Zenith Economic Quarterly

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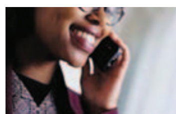

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Of *Growth Drivers* and The Nigerian Economy

'Growth drivers' or 'drivers of economic growth'. Put it the way you want. It makes little difference to the common man on the street, anywhere in the world, least of all, Lagos. For as respected Economics Professor Seers suggested in his treatise on development, economic growth means little if it does not translate into development, not the type epitomised by the array of Western intercontinental ballistic missiles or Weapons of Mass Destruction (WMD), but development as measured by the quality and standard of life- the often quoted Human Development Indices.

Nations that have experienced quantum leaps in economic growth and development have demonstrated clearly what 'drives' growth: Lee Kuan Yew's Singapore demonstrated the role of leadership, planning and proper focus. Other Asian tigers at different times have demonstrated the role of certain factors - Malaysia's massive Seaports, Dubai's focus on being the aviation hub of the Middle East, Japan's reactive nationalism of the early 1970's, China's meteoric rise through unbridled introjections that have created a consistent GDP growth rate of over 7% for several years, India's IT adventure, etc.

Globally, growth would be constrained by rising cost of energy (given the cost of crude oil at $57.6pb in mid-March, 2005), the political situation in the Middle East, the predicted marginal growth in the US economy and the 'slow down' expected in China's.

But Information and Communication Technology (ICT), with an estimated global market size of US$1.5trillion (global software market alone is in excess of US$300bn) and an increasing interest in Africa and the emerging markets would 'drive' global growth.

...but to sustain it and subsequently transform economic growth into development...this is the challenge of sustained quality leadership, an important 'growth driver'...

Nigeria's economy continues to show positive signs of recovery and quantum growth potential. Official statistics indicate that major macroeconomic targets for the year ended December 2004 were achieved. With an unprecedented external reserves (US$21.00bn by March 2005), declining interest rates, near single digit inflation, stable exchange rate and curtailed fiscal deficits (less than 2 percent), a GDP growth rate of 6.1% (2004), (1.1 per cent above the NEEDS target) and a general perception of improved and succeeding war against corruption, the number one anti-growth constraint. Nigeria's macroeconomic stability stands out as an important growth driver in the year 2005 and beyond.

Next most important growth driver, it would seem, is the 'cocktail' of sector reforms being undertaken by the Government. They include: the NEEDS articulation, budgetary reforms, fiscal discipline exemplified by the 'savings' of excess crude earnings, banking sector consolidation, through the Due process scheme, monetization policy and the gradual shift away from 'steep allocations' to recurrent expenditure budget (Federal), the revived privatization programme, special focus on specific agricultural crops, the pensions reform, renewed effort at privatization of the downstream petroleum sector and the proposed tax law reforms.

More significant is the infrastructure sector (not the telecommunications sub-sector, which continues to contribute to growth), especially, the Electric Power Sector Reform Act 2005 (EPSRA) which provides the legal, regulatory and institutional framework for the development of a competitive power sector in Nigeria.

Like the morning star that rises from the unknown, or so it seemed, the EPSRA became law almost to the utter surprise of everyone who had watched with patience, the very long and arduous journey it took to enact that piece of legislation.

The EPSRA, which would usher in a deregulated competitive electricity market with 'unbundled NEPA' business units becoming privatization candidates in the near future, promises to impact Nigeria's economy in a far more dramatic way than the telecommunications sector. By this singular act, Government has declared its preparedness to truly end the wastages and losses resulting from incessant power cuts or inadequate supply.

Professor Paul Collier once counselled (at the 10th Nigerian Economic Summit) that Nigeria needed to focus on a few growth constraining issues, suggesting investment climate, infrastructure and macroeconomic environment, under a focused team of professionals working with a determined leadership with the requisite political will to effect desired changes. Government's actions chime in with this advise. Indeed NEEDS is actively being implemented and truly, the President Obasanjo Administration seems set to leave a lasting economic legacy.

Perhaps the most important challenge for Nigeria is not just to foster private sector led economic growth but to sustain it and subsequently transform economic growth into development in terms readily understood by and acceptable to the proverbial 'common man' whose interest and 'common good' friends and foes alike seek to protect and further.

This is the challenge of sustained quality leadership, an important 'growth driver' that Nigeria needs at all levels. Both in the public and private sectors, 'Nigeria incorporated' requires selfless leadership, with the requisite strength of character, integrity, proper focus, commitment, dedication and zeal to succeed, the type exemplified by Philip Emeagwali, in his article. Leadership (public and private), good economic and corporate governance remain key success factors that would help drive growth in Nigeria in 2005 and beyond.

Government is demonstrating everyday that it has the capacity to continue to deliver on President Olusegun Obasanjo's post election (2003) promise to address constraints to economic growth.

Little wonder that this edition highlights the important developments in the economy in the first quarter of 2005, including specific articles that put in perspective, important lessons for policy makers and persons with keen interest in the future of Nigeria.

Chris 'E Onyemenam

Growth Drivers:

Charting the path to development

* By Marcel Okeke

A key feature of the Nigerian economy in the first quarter, 2005, was the absence of a national budget; yet, during the period, goings-on in certain sectors dictated the tempo of activities and direction of the economy. Though presented to the National Assembly in October, 2004, by President Olusegun Obasanjo, the 2005 Appropriation Bill remained mired in disagreements between the Executive and the Legislature throughout the review period. However, the Obasanjo Administration's reform programme, particularly with the adoption of the National Economic Empowerment and Development Strategy (NEEDS), had clearly thrown up some sectors as growth drivers of the economy. Thus, activities in the oil and gas sector, leading to a quantum leap in crude oil production, export and earnings, hallmarked the first quarter of the year. An upshot of this is that Nigeria's oil revenue which totalled $28 billion last year, is projected to hit about $40billion this year.

Operators and activities in the telecommunications sector remained upbeat—a carry-over of the breath-taking pace of developments in the sector in the past three years—leading to a twenty times increase in the country's teledensity within the period. Inflow of investment (including Direct Foreign Investment) is still remarkable and rising, just as competition among the operators keeps heightening. New products development and burgeoning customer-base are fast-tracking the boom in the industry.

The banking sector, courtesy of the ongoing consolidation, is almost undergoing a 'revolution' that is sure to affect the direction and

future of the economy. Expectations about the role of the emerging 'mega' banks are already high, with all the major operators jostling for the top league, post-consolidation. The depth and breadth of the capital market are already being stretched almost to the limits by the horde of banks that literally swooped on the market in search of funds since July 6, 2004, when the Central Bank of Nigeria unfolded its banking sector reform agenda. The resort by banks to the capital market in search of equity funds even gained more momentum during the quarter under review.

Infrastructural and institutional reforms were also being pursued with gusto, reflecting in remarkable developments in the energy/power, agriculture, transport and aviation sectors as well as tax and pension regimes. The enactment of the long-awaited Power Sector Reform Act, tenacious pursuit of the setting up of a national carrier, the various Presidential initiatives on food/cash crops to achieve food sufficiency/export, among others, all point to the strong strides in the economic reform process.

Growth Drivers

The above scenarios amply indicate that the growth drivers/sectors of the economy, 2005, were activity-filled and showed great potentials throughout the review period. They include the banking and finance sector, the oil and gas sector, the information and communications technology (ICT) sector, the agriculture and agro-allied sectors as well as infrastructural and institutional reforms epitomised by privatisation. In fact, activities in these sectors, including those that were carried over from 2004, served as real fulcrums for the economy while the long wait for the 2005 budget lasted.

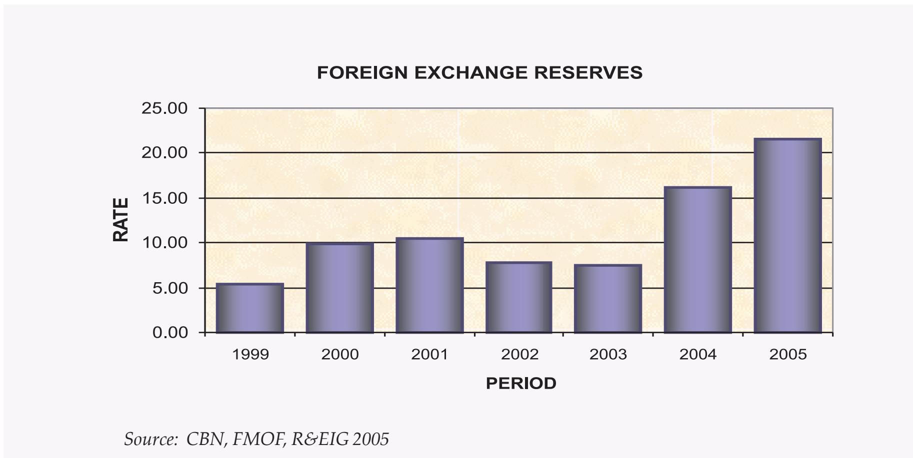
Macro-economy

Essentially driven by activities in the "growth drivers" during the first quarter, virtually all macro-economic indicators maintained the (positive) performance streak of the last quarter, 2004. Thus, inflation rate which stood at above 15% for the better part of last year, maintained a downward trend during the review period, approaching the one-digit target. This portends progression to a robust economy, all things being equal.

On the other hand, the Naira exchange rate, as was the case last year, maintained its stability, exchanging at N132.86:USD by end-March, 2005, as against N132.85: USD as at end-December,2004. This strong showing of the Naira (in the Dutch Auction System, DAS) in the foreign exchange market could be attributable to the enlarged variety of banned imports and huge crude oil revenues, which checkmated speculative bids. All together the CBN sold a total of $2.49 billion at the DAS to all authorised dealers during the quarter: $6.82 billion in January, $9.80 billion in February and $8.3 billion in March. This trend, in contradistinction with previous years' scenarios, shows that the apex bank is meeting, substantially, the foreign exchange needs of the end-users.

The stability of the exchange rate of the national currency is purely in line with the tight 'Exchange Rate Band' of Plus/Minus 3.0 per cent stipulated by the Central Bank of Nigeria in its amended monetary policy for fiscal 2004/2005which was issued in February. Supporting this development also was Nigeria's external reserve which achieved a major leap from US$16.9billion (or 14 months of import cover) as at end-December, 2004, to US$21.5billion (or 18 months import cover) by end-March, 2005. This trend remains ongoing and promises more wholesome effects on the economy.

Interest rate on bank loans (lending rate) experienced some decline during the first quarter, 2005. The drop was essentially a sequel to the slash in the Minimum Rediscount Rate (MRR) from 15 to 13% early February, by the Central Bank of Nigeria via an "Amendment and Addendum" to its Monetary Policy Circular Number 37. Thus, interest rate which hovered around 19-20% (or 4 percentage points above the subsisting MRR) up to end-



Source: CBN, FMOF, R&EIG 2005

January, 2004, dropped to around 16-17% from February onwards. If this trend is maintained, deficit spending economic agents/fund users face bright prospects in the days ahead. However, since the MRR would be reviewed every quarter, according to CBN guidelines, interest rate could rise or drop further, depending on the subsisting policy.

Banking and Finance

The impact of the amended Monetary, Credit, Foreign Trade and Exchange Rate Policy Guidelines for 2004/2005(Monetary Policy Circular Number 37) issued by the Central Bank of Nigeria on February 2, 2005 and the quest by many banks to beat the December, 2005 CBN deadline on the N25billion minimum share capital were two key factors that drove activities in the banking sector during the first quarter. And this will remain so for better part of the year.

Thus, the immediate drop in (deposit and lending) interest rates sequel to the cut in MRR from 15 to 13% via the amended monetary policy impacted on activities in the money and capital markets as well as the real sector. Monthly statutory Federation Accounts disbursements to the various tiers of government also usually impacted positively on liquidity in the system. In the months of January, February and March, N231billion, N224billion and N222billion respectively were shared among the three tiers of government. A number of banks that had already met the new minimum capital base (15 of them by end-March), also possessed huge loanable funds which they could invest at reasonable interest rates. The simultaneity of this development and the cut in the MRR gave rise to an era of relatively ‘cheap funds’.

All through the first quarter, the alignment and re-alignment of forces by banks in pursuit of mergers and acquisitions characterised the industry; yet, no merger or take-over was consummated during the period. Apparently piqued by this trend, the CBN issued a revised guideline in which it earmarked April 30, 2005, as the deadline for all banks that have signed MOUs to show visible advances in their merger efforts.

Most M&A arrangements commenced last year, actually collapsed during the review period. Ironically, many agreements-in-principle among various groups of banks late 2004, allowed each member of a group to seek ways of shoring up its capital base preparatory to the actual mergers. Thus, although merger talks remained upbeat among many groups of banks during the quarter, almost all the banks embarked on solo efforts to beef up their capital bases. Such efforts largely drove activities in the finance sector in the first quarter.

These efforts were in forms of raising equity funds from the capital market via initial public offerings (IPOs), public offers, rights issues; seeking private placements, direct foreign investments, among others. Banks literally besieged the capital market, such that during the first quarter alone, no less than ten of them had raised or were raising billions of Naira in equity. This is in addition to a similar number that raised humongous amounts from the same market within the second half of last year.

All these indicate the future shape of banking that will be dominated by highly capitalised players that would

Banks That Raised Money In The Capital Market
In First Quarter, 2005

S/N	ISSUER	NO. OF SHARES	(N) OFFER PRICE	OPENING DATE	CLOSING DATE
1	ACB INT'L	25,000,000,000	0.80	Mar-02	Mar-31
2	Intercity	6,968,034,416	1.90	Mar-03	Mar-31
3	First Atlantic	3,000,000,000	2.50	Feb-21	Mar-21
4	NAL Bank	4,000,000,000	2.50	Feb-28	Mar-30
5	Chartered	2,495,350,255	3.40	Feb-21	Mar-21
6	Prudent	5,000,000,000	2.00	Mar-23	Apr-22
7	Co-op Bank	4,000,000,000	1.50	Mar-21	Apr-20
8	FCMB	4,000,000,000	4.00	Feb-09	Mar-09

Source: NSE, 2005

All together, no fewer than 17 companies raised a total of N217.1 billion from the capital market during the first quarter as against 32 companies that raised N227.4 billion from the market in the whole of last year.

IPP Projects Under Construction

S/N	Name/location	Mega Watts proposed
1	ICS power at Alaoji, Abia State	500
2	Shell Joint Venture at Gwagwalada – FCT	1,000
3	Rockson Engineering at Sapele Delta State	750
4	Reckson at Okoloma, River State	750
5	Index Thermal at Onne, Rivers State	1,500
6	Mobile Oil at Bonny, Rivers State	450
7	TotalFina-Elf at Ahoada, Rivers State	250
8	Mabon at Dadinkowa in Gombe State (hydro)	39
9	Eagle Power at Aba, Abia State	560
10	Althoms Power project at Delta	320
11	RollsRoyce ENCO project at Otta, Ogun State	60
12	Rivers State IPP – Omoku	150

Source: NEPA, R&EIG 2005

really drive the growth and development of the economy. These 'big players' will be able to lend to actors in some sectors of the economy that they hitherto could not. For example, a number of capital intensive businesses (e.g. in the oil and gas, telecom, aviation, etc.) which depended largely on foreign finances, would now get more local funding from better capitalised banks. In fact, banks' huge shareholders' fund (post-consolidation) as well as the new pension fund scheme would avail the economy with longer term finances than hitherto. Thus, real sector operators would be saved the extant problem of predominantly short term funds in the financial market.

A few strong supervisory/regulatory actions taken by the apex bank during the quarter also impacted the industry. These include stopping of six distressed banks from taking deposits from the public; issuance of revised consolidation guidelines, encouraging a few "strong banks" to take necessary steps to acquire the "small/weak" ones in the system, in pursuit of the end-December, 2005, consolidation deadline. These actions will obviously conduce to a healthier banking industry, rubbing off positively on the economy.

The CBN also took steps to address the problem of huge waste of funds on currency printing abroad. In this regard, it consolidated moves towards the revival/acquisition of the Nigeria Security Printing and Minting Company (NSPMC). Sequel to the Share Sale/Purchase Agreement (SPA) signed between the apex bank and the Bureau of Public Enterprises (BPE), the former paid the sum of N6.4billion for the additional 74.65 per cent shareholding it acquired in the Mint. And in line with its mandate, under a management contract, the CBN commenced the restructuring of the Mint. This management contract will last for about three to five years before the CBN hands over the Mint to the BPE for full privatisation.

There is no doubt that Nigeria has been spending fortunes on the minting of her currencies abroad (officially put at $1000million per annum), while the NSPMC was literally left to rot. The new drive under which a new board has been constituted, with the CBN Governor as Chairman, will not only save the nation avoidable waste, but also take care of the national security issues involved in the dependence on foreign mints.

The Capital Market

The ongoing banking consolidation, delayed 2005 budget approval and other fundamentals in the economy combined to dictate the variety and tempo of activities in the capital market during the first quarter. Massive resort by banks to the capital market in search of equity funds in pursuit of the N25billion minimum capital and uncertainty of Government policies owing to the absence of a subsisting Appropriation Act unleashed a bearish trend in the market.

Specifically, market capitalisation which stood at N2.112trillion at year-end, 2004, had by February 4, 2005, hit N1.811trillion and kept the downward trend all through March to close at N1.679trillion by the end of the quarter. Similarly, the All-Shares Index of the Nigerian Stock Exchange (NSE) which was at the 23,500 level in December, 2004, had by end-March, 2005, plummeted to 20,682, with prospects of a further dip.

While activities remained upbeat in the primary segment of the market, marked by new listings, initial public offerings (IPOs) and hybrid public offers, the secondary market was characterised by continued massive stock price depreciation all through the quarter. Investors were literally 'off-loading' their stakes in publicly quoted companies and re-investing the proceeds in the new huge offers by banks. The net result of all these however is heightened 'activ-

NEPA Facilities Nationwide

Station	Type	Date of Commissioning	Installed MW
Afam	GT (gas)	1978 - 1982	710
Delta	GT (gas)	1966 - 1990	912
Sapele	GT, ST (gas)	1978 - 1981	1,020
Egbin	ST (gas)	1985 - 1987	1,320
Ijora	GT (gas)	1978	60
Oji	ST (dual)	1956	30
Kainji	Hydro	1968 - 1978	580
Jebba	Hydro	1983 - 1984	570
Shiroro	Hydro	1989 - 1990	600
TOTAL			**5802**

Source: Bureau of Public Enterprises 2005

ity' in the market, a trend that will endure for months ahead.

All together, no fewer than 17 companies raised a total of N217.1 billion from the capital market during the first quarter as against 32 companies that raised N227.4 billion from the market in the whole of last year. Market information indicate that several more companies are queuing up to access funds from the market. These underline the critical role of the capital market in driving economic growth and development.

Sequel to these developments in the market, the Securities and Exchange Commission (SEC), the apex regulatory authority, suspended Clause 64(4)(a) of its 'Rules and Regulations' which permits the absorption of over-subscribed portion of any public offer. Prior to this move, SEC said it was inundated with an avalanche of applications by issuers to capitalise over-subscribed portion of public offers. SEC said "it is not our desire to permit capitalisation of investors' money merely because it is available". This is intended to improve on transparency and accountability on which the market thrives.

The NSE, as part of its efforts at improving the timely spread of market information, in collaboration with the Central Securities Clearing System (CSCS), officially launched the *'Trade Alert'* during the quarter under review. The new device which has the capability of notifying subscribing investors of transactions in their accounts in the depository, is intended to curtail incidences of unauthorised transactions on clients' accounts and provide investors with timely market information.

Infrastructure: Power Sector

Activities in this sector, by the first quarter, were already assuming a feverish pitch—a development that reached a new crescendo when the Electric Power Sector Reform Act 2005 (EPSRA) was enacted. The new law paves the way for private sector operators to join in the generation and sale of electric power which, until now, has been the monopoly of the National Electric Power Authority (NEPA). Essentially, the primary objective of EPSRA is to facilitate an orderly development of a deregulated, competitive electricity market and thus, encourage private sector investment inflows into the sector.

A highlight of the key provisions of the Act include:

- Provision for the formation of companies to take over the functions, assets, liabilities and staff of NEPA;
- Development of a competitive electricity market;
- Establishment of the Nigerian Electricity Regulatory Commission (NERC);

• Provision for the licensing and regulation of: Generation, Transmission, Distribution and Supply of electricity;

• Enforcement of performance standards, consumer rights and obligations;

• Provision for the determination of tariffs and matters connected to or incidental to the above.

Even before the enactment of the EPSRA, activities in the power sector remained high, due mainly to efforts at contending with the inefficiencies of NEPA as well as some private sector initiatives. Just before the new Act was enacted, the Federal Government released the sum of N24.8 billion (out of the N55.66 billion needed) for the construction of four new power stations that will generate additional 1,230 mega watts of electricity. The new plants are located in Ogun, Ondo, Kogi and Delta states. There is also the 360mw capacity Alaoji power plant in Abia State, costing the Government about N4.283 billion. All these projects had taken off by end-March, 2005 and are aimed at improving power generation and supply in the country.

At present, NEPA's installed generating capacity is estimated at 6,654 MW, but Government plans to push up this capacity to 10,000MW this year. Of the installed capacity, NEPA currently generates about 3,105 MW. In a bid to cover this yawning gap, the Federal Government recently mandated major oil companies in the country to establish independent power plants (IPP). Some of the companies have already commenced work on the plants. Shell, for example, has embarked on the upgrading of the Afam power station, to increase its capacity from 270MW to 300MW; Agip has just commissioned a 330MW capacity plant in Delta State. A number of state governments and private concerns have also commenced work on their own IPP.

This motley of investments/activities amply point out the power sector as a growth driver with huge potentials to truly jumpstart and sustain Nigeria's economic development. Poor and epileptic power supply has over the years constituted a serious hinderance to the nation's growth and development. Power problem has been at the heart of the infrastructural inadequacies that led to the ignoble acronym of BYOI (Buy Your Own Infrastructure) which portrays the harrowing experience of investors (especially manufacturers) in the country.

Major Factors in Nigeria's Business Environment: BYOI

Employment Size	FPG	FREB	VG&A	DETV	TDEPP
20-49	93.4	93.3	20.9	1	65.5
50-99	97.4	94.9	27.2	6.1	67.2
100-199	100	92	18.9	1.5	69.5
200-499	100	96	14.9	3.6	67.3
500-999	100	100	29.2	10.9	64.2
1000 & Over	94.1	88.2	37.5	1.2	62.9
All	97.4	93.9	21.9	3.3	66.8

Source: Regional Program on Enterprise Devt. Country Study 2002

FPG = Firms with Private Generator
FREB = Firms which Reported Electricity as Biggest Infrasture Problem
VG&A = Value of Generators & Accessories as % of total value of equipment and machinery
DETV = Damage to Equipment as a % Total value of equipment and machinery
TDEPP = % of Total Demand for Electricity in firms which is Privately Provided

Production levels of OPEC Member Countries (excluding Iraq) as of March 16, 2005 (Bpd)

	Old production	Increase	New production
Algeria	862,000	16,000	878,000
Indonesia	1,399,000	26,000	1,425,000
IR Iran	3,964,000	73,000	4,037,000
Kuwait	2,167,000	40,000	2,207,000
SP Libyan AJ	1,446,000	27,000	1,473,000
Nigeria	2,224,000	41,000	2,265,000
Qatar	700,000	13,000	713,000
Saudi Arabia	8,775,000	162,000	8,937,000
United Arab Emirates	2,356,000	44,000	2,400,000
Venezuela	3,107,000	58,000	3,165,000
Total	**27,000,000**	**500,000**	**27,500,000**

Source: OPEC Secretariat 2005

Oil and Gas Sector

A major growth driver in the economy during the first quarter was the oil and gas sector— the undoubted 'leader' sector of the Nigerian economy. The sector which accounts for at least 33 per cent of Nigeria's Gross Domestic Product (GDP) and 75-80 per cent of Government's annual revenue, is also responsible for 95 per cent of the country's export earnings. But although all segments of the sector (up and down streams) were quite active during the quarter, it was developments in the crude oil market that proved most dramatic.

PROPOSED PRIVATE REFINERIES IN NIGERIA

S/N	Company	Licence Type	Capacity (mbpd)	Location/ state	Cost Estimate
1	NSP Refineries & Oil Services Ltd	ATC & relocation of refinery to Nigeria	100,000 barrels	Ohali-Ogban Ndoni, Rivers	$1.5 billion
2	Chasewood Consortium	"	70,000 barrels	Eket, Akwa Ibom State	$70 million
3	Delta Refinery & Petrochemical Ltd	ATC	100,000 barrels	Escravos, Delta State	$1.5 billion
4	Ode-Aye Refinery Ltd	"	"	Okitipupa, Ondo State	$1.5 billion
5	Starex	"	"	Onne, Rivers State	$1.5 billion
6	Union Atlantic Petroleum Ltd	"	"	Inogbe, Badagry, Lagos	$1.5 billion
7	Qua Petroleum Refinery Ltd	"	"	Ipokia, Ogun State	$1.5 billion
8	Akwa Ibom Refining & Petrochemical Company Ltd	"	"	Ikot Abasi, Akwa Ibom State	$1.5 billion
9	Sapele Petroleum Ltd	"	"	Sapele, Delta State	$1.5 billion
10	Cleanwaters Refinery	"	60,000 barrels	Onne, Rivers State	$60 million
11	Amakpe Int'l Inc. Refinery Ltd	"	12,000 barrels	Ibeno, Eket, Akwa Ibom State	$10 million
12	Orient Petroleum Resources Ltd	"	55,000 barrels	Otuocha, Anambra State	$80 million
13	Total Support Refinery Ltd	"	12,000 barrels	Calabar, Cross River State	$10 million
14	Tonwei Refinery Limited	"	100,000 barrels	Agge, Ekeremor, Bayelsa State	$1.5 billion
15	Obat Petroleum Limited	"	60,000 barrels	Ilaje, Ondo State	$60 million
16		"	50,000 barrels	Benin, Edo State	$75 million
	Total		**1,219,000**		**$16.7bn**

Source: R&EIG 2005

Crude Oil Market

Against the oil price benchmark of $30 per barrel on which the 2005 Appropriation Bill was based, and the $45pb at which the Brent crude closed last year, oil prices in the international market consistently remained above the $50pb throughout the first quarter, this year. In fact, by end-March, the price of the Brent crude (equivalent of Nigeria's Bonny Light) had hit a new high of $57pb. The pace of the climb in oil prices was so fast that the Organisation of Petroleum Exporting Countries (OPEC) which set its production quota ceiling only last December, at 27 million barrels per day, had to increase the ceiling mid-March, 2005.

In fact, OPEC at its 135th conference in Iran, March, 16, raised its production ceiling from 27 to 27.5million barrels per day, and authorised the Conference President to "approve an additional increase of 500,000 barrels per day, should oil prices remain at their current levels, or increase further between now and the next meeting of the Conference in Vienna, scheduled for 7 June".

As in last year, this market condition was a product of a number of factors: the freezing weather in the northeast of the United States (a major consumer of heating fuel), worries over the probability of an escalation of oil workers' strike in Nigeria and Iraq's election ahead of OPEC meeting.

At all times, market makers kept a close eye over Nigeria, Africa's biggest crude oil producer/exporter, after its oil workers' unions (PENGASSAN and NUPENG) officials issued threats of a strike, a move labour leaders confirmed could disrupt oil exports. By end-March, the threat had given rise to a warning strike.

The upshot of all these had been an exponential rise in oil revenue accruing to Nigeria, as oil prices remained at almost double the budget benchmark of $30 per barrel. This rise in volume and value of the country's oil exports had translated into a huge accretion to its external reserve (which grew from $16.9billion in December, 2004, to $21.5billion by the close of the quarter under review). It

has also led to a visible stability in the exchange rate of the Naira against major world currencies. This wholesome trend is likely to persist.

Scratch Card Consumption/Denominations by Networks (GSM)

NETWORK	DENOMINATION	AIRTIME VALIDITY	MARKET SHARE/CONSUMPTION AVE. (%)	CARD SOURCE (IMPORTED)	POTENTIAL LOCAL SOURCE
MTN	750,1,500,3,000 & 6,000	5,15,30, & 60 Days respectively	39.51%	Namitech (South Africa)	Not Known
VMOBILE	500,1000 & 2000	7,10, & 15 Days respectively	25.53%	Europe	Masterstroke
GLOBACOM	500,1,000,2000 & 5,000	5, 10, 20, & 60 Days respectively	21.75%	Europe	Control Cards
MTEL	250,400,1,000 & 2000	10, 15, 30, 60 days, respectively	13.21%	Nitecrest (UK) through Card Technologies (Nigeria)	Card City (Sub. of Charms Ltd)

Source: R & EIG/NCC 2004/2005

Upstream Oil Sector

At the beginning of the year, the Nigerian National Petroleum Corporation (NNPC) declared 2005 as the "Local Content Year", and went ahead to put some machinery in place to pursue its target of reaching 45% local content by 2006 (70% by 2010). In this regard, the Federal government, during the first quarter, set up a number of committees to assist private sector participation in the major deepwater developments. This informed the package of requirements for qualification to bid for oil blocks in Nigeria's Deep-waters (of depths greater than 200 metres), to encourage and accommodate many indigenous investors.

Thus, during the first quarter under, elaborate preparation for the 2005 Bid Round for oil blocks in Nigeria's deep-water basins was a key issue. The zoning of the available acreage, registration of bidders, technical evaluation of intending bidders as well as the organisation of commercial bidding conferences were all part of the preparation. In all, a total of 61 oil blocks are being put on offer by the Federal Government in the bid round. The exploration and production blocks on offer have been carved out of the Nigeria Deep Offshore, Niger Delta and Inland Basins so as to be of interest to a broad spectrum of investors : Majors, Independents, Local Operators, downstream Oil and Gas investors and local content vehicles.

According to the Federal Ministry of Petroleum Resources, the bidding will employ a new Brazilian-type open process adapted to meet Nigeria's requirements. The 2005 Bid Round is scheduled to end in the third quarter of the year; by end-March, public briefings, road shows and other publicity programmes for the bid were in full swing, at home and abroad. The last licensing round was in 2000.

Beside preparations for the bid round, actual crude production figures rose significantly, a streak that could last. Shell Petroleum Development Company (SPDC) topped the production chart with 1.10million barrels; Exxonmobil produced 571,000 barrels; ChevronTexaco, 387,000 barrels; ELF Petroleum, 250,000 barrels; Nigerian Agip Oil Company, 200,000 barrels; Nigeria Petroleum Development Company (NPDC) produced over 55,000 barrels. The combined output of AMNI, Addax, Conoil, Conocophilips, Pan Ocean, Nexen, Yinka Folawiyo stood at over 300,000 barrels during the period.

Thus, the country's crude oil production (including condensates and natural gas) for the month of January increased to 69.44 million barrels or 2.24million barrels per day (mbd), compared to the 2.23mbd recorded in December, 2004.This level of production was surpassed in the remaining two months of the quarter, owing to improved OPEC quota and rising oil prices.

Downstream oil sector

Refining of crude and issues surrounding it will play a key role in shaping the economy this year. By year-end, 2004, refining operations by the existing refineries had already picked up. In fact, NNPC said very early in the year that the country had attained 900 million litres or a 30-day strategic reserve level for the major petroleum products, such as gasoline, domestic and aviation kerosene. Before this time, the reserves hovered around 600 million litres or a 20-day level. The increase in reserves was achieved due to improved refining levels of the existing refineries: Port-Harcourt Refinery was operating at 75% of installed capacity (or 112,500 barrels of crude per day) and Kaduna and Warri refineries were operating at above 70% of capacity (that is, 45,600 barrels per day and 87,500 barrels per day, respectively).

Besides the 30 days sufficiency level for petrol, NNPC also said it was able to attain over seven days reserve level for dual purpose kerosene, 76 days level for aviation kerosene and 13 days level for automotive gas oil or diesel. It is expected that this performance level will get better as a few of the new private refineries begin full operations during the year. At present, a number of the 16 concerns who were granted licenses in 2002 had commenced serious construction work by end-March, some were almost completed while a few are about to commence refining activity.

In the area of natural gas, agreements were signed between Nigerian authorities and two American companies for new Liquified Natural Gas (LNG) projects. Funsho Kupolokun, NNPC boss, during the quarter, signed an MOU with the management of ExxonMobil Nigeria for the Mobil LNG project sited in the South- Eastern part of Nigeria. He also performed the groundbreaking for a Chevron Texaco/British Gas sponsored LNG project sited in Olokola, Ondo State. NNPC is partner in both projects. Work on Nigeria LNG Trains Four and Five also remained upbeat during the quarter. However, it is the availability of gas infrastructure (improved network of distribution lines) that will drive the local utilisation (industrial and commercial) and growth of the industry.

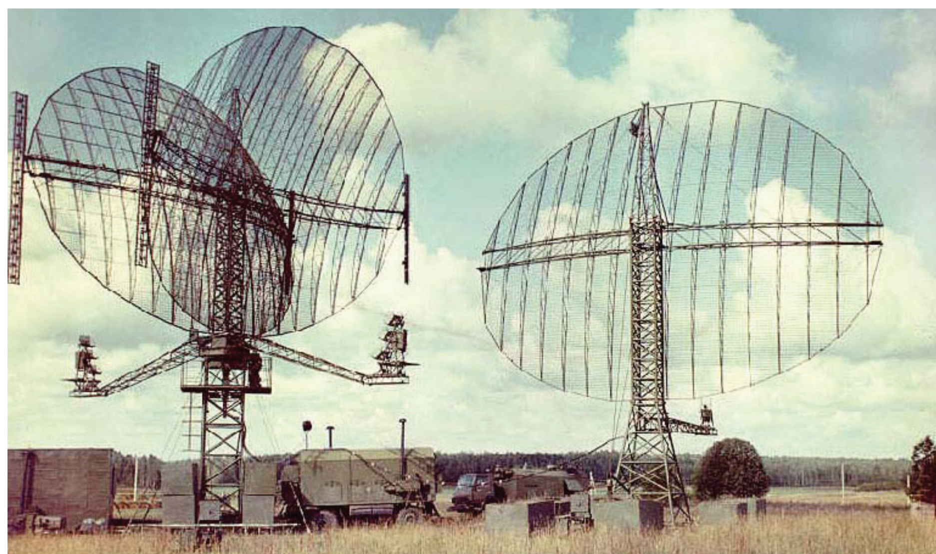
Telecommunications

The telecommunications sub-sector retained its performance as one of the key drivers of the economy, with activities in its various segments remaining upbeat and engendering competition, new investments and service diversification. Almost all indices of performance in the sector showed quantum improvement in the first quarter, with the number of connected fixed lines which stood at 1,120,000 as at end-December last year, rising to close to 1.50 million by the end of March, 2005.

Similarly, the number of connected digital mobile lines which was slightly over nine million last December, rose to close to 12 million during the first quarter of this year. The number of operating independent service providers (ISPs) also rose above 40 during the quarter, just as private investment in the sector crossed the $6billion mark in the same period.

The Federal Government, according to the Minister of Communications, Chief Cornelius Adebayo, "expects more increases in foreign direct investment this year, especially with the interest shown by private investors in the manufacture of recharge cards, mobile handsets and telephone gadgets". Meanwhile, there has been significant increase in the number of market players, unprecedented growth in network as well as expanded geographical coverage.

In pursuit of these strides, most operators are engaging the services of a number of reputable local and foreign specialist organisations. For instance, Globacom signed a contract worth $685 million with Alcatel for the deployment of mobile and fixed mul-



timedia services on its GSM network. Also the mobile telephony arm of the Nigeria Telecommunications Limited, Mtel, signed with a consortium of nine banks, a loan facility of N15 billion, for infrastructure development. MTN and V-Mobile, the other GSM operators, similarly made huge investments on their infrastructure development.

A key feature of the telecommunications sector for quite some time now is heightened competition, which has led to significant drop in connection fees, some reduction in airtime charges as well as development/deployment of new products/ services. Network expansion and spread of services to several hitherto un-covered sub-urban areas are also a major focus of the operators. Thus, several more towns and villages across the country are now able to join the 'GSM revolution'.

On its part, the industry regulator—Nigerian Communication Commission (NCC)—took several measures during the quarter to properly guide/monitor the operators. It imposed fines on some of the operators, either for improper handling of their customers or outright violation of some NCC guidelines. The NCC has also announced its planned 'unified licensing regime', which shall allow existing fixed wireless and mobile licensees to provide both services, subject to geographical/regional limitations as contained in their licenses. This regime is expected to commence February next year, when the five year exclusivity period for the provision of Mobile Telephony services granted to the current Digital Mobile licence holders will come to an end.

The regulatory agency has also produced/ released draft technical specifications on the laying of external line plant and installation of telecommunication towers. The technical specifications are expected to serve as guidelines to operators who wish to install towers or lay landline cables for telecommunication services in the country. Some highlights of the new guidelines include the pegging of the maximum height of masts and towers in the country at 150 metres and the requirement that a permit must be obtained from the NCC for the erection of any mast/tower whose height exceeds 20 metres.

Local manufacturing of scratch cards which is expected to further drive activities in the industry is yet to commence. Although the ban on the importation of recharge cards was shifted from December, 2004, to end-March, 2005, the situation was yet hazy at the expiration of the new deadline. However, indications are that some of the 27 firms pre-qualified to go into cards production had actually made appreciable progress by the expiration of the latest deadline.

Apparently in readiness for the scheduled privatisation of the Nigerian Telecommunications Limited (NITEL) during the second quarter, this year, the Federal Government in January, 2005, terminated the contractual arrangement under which a Dutch firm—Pentascope International Limited—had been managing the company. Pentascope was appointed management contractors for NITEL in March, 2003, for a three-year period, after a failed attempt to privatise the state-owned telecom firm. Under the agreement, the Dutch firm was to improve the company's operations and make it attractive for actual privatisation. The Federal Government's plan is to sell 51% of the company's shares to a core investor and the rest, to the Nigerian public through the capital market.

In pursuit of this objective, the Federal Government, during the first quarter dissolved NITEL's board of directors and called for the expression of interest from prospective buyers as core investors. At the expiration of the deadline on January, 2005, no less than 21 foreign firms had expressed their interest to take up 51% equity in NITEL as core investors. The process of selecting the eventual buyer is still ongoing. When completed, the arrangement is expected to boost the operations of the 'new' NITEL.

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

GOVERNMENT REFORMS, THE PRIVATE SECTOR & ECONOMIC GROWTH

* By Jim Ovia

Public sector-driven growth strategy had achieved limited success, necessitating series of reforms which date back to the early 1980s. Private sector response to these reforms have been quite dramatic. NEEDS, the reform package of the present Administration even promises better responses from the private sector. This paper examines how the move from a public to private-sector driven growth strategy is impacting on several sectors of the economy.

Governance is about providing the 'level playing field'; creating and sustaining an enabling environment that fosters responsible private enterprise. However, Nigeria's economic history, as with most African countries, is characterised by a public sector-driven growth strategy; hence, the advent, prevalence and dominance of 'State-Owned Enterprise' (SOEs) over the years. This implied government's control of the 'commanding heights' of the economy, which tended to crowd out the private sector, inducing rent-seeking and un-competitive markets. The virtual sidelining of the private sector which this trend entails, also leads to a stunted development of the indigenous private sector.

The adverse effects of the public sector-led growth strategy have manifested in various forms, especially the following:

(1) An ineffective leading role for the state as the engine of growth and development;

(2) Primacy of non-performing SOEs over agriculture and the dominance of oil;

(3) Creation of a thorough-going import-substitution regime to promote industrialisation, complemented by the adoption of different policies over time; and,

(4) Unfavourable business environment for the private sector with a dysfunctional 'market' as an allocation mechanism.

For several decades, successive Administrations in Nigeria invested heavily in 'economic activities' which are better left to the private sector. The consequence has been that these SOEs merely consumed a large proportion of national resources through an-

Statutory Transfers to parastatals & agencies (1998)

Transfer/Waiver/Subsidy		Amount (N bn)		Percent of Total
Subsidised Foreign Exchange (1)		156.5		59%
Import Duty Exemptions		12.5		5%
Tax Exemptions/Arrears		15.0		6%
Unremitted Revenues		29.5		11%
Loans/Guarantees		16.5		6%
Grants/Subventions, etc		35.0		13%
TOTAL		N265.0		100%

Source: Bureau of Public Enterprises 1998

nual budgetary allocations (estimated at $300bn as at 2002) without discharging the responsibilities thrust upon them, or did so inefficiently. Data obtained from various government departments and estimates show that in 1998 alone, Nigerian SOEs enjoyed about N265 billion in transfers, subsidies and waivers, which could have been better invested in our education, health and other social sectors.

This pattern of investment has brought deleterious consequences on the Nigerian economy which is sometimes described as betraying the symptoms of a 'post-conflict' economy. Essentially, they have manifested as large-scale wastage; an inefficient private sector and huge debt overhang as well as persistent balance of payments problems.

Pushed to the wall by poverty, people like this potter apply their natural entrepreneurial instincts and creativity, to eke out a living. This is poverty alleviation in action!

An uncompetitive business environment inimical to private sector development remained a significant feature of the economy, with the country largely import-dependent (e.g. rising food import bill with fish import alone at N50 billion or US$378.0m annually, by 2003). There has been a rising poverty level – with 70.2 per cent of Nigerians living on less than $1 per day just as infrastructure has generally remained poor. Even the economy's mainstay, oil and gas sector operated as a mere enclave, with little or no linkage to other sectors.

GOVERNMENT REFORMS: GLOBAL IMPERATIVES

The global economic recession of the 1980s combined with the outcome of faulty development strategies of the era to precipitate severe economic crisis in Nigeria and many other African countries. Such crises were accentuated by high levels of external debt, deteriorating GDP per capita, shrinking export (in volume and value terms), declining capital formation, perennial balance of payments problem, overvalued exchange rates as well as ineffective governance, among others. The situation became worse for Nigeria when the price of its main foreign exchange earner – crude oil – crashed in the global market. In the circumstance, far-reaching reforms became inevitable to cope with the emerging challenges.

Reforms were therefore focused on the achievement of a shift from 'government control' of the 'commanding heights' of the economy to the private sector as the engine of growth. They were also directed at improving infrastructure (social and physical), enhancing sustainable macroeconomic stability as well as creating a conducive environment for responsible private sector investment.

Just as the recession was not peculiar to Nigeria, economic reforms were not restricted to her. In fact, owing to the pervasiveness of the recession of the 1980s,

FGN investments in selected SOEs (1999)

Sector	Enterprises	FGN Investment
Infrastructure/Utilities	3	US $28 bn
Upstream Petroleum	1	N/A
Downstream Petroleum	6	US $17 bn
Steel/Aluminium/Mining	9	US $14 bn
Machine Tools/Minting	2	US $650 mn
Fertilizer	2	US $850 mn
Paper	3	US $1.4 bn
Sugar	4	US $1.8 bn
Vehicle Assembly	6	US $1.7 bn
Media	3	N/A
Insurance	2	N/A
Oil Marketing	3	N/A
Cement	5	N/A
Transportation/Aviation	3	US $1.9 bn
Commercial/Merchant Banks	5	N/A
Agro-Allied	5	N/A
TOTAL	**62**	**About US $70 bn**
N/A Not available		

Source: Federal Ministry of Finance, Other Government Records 1999

especially in the less developed countries (LDCs) of the world, several nations in various regions simultaneously engaged in reforms of diverse degrees and depths.

In the African continent, so many countries engaged in varied shades of reforms such that, by 1995, about 12 of them, including Nigeria, formed the African Privatisation Network (APN). The APN was formed "in consideration of the need for the active participation of the private sector and the need to stimulate, encourage and promote private enterprise to balance the preponderance of state-owned enterprises in African economies". At present, the APN with headquarters in Ghana, has a membership strength of fifteen, with many others intending to join the body.

Reforms which also commenced in India, Malaysia, Indonesia, Singapore, among others, in the 1980s to early 1990s are yet ongoing. In these countries (many of which number among the emerging economies of today), some rethinking on economic policy had begun in the early 1980s, by which time the limitations of the earlier strategy based on import substitution, public sector dominance and extensive government control over private sector activity had become evident.

Specifically, in response to a fiscal and balance of payments crises in 1991, India launched a programme of economic policy reforms. The programme, consisting of stabilisation-cum-structural adjustment measures, was put in place with a view to attaining macroeconomic stability and higher rates of economic growth. India has since 1999 embarked on what is widely termed its 'second generation' of economic reforms which are centered on giving a pivotal role to the private sector. The upshot of this is the transformation of India into the digital power of note that it is today.

In Malaysia, the vision 2020 was put in place just as Singapore embarked on "moving from the third world to the first world", a feat credited to the visionary leadership of erstwhile President Lee Quan Yu. Indonesia opted for reforms that focused on the attainment of an SME-driven economy. The outcome of all these has been the widely acknowledged 'economic miracle' of the 'Asian Tigers'.

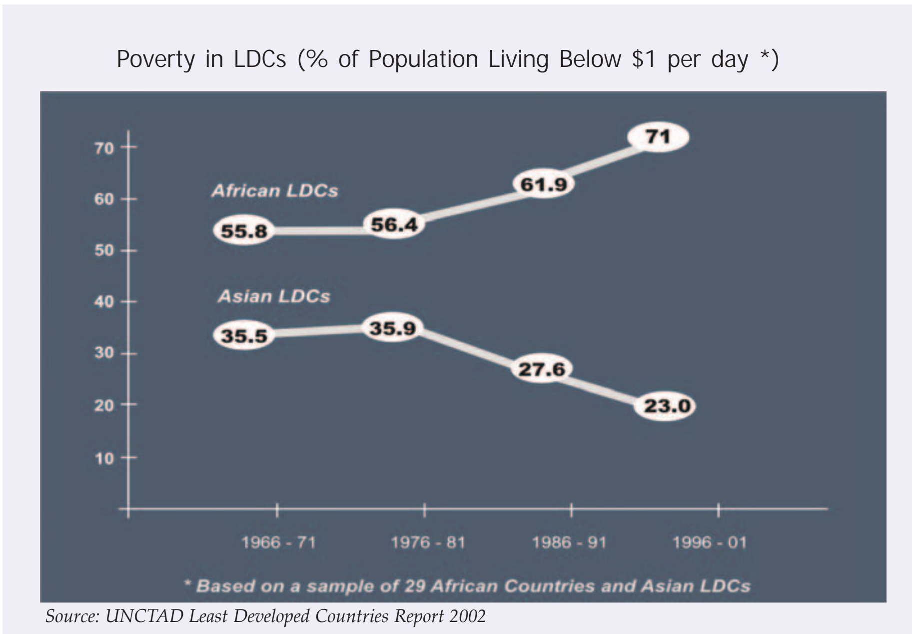
GOVERNMENT REFORMS INPERSPECTIVE

Reforms have been ongoing in Nigeria for several decades: there was the Enterprises Promotion (Indigenisation) Decrees of 1972/1976 under which majority shareholdings of many blue chip multinationals came into the hands of private Nigerians. In the 1980s/1990s, several reform measures equally took place. These include: the Economic Stabilization/Austerity measure, the National Economic Emergency measures, the Structural Adjustment Programme (SAP), the Vision 2010 and the present National Economic Empowerment and Development Strategy (NEEDS). Each of these packages had its pros and cons; but most of the recent reform packages sought to give pride of place to private enterprise, the ultimate engine/ driver of economic growth and development. In retrospect, most of these reform measures achieved limited success. But as a radical departure from this trend, NEEDS promises to place the private sector as "the executor, investor, and manager of businesses… the government will be the enabler, facilitator, and regulator, helping the private sector grow, create jobs, and generate wealth". Thus, deregulation and liberalisation under NEEDS are designed to diminish governmental control and attract increased private sector investment.

PRIVATE SECTOR-LED ECONOMIC GROWTH: TRENDS

Despite the seemingly weak and fragile form of the Nigerian private sector, it has made sustainable progress towards the attainment of the aims of government reforms.

Poverty in LDCs (% of Population Living Below $1 per day *)



Source: UNCTAD Least Developed Countries Report 2002

Specifically, Nigerian entrepreneurs took advantage of the market liberalisation and deregulation begun in 1986 (under SAP). The aviation industry, for example, had witnessed tremendous indigenous participation, leading to the blossoming of such private airlines as ADC Airline, Bellview Airline, Chanchangi Airline, Sosoliso Airline, etc.

Despite the seemingly weak and fragile form of the Nigerian private sector, it has made sustainable progress towards the attainment of the aims of government reforms. Specifically, Nigerian entrepreneurs took advantage of the market liberalisation and deregulation begun in 1986 (under SAP).

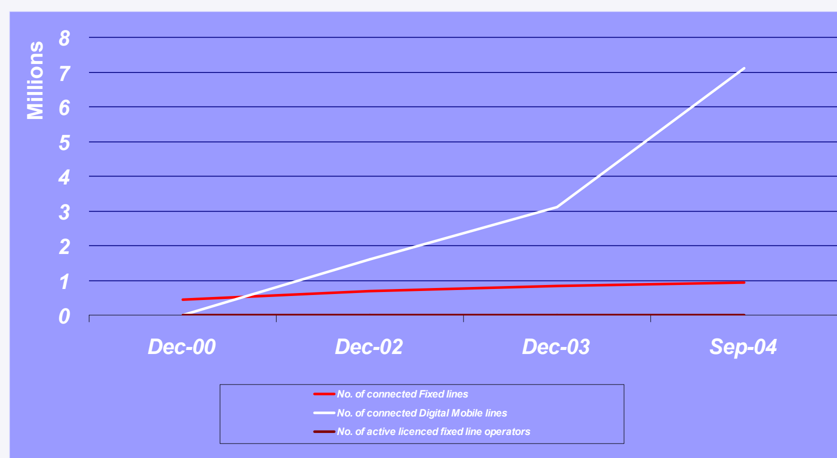
A similar giant stride has been recorded in the banking and finance industry where there was a phenomenal growth in the number of banking institutions between 1987 and 1990. This has given rise to the existence of a number of today's new generation banks that stand out as testimony of indigenous entrepreneurial sagacity/capacity. The print and electronic media industry has also gained immensely through active private-sector participation, such that today many privately owned media organisations dot the Nigerian landscape. Some of these include Channels TV, ThisDay, Guardian, African Independent Television, Cool FM, Ray Power, Brilla Sports Radio, etc.

The Information and Communications Technology (ICT) sector has literally undergone a revolution courtesy of economic reforms. The entry of mobile telephony into the Nigerian polity in August 2001 marked a turning point in the country's telecommunications industry. Courtesy of the GSM operators (MTN, Globacom, V-moble, Mtel), Nigeria's teledensity has improved dramatically over the past three years. The PTOs (Multilinks, Intercellular, Starcomms, etc) are equally doing well just like the Internet Service Providers (ISPs), the cybercafes and the computer accessories/assembly plants (e.g. Omatek, Zinox, etc).

The various sub-sectors of the manufacturing industry has equally made gains from the reforms. This is the reason why in the pharmaceutical industry, Emzor, and others are doing well, while the fruit juice and water packaging and other SMEs are equally thriving. There is the Dangote Group and others in the Cement industry, the Honeywell Group and others in the flour milling business, etc. The agricultural sector especially the fruit juice processing sub sector – has also made a lot of gains from the reforms.

The tremendous positive impacts of economic reforms are also evident in the oil and gas sector where the marginal fields/local content policy has led to the emergence of indigenous oil exploration companies, e.g. Dubri Oil Limited, Consolidated Oil, Amani, Sadiq Petroleum, etc. There are also Shell Gas, Gaslink, Owell Ltd, etc in the gas sector while Global Fleet, Sahara Energy, Ascon Oil, Honeywell Oil and Gas, etc dot the downstream oil sector. The privatisation of the petroleum marketing companies, which is also a key plank of the reforms, has equally unleashed fresh vitality and activity in that sub-sector. Some of these companies (for example, Oando and Conoil) are fast becoming conglomerates with interests/investments in other sectors of the economy.

State of Operators in The Telecom Industry



Source: NCC/R&EIG 2005

NEEDS AND THE PRIVATE SECTOR

The focus of the National Economic Empowerment and Development Strategy (NEEDS) is essentially the enthronement of the private sector; hence its key

planks are macroeconomic stability, promotion of private enterprise, changing the way government works, etc. In pursuit of these, NEEDS places premium on liberalisation and privatisation, security and rule of law, infrastructure development, growth in credit to private sector, etc. Reform of the public sector is already emphasizing transparency and accountability through such agencies as the Economic and Financial Crimes Commission (EFCC), Extractive Industries Transparency Initiative (EITI), National Drug Law Enforcement Agency (NDLEA), National Agency for Foods and Drug Administration and Control (NAFDAC), etc. Other agencies like the Corporate Affairs Commission, Nigeria Investment Promotion Council (NIPC), Federal Inland Revenue Service (FIRS), the Customs and Immigration are equally being improved. Emphasis is now also being placed on human capital development (youth empowerment) while budgetary allocations to certain sectors (agriculture, education, health, water resources, power and security) are deliberately being increased.

Reforms are Yielding Results

Real growth rate (%)	1999	2000	2001	2002	2003
Real GDP growth rate	0.40	5.40	4.60	3.50	10.23
Oil sector growth rate	-7.50	11.10	5.20	-5.70	23.90
Non-oil sector growth rate	4.40	2.90	4.30	3.60	3.25
Agric sector growth rate	5.29	2.90	3.90	4.30	7.00

Source: FOS/National Planning Committee, 2004

All these are bound to give off positive ripple effects in diverse ways. There is likely to be a lowering of cost the of doing business, improvement in the consumer effective demand for goods and services (which rubs off on business) and improved firm level competitiveness – (especially internal dimensions). Already, NEEDS offers noticeable opportunities in areas such as agriculture, manufacturing and SMEs, ICT, Oil & Gas, etc. There are provisions for small farmer productivity improvement and financing schemes (micro-finance), commercial agriculture, the development of industrial clusters and encouragement of processing companies. The Small-scale Industries Equity Investment Scheme (SMIEIS), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Bank of Industry (BOI), etc, are some of the efforts at empowering the private sector, especially through manufacturing.

In the realm of ICT, there is already a determined effort at the local manufacture of GSM handsets, recharge cards and other accessories. Recently, a Chinese firm confirmed partnerships for a $100 million factory for recharge cards. Other service industries (including the film industry) are already witnessing a boom. In the oil and gas sector, the implementation of the local content policy is already on course just as activities in the downstream sector are beginning to attract local funding. Many local banks are, for example, already involved in the financing of the NLNG projects.

CONCLUSION

Given that the main objective of NEEDS is the promotion of private enterprise, its key planks such as privatisation should be handled speedily, efficiently and transparently. In changing the way government works, issues such as fiscal discipline, transparency and expenditure reforms must be treated with a high sense of duty and responsibility. Also, certain sensitive reforms in the areas of pensions and tax must be expeditiously concluded. NEEDS must also truly empower the rural dwellers, especially the farmers, through various productivity-improvement and harvesting assistance schemes. Overall, so far, the private sector has shown growing capacity to meet the challenges of reforms and would surely remain focussed. Therefore, the role of the private sector under NEEDS can only grow bigger and better.

(* Jim Ovia is the MD/CEO, Zenith Bank Plc.)

CENTRAL BANK OF NIGERIA'S REVISED GUIDELINES FOR THE PROCESSING OF APPLICATIONS FOR BANK MERGERS/TAKE-OVERS, MARCH 30, 2005

1.0 INTRODUCTION

Paragraph 6.2 of The Guidelines and Incentives on Consolidation in the Nigerian Banking Industry issued by the CBN on August 5 2004, stipulates that "banks should obtain the prior approval of the Governor of the Central Bank of Nigeria as required under Section 7 of the Banks and Other Financial Institutions Act (BOFIA) 1991 as amended before any merger and/or acquisition is consummated and/or announced".

Also, Paragraph 6.1 of the same Guidelines provides that "banks should comply with the legal requirements on mergers and acquisitions as contained in Section 100 - 122 of the Investments and Securities Act No 45, of 1999 (ISA) and all other regulatory requirements".

In order to give effect to these provisions of the Guidelines and to fast track the processing of banks' request for mergers and acquisitions in order to meet the December 31 2005, compliance deadline, the following documentation and procedural requirements are being proposed to guide the processing of applications.

2.0 ALLOWABLE LEGAL MODES OF CONSOLIDATION

Paragraph 3.0 of the Guidelines specifies that "the only legal modes of consolidation allowed are mergers and outright acquisition/takeovers".

3.0 DEFINITION OF TERMS

For the purpose of this Procedures Manual, the following definitions shall apply.

3.1 MERGER

"Merger" is the amalgamation of the undertakings of two or more banks whereby either; one of the merging banks absorbs the other bank(s) or, all the merging banks combine to form a new bank, and in both instances the rights and obligations of all the merging banks pass to the successor bank and the other banks are simultaneously dissolved.

3.2 TAKEOVER

"Takeover" is a reorganization process involving the acquisition of all of the shares of one or more banks (target bank(s) by another bank (acquiring bank), and the acquiring bank takes over the rights and obligations of the target bank(s). For the purpose of the consolidation exercise, after the takeover, the legal status of the acquiring bank remains unchanged and the acquired bank(s) shall cease to exist as a bank.

4.0 STAGES OF APPROVAL

There shall be three stages of approval for mergers - pre-merger consent, approval-in-principle and final approval and two stages of approval for takeovers - approval-in-principle and final approval.

4.1 PRE-MERGER CONSENT

Pre-merger consent represents CBN's preliminary consent to the banks wishing to merge to the effect that it has no objection to the proposed merger. This is to enable the merging banks forward their application for merger to the Securities and Exchange Commission (SEC) in accordance with the provisions of the ISA for processing and approval.

4.2 APPROVAL-IN-PRINCIPLE

Approval-in-principle represents CBN's conditional approval of the merger or takeover.

4.3 FINAL APPROVAL

Application for this approval may be made simultaneously with the application to the Securities and Exchange Commission ("SEC")' for its statutory approval of the merger. However, the Final Approval shall only be granted after the merger has been approved by SEC or in the case of a takeover, on presentation of the registration of the takeover bid by SEC to CBN. The Banking Licence of the successor bank will thereafter be prepared by the CBN, and delivered to the successor bank immediately upon the grant of the Court order sanctioning the merger.

5.0 OPERATIONS OF BANKS IN THE PROCESS OF CONSOLIDATION

Banks that are undergoing consolidation shall continue to transact business under their old names and licences but should not embark on further expansion or new capital projects until CBN's final approval is granted to the successor bank in the case of a takeover or until the Court grants an order sanctioning the merger in the case of a

merger transaction.

6.0 TIMELINES FOR COMPLETING PROCESSING AND CONVEYING APPROVALS

6.1 PRE-MERGER CONSENT

Within a maximum of three (3) working days of the receipt of an application seeking pre-merger consent, the CBN shall issue a no objection letter or a rejection letter. A rejection letter shall inform the applicants of the reasons for rejection.

6.2 APPROVAL-IN-PRINCIPLE

6.2.1 Within a maximum of five (5) working days of the receipt of an application for merger, the CBN shall issue an approval-inprinciple or reject the application. A rejection letter shall state the reasons for CBN's refusal to grant the requisite approval.

6.3 FINAL APPROVAL

Final approval shall be conveyed to the successor bank or the acquiring bank within a maximum of seven (7) working days of receipt of the application for final approval.

7.0 DOCUMENTARY REQUIREMENTS FOR MERGERS

7.1 PRE-MERGER CONSENT

7.1.1 A formal application by the merging banks addressed to the Governor of Central Bank of Nigeria and signed by the Chairmen and Managing Directors of each of the merging banks accompanied with the following;

7.1.2 The proposed name of the successor bank (where a new entity will be formed).

7.1.3 Memorandum of Understanding between the merging banks.

7.1.4 Current Memorandum and Articles of Association (MEMARTS) of each of the merging banks.

7.1.5 Resolution by each of the boards of the merging banks approving the merger.

7.1.6 List of Directors, designation and the interest they represent in the merging banks.

7.1.7 List of the top management team (AGM and above) of the merging banks and their designation.

7.2 APPROVAL-IN-PRINCIPLE

7.2.1 Draft Memorandum and Articles of Association (MEMARTS) of the new bank or Memarts of the surviving bank (with proposed amendments if any).

7.2.2 List of significant shareholders of the existing banks (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P.O. Box)

7.2.3 Proposed organisational structure, showing functional units,
reporting relationships and grade (status) of heads of departments/units of the successor bank.

7.2.4 List of proposed Directors, their curriculum vitae, designation and interest they represent in the successor bank.

7.2.5 List of the proposed top management team (AGM and above), designation and their detailed curriculum vitae.

7.2.6 Method of valuation agreed to by the banks.

7.2.7 Draft Scheme of Merger.

7.2.8 Due diligence report on each of the merging banks.

7.3 FINAL APPROVAL

7.3.1 Formal application accompanied by the following documents;

7.3.2 List of significant shareholders of the successor bank (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P.O. Box)

7.3.3 Resolution of the Shareholders of each of the merging banks approving the merger at the court-ordered meeting.

7.3.4 Business/Strategic plan of the successor bank for the next five years showing how the integration process will be managed, future goals and operations, branch expansion/rationalization, treatment of surplus staff and staff to be retained, etc.

7.3.5 Certificate of Incorporation of the successor bank (where a new entity is formed).

7.3.6 SEC final approval of the scheme of merger.

7.3.7 Evidence of stamp duties paid to Federal Inland Revenue Service on the new entity's or the surviving entity's new authorized share
capital. After the Final Approval has been obtained, the merging banks shall apply to the Court for the Sanction of the Scheme of Merger (under section 100 of the ISA). After the Final Approval is obtained in the case of a new bank, CBN will prepare a new Banking Licence that will be issued to the successor bank and delivered to the successor bank by a representative of CBN in court immediately upon the grant of the court order sanctioning the merger.
The Banking Licences of the merging banks will also be handed over to the CBN representative present in Court
For the purposes of this consolidation exercise, the merging banks shall advise CBN of the date fixed for the hearing of the Petition praying the Court sanction of the merger and a CBN representative shall attend the Court

proceedings to deliver the new Banking Licence upon the grant of the Court sanction, and also retrieve the old licences of the dissolved banks.

After the Court has sanctioned the Scheme, the surviving or new bank shall file the hereinafter specified documents with the CBN (within the specified period).

7.4 Post Court Sanction Compliance

7.4.1 CTC of CAC Form 2.5 – Return of Allotment (to be submitted within one (1) month of the Court Sanction)

7.4.2 CTC of CAC Form 2.3 – Particulars of Directors (to be submitted within one (1) month of the Court Sanction)

7.4.3 CTC of CAC Form 6 – Location of Registered Office Address (to be submitted within one (1) month of the Court Sanction)

7.4.4 Evidence of de-registration of the merging banks by CAC (to be submitted within one (1) month of the Court Sanction)

7.4.5 A signed undertaking from each of the proposed directors that he/she will comply with the code of conduct for Directors as the CBN shall from time to time prescribe (to be submitted within one (1) month of the Court Sanction)

7.4.6 Opening Statement of Affairs showing the details of the surviving entity's capital base (to be submitted within one (1) month of the Court Sanction)

7.4.7 Schedule of staff to be disengaged, including the total severance package and mode of settlement (to be advised to CBN over a one (1) year period from the date of the merger).

8.0 **DOCUMENTARY REQUIREMENTS FOR TAKEOVERS**

8.1 **APPROVAL-IN-PRINCIPLE**

8.1.1 A formal application by the acquiring bank addressed to the Governor of Central Bank of Nigeria and signed by the Chairman and Managing Director of the acquiring bank, accompanied with the following:

8.1.2 A Takeover application stating clearly that the acquired bank(s) will cease to exist and other documents attached including:

i. The Valuation Report

ii. Due Diligence Report on the bank(s) to be taken over

8.1.3 Memorandum of information/understanding.

8.1.4 Memorandum and Articles of Association (MEMARTS) of the acquiring bank.

8.1.5 Resolution of the board of directors of the acquiring and acquired banks approving the takeover.

8.1.6 Certificate of Incorporation of the acquiring bank.

8.1.7 List of significant shareholders of the acquiring bank (i.e. shareholding of 5% and above) showing their names, business and residential addresses (not P. O. Box).

8.1.8 Proposed organizational structure of the acquiring bank post takeover, showing functional units, reporting relationships and grade (status) of heads of departments/units.

8.1.9 List of proposed Directors, their curriculum vitae, designation and interest they represent.

8.1.10 List of the proposed top management team post take-over (AGM and above), designation and their detailed curriculum vitae.

8.2 **FINAL APPROVAL**

8.2.1 Formal application accompanied by the following documents:

8.2.2 CTC of CAC form 2.5 - return of allotment

8.2.3 CTC of CAC form 2.3 - particulars of directors.

8.2.4 CTC of form CAC 6 - location of principal place of business.

8.2.5 Evidence of voluntary liquidation/winding up of the acquired bank(s).

8.2.6 Original banking licence(s) of the acquired bank(s).

8.2.7 Evidence of stamp duties paid to Federal Inland Revenue Service on the new authorized share capital.

8.2.8 Opening Statement of Affairs showing the details of the acquiring bank's capital base.

8.2.9 Schedule of staff to be disengaged, including the total severance package and mode of settlement.

8.2.10 Business/Strategic plan of the acquiring bank for the next five years showing how the integration process will be managed, future goals and operations, branch expansion/rationalization, treatment of surplus staff and staff to be retaine d etc.

8.2.12 Evidence of registration of the Takeover bid with SEC

9.0. **PROCESSING MANUAL**

9.1 **RESPONSIBILITY**

The Bank Consolidation Implementation Committee (BCIC) shall be responsible for processing banks' applications for mergers and/or takeovers.

9.2 **PRE-MERGER CONSENT**

9.2.1 **RECEIPT OF APPLICATION**

The application for merger shall be received in the Office of the Director of Banking Supervision, checked for completeness and accuracy of documentation before an on-the-spot acknowledgement of receipt is issued to the applicant(s).

9.2.2 **PROCESSING**
On receipt of application, the processing officer will:
i) Ensure that the application has been duly registered.
ii) Determine if the name of the emerging entity is acceptable and conforms with the requirements of Section 39(1) (a) and (2) of BOFIA 1991 as amended. (This will only apply if a new entity is to be formed).
iii) If the name is acceptable, notify the promoters to go ahead and register the name with the Corporate Affairs Commission (CAC) and thereafter provide all the requisite statutory documentation and certified true copies thereof.
iv) If name is not acceptable pursuant to the provisions of BOFIA, notify the promoters to provide a substitute.
v) Check and compare the information on the documents submitted with those in CBN's records.

9.2.3 **APPROVING AUTHORITY**
If the promoters have complied with all the relevant requirements, the Director of Banking Supervision shall approve the pre-merger consent.
After the Director of Banking Supervision's approval, the processing officer shall communicate the pre-merger consent, through a letter signed by the Director of Banking Supervision, to the banks.

9.3 **APPROVAL-IN-PRINCIPLE: MERGER**
9.3.1 **RECEIPT OF APPLICATION As in 9.2.1.**
9.3.2 **PROCESSING**
On receipt of application, the processing officer will:
i) Ensure that the application has been duly registered.
iii) Criteria for selecting new board members should be stated.
iv) Top management (AGM and above) and board should be appraised applying CBN circular on pre-qualification for appointments into board and top management positions in Nigerian banks (if not already done).
v) Organisational structure should show functional units, reporting relationships and grade (status), responsibilities, delegation of functions, succession plan for key officers and span of control.
vi) Ensure that the emerging organization has defined lines of responsibility and hierarchy and that there are no Co-Chairman and/or Co-Chief Executive Officer arrangements.
vii) Appraise the scheme of merger and comment on the following:
a. Group arrangements.
b. Plans for employees and directors and other dissenting shareholders.
c. Valuation.

9.3.3 **APPROVING AUTHORITY**
If the promoters have complied with all the relevant requirements, the Director of Banking Supervision shall seek the Governor's grant of an approval-in-principle. After the Governor's approval, the processing officer shall communicate the approval-in-principle, through a letter signed by the Director of Banking Supervision, to the banks.

9.4 **FINAL APPROVAL: MERGERS**
9.4.1 **RECEIPT OF APPLICATION**
As in 9.2.1.

9.4.2 **PROCESSING**
On receipt of application for final approval, the processing officer shall:
i) Ensure that the application has been duly registered.
ii) Dispatch status enquiries on new directors who were not directors of any of the merging banks to other regulatory authorities viz: NDIC, NAICOM and SEC.
iii) Dispatch completed Personal History Statement (PHS) forms accompanied by the CVs of the new directors who were not directors of any of the merging banks to the State Security Services to carry out security screening of the proposed directors.
iv) Ascertain the fitness and properness of the new directors who were not directors of any of the merging banks through the responses received from the security agencies and status enquiries from SEC, NDIC, NAICOM, CRMS and CBN's Black book.
v) Ensure that in the board composition the number of non-executive directors is more than the number of executive directors and that the board is not constituted with more than 20 directors.
vi) Each of the directors shall sign an undertaking that he/she will comply with the code of conduct for directors as the CBN shall from time to time prescribe.
vii) Compare the provisions of the scheme document in respect to staff to be disengaged or retained with the information provided on same in the schedules of disengaged and retained staff.
viii) Roles and responsibilities of the board and its sub-committees must be spelt out in the strategic plan

9.4.3 **Approving Authority**
Subject to the promoters' compliance with all the relevant requirements (where a new entity shall be formed), and receipt of satisfactory status enquiries and security reports, the processing officer shall prepare an appraisal memo to the Director of Banking Supervision requesting him to recommend to the Governor, the issuance of a new banking licence to the emerging bank.
A new banking licence signed by the Governor will be prepared by the CBN after the Final Approval is given, and same shall be released to the surviving or emerging bank, immediately upon the Court Sanction of the merger, whereupon, the licences of the merged banks will be withdrawn.

9.5 **APPROVAL-IN-PRINCIPLE: TAKEOVERS**
9.5.1 **RECEIPT OF APPLICATION**
As in 9.2.1.
9.5.2 **PROCESSING**
On receipt of an application, the processing officer will:
i) Ensure that the application has been duly received and registered.
ii) Ensure that the takeover bid documents submitted are in line with the specified requirements.
iii) Examine the takeover bid to determine the terms and conditions of the takeover.
iv) Examine the Memorandum of Understanding, MEMART, board resolution of the acquiring and acquired banks and the certificate of incorporation of the acquiring bank.
9.5.3 **Approving Authority**
Subject to the promoters' compliance with all the relevant requirements and receipt of satisfactory status enquiries and security reports, the Director of Banking Supervision shall seek the Governor's approval of the Takeover. After the Governor's approval, the acquiring bank shall be notified in writing through a letter signed by the Director of Banking Supervision.

9.6 **FINAL APPROVAL - TAKEOVERS**
9.6.1 **RECEIPT OF APPLICATION**
As in 9.2.1.
9.6.2 **PROCESSING**
On receipt of an application, the processing officer shall:
(i) Ensure that the application has been duly received and registered.
(ii) Dispatch status enquiries on new directors who were not directors of either the acquiring bank or target banks to other regulatory authorities viz: NDIC, NAICOM and SEC.
(iii) Dispatch completed Personal History Statement (PHS) forms accompanied by the CVs of the new directors who were not directors of either the acquiring bank or target banks to the State Security Services to carry out security screening of the new directors.
(iv) Ascertain the fitness and properness of the new directors through the responses received from the security agencies and status enquiries from SEC, NDIC, NAICOM, CRMS and CBN's Black Book.
(v) Ensure that in the board composition the number of nonexecutive directors is more than the number of executive directors and that the board is not constituted with more than 20 directors.
(vi) Each of the new directors shall sign an undertaking that he/she will comply with the code of conduct for directors as the CBN shall from time to time - prescribe.
(vii) Roles and responsibilities of the board and its subcommittees must be spelt out in the strategic plan.
(viii) Criteria for selecting board members should be stated.
(ix) Top management (AGM and above) and board should be appraised applying CBN circular on pre- qualification for appointments into board and top management position in Nigerian banks (if not already done).
(x) Organisational structure should show functional units, reporting relationships and grade (status), responsibilities, delegation of functions, succession plan for key officers and span of control.
(xi) Ensure that the successor bank has defined lines of responsibility and hierarchy and that there are no Co-Chairman and/or Co-Chief Executive Officer arrangements.
(xii) Compare the provisions of the bid document in respect to staff to be disengaged or retained with the information provided on same in the schedules of disengaged and retained staff.
9.6.3 **Approving Authority**
Subject to the promoters' compliance with all the relevant requirements and receipt of satisfactory status enquiries and security reports, the Director of Banking Supervision shall seek the Governor's approval of the new capital base of the acquiring bank and the withdrawal of the licence(s) of the acquired bank(s).

After the Governor's approval, the acquiring bank shall be notified in writing through a letter signed by the Director of Banking Supervision, while the acquired bank(s) shall be required to return their licences for cancellation.
BANKING SUPERVISION DEPARTMENT
MARCH 2005

GLOBAL ECONOMY:
Leveraging Key Growth Factors In 2005

*By Eunice Sampson

To be able to make any meaningful contribution to global economic growth this year, developing nations would be relying greatly on the dynamics of global trade, efficient deployment of information and communication technology tools, improvements in human development indices and the prudent management of national resources, coupled with fiscal discipline.

Improved macroeconomic management and fiscal discipline is helping to lower inflation, accelerate growth and improve economic stability, especially in the developing countries of Asia, Latin America, Middle East and Africa, leading to trade surpluses and falling budget deficits in these countries. Emerging markets are taking over as the fastest growing economies, while growth is slowing in developed countries.

One of the biggest surprises in 2004 however was the Eurozone, which, despite a booming euro, experienced rather sluggish growth of 1.8%, marked especially by high unemployment rate and weak consumer demand. And with a new IMF projection of 1.6% growth for the eurozone in 2005, the worst is far from over.

For most underdeveloped countries, external debt remains a retarding economic pull, with many of them saddled with a debt to GDP ratio of between 30%-50% and a choking debt-service demand from creditors.

In 2005, pursuit of prudent fiscal and monetary policies, strong financial sectors, structural economic reforms and conscious efforts towards increased national productivity hold the key to more rapid and sustainable economic growth for the developing economies.

THE WORLD IN FIRST QUARTER 2005

The United States' Economy:

The US economy performed better than predicted in 2004; improvements in the job market, rise in personal income and increased consumer spending being key growth factors. However, the task of sustaining the economic gains of 2004 is a daunting one.

The Dollar value is still on a record low; US budget deficit and national debt in 2004 were over $500 billion and $7,500 billion, respectively, the highest in the history of the United States.

Value of US Trade Balance: 2002-2004 (USD Millions)

	Trade balance	Exports	Imports
Jan.-Dec. 2002	-421,735	975,940	1,397,675
Jan.-Dec. 2003	-496,508	1,020,503	1,517,011
Jan.-Nov. 2003	-452,503	930,436	1,382,939
Jan.-Nov. 2004	-561,331	1,043,083	1,604,414
November 2003	-39,994	90,133	130,128
November 2004	-60,297	95,551	155,848

Source: www.usembassy.org.uk 2004

The estimated budget deficit for 2005 is $350 billion, about 3.5 percent of the GDP.

The Economic Intelligence Unit, EIU, predicts that US real GDP growth will decline to 3.1% this year, from 4.4 percent in 2004, due to soaring oil prices, higher interest rates and weakening tax cuts leverage. Others believe it could be strong enough to achieve up to 4%, provided it urgently curbs its budget deficit, rising inflation, poor savings rate, improve its fiscal and current account position, etc.

Asian Economy:

China, India and Japan have remained the dominant economies in Asia. Measured in Purchasing power parity (PPP), the three Asian countries are among the top five economies in the world, the others being the US and Germany.

China's Hard Landing Prediction

International economists have raised fears about the sustainability of China's overwhelming growth, with most predicting a possible hard landing between 2005 and 2006. But based on past and current performance this first quarter 2005, China is not likely to experience a sharp economic downturn soon.

China's gross domestic product reached 13.65 trillion Yuan (US$1.65 trillion) in 2004, a 9.5% rise (National Bureau of Statistics, NBS). This year, the Beijing government policy is geared towards lowering growth to sustainable levels. But the success of these measures would strongly depend on a move away from tight administrative control and towards one driven by market forces.

A World Bank quarterly update on China published in February shows that the risk of China's economy overheating has declined. In first quarter 2005, investment growth has moderated from 40% to 13%; domestic demand has picked up; trade is expanding, with export rising by 31% in February and import slowing downward.

The IMF calculated that a possible sudden drop in China's economy could result in a 4% fall in GDP and a 10% fall in imports for its Asian neighbours; and could reduce world GDP with almost 0.75% after several years.

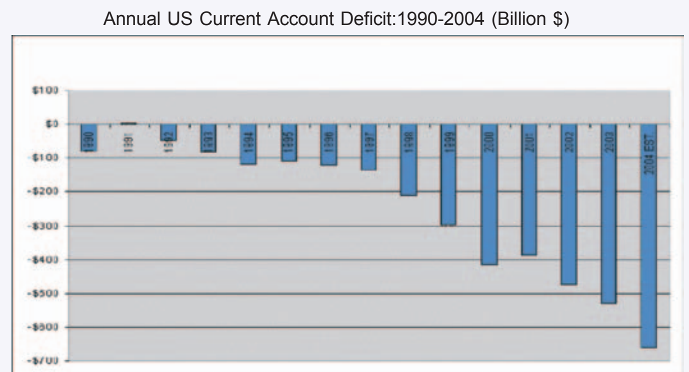
However, China's rapid growth could turn out to be more enduring than is being anticipated.

For Japan, consumer spending had declined in 2004. The yen lost its value against other major currencies; export also declined. The economic downturn throughout 2004 still raises serious concerns about recovery prospects in 2005.

But early economic indices in the first quarter show a drop in unemployment rate (to 4.5%), rise in household spending (rose 2.6% from a year earlier), a strong industrial output, and more significantly, the first rise in property price in 17 years; rising value of property has been a major signal of economic prosperity in Japan. These indicators raise hope

source:www.imf.org 2005

Source: WTO, UN 2005



Source: www.financialsense.com 2004

that the economy could get back on track soon.

Slowing demand growth for IT products in Japan will however have significant negative effect on the country's GDP growth this year. IMF and other international financial institutions predict that Japan will register the slowest economic growth among the G7 nations this year, from 4% in 2004 to 2.1%.

India on the other hand will continue to enjoy global patronage spurred by its provision of affordable IT products and services to the world market. Unemployment is expected to drop slightly from its 2004 level of 9.5% to about 9.4%, while inflation will rise from its 2004 level of 4.7 to 5.0%. The United Nations predicts a GDP growth of 6.4% for India in 2005, up from 5% in 2004.

The year 2005 will edge India and China closer to their emerging status as world economic powerhouses.

Central Bank Rates for Selected Countries

Central Bank Rates	First Quarter 2005 (%)	12-Month Forecast (%)
US	2.25	4.00
Australia	5.25	5.25
Canada	2.50	3.50
Euro	2.00	2.50
UK	4.75	4.75
Japan	0.00	0.00
Brazil	17.75	15.00
India	6.00	7.00
South Africa	7.50	6.25
South Africa	3.25	3.00
Taiwan	1.75	2.00
Nigeria	13.00	12

Source: State Street Global Advisors, UN/DESA, Research & EIG 2005

Actual GDP Growth Rate for 2004 and Forecasts for 2005

Real GDP Growth	2004 (%): Adjusted	2005 (%): Forecast
Global	5.0	4.1
US	4.4	3.5
Australia	3.7	3.3
Canada	2.7	3.0
Eurozone	1.8	1.7
France	2.1	1.8
Germany	1.2	1.4
Italy	1.2	1.5
UK	3.2	2.6
Japan	3.9	1.5
Brazil	5.4	4.0
China	9.3	7.6
India	5.7	6.4
South Africa	2.7	3.5
South Korea	4.5	4.8
Taiwan	5.8	4.0
Nigeria	6.1	6.0

Source: State Street Global Advisors, Research & EIG 2005

The Eurozone:

In the eurozone, strong euro and frail domestic demand suggests that the GDP growth in 2005 will likely surpass that of 2004. A drop from its 1.8% growth in 2004 to 1.6% is however predicted by the IMF.

Italy, France and Germany, in particular, may experience more decline in real GDP growth rates, of between 1.5% and 1.8%. The EU commission recently lowered its eurozone growth forecast for the first quarter 2005 to a range of 0.2%-0.6%. This followed releases of figures showing dismal growth performance by the major EU economies.

Middle East/Africa:

Like in 2004, higher oil prices will boost growth in the oil-exporting countries of the Middle East and Africa this year, while strong prices for many agricultural commodities will help a number of other commodities-dependent economies to strive.

Africa's real GDP grew 4.5% in 2004, the best year in almost a decade. Reasons for the improved performance include general global economic recovery, higher commodity prices, increased production and prices of oil, enhanced macroeconomic management, better agricultural output and improved socio-political climate.

But like a UN report observed, its economic expansion fell short of the 7% growth considered necessary for it to meet the principal Millennium Development Goal of halving poverty by the year 2015. Among factors that slow growth in most African countries are political instability, insufficient foreign aid and FDI flow, external debt burden, corruption, natural disasters and HIV/AIDS.

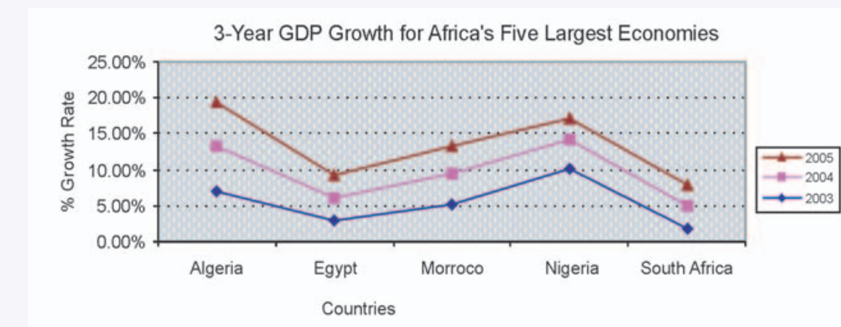
The United Nation's World Economic Situation and Prospects 2005 Report shows that the five largest African economies (Algeria, Egypt, Morocco, Nigeria and South Africa, grew on an average of 3.9%, with a 4% growth predicted for 2005.

In 2005, the United Nations predicts a 4.4% growth for the continent hinged on the assumption that the ongoing economic reforms and fiscal discipline being adopted in most African countries would be sustained.

Crude Oil:

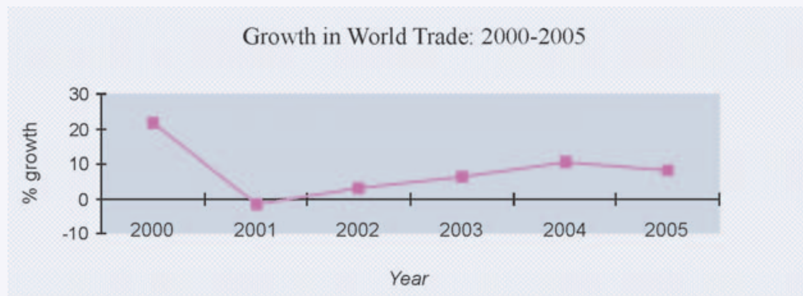
Crude oil prices hit record highs in the first quarter 2005, hovering between $50-$55 and reaching a peak of $57.6 in mid-March, despite OPEC's 500,000 barrels per day increase in production.

Strong demand from China, the US and Europe this first quarter 2005 has led to crude oil price hike, rendering impracticable the World Bank/ DESA's assumption of $38 average price for Brent crude this year. Forecasters are already reviewing upward the crude oil pricing for the year to reflect new realities. Going by first quarter developments, prices could revolve round an average $46pb this year.



Source: The United Nations/DESA 2005

Source: UN (World Economic Situation and Prospects 2005)



Source: WTO, UN 2005

LEVERAGING KEY GROWTH FACTORS

Economist Intelligence Unit, while revising downward its earlier GDP growth forecast for 2005 had warned that the world economy will be confronted with four major threats this year – soaring oil prices, rising interest rates impinging on housing market and building debt levels, growing economic imbalances of the major economies creating disruptive fluctuations of exchange rates and the probability of a sudden downward swing in China's economy, and at the worse scenario, the world could be plunged into economic recession.

Though developments in the first quarter have not confirmed this rather gloomy picture, there is need to harness all growth potentials to avert a sharp economic downturn in 2005.

As economic expansion slows in the US, UK and Japan, global economy would depend more on growth in the eurozone, Canada, China, and even the major Afro-Asian countries to boost global economic performance and ease payments imbalances. However, to be able to make any meaningful contribution to global economic growth this year, developing nations would be relying greatly on the dynamics of global trade, efficient deployment of information and communication technology tools, improvements in human development indices and the prudent management of national resources, coupled with fiscal discipline.

World Trade:

In 2004, global trade was strengthened by strong GDP growth in most regions and countries and increase in the prices of export commodities. In line with the economic recovery, world trade grew by about 10%.

After the impressive 10% growth last year, 2005 started on a bright note for global trade with China as a leading player, especially in export volume. In the first two months of 2005, bloomberg.com reports that China's

export rose 37% from a year earlier to $95.3 billion after climbing 33% in December 2004. Imports increased 8.3 % to $84.2 billion, and the trade surplus reached $11.1 billion, rebounding from a $7.9 billion deficit a year earlier.

Also within the first two months of the year, China's export to Europe rose by 29% to $95.30 billion; export to the United States rose by 22% to $26.60 billion; while export to Japan, Asia's biggest economy rose by 21% to $11.40 billion. For February alone, exports rose 31% to $44.5 billion and imports dropped 5% to $40 billion, the first decline in more than three years. Trade surplus for the month was $4.6 billion.

Foreign companies in China exported goods worth $338.6 billion from China in 2004, about 57% of the country's total shipments; and they are expected to surpass this performance by at least 5% in 2005.

China's contribution to global trade volume has been on a rapid increase in the last 14 years, with more developed and developing countries depending on China's affordable products and services.

This year, China's export and import are predicted to grow to 9.2% and 8.4%, respectively, of total world volume.

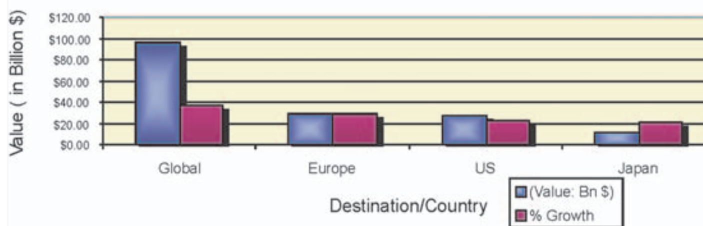
For the United States, import bill in the first quarter is expected to remain high owing to soaring energy cost and the large-scale import of electronic goods such as mobile phones from China to meet current upsurge in demand. Import is forecast to grow at the rate of 6.2% in the first quarter, while export is expected to grow at the rate of 8.5%, since the depreciation of the dollar could give the US export competitiveness. The US trade deficit in 2004 was $617.7 billion.

In Nigeria, balance of trade was favourable in 2004 due to high crude oil prices. Like most OPEC countries, crude oil export constitutes over 80% of total export and fetches the country about 90%-95% of its foreign earnings. According to statistic from the Energy Information Administration, EIA (US Dept. of Energy, 2005), Nigeria earned about $30 billion from crude oil export in 2004. This is projected to rise to about $30.6 billion in 2005 and $32.1 billion in 2006. Nigeria is expected to export about 2.2 million barrel per day of the commodity in 2005, about the same quantity exported in 2004.

Nigeria's trade balance with the United States, its biggest export destination as at November 2004 was plus $1,418 billion. Trade balance is expected to remain in its favour in 2005, as crude oil price will likely average $46pb, as against the country's price benchmark of $30pb for 2005.

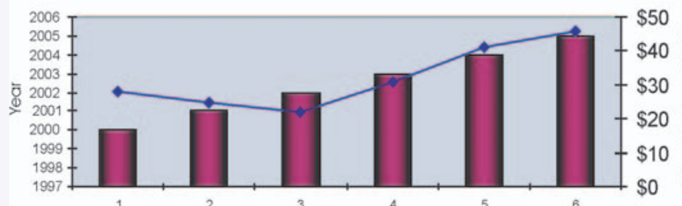
WTO predicts that the value of world merchandise trade this year will drop from its $8.6 trillion level in 2004, to $8.5 trillion in 2005 in line with the decline in global economic performance expected this year.

Meanwhile, the EIU forecasts that global trade growth

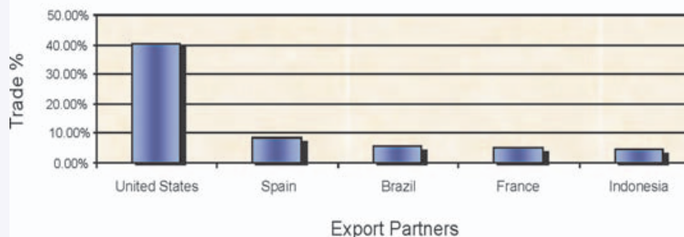


Source: www.bloomberg.com (2005)

Source: Research & EIG (2005)



Source: OPEC, Research & EIG (2005)

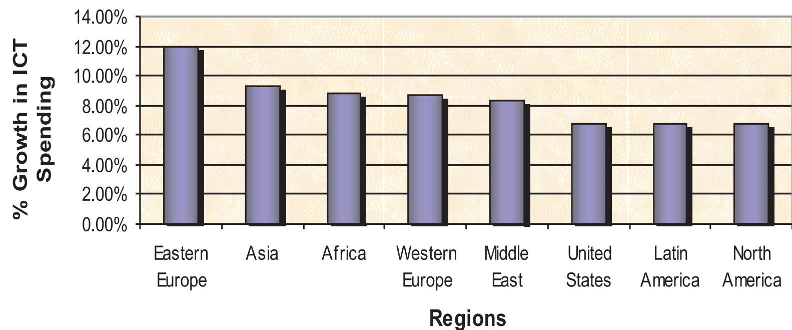


Source: www.dfat.gov.au (Australian Government, Department of Foreign Affairs and Trade, 2004)

this year will also decline to 7.3% from over 10% recorded in 2004.

Developing countries, especially the oil producing, are expected to sustain the balance of trade gains in 2004. And in the United States, unless radical, far-reaching fiscal policies are adopted, trade deficit might rise to over 700 billion dollars.

Rising demand for crude oil and other commodity products from Afro-Asian countries is increasing North/South trade relationship, with the South recording trade surplus, especially with the US. The direction of future trade between the two poles will be chiefly determined by whether and how soon the North devises substitutes for these essential commodity exports.



Source: World Information Technology and Services Alliance (WITSA) 2005

Information & Communication Technology:

Of all the technological inventions so far made by man, ICT has become the greatest as a tool for rapid socio-economic growth. ICT provides medium of quick information transfer vital for knowledge sharing, educational development, human capital improvement and trans-national trade.

For developing and developed countries alike, acquisition and use of latest ICT devices is a matter of priority for public and private sector managers. The United States, a pioneer in ICT deployment is still expected to increase its ICT spending this year by 5.6% (IDC).

The need to share information and knowledge quickly and efficiently, and the growing need to preserve vital government, business and personal information are compelling more countries to take advantage of the power of ICT. Information and communication technology breaks the barrier of time and space and provides convenience in all fronts of human endeavours.

Emerging ICT Focus

As the global business community gets more complex, and governments rely more on data analysis for national growth and development, the need to preserve these vital information for future use is intensifying. This is why data storage and disaster recovery devices are becoming a must-have for governments and corporate bodies all over the world.

A major breakthrough in ICT in recent years has been in the area of data storage and disaster recovery. Before the advent of information and communication technology, data storage was a key challenge because of the problems of wear and tear and unforeseen disasters. But with recent advances in technology, it is now possible for high capacity data to be stored safely and securely for future use.

According to IDC, storage software revenue grew by 16.1% in 2004 to $7.9 billion, injecting over $1 billion of fresh funds into the global ICT market. Global ICT spending has been projected to grow by a range of between 6% and 8% in 2005; and spending on storage technology would get at least 20% of this sum.

Global ICT Spending/Revenue

Global ICT revenue and spending are growing faster than the world's GDP growth rate. Like other global growth parameters in recent times, developing countries now lead in ICT growth. The Asian continent is the fastest growing spender, with a projected growth from $568.2 billion in 2003 to $811.1 billion in 2007.

Africa is ranked third in global growth in ICT spending after Eastern Europe and Asia, with an

expected growth of 8.8% from 2003-2007. In South Africa, local ICT spending growth, according to World Information Technology and Services Alliance (WITSA), is expected to exceed the global pace within that period, growing from $12.9 to $18.4 billion.

In terms of ICT revenue however, most African countries are still largely consumers rather than producers, importing over 89% of the technology infrastructure they use locally. But some African countries are beginning to take steps towards self-sustenance in the production of ICT facilities, both software and hardware. In Nigeria for example, series of locally branded computers now exist and account for about 5% of computer systems used in the country today. Efforts are being made to develop the local software development industry to meet the needs of the local and international market.

A typical data storage and disaster recovery architecture

For individual countries, United States remains the world's largest spender at $1.06 trillion in 2004 and a projected $1.3 trillion in 2007, a 6.8% growth. Japan was the second highest spender last year at $349 billion.

Bangladesh will be the fastest growing ICT spender in the world from 2003-2007, growing at a 19.95% rate, followed by Iran at 14.52%; China at 13.9%; India at 13.44%; and South Korea at 11.4%.

The largest recipients of ICT revenue are the United States, the Eurozone, the United Kingdom, India, and China.

The Human Development Index:

One of the major hindrances to the economic prosperity of developing economies is poor human development: poverty is high, human rights are freely violated; social infrastructure is in decay, literacy level is low and unemployment high. As a result, most third world countries have been unable to contribute meaningfully to global economic growth over the years.

Strides by China, India and other Asian and Latin American economies in recent years have proven that developing economies can actually enhance national and global prosperity if their human and natural resources are well harnessed and developed. In realization of this fact, 189 UN member states in 2000 signed the Millennium Development Declaration, pledging to halve global poverty by 2015.

Achieving improved human development through quality education and training

The Millennium Development Goals take into cognizance the fact that global peace and prosperity can only be achieved if human development is given top priority and vigorously sustained. This is because the end and means of global peace, security and progress is the global citizen.

The annual UN human Development Report portrays the poor countries at the bottom of the human development ladder, while the prosperous countries occupy the top, an indication that conscious human development

Human Development Ranking 2004-2005

S/N	High	Medium	Low
1.	Norway	Bulgaria	Pakistan
2.	Sweden	Russia	Togo
3.	Australia	Libya	Congo
4.	Canada	Malaysia	Zimbabwe
5.	Netherlands	Panama	Kenya
6.	Belgium	Mauritius	Nigeria
7.	Iceland	Brazil	Gambia
8.	United States	Tunisia	Rwanda
9.	Japan	China	Benin
10.	Ireland	South Africa	Angola
11.	Switzerland	India	Chad
12	United Kingdom	Ghana	Ethiopia

Source: Human Development Report 2004

Percentage of Unemployment in Selected Countries: 2003-2005

S/N	Country			
		2003	2004	2005
1.	United States	6.0	5.5	5 1/4
2.	United Kingdom	5.0	4.5	4 1/4
3.	Eurozone	8.9	8.9	8 3/4
4.	Germany	9.6	9.9	9 3/4
5.	China	4.3	4.2	4.5
6.	Japan	5.3	4.7	4 3/4
7.	India	9.5	9.5	9.4
8.	Singapore	4.7	3.7	3.5
9.	South Africa	28.2	27.8	26.4
10.	Nigeria	2.5	2.7	2.6
11.	Egypt	9.9	9.9	9.8

Source: Research & EIG, UN/DESA 2005

efforts are a sine qua non for national growth.

A country's national income and the availability and efficient use of resources for the good of the people accurately measure its level of human development. In most developing economies, GDP per capital is small, unemployment is high, poverty is endemic and national income is misappropriated.

Conscious attempt at enhancing human development indices in these countries could improve life expectancy; reduce poverty, unemployment, socio-political unrest and jumpstart economic growth.

The Human Development Report categorizes countries into three groups – High, medium and low human development countries.

Norway, Sweden, Australia, Canada and the Netherlands top the list of 55 high human development countries; Bulgaria, Russia, Libya, Malaysia, and Macedonia top the medium human development group of 86 countries; and Pakistan, Togo, Congo Lesotho, and Uganda are in the list of 36 countries ranked as low human development nations.

While no African country was ranked among the 55 high human development countries, about 15 African countries made the list of the medium human development countries, including, Libya, Tunisia, Algeria, Equatorial Guinea, South Africa, Egypt, Morocco, Namibia, Ghana, and Cameroon.

Nigeria is the only country among the big five African economies ranked as a low human development country. Other African countries in the group include, Togo, Uganda, Zimbabwe, Gambia, Benin, Chad, Niger, Sierra-Leone, etc. Nigeria occupies the 151st position on the global ranking.

But it is hoped that by the time the country begins to fully reap the gains of ongoing socio-political and economic reforms, the country would improve its performance in subsequent ranking.

If developing nations are to be more relevant to global economic development in 2005 and beyond, their human development indices must be significantly improved.

CONCLUSION

Worldwide growth has overtime depended a great deal on a healthy US economy. The predicted downward slide in the economic growth of the US, China and the eurozone, and the increasing hike in the global cost of energy are the major basis for the pessimistic view about world economy in 2005.

For the global economy to have a semblance of its remarkable performance in 2004, the developing economies must fill this gap by harnessing their human and material resources to improve national productivity and enhance global economic growth.

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

Driving FDI Through Rule of Law

* By Jean Rogers, Deputy Director, CIPE

As the competition for foreign investment is heating up, the functionality of legal systems increasingly plays a central role in determining countries' ability to attract and retain foreign capital. A functional legal system is not only key in building economic foundations; it is also crucial in safeguarding democratic values. However, in many developing countries legal systems are marred by inconsistencies, and newly written laws frequently fail to properly address the issues they should. This gap between policy design and policy implementation is largely due to weakness in the rule of law – a governing structure dependent on the consistent and systematic applications of legal rules.

Although "rule of law" is frequently cited in the development field today, few understand it well at the level of implementation. This article sketches the essential framework of a functioning democratic society based on rule of law and highlights successful private sector-led approaches to building such societies. The competition for foreign direct investment is heating up as never before. The prestigious Institute for International Finance indicates that private financial flows into emerging markets are at nearly $280 billion for 2005. Attention of governments and business communities in these markets is riveted on how best to attract investors and maximize FDI for strong economic growth.

A key determinant of whether a country can succeed in this global competition is the quality of its legal regime. From a business perspective, rule of law and democracy have become inseparable and essential to well functioning markets. That should not be surprising. Functional legal systems are necessary to safeguard property rights and to enforce contracts, just two key foundations for broad-based economic prosperity.

A functional legal system is not only key in building economic foundations; it is also crucial in safeguarding democratic values. However, in many developing countries legal systems are marred by inconsistencies, and newly written laws frequently fail to properly address the issues they should. This gap between policy design and policy implementation is largely due to weakness in the rule of law.

Without property rights, assets are trapped in a "hold" cycle that prevents their transfer or investment.

Without contract enforcement, deals are limited to known persons or those with close references. With appropriate systems and mechanisms provided through the rule of law, however, options are much broader. And the path to adapting the systems and mechanisms appropriately lies in responsiveness to public need, expressed not only through the ballot box but also through daily interaction and input from an engaged citizenry – through democratic governance.

The Enormous Tbilisi market, Republic of Georgia

In newly formed democracies all over the world, citizens are realizing that the transition to democratic governance is an effort much larger than getting out the vote and are becoming increasingly engaged in ensuring that the day-today interactions that citizens expect of their governments – from border crossings, licenses, and infrastructure construction to traffic enforcement and other service delivery – are also handled in a manner that reflects the democratic values of transparency, accountability, and responsiveness. These values must permeate the new system through the rules that bind it – through the law.

The Republic of Georgia, for example, became widely synonymous with corruption after the fall of the Soviet Union. Then on July 23, 1999, its Parliament adopted the General Administrative Code "to ensure respect by administrative bodies for human rights and freedoms, public interests, and rule of law." This Code includes extensive provisions dealing with freedom of information and the transparency of public agency meetings. Granting citizens the power to obtain information on the activities of local officials or on agency spending dramatically changes the political culture by forcing government institutions at all levels to become more accountable and responsive. The Partnership for Social Analysis (PSI) used the transparency and inclusive decision making provisions of the Code as part of a campaign to hold agencies accountable for implementation and give civil society groups a role in policymaking. To do so, PSI focused on several key elements: capacity, incentives, and consequences.

First, it demonstrated that government agencies were not applying a number of the Code's provisions in accordance with the law. This was partly due to lack of financing of administrative bodies, insufficient internal management, and the perception of public officials that under present conditions they will never be held responsible for ignoring the legislation. PSI surveyed businesses and civil society groups to identify concrete experiences and outline specific issues, then prioritized the most blatant and widespread violations of the Code. It worked with interested agencies to educate personnel (building capacity) and to identify appropriate management mechanisms for implementation (providing incentives). It also sent "administrative warnings" (ensuring consequences) to agencies that failed to respond to requests for information, and even filed a legal case against the Ministry of Finance for refusal to respond. PSI won the case, demonstrating that citizen engagement and an informed, independent judiciary can change government practices. To help educate businesses and the public about their rights to receive information from government agencies, PSI published a booklet entitled the "Business Monitoring of Implementation of the General Administrative Code" in May 2002 and built a coalition of some

Granting citizens the power to obtain information on the activities of local officials or on agency spending dramatically changes the political culture by forcing government institutions at all levels to become more accountable and responsive.

70 organizations interested in helping to monitor and promote proper implementation of the Code. The ongoing work of the Coalition enhances the capacity of the bureaucracy to respond; at the same time it ensures that there are consequences for not responding, providing independent oversight of the administration of the Code. PSI's case study not only illustrates the positive impact that sound democratic governance can have for the business community, it demonstrates the key role that nongovernmental organizations can play in ensuring that rule of law has reality beyond words on paper.

Understanding Rule of Law

"Rule of law" and "democratic governance" are key concepts in the development field today, yet how well understood are they at the level of implementation? There are currently many democratic development efforts and programs underway whose missions are to implement or strengthen rule of law. Some truly address issues critical to democratic development and sound governance while others simply reflect a "bandwagon effect" that pays lip service to the latest buzzwords. Because few of the programs offer an encompassing definition of rule of law, it may be useful to ensure a common understanding of what constitutes rule of law and which components and underpinnings are necessary to claim that it legitimately exists. From this definition, the implications for implementation can be assessed and illustrated.

Rule of law is perhaps best defined as the exercise of authority or control ("rule") based on custom or practice of a community that is prescribed or formally recognized as binding ("law") and enforced by a controlling agency (more on this later). More broadly, it is a governing structure dependent on the consistent and systematic application of legal rules. It is a means to regulate human behavior, uphold rights, restrain government, resolve disputes, and tackle social problems.

Rule of law is based on three fundamental democratic principles: supremacy of law, equal protection under the law, and impartial enforcement for infractions of the law. It is distinct from a "state of laws" or "rule by law" in which compliant legislatures or courts are used to legitimize authoritarian power or in which the rulers are considered above the law. These characteristics are what make rule of law such an integral part of a democratic system. Rule of law is the antithesis not just of anarchy, but of rule of man, discretionary power, abuse of power, official corruption, and arbitrary punishment.

Though the above pitfalls exist even within countries that have a well functioning system of rule of law, the law in such systems serves as a means to constrain and correct problems. Indeed, it provides transparent mechanisms for ongoing changes as needed. Countries that successfully implement the rule of law commonly rely on a system of checks and balances whereby different branches of government are responsible for promulgating, approving, and enforcing the law, and each has a measure of control on possible excesses by the others. In the U.S., for example, the legislative branch (Congress) writes the laws, which are signed by the Executive branch (the President) and reviewed by the judicial branch (various levels of courts). The Executive branch, through a host of departments and agencies, is responsible for en-

Independent judiciary is thus crucial to functional rule of law. It provides a mechanism for settling disputes peacefully and impartially and offers a means of resolving disparity in the application of laws through an appeals process that deals with inconsistencies and contradictions, not only in the law itself but also in enforcement – such as when a plaintiff appeals a fine levied solely because he refused to bribe an inspector.

forcement, again subject to judicial review. Parliamentary systems, by contrast, intertwine the Executive and Legislative branches, which act in concert to write and pass the laws but may each be able to dismiss the other. Parliamentary systems also maintain separation of power through the checking mechanism of the judiciary.

Passengers at Cuenca, Ecuador, waiting for the tracks to be cleared after a rock fell on them

Independent judiciary is thus crucial to functional rule of law. It provides a mechanism for settling disputes peacefully and impartially and offers a means of resolving disparity in the application of laws through an appeals process that deals with inconsistencies and contradictions, not only in the law itself but also in enforcement – such as when a plaintiff appeals a fine levied solely because he refused to bribe an inspector. This remains true whether the country is based on civil law or common law. In civil law countries such as France, Ecuador, and Mozambique, all law is legislative. The judge applies the law to the case before him, but does not shape judicial decisions that become binding for future law. Judicial discretion is exercised through interpretation and the crafting of analogies. In common law countries, such as Britain, Uganda, and Singapore, law is considered as based on custom, and judges can essentially "make law" through their rulings and may even overturn legislative enactments. Moreover, unlike civil law systems, common law systems rely upon the concept of case law precedent that governs subsequent decisions.

Though the judiciary plays a key role in both civil and common law systems, the distinction can affect implementation and complicate transition efforts in civil law countries, as in the case of Ecuador. The National Association of Entrepreneurs in Ecuador (ANDE) surveyed the legal landscape there in 1997 and found that, since the Republic was founded in 1830, some 92,250 legal norms were created, of which 52,774 were in force. The sheer number of overlapping, unclear and contradictory laws created an environment of legal chaos that left the application and enforcement of laws to the discretion of bureaucrats – a breeding ground for corruption. Since Ecuador is a civil law country, courts could not reconcile law or create precedents. To address this issue, ANDE recommended creating a seven-member judicial committee empowered to codify and reconcile Ecuador's laws, bringing about the clarity needed for proper enforcement. The committee was established in Ecuador's new constitution in 1998. Further advocacy resulted in changes to about 20% of the laws on the books to strengthen the legal system and reduce corruption. ANDE's follow-on advocacy campaign aims to reconcile the remainder of the conflicts, highlighting how stronger rule of law creates a more competitive business environment while facing a Herculean task of doing so in Ecuador's civil code legal system.

To speak of a "well written law" that is not implemented is to brag of one's new car that has no engine. Enforcement is the engine of rule of law. So what makes a law well written and enforceable? Clarity, conciseness, compliance, consequences, and capacity are all essential.

Beyond Words

In a number of transition countries with newly written laws, locals will say that "there is nothing wrong with the law; it is implementation that

is problematic." Yet the law cannot be seen as the words on paper, separate from the implementation. Such a perception is often the result of a law not being drafted "based on custom or practice of the community." The problem is frequently compounded once the law is enacted due to lack of the other major point within the definition: control and enforcement. As we saw in the case of Georgia, this is not true rule of law. To speak of a "well written law" that is not implemented is to brag of one's new car that has no engine. Enforcement is the engine of rule of law.

So what makes a law well written and enforceable? Clarity, conciseness, compliance, consequences, and capacity are all essential.

Clarity. First of all, any legal requirements must be written; no oral conditions or agreements can change the written law. All substantive requirements of a law (or regulation) should be laid out clearly in the body of the law, not in a preamble or separate annexes that are not incorporated. All terms must be clearly defined and answer the following questions: Who is subject to this? What is being regulated? What is expected? When is it expected? What constitutes a violation? What are the consequences for violation? Who is the final determinant of whether violation has occurred? With Ecuador's plethora of contradictory laws, this initial hurdle was crucial as ANDE sought to improve the rule of law and operating environment for the economy there.

Rule of law is perhaps best defined as the exercise of authority or control ("rule") based on custom or practice of a community that is prescribed or formally recognized as binding ("law") and enforced by a controlling agency.

Conciseness. There is certainly an art to answering all of the above questions clearly without using reams of paper to cover every possible scenario. Conciseness is a goal, however, precisely because it improves clarity. Detailed explanation opens room for internal contradictions, vagueness, a need for additional terminology, loopholes for examples not explicitly mentioned, and confusion regarding variations within examples. A concise law contains sufficient detail to answer the above questions and provide clarity in implementation, then stops. Legal systems that presume that what is not explicitly allowed remains forbidden have a difficult time with this aspect, as the law must anticipate all possible variations of acceptable acts. They also lack flexibility in responding to new developments and technologies that open doors unanticipated by the law, thus stymieing action until the law catches up with possibility – a condition that can cripple economic growth.

Compliance. In the case of the Georgian Administrative Code, the law was in good shape from the standpoint of clarity and conciseness, but there was little compliance at first. For true effectiveness, compliance must be primarily voluntary. Thus ease of compliance and incentives for compliance are important. In many transition countries, laws compel compliance yet do not truly provide opportunity for it. In Russia, for example, until recently it was nearly impossible to operate a business in full compliance with all of the laws and regulations. The taxes, fees, licenses, etc. were not only difficult and time-consuming to obtain, but the money required would consume more than 100% of the business profit. The Russians have taken initial steps to address this problem by simplifying the requirements for business and making it possible to comply. The Prohibition Era in the United States is another useful lesson in compliance. As a social norm – alcohol consumption – was criminalized, compliance rates were so low that enforcement became impossible, and Prohibition was eventually repealed. When the average businessman or citizen recognizes that it

is completely unrealistic to comply with a law, it is not seen as binding, and respect for all law suffers, as it did during the U.S. Prohibition era. Much of the rule of law hinges on respect for the law, such that citizens appreciate the stability that a law provides, recognize its value, and willingly comply. Without the willing compliance of a majority of citizens, the system degenerates into corruption and lawlessness or into a police state of draconian enforcement.

Consequences. These must be of both "stick" and "carrot" nature, both of which PSI brought to bear in its quest for Administrative Code implementation. Consequences of compliance should include benefits provided. Consequences of paying taxes, for example, should include provision of basic infrastructure and stability, access to services, and some sort of social safety net. Lack of benefits is a major contributor to the size of the informal sector in many economies, as entrepreneurs and workers see little reason to comply willingly with business and labor laws that impose many responsibilities without offering additional possibilities for business growth. Benefits for compliance are an important and under-rated aspect of enforcement, ensuring that the majority complies willingly with the law and making it possible to have many aspects of compliance self-monitored. Yet focus on consequences is generally on consequences for violation. These must be known beforehand, appropriate in scale, and consistently and fairly applied, as well as involve codified processes that include an appeal process. Enforcement agencies of all types not only make the consequences known beforehand, they generally publicize specific instances of punishment to ensure that potential violators understand the risks they face and appreciate the ability of the enforcing agency to detect violations. It is instructive to note the plethora of enforcement mechanisms within a well-functioning system. Tax offices, environmental agencies, prosecutors' offices, health and safety inspectors, drug enforcement agencies, border patrols, and police departments at all levels of the nation, state, or locality are just a few of the many institutions involved in enforcement — a large effort to maintain rule of law. As PSI shows, NGOs also have a key role to play, acting as watchdogs, public educators, and change leaders.

These new approaches and tasks should not be so complex that they overwhelm the implementers' ability to adapt or exceed available budgets. A recent positive change to banking laws in Uzbekistan, for example, allows depositors to withdraw their money for uses other than salaries and travel.

Capacity. Writing the rules, regulations, and laws, though difficult to do well, is just the beginning. Implementation requires the abilities of a broad set of institutions for review, enforcement, and appeal. These institutions include not only the institutions that promulgate the laws, but the monitoring and enforcing agencies as well as the reviewing institution, the courts. This is an important consideration not just once a law is passed, but at the beginning stages of considering draft laws, as it quite often makes the difference between the "good law on paper" and the implemented law. Laws written without consideration for capacity often do not reflect the realities at the operational level and risk becoming divorced from actual practice. This is one reason why assessment of functioning informal arrangements is often a good starting point for assessing how laws will work when formalized.

PSI rightly asked if the agencies and courts that would be responsible for making the Administrative Code law work had the understanding, incentives, administrative systems, skills, and personnel needed? Basic

capacities in all of these areas are required for effective implementation. This is why many rule-of-law programs focus on training and administration for legislators, police, bureaucrats, and the judiciary. Learning new approaches and tasks that are not currently part of the "custom and practice of the community" may be necessary to master administration of a new law. These new approaches and tasks should not be so complex that they overwhelm the implementers' ability to adapt or exceed available budgets. A recent positive change to banking laws in Uzbekistan, for example, allows depositors to withdraw their money for uses other than salaries and travel (as withdrawals had been restricted). The implementation problem there was that banks only had withdrawal forms for salaries and travel; there was no "other" form that could be used to complete the transaction – a maddeningly simple fix, but a hurdle for compliance initially because existing systems were not reviewed as part of the change.

Just as incentives, benefits, and consequences play a key role in gaining compliance from those to whom a law applies, they also play a key role in ensuring that implementers apply the law appropriately. Those who will be responsible for instituting and enforcing the law should see the value of their role and should experience clear benefit from doing their job well; they should also experience clear consequences for failure, abuse, or violation. For example, the policeman or inspector who issues fines must value his job for its salary, labor benefits, respect, and esprit de corps rather than for its potential profit through extortion. The position's value, coupled with the consequence of losing the position, makes the risk of accepting bribes too high to be tempting. PSI recognized this in its study of the Administrative Code implementation and worked not simply to chastise the Ministries who did not comply initially, but to ensure that they gained the tools and management systems without which they could not begin to comply.

An Implementation Scorecard

- No one above the law
- Checks and balances on power
- Clear authority of the law
- Equal protection
- Enforceability
  - > Clarity
  - > Conciseness
  - > Compliance
    - * Grounded in local norms
  - > Consequences
    - * Benefits & Incentives
    - * Punishments
  - > Capacity
    - * Understanding
    - * Resources & Incentives
    - * Administrative & management systems
    - * Skills
    - * Personnel
- Impartial enforcement
- Political Will
  - > Leadership
  - > Grassroots
- Engaged Citizens
  - > Elections
  - > Open Media
  - > Civil Society advoc ates
  - > Watchdogs
  - > Membership Organizations

Conclusion

Assessed in this context, rule of law is not simply a matter of writing legislation or of rote enforcement of laws on the book. Without an integrated system of institutions that create order and facilitate daily transactions of all types – from traffic flow to business contracts – true rule of law and true democratic governance are lacking. At the core of the system stand the citizens. Their respect for and faith in the system is necessary for it to be effective. This respect and faith is best earned where rule of law and democratic governance converge most: through full day-to-day involvement of the citizens – not just as voters, but also as constituents, taxpayers, policy advocates, law abiders, applicants, beneficiaries, reporters, watchdogs, whistleblowers, association members, union leaders, consumers, and participants of all types in commerce and society. They provide the ultimate legitimacy to the law and weight on the scales of power.

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Tackling Poverty & Delivering Growth:

The Importance of a Sound Financial System

* By Anne O. Krueger

The central role that the financial sector plays in fostering growth and driving economic reforms is widely acknowledged. Here, the place of the sector in various reforming economies of the world is captured and analysed.

I believe this is an important juncture in Nigeria's economic development. This is a country blessed with considerable natural and human resources; but at the same time it is one that faces enormous challenges. The government is committed to meeting those challenges through the National Economic Empowerment and Development Strategy—NEEDS. This process of economic reform is already showing returns. Macroeconomic stability is already showing results and further payoffs will follow. Implementation of NEEDS should make possible significantly higher, and sustainable, growth rates and, in turn, raise living standards and reduce poverty.

The broad reforms embodied in NEEDS come at an unusually favorable juncture. The outlook for the global economy is better than it has been for some time, in spite of continuing geopolitical concerns. An expanding world economy cannot be a substitute for reform at home, of course. But it can mean that the gains from reforms are greater. And as economic reforms are implemented, so Nigeria will gain far more from the global upturn than it otherwise could.

Sound macroeconomic policies can end the instability associated with high inflation which distorts relative price signals, focuses on short-term gains at the expense of greater longer term returns and arbitrarily skews economic benefits in favor of certain groups in society at the expense of others. Sound policies can also help make an economy less vulnerable to shocks, and more resilient in the face of changing circumstances, whether these be falling oil prices or a global downturn.

I want today to say something about the importance of economic growth in reducing poverty; and I also want to say something about the crucial role that a sound, well-regulated financial sector can—and must—play in achieving more rapid and sustainable growth.

Growth and poverty reduction

One of the most striking aspects of the contemporary debate on economic development is the very wide consensus on what is needed to achieve sustained growth and so raise living standards and reduce poverty.

Macroeconomic stability is already showing results and further payoffs will follow. Implementation of NEEDS should make possible significantly higher, and sustainable, growth rates and, in turn, raise living standards and reduce poverty.

By now there is almost universal recognition that lasting and substantial poverty reduction can be achieved only in the context of a growing economy. The evidence—both historical and contemporaneous—is clear: rapid, sustained growth is the route to rising living standards and falling

poverty. And higher growth rates are the consequence of policy reforms that encourage enterprise, enable the private sector to respond to the appropriate incentives and ensure the most efficient allocation of resources within an economy. Such policy reforms take serious commitment. They require perseverance. And they are helped by the credibility that policymakers earn as a result of that commitment and perseverance.

Chinhae Market, Korea. In the late 50's Korea was the third poorest country in Asia, but now one of the richest countries in its region.

Look at the experience of 19th century Britain, with the commitment to free trade that followed repeal of the Corn Laws and the recognition of the benefits of free movement of capital, not to mention an increasingly sophisticated financial system that facilitated more rapid growth.

Look, more recently, at the experience of Korea in the second half of the 20th century. From the 1960s, Korea's real per capita GDP grew by as much every decade—somewhere in excess of 7% a year—as Britain had achieved in the whole of the nineteenth century. Korea's remarkable economic performance was no accident, however. It was the result of radical policy reforms that opened up the economy to the rest of the world, that exposed the domestic economy to competition, that encouraged exports and that were implemented with a single-mindedness on the part of policymakers that has rarely been equaled.

In the 1950s, Korea was the third poorest country in Asia; not seen by many as a viable economy without indefinite reliance on foreign aid. It is now one of the richest countries in its region, the living standards of its citizens having risen spectacularly after decades of equally spectacular growth rates.

These are not isolated examples. Turkey and Brazil are now experiencing more rapid growth as a direct result of reforms undertaken in recent years. And it is estimated that in the 1990s alone, something like 200 million people escaped poverty, and most of them were in China and India both of which experienced more rapid growth as the consequence of reforms.

So the benefits of economic growth are there for all to see. And we know a great deal about how governments and their citizens can work to achieve the sustained growth rates needed to tackle poverty.

Going for growth

Policy reform is needed at both the macro and the microeconomic level. Neither alone is sufficient to deliver sustained growth over a long period. Without a proper macro framework in place, growth opportunities are stifled by the wrong signals and incentives. Without reform at the micro level, economic actors are unable to respond to those incentives.

So macroeconomic stability is a necessary condition for growth. Let me repeat, though: it is not of itself, sufficient. To be truly effective, reforms must extend right across the policy spectrum. They need to encompass legal and institutional change, property rights, a commercial code and labor market reforms aimed at greater flexibility.

Macroeconomic stability is vital. Without low and stable inflation, careful control of the public finances, a manageable public debt burden, sustainable levels of government spending: without these, governments can have little hope of strong sustainable growth and poverty reduction. Too much inflation encourages a short-term approach, bringing profits for holding inventory and insufficient reward for production. It also blurs price signals.

But putting the right policy framework in place does bring results. Here in Nigeria and elsewhere in Africa, the potential benefits that sound macroeconomic policies can bring are beginning to emerge. Inflation is lower; growth has begun to pick up. There is every reason to think that, with the right policies in place, economies in Africa can experience the higher growth rates that have brought such significant rewards in other parts of

the world.

So macroeconomic stability is a necessary condition for growth. Let me repeat, though: it is not of itself, sufficient. To be truly effective, reforms must extend right across the policy spectrum. They need to encompass legal and institutional change, property rights, a commercial code and labor market reforms aimed at greater flexibility.

A strong case can be made for arguing that a commitment to, and implementation, of trade liberalization stands apart from the rest of these reforms, though. The global expansion seen during the second half of the twentieth century reminded us just how important a part free trade plays in stimulating rapid economic growth. Of course, trade has been a vital force in economic development from the days of the early Mediterranean traders, the exploits of Marco Polo, through the Industrial Revolution of the 19th century, and right up to the present time.

The global economic expansion that followed the Second World War was spectacular, even by historical standards. And it was accompanied by—indeed, it was driven by—an equally unprecedented expansion in world trade. Just look at the figures. In 1950, world merchandise exports accounted for about 8% of world GDP; today that figure is close to 26%. And world trade continues to grow faster than global GDP. In our current World Economic Outlook, we estimate that in 2004 world trade will have increased by 8.8% percent, while global GDP is projected to have grown by 5%.

Investment is a vital ingredient in the process of economic growth. But investment needs to be productive; it needs to go where it can do most good. Financial institutions must be able to allocate resources in an economy by assessing competing demands for funds and analyzing risk.

This expansion of global trade was driven by the progressive lowering of trade barriers—both tariff and non-tariff barriers—and this was facilitated by the multilateral framework established by the creators of the IMF and its sister institutions.

Trade continues to be the engine of global growth. It enables producers to have access to inputs at the lowest possible price. It ensures that scarce resources are used effectively. It means that individuals and firms can move up the value-added chain as learning accumulates.

I think it is fair to say that no country has experienced sustained rapid growth without opening itself up to the rest of the world. And it is important to remember that many of the benefits from trade liberalization accrue directly to the country doing the liberalizing—whether or not that liberalization is unilateral. Yes, liberalization in concert with others—multilateral liberalization—will bring even greater benefits. But waiting to liberalize until others are ready carries a significant cost compared with unilateral opening. Korea didn't liberalize as part of a multilateral negotiation, though it has subsequently participated in GATT and WTO trade negotiations.

A satisfactory outcome to the Doha Round of trade negotiations is important, and we in the IMF have been doing all we can to support the WTO. A Doha agreement that brought a significant further lowering of trade barriers would make possible even more rapid growth than would unilateral liberalization. This is true above all for developing economies that have most to gain from a deal. The World Bank estimates that about two thirds of the benefits of a Doha round agreement would accrue to developing economies; and a large part of those benefits would come from the reduction of trade barriers between developing countries. But the potential benefits would be largely lost for coun-

tries that resisted opening their own economies to trade.

But developing countries could reap many of those gains simply by liberalizing unilaterally. The evidence is overwhelming.

Reforms feed on each other. The benefits of macroeconomic stability can be frittered away if trade is restricted or if other reforms are neglected. We have learned that structural economic reforms are also vital in facilitating sustained growth.

But if reforms are pursued on all fronts at the same time, the returns to any one reform are greatly magnified. Trade liberalization brings even more benefits to the liberalizing country if it takes place in tandem with reforms to bring about more labor market flexibility for example. Gaps in reform programs can mean that the benefits are reduced relative to what is attainable.

A sound financial system

Which brings me to the financial system. The importance of the financial system in facilitating economic development has long been accepted. We have always known that banks and other financial institutions have a key role to play in the efficient allocation of resources and the analysis of credit risk that make rapid growth possible. We have always known, too, that as economies grow more sophisticated, the financial sector must follow suit; it must become broader and deeper.

And yet we somehow underestimated just how critical financial sector soundness could be. The Asian financial crisis of 1997-98 brought home what the consequences of underlying weaknesses in the financial sector could be, and how much pain they could inflict.

Korea was one of the countries worst affected, and offers a striking example of the extent to which financial sector weakness can undermine economic stability and growth and so harm efforts to reduce poverty. From the 1960s, as I noted, the Korean economy had grown at a spectacular pace. This growth had been driven by exports—3% of GDP in the early 1960s, 35% or more by the early 1990s. Korea had been the first emerging market economy to exploit the benefits of the international capital markets, in the 1960s.

But Korea's export growth had in part been fuelled by a focus on credit for the export sector. Exports had hitherto been too low and represented profitable business for the banks. But the rate of return on bank assets declined, from about 3% over a long period, to a negative real rate of return in the mid-1990s. This acted as a brake on economic growth. And significant contingent liabilities had been built up because of mis-matched exposures as a result of dollar borrowing because people had assumed the exchange rate would remain stable and had looked elsewhere for attractive borrowing opportunities. The situation had become unsustainable, and, in the absence of reform, a crisis was inevitable. The crisis came when the financial markets recognized the extent of the problem, and reacted accordingly.

Nigeria faces enormous economic challenges if it is to experience the sustained rapid growth needed to reduce poverty and achieve the Millennium Development Goals. But the signs are encouraging.

Investment is a vital ingredient in the process of economic growth. But investment needs to be productive; it needs to go where it can do most good. Financial institutions must be able to allocate resources in an economy by assessing competing demands for funds and analyzing risk. Decisions about which activities to finance and which not—which will bring the best risk-adjusted return, in other words—can have a crucial long-term impact on economic prospects.

As economies grow, credit allocation in all sectors—primary, manufacturing and services— becomes more complex. Banks and financial institutions need to keep pace with the demands placed on them. They too need to diversify and expand.

I mentioned Britain's growth experience in the 19th century. It is no coincidence that in the nineteenth century the world's most successful financial centre was in the then most successful economy. London had developed expertise in assessing risk and in allocating financial resources efficiently. The British economy needed increasingly sophisticated financial services that could keep pace with its expansion. But London's success as a financial center in turn made rapid growth more possible; and it also made possible more rapid growth in those parts of the world—North and South America, for example—that relied on London's superior financial skills.

Economic growth brings fresh challenges, of course: success has to be managed. Even the most advanced industrial economies are continuously having to adapt as they and the global economy evolve. Policy reforms are necessary to ensure that markets continue to have the incentives needed for them to adapt ac-

cordingly.

And those new challenges that growth brings with it also place new demands on the financial sector.

How the financial sector faces up to the changing demands on it is partly a matter for the financial institutions themselves; but it is also a matter for policymakers who need to ensure effective regulation that provides the right incentives.

Like every sector of the economy, the financial sector needs—and benefits from—competition. Competition drives down costs, and increases efficiency. The more efficient and competitive the financial system is, the lower are the spreads between deposit and lending rates. Well-run banks that can assess risk and allocate resources efficiently outperform those less-skilled in this regard. Effective competition reduces borrowing costs and diversifies financial risk within the economy. Competition will also drive the broadening and deepening of the financial sector, reducing reliance on banks as other financial institutions develop to fulfill specific needs.

The central role that the financial sector plays in fostering growth and maintaining financial stability means that proper, effective regulation is important. Competition needs to be genuine and effective. Banks need to be properly capitalized so that they and the banking system as a whole avoid undue risk.

The level of non-performing loans (NPLs) needs to be carefully monitored. Too high a level of NPLs implies inefficient allocation of resources, poor risk management and ultimately hampers growth by depriving more productive activities of resources. The system needs to be transparent, so that risks can be properly monitored. Financial intermediation needs to be broad and deep, so that risks are diversified.

These are challenges that every country faces. It is easy for policymakers pre-occupied with the struggle to reduce poverty and establish macroeconomic stability to be distracted from the need to monitor the financial sector and ensure that it develops to meet the requirements of a growing economy.

But a weak financial sector can undermine the primary objectives of economic policy in two ways. It can generate financial instability which can itself inflict considerable harm on an economy. And it can hamper growth by failing to keep pace with the changing needs of firms and individuals and by allocating resources inefficiently.

The history of Western economic development is one of financial sector development as well, and everything we have learned shows that economic growth and financial sector health are now more closely linked than ever before.

The role of the IMF

The learning process I have described is one in which the IMF has been actively involved. We too have been learning from experience and adapting the way we work as a result. In the aftermath of the crises of the 1990s, we have put in place a number of changes. In particular, we place much more emphasis on monitoring the financial sector and assessing possible risks to the health of national financial systems.

In co-operation with the World Bank, we look closely at regulatory frameworks, financial sector competition, transparency, the levels of financial intermediation and so on. As part of this development of our surveillance work, the Financial Sector Assessment Program (FSAP) was introduced in 1999 jointly with the World Bank. Some of you may be familiar with this. The FSAP aims to help member governments strengthen their financial systems by making it easier to detect vulnerabilities at an early stage and to identify key areas which need further work.

FSAPs aren't about examining the balance sheets of individual banks, or even the banking sector as a whole. They are focused entirely on the policy and regulatory framework. Their purpose is to help our member countries ensure that domestic regu-

lators and supervisors are able to make accurate judgments about the health of the banks and other financial institutions under their jurisdiction.

A large number and a wide range of our member countries have now had an FSAP program. The feedback we get is overwhelmingly positive. Even the authorities in those industrial countries with highly developed financial sectors that have had FSAPs have found them to be useful.

The FSAP also forms the basis for Financial System Stability Assessments (FSSAs) in which IMF staff address issues directly related to the Fund's surveillance work. These include risks to macroeconomic stability that might come from the financial sector and the capacity of the sector to absorb shocks. Is the level of NPLs a cause for concern? Are the banks well-regulated and sound? How would the financial sector be affected by sharp rises in interest rates—would this lead to a rise in NPLs? Again, these FSSAs cut across the full breadth of our membership.

As you know, Nigeria participated in an FSSA exercise two years ago, one which we believe was valuable in highlighting the opportunities for improving the health and performance of the financial sector and thus the contribution it can make to the long-term growth prospects for the Nigerian economy.

The way forward

I know from my discussions over the past couple of days that the Nigerian authorities are committed to meet head-on the economic challenges they face. Poverty reduction is clearly a priority, and the government recognizes that a stable macroeconomic framework is an essential element of any economic program aimed at delivering long-term growth which in turn is the only enduring means of poverty reduction.

Like many countries, Nigeria is working to strengthen its financial sector. It is clear from the recent announcements of the central bank that the authorities recognize the important role that the financial sector can play both in delivering financial stability and, over the longer term, more rapid growth. Measures to strengthen the banking system by raising minimum capital requirements, introducing risk-based supervision and the zero tolerance policy for mis-reporting by banks are all welcome moves. The Fund, as ever, stands ready to provide technical assistance in the development and implementation of financial sector reforms.

Conclusion

I started by saying that this is an important juncture in Nigeria's economic development. I would go further and say that this is an auspicious moment. With NEEDS, the government has committed itself to a wide-ranging reform program that, if implemented fully, should make a significant contribution to achieving more rapid and sustained rates of growth, and so reducing poverty.

The generally favorable external environment is one that makes it easier to introduce reform and increases the potential benefits. The current global economic expansion is an opportunity to press ahead vigorously with reform, and permits a larger payoff sooner—thus reducing resistance to change.

Nigeria faces enormous economic challenges if it is to experience the sustained rapid growth needed to reduce poverty and achieve the Millennium Development Goals. But the signs are encouraging. The government has recognized the importance of creating a stable macroeconomic framework that can best foster longer term growth prospects.

Engagement with the rest of the world is vital for growth and prosperity in any economy. Trade and investment are essential for growth; and history has taught us over and over again that an open economy, one that encourages commerce and rewards entrepreneurship, offers the only long term prospect of growth, rising living standards and poverty reduction.

It is my view that Africa can reap the same economic rewards that other countries have attained by adopting similar goals and making a similar commitment to full participation in the world economy. Nigeria has much in its favor, not least the dynamism of its people. It has a government committed to exploiting these advantages for the good of all its citizens. I look forward to seeing some of the benefits of those reforms pretty soon.

(*Anne Krueger is First Deputy Managing Director International Monetary Fund)

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Telecom Revolution: Impact on Economic Growth & Development

* By Calixthus Okoruwa

The rapid growth of the telecom industry remains a critical watershed in the process of market liberalisation in Nigeria. This piece examines the effect of what has become known as the telecom revolution on the various sectors of the Nigerian economy.

Prior to 2001, attempting to communicate by telephone was an ordeal in Nigeria. Getting a dialing tone on a phone especially during the peak work hours of 11.00am to 4.00pm was sometimes so difficult that a journalist once admonished every serious business to employ staff that would be exclusively dedicated to working the phones in order to get dialing tones.

The dialing tone issue was itself a symptom of the problem of congestion, as tens of thousands of desperate telephone users struggled to relay their messages on the sprinkling of telephone lines that NITEL, the then government monopoly with absolute responsibility for providing telecommunications services, had made available.

Saddled with the bureaucracy and inefficiency of typical government corporations, Nitel passed on a regime of inefficient service to Nigeria. Telephone lines were few, about 450,000 functional lines in total. Of the functional lines, more than half resided in government offices and big corporations further restricting the number of telephone lines that were accessible to individual households and small and medium scale enterprises.

Getting a phone line was an arduous task. After applying for one and making payment well in excess of the official amount, the waiting period could span two to three years.

Even then, in order to make international calls, one needed in addition, to subscribe separately to International Direct Dialing, IDD, with the accompanying red tape.

At the end of the month, telephone bills never came. Rather, long queues of telephone subscribers would form

Number of Active Operators and Service Providers in Nigeria

	Number of Operators & Service Providers						
Service Category	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**Mar-05**
National Carriers	1	1	1	2	2	2	2
Mobile (GSM) Telephony	1	1	3	3	4	4	4
Fixed Telephony	9	16	16	17	20**	24**	24**
VSAT Networks	N/A	N/A	N/A	N/A	51	52*	52*
Internet Services	18	30	30	35	35	35*	35*

* Confirmed ** Including 3 Fixed Wireless Access (FWA) Operators

Source: NCC 2005

at Nitel customer service offices across the country. The usual practice was for subscribers to toss telephone lines en-masse and request subscribers to come physically to NITEL offices to prove they were not indebted.

Public telephone booths were perpetually clogged with queues of people desperate to make telephone calls.

By the late '90s when fixed wireless operators debuted, they offered a slight respite to Nitel. If one could afford the high upfront ownership costs then obtaining a telephone line could take a dramatically shorter time than was hitherto the case. As was to be expected, however, the massive acquisition costs connected with fixed wireless lines at the time, significantly restricted ownership.

CURRENT STATE OF THE TELECOM SECTOR

	Dec-00	Dec-02	June-03	Dec-03	Mar-04	Dec-2004	March 2005
Number of Connected Fixed Lines	450,000	702,000	724,790	850,000	888,854	1.1m	1.4m
Number of Connected Digital Mobile Lines	None	1.6m	2.05m	3.1m	3.8m	9.2m	9.6m
Number of National Carriers	1	2	2	2	2	2	2
Number of Operating ISPs	18	30	30	35	37	40	40
Number of Active Licensed Fixed Line Operators	9	16	19	30	30	30	30
Number of Licensed Mobile Operators	1	4	4	4	4	4	4
Private Investment	$50m	$2.1m	$3.0m(est.)	$4.0m (est.)	$4.8m(est.)	$6.0m(est.)	$6.8m(est.)

Source: NCC & R&EIG data 2005

Restricted telephone access and its corollary of poor service greatly minimized what ought to be the direct economic benefits with attendant sundry spin-offs, of good communications to the Nigerian people.

It is against the backdrop of this history of restricted access and poor service that the period beginning with the digital mobile license auction of January 2001 onwards has come to be regarded as the era of the Nigerian telecom revolution.

The January 2001 DML auction conducted by the Nigerian Communications Commission was remarkable for its transparency and was globally adjudged as professionally conducted and successful. By August of the same year, two new Global System for Mobile Communications (GSM), companies, Econet Wireless Nigeria and MTN Nigeria had begun operations. Mtel, the mobile arm of Nitel, began commercial operations close to a year later.

The new GSM companies launched a massive program of development that was second in scale and investment, only to the oil industry. MTN Nigeria announced an initial $1.4billion investment plan for Nigeria (over its first five years of operation) and Econet Wireless Nigeria indicated a similar predilection even though it wouldn't be specific on the actual figure to be invested. Nigeria's teledensity, once rated among the lowest in the world, has been on an upward climb ever since.

One of the biggest fallouts of the new telecommunications regime is the efficiency that naturally accompanies good communications. By the end of 2004, Nigeria had in excess of 10 million phone lines, according to the Nigerian Communications Commission. With telephones now accessible to a growing tribe of Nigerians cutting across social cadres, communications has continued to improve across the country. Enhanced communications have led to improved work efficiency and naturally, better productivity.

Business executives no longer need to be behind their desks in order to keep their businesses going. From the convenience of their mobile phones wherever they are in the country and indeed, most times outside of it, they are able to keep a tab on their offices and their businesses.

Many small and medium scale enterprises, SMEs, today acknowledge that their business fortunes have been positively impacted by the new telecom phenomenon. Customers and potential customers no longer need to visit them at their places of work in order for them to get jobs. All they need do today is to call on the mobile phone. Mechanics get phone calls to pick up problem cars for repair, as do plumbers, photographers, house painters, newspaper vendors and dozens of other artisans.

Superlative economic performance by GSM companies, notably MTN, continues to encourage investors and financiers to be more positively circumspect in their appraisal of Nigeria and its huge economic potential.

Except for the early days when potential subscribers understandably scrambled to buy SIMS and handsets, today, obtaining a telephone line could be finalized in five minutes or less. This is sequel to the growing distribution network with which the new telecom networks strive to make service accessible to Nigerians.

The pervasiveness of the telecom distribution networks is one indication of the level at which telecom is providing jobs to Nigerians.

The distribution channels of the telecom networks have been deliberately structured to ensure that SIM packs and perhaps more importantly, recharge cards get to the hands of customers in the shortest possible time. The distribution networks of the telecom companies include dealerships by distribution partners spanning banks and sundry retail chains with outlets dotting the length and breadth of our cities. These distribution chains comprise hundreds of thousands of intermediary Nigerians, who all benefit economically from their roles in the distribution channel. These include the tens of thousands who earn a living, running small businesses as recharge-card and mobile accessory vendors. Also included are the great many who operate the umbrella telephone centres scattered across our streets, providing vital access to communications to millions of Nigerians daily.

A burgeoning telecom sector has also meant the development of Nigeria's telecommunications infrastructure. Perhaps the most critical is the ongoing work on country-wide transmission backbones by practically all the telecom operators. Beginning with microwave radio backbone construction, today the networks are building fibre optic transmission backbones between and within cities. Future growth and expansion of the telecom networks will be anchored on these backbones.

In 2003, the International Finance Corporation (IFC), the private sector investment arm of the World Bank, bought 3% equity in MTN Nigeria, in a deal representing its second largest investment so far in Africa.

Nigeria's high unmet need for telecom, a fallout of its huge population, robust upper class and vibrant informal economy has created a demand for telecom that has reflected in superlative annual results by GSM companies, typically, MTN. Once rated number two on the continent, on the basis of revenues and profits, the MTN Group, on account of its incursion to Nigeria and the massive contribution of Nigeria to the Group revenues, is now Africa's leading GSM company on the basis of revenues and profits.

Superlative economic performance by GSM companies, notably MTN, continues to encourage investors and financiers to be more positively circumspect in their appraisal of Nigeria and its huge economic potential. It is not surprising therefore that today, a growing number of telecom companies have benefited from offshore financing and Foreign Direct Investment (FDI), with bright prospects for more. In 2003, the International Finance Corporation (IFC), the private sector investment arm of the World Bank, bought 3% equity in MTN Nigeria, in a deal representing its second largest investment so far in Africa. Starcomms, Nigeria's biggest fixed wireless operator has also benefited from financing, some of it, offshore, to the tune of some $43million on account of which it has significantly expanded capacity on its network.

Added to this is the growing interest by many corporations, to invest in Nigeria. At the last count, the world's biggest telecom company, Vodafone, alongside South Africa's Telkom and Vodacom, UK's Virgin Group and many others, have expressed an interest to buy over Nitel.

A critical spin-off of Nigeria's telecom revolution is the fast growing emergence of indigenously owned and operated telecom industry intermediaries. These include content providers, backbone providers, providers of co-location services and satellite transmission provision providers. Many others are emerging, with specialization in the provision of various value added services. These companies are not only providing jobs for thousands of Nigerians both directly and indirectly, but also helping to

Growth in Fixed and Mobile Telephone Lines, and Teledensity, in Nigeria

Service Category	Number of Subscribers						
	1999	2000	2001	2002	2003	2004 *	Jan. 2005
Fixed:							
NITEL	450,172	497,019	540,662	555,466	555,466	524,596	525,000*
PTOs	23,144	56,355	59,659	146,534	333,068	515,173	568,925**
Sub-Total	473,316	553,374	600,321	702,000	888,534	1,039,769	1,093,925
Mobile	35,000	35,000	266,461	1,569,050	3,149,472	8,500,000	9,950,000
Total	508,316	588,374	866,782	2,271,050	4,038,006	9,539,769	11,043,925
Teledensity	0.42	0.49	0.72	1.89	3.36	7.77	9.20

* Estimates, ** Includes estimates for some companies

Source: NCC

catalyze robust competitiveness among the telecom networks.

On the other hand, the country has also witnessed a stronger presence of foreign-owned telecom industry intermediaries, with the accompanying infusion of foreign capital. Chinese telecom network builders, Huawei and ZTE respectively, have set up shop in Nigeria over the last two years, while others have expanded the scope of their operations to cope with the growing scale of operations of the telecom networks. Local subsidiaries of the handset manufacturers, especially the South Korean brands, LG and Samsung have been increasingly visible, paying huge attention to their marketing efforts and establishing strong retail presence in key commercial cities across the country.

Leap-frogging Nigeria from an analogue age to a fast paced digital one will continually require a concurrent training and development of its human capital. The telecom companies have experienced a heavy influx of skilled manpower comprising skilled returnee Nigerians and expatriates. Typical areas of expertise encompass network engineering, systems planning and design, transmission, customer relationship management, billing, finance, marketing strategy and many more. Over the last three and half years, there has been a systematic ongoing development of the human capital base especially in the telecom industry, driven by the knowledge- and expertise-sharing and -transfer between professionals in the industry be they returnee Nigerians, expatriates or resident Nigerians.

Today, it is not uncommon to find young Nigerians in overall charge of multimillion dollar installations including switching exchanges.

In paying $285 million each for an operating digital mobile license, in February 2001, the GSM companies gave an insight into the kind of revenue inflow that their operations in Nigeria would herald. A little over two years later, Globacom would emerge as the second national carrier after Nitel, on payment of $200 million. Despite the 5-year tax holiday that the new telecom companies have been granted on account of their start-up status, they have become significant revenue sources for government at different levels. For instance in its first full year of operations, ending on March 31, 2003, MTN paid a total of N11.7billion in levies, duties and license fees to the government. This included N2.5billion in import duties, N5.4billion in VAT, N525million by the company's staff in Pay As You Earn taxes and N2billion license fees to the Nigerian Communications Commission. Other payments typically include site and mast erection permits. No doubt, such monies enable government to discharge its social obligations, more conveniently.

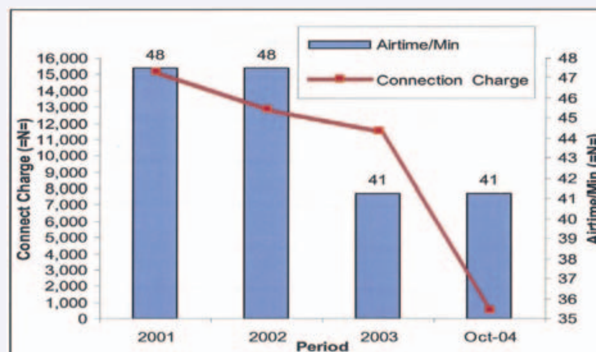
Telecom companies have also been in the driving seat of corporate social responsibility initiatives across Nigeria. Mtel sponsors the annual Argungu Fishing Festival; Globacom: the Nigerian Football Premier League; V-Mobile: Golf, Basketball and Polo and MTN: the annual Lagos Marathon among others. In each of these initiatives these companies by investing significant sums, aid the social mobilization and development process. The same applies to music where investment in concerts and other entertainment projects have contributed to a more robust entertainment industry, helping to foster social cohesion and well being.

Over the last three and half years, there has been a systematic ongoing development of the human capital base especially in the telecom industry, driven by the knowledge- and expertise-sharing and -transfer between professionals in the industry be they returnee Nigerians, expatriates or resident Nigerians.

Amidst the intense battle for subscribers by the telecom companies the Nigerian marketing communications industry has had to awaken to a new urgency and efficiency in the execution of marketing campaigns. Beneficiaries of this new dispensation include the media, which have been largely sustained by the mega advertising budgets of the telecom companies, and the attendant benefit of being better placed to play the societal watchdog role more effectively. A host of advertising and public relations firms have grown in capacity and size on account of the fast tracking that is dictated in servicing the telecom industry. The end result is a marketing communications industry that is continually better primed to stimulate and drive demand for goods and services in the economy.

Despite its rapid growth in Nigeria, the telecom industry continues to be severely challenged by the difficulties in the operating environment. Inadequate and unreliable power supply has continued to dictate that each of the thousands of base stations and switching centres to be deployed by telecom companies be accompanied by a minimum of two electricity generating sets. In powering these generating sets, special diesel tanks need to be constructed and diesel sourced on a continuous basis.

Trend in Connection Charges & Tariffs in Mobile Sector



Source: NCC 2005

Security of lives and property is yet another critical issue as telecom companies have in the past lost staff and contractors to armed attacks. In other cases, network installations have sometimes been vandalized. Telecom companies have to invest significant sums in providing security for the lives of their staff and contractors and their installations across the country.

Perhaps nothing underscores the telecom phenomenon more than its increasing propensity to propel Nigerians to embrace technology as a way of life.

The seeds are still being sown. Telecom companies are spearheading, a gamut of value added services that could in due course see Nigerians latch on to a new digital way of life.

The Mobile Office, an all-embracing term that stems from the ability of mobile phone users to access their emails via their mobile phones and transfer files and spreadsheets even while on the move and far away from the office, is gradually being etched onto the popular consciousness by the GPRS-ready telecom networks, namely Glo Mobile, V-Mobile (formerly Econet Wireless Nigeria) and Mtel.

Mobile banking and its corollary of mobile cash or credit transfers via the mobile phone represents yet another dimension that telecom is bringing to life in Nigeria, in what is interpreted as the first foundations of e-commerce. Getting Nigerians to appreciate the value in conveniently and securely conducting routine banking transactions from the convenience of their mobile phones is indeed a potent first step towards embracing the cashless future.

Yet the future is one that is laden with endless possibilities. Nitel's IPO, due in a short while, will lead to the infusion of a significant chunk of capital into the national economy, and the awakening of a communications giant. The Nigerian Communications Commission has hinted that at the expiration of the exclusivity period of the GSM companies (due in 2006) a unified licensing regime will commence, which implies that telecom operators will not be restricted in the nature of service they render. (Guidelines for unified licensing are still awaited, though). What is therefore clear is that in the months to come competition in the telecom industry will intensify with the natural fallout of better service and lower tariffs for telephone users.

The basic instinct to communicate will continue to underscore the development of Nigeria's vibrant telecom industry, which will in turn, remain a repository of investment and a driver of economic growth and development in the years to come.

(* Calixthus Okoruwa is a staff of XLR8 Limited, a communications management consultancy firm.)

Globalization Not New;
Look At Slave Trade

* By Phillip Emeagwali

Mary Slessor's photo on the front of Scotland's ten pound note

Globalization - or the ability of many people, ideas and technology to move from country to country - is not new. In Africa, it was initiated by the slave trade and given impetus by colonialism and Christian missionaries. The early missionaries saw African culture and religion as a deadly adversary and as an evil that had to be eliminated.

In 1876, a 27-year-old missionary named Mary Slessor emigrated from Scotland to spend the rest of her life in Nigeria. For her efforts in trying to covert the people of Nigeria, Mary Slessor's photograph appears on Scotland's ten pound note, and her name can be found on schools, hospitals and roads in Nigeria.

The introduction to Mary Slessor's biography titled: "White Queen of the Cannibals" is revealing: "On the west coast of Africa is the country of Nigeria. The chief city is Calabar," *said Mother Slessor.* "It is a dark country because the light of the Gospel is not shining brightly there. Black people live there. Many of these are cannibals who eat other people."

"They're bad people, aren't they, Mother?" *asked little Susan.* "Yes, they are bad, because no one has told them about Jesus, the Saviour from sin, or showed them what is right and what is wrong."

These opening words clearly show that Mary Slessor came to Africa on a mission to indoctrinate us with Christian theology. She told us we worshipped an inferior god and that

Emeagwali speaking at the Pan-African Conference on Globalization, Washington, DC, September 18, 2004. Emeagwali helped give birth to the supercomputer - the technology that spawned the Internet. He won the 1989 Gordon Bell Prize, which has been dubbed the "Nobel Prize of Supercomputing."

we belonged to an inferior race.

She worked to expel what she described as "savagism" from our culture and heritage and to encourage European "civilization" to take root in Africa. We accepted the mission schools which were established to enlighten us, without questioning the unforeseen costs of our so-called education.

These mission schools plundered our children's self-esteem by teaching them that, as Africans they were inherently "bad people." Our children grew up not wanting to be citizens of Africa. Instead, their education fostered the colonial ideal that they would be better off becoming citizens of the colonizing nations.

I speak of the price Africans have paid for their education and "enlightenment" from personal experience. I was born "Chukwurah," but my missionary schoolteachers insisted I drop my "heathen" name. The prefix "Chukwu" in my name is the Igbo word for "God." Yet, somehow, the missionaries insisted that "Chukwurah" was a name befitting a godless pagan.

The Catholic Church renamed me "Philip," and Saint Philip became my patron and protector, replacing God, after whom I was named. I have to argue that something more than a name has been lost. Something central to my heritage has been stripped away.

This denial of our past is the very antithesis of a good education. Our names represent not only our heritage, but connect us to our parents and past.

As parents, the names we choose for our children reflect our dreams for their future and our perceptions of the treasures they represent to us. My indoctrination went far deeper than just a name. The missionary school tried to teach me that saints make better role models than scientists.

I was taught to write in a new language. As a result, I became literate in English but remain illiterate in Igbo - my native tongue. I learned Latin - a dead language I would never use in the modern world - because it was the official language of the Catholic Church, which owned the schools I attended.

Today, there are more French speakers in Africa than there are in France. There are more English speakers in Nigeria than there are in the United Kingdom. There are more Portuguese speakers in Mozambique than there are in Portugal.

The Organization of African Unity never approved an African language as one of its official languages.

We won the battle of decolonizing our continent, but we lost the war on decolonizing our minds.

Many acknowledge that globalization shapes the future, but few acknowledge that it shaped history, or at least the world's perception of it. Fewer acknowledge that globalization is a two-way street.

Africa was a colony, but it is also a key contributor to many other cultures, and the cornerstone of today's society.

The world's views tend to overshadow and dismiss the value and aspirations of colonized people. Again, I must impart my own experiences to illustrate this point.

I grew up serving as an altar boy to an Irish priest. I wanted to become a priest, but ended up becoming a scientist. Religion is based on faith, while science is based on fact and reason - and science is neutral to race. Unfortunately, scientists are not neutral to race.

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Early Africans in America built the Capitol.

Take, for example, the origin of AIDS, an international disease. According to scientific records, the first person to die from AIDS was a 25-year-old sailor named David Carr, of Manchester, England. Carr died on August 31, 1959, and because the disease that killed him was then unknown, his tissue samples were saved for future analysis.

The "unknown disease" that killed David Carr was reported in The Lancet on October 29, 1960. On July 7, 1990, The Lancet retested those old tissue samples taken from David Carr and reconfirmed that he had died of AIDS.

Based upon scientific reason, researchers should have deduced that AIDS originated in England, and that David Carr sailed to Africa where he spread the AIDS virus. Instead, the white scientific community condemned the British authors of those revealing articles for daring to propose that an Englishman was the first known AIDS patient.

If these scientists were neutral to race, their data should have led them to the conclusion that Patient Zero lived in England. If these scientists were neutral to race, they should have concluded that AIDS had spread from England to Africa, to Asia, and to America.

Instead, they proposed the theory that AIDS originated in Africa. Even history has degraded our African roots. We come to the United States and learn a history filtered through the eyes of white historians.

And we learn history filtered through the eyes of Hollywood movie producers. Some of us complained that Hollywood is sending its distorted message around this globalized world. Some of us complained that Hollywood is a cultural propaganda machine used to advance white supremacy.

George Bush understood Hollywood was a propaganda machine that could be used in his war against terrorism. Shortly, after the 9/11 bombing of New York City, Bush invited Hollywood moguls to the White House and solicited their support in his war against terrorism.

Some will even argue that schools play a significant role as federal indoctrination centers used to convince children during their formative years that whites are superior to other races. Fela Kuti, who detested indoctrination, titled one of his musical albums: "Teacher Don't Teach Me Nonsense."

It scares me that an entire generation of African children is growing up brainwashed by Hollywood's interpretation and promotion of American heroes. Our children are growing up idolizing American heroes with whom they cannot per-

> *Look at African science stories that were retold by European historians; they were re-centered around Europe. The earliest pioneers of science lived in Africa, but European historians relocated them to Greece. Science and technology are gifts ancient Africa gave to our modern world.*

sonally identify. We need to tell our children our own stories from our own perspective. We need to decolonize our thinking and examine the underlying truths in more than just movies.

We need to apply the same principles to history and science, as depicted in textbooks.

Look at African science stories that were retold by European historians; they were re-centered around Europe. The earliest pioneers of science lived in Africa, but European historians relocated them to Greece. Science and technology are gifts ancient Africa gave to our modern world.

Yet, our history and science textbooks, for example, have ignored the contributions of Imhotep, the father of medicine and designer of one of the ancient pyramids. The word "science" is derived from the Latin word "scientia" or "possession of knowledge." We know, however, that knowledge is not the exclusive preserve of one race, but of all races. By definition, knowledge is the totality of what is known to humanity. Knowledge is a body of information and truth, and the set of principles acquired by mankind over the ages.

An Australian Aborigine

Knowledge is akin to a quilt, the latter consisting of several layers held together by stitched designs and comprising patches of many colors. The oldest patch on the quilt of science belongs to the African named Imhotep. He was the world's first recorded scientist, according to the prolific American science writer Isaac Asimov.

The oldest patch on the quilt of mathematics belongs to another African named Ahmes. Isaac Asimov also credited Ahmes as being the world's first author of a mathematics textbook.

Therefore, a study of history of science is an effort to stitch together a quilt that has life, texture and color. African historians must insert the patches of information omitted from books written by European historians. There are many examples of the mark Africans have made on world history. Americans are surprised when I tell them Africans built both Washington's White House and Capitol.

According to the US Treasury Department, 450 of the 650 workers who built the White House and the Capitol were African slaves. Because the White House and Capitol are the two most visible symbols of American democracy, it is important to inform all schoolchildren in our globalized world that these institutions are the results of the sweat and toil of mostly African workers.

This must also be an acknowledgement of the debt America owes Africa. Similarly, discussions of globalization should credit those Africans who left the continent and helped build

Early Africans in America built the White House

other nations throughout the world - most nations on Earth.

Africans who have made contributions in Australia, in Russia, and in Europe must be acknowledged so our children can have heroes with African roots - so they can know their own roots and be proud of them. The enormous contributions of Africans to the development and progress of other nations has gone unacknowledged.

We have yet to acknowledge, for example, that St. Augustine, who wrote the greatest spiritual autobiography of all time, called "Confessions of St. Augustine," was an African; that three Africans became pope; that Africans have lived in Europe since the time of the Roman Empire; that Septimus Severus, an Emperor of Rome, was an African; and that the reason Beethoven was called "The Black Spaniard" was because he was a mulatto of African descent.

Why are we reluctant to acknowledge the contributions and legacies of our African ancestors? We cannot inspire our children to look toward the future without first reminding them of their ancestors' contributions. Look at the long struggle of African Australians, who recently became citizens with rights on their native continent.

Africans have been living in Australia for 50,000 years. Yet, African Australians were granted Australian citizenship just 37 years ago, in 1967.

According to CNN, African Australians were not recognized as human beings prior to 1967. They "were governed under flora and fauna laws." African Australians were, in essence, governed by plant and animal laws.

For many years, African Australians were described as the "invisible people." In fact, the first whites to settle in Australia named it the "land empty of people."

The contributions of Africans to Russia must be reclaimed. Russia's most celebrated author, A.S. (Aleksandr Sergeyevich) Pushkin, told us he was of African descent. Pushkin's great-grandfather was brought to Russia as a slave. Russians proclaim Pushkin as their "national poet," the "patriarch of Russian literature" and the "Father of the Russian language."

The poet Aleksandr Sergeyevich Pushkin (1799-1837) was killed during a duel.

In essence, Pushkin is to Russia what Shakespeare is to Britain. Yet Africans who have read the complete works of Shakespeare are not likely to have read a single book by Pushkin.

I was asked to share today the story behind my supercomputer discovery. It would require several books to tell the whole story, but I will share a short one that I have never told anyone. The journey of discovery to my supercomputer was a titanic, one-man struggle. It was like climbing Mount Everest. On many occasions I felt like giving up.

Because I was traumatized by the racism I had encountered in science, I maintained a self-imposed silence on the supercomputer discovery that is my claim to fame.

I will share with you a supercomputing insight that even the experts in my field did not know then and do not know now. In the 1980s, supercomputers could perform only millions of calculations per second and, therefore, their timers were designed to measure only millions of calculations per second.

But I was performing billions of calculations per second and unknow-

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The myth that a genius must have above-average intelligence is just that, a myth. Geniuses are people who learn to create their own positive reinforcements when their experiments yield negative results. Perseverance is the key.

ingly attempting to time it with a supercomputer timer, which was designed to measure millions of calculations per second.

I assumed my timer could measure one-billionth of a second. It took me two years to realize my timer was off a thousandfold.

I was operating beyond a supercomputer's limitations, but I did not know it. The supercomputer designers did not expect their timers to be used to measure calculations at that rate. I almost gave up because I could not time and reproduce my calculations which, in turn, meant I could not share them, two years earlier, with the world.

After years of research, my supercomputer's timer was the only thing stopping me from getting the recognition I deserved. I realized the timer was wrong, but I could not explain why. I spent two years mulling over why the timer was wrong. It took two long and lonely years to discover why I could not time my calculations.

My 3.1 billion calculations per second, which were then the world's fastest, were simply too fast for the supercomputer's timer.

What I learned from that experience was not to quit when faced with an insurmountable obstacle – and that believing in yourself makes all the difference. I learned to take a step backward and evaluate the options: Should I go through, above, under, or around the obstacle? Quitting, I decided, was not an option. Indeed, the old saying is true: When the going gets tough, the tough get going.

Looking back, I learned that most limitations in life are self-imposed. You have to make things happen, not just watch things happen. To succeed, you must constantly reject complacency.

I learned I could set high objectives and goals and achieve them.

The secret to my success is that I am constantly striving for continuous improvements in my life and that I am never satisfied with my achievements.

The myth that a genius must have above-average intelligence is just that, a myth. Geniuses are people who learn to create their own positive reinforcements when their experiments yield negative results. Perseverance is the key.

My goal was to go beyond the known, to a territory no one had ever reached. I learned that if you want success badly enough and believe in yourself, then you can attain your goals and become anything you want in life.

The greatest challenge in your life is to look deep within yourself to see the greatness that is inside you, and those around you.

The history books may deprive African children of the heroes with whom they can identify, but in striving for your own goals, you can become that hero for them – and your own hero, too.

I once believed my supercomputer discovery was more important than the journey that got me there. I now understand the journey to discovery is more important than the discovery itself; that the journey also requires a belief in your own abilities.

I learned that no matter how often you fall down, or how hard you fall down, what is most important is that you rise up and continue until you reach your goal. It's true, some heroes are never recognized, but what's important is that they recognize themselves.

I learned that no matter how often you fall down, or how hard you fall down, what is most important is that you rise up and continue until you reach your goal.

It is that belief in yourself, that focus, and that inner conviction that you are on the right path, that will get you through life's obstacles. If we can give our children pride in their past, then we can show them what they can be and give them the self-respect that will make them succeed.

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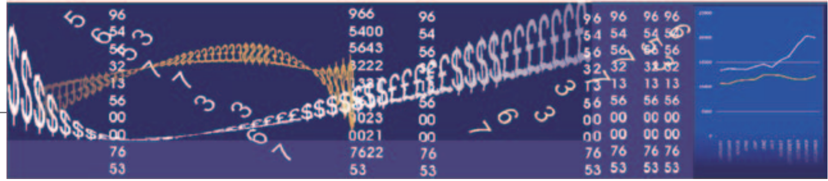
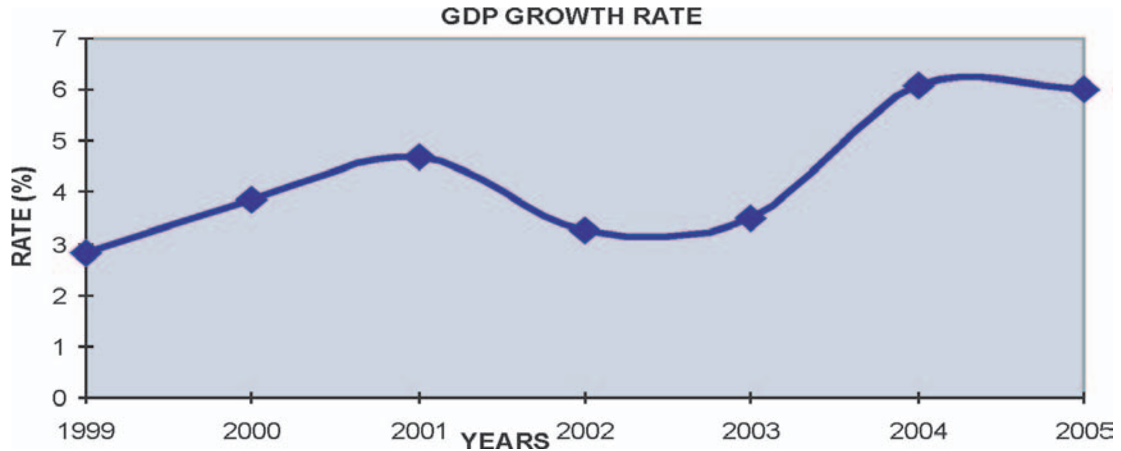
ZEQ DATABANK

* By Toni-Kan Onwordi



GDP GROWTH RATE

Nigeria's GDP growth rate for 2005 is projected at 6% according to the National Economic Empowerment and Development Strategy (NEEDS) document. The rate for 2004 was 6.12% (CBN, 3.5% IMF), a modest rate compared to continental GDP growth of 4.5% in 2004, (up from 4% in 2003, according to UN estimates). High crude oil prices, fiscal discipline and continued macro-economic stability will make for a growth rate perhaps higher than the 6% projection in the NEEDS document.

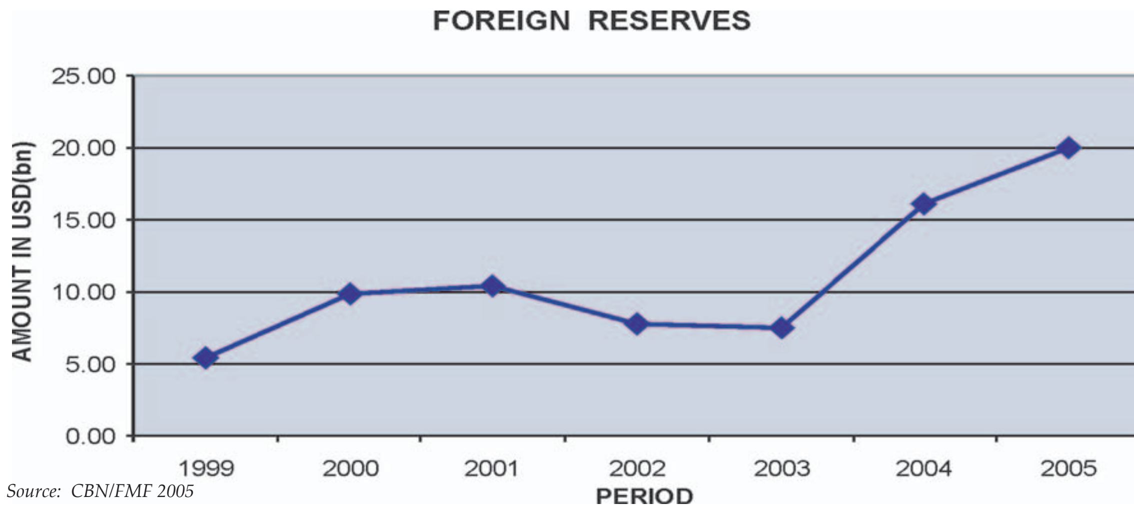


Source: FOS/CBN/NEEDS 2005 est.

FOREIGN RESERVES

Nigeria's foreign reserves have continued to rise since 1999 from $5bn at the inception of the present administration to $21.5bn in February 2005. The rise was due to a combination of factors top of which is the huge windfall from oil as well as some discipline in public finance management.

The oil windfall occasioned by the continued rise in oil prices in the last half of 2004 was responsible in large measure to the positive foreign reserve position, which stood at $16.14illion as at December 2004. Figures made available by the FOS indicate that the reserves had risen to $21.5 billion by February 2005, large enough to cover 18 months of imports.

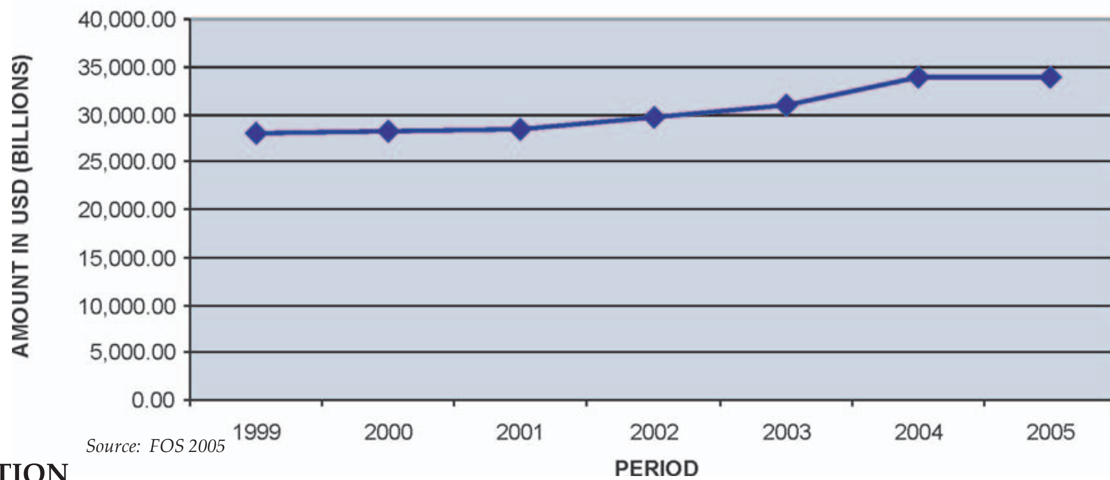


Source: CBN/FMF 2005

EXTERNAL DEBTS

Despite the fact that Nigeria spent an estimated $37bn servicing external debts in the period between 1985 and 2005, her foreign debt stock rose from $17.3bn in 1985 to the current figure of $34.35. Nigeria's Federal House of Representatives recently asked the government to repudiate the foreign debts which is estimated to cost the nation $7.758bn to service this year.

The Parliamentarians were worried by the continued recalcitrance of the creditor nations in agreeing to a revision of the terms of repayment and their refusal to grant Nigeria debt relief. Debt relief or out right cancellation would free up funds for developing needed infrastructure which would ultimately translate into more jobs and growth in GDP.

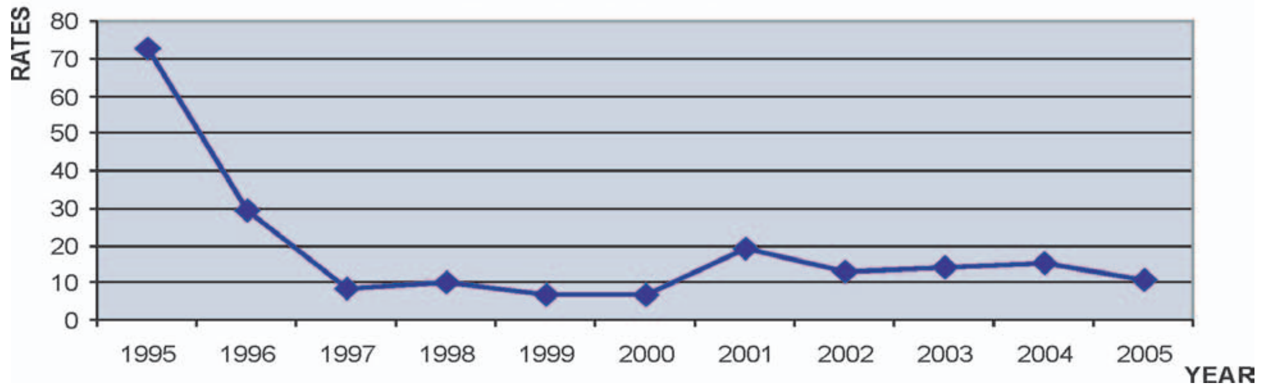


Source: FOS 2005

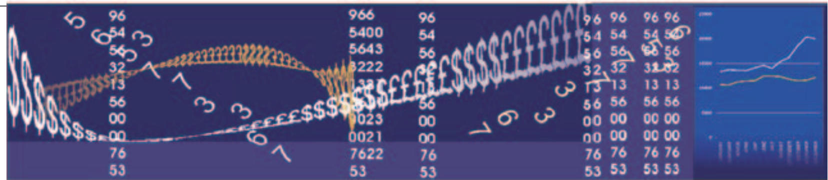
INFLATION

The realization of a single digit inflation has remained a key policy objective of this administration since inception. To achieve this, the administration has pursued tight monetary and fiscal policies.

The NEEDS document has projected a 9.5% inflation level for 2005. This target may well be realized if an effective and efficient inflation management process is implemented. Figures released by the CBN however indicate that inflation rose to 10.6% in February 2005, from the 9.8% reported in January 2005.



Source: CBN 2005

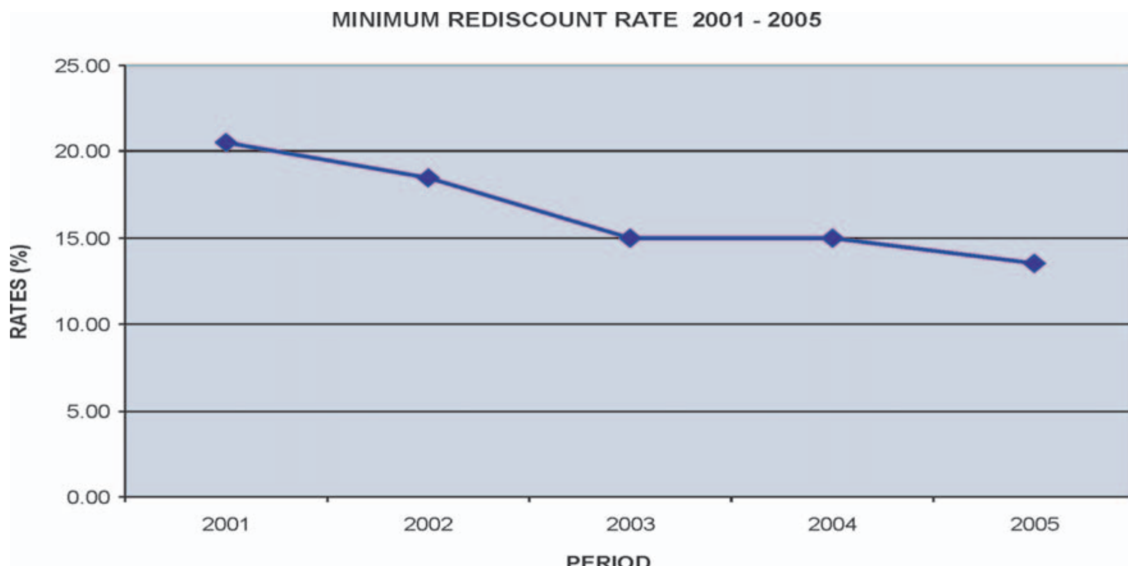


MINIMUM REDISCOUNT RATE (MRR)

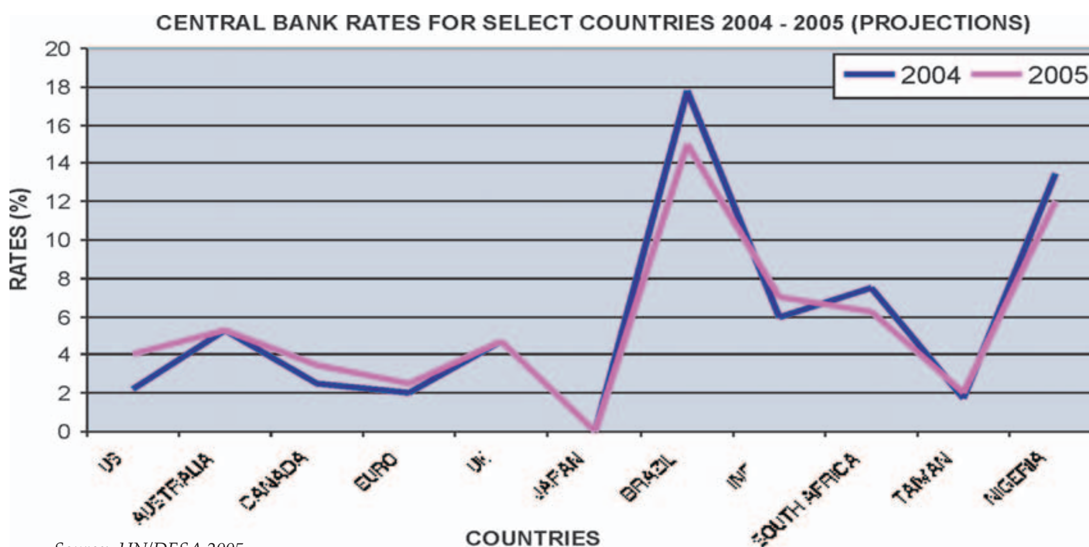
The CBN effected a reduction in the MRR from the 2-year-old 15% to 13%, marking the beginning of a new quarterly review policy. The measure was introduced via an amendment to its Monetary Policy Circular No. 37.

Given the increasing liquidity in the banking system, the reduction has, from all indications, impacted positively on the lending rate, although not significantly. Average lending rates, which had hovered between 19-20% in the preceding quarter, recorded a marginal drop to 17% and below during the first quarter. Real sector operators however remain hopeful that a further reduction in the coming quarter might help drive down lending rates.

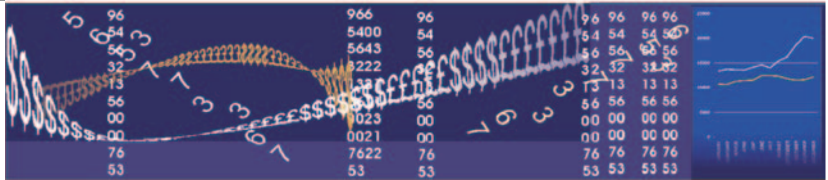
It is expected that rates would continue on the downward trend especially as OMO continues to be effective and the MRR is further reduced in the coming quarter. The MRR was last changed in 2003 when it was moved down from 18.5% to 15%. Taken on a global level, the MRR in Nigeria remains one of the highest, trailing behind Brazil where it is at 17.75%.



Source: CBN 2005

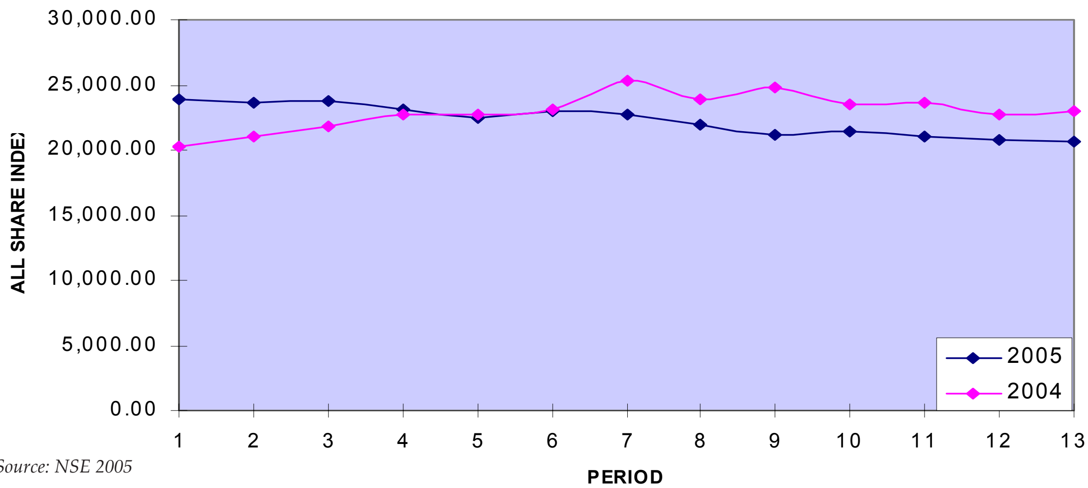


Source: UN/DESA 2005

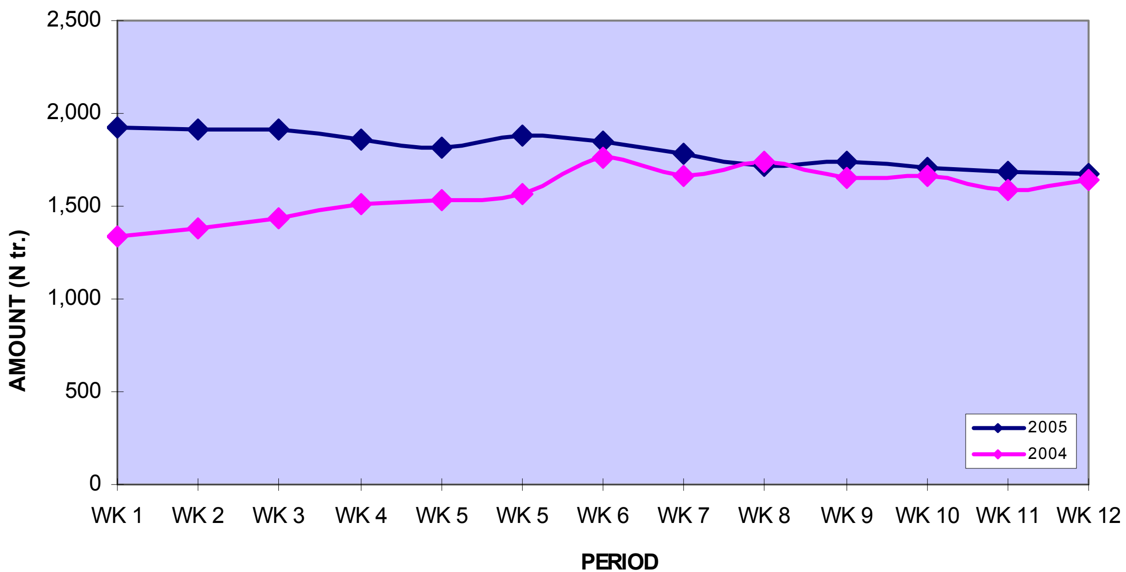


CAPITAL MARKET

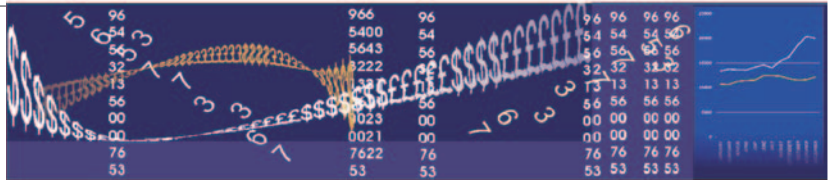
The recourse to the capital market by banks wishing to shore up their shareholders funds has had mixed impacts on the fortunes of the NSE. It has negatively impacted on the share prices of most quoted companies, especially banks. Investors looking for quick gains have continued to sell off shares to invest in banks' IPOs and this has deepened the stock market's capitalization while lowering the All Share Index. A comparison of month end positions for the corresponding periods in 2004 and 2005 indicates that where the Market Capitalization was on the upswing in the early part of the year, the All Share Index has been progressively heading south.



Source: NSE 2005



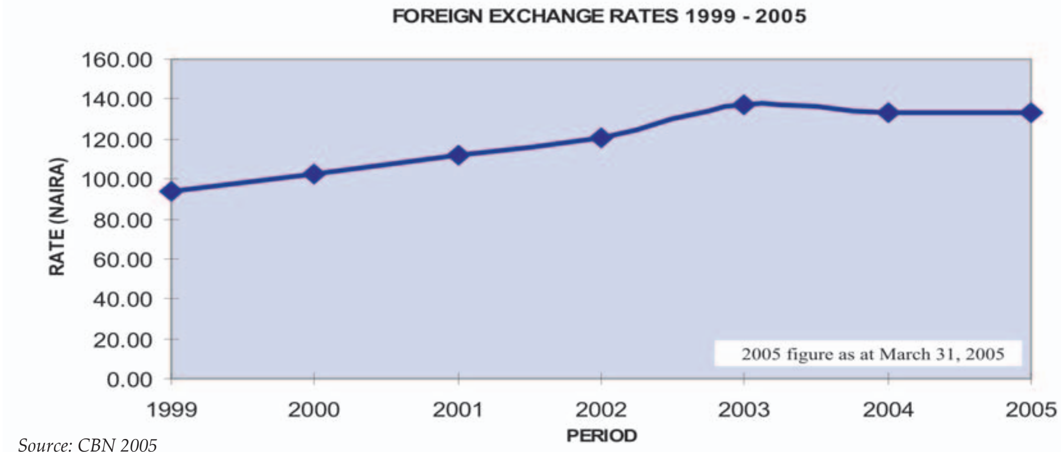
Source: UN/DESA 2005



FOREIGN EXCHANGE RATE

Foreign Exchange Rate stability remains a key policy thrust of President Obasanjo's administration.

While the Naira has lost considerable ground against the dollar since the inception of this administration in 1999 when it exchanged at N93.95: 1 USD, the fiscal discipline and tight monetary policy in place has seen the Naira's consistent appreciation over the dollar in 2003 when it exchanged for N120.50 and its stable run since 2004 when the naira closed the year at N132.85 to the dollar. The pursuit of the same policy thrust and fiscal discipline is expected to continue to ensure the same appreciation and stability.

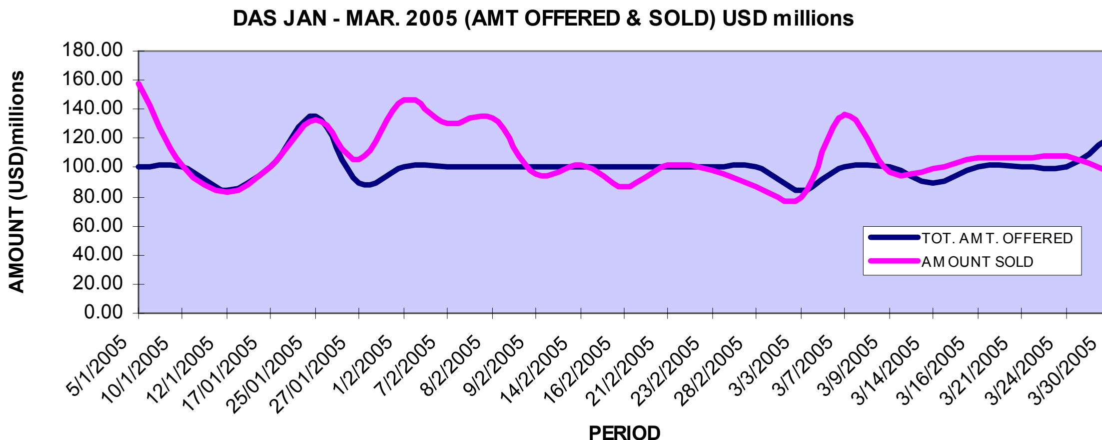


Source: CBN 2005

DUTCH AUCTION SYSTEM (DAS)

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. In the period under review the Naira has oscillated between N132.85 and N132.86: USD. The CBN has however announced that it will suspend the current DAS process where banks make bids on behalf of their customers. When the new regime becomes operational, banks would make bids on behalf of themselves and then sell to their customers at the branch level.

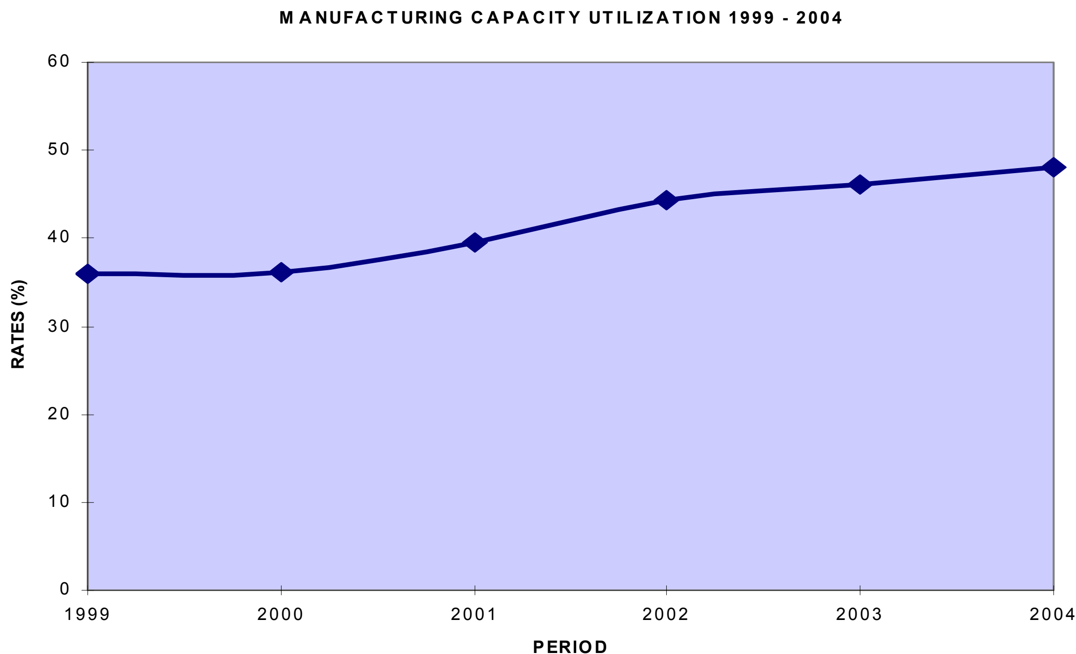
In the period under review the CBN sold a total of $2,494,800,741.46 to end-users, and the breakdown is as follows. January: $682,025,943.92; February: $980,807,308.07; March: $831,967,489.47 compared to $791,106,148.77, $787,702,704.32 and $696,417,338.94 for the corresponding periods in 2004.



Source: CBN 2005

MANUFACTURING CAPACITY UTILIZATION

Statistics indicate that Manufacturing Capacity Utilization has shown a noticeable improvement from sub 40% levels in 1999 to almost 50% as at December 2004. It is expected to improve further as the Electricity Power Sector Reform Act 2005 begins to address the problem of power supply especially as it impacts on the activities of the real sector.



Source: CBN 2005