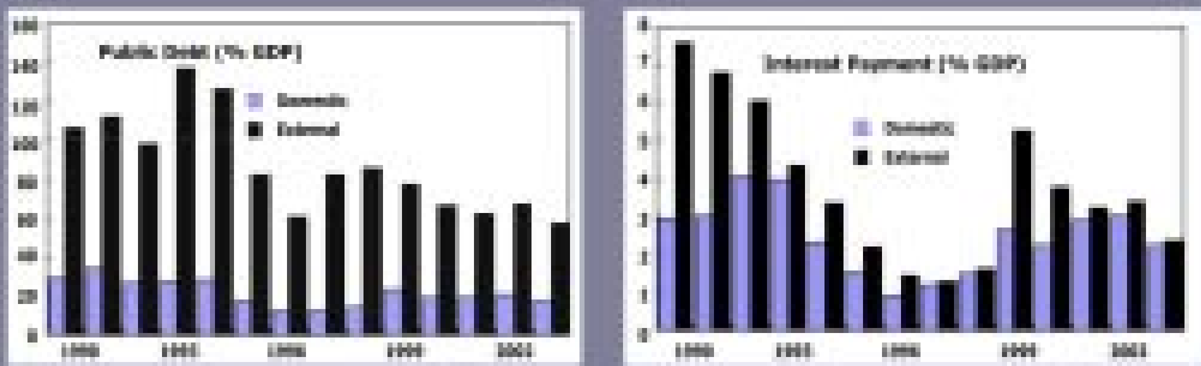
And it represents and reflects a ringing endorsement of the quality of governance in the country as anchored on the fight against corruption, transparency, the procurement reform programme (due process), and the totality of the reform policy which has resulted in Gross Domestic Product (GDP) growth of 6 per cent last year, end of year 2004 10 per cent inflation rate and a deficit of 1.5 % of GDP at 25 dollars per barrel of oil compared to a target of 2.1 per cent. We must give the President due credit for this development. He has fought strenuously to obtain this debt forgiveness that there is no doubt that history would record this success as one of the high points of this administration

We must give the President due credit for this development. He has fought strenuously to obtain this debt forgiveness that there is no doubt that history would record this success as one of the high points of this administration.

It must also be observed that debt relief for Nigeria is in the enlightened interest of the world considering the role the country has played in undertaking peace keeping in the sub-region. An effort which is calculated to have cost the country not less than 11 billion dollars not to talk of non-quantifiable loss of human lives and which has saved the world considerable trauma and cost arising from refugees fleeing across boundaries. Africa has also risen to the challenge of development by deciding to seize its destiny in its hands through the activities of the Africa Union; New Partnership for Africa Development (NEPAD) and recently, the Peer Review Mechanism that it is in order for the continent to be encouraged for these laudable initiatives. It might not be far-fetched to conclude that in fact the earlier announced 100 per cent debt relief for 18 Highly Indebted Poor Countries (HIPC), 14 of which are in Africa was due to the improved climate for debt forgiveness for which the President is entitled to claim some credit.

There has been the argument that it is demeaning and not good for our national pride to seek and obtain debt forgiveness. This will not be so if we factor in the part played by the creditors in creating the debt overhang situation. The credits were mostly not project tied and therefore could not be monitored and were not extended on terms

NIGERIA: Debt Dynamics (1990 - 2003)



Source: Nigerian authorities; and IMF staff estimates

which are favourable. This explained the situation whereby we have paid well beyond the Principal borrowed without that impacting on the debt situation. And the reality is that Nigeria in spite of its oil producing status (6th oil exporter in the world) is a poor country, going by the usual indices. The revenue from oil translates to about 53 cents or 70 Naira per person per day, compared to 3.4 dollars, 27.3 dollars, 2.4 dollars for Venezuela, Kuwait and Iraq respectively. Also countries with better economic indices than Nigeria such as Poland, Yugoslavia, Egypt and lately Iraq have all recently been beneficiaries of debt relief.

This development would not in any way affect the country's credit rating as has been feared. If anything this relief should enhance it as we are now in a position to service future debts once it is undertaken advisedly. The capacity of the country to service its debt is most certainly not in doubt considering its resource endowment. What was lacking is good governance which all hands are on deck to provide and which the International Community thinks is already in place. What should worry us therefore is sustainability and that is why all deliberate measures must be taken to institutionalize the reforms.

Commentators have argued that the celebration of the announcement of the debt relief is premature as the relief can only be realized based on successful fulfillment of some outstanding issues. Let's look at the issues logically and dispassionately. The country is expected to agree a Policy Support Initiative (PSI) with the IMF, pay off about 6 billion dollars representing penalties and arrears and buy back the balance of the debt from the Stock Market at market related discount. It has been reported and to some extent it is common knowledge that the Multilateral International Financial Institutions collaborated with our experts most of who were drawn from these Institutions in crafting the National Economic Empowerment and Development Strategy (NEEDS) and that was why the IMF did not have any hesitation to adopt, for the first time, this home grown strategy as adequate for its usual Medium Term Economic Programme (MTEP). It would be recalled that in the past, overcoming this hurdle constituted a real stumbling block to the country's attempt to enter into negotiations to obtain some relief and concessions usually followed with some rescheduling. This is the policy instrument for which the IMF in the past has been severally criticized of making the same policy prescriptions for all those countries that had to adopt an MTEP to facilitate negotiations with creditors for debt relief. But all that is ill-informed because most of these countries suffered from the chronic problem of bad governance as reflected in distorted price and incentive system, bloated bureaucracy

We are also reassured by the declaration of the Federal Government of its resolve to send a bill to the National Assembly to regulate the conduct of Government with regard to booking future debts. That should put an end to the era of the booking of frivolous credits which got the country in the trap from which it is now finally extricating itself.

geared towards prebendalism and rent seeking, a private sector that has been enfeebled and distorted and social contract with its population that was kept in the breach. And therefore the prescription for correction except in the details which had to reflect particular situations were per force broadly the same.

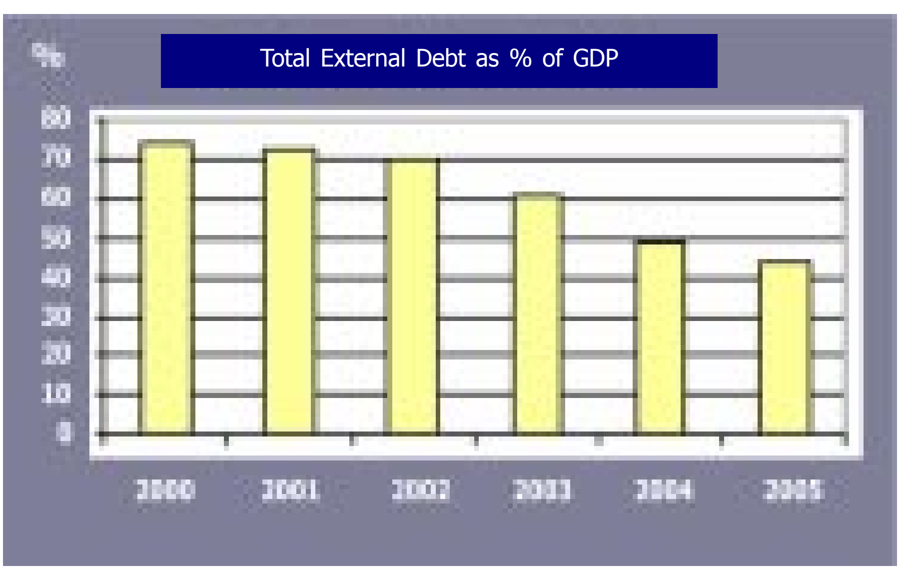
The IMF having endorsed NEEDS, it would therefore not be farfetched nor does it require second sights to see that it is a very short step from NEEDS to PSI. We do not see and indeed cannot envisage any problems arising from this requirement. And the requirement for some payment to be made should not be any difficult considering how liquid the external reserves are and not forgetting the amount accumulated in the excess crude account.

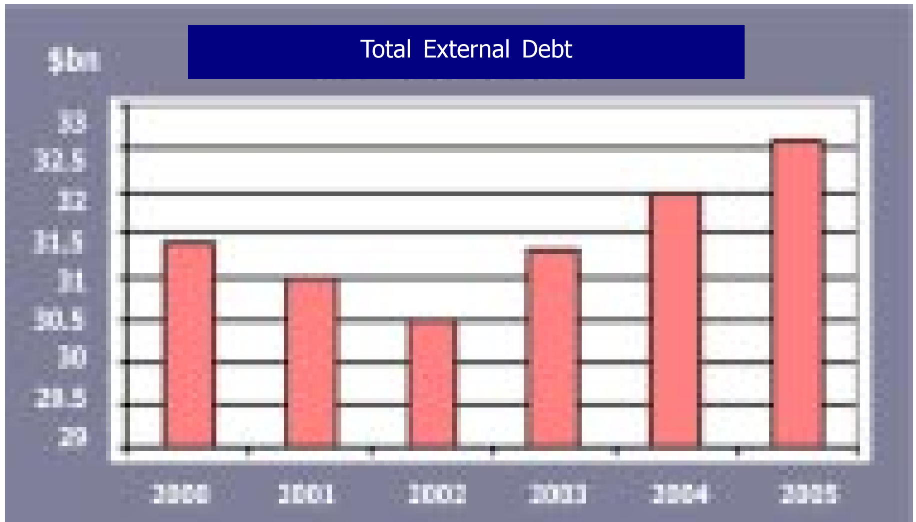
We therefore can not discern any logical basis for dubbing the celebrations premature. And what is more, the President could not have rolled out the drums because he wanted to hoodwink the population and probably the International Community including our very creditors by claiming premature credit. We should learn to give the President some benefit of the doubt. Why were the drums not rolled out during the earlier announcement of debt cancellation amounting to 40 billion dollars to 18 countries, 14 of which are in Africa? We believe that the celebrations are very much in order and timely. We must not attempt to undermine the achievement which this success reflects. It is precedent setting, particularly if you remember that Nigeria is the sixth largest exporter of crude petroleum and that we did not have to go through the usual experience of rounds of tortuous; excruciating and sometime overbearing negotiations for this landmark relief to be granted.

We would however wish to join the Nigeria Labour Congress President, Comrade Adams Oshiomole in calling for the judicious segregation of the funds from the debt relief to plough it into health, education, infrastructure resulting in sustainable employment opportunities. And to ask the Federal Government to confound

the skeptics by working with the other tiers of government to ensure that its own responsibilities in the agreement are dispatched without any hitch. We are also reassured by the declaration of the Federal Government of its resolve to send a bill to the National Assembly to regulate the conduct of Government with regard to booking future debts. That should put an end to the era of the booking of frivolous credits which got the country in the trap from which it is now finally extricating itself, Good a thing the country now enjoys an International Development Association (IDA) only treatment and that would facilitate debt flow of a concessionary nature to the country for poverty alleviation and the development of infrastructure.

With the debt relief all the 36 State Governments have urged the Federal Government to extend a similar gesture to them. The Forum of State Finance Commissioners has requested both the Federal Ministry of Finance and the Debts Management Office (DMO) to compile all payments states had made on Foreign Debt Servicing in the past. The Forum decried a



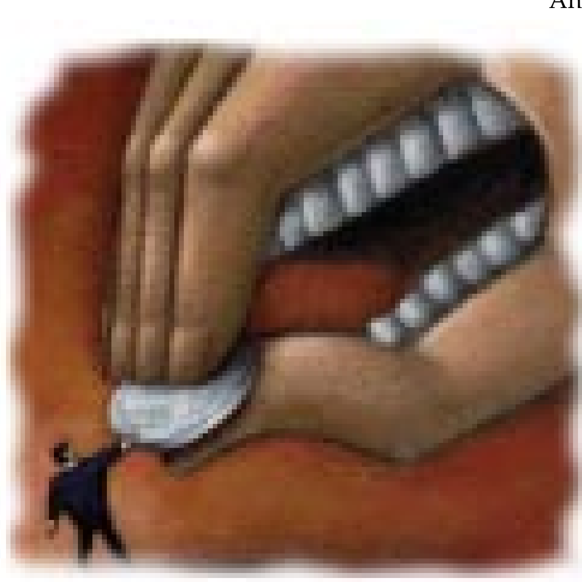


Source: Research & EIG data

situation whereby the Federal Government had regularly deducted from statutory allocations due to States without any attempt at being transparent about it as deductions were simply made without any attempt at reconciliation. The Forum would also wish to remind the Federal Government that foreign debts due to State Governments are of the order of 25 per cent of the total. Therefore it demands that the burden for servicing the outstanding debts under the Paris Club agreement should be aligned to the share of obligations.

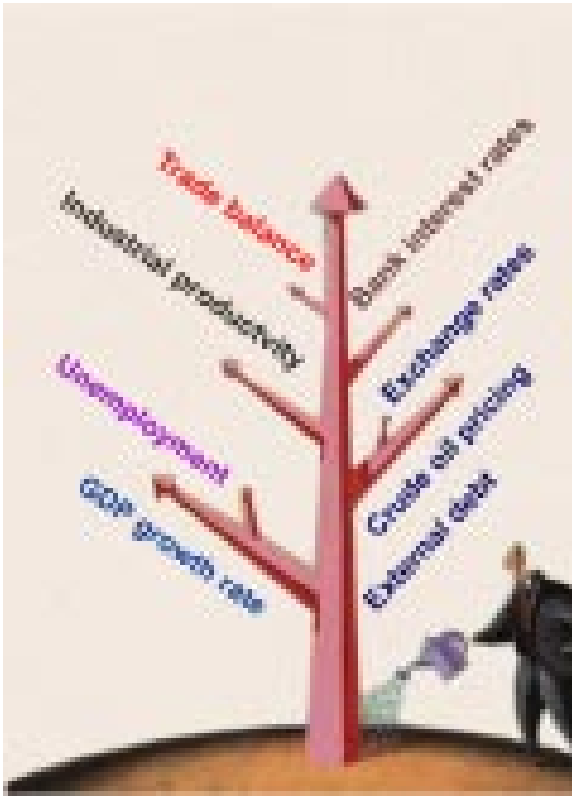
We believe that these are legitimate and reasonable expectations which the Federal Government should not have any problems with obliging. The DMO, we understand is fully geared up and up to speed with statistics on the structure of national debt, all automated that reconciliation should not pose any particular challenges.

The next logical issue to address is the future. The way forward regarding debt. It is defeatist to declare that the nation would no longer accept any business transaction that includes deferred payments. That is disingenuous. There are obvious advantages that come with debt not the least of which is retained and sustained interest of the creditor in your affairs and where the debt is project tied, there could be on-going obligations and commitment which the debt would tangentially help to underwrite. The Military Government in the country actually successfully placed a moratorium on debt in the period between 1995-1999. We should therefore going forward incur debts advisedly.



And since the debts would necessarily be repaid in foreign exchange, debts should be incurred only for projects that would boost exports or displace imports. We should incur concessional debts to aid poverty alleviation or for the improvement of infrastructure. The preference would always be for concessional debts and debt accumulation must align the timing of repayment to anticipated income flow from the project. We must be concerned regarding absorptive capacity. The received wisdom in this regard is that debt is optimal if its marginal product is above the average cost of capital. Low debt to GDP ratio is always to be preferred and we must diversify the mix of debt instruments in our portfolio in terms of source and type to avoid harmful concentration. It is our prayer that the nation must never again find itself in a situation whereby debt becomes such an engaging national issue.

(* Dr. Boniface I. Chizea is a Principal consultant at BIC Consultancy Services Lagos).



Economic Growth Indicators and Prospects

*By Eunice Sampson

Global economic outlook in the second quarter of 2005 brought the world closer to the reality that growth prospects for 2005 is not as bright as the previous year, especially due to poor performance in the developed economies.

Except for few countries like the United States and China, first quarter economic growth was more favourable than that of the second quarter. The Euro zone was once again the worst hit, recording a GDP growth rate of 0.4% (quarter to quarter), down from the 0.5% recorded in the first quarter and justifying the gloomy picture most economists have painted about the zone's disadvantaged economic position this year.

For the Eurozone and most other countries, developed or underdeveloped, the depressing growth prospect is further compounded by rising crude oil prices. Defying all proffered solutions by both producers and consumers of the commodity, oil prices reached a record high of above $60 per barrel in mid-June, and rose close to $70 per barrel at the end of that month.

The rising price of crude oil has dampened any hope of a miraculous global economic turnaround this year.

Sources: Global Insight Inc; Foreign Press Centre Japan (www.fpcj.jp); www.bankofcanada.ca; Research & EIG

KEY ECONOMIC GROWTH INDICATORS

Real GDP Growth Rate:

In the United States, second quarter growth outpaced the first quarter 3.1% growth performance, with a surprise 3.4%, which was still less than the 3.8% growth recorded in the last quarter of 2004.

In China, GDP grew from 9.4% in the first quarter of the year to 9.5%, regardless of fiscal measures the Chinese authorities have put in place to slow growth to a more sustainable level.

Japan in mid-May announced a first quarter real GDP growth of 1.3% (5.3% year-on-year), an impressive growth when compared with fourth quarter 2004 growth rate of -0.1%. The relatively strong growth in the first quarter was induced by strong consumer spending and business capital investment. But second quarter real GDP growth fell to 4.3% year-on-year, following a drop in exports to the US and China, and a carry-over of the drop in the sale of ships to Asian countries, which characterized the first quarter. Japan's growth in the first two quarters of the year however raises hope that the country might well be on an economic recovery track.

*Source: The Economist, 2005; Research & EIG*Estimates*

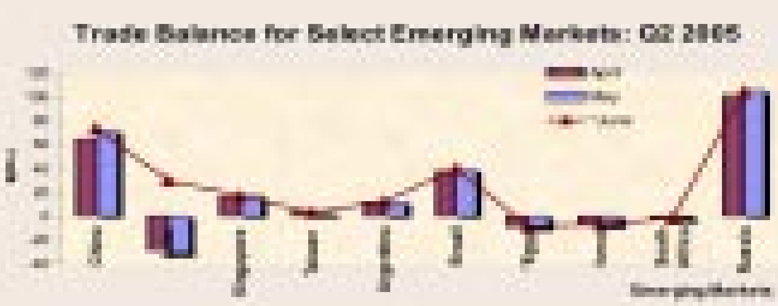
The eurozone GDP growth dropped from the 0.5% (quarter on quarter) recorded in the first quarter (its best performance since the first quarter of 2004 when it grew 0.7% q/q), to 0.4%. Across the eurozone countries, the only impressive economies were Germany and Spain. German economy expanded by 1.0% (q/q) in the first quarter and 1.2% in the second quarter. Spain grew by a robust 0.9% (3.3% y/y), a pace it sustained in the second quarter.

For the fourth consecutive quarter, the UK economy grew below expectation, from 0.5% in the first quarter to 0.4% (1.7% y/y) in the second quarter, no thanks to the recession that hit the industrial sector and brought output down by 0.4% q/q, after a 0.9% drop in the first quarter.

In Africa, the South African economy, strengthened by its financial services, mining, internal trade, transport and communications sectors, advanced by 3.5% in the first quarter, but slowed slightly to 3.4% in the second following a drop in the performance of the manufacturing sector.

Nigeria on the other hand, is predicted to have grown from between 3.8-4.2% in the first quarter to 4.0-4.5% in the second quarter, an economy strengthened by the high cost of oil in the international market, its major export commodity. For the entire continent however, an average GDP growth of about 4 - 5% is estimated for the second quarter.

*Source: The Economist, 2005; Research & EIG *June figures are estimates*



*Source: The Economist, 2005; Research & EIG *June figures estimates except for Israel*

Industrial Productivity:

In industrial productivity, China recorded the strongest performance of over 16% improvement year-on- year, followed by India with about 10% growth. Taiwan recorded a negative (-4%) growth in May, after a 0.6% growth in April, and ended the quarter with an estimated 2.0% growth in the month of June. Argentina's industrial production rose to 7.4% in the month of April, but dropped sharply to 2% growth in June.

Trade Balance:

In international trade, China recorded an overwhelming 32.7% growth in the first six months of the year, bringing its earnings from exports to $342.3 billion as at June, and a trade surplus of S$39.6 billion, despite a strong crude oil demand.

Other major economies were not so lucky. Fueled by the high cost of crude oil and a strong appetite for imported products, the United States, UK, France, and Australia recorded trade deficit of over $700bn; $100bn; $22bn; and $18bn, respectively. However, Germany, Japan and the Eurozone recorded surplus of $190bn, $120bn and $60bn, respectively.

Value of the US $ Against Other Currencies

Currencies	April 29		May 31		June 30		Q2 Average	
British Pound Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
European Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian $	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nigerian Naira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SA Rand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chinese Yuan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Australian $	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Russian Roubles	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazilian Real	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Korean Won	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore $	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CFA Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indian Rupee	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: www.bankofcanada.ca; www.oanda.com/conver

Exchange Rates:

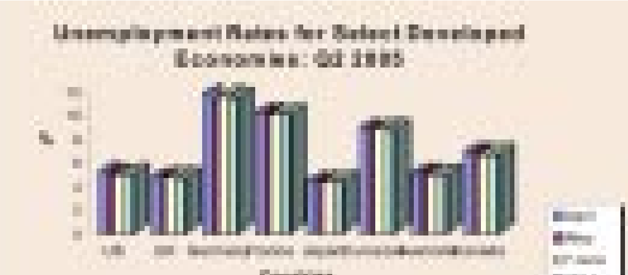
In exchange rates, no major upset was recorded in the second quarter. Major currencies experienced relative stability, especially against the US dollar, whose value remained on a record low throughout the first six months of the year.

China once again remained the centre of focus as the United States and Europe renewed pressure on the Chinese government to lift the peg on the value of the Yuan and leave it for market forces to determine. China is expected to bow to external pressure soon and relax its tight control over the Yuan.

Bank (Interest) Rates

Between fourth quarter 2004 and second quarter 2005, the US bank rates rose about 200%, from 1% to 3%. Canada slightly reduced rates within the period, from 2.5% to 2%. In the Eurozone, rates were stable at 2%; while in the UK, rate was marginally increased from its 4.5% position as at last December to 4.75%, to curb rising inflation. Japan rates remained at 0%.

In Africa, South Africa and Nigeria lowered bank rates in the period under review from 15%-to 13% for Nigeria, and from 11.5% to 10.5% in South Africa, even as both economies grappled with liquidity glut in the financial system and rising inflation.



Source: The Economist, 2005; Research & EIG Some June figures are estimates

BusinessWeek; June 27, 2005; Research & EIG

Unemployment and Wages:

The US showed robust employment growth in the second quarter. Payroll employment rose from 274,000 in April to 78,000 in May and 146,000 in June.

However, among the G-8 economies, Germany recorded the highest unemployment rate, with an average of 11.5% for the quarter; followed by France with 10.1% and 8.8% for the Eurozone. US unemployment rate stood at 5.1% while Canada recorded 6.7%.

In the US, wages rose by 2.7%; Canada 3.0%, Eurozone 3.1% and UK 4.2% within the quarter. Also within the second quarter, Japan recorded a 0.2% drop in wages in the month of May after a 0.5% rise in April; but a rebound is expected in the next quarter in response to increasing improvements in other macroeconomic indices.

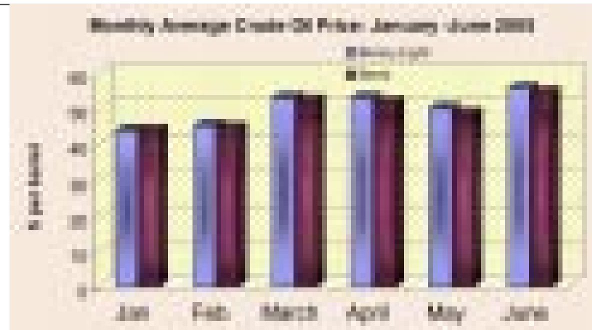
Crude Oil Prices:

Crude oil prices hit a new all-time high of $59.50 on June 20 after maintaining an average price of $52-54 dollar per barrel in the first two months of the quarter. On Monday June 27, crude oil prices crossed the $60 per barrel line, closing at $60.45 on the New York Mercantile Exchange after hitting a high of $60.95

earlier in the day.

To curb high prices, OPEC increased its supply twice within the quarter, with additional 500,000 barrels per day in both cases. The price increase within the quarter was mostly as a result of supply fears in the face of increasing demand, especially from the US, Japan, China and the Eurozone.

Average price of Bonny Light in the second quarter was \$53.1 per barrel and \$51.8 per barrel for Brent crude. Analysts have expressed fears that prices could reach \$100 per barrel in the next couple of years.



Source: OPEC, 2005

External Reserve:

Some developing and emerging markets with favourable trade balances experienced significant rises in external reserves in the second quarter.

At the end of June, China grew its external reserve from about \$600bn to over \$700bn, owing to a favourable trade balance. India however, dropped from its \$136bn in April to about \$130bn in June, following a slight drop in the volume of its export commodities and service.

In Africa, South Africa's external reserve grew by over \$2bn between April and June, closing at \$16.9bn at the end of the quarter. Nigeria, owing to high crude oil prices and prudent fiscal management, also recorded about \$2bn rise in its external reserve, which stood at about \$24bn at the end of the quarter.

Source: The Economist, 2005; Research & EIG

Source: Global Insight Inc., July 2005

External Debt:

In the second quarter, the struggle with unsustainable external debt of over \$600bn continued for developing countries, with the African continent attracting the most international focus due to the prevalent poverty there.

The outcry against perceived injustice by the rich countries against the poor was intense, especially as the G-8 Summit, scheduled to hold in the UK from July 6-8 drew closer. Expectations were high that the world's richest countries would seize the opportunity of the Summit to respond positively to U.K's Tony Blair's proposal of a 100% debt forgiveness and \$50bn additional aid to the world's poorest countries.

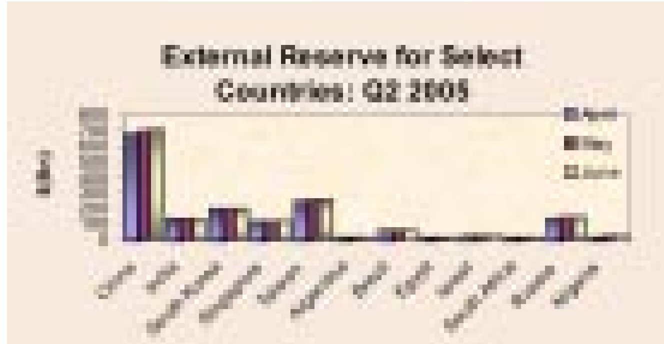
In June, a major breakthrough was recorded when the G-8 members wrote off the debt of 18 poor countries (14 of them in Africa) amounting to \$40bn. Nigeria also ended the quarter with the cheerful news that the Paris Club had agreed to write off about \$18bn (60%) of the debt it ows the group of creditor nations. The feat was attributed to on-going national economic reforms embarked upon by the country in the last few years. The Nigerian government plans to leave the Paris Club completely through a buy-back arrangement to offset the remaining debt.

YEAR-END(2005) FORECASTS:

The forecasts from the **State Street Global Advisors for 2005** are typical of the views of most global analysts on the possible outlook for the remaining months of the year. See tables below for forecasts for some key global economic performance indicators:

Central Bank Rates	Q2 2005	Q4 2005 Forecast
US	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Canada	[illegible]	[illegible]
Eurozone	[illegible]	[illegible]
UK	[illegible]	[illegible]
Japan	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
India	[illegible]	[illegible]
South Africa	[illegible]	[illegible]
South Korea	[illegible]	[illegible]
Taiwan	[illegible]	[illegible]
*Nigeria	[illegible]	[illegible]

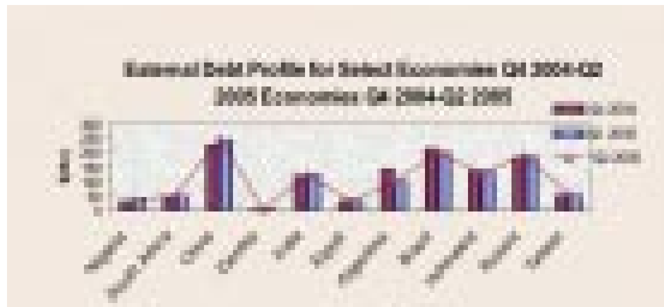
Source:* *State Street Global Advisors (www.advisors.ssga.com) July 2005 * *CBN*



Source: The Economist: 2005; Research & EIG

Inflation	Cal. 2004	Cal. 2005 Forecast
Developed Economies	[illegible]	[illegible]
US	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Canada	[illegible]	[illegible]
Eurozone	[illegible]	[illegible]
France	[illegible]	[illegible]
Germany	[illegible]	[illegible]
Italy	[illegible]	[illegible]
UK	[illegible]	[illegible]
Japan	[illegible]	[illegible]
*South Africa	[illegible]	[illegible]
**Nigeria	[illegible]	[illegible]

Source:* *State Street Global Advisors (www.advisors.ssga.com) July 2005
* South African Reserve Bank; ** Central Bank of Nigeria; ***Research & EIG



*Source: www.bcb.gov.br ; central banks; Research & EIG *Estimates*

Real GDP Growth	2004 Final	2005 Final Forecast
Global	4.9%	4.2%
US	4.4	3.7
Australia	3.5	3.1
Canada	2.8	2.6
Eurozone	1.8	1.5
France	2.3	1.9
Germany	1.6	1.2
Italy	1.2	1.0
UK	3.1	2.5
Japan	2.6	1.0
Brazil	5.2	3.7
China	9.5	8.4
India	6.8	7.1
Mexico	4.4	4.0
South Africa	3.7	4.0
South Korea	4.8	4.0
Taiwan	5.9	5.0
*Nigeria	6.1	6.0

*Source: State Street Global Advisors (www.advisors.ssga.com) July 2005 ; *NEEDS*

Exchange Rates	Q1	*Q2	2005 Final Forecast
Australian Dollar ($/A$)	0.77	0.76	0.82
British Pound ($/£)	1.89	1.84	1.96
Canadian Dollar (C$/$)	1.21	1.24	1.15
Euro ($/€)	1.30	1.24	1.39
Japanese Yen (? /$)	107.15	107.83	101.00
Swiss Franc (SF/$)	1.20	1.22	1.12
*South Africa	6.00	6.40	6.40
*Nigeria Naira (₦/$)	132.00	132.00	132.00

Source: State Street Global Advisors (www.advisors.ssga.com) July 2005; ** Research & EIG*

Global Crude Oil Demand	2004	Q1 05	Q2 05	Q3 05	Q4 05	END 2005	Change (2005 - 2004): Volume	%
North America	25.35	25.47	25.31	25.75	26.11	25.66	0.31	1.21
Western Europe	15.57	15.52	15.13	15.56	15.92	15.53	-0.04	-0.26
OECD Pacific	8.53	9.49	7.86	8.07	8.76	8.54	0.01	0.14
Total OECD	49.46	50.47	48.30	49.37	50.79	49.73	0.28	0.56
Other Asia	8.35	8.56	8.85	8.57	9.00	8.75	0.40	4.81
Latin America	4.89	4.77	5.01	5.11	5.08	5.00	0.10	2.10
Middle East	5.43	5.60	5.58	5.81	5.69	5.67	0.24	4.40
Africa	2.69	2.75	2.75	2.72	2.83	2.76	0.07	2.68
Total DCs	21.36	21.69	22.20	22.21	22.60	22.18	0.82	3.82
FSU	3.85	3.90	3.85	3.97	4.16	3.97	0.13	3.32
Other Europe	0.86	0.93	0.80	0.83	0.87	0.86	0.00	0.34
China	6.52	6.51	6.77	7.05	7.32	6.92	0.40	6.09
Total Other Regions	11.22	11.35	11.42	11.85	12.35	11.75	0.53	4.70
Total World	82.04	83.51	81.92	83.44	85.75	83.66	1.62	1.98
Previous est.	82.17	83.79	82.34	83.72	85.91	83.94	1.77	2.16
Revision	-0.13	-0.28	-0.41	-0.28	-0.17	-0.29	-0.15	-0.18

Source: OPEC (/www.opec.org), July 2005

While global analysts and financial institutions are still not certain as to what extent the rising crude oil price and demand would affect the global economy in the long run, oil remained the most topical issue throughout the second quarter, and predictably, the remaining two quarters of the year. Very soon, emphasis will likely shift away from how to bring down the uncontrollable prices, to how to circumvent demand and find alternative sources of energy.

It is fairly easy, to say however, that for the remaining two quarters of the year, crude oil demand and prices would play a significant role, and impact on the performance of other key economic indicators for most countries.

(* Eunice Sampson is an Assistant Editor, ZEQ)

Managing Globalization:

The Role of Business

*** By Jim Kolbe**

During Globalization is an issue that we all will have to deal with for a long time. If that turns out to be false, it means that there has been a huge reversal in the global trading system or security system among nation-states. That would be an evolution in world affairs that no one would wish to see. U.S. foreign policy is keyed to prevent such an outcome. Globalization is here to stay. Unfortunately, the ills of globalization and the negative attributes of an increasingly interconnected world are being blamed on multinational corporations. Following the logic of the most fervent critics of globalization, trade liberalization and capitalism are the root of all evil. In the U. S. political system, nowhere is this public policy debate greater than in the fight over the passage of the Central American Free Trade Agreement (DR-CAFTA). That agreement has put globalization and the roles of business, government, and civil society under a microscope. In the context of that scrutiny, globalization should be accepted as inevitable and embraced by public and private stakeholders to shape both public and private good. Globalization is a process that will work best if it is proactively managed to succeed. Trade agreements, foreign aid, and diplomatic engagement are the best tools available to leverage benefits and mitigate or prevent negative outcomes.

Key Challenges of Globalization

Looking through a prism from different angles, one can view the challenges of globalization from several perspectives – by region, by development sector, by transnational challenge, by income, or by strategic importance.

One can portray the world in terms of illiteracy and insufficient education, infectious diseases like HIV/AIDS, poverty, or national security challenges such as those currently in the Middle East. However, instead of identifying a long list of symptoms revealing the weak health of development in the developing world, it is more enlightening to examine the driving forces behind the challenges faced in development. If the U.S. is to better navigate the course of international affairs, it is essential that government and the private sector address these forces. The role of business, and specifically the role of private philanthropic foundations, can be tremendously positive in this regard.

There are three key underlying gaps that define the challenges in the international system: economic opportunity for prosperity, the ability to govern and effectively manage political economy, and security (among individuals, communities, ethnic groups, and nations). These gaps can be defined as divides between the developed and the developing world - differences between nations that have been successful and those that have not.

Ethnic and religious conflict, insurgencies, and illicit activities are pervasive in much of the developing world, which threatens economic development, regional security, and prospects for the consolidation of democracy. These conditions are not new, but the impact of failed states is felt far more today in the international system.

Gap 1: Economic Opportunity for Prosperity

The first gap – the economic gap – can be measured in two ways. One is the divide between the developed and developing world. The G-7 countries account for only one tenth of the world population but account for one half of world trade. On the other hand, the 49 least developed countries in the world account for less than one half of one percent of world trade but more than fifteen percent of the world population.

The second measurement is found within developing countries. While protesters in Seattle, Genoa, or Washington, D.C. may criticize the capitalist system and the process of globalization, the fact of the matter is that most of the world – especially the developing world where the majority of poor people live– has no other option. The reality is that the citizens of many developing countries live and work outside the global economy. In such economies the informal economic sector supports fifty to seventy percent of all working people.

Together, these statistics – measured between countries and within countries – demonstrate an enormous divide in economic opportunity for prosperity and constitute a major challenge in international affairs.

Gap 2: Ability to Govern and Manage Political Economy

The second gap has to do with governance – good governance – or the lack thereof. In large parts of the developing world there is a tragic coupling of poor governance and inadequate development. A country characterized by a high rate of corruption and little respect for private property rights will almost certainly fail to raise the per capita income of its people.

Gap 3: Security

The third gap pertains to security – for individuals, ethnic groups, and states. The number of failed states is increasing at an alarming rate. That is creating a chronic gap in security in the international arena. Ethnic and religious conflict, insurgencies, and illicit activities are pervasive in much of the developing world, which threatens economic development, regional security, and prospects for the consolidation of democracy. These conditions are not new, but the impact of failed states is felt far more today in the international system.

Not long ago it was fashionable in foreign policy circles to declare the concept of the nation-state as dead because of the growing rate of globalization. In fact, the exact opposite seems to be true. The process of globalization has underscored the importance of this structure in the international system. Globalization has simply meant that challenges, weaknesses, or even tensions associated with nation state structures are manifesting themselves differently. It is more often in the absence of these structures that we are becoming more acutely aware of the process of globalization.

The three gaps in economy, governance, and security are driving forces behind a shifting international landscape. Unless political, business,

and civil society leaders are able to foster successful, secure sovereign states, anchored to capitalism and democracy, no amount of foreign aid, no amount of U.S. military intervention, and no number of U.N. meetings will reverse the tide of illegal immigration, poverty, and potential for conflict and chaos that threaten to wash over the shores of Europe and the United States. The reason is self evident. The results we all seek for the world's impoverished in all development dimensions, such as human rights, environmental protection, poverty reduction, and improved health, are a function of the capacity of countries to govern themselves and create an effective political economy.

It is against this backdrop in international affairs where corporate philanthropy can help make a real difference. Corporate philanthropy demonstrates that globalization and international development can go hand-in-hand. Of course, business should not be viewed as a panacea or as a substitute for government action. Some solutions are inherently governmental. For instance, there is little that business can do to encourage or generate greater security in the international system. However, when it comes to the first two gaps – encouraging greater economic opportunity and promoting better governance in the developing world – the business community can play a catalytic role in tackling the challenges facing developing states.

Recommendations

Recommendation #1: Don't Shy Away From the Pursuit of a Big Idea

If a solution is more than obvious, if a great deal of public good could be achieved with an innovative idea or a little "out of the box" thinking, it should be embraced and pursued. A recent article in the New York Times described such a pioneering initiative. As part of a two-year, $2 million inquiry to determine whether a Palestinian state could succeed, the Rand Corporation has concluded the challenge can be met.

Of course, business should not be viewed as a panacea or as a substitute for government action. Some solutions are inherently governmental. For instance, there is little that business can do to encourage or generate greater security in the international system.

Rand, an independent nonprofit think tank with a reputation for clear-headed thinking, worked with a group of urban planners to map out what a viable Palestinian state would look like. The plan is comprehensive and bold. It conceives borders, infrastructure, inter-connectedness with the world, and a spirit of optimism and realism for a region consumed by lost hope, despair, and conflict.

The proposal calls for an urban development plan in the shape of an arc or a half moon that connects population centers in the West Bank and Gaza. The idea has been presented to the White House, the European Union, the World Bank, and other organizations, as well as to the Palestinians and Israelis. The idea has captured the attention and imagination of a number of Palestinian policymakers.

Today, an independent Palestinian state is an idea, a dream – not a reality, but the power of an idea can move policymakers and entire populations to reconciliation for the future. The Rand studies were not undertaken by government, but by a California urban planner and developer who used his philanthropy to promote the idea

All too often in international development, diplomacy and policy efforts become mired in dysfunctional politics. The business community has a penchant for results. Timelines, project management skills, and the drive for performance can help sweep aside the dysfunction that governments too often produce and tolerate.

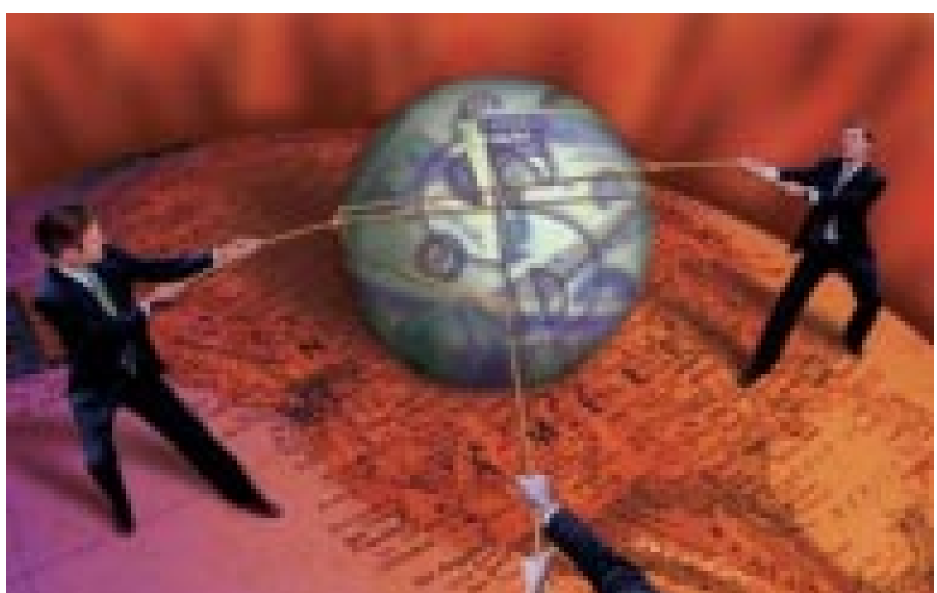
that might bring an end to the conflict.

Another big idea that deserves to be advanced is the concept of property rights for the poor in developing countries. Hernando de Soto, a Peruvian economist and champion of the poor, points out that millions of people around the globe have no stake in globalization. Their assets, livelihoods, and identities are not recognized in the formal economy. They do not have property rights codified within the legal framework. Business can help advance the development of effective property rights for the poor in developing countries. Nothing could be more important since capitalism is based on the right to private property, including land and businesses, not just intellectual property protection.

Recommendation #2: Don't Be Afraid to Engage and Enforce Accountability in Development

All too often in international development, diplomacy and policy efforts become mired in dysfunctional politics. The business community has a penchant for results. Timelines, project management skills, and the drive for performance can help sweep aside the dysfunction that governments too often produce and tolerate.

One very good example of how business philanthropic interests can generate more functional development is found in the creation and operation of the Vaccine Fund (GAVI). GAVI combines the efforts of development institutions like the United Nations Children's Fund (UNICEF), the World Health Organization (WHO), and bilateral development agencies like the U.S. Agency for International Development (USAID) with corporate philanthropy organizations like the Gates Foundation and private companies like Merck to help ensure that the world's people - no matter how rich or how poor - have access to life-saving vaccines. The leadership of private sector organizations such as the Bill & Melinda Gates Foundation in such initiatives is crucial to their overall success. GAVI represents a public-private partnership that injects resources, and more importantly, accountability and ingenuity into the development process.



Recommendation #3: Scale Up Efforts to Build People and Indigenous Capacity

In the developing world, building local capacity to manage development is a massive challenge that has not been met with significant success. At times, it is far easier to find money than to find good, honest people and organizations with whom to partner.

This has to change. In Africa, there is little to no health care infrastructure to address the HIV/AIDS crisis. In the Middle East and other parts of the world, illiteracy or a lack of formalized technical training means whole populations lack the skill sets to engage in modern political economy. To improve governance in the developing world, people need to be trained. Technology and skills need to be transferred. Local organizations – be they universities, health clinics, or ministries in government - have to be nurtured and populated with skilled leaders who can guide the development of their countries, avoid corrupting influences, and manage the challenges of globalization.

The business community can play a much greater role in improving the training of people to manage their own development. One component of President Bush's HIV/AIDS plan is designed to match American hospitals with hospitals in Africa. The process is called "twinning." The business community can play a synergistic role in helping to organize these partnerships so that results can be achieved. In this way, public resources can be leveraged with a sense of private sector accountability and drive for performance.

In countries like Lebanon, Egypt, and Afghanistan, there are American universities underwritten with U.S. taxpayer dollars supporting the higher education of young people.

These universities have an extraordinary record of success, transmitting American economic and political values to successive generations of Middle East leaders. The system would be further improved if business foundations would dramatically increase the scholarship funds required to send additional students to these centers of learning.

Recommendation #4: Help Realign U.S. Trade Policy to Use Trade as a Tool for Development

The final recommendation is in some respects the hardest because it is becoming increasingly obvious that the political system in the U.S. (or for that matter, in Europe) is not aligned to provide real, effective market access for developing countries.

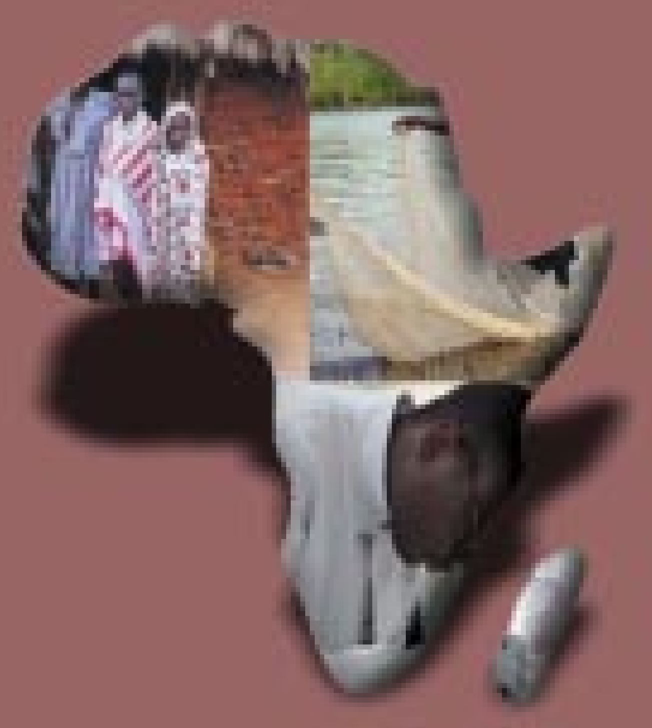
The U.S. Congress is polarized on the topic of trade with countries in the developing world. The Central American Free Trade Agreement (CAFTA) is a case in point. The polarization in U.S. trade policy has meant that U.S. trade negotiators are being held hostage by protectionist interests. For strong and enduring US leadership in the global trading system, we must work hard to change this dynamic. We need to rebuild the bipartisan center in U.S. trade policy. One way to do it is by elevating development and security goals as a priority in US trade policy.

If we continue to worship at the altar of protectionism, we will inevitably bear witness to a crippling of the Doha Development Round, and we will experience the accompanying failure to achieve economic growth and job creation. If that were not enough, it may also mean that U.S. national security will pay a price. If developing countries lack the wherewithal to improve their economic situation and the standard of living for their people, greater instability and chaos will likely ensue. This may well require more U.S. engagement around the world – both in non-financial terms and a significant investment in nation building.

Although this may sound more like a political task than philanthropy, it is directly and inextricably linked to all the other goals the business community has. Business can help re-align the U.S. political system and build a bipartisan center – a coalition to support trade with the developing world. We may never convince American labor unions or environmental groups to support free trade agreements. However, we have to convince development advocates that partnering with the anti-globalization forces will not better the lives of the poorest on this globe.

We have to convince more Democratic Members of Congress that the current alignment of constituencies undermines U.S. national security and U.S. foreign policy. Least developed countries will be left further and further behind, and no amount of foreign aid will be able to close the divide. The opportunity for self-sustaining wealth creation in the developing world, not wealth transfers from rich countries, should be the ultimate goal. In the end, globalization is unavoidable. However, it can be managed through the process of trade, foreign aid, and diplomatic engagement.

(* Jim Kolbe is serving his eleventh term in the United States House of Representatives. This article from his remarks at the recent US Chambers of Commerce Forum, is published with kind permission obtained through the Centre for International Private Enterprise, CIPE.)



The Commission for Africa was launched by the British Prime Minister, Tony Blair, in early 2004, to take a fresh look at Africa's past and present the international community's role in its development path. Here, Paul Boateng, a former Chief Secretary to Her Majesty's Treasury explores the place and prospects for Nigeria in the Commission's scheme of things.

The Commission for Africa: Agenda for Socio-Economic Development

***By Paul Boateng**

We in Britain share much with Nigeria, in both approach to business and in fostering economic activity and growth. We have long and historic ties that bind our two countries – a relationship taken very seriously in our country. We know Nigeria not just as a great and populous state, but also in many cases as our friends in our own constituencies in the UK. Britain is one of the largest investors in Nigeria – and we have many British companies active here.

Our government also shares, for example, your convictions on the private sector as a driving force to fulfil Africa's economic potential, and on the significant merits of achieving a liberal economic environment.

Nigeria itself is well placed to give the lead to Africa in this area – to demonstrate visible determination and an enduring commitment to reform and stability, in this new era of democratic, civilian rule. For Nigeria remains a bulwark of stability and a beacon of hope across the region.

That great son of Nigeria, and indeed Africa – Dr Benjamin Nnamdi Azikiwe, once said: "We must not allow the mistakes and disappointments of the past to act as a stumbling block to the hopes and achievements of the future… Nor should we encourage the exploitation of the ignorance and poverty of our people in order to satiate the mercenary motives of the more privileged ones".

When you listen to these words that ring to us down the years and bring back memories of childhood (and the admiration we had for the great leader), they remind us of current challenges and also inspire us. And these are words that haunt us still, for poverty is still prevalent, and even today we have much yet to do to eliminate it. Some say that out of poverty comes knowledge, and that is true. Yet out of power also comes a duty to alleviate suffering.

Now is very much the time to look forward, both as historic friends and as equal partners. A writer once said Nigeria is the pivot on which Africa turns. Well, as we work to make Africa turn, to embrace change to resolve to make better the lives of so many people, so too we must both as partners and equals, engage to tackle together the scourge of poverty in 2005.

And I believe there is a Nigerian saying: hold a true friend with both hands. Britain offers you both hands on this journey of change in 2005; hands in support of your efforts and your reform process, in what is shaping up to be a vital year of action.

I want to outline some of the likely themes that are emerging for the Commission for Africa, set out how this fits with the UK's presidencies of both the G8 and the EU and then, if I may, return to the challenges you face here in Nigeria.

Let me reassure you that the Commission for Africa will play a central role, where we will continue to support you as you seek to unleash and fulfil the potential of this great continent. I know you are all familiar with the Commission.

Commission for Africa

Let me reassure you that the Commission for Africa will play a central role, where we will continue to support you as you seek to unleash and fulfil the potential of this great continent. I know you are all familiar with the Commission. I don't want to set out the process it is following, but let me emphasize one point that I – and indeed Prime Minister Blair and Chancellor Brown see as central to the Commission's success. That is the fact that the Commission is African. It has consulted widely across Africa and is informed by the expertise and experience – in the form of commissioners - some of Africa's finest sons and daughters.

The commissioners have been looking at action in five key areas; Governance, peace and security, human development, culture and inclusion and encouraging growth, all underpinned by the need for greater resources.

And I fully agree that culture and inclusiveness must underlie all the Commission's areas for action. It is sad to say, but it is true that Africa's rich and varied cultures still need be better understood by donors and by other partners in Africa.

Western culture is not the only way of life, and donor countries must better understand the business culture and social networks that contribute to African nations. Was it not Chinua Achebe who once wrote, some decades ago: "African people did not hear of culture for the first time from Europeans; that their societies were not mindless but frequently had a philosophy of great depth and value and beauty, that they had poetry and above all they had dignity".

This is where the invaluable work of the African Union and of NEPAD should be supported, and where the Commission is likely to recommend greater measures to ensure participation of the entire community – participation including women and young people. Women who do have such a vital role to play in unleashing the potential of this great continent.

Second, the Commission will look

at action on governance. Promoting good governance is at heart about ensuring that those committed to reducing poverty have the resources they need to achieve that aim. And the Commission has been looking at proposals to help build more effective states – to support in particular NEPAD's Africa Peer Review Mechanism.

The Commission has also examined how best to assist African countries as you strive to improve transparency and participation in budgets.

How best to develop strategies, and how to improve the civil service and judiciary. How best to achieve better accounting standards and reliable statistics where necessary.

And I'll give you an example – the Extractive Industries Transparency Initiative. This could be reinforced, and its principles applied more widely to other sectors. And I know Nigeria is leading the world in the implementation of this initiative.

But rich countries also must acknowledge their duty. This should be, after all, a partnership, not just a one way street. We too in the G7/8 have a duty to reform, to implement and enforce existing conventions on bribery and corruption.

Third, looking at action on peace and security. The Commission has looked at how to control the resources used to finance conflict and to fuel the arms trade. And this means examining how development assistance can be more effectively used to reduce existing vulnerability to violent conflict.

It means examining proposals to support UN and African Union conflict prevention and resolution, as well as peace-building post-conflict. And let me echo the analysis of the Commission that peace and security really is the bedrock – the basis on which to make progress in poverty reduction, economic stability and growth, and accountable democracies.

Fourth, looking at action on human development. How best to help you improve your healthcare systems. How best to improve and coordinate the fight against HIV/AIDS. How best to focus on the particular healthcare needs of youth and women. And how best to improve the relevance and quality of education services – particularly those provided for girls.

And finally, looking at action on opportunity and growth. There are several recommendations to encourage economic growth in Africa, to improve further the climate for investment, including ideas and efforts to increase funding for infrastructure. I have heard, and indeed seen first-hand during my trip to Mali, Ghana and now Nigeria, the importance of investment: roads, rail and ports.

And the Commission is likely to make proposals for a global trade system that, instead of putting obstacles into Africa's way, are indeed receptive to Africa's needs so that it can benefit from the opportunities provided by a more open trading system. A system that is not distorted by subsidies, tariffs and non-tariff barriers across the OECD countries.

It will also make proposals on African agriculture, improvements through infrastructure and by addressing post-harvest losses by developing local markets and by achieving security of land tenure. All of this within the broader context of climate change.

Action to provide extra resources, through aid and debt relief, will underlie all these recommendations. The Commission is likely to recommend a significant increase in aid resources – at least double current levels – for Africa. This is aid that needs to be front-loaded, using mechanisms such as the International Finance Facility (IFF) so that vital investment can be made now upfront. Investment that can seize this moment – this window of opportunity in Africa – to throw more weight behind African initiatives, from the pan-African and regional right through to the national.

We all know that for increased aid and debt relief to be successful, it will also need to be of a higher quality. So it is likely the Commission will also recommend measures to improve the quality, predictability and flexibility of aid, including greater harmonisation between donors. I can assure you that the UK has heard and taken on board your message on debt – a message imparted so passionately by President Obasanjo and the Finance Minister Dr. Ngozi Okonjo-Iweala. The UK is one of Nigeria's strongest supporters to achieving a fair and sustainable solution to Nigeria's debt problems.

The Commission for Africa report will mobilise all of our energy behind existing initiatives and ideas from Africa, the G8 and across the development community. The report must challenge rich countries to raise our game in response to the opportunities which Africa itself is creating.

And the report will make clear our response to NEPAD's powerful moves forward. I know that NEPAD leaders support the Commission as an effective way to promote the ideas and proposals which have been developed here in Africa.

The Commission for Africa is also a key element for our UK presidencies of the G7, G8 and EU. And I can confirm that the G8 summit in Gleneagles in July (2005) will be discussing, with leaders from Africa, the Commission's recommendations, and indeed how best to take them forward.

2005 is a time when the challenge of poverty reduction looms larger than ever, and a year in which we have a real opportunity to seize the agenda to create lasting change in our twin priorities – Africa and climate change.

Africa is a key priority. As a continent, it is not on track to meet any of the Millennium Development Goals – goals that nearly every country signed up to in 2000. So we need to ensure this great continent is at the top of the international agenda in a year of great opportunity – with the Commission for Africa, the Millennium Review Summit in New York in September, and the inspiring work of Africans through NEPAD and the AU.

Let me share with you the four key themes within our G7 work – themes which link into the work of the Commission for Africa – and some of which have already been taken forward through the recent G7 Finance Ministers meeting in London.

First, we know that trade can make a significant contribution to poverty reduction. So a substantial reduction in trade barriers as part of the Doha round could boost global income by some $500 billion a year – with over two-thirds going to developing countries. In real terms, this would reduce the number of people living on less than $2 a day by some 144 million – together that is more people than live even in this great and populous country.

As trade barriers come down, we must also commit to action that builds developing countries' capacity to trade – action that ensures countries have the flexibility to carefully design and sequence trade reform within their own poverty reduction strategies. To consider additional grant resources to help the most vulnerable countries – and their most vulnerable people – adapt and reap the benefits of more open global markets.

Second, we seek a substantial increase in resources for development. We want to establish what Chancellor Gordon Brown has described as a new Marshall Plan for the 21st century.

The UK is committed to spending 0.47% of GNI on aid by 2007/08 and at current rates of growth we expect to reach the UN target of 0.7 % by 2013. So, for the first time the UK has now adapted a clear and unequivocal timetable to achieve this goal.

However, based on other countries commitments, traditional financing will not provide enough aid quickly enough to enable us to achieve the Millennium Development Goals. That is why Chancellor Gordon Brown has proposed an International Finance Facility that would provide the additional $50 billion a year that is needed now upfront.

The International Finance Facility (IFF) would enable us to make the necessary investments in infrastructure, in education, in health to ensure that countries do not need external finance to drive their development in the long term. An extra $6 billion every year would get every child into

primary school – realising the rights of a generation and increasing economic growth over time.

Third, we recognize the need to make further progress on debt relief. I go back to my earlier point. The UK understands and we are the strongest advocate for Nigeria's concerns in this area. The G7 finance Ministers when they met in London, made a historic commitment to go further, based on our willingness to provide as much as 100 per cent multilateral debt relief for HIPCs, and to look again at the debt sustainability of other low income countries. We will work with other countries and the IMF and World Bank to bring forward concrete proposals for discussion at the Washington meetings in April, and in particular we will work with Nigeria and the wider community for a fair and sustainable resolution for Nigeria's debt problems.

We will work with other countries and the IMF and World Bank to bring forward concrete proposals for discussion at the Washington meetings in April, and in particular we will work with Nigeria and the wider community for a fair and sustainable resolution for Nigeria's debt problems.

And fourth, that we take urgent action to tackle the diseases which are the scourge of the developing world. We should accelerate progress towards a preventive vaccine for malaria, through an advance purchase scheme. And to better tackle HIV/AIDS, through the first comprehensive plan that reaches from prevention through to cure and care.

In this context I very much welcome the progress made on an IFF pilot to provide additional much needed resources for immunisation through GAVI – the Global Alliance for Vaccination and Immunisation. We hope to launch this with other donors in the next few weeks.

Nigerian Progress

Having set out the International Communities priorities and our own, let me turn to the achievements and challenges facing Nigeria.

We have already seen impressive progress on economic reform, including the President's own economic reform programme – NEEDS. And you have an excellent, world-class economic management team in place, lead by Finance Minister Ngozi Okonjo Iweala. This is a team that impresses widely on the international stage, through their determination, technical expertise, and courage, reforms and actions that will benefit all Nigerians.

And we have seen that determination in the tough choices already made, as Nigeria implements some key reforms. At federal level, we have notably seen prudent fiscal and monetary policies – policies that have helped Nigeria on the road to macroeconomic stability.

According to the most recent IMF review, Nigeria met all the key targets set for itself last year, including reduced inflation, raised international reserves to over $16 billion, and saving of windfall oil revenue – over and above the budgeted price of $27 per barrel. Nigeria also exceeded their own targets on oil gains, with all 36 states saving their windfall oil gains, as opposed to the expected 12, that is something on which the states are to be congratulated, and resources can now be reinvested to support further poverty reduction strategies.

While there have been other major economic achievements, there is nonetheless more work to be done, and more effort to be put in. The agenda for reform in Nigeria is crucial to long-term economic success in this global era.

But it is also crucial to continue to push the agenda to lay the foundations for long-term sustainable economic growth and development.

Whilst there is much left to do to combat poverty – much left to work on across Africa itself - I bring a simple and clear message from the UK. We hold you in both hands – we support you as you place "Africanness" at the heart of Africa's solutions.

So progress has been made. Modernisation is happening. Modernisation in building a cost efficient Civil Service capable of meeting the needs of all people. Modernisation, for instance, at the Ministry of the Federal Capital Territory which has already made savings of over 700 million naira a year through the elimination of ghost workers.

When I last visited this great country, just under a year ago, I was invited by President Obasanjo to speak of the citizen as a customer for public services. I had the great honour to address many of the leading figures, drawn together by the President at his retreat. It was an inspirational gathering. And I am pleased to see progress continue in this vein – to see modernization under way.

And while there is still much to do in modernising obsolete practices and in streamlining government – something we too are very familiar with in Britain – we face the same challenges. This is not unique to Nigeria so we all need to share good practice. Nigeria has built a solid foundation for the future.

So, we – the UK – will hold Nigeria - a true friend, with both hands. Our own Department for International Development is doubling its aid programme from 2003 levels, to £70 million per year in 2005/06. And we plan to increase that further to £100 million in 2006/07 to support Nigeria's government in implementing its own programme of economic reform and social development. Ours is a commitment to Nigeria for the long term. We are in this together and in this for the long-term.

Nigeria and Britain

We will work together, as equal partners, in this year of decision, to improve the lives of so many people. To reduce poverty. To modernise and to realise the ambition and potential of this great country, the pivot of Africa.

Let me finish by quoting no less a person than President Obasanjo, who memorably said at his last inauguration: "Africans in their quest for development do indeed need to modernize their social systems. But we must remain firm and focused on our Africaness in terms of uniqueness of customs, social values, orientation, and progressive culture".

I agree wholeheartedly with the President – in this era of economic change and progressive reform, that reform is not something to be foisted on you from outside. It does not derive its authority from visitors, from overseas. For it is most genuine and has the strongest power when it comes from your own demand for improvement, and from your own desire for change. If it is to gain root on African soil and grow into a great tree under which all can gain shelter, it has to come from the soils of Africa – the very people of Africa. So if we do this the tree will grow stronger branches – shade under which people can grow and prosper. That is Nigeria's way and our way. For us all – the best is yet to come.

As Nigerians choose to embrace this change, Britain will stand with you - as will the international community – supporting NEPAD and the African Union.

Whilst there is much left to do to combat poverty – much left to work on across Africa itself - I bring a simple and clear message from the UK. We hold you in both hands – we support you as you place "Africanness" at the heart of Africa's solutions.

(*Mr. Boateng is the current High Commissioner, British High Commission, South Africa)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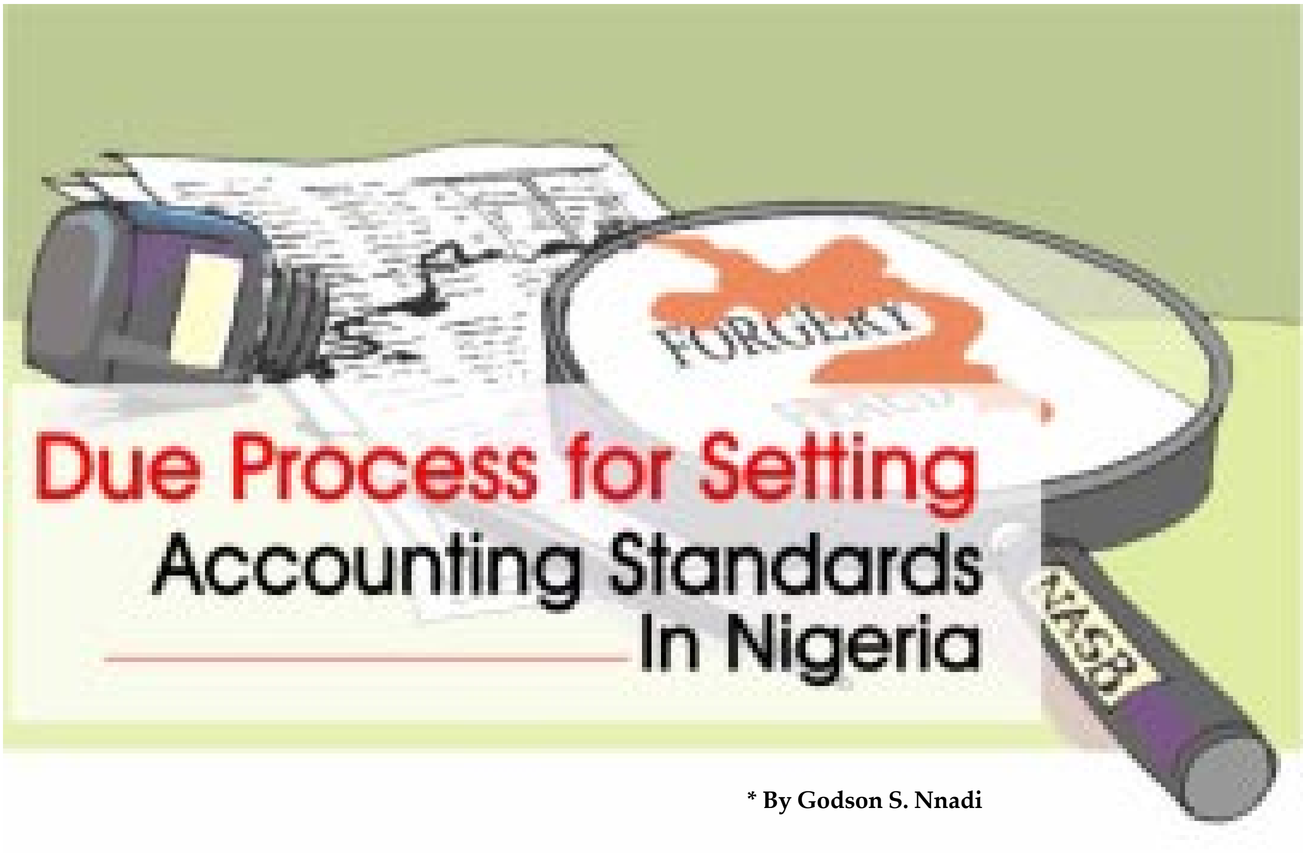

Due Process for Setting Accounting Standards In Nigeria

* By Godson S. Nnadi

The accounting profession is presently at a crossroad. Confidence in corporate reporting has been low in recent years. Stars of the profession in the yesteryears, Arthur Andersen & Co., have been disgraced thoroughly in the United States following the collapse of the energy giant, Enron. Telecommunications giant Worldcom filed for bankruptcy after admitting to improper accounting to the tune of 3.8 billion dollars; another telecom firm Qwest International also admitted guilt of improper accounting, while photocopier Xerox, without denying or admitting guilt, paid a fine of $10 million following US SEC's investigation into its accounting practices. The loss of confidence resulting from these accounting frauds have shaken the confidence of investors in published financial statements. The question on everybody's mind is: what went wrong: is it that there were no standards or that the standards were not adhered to? What can be done to rebuild investor confidence in financial reporting in particular and corporate governance in general?

This paper will discuss, among other things, a brief history of the Nigerian Accounting Standards Board, the importance of accounting standards, the processes involved in developing an accounting standard, how to ensure compliance with our standards and the operational modalities of the Nigerian Accounting Standards Board Inspectorate Unit.

It is the primary responsibility of management and the Board of Directors of each company to prepare the financial statements to be presented to members.

THE NEED FOR FINANCIAL REPORTS

The various users of financial reports need such statements for making business and economic decisions. Investors need information to help them determine whether they should buy, hold or sell shares. Shareholders are also interested in information which enables them to assess the ability of the enterprises to pay dividends. Employees are interested in information which enables them to assess the ability of the enterprises to pay remuneration, retirement benefits and provide employment opportunities. Lenders are interested in information that enables them to determine whether their loans, and interest attaching to them, are recoverable as and when due. Governments and their agencies require information to regulate the activities of enterprises, reappraise policies and as the basis for national income and similar statistics.

From the above discussion, it becomes obvious that the provision of information for decision making and regular situation appraisal is the over-riding objective of financial reporting.

Financial Statement of business organisations consists of balance sheet, profit and loss account, statement of cash flow, value added statement and historical financial summary. These and other non-financial information are combined and presented in the form of annual reports.

To be useful, financial information must possess the qualities of relevance, reliability and timeliness. Information is said to be relevant when it influences the economic decisions of the user by helping him evaluate past, present or future events or in confirming or correcting his past evaluations. Reliability is the quality of information that makes it free from material error and bias and capable of being depended on by users to represent that which it purports to represent. If there is undue delay in the reporting of information, it may lose its relevance.

Audit Function

An Audit has been defined as the independent examination of, and expression of opinion on the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation.

It is the primary responsibility of management and the Board of Directors of each company to prepare the financial statements to be presented to members. But as we mentioned earlier, several outside parties including the government, business community and the public at large, rely on the financial reports to make important economic decisions. Most of these outside users of financial information do not have any means of confirming the reliability of information they receive and there may be conflict of interests between management, members and other users.

A frequent incentive for fraudulent financial reporting that improves the company's financial appearance is the desire to obtain a higher price from a stock or debt offering or to meet the expectations of investors.

Another incentive may be the desire to postpone dealing with financial difficulties and thus avoid, for example, violating a restrictive debt covenant. At other times the incentive is personal gain: additional compensation, promotion, or escape from penalty for poor performance.

The solution to the problem of credibility in reports and accounts lies in appointing an independent person called an auditor to investigate the reports and express his opinion on them.

The need for an accounting standard-setting body in Nigeria became urgent when the Nigerian Enterprises Promotion Decree was promulgated to transfer ownership of companies to Nigerians.

NEED FOR ACCOUNTING STANDARD

Accounting standards are the rules which govern the manner in which specific business transactions of registered companies must be reported to the public in corporate financial statements. These standards are used by management in preparing financial reports.

Independent auditors are responsible for ensuring that accounting standards are applied properly by management, and that the information reported to the public fairly reflects the substance of the company's business activities. In the absence of some generally accepted rules, each accountant will have to make his own rules, and it will be difficult to compare one set of accounts with another. It is in everyone's interest that the business community uses one set of rules in accounting for money.

Business organisations must prepare financial statements which follow the same accounting rules of financial reporting so that investors and potential investors will be able to compare how companies are faring and make informed choices. Accounting standards provide a financial yardstick for business people to assess their financial situation and to plan for the future.


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The Nigerian Accounting Standards Board (NASB) has been the body responsible for establishing standards of financial accounting and reporting in the Nigerian private sector.

BRIEF HISTORY OF THE NIGERIAN ACCOUNTING STANDARDS BOARD

The Nigerian Accounting Standards Board (NASB) is the body assigned the responsibility of developing and issuing accounting standards for the use of preparers of financial statements and parties having interest in the information contents of such statements.

The Board was established in September, 1982 with the following objectives:

i) formulation and publication of Accounting Standards for acceptance and adoption in the preparation of financial statements by preparers and users of financial statements;

ii) promotion and sponsorship of legislation, in order to ensure that standards developed and published by the Board are accorded nationwide acceptance and compliance;

iii) review, from time to time, the Standards developed by the Board in the light of changes in the social, economic and political environment.

The need for an accounting standard-setting body in Nigeria became urgent when the Nigerian Enterprises Promotion Decree was promulgated to transfer ownership of companies to Nigerians. Foreigners exploited the lack of uniform accounting procedures in valuing their equities in companies affected by the Decree.

Those companies whose parents were resident outside Nigeria followed the dictates of their parents. At the end of it all there were as many accounting practices reflected in the accounts as there were companies in Nigeria. Whenever an auditor challenged a company on the appropriateness of its accounting practices, management was usually quick to ask the auditor to produce the law prohibiting such a practice. The Nigerian Accounting Standards Board was therefore established in order to ensure that those conditions that existed both before and after indigenisation did not persist.

In pursuance of its second objective, supporters of the Board persuaded the Consultative Assembly on the Review of the Companies Law to provide legal backing to the activities of the NASB in the new law. These efforts resulted in the inclusion of Section 335(1) of the Companies and Allied Matter Decree of 1990 which reads:

"The financial statements of a company prepared under section 334 of this Decree, shall comply with the requirement of Schedule 2 to this Decree...and with the accounting standards laid down in the Statements of Accounting Standards issued from time to time by the Nigerian Accounting Standards Board....

The Nigerian Accounting Standards Board (NASB) has been the body responsible for establishing standards of financial accounting and reporting in the Nigerian private sector. The primary role of the Board is to help ensure that published financial statements are uniform in content and in format and communicate precisely what they purport to convey. These Standards are, in effect, rules governing the preparation of financial reports. Accounting Standards issued by the Board are essential because they lead to the efficient allocation of resources in the economy such that more successful companies are better able to raise capital to finance their operations than are the less successful ones.

Some specific reasons for setting up the NASB are to:

i. narrow areas of differences in practices so that financial statements that are presented to users are structurally uniform and meaningful;

ii. Produce accounting information that reflects our economic environ-

ment but at the same time satisfies the anticipated needs of the users of the information;

iii. Introduce measures which will enhance the reliability and validity of information reported in financial statements.

The Board has issued twenty one Standards so far as follows:

SAS 1 - Disclosure of Accounting Policies;

SAS 2 - Information td be Disclosed in Financial Statements;

SAS 3 - Accounting for Property, Plant and Equipment;

SAS 4 - On Stocks;

SAS 5 - On Construction Contracts;

SAS 6 - On Extraordinary Items and Prior Year Adjustments;

SAS 7 - On Foreign Currency Conversion and Translations;

SAS 8 - On Employee's Retirement Benefits;

SAS 9 - Accounting for Depreciation;

SAS 10 - Accounting by Banks and Non-Bank Financial Institutions (Part I);

SAS 11 - On Leases;

SAS 12 - Accounting for Deferred Taxes;

SAS 13 - Accounting for Investments; SAS 14 SAS 15 SAS 16 SAS 17 SAS 18 SAS 19 SAS 20 SAS 21

Accounting in the Petroleum Industry: Upstream Activities; Accounting by Banks and Non-Bank Financial Institutions (Partll); Accounting for Insurance Business;

Accounting in the Petroleum Industry: Downstream Activities; Statement of Cash Flows;

Accounting for Taxes; On Abridged Financial Statements; and On Earnings Per Share.

The Board is currently working on a number of projects which include: Accounting for Research and Development Costs; Interim Financial Reporting; Segmental Reporting; Provisions, Contingent Liabilities and Contingent Assets; Accounting for Not-for-profit Organisations, and Consolidated Financial Statements.

STANDARD-SETTING PROCESS

The development of a new accounting standard involves a long process usually referred to as "due process". The due process ensures that all interested parties get the chance to make some contribution towards the proposed standard. The process begins with the selection of an area of accounting to be standardised. To be selected for standardisation, an accounting problem must be sufficiently significant in terms of its effect on the financial statements. If the problem does not create significant difficulties, the cost of the due process may not be justifiable.

Any individual or organization can write to the Council of the NASB to suggest an issue for standardization. The next stage in the process of developing an accounting standard is the selection of a steering committee of experts. In preparing any accounting standard, the Council of NASB selects the leading authorities in that area. Such a committee usually includes an accountant in practice, representative of the affected industry, representative of the Board of Inland Revenue, an academia, and at least one person representing the business community who may be affected by the proposed standard. The idea is to have the composition of the Steering Committee as broadly based as possible, representing professional, private and public sectors of the economy. Each Steering Committee is charged with the responsibility of directing the Secretariat in the drafting (redrafting) of the Points Outline and the Draft Exposure Drafts for consideration, first by the Committee and later by the Council. The research into the accounting and legal contents and implications of any standard is the responsibility of the Secretariat.

When a satisfactory Draft Exposure Draft is developed and approved by the Steering Committee after about eight meetings, it is recommended to the Council for consideration and subsequent approval as an Exposure Draft (ED).

The Council usually meets for two full working days, often outside Lagos, to carefully consider the Draft Exposure Draft. In this technical session, every word, sentence, paragraph and the document cohesion is examined and re-examined. When a satisfactory Draft is finally produced, council members are requested to vote either in favour or against publishing it as an Exposure Draft. If two-thirds of Council Members present at the Technical Session vote in favour of its publication, then the document is so printed and distributed to trade associations, governments and their parastatals, practicing accounting firms and some individuals, as may be directed by the Council. Each Exposure Draft is exposed for a period of about three months within which comments in writing are expected from all recipients of the document.

Comments that are received are carefully analysed and pertinent ones are incorporated into the document to improve its contents. Some comments have been found to be very useful in shaping the focus of some of the Standards.

An amended Exposure Draft must be approved by the Council by three-quarters of the members present at its meeting before it becomes a Standard. The printing and distribution are administrative responsibilities of the Secretariat. Beginning with our SAS 10 on Accounting in the banking industry, the Board has deemed it necessary to organise Workshops or Public Hearings when it is dealing with very important projects or when the issues involved are complex or controversial.

As I mentioned earlier, our "due process" is very important because it provides the opportunity for our constituents and other members of the business community to contribute to the development of the new standard. The due process can take from nine months up to two years or more.

COMPLIANCE WITH STANDARDS

There are two major ways of ensuring compliance with statements of Accounting Standards: Voluntary or mandatory. When compliance is required by law, it is said to be mandatory. Otherwise, it is voluntary.

For many years, the accounting profession relied on self-regulation to ensure the quality of services provided by accountants to their clients. In recognition of the expertise and resources of the accounting profession, the capital market regulators around the world have historically looked to private-sector standard-setting bodies to provide leadership in establishing and improving accounting principles and reporting standards. In the United States, the Financial Accounting Standards Board's standards are recognized as authoritative by the US Securities and Exchange Commission. FASB is a private-sector initiative. Back home in Nigeria, the Nigerian Accounting Standards Board was established in 1982 as a private-sector organisation and only became a government parastatal in 1992, after the promulgation of the Companies and Allied Matters Act,

1990.

The regime of self-regulation worked remarkably well for a long time as the accounting profession was meeting the expectation of users of its services. All that changed following the celebrated cases of ENRON, WORLDCOM, etc. It is now generally believed by non-accountants that self-regulation is no longer adequate in today's complex world and that some form of external control should be imposed on the accounting profession. In 2002, the US Congress passed the famous Sarbanes-Oxley Act which established Public Company Accounting Oversight Board (PCAOB) to regulate the activities of the accounting profession, among other functions. On July 10, 2003 the President of the Federal Republic of Nigeria signed into law the Nigerian Accounting Standards Board Bill earlier passed by the two houses of the National Assembly.

To be useful, financial information must possess the qualities of relevance, reliability and timeliness. Information is said to be relevant when it influences the economic decisions of the user by helping him evaluate past, present or future events or in confirming or correcting his past evaluations

INSTRUMENTS OF SELF-REGULATION

Among the measures adopted by the accounting profession to regulate the quality of services provided by its members are:

Accounting and Auditing Standard-setting; Peer Review; Rotation of Auditors and Concurring Review; Rotation of Audit Engagements; Professional Ethics; and Continuing Professional Education.

Standard- Setting Bodies

As we mentioned earlier, the accounting profession was responsible for setting accounting and auditing standards for many years. This was the case in the US, UK, Australia, etc. In Nigeria, the Nigerian Accounting Standards Board has been responsible for setting accounting standards while the Institute of Chartered Accountants of Nigeria was responsible for establishing auditing standards. The few exceptions to this general model included France and Germany. In those countries, accounting and auditing practices were governed by legislation.

Peer Review

This involved a review, every three years, of the work of one accounting firm by another accounting firm of comparable size. The purpose of peer review is to provide assurance to the public that a firm performing auditing and accounting services has an effective quality control system that provides reasonable assurance that its auditors and accountants are complying with generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). Peer reviews are aimed at evaluating quality control by testing compliance of the firm's auditing and accounting engagements.

Rotation of auditors and Concurring Review:

The accounting profession also adopts rotation of audit partners and concurring review by a fellow partner as measures to improve the quality of services provided to clients. When an audit partner has been in charge of an audit engagement for a period of five to seven consecutive years, a new audit partner is assigned.

The audit report and financial statements of publicly held companies are also subject to concurring review by a partner other than the audit partner-in-charge of the engagement.

Rotation of Audit Engagements

A new regulatory measure that has been gaining currency in recent times is the idea that an audit engagement should not be a life-long affairs. Proponents of this idea contend that when an audit firm has audited a company for twenty years or more, the firm has essentially become part of the management of that company and would have lost part of its independence or, at least, the appearance of independence. It is therefore suggested that audit engagements be rotated among firms of similar size.

For example, after auditing

Unilever for ten years, Akintola Williams should hand over the audit engagement to PriceWaterhouseCoopers. As of now, the Institute of Chartered Accountants of Nigeria is opposed to the idea.

For example, after auditing Unilever for ten years, Akintola Williams should hand over the audit engagement to PriceWaterhouseCoopers.

Professional Ethics

Each professional accountancy body maintains a code of professional conduct and, when appropriate, makes changes to the code. There is usually an Investigation Panel that investigates any allegation of wrongdoing by members. If found guilty, disciplinary actions are taken against the offending member. This may include suspension or expulsion from the body.

Continuing Professional Education:

Most professional accountancy bodies around the world require their members to complete certain hours of continuing professional education.

This is to ensure that the members maintain and even enhance their professional competence and also keep abreast with current development.

The Institute of Chartered Accountants of Nigeria (ICAN) has a well organised department responsible for its Mandatory Continuing Professional Education(MCPE) Programme.

STATUTORY/MANDATORY REGULATION

As we mentioned earlier, it is now generally believed that self-regulation of the accounting profession is no longer adequate. The Sarbanes-Oxley Act of 2002 in the United States provides the most far-reaching provisions of government regulation of the accounting profession. The Act requires the Public Company Accounting Oversight Board (PCAOB) to conduct inspections of all registered accounting firms. Section 104 provides a general description of the procedures and conduct of the inspections. The Act states that during inspections, the PCAOB will identify any activity, practice or commission in violation of the Act; report on such activities; and begin formal investigations or take appropriate disciplinary action.

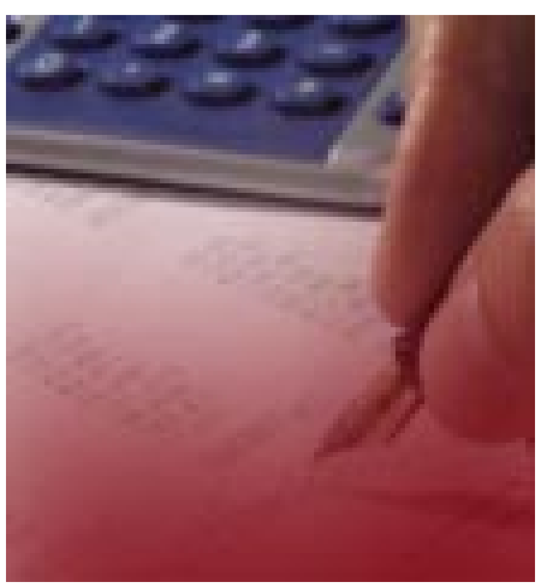
NASB ACT, 2003

The Explanatory memorandum to the Nigerian Accounting Standards Board Act No. 22 of 2003 identified three main objectives of the Law as follows:

a) Establish the Nigerian Accounting Standards Board charged with the responsibility for developing and publishing accounting standards to be observed in the preparation of financial statements;

b) Seek to promote and enforce compliance with accounting standards developed or reviewed by the Board; and

c) Provide penalties for non-compliance with its provisions.



From the above explanation, it is obvious that the Act was primarily intended to give statutory existence to the Nigerian Accounting Standards Board and to introduce statutory enforcement of accounting standards in Nigeria. This is part of efforts being made in Nigeria and internationally to improve corporate governance and enhance the quality of financial reporting by corporate organizations.

NASB INSPECTORATE UNIT

Section 20 of the Nigerian Accounting Standards Board Act, 2003 provides that there shall be established for the Board a unit to be known as the Nigerian Accounting Standards Board Inspectorate Unit.

The Unit shall:

- enforce compliance with the standards developed and reviewed by the Board;
- impose such sanctions as may be prescribed by the Board, from time to time; and
- perform such other functions as the Council or the Board may assign to it from time to time.

Section 22(2) of the Act gives Inspectors the following powers:

a) to make such examination and inquiry as may be necessary to ascertain

> *Every public company is required to submit its published financial statements to the Board immediately after the accounts have been approved by the Board of Directors of the company.*

whether or not the provisions of this Act or any regulation made are being complied with; and

b) by notice in writing, to require any person to furnish in such forms as may be directed, any information on such matters as may be specified in the notice and such person shall comply.

Section 23 of the Act stipulates stiff penalties for offences under it as follows:

1) Any person who fails to comply with the prescribed statement of accounting standards in the preparation of a financial statement shall be liable on conviction to a fine of five million naira (N5,000,000.00) or to imprisonment for a term not exceeding 1 year or to both provided that the Board shall bring such non-compliance to the notice of the preparer of such financial statement and the preparer fails to withdraw and amend the financial statement within 60 days from the date of the notice. The Board has the power to review the fine stated above, subject to approval of the Minister.

2) Any accountant, auditor or firm of accountants found liable under the Act shall, in addition to a fine provided for in Section 23 (1) be liable on conviction to

a) in the case of an individual

i) imprisonment for a term not exceeding 1 year; and

ii) outright proscription or de-listing for such period as the

Court may deem fit to order in the circumstances;

b) in the case of a firm of accountants to outright proscription or delisting for such a period as the Court may deem fit to order in the circumstance.

Section 24(2) stipulates that any person who obstructs an inspector in the execution of his duties under the provisions of this Act commits an offence and is liable on conviction to a fine of one hundred thousand naira or to imprisonment for a term not exceeding 6 months or to both.

NASB Inspectorate Unit's Operational Modalities

Every public company is required to submit its published financial statements to the Board immediately after the accounts have been approved by the Board of Directors of the company. Furthermore, an auditor is required, under Section 6(f) of the Act, to forward to the Board all qualified reports together with detailed explanations for such qualifications within 60 days from the date of such qualification.

The following is a summary of the procedures currently adopted by the Unit:

1. The work of the Inspectorate Unit begins with in-house review of published financial statements of public companies.

If no irregularities are noticed, the inquiry ends there unless the Board receives any complaint from any member of the public. Section 6(e) provides that the Board shall receive from time to time notices of non-compliance with its standards from preparer, user or auditor of an account. This provision seems to have placed a

responsibility on the auditor to alert the Board when a client willfully refuses to comply with an accounting standard.

2. When the Unit notices non-compliance with any relevant accounting standard, a notice is sent to the company concerned requesting it to explain the reason for non-compliance. Companies are encouraged to come to any scheduled meeting with their external auditors. If all queries raised are addressed satisfactorily at this preliminary meeting, the Unit ends its enquiry at this stage.

3. If after the initial meeting there are still issues left to be resolved, the Inspectorate Unit may seek further documentary evidence to support the position of the company under inquiry. Sometimes it may be necessary to schedule additional meeting(s) in an effort to clear all grey areas.

4. When all attempts to resolve the issues at stake through correspondence and meetings with the company fail, the Board may decide to constitute a full scale Panel of Inspectors. The Panel, in the course of its enquiries, may engage the services of outside consultants. At this stage, the Panel may engage the services of a Lawyer. The work of the Panel of Inspectors may be done both at the Board's Secretariat and at the offices of the company under investigation.

5. Sanctions/Penalties

Section 21 (b) of the Act gives the Inspectorate Unit statutory powers to impose sanctions as may be prescribed by the Board. The sanction imposed will depend on the nature and materiality of the non-compliance.

We must learn to live with some form of statutory enforcement of accounting standards, such as the one contained in the NASB Act. It is my belief that the current improvement efforts spearheaded by our Board will lead to greater reliability of financial statements. The Board is currently working on Operational Guidelines for the Inspectorate Unit.

6. Where the default is material but not seriously misleading, the misstatement or non-disclosure is corrected in the following year's financial statements. Following a definite commitment by the company and its auditors, the Board will grant concession in writing, after the company must have paid the necessary penalty.

7. Restatement of Financial Statement: Where the misstatement or non-disclosure of relevant information is deemed to be seriously misleading to the users of financial statements, the company will be directed to withdraw and amend the financial statements within 60 days of the notice. If the company fails to revise and reissue the financial statements as directed by the Board, a court action may be instituted against the company in accordance with Section 21 (i) of the NASB Act.

IMPLICATIONS OF STATUTORY ACCOUNTING STANDARDS

The establishment of the NASB Inspectorate Unit, to my mind, is a welcome development. The consequences of its establishment shall include:

- CEOs and CFOs will be more involved with financial reporting;
- Audit Committees will be more empowered;
- there will be more and better communications on financial reporting between the auditors (external and internal), audit committees and the NASB;
- Enhanced financial disclosures, improved corporate responsibility and increased relevance of the financial statements and the accounting profession;
- Improved confidence in the capital market, etc.

CONCLUSION

A lot of progress has been made in improving corporate financial reporting in Nigeria since prior to the establishment of the Nigerian Accounting Standards Board. Yet a lot still needs to be done. It is quite obvious that the days of exclusive self regulation of the accounting profession are over. We must learn to live with some form of statutory enforcement of accounting standards, such as the one contained in the NASB Act. It is my belief that the current improvement efforts spearheaded by our Board will lead to greater reliability of financial statements. The Board is currently working on Operational Guidelines for the Inspectorate Unit.

(* Godson S. Nnadi is the Executive Secretary/Chief Executive, Nigerian Accounting Standards Board, NASB)

Debates Over China's Currency

* By Weijian Shan

The U.S. has intensified its pressure on China over the yuan, with Treasury Secretary John Snow warning Beijing to revalue before October or risk being labeled a "currency manipulator" — a designation that could lead to the imposition of retaliatory trade barriers.

This pressure all hinges on the argument that the Chinese currency is artificially undervalued, thus giving Chinese exports an unfair advantage and robbing America of many jobs. That's a view widely shared in the financial markets. Forward contracts for the yuan trade at a premium over the current spot exchange rate, reflecting

An inefficient economy can still produce high growth rates if you throw enough capital at it, as China does. But only because the capital is prevented from seeking more productive uses overseas by the existence of capital controls.

Winning At Chinese Dominoes

* By Joe Studwell

After a long period of disagreement among analysts, evidence is incontrovertible that China's economy is slowing, capacity utilisation is falling and domestic profit margins are eroding. Two misperceptions were responsible for a drawn-out and often tedious debate about whether this is happening.

The first is a fatal focus on China's official gross domestic product data, which show the economy cruising along at a 9 per cent-plus growth rate through 2003, 2004 and the first months of this year. The weakness of China's statistical system, which depends too much on reporting and too little on sampling, has long guaranteed a systemic bias to over-report growth at the bottom of the economic cycle and under-report it at the top. In other words, official data flatten out a much more volatile economic cycle.

Belated recognition of this in the past couple of years led investment bankers, multinationals and independent researchers to try to construct their own 'physical activity' indices of everything from freight-barge traffic to power consumption to air miles flown in an effort to find truer growth indicators. But it is too expensive to do this really well. Nonetheless, most proxies for GDP growth suggest economic expansion peaked at 11per cent or 12 per cent in 2003 and will drop to a real 9.5 per cent this year. Next year's growth is more likely to be at 8 per cent.

The second problem with defining China's economic cycle has been that most people expect a fairly uniform slowdown - hence talk of a "hard" or "soft" landing. But the level of bureaucratic interference in credit allocation and industrial project approvals in China,and the fact the state banking system does not allow the market to price capital, all tend to exacerbate slightly different cycles in different sectors of the economy.

When an (invariably violent) investment upswing starts, the construction of massive new capacity moves through the economy, sector by sector, depending on where the next great opportunity is

the general expectation of a revaluation. And foreign capital has been flooding into China in anticipation of this, putting significant upward pressure on the money supply and property market. Given Beijing's healthy foreign-exchange reserves, and the consistent current - and capital - account surpluses of recent years, perhaps it's understandable that the market should believe a freely convertible yuan would rise in value against the dollar.

But that overlooks the fact that while the yuan is already convertible on the current account (albeit at a fixed rate set by China's central bank), the capital account remains heavily controlled. Traders can freely convert yuan into dollars and vice versa; while Chinese and foreign tourists can, by and large, buy and sell yuan for their travel needs. Foreign companies operating in China can also repatriate dividends largely without restrictions, by selling yuan for foreign currency. But all capital-account transactions must be cleared with the State Administration of Foreign Exchange. While there are few

deemed by men - not markets - to be. After the investment cycle peaks, overcapacity means these sectors tumble, one by one, like dominoes.

The first domino to fall was the automotive sector, more than a year ago. Sales growth for many car models dropped, faster than a brick, from three digits to less than zero in a few months. Then there was steel, with China flipping from a massive net importer to a net exporter in less than a year. In the past nine months, the global price of ethylene - a base constituent of plastics - dropped by half as Chinese production capacity expands 35 per cent this year and likely to double in the next few years. Soon, it will be smelted copper, for which China has 2.5m tonnes of annual production capacity and another 2.5m tonnes under construction. And so on, and so on.

There are plenty more dominoes to go. Although China's annual fixed investment growth has fallen from a peak of 28 per cent in 2003 to a forecast 15 per cent in 2005, current growth is operating off a massively increased base compared with the start of the cycle four years ago. Consider the scale of investment still pouring into stainless steel. China's annual production capacity was 2.5m tonnes at the end of 2004. There are projects in train to expand this to 10m tonnes in five years.

In a globalised economy, China is the King of Overcapacity, the Emperor of Excess Production. In the light of the current slowdown, stock analysts are quite sensibly marking down the counters of companies exposed to the Chinese market. In one area, however, they may have lost the plot.

The falling dominoes are bad news for almost everyone who sells to China but one group of companies - mining businesses that have enjoyed windfall profits from China in recent years - may be the exception. China's overcapacity may be able to function without profits but it can not function without mineral imports.

The country's local output is now insufficient to meet downstream demand for iron ore, zinc, lead, nickel and copper. Reserve depletion is rapidly eroding Chinese tin exports.

In an act of questionable economic sanity, a country that is deficient in minerals and energy has built gargantuan overcapacity in mineral-processing, an energy-intensive industry.

Around the world, there are reports of shortages of everything from mining equipment to explosives as commodities companies endeavour to feed a dragon that lives on a diet of metals and oil. Inventories of most minerals consumed by China are at or near historic lows.

After a 35-year period in which prices of mineral commodities fell by around three quarters, China's addiction to overcapacity may warrant a re-rating for the miners. It seems odd, therefore, that the markets are offering only seven to ten times the prospective earnings of the commodities multinationals that service China, the lowest forward p/e ratio for the mining sector since the late 1980s.

(* Joe Studwell is editor-in-chief of the China Economic Quarterly and author of The China Dream (Profile Books and Grove Press).

controls on inward foreign direct investment and repatriation of capital earned through properly registered foreign direct investments, foreigners face extensive restrictions on investing in China's domestic capital markets. Most crucially, Chinese citizens are also heavily restricted from investing abroad.

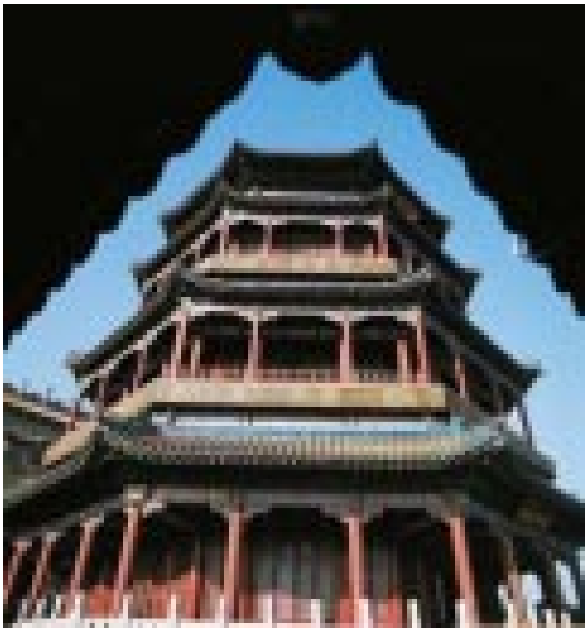
Such capital controls are not unusual. Many countries had capital controls at one stage or another in their economic development. Britain didn't remove all foreign-exchange controls until 1979. South Korea only partially lifted its capital controls in 1996. Taiwan still restricts foreign investment in its stock market. India and Malaysia also maintain tight capital controls.

Like it or not, capital controls are absolutely necessary for China at this stage in its economic development. That's because the country's economic development is, to an almost unprecedented extent, driven by rapid capital formation or fixed asset investments (FAI). FAI accounted for 45% of China's gross domestic product in 2004, a far higher percentage than any other major country has ever experienced during its economic development. For instance, the FAI to GDP ratio in the U.S. never rose much higher than 20%, even during the peak period of its industrialization between 1889-1913, and the post World War II reconstruction phase of 1946-1955. In Japan, the highest the ratio ever reached was about 32% in the 1960s and 1970s. In Germany, it only reached about 21% during the heavy investment periods from 1891-1913 and again from 1952-1958.

The reason why China is able to invest so much more is because, in addition to the inflow of foreign direct investment, it enjoys a very high savings rate (43% of income in 2004).

And because of the controls on the country's capital account, Chinese savers have little choice but to invest their money at home, instead of seeking higher returns overseas.

By almost all measures, Beijing's economic growth is inefficient and wasteful. Data show that it takes an average of $5-7 in investments to produce every dollar's worth of GDP in China, as opposed to an average of $1-2 dollars in most developed countries. Much more energy and other types of resources are also consumed to produce the same amount of GDP as in other countries. Beijing's FAI is largely financed by bank loans, and the amount of bad loans in its banking system is a good indicator of the inefficient use of capital. An inefficient economy can still produce high growth rates if you throw enough capital at it, as China does. But only because the capital is prevented from seeking more productive uses overseas by the existence of capital controls.



(*Weijian Shan is a partner of Newbridge Capital, a private equity firm.)

TEXACO'S HAVOLINE CENTENARY CELEBRATIONS

THE NIGERIAN PERSPECTIVE

Havoline FORMULA

100 YEARS PROMO

- Improved high temperature deposit control
- Improved high temperature deposit control
- Lower oil consumption Improved foam/aeration control
- Improved oxidation stability

CELEBRATING 100 YEARS

Havoline celebrated its 100th birthday last year, with a number of lucky customers receiving presents in Nigeria. The Centenary celebration promotions commenced on December 13, 2004 to March 22, 2005. ChevronTexaco Global lubricants sponsored six zonal draws, where winners of the various gift items emerged. It was concluded on April 7, 2005 with a national draw. The grand prize was a Kia Rio Saloon car. Second and third prizes were a 5.5KVA electric power generator and a Honda motor bike, respectively. Consolation prizes included Nokia Handsets, Havoline T-shirts, Face caps, Mechanics' overalls and mats.

"We not only add more life to our customers' cars, but we also add more life to the people who drive them," Paul Bissohong, Regional Manager, Sales and Marketing, West Africa said. "A clean, safe and reliable car can only be lubricated by clean, safe and reliable motor oil. Havoline Formula' 20W-50 has proven a very reliable blend for the rugged tropical terrain of Nigeria."

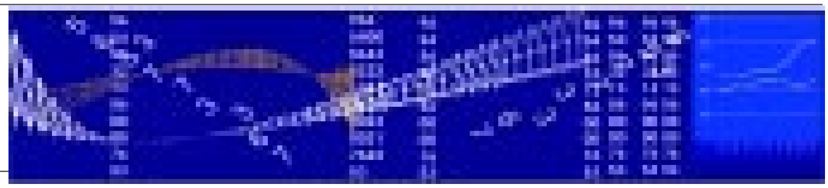
The contest was a triumph for Global Lubricants as well as for the prize winners. It resulted in a 45 percent increase in Havoline sales when compared to overall average sales for the previous year and 65% over the previous quarter. Great brand awareness and strengthened relationships with key customers was also achieved. 50% of the new customers are certain to be retained because of close working relationship achieved during the promo with National Automotive Technicians Association (NATA). NATA is the umbrella body for mechanics in the Country and they remain the biggest influencers of the choice of the lubricant to be used for servicing vehicles. 60% of all vehicle lubricants used are based on the Mechanic's advice.

CTGL also work with key Governmental and regulatory bodies as Federal Roads Safety Commission, (FRSC), Standards Organization of Nigeria (SON), State Ministry of Transports, Manufacturers Association of Nigeria (MAN), who all commended ChevronTexaco for keeping the standards. "The draw has afforded us the opportunity to strengthen our relationship with key partner agencies such as NATA, an organization that exerts immense influence on customer's choice of the lubricants brand to buy," Bissohong said.

The promotion has achieved its main objectives: To reposition Havoline Formula' in the market place, win new customers and communicating the improvement of its quality level from API SJ to API SL.

Havoline

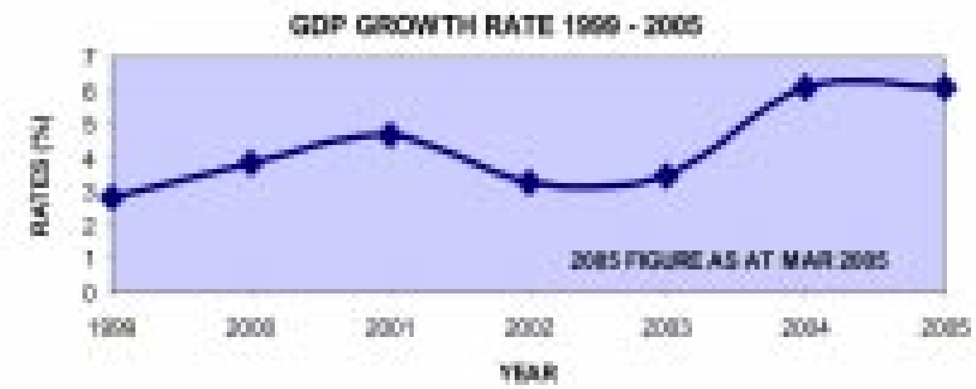
ZEQ DATABANK



* By Toni-Kan Onwordi

GDP GROWTH RATE:

According to the NEEDS document, the Nigerian economy is expected to record a GDP growth rate of 6% in 2005. The figure was 6.12% in 2004. Persisting high crude oil prices which rose above $60 per barrel in June, combined with some fiscal discipline and macro-economic stability is expected to ensure a growth rate higher than the 6% projected in the NEEDS document for 2005.



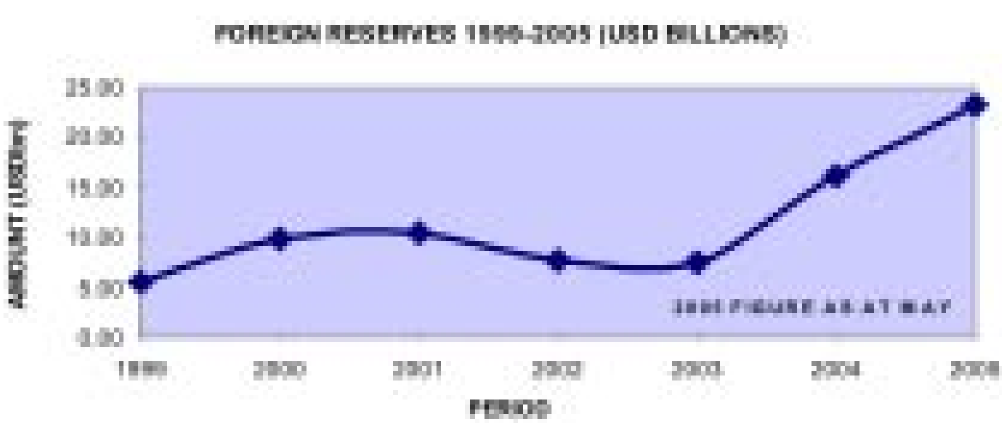
Source: FOS/CBN/NEEDS 2005 est.

FOREIGN RESERVES

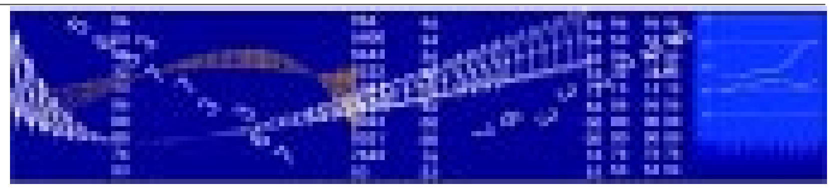
Nigeria's foreign reserves continued to rise, buoyed by receipts from oil whose prices have remained far higher than the $30 per barrel benchmark announced in the 2005 Appropriation Bill.

The reserves have risen by almost 8% from $21.5bn in first quarter 2005 to $23.29bn in second quarter 2005. The foreign reserve is expected to continue on its steady ascent until September when the Federal Government is expected to commit about $6bn into a debt buy back deal following the Paris Club's debt write off of about $18bn.

In the past two years, Nigeria's foreign reserve has been growing at a pace that beat all projections. While the NEEDS document projected the reserves to satnd at $7.2bn and $7.7bn in 2003 and 2004 respectively figures attained were $7.47bn and $16.96bn respectively. Although NEEDS had projected foreign reserves of $8.6bn for this year, figures for the second quarter had hit $23.2bn.



Source: CBN 2005

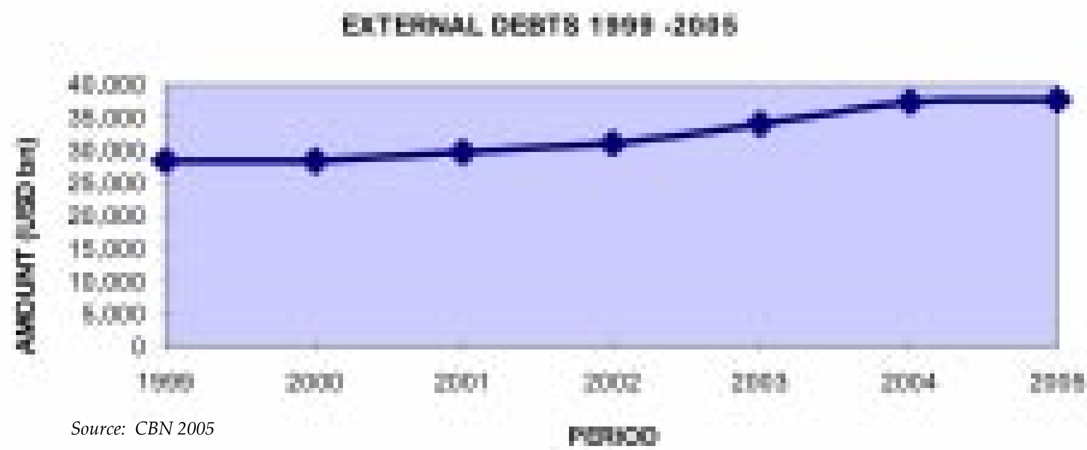


EXTERNAL DEBTS

For several decades, Nigeria has been ensnared in the "debt trap", such that, rather than reducing, the debt overhang has been increasing. By end December 2004 her external debt stood at $36billion. A lifeline however came in June when the Paris Club wrote off 60% of Nigeria's indebtedness to its members.

The debt write-off amounted to between $18 billion to $20 billion of the estimated $30 billion dollars owed members of the Club by Nigeria. Under this "debt treatment" by the Paris Club which is in line with Naples Terms, Nigeria is opting for a debt buy back arrangement to pay off the remaining 40% of the debt.

This development is expected to put the nation's weak economy on the path of full recovery, increase her profile in the international market and enable the Federal Government commit funds, about $2m per annum, hitherto used for debt servicing into providing social infrastructure and more jobs for the citizenry.

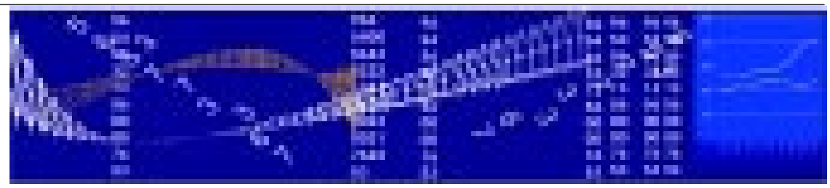


Source: CBN 2005

INFLATION

The realization of the policy objective of a single digit inflation figure has remained elusive for the Federal Government thus far. Several economic policies put in place are yet to rein in inflation, which grew from 10.6% in February 2005 to 15.3% in May 2005. The increase is attributed primarily to the rise in prices of staple food. The NEEDS document has projected a 9.5% inflation rate for 2005. This target may still be realized if an effective and efficient inflation management process is implemented and sustained.

Source: CBN 2005



MINIMUM REDISCOUNT RATE (MRR)

Though the CBN had indicated in its Monetary Policy Circular No. 37 announcing the reduction of the MRR from 15% to 13% that it would effect quarterly reviews of the MRR, it however did not do so at the end of the first quarter. The apex bank decided to maintain the rate apparently as a means of sustaining the prevailing economic fundamentals which encourage credit to the real sector.

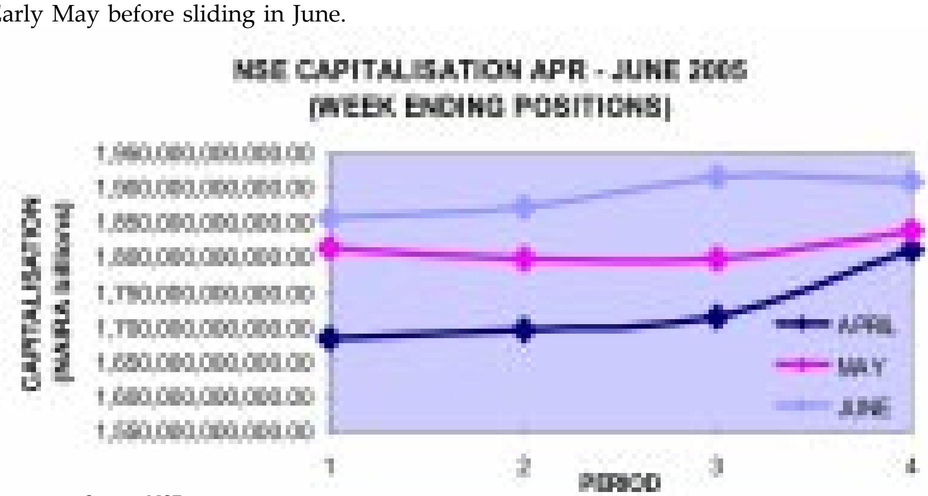
The 13% MRR was part of the measures introduced by the apex bank in pursuit of a tight monetary regime. Others include withdrawal of N60bn public sector funds from the banks to the CBN, upward revision of the Cash Reserve Requirement by 50 basis point, from 9.5% to 10% to help in mopping up excess liquidity in the system. The CBN also revised the definition of liquid assets to include 3-year bonds while sustaining the exchange rate band of ± 3%.

Source: CBN, 2005

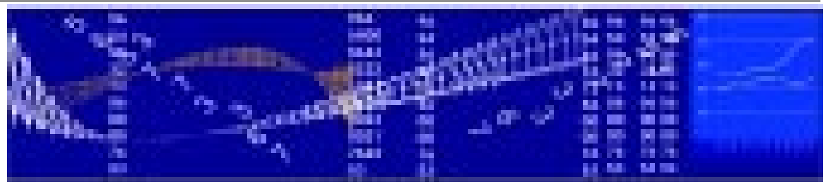
CAPITAL MARKET

Activities have remained upbeat at the capital market with banks still literally trooping to the market to raise funds in order to meet the CBN's capitalization deadline.

In the second quarter of 2005, banks including IBTC, Omega, Fidelity and a host of others went to the capital market to raise funds to shore up their shareholders' funds in order to place them in positions of strength in their merger arrangements. Market capitalization soared with the banking sector driving activities, as it rose to a peak of 1,917,334,929,180.00 on June 22 2005 as 836,874,462 First Bank shares were sold. The All Share index however peaked in late April and Early May before sliding in June.



Source: NSE, 2005

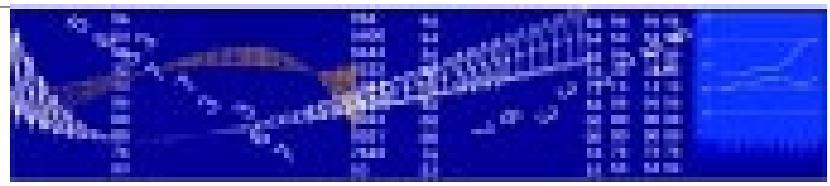


Source: NSE, 2005

FOREIGN EXCHANGE RATE

The Naira maintained relative stability at the foreign exchange market during the quarter under review exchanging between N132.85 where it closed for the first quarter and N132.88 for June ending.With foreign exchange rate stability remaining a key policy thrust of President Obasanjo's administration, the CBN has been putting measures in place to lessen the pressure on the foreign exchange market.

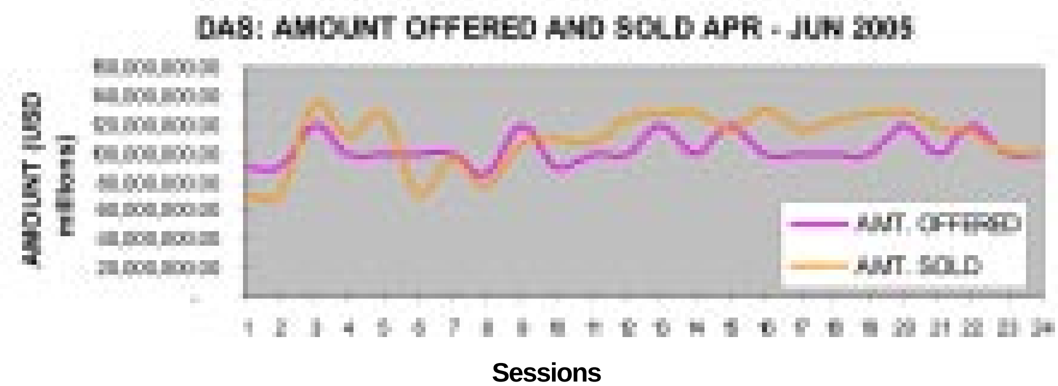
Source: CBN, 2005



DUTCH AUCTION SYSTEM (DAS)

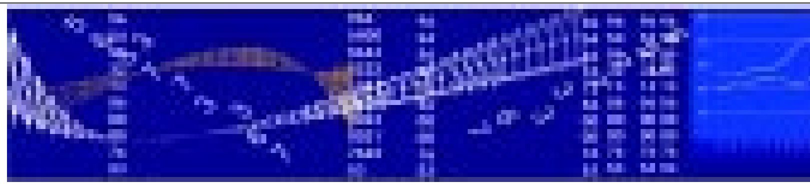
While the market awaits the new DAS regime which the CBN had said would be characterized by a new bidding process in which individual banks will make bids on behalf of the banks and not on behalf of their customers as is the case now, the DAS has continued to record increased activity with demand consistently outstripping supply since mid May. This spike in amount of forex sold to end-users was attributed to the beginning of the summer period. A comparison of the amount of forex demanded and sold in the corresponding period in 2004 shows that demand increased in the quarter under review.

In the second quarter of the year, $2.47bn was offered for sale while $2.64bn was sold to end-users. Compared to the corresponding period in 2004, there was an increase over the amount offered for sale in 2004, which stood at $2.33bn while the amount sold in 2004 which stood at $2.75bn was higher than the $2.64bn sold to end users in the corresponding period of 2005. The Naira has maintained a measure of stability since it opened the year at N132.85: $1 USD when DAS resumed on January 5, 2005.



Source: CBN, 2005

Source: CBN, 2005



MANUFACTURING CAPACITY UTILIZATION

A nationwide survey conducted by the CBN has confirmed that manufacturing capacity utilization declined from 45.62% in 2003 to 44.97% in 2004. The provisional figure for the second quarter 2005 has been put at 46.2%.

Most of the respondents attributed the decline in 2004 to poor electricity supply, which has remained a major problem for the sector with most industries having to depend principally on their generators.

The take off of the Power Holding Company of Nigeria (PHCN) is expected to ameliorate the power problems and breathe new life into the sector.

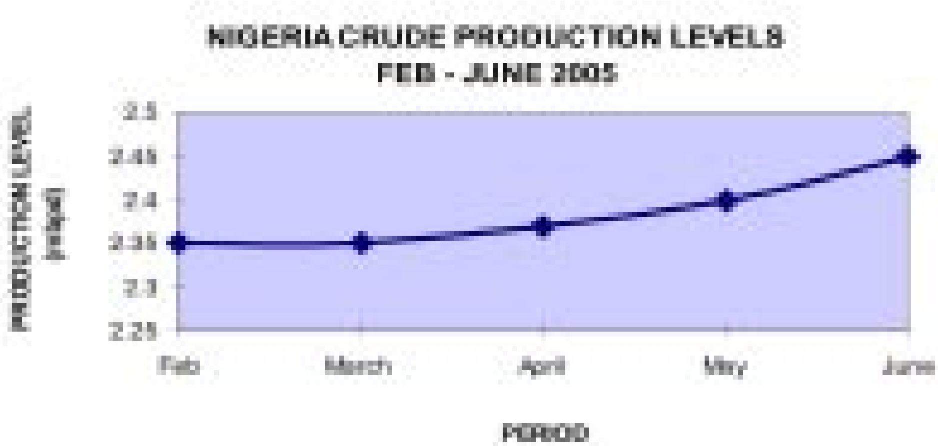
Source: CBN, 2005

OIL

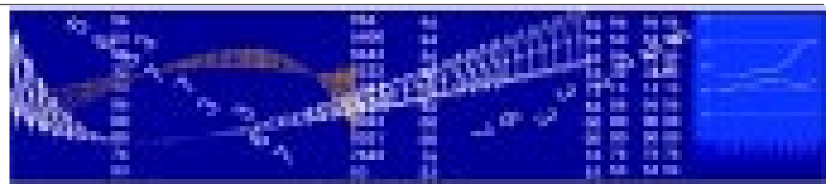
High oil prices, which have shown no hints of slowing down, have ensured a steady rise in Nigeria's crude oil receipts, which is expected to hit $37.7bn in 2005. Figures from the Organization of Oil Producing and Exporting Countries (OPEC) indicate that the 2005 projection is 73% higher than the figure for 2004, which stood at $27.52. OPEC expects that with the trend continuing, Nigeria's crude oil receipts will grow by another 9% to $41.1bn in 2005.

The high oil prices have been attributed to factors that include unexpected cold spells in the westernn hemisphere, the devastation and disruptions in fuel production and supplies wrought by Hurricaane Dennis, low inventories in the US stockpile as well as disruptions in the Nigeria's volatile Niger delta.

To counter soaring prices, OPEC had announced an increase in production levels in the hope that increased supplies would arrrest prices, but the measure produced shortlived respite. In Nigeria, as rising crude oil prices soared way past the $30 p/b benchmark, speculations were rife that the Petroleum Products Pricing and Regulatory Authority (PPPRA) and the NNPC would increase the pump price of petroleum products. Pump prices however remained steady.



Source: OPEC, 2005



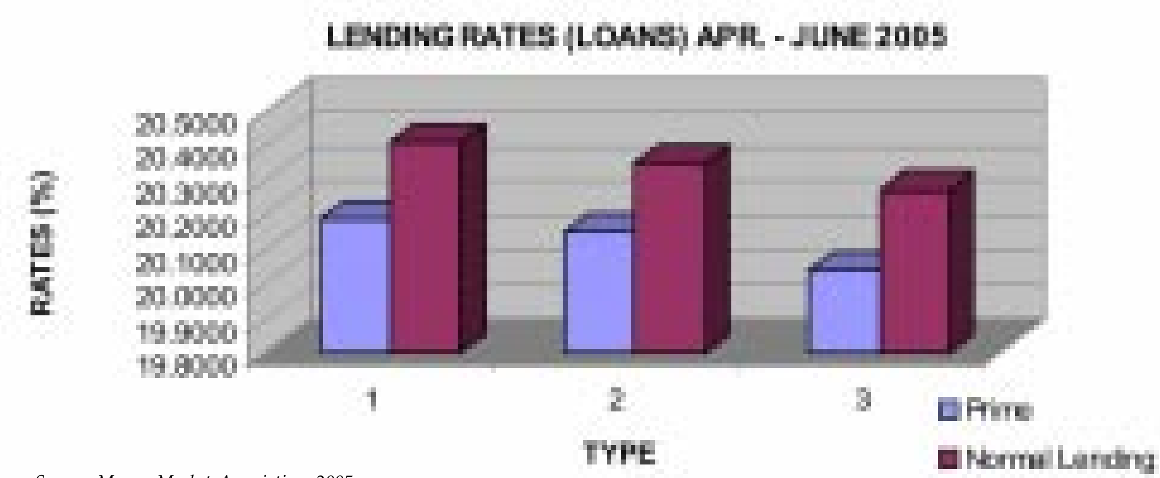
MONEY MARKET RATES

With the MRR still at 13% and lending rates still above 20%, the impact of the FG and CBN's liquidity management was not fully felt in the period under review especially with reference to the real sector.

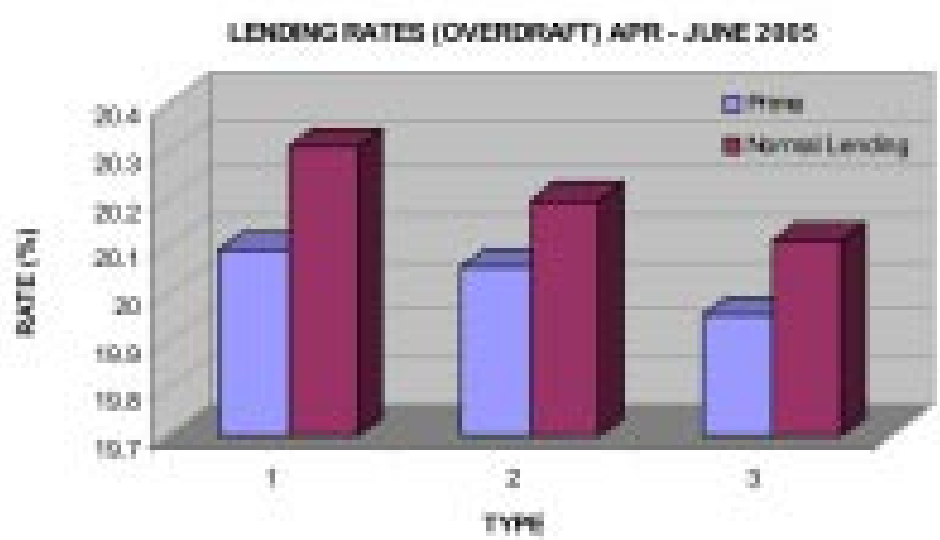
While lending rates have remained high, rates at the Interbank end of the Money Market continued to witness periodic highs and lows occasioned by the release of the Statutory Allocations and liquidity mop up operations.

The CBN's withdrawal of public sector funds also impacted on the market while the announced introduction ofdaily position reports to the CBN by banks has also affected the rates.

In all, a total of N1.025 trillion was withdrawn by the CBN from the banking sector through the sale of government securities as part of its efforts to manage the liquidity situation in the system. The figure is 4.8% lower than the N1.077 trillion which the apex bank withdrew in the last quarter.



Source: Money Market Association, 2005



Source: Money Market Association, 2005