Zenith Economic Quarterly

A Publication of Zenith Bank Plc Vol. 2 No. 2 April, 2006 ISSN: 0189-9732

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Zenith Economic Quarterly

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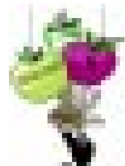

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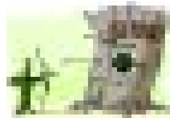

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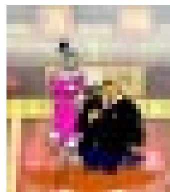

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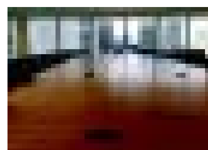

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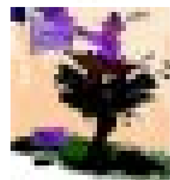

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ZENITH ECONOMIC QUARTERLY
is published four times a year by Zenith Bank Plc.

The views and opinions expressed in this journal do not necessarily reflect those of the Bank.

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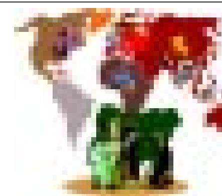
ISSN: 0189-9732



It's all about conviction . . .

'*Competitiveness*', that word typically used to describe the degree of superiority by which a firm or a nation produces goods, services and related functions when compared to peers, has been with man since prehistoric times – remember Darwinian and Malthusian theories of survival of the fittest and the '*Man in a state of nature*' postulation of Thomas Hobbes.

In modern times, the defining thrust is superior performance based on certain perhaps identifiable advantages or competitive edge. Nations world over can be differentiated by their capacity to compete, measured in universally accepted criteria. The World Economic Forum (WEF) Annual Competitiveness studies have suggested at least three indices namely, macroeconomic stability, quality of public institutions and technological progress.

That is correct. However the essence lies elsewhere: Conviction! Global competitiveness is all about conviction. It's about the conviction of leadership. For example, there were times (especially the 1970s) when goods imported into Nigeria from Japan were considered as inferior or substandard. Today Japanese products rank amongst the best world wide. So convinced and accomplished are the Japanese that they coined the slogan translated as *'good thinking, good products'*. Truly the 'Japanese miracle' and the Singapore transformation tagged *'from third world to first world'* demonstrate the power of conviction in fostering a competitive edge. Today we speak of the 'Asian Tigers', the 'Japanese miracle' and the 'Singapore transformation'.

Through conviction you commit and develop the staying power that enables you to address those constrains to competitiveness and thus generate greater competitive advantage. And the Chinese have demonstrated the benefits of conviction- a GDP growth rate averaging 7% per annum for over a decade now. As Toni Kan Onwordi highlighted in his contribution *"Sino-Nigerian Trade: Implications for the Future"* Napoleon Bonaparte, the great French Emperor had told the world over two hundred years ago: 'let China sleep, for when she awakes, she will shake the world'. That prediction is coming true by the day principally because China remained focused based on the conviction that it had tremendous untapped competitive edge. The awesomeness of her competitive edge has elicited trade policy adjustments in USA (on steel) and the European Union (on fabrics especially jeans wears, amongst others) in the recent times.

Conviction breeds resolve. A strong commitment to 'turn things around', by doing something that would add value, in spite of the seeming insurmountable constrains. That is where Nigeria's recent experiment at pervasive sector reform belongs. Nigeria has traversed the paths of competition in different modes – as an outsider when it was under colonization, as a rookie, when it became a strong contender in the export of agricultural produce, as a fan and member of the supporters club, when it turned to its oil money to support the rise of modern economies through its westernized consumption patterns and expenditure profile.

The ongoing Banking sector reforms have shown that Nigeria has the capacity to 'catch up' with global best practices.

Nigeria's economy was not globally competitive, in spite of its oil and gas sector. All parameters for evaluating global competitiveness demonstrated this. In particular, cost of doing business was very high and BYOI- 'build your own infrastructure' – was the order of the day. A holistic approach to adequately address this was what it needed and the NEEDS stand out as an important and timely response. It is important that this document was widely reviewed. The lessons are aptly captured by the contribution of Hugo Rivas

Truly, things are changing, (lets not talk about how we are managing the trade-offs.). First it seemed very inappropriate that a President with so much to do back at home would globe trot in search of debt relief or cancellation. But it came. With a condition though. Thanks to the soaring prices of crude oil, paying a whopping $13bn was achieved. And like a flash in the pan, the Paris Club Debt is gone, gone for good! Then the sector reforms and the future promise it holds for a sustainable growth path for the economy- telecommunications sector, the Pensions reform act, the Power sector reform Act, the various Tax Administration reforms, privatization, power, etc.

The ongoing Banking sector reforms have shown that Nigeria has the capacity to 'catch up' with global best practices (thanks to Mercedes Suleik for his piece, we have also included the code of corporate governance recently published by the Central Bank of Nigeria.) and compete strongly –FDI inflows into the non-oil sector have gone up, home remittances have gone up, etc. It's good news that Nigeria is becoming, once again, attractive to FDIs, and thus competitive.

The next assignment is very critical: at least we passed the first test in 1999, and the second in 2003; we must somehow get it right again come 2007. Only then would the gains of sector reforms and forbearance of today by the citizenry translate into sustainable growth and economic development. Not just the type that will compare Nigeria favourably with other African countries. No, a growth path that would place Nigeria truly, globally, as Africa's China, Asia's Singapore and, may be, Europe's Germany. And so Dr. Oshikoya's lead contribution, the central theme of this edition focuses on this issue of competitiveness and indicates that although so much has been done, so much needs to be done to attain that level of global competitiveness befitting of the status of Nigeria as Africa's giant.

Dr. Boniface Chizea's contribution on the Federal Budget 2006 highlights the sustained effort, through the budgetary process, at keeping faith with the reform process, Mrs. Eunice Sampson's piece highlights the impact of crude oil prices on global economic growth and as usual, the ZEQ Databank offers a brief review of the economic performance in the first quarter of 2006.

The first quarter 2006 was marked by significant developments regarding Nigeria's external debt reduction, banking sector reform; progress in solid minerals sector, pensions, tax and port reforms; a leap in oil export proceeds and its concomitant accretion in foreign reserves, among others. It was, in fact, during the period that several buds of the pervasive reforms sprouted, blossomed and actually bloomed. All segments of the new pensions scheme courtesy of the Pension Reform Act No.2, 2004, took shape and became operational; the process of liquidating the 14 un-recapitalized banks under the first phase of the Central Bank of Nigeria (CBN) consolidation programme commenced in earnest during the quarter, just as the nation received a favourable rating (BB-) from global credit rating agencies—Fitch International and Standard & Poors (S & P)—an auspicious and seminal reckoning for the country.

Economy: New Directions, Fresh Hope

* By Marcel Okeke

ECONOMIC INDICATORS

All core economic indicators either hit or surpassed their targets during the quarter under review. Inflation, exchange and interest rates moved in desired directions: the year-on-year inflation came down and stood at about 12 per cent in March. This is indicative that the target of a single digit inflation rate could be realized and sustained during the course of the year.

Interest rates trended downwards in the period under review as a sequel to the improved liquidity situation arising from the bank recapitalization that was rounded up in December 2005. Average prime lending rate varied from 13 per cent to 18 per cent during the quarter while average 7-day NIBOR declined from about 12 per cent at the end of 2005 to 10.0 per cent at the end of the first quarter 2006.

The foreign exchange market underwent a radical reform during the quarter under review: a new method for the sale of foreign exchange, Wholesale Dutch Auction System (WDAS), was introduced in February by the Central Bank of Nigeria. This reform measure which has further liberalized the foreign exchange market, aims to move towards exchange rates unification of the official and parallel markets. Some key elements of the measure include reduction in documentation in the official market, access of Bureaux de Change to the official foreign exchange market as well as a 100 per cent upward review of Personal Travel Allowance (PTA) and Business Travel Allowance (BTA). It also implies the CBN dropping its two-year old policy of maintaining a band of plus or minus three per cent within which the domestic currency would be allowed to appreciate or depreciate. All these have improved the efficiency of the forex market, leading to the virtual convergence of the inter-bank and official exchange rates; the high premium in the parallel market rates compared to the official rates, though dropping, is, however, yet to be wiped out. Overall, the CBN has become a 'marginal' player in the market while the exchange rate remained generally stable throughout the quarter—at an average of N129 to the dollar in the official market.

In the capital market, activities remained upbeat during the first quarter 2006, essentially driven by the recapitalization efforts of insurance companies and the second phase of consolidation in the banking sector, kick-started by Zenith Bank's jumbo public offer. Specifically, Zenith Bank's public offer of three billion shares at N16.90 per share issued to raise about N50.7billion opened on February 6, and lasted till March 20. During the quarter, a number of insurance firms made hybrid offers and overtures for mergers and acquisitions in pursuit of their mandatory re-capitalization, with February 2007 as deadline. JAIZ International Bank, a new bank that is anchored on no-interest-charges-for-facilities also made an entry into the market. For the insurance sector, quite a few mergers and acquisitions were being negotiated, just as a good number of the operators resorted to public offers in the capital market. The Securities and Exchange Commission (SEC) on March, 20, issued a directive, ordering the delisting of acquired and merged banks from the official list of the Nigerian Stock Exchange—with April 18, 2006, as deadline. SEC also directed 'surviving banks' to immediately appoint lead registrars for their merged entities.

Also, the monthly issuance of the 3rd FGN bonds lasted throughout the quarter under review. The Federal Government between January and June 2006 would, through the bonds, raise a total of N155 billion.

In the quarter under review, Nigeria's foreign debt and external reserves began an inverse relationship trend, such that as the former was decreasing, the later was recording significant accretion, monthly.

SECTORIAL OVERVIEW

Pensions

During the first quarter 2005, some milestones were recorded in respect of the actualization of the new contributory pension scheme envisaged by Pension Reform Act 2004. Specifically, Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs) and a Closed Pension Fund Administrator (CPFA) that were issued Approval-in-Principle (AIP) by the National Pension Commission (PenCom),

were each presented with a license. On the occasion on February 20, 2005, this first set of operators in the pension industry under the Act, comprising 12 PFAs, 4PFCs and a CPFA, received their licenses. The PFAs include: IBTC Pension Managers Limited, Premium Pension Limited, Pensure PFA Limited, Sigma Vaughn Sterling Pension Limited, Pension Alliance Limited, ARM Pension Managers Limited and First Alliance Pension & Benefits Limited. Others are: Trustfund Pensions Plc, First Guarantee Pension Limited, Legacy Pension Managers Limited, NLPC Pension Fund Administrators Limited and Crusader Pensions Limited.

The PFCs include: Zenith Pension Custodian Limited, UBA Pension Custodian Limited, First Custodian Nigeria Limited and Diamond Pension Fund Custodian Limited. The Shell Nigeria Closed Pension Fund Administrator is the only CPFA. The licensing of the pension industry operators is however ongoing, according to Mohammed K. Ahmad, the Director-General, PenCom, in his remarks at the license presentation ceremony. To qualify for licensing, each of the PFAs was registered as a limited liability company with a minimum paid up capital of N150 million. Similarly, each of the PFCs was registered as a limited liability company and licensed as a financial institution, with a minimum net-worth of N5billion and a balance sheet of not below N125 billion. By the close of the first quarter, most of the operators licensed had set up structures and commenced operations in various parts of the country.

Some of the core objectives of the Pension Reform Act 2004 are to:

1. Ensure that every person who has worked in either the public or private sector receives his retirement benefits as and when due;

2. Assist improvident individuals by ensuring that they save to cater for their livelihood during old age;

3. Establish a uniform set of rules and regulations for the administration and payment of retirement benefits in both the public and private sectors; and

4. Stem the growth of outstanding pension liabilities.

FOREIGN DEBT/FOREIGN RESERVE

In the quarter under review, Nigeria's foreign debt and external reserves began an inverse relationship trend, such that as the former was decreasing, the later was

recording significant accretion, monthly. Towards the consummation of the debt treatment agreed between Nigeria and members of the Paris Club (PC) of Creditors, the country worked hard on the Policy Support Instrument (PSI) all through the first quarter—a step that culminated into her debt exit plan being endorsed by all individual members of the (PC). Under the IMF-supported PSI, at the completion of the debt deal between Nigeria and the PC, the country's total external debt stock has now dropped to about $5billion.

The country's gross external reserve maintained its growth streak all through the quarter under review, rising from $28.28billion at end-December 2005 to $31.33billion in January 2006. It further rose to $43.32billion by end-February 2006, hitting $36billion by the end of the quarter. This sustained significant growth in the reserves is attributable to the phenomenal rise in the prices of crude oil in the international market. By the close of the quarter, the price of Nigeria's crude had climbed to over $65 per barrel, almost double the $35 per barrel benchmark for the 2006 budget. Although the country experienced drop in the volume of oil production due to militant youths' disturbances in the Niger Delta, the rise in the price of oil made up the shortfall in the volume of production.

BANKING SECTOR

The first quarter 2006, for the banking sector, was studded with fallouts and upshots of the first phase of the consolidation in the industry which closed December 31, 2005. On January 2, 2006, the Central Bank of Nigeria announced the names of 25 banks that met the N25 billion minimum capital. These 25 emerged from 75 out of the 89 banks that existed as at the take-off of the consolidation on July 4, 2004; 14 could not recapitalize and have been put up for liquidation. However, some of the emerging 25 banks have entered into negotiations with the CBN with the view to "cherry picking" or acquiring the assets and liabilities of a few of those facing liquidation. It was this trend that saw Diamond Bank take up African International Bank while ECOBANK Plc assumed responsibility for the assets and liabilities of All States Trust Bank.

This sustained significant growth in the reserves is attributable to the phenomenal rise in the prices of crude oil in the international market.

Basis of Allotment For the 2nd & 3rd Series FGN Bond 2009 & 2011

These are however seen in some quarters as aspects of market-induced second phase of consolidation in the banking industry. Other aspects of the new trend include the quest by a number of banks to meet the CBN's requirements to join others in the management of Nigeria's external reserves. Towards this end, Zenith Bank, during the quarter under review, consummated a memorandum of understanding (MoU) with JP Morgan Chase. Other leading banks that are known to be pursuing similar deals with some Nigerian banks include Goldman Sachs, UBS, HSBC, CitiBank, Merrill Lynch and Standard Bank of UK. On the whole, about five Nigerian banks have already signed Joint Venture Agreements with foreign fund managers/banks. All these alliances and alignments are aimed at qualifying as global custodians for Nigeria's foreign reserves and by so doing, propping a number of Nigerian banks to world class stature through mutually beneficial 'mentoring'.

During the first quarter, the CBN released its Code of Corporate Governance for banks, with a highlight that government's direct and indirect equity holding in any bank shall not exceed 10 per cent by the end of 2007. It maintains that any equity holding above the stipulated 10 per cent by any investor shall be subject to the CBN's prior approval. Another highlight of the Code is the abolition of the head of the board also acting as head of management, and the combination of the post of chairman and chief executive officer of any bank. The Code does not recognize the post of executive vice-chairman. Also, two members of the same extended family should not occupy the position of executive directors of a bank at the same time.

SOVEREIGN RATING

The sovereign credit rating by two reputable agencies, almost contemporaneously, early in the first quarter 2006, was both a heartening gauge and boost to the Nigerian economy. First, Fitch Ratings assigned Nigeria long-term

Total External Debt Outstanding in US$ millions

CREDITOR CATEGORY	Quarter 3 2004*	Quarter 2 2005	Quarter 3 2005
Multilateral	2,821.6	2,546.06	2,548.26
Paris Club	20,910.33	29,184.74	30,872.34
Non-Paris Club Bilateral	47.5	46.25	71.58
London Club	1,441.79	1,441.79	1,441.79
Promissory Notes	815.38	717.38	683.79
Total	35,836.58	34,238.36	34,823.77

[illegible]
*[illegible]

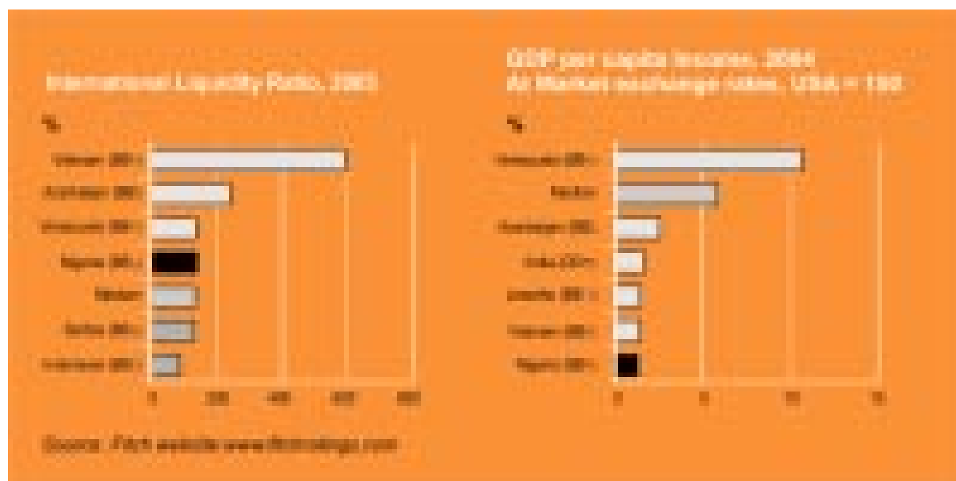
foreign and local currency default ratings of BB- (BB minus), both with stable outlook. It also assigned a 'BB' rating to Nigeria's Par Bond maturing in 2020 and a country ceiling of BB- (BB minus). Similarly, Standard & Poor's (S & P) assigned long-term Nigerian debt in foreign currency a rating of BB- (BB minus).

According to the two agencies, Nigeria's ratings were underpinned by the current Government's commitment to economic reforms, including measures to improve governance, tackle corruption, accelerate privatization and rationalize the banking system. Both Fitch and S & P noted that the establishment of an oil-based fiscal rule whereby all oil proceeds above a reference price (of $35 per barrel for 2006) are deposited into an Excess Revenue Account at the Central Bank of Nigeria and the Fiscal Responsibility Bill already submitted to the National Assembly, represent an important strengthening of the macroeconomic policy framework. Both agencies further noted that the current administration's reform programme is also supported by International Financial Institutions (IFIs), including the IMF under a Policy Support Instrument (PSI) arrangement. This enabled the Government to reach an agreement on resolution of outstanding debt obligations with the Paris Club members in October 2005. Said Fitch: "the current administration's ambitious reform programme and regularization of relations with the Paris Club of Creditors mark an important step in Nigeria's rehabilitation with the international financial community"

The ratings by Fitch and Standard & Poor's, although below 'investment levels' are a significant milestone in the annals of the country's economic development. Interestingly, the country was rated at par in several respects with such emerging economies as Brazil, Venezuela, Turkey, Ukraine and Vietnam—all otherwise perceived to be better than Nigeria. This implies a leap in Nigeria's business-worthiness; attracting more Foreign Direct and portfolio investments as well as better consideration by creditor and trading nations. All these also pose high responsibility on Nigeria, namely the challenge of sustaining or even surpassing the current rating.

AGRICULTURE

The high tempo of activities in the agricultural sector all through 2005 was sustained in the first quarter 2006 through various initiatives. At both the Bankers' Committee and Stakeholders' Meeting on Financing of Agriculture held in February, it was agreed that interest rate on credit to the agricultural sector be reduced/subsidized. Sequel to this, a Presidential tax waiver was gotten for interest earnings from agricultural loans in 2006 fiscal year. In addition, the CBN would subsidize the 14 per cent approved interest rate for agricultural loans by six per cent and the beneficiaries would pay the balance of eight per cent. This is aimed at encouraging banks to redouble their efforts at lending to the agricultural sector to enable the Federal Government achieve the target growth rate of 10 per cent for the economy for 2006.



has been set up for this purpose. The Institute, established in 1952 during the colonial era, was used for the in-house training of the Mines Department of the School of Mines and later got upgraded.

Sequel to the revalidation exercise carried out by the Ministry late last year, the Federal Government early this year approved some 1,450 mining licenses, leases and permits out of a total of about 4,000 approvals that had existed in the books of the Ministry. A breakdown of this total showed that entry permits were 236; prospecting rights 58; exclusive prospecting licenses 24; mining leases 116; quarrying leases 260; and quarrying licenses 843. A further breakdown shows that about 10 per cent of the holders of mining titles are in the real mining sector. Also, in its determination to remain an administrator-regulator, the Ministry in the quarter under review, commenced the divestment of its stakes in certain parastatals. It has therefore called for the "expression of interest as investors" in bitumen blocks in Ondo and Ogun States. The Ministry has also in conjunction with the Bureau of Public Enterprises, called for similar interest in its coal properties located in Enugu, Kogi, Benue and Delta states.

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

On its part, the Nigerian Agricultural Co-operative and Rural Development Bank is to disburse N7billion for agricultural development programmes this year, according to the chief executive officer, Alhaji Bubale Gurei. This is in line with Government's initiatives to ensure food security and produce extra for exports. Thus, the Presidential initiatives on rice production, processing and export; cassava production and export; livestock development and cocoa development are being vigorously pursued. There are also the vegetable oil development programme, the root and tuber expansion programme as well as the fertilizer stabilization programme, etc.

External Debt Service Payments in US$ million

CREDITORS	Quarter 3 2004	Quarter 2 2005	Quarter 3 2005
Multilateral	136.84	105.91	118.88
Paris Club	390.64	259.46	0.00
London Club	0.01	98.12	0.01
Promissory Notes	42.72	55.42	42.71
Non-Paris Club Bilateral	5.41	5.17	4.87
Others	0.00	0.04	0.02
Total	581.42	556.73	212.49

Source: Debt Management Office

SOLID MINERALS

The implementation of the multi-faceted programmes of the Federal Ministry of Solid Minerals Development aimed at restoring the sector to a pride of place in Nigeria's economic development, began during the first quarter 2006. The mineral and mining policy that would drive the development of the sector was approved; the policy makes the private sector to take the centre-stage as operators and managers. Government remains only the regulator/administrator. Under the new policy, states and local governments should hands-off completely the issuance of permits to miners and to establish 'states environmental committees' to monitor and assist investors. The new policy also places emphasis on 'global best practices' and high environmental standards.

The Ministry of Solid Minerals Development has also commenced the resuscitation the National Institute of Mining and Geology in Jos, for the training of more functional high caliber manpower. An inter-ministerial panel

CODE OF CORPORATE GOVERNANCE
FOR BANKS IN NIGERIA POST CONSOLIDATION
(Effective Date: April 3, 2006)

PART I: NEED FOR A NEW CODE OF CORPORATE GOVERNANCE

1.0 **Introduction**

1.1 Financial scandals around the world and the recent collapse of major corporate institutions in the USA and Europe have brought to the fore, once again, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders.

1.2 For the financial industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement system and the implementation of monetary policy.

> If consolidation should fail to achieve transparency through diversification in bank ownership, the pervasive influence of family and related party affiliations may continue, resulting in huge levels of insiderabuses and connected lendings.

1.3 In Nigeria, a survey, by the Securities and Exchange Commission (SEC) reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place. Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institution's distress in the country.

1.4 Yet, the on-going industry consolidation is likely to pose additional corporate governance challenges arising from integration of processes, IT and culture. Research had shown that two-thirds of mergers, world-wide, fail due to inability to integrate personnel and systems as well as due to irreconcilable differences in corporate culture and management, resulting in Board and Management squabbles. In addition, the emergence of mega banks in the post consolidation era is bound to task the skills and competencies of Boards and Managements in improving shareholder values and balance same against other stakeholder interests in a competitive environment. A well-defined code of corporate governance practices should help organizations overcome such difficulties.

1.5 Since 2003 when the Nigerian Securities and Exchange Commission released a Code of Best Practices on Corporate Governance for public quoted companies, the relevant banks had been expected to comply with its provisions. This was in addition to a Code of Corporate Governance for Banks and Other Financial Institutions approved earlier in the same year by the Bankers' Committee.

1.6 The consolidation of the banking industry, however, necessitated a review of the existing code for the Nigerian Banks. This new code therefore was developed to compliment the earlier ones and enhance their effectiveness for the Nigeria n banking industry.

1.7 Compliance with the provisions of this Code is mandatory.

2.0 **Weaknesses in Corporate Governance of Banks in Nigeria**

2.1 Disagreements between Board and Management giving rise to Board squabbles.

2.2 Ineffective Board oversight functions.

2.3 Fraudulent and self-serving practices among members of the board, management and staff.

2.4 Overbearing influence of chairman or MD/CEO, especially in family-controlled banks.

2.5 Weak internal controls.

2.6 Non-compliance with laid-down internal controls and operation procedures.

2.7 Ignorance of and non-compliance with rules, laws and

regulations guiding banking business.

2.8 Passive shareholders.

2.9 Poor risk management practices resulting in large quantum of non-performing credits including insider-related credits.

2.10 Abuses in lending, including lending in excess of single obligor limit.

2.11 Sit-tight Directors – even where such directors fail to make meaningful contributions to the growth and development of the bank.

2.12 Succumbing to pressure from other stakeholders e.g. shareholder's appetite for high dividend and depositors quest for high interest on deposits.

2.13 Technical incompetence, poor leadership and administrative ability.

2.14 Inability to plan and respond to changing business circumstances.

2.15 Ineffective management information system.

3.0 Challenges of Corporate Governance for Banks Post Consolidation

3.1 Technical Incompetence of Board and Management: In view of the greatly enhanced resources of the consolidated entities, Board members may lack the requisite skills and competencies to effectively redefine, restrategize, restructure, expand and/or refocus the enlarged entities in the areas of change of corporate identities, new business acquisitions, branch consolidation, expansion and product development.

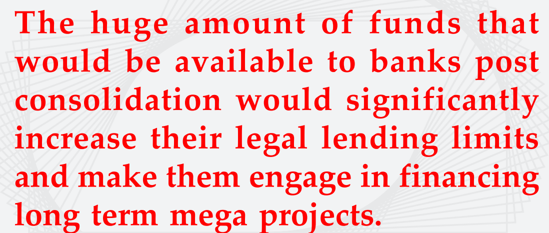
3.2 **Relationships among Directors**: Boardroom squabbles could be an issue due to different business cultures and high ownership concentration especially in banks that were formerly family or "one-man" entities. The dominance of a "key man" could also emerge with the attendant problems.

3.3 **Relationship between Management and Staff**: Squabbles arising from knowledge gaps, harmonization of roles and salary structure could also manifest among staff and management of consolidating banks with the potential to create unhealthy competition and a counter-productive working environment.

3.4 **Increased Levels of Risks:** Currently, very few banks have a robust risk management system in place. With the huge amount of funds that will be available to them and the significantly increased legal lending limits, banks will be financing more long-term mega projects in the real sectors of the economy as opposed to the existing working capital/trade financing. Given the expected significant increase in the level of operations, the banks will be facing various kinds of risks which, if not well managed, will result in significant losses. The management of risks in a transparent and ethical way will thus present some issues bordering on corporate governance.

3.5 **Ineffective Integration of Entities:** Banks that would have completed the process of merging might continue to operate independently rather than as a single entity. For example, an investment bank's merger with a retail bank in which the MD of the investment bank continues to manage his arm of the business and the MD of the retail bank does the same and the operating results of the two entities are then consolidated for reporting purposes.

3.6 **Poor Integration and Development of Information Technology Systems, Accounting Systems and Records:** Banks with different IT systems (banking application, database platform, operating systems, human resource applications, hardware, server configuration, and network and telecommunication infrastructure) as well as different accounting systems and records will have to fuse and



this could pose problems if not well managed. There will also be increased use of technology to power the consolidated business and this too will have to be well managed to ensure efficient operations and quality service delivery.

3.7 **Inadequate Management Capacity:** Directors and Managers will be running a much larger organization and controlling a significantly higher level of resources. Adequate management capacity is needed to efficiently and profitably run a larger organization.

3.8 **Resurgence of High Level Malpractices:** To boost income as a result of intense competition and lack of enough viable projects, malpractices may resurface post consolidation. Such sharp practices could include round-tripping of forex, excessive customer charges, falsification of records etc., and adoption of unethical methods to poach

customers.

3.9 **Insider-Related Lending:** If consolidation should fail to achieve transparency through diversification in bank ownership, the pervasive influence of family and related party affiliations may continue, resulting in huge levels of insiderabuses and connected lendings.

3.10 **Rendition of False Returns:** Similarly, rendition of false returns to the regulatory authorities and concealment of information from Examiners to prevent timely detection of unhealthy situations in the banks may continue as a result of lack of transparency and pressure to boost income.

3.11 **Continued Concealment:** Continued concealment of material issues discovered by banks during their premerger duediligence will also compromise good corporate governance.

3.12 **Ineffective Board/Statutory Audit Committee:** The audit committee, which comprises both directors and shareholders who are not board directors, may be composed of people who are not knowledgeable in accounting and financial matters thus rendering the committee less effective.

3.13 **Inadequate Operational and Financial Controls:** There might be absence of such controls to cater for the increased size and complexity of operations.

3.14 **Absence of a Robust Risk Management System:** The huge amount of funds that would be available to banks post consolidation would significantly increase their legal lending limits and make them engage in financing long term mega projects. The management of the attendant risks in a transparent and ethical manner would require, as part of sound practices, the institutionalization of a robust risk management system.

3.15 **Disposal of Surplus Assets:** After consolidation, some branches of banks that are closely located may be sold to insiders at below market price. Other surplus assets may also be similarly sold. Fixed assets may also be sold indiscriminately and the profit from the sale used to boost profits with the intention of covering operational losses and inefficiencies.

3.16 **Transparency and Adequate Disclosure of Information:** These are key attributes of good corporate governance which the merged banks must cultivate with new zeal in order to provide stakeholders with the necessary information to judge whether their interests are being taken care of. Currently there are many deficiencies in the information disclosed, particularly in the area of risk management strategies, risk concentration, performance measures etc. These shortcomings will need to be addressed.

PART II: CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE

4.0 Principles and Practices that Promote Good Corporate Governance

4.1 The establishment of strategic objectives and a set of corporate values, clear lines of responsibility and accountability.

4.2 Installation of a committed and focused Board of Directors which will exercise its oversight functions with a high degree of independence from management and individual shareholders .

4.3 A proactive and committed management team.

4.4 There should be adequate procedures to reasonably manage inevitable disagreements between the Board, Management and staff of the bank.

4.5 The Board should meet regularly at a minimum of four (4) regular meetings in a financial year. There should also be adequate advance notice for all Board meetings as specified in the Memorandum and Article of Association.

4.6 The Board should have full and effective oversight on the bank and monitor its executive management.

4.7 There is a well-defined and acceptable division of responsibilities among various cadres within the structure of the organization.

4.8 There is balance of power and authority so that no individual or coalition of individuals has unfettered powers of decision making.

4.9 The Articles of Association should clearly specify those matters that are exclusively the rights of the Board to approve apart from those for notification.

4.10 The number of non-executive directors should exceed that of executive directors.

4.11 All Directors should be knowledgeable in business and financial matters and also possess the requisite experience.

4.12 There should be a definite management succession plan.

4.13 Shareholders need to be responsive, responsible and

Institutions should be headed by an effective Board composed of qualified individuals that are conversant with its oversight functions.

enlightened.
4.14 Culture of compliance with rules and regulations.
4.15 Effective and efficient Audit Committee of the Board.
4.16 External and internal auditors of high integrity, independence and competence.
4.17 Internal monitoring and enforcement of a well articulated code of conduct/ethics for Directors, Management and staff.
4.18 Regular management reporting and monitoring system.

5.0 **Code of Corporate Governance Practices for Banks Post Consolidation**

5.1 **Equity Ownership**

5.1.1 Preamble: The current practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as governments in the management of banks. However, to encourage a private sector-led economy, holdings by individuals and corporate bodies in banks should be more than that of governments. It is also recognized that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Such arrangements should be encouraged.
5.1.2 Government direct and indirect equity holding in any bank shall be limited to 10% by end of 2007.
5.1.3 An equity holding of above 10% by any investor is subject to CBN's prior approval.
5.2 Organizational Structure
5.2.0 Executive Duality
5.2.1 The responsibilities of the head of the Board, that is the Chairman, should be clearly separated from that of the head of Management, i.e. MD/CEO, such that no one individual/related party has unfettered powers of decision making by occupying the two positions at the same time.
5.2.2 No one person should combine the post of Chairman/Chief Executive Officer of any bank. For the avoidance of doubt, also no executive vice-chairman is recognized in the structure.
5.2.3 No two members of the same extended family1 should occupy the position of Chairman and that of Chief Executive Officer or Executive Director of a bank at the same time.

5.3 **Quality of Board Membership**

5.3.1 Institutions should be headed by an effective Board composed of qualified individuals that are conversant with its oversight functions.
5.3.2 Existing CBN guidelines on appointment to the board of financial institutions should continue to be observed. Only people of proven integrity and who are knowledgeable in business and financial matters should be on the Board.
5.3.3 Regular training and education of board members on issues pertaining to their oversight functions should be institutionalized and budgeted for annually by banks.
The term 'extended family' here refers to the members of a nuclear family comprising the husband, wife and their siblings plus (+) parents and brothers/sisters of both the husband and the wife.
5.3.4 The Board should have the latitude to hire independent consultants to advise it on certain issues and the cost borne by the banks.
5.3.5 The number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors.
5.3.6 At least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank) appointed by the bank on merit .
5.3.7 A committee of non-executive directors should determine the remuneration of executive directors.
5.3.8 There should be strict adherence to the existing Code of Conduct for bank directors, failing which the regulatory authorities would impose appropriate sanctions including removal of the erring director from the board.
5.3.9 Non-executive directors' remuneration should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses.
5.3.10 In order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years each, i.e. 12 years.
5.3.11 Banks should have clear succession plans for their top executives.
5.3.12 There should be, as a minimum, the following board committees – Risk Management Committee, Audit Committee, and the Credit Committee.
5.3.13 The practice of the Board Chairman serving simultaneously as chairman/member of any of the board committees is against the concept of independence and sound corporate governance practice, and should be discontinued.

5.4 **Board Performance Appraisal**

5.4.1 **Preamble**: While adherence to corporate governance principles is recognized as necessary for successful performance of Boards, it is often not a sufficient condition.

Hence, the need for Board performance reviews or appraisals as a new concept to ensure successful or exceptional performance.

5.4.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.

5.4.3 Boards should determine the skills, knowledge and experience that members require to achieve those objectives.

5.4.4 A Board should work effectively as a team towards those strategic objectives.

5.4.5 There should be annual Board and Directors' review/ appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies and respective roles in the Board's performance.

5.4.6 The review should be carried out by an outside consultant.

5.4.7 The review report is to be presented at the AGM and a copy sent to the CBN.

5.5 **Quality of Management**

5.5.1 Appointments to top management positions should be based on merit rather than some other considerations.

5.5.2 Existing guidelines on appointments to top management of banks should continue to be observed.

5.5.3 Track record of appointees should be an additional eligibility requirement. Such records should cover both integrity ('fit and proper' as revealed by the CBN 'blackbook', CRMS etc) and past performance (visible achievements in previous place(s) of work).

5.6 **Reporting Relationship**

5.6.1 Officers should be held accountable for duties and responsibilities attached to their respective offices.

5.6.2 The structure of any bank should reflect clearly defined and acceptable lines of responsibility and hierarchy.

6.0 **Industry Transparency, Due Process, Data Integrity and Disclosure Requirements**

6.1.1 The above are core attributes of sound corporate governance practices that are essential to installing stakeholder confidence.

6.1.2 Where board directors and companies/entities/persons related to them are engaged as service providers or suppliers to the bank, full disclosure of such interests should be made to the CBN.

6.1.3 Chief Executive Officers and Chief Finance Officers of banks should continue to certify in each statutory return submitted to the CBN that they (the signing officers) have reviewed the reports, and that based on their knowledge:

- The report does not contain any untrue statement of a material fact.
- The financial statements and other financial in formation in the report, fairly represent, in all ma terial respects the financial condition and results of operations of the bank as of, and for the periods presented in the report.

6.1.4 False rendition to CBN shall attract very stiff sanction of fine plus suspension of the CEO for six months in the first instance and removal and blacklisting in the second. In addition, the erring staff would be referred to the relevant professional body for disciplinary action.

6.1.5 There should be due process in all the procedures of banks.

6.1.6 All insider credit applications pertaining to directors and top management staff (i.e. AGM and above) and parties related to them, irrespective of size, should be sent for consideration/approval to the Board Credit Committee.

6.1.7 The Board Credit Committee should have neither the Chairman of the Board nor the MD as its chairman.

There should be annual Board and Directors' review/appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies and respective roles in the Board's performance.

6.1.8 Any director whose facility or that of his/her related interests remains non-performing for more than one year should cease to be on the board of the bank and could be blacklisted from sitting on the board of any other bank.

6.1.9 The Board Credit Committee should be composed of members knowledgeable in credit analysis.

6.1.10 The practice/use of Anticipatory Approvals by Board Committees should be limited strictly to emergency cases only and ratified within one month at the next committee meeting.

6.1.11 Banks' Chief Compliance Officers (CCO) should, in addition to monitoring compliance with money laundering requirements, monitor the implementation of the corporate governance code.

6.1.12 Banks should also establish 'whistle blowing' proce-

dures that encourage(including by assurance of confidentiality) all stakeholders (staff, customers, suppliers, applicants etc) to report any unethical activity/breach of the corporate governance code using, among others, a special email or hotline to both the bank and the CBN.
6.1.13 The CCO shall make monthly returns to the CBN on all whistle blowing reports and corporate governance related breaches.
6.1.14 The CCO together with the CEO of each bank should certify each year to the CBN that they are not (apart from 6.1.14) aware of any other violation of the Corporate Governance Code.
6.1.15 The corporate governance compliance status report should be included in the audited financial statements.

Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.

7.0 **Risk Management**
7.1.1 The Board/Board Risk Management Committee should establish policies on risk oversight and management.
7.1.2 Banks should put in place a risk management framework including a risk management unit that should be headed by a Senior Executive, in line with the directive of the Board Risk Management Committee.
7.1.3 The internal control system should be documented and designed to achieve efficiency and effectiveness of operations; reliability of financial reporting, and compliance with applicable laws and regulations at all levels of the bank.
7.1.4 External auditors should render reports to the CBN on banks' risk management practices, internal controls and level of compliance with regulatory directives.

8.0 **Role of Auditors**
8.1.0 Internal Auditors
8.1.1 Internal auditors should be largely independent, highly competent and people of integrity.
8.1.2 The Head of Internal Audit should not be below the rank of AGM and should be a member of a relevant professional body.
8.1.3 He should report directly to the Board Audit Committee but forward a copy of the report to the MD/CEO of the bank. Quarterly reports of audit must be made to the Audit Committee, and made available to examiners on field visits.
8.1.4 Members of the Board Audit Committee should be nonexecutive directors and ordinary shareholders appointed at AGM and some of them should be knowledgeable in internal control processes. One of such appointed ordinary shareholders should serve as the Chairman of the Committee.
8.1.5 The Audit Committee will be responsible for the review of the integrity of the bank's financial reporting and oversee the independence and objectivity of the external auditors.
8.1.6 The Committee should have access to external auditors to seek for explanations and additional information without management presence.
8.1.7 Internal Audit Unit should be adequately staffed.
8.2.0 External Auditors
8.2.1 External auditors should maintain arms-length relationship with the banks they audit.
8.2.2 Appointment of External Auditors will continue to be approved by the CBN.
8.2.3 The tenure of the auditors in a given bank shall be for a maximum period of ten years after which the audit firm shall not be reappointed in the bank until after a period of another ten years.
8.2.4. A bank's external auditors should not provide the following services to their clients:

1. Bookkeeping or other services related to the ac counting records or financial statements of the audit client;
2. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
3. Actuarial services;
4. Internal audit outsourcing services;
5. Management or human resource functions includ ing broker or dealer, investment banking services a n d legal or expert services unrelated to the audit contract.

8.2.5 Quality assurance auditing should be engaged when ever the CBN suspects a cover-up by auditors, and where proved, erring firms would be blacklisted from being auditors of banks and other financial institutions for a length of time to be determined by the CBN.
8.2.6 An audit firm would not provide audit services to a bank if one of bank's top officials (Directors, CFO, and CAO etc) was employed by the firm and worked on the bank's audit during the previous year.

Nigeria's Competitiveness in the Global Economy

[1] Temitope W. Oshikoya

Introduction

International media attention has focused in recent years on the globalization of the world economy with the integration of national economies through product, capital, and labour markets as well as the development and diffusion of information technology. At the same time, national media attention has also focused in recent months on the pace of economic and financial sector reforms in Nigeria and the emergence of mega banks and conglomerate such as Trans-Corp, which are preparing to compete in the regional African economy and the global economy. This is significant as Nigeria has no single transnational company in the UNCTAD database of emerging markets transnational companies. On the other hand, companies from South Africa, Brazil, South Korea, India and China dominate the list of the largest 50 multinational companies from the developing countries.

In the past five years, the pace of economic liberalization and financial sector reforms in Nigeria has accelerated. While Nigeria successfully concluded a debt forgiveness agreement with the Paris Club, the country has also been rated by leading credit rat-

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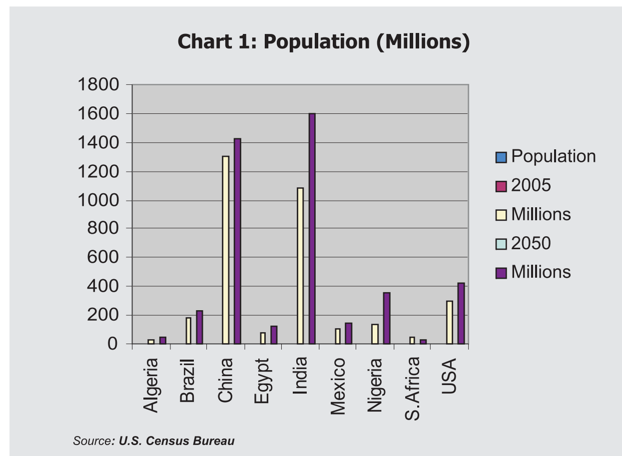
ing agencies. In 2005, the International Monetary Fund (IMF) also approved a two-year Policy Support Instrument (PSI) for Nigeria under the IMF's newly created PSI framework, which is intended to support the nation's economic reform efforts. The satisfactory review of the benchmarks for the PSI has paved the way for the clearance of the debt to the Paris Club in April 2006 (IMF, 2006).

This paper provides a perspective on Nigeria's competitiveness in the global economy. While Nigeria is often referred to as the giant of Africa, the country's competitiveness can be benchmarked against three countries on the continent—South Africa, Algeria and Egypt; and four countries outside Africa: Brazil, China, India, and Mexico that are large emerging economies in their respective regions.



Recent Performance of the Nigerian Economy

In the previous three decades, poor economic policies, corruption, and the high costs of doing business have combined to keep Nigeria's competitive potential virtually untapped. In the 1990s, annual GDP growth rate averaged less than 3 percent, compared to more than 10 percent among the fastest growing economies in Asia. With population growth rate of 2.8 percent, annual per capita GDP growth rate was stagnant in the 1990s. As a result, by 2000 per capita income was 20 percent lower than in 1975 even though the country earned more than $300 billion from oil exports since the mid-1970s (National Planning Commission, NPC, 2004).

Since Nigeria's return to democracy in 1999, the Government has undertaken a wide range of economic and structural reforms, underpinned by the National Economic Empowerment and Development Strategy (NEEDS), which have started improving economic performance. In 2005, the real GDP growth is estimated at 6.9 percent, with non-oil GDP growth at 8.2 percent (Table 1). During 2001-2005, real GDP growth rate averaged 5.6 percent per annum compared to 2.7 percent in the previous five years (1997-2001). Higher economic growth benefited from the improved macroeconomic environment, higher oil export receipts and policy initiatives to spur agricultural production. Investment rate has averaged slightly more than a fifth of GDP in the past three years, while savings rate is now approaching a third of GDP. Fiscal deficits have been declining since 2003 reflecting prudent monetary and fiscal stance and increased oil export revenue. The government has been implementing a conservative oil price-based fiscal rule, resulting in large overall budget surpluses projected at 18 percent of GDP, and a significant build-up in foreign reserves, projected to reach almost $50 billion or 14 months of imports by end-2006.

Nigeria's economy reflects a dichotomy between the oil and non-oil producing sectors. Nigeria is the 8th oil producer and the 6th country with the largest reserve of natural gas in the world. Due in part to rising prices of oil, the country's dominant and major exports earnings, Nigeria's nominal GDP has more than double from $45 billion in 2000 to $100 billion in 2005. Within the non-oil sector, agriculture remains the mainstay of the economy contributing the largest share of non-oil GDP, serving as a major source of employment, and occupying a pivotal role in poverty alleviation efforts.

The services sector in particular has benefited from economic reforms and liberalization. The financial and telecommunication services are two of the rapidly growing sectors of the

Table 1 - Nigeria: Macroeconomic Indicators, 1997-2006

Indicators	1997-2001	2000	2001	2002	2003	2004	2005	2006
1. Real GDP Growth Rate	2.7	5.4	3.1	1.5	10.9	6.1	6.9	6.2
2 . Real Non-Oil GDP Growth Rate	3.9	2.6	3.7	8.0	4.6	7.4	8.2	7.0
3. Real Per Capita GDP Growth Rate	-0.1	2.9	0.7	-1.2	7.7	3.2	4.3	3.6
4. Inflation (%)	10.2	6.9	18.9	13.7	14.0	15.0	17.9	9.4
5. Investment Ratio (% of GDP)	23.1	20.3	24.1	26.2	23.9	22.4	20.9	21.1
6. Fiscal Balance (% of GDP)	-2.8	5.9	-4.9	-4.2	-1.3	7.7	9.9	17.5
7. Growth of Money Supply (%)	29.3	48.1	27.0	21.6	24.1	14.0	16.5	17.0
8. Export Growth, volume (%)	2.4	19.4	-4.7	-11.8	33.2	3.6	-1.1	2.5
9. Import Growth, volume (%)	8.4	-2.7	10.7	25.6	11.5	1.6	25.5	17.1
10. Terms of Trade (%)	10.9	53.2	-10.4	-0.5	2.5	20.5	37.8	8.9
11. Trade Balance (% of GDP)	15.8	30.3	18.9	8.7	17.5	26.9	32.8	33.1
12. Current Account ($ billion)	0.6	5.4	2.2	-5.4	-1.6	3.3	12.4	16.5
13. Current Account (% of GDP)	0.8	11.7	4.5	-11.7	-2.7	4.9	14.7	18.4
14. Debt Service (% of Exports)	10.7	6.9	10.3	5.9	6.7	4.9	17.0	2.0
15. Domestic Saving (% of GDP)	29.8	32.0	28.6	25.3	32.1	39.5	42.1	41.6
16. Reserves in months of imports	6.8	8.6	7.8	4.6	3.6	7.6	10.1	14.3

Source: ADB Statistics Division and IMF

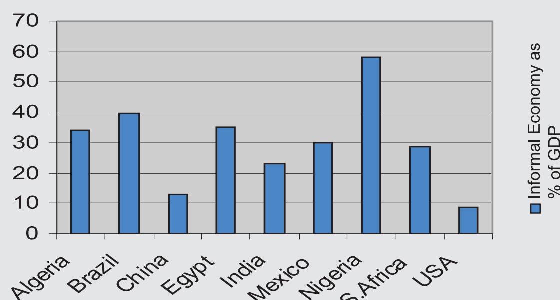
economy. In the past five years, Nigeria has been one of the fastest growing cellular telecom sectors in the world with 18 million subscriber base (13 percent of the population) from less than 500,000 (about 0.4 percent of the population) in 2001. Nigeria's financial sector has also undergone major restructuring in the past two years with the number of banks reduced from 89 to 25 and minimum capital requirements increased ten-fold.

Competitiveness of the Nigerian Economy

Relative Economic Position: Nigeria's competitive position in the global economy can be viewed through a comparative analysis with other key developing countries (peer group), which include 3 countries in Africa—Algeria, Egypt, and South Africa; 2 countries in Asia—China and India; and 2 Countries in Latin America—Brazil and Mexico.

Among sub-Saharan African countries, Nigeria and South Africa have strong potentials to become more competitive in harnessing the opportunities that the global economy could provide. Both countries account for 55 percent of the region's GDP and a quarter of total population. Their dominance is even more pronounced at the sub-regional levels. South Africa accounts for 80 percent of the total output in Southern Africa (ADB, 2005). Within its immediate sub-region, Nigeria is one of 15 countries in West Africa that make up the Economic Community of West African States (ECOWAS). The ECOWAS is dominated by Nigeria, which accounts for half of its population and 60 percent of its output. Nigeria is the second largest

Chart 2: Nigeria's Economy Remains Largely Informal



Source: ***World Bank, Doing Business Report, 2005***

by almost two and a half fold in the next 4 decades (Chart 1). Nigeria's population estimated at 135 million people, which currently accounts for about 2 percent of the world's total population, is projected to more than double to 5 percent of the world's total by 2050. Its population currently ranks among the ten largest in the world at 9th place in 2005. Among its peers, China, India, and Brazil rank first, second, and fifth in the world, while Egypt, South Africa, and Algeria rank 15th, 27th, and 37th. However, because Nigeria's population is relatively young and the fastest growing among its peers (2.4 percent as against an average of 1.2 percent), it is projected to reach 356 million by 2050, placing the country as the 4th largest in the world behind India, China, and the United States respectively (U.S. Census Bureau, 2006). By 2050, Nigeria's population would be more than 10 times that of South Africa and would be more than the combined population of Algeria, Egypt,

Table 2: Nigerian Economy in the Global Context

GDP 2005	Algeria	Brazil	China	Egypt	India	Mexico	Nigeria	S. Africa	USA
Nominal GDP ($ billions)	102	792	2225	93	775	768	99	240	12485
GDP ($ billions PPP)	237	1577	9412	305	3633	1072	175	570	12277
% of World GDP (PPP)	0.39	2.58	15.4	0.188	5.95	1.75	0.28	0.93	20.1
Informal Economy as % of GDP	34.1	39.8	13.1	35.1	23.1	30.1	57.9	28.4	8.8
Annual Real GDP Growth (1995-2004)	4	2	8	5	6	4	4	3	3
GDP Per Capita ($)	3086	4315	1703	1315	714	7297	678	5100	42101
GDP Per Capita ($ PPP)	7189	8584	7204	4316	3344	10185	1188	12159	41399

Sources: IMF, World Economic Outlook Database, April, 2006, World Bank, Doing Business Report, 2005

economy in Sub-Saharan Africa after South Africa; and the third largest in continental Africa after Algeria. In 2005, Nigeria's economy surpassed that of Egypt, which is now the 4th largest in Africa.

In terms of population, Nigeria has a large pool of potential consumers and workers that is projected to increase

Mexico and South Africa. Today, Nigeria's population is about 45% of the population of the USA. By 2050, Nigeria's population will be more than the current population of the USA.

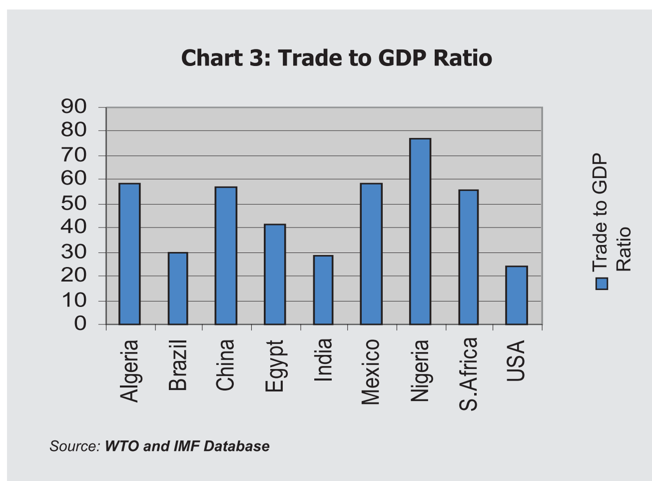
Nigeria's large pool of potential consumers has not been fully tapped as per capita income remains low. In

2005, Nigeria's nominal per capita income stood at US$ 678 more than double the level of $300 in 1999. In spite of a doubling of per capita income in the seven years, Nigeria's per capita income is still five times less than the average for its peers. While Nigeria's per capita income is now close to that of India at $715, on purchasing power parity (PPP) basis, India's per capita income is three times that of Nigeria. Among its peers, South Africa has the highest per capita income, which on PPP basis is ten times that of Nigeria (Table 3).

Nigeria is a small player in the global economy with nominal GDP at $100 billion, roughly about the same size as the economy of Algeria. On PPP basis, Nigeria's GDP of $175 billion accounted for 0.28 percent of world's GDP in 2005 (Table 3). The nominal GDP of South Africa, the other Africa's economic giant, is more than twice that of Nigeria. Although, its population is the ninth largest in the world, its economy is ranked 45th in the world and 28th among emerging market economies. While the country's population is about 45 percent of that of the United States, Nigeria's GDP is less than one percent that of the United States. The country's GDP is about the size of the Gross State Products (GSP) of US$ 100 billion for Nevada, a State with a population of 2.4 million (U.S. Census Bureau, 2006 and Bureau of Economic Analysis, US Commerce Department, 2005).

Nigeria's economy remains largely informal (Chart 2). At 58 percent of GNP, the country's informal economy is estimated to be one of the ten highest in the world. Nigeria's score is highest among its peers and twice the average of 28.8 percent for its peers, with China having the lowest score at 13.1 percent. As a ratio of GNP, the informal economy in Nigeria is 6 times higher than that of the United States (8.8). While the informal nature of the country's economy may have inspired entrepreneurial spirit, it reflects the low level of development in the global economic context. It also has implications for the conduct and channel of transmitting formal fiscal, monetary, and structural policies as well as measuring the impacts of these policies. The challenge is to bring the wide range of informal sector activities into the formal sector without discouraging innovation and dynamism of these activities.

Flows of Goods, Capital and Labour: To provide further insight on Nigeria's relative global competitiveness, this section examines three key channels through which the country is connected to the global economy. These channels are the flows of goods and services (trade); capital flows in and out of the country (capital); and the flows of people (labor). An immediate striking fact is that Nigeria is relatively more dependent on the global economy compared to its peers. Its trade to GDP ratio is one and a half times the average of 45 percent for its peers (Chart 3).



In 2004, Nigeria accounts for 0.34 percent of total world exports. Among merchandise exports, Table 3 indicates that Nigeria is ranked 47 in 2004 compared to China (3), Mexico (13), Brazil (25), and South Africa (37). After rising modestly in the 1990s, the value of merchandise exports increased by 32 percent and 57 percent in 2003 and 2004 respectively. Oil and gas

Table 3: Trade and FDI 2004

	Algeria	Brazil	China	Egypt	India	Mexico	Nigeria	S.Africa	USA
Trade to GDP Ratio	58	29.8	56.9	41.6	28.7	58.3	76.9	55.8	23.7
Merchandise Exports	32298	96475	593329	7682	75595	189083	31148	46029	818775
Share in World Exports	0.35	1.05	6.48	0.08	0.83	2.07	0.34	0.5	8.95
Rank in World Exports	45	25	3	72	30	13	47	37	2
Merchandise Imports	18199	65921	561230	12831	97339	206423	14164	57100	1525516
Share in World Imports	0.19	0.69	5.91	0.14	1.03	2.17	0.15	0.6	16.07
Rank in World Imports	52	29	3	62	23	14	61	32	1
FDI $ million	882	18166	60630	1253	5335	16602	2127	585	95859
% Of World FDI Inflows	0.136	2.801	9.35	0.193	0.823	2.561	0.328	0.025	14.789
% of LDCs FDI Inflows	0.378	7.788	26	0.537	2.287	7.118	0.912	0.251	

Sources: WTO (2005) and UNCTAD (2005)

exports continue to contribute the major share of the country's total exports. The oil sector contributed 97 percent of total exports in 2005. Nigeria is the largest oil producer and exporter in Africa, and the 8th largest in the world.

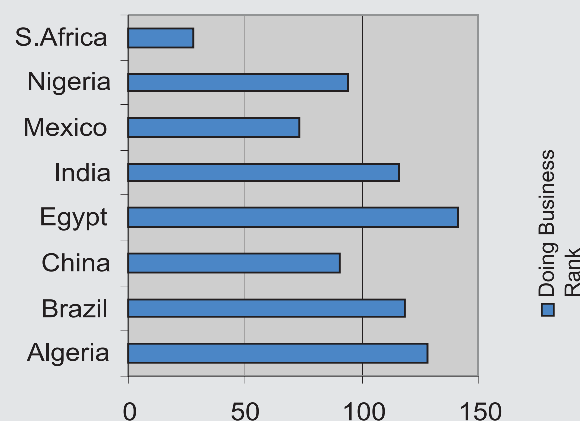
Compared to its peers, Nigeria's commercial service exports have been very modest at $1.5 billion or 0.07 percent of world's total and ranked 84. In 2004, Nigeria's largest single export destination was the United States, which accounted for 38.3 percent, while Europe accounted for a fifth of total exports. It is interesting to note that Nigeria's trade with India and Brazil has been growing rapidly, with those two countries now absorbing 10 percent and 7 percent of Nigeria's exports respectively.

Nigeria's future economic competitiveness position will depend not just on trading in extractive oil, but in participating in an increasingly global knowledge economy.

Nigeria's share of total world merchandise imports was 0.15 percent in 2004. Imports are primarily geared towards capital goods and raw materials, which accounted for about 60 percent of total imports in the past years, with the rest mainly accounted for by non-durable consumer goods. A third of Nigeria's imports originated from within the European Union, while another 15 percent and 7 percent came from the United States and China respectively. External trade should benefit from reforms relating to rationalization of tariffs, which would reduce un-weighted average tariff from 30 percent to 20 percent, while phasing out all import bans by 2007.

According to Table 4, in the past five years, Nigeria has been a marginal player in the global emerging bonds and equities markets, and loans syndications. The country's external financing through these private sources, mainly loan syndication, had been, on average, less than half a billion dollar per annum. In contrast, South Africa and Brazil recorded an average of eight and fifteen times what Nigeria obtained from bonds and equities markets, and loans syndications combined. Relative to the size of the economy, Nigeria received 0.5 per cent of GDP compared to 2.3 percent and 2 percent of GDP respectively for South Africa and Brazil. Nigeria's low access to these sources of external financing had been due in part to lack of international credit rating rendering the country non-creditworthy. In 2005, Nigeria was rated BB-for the first time.

The financial sector is crucial to the process of being a major player in the global capital markets. In this context, the pace of consolidation in the banking system over the past two years is to be commended. The financial sector, however, remains underdeveloped relative to the size of the economy. As Governor of the Central Bank of Nigeria recently pointed out, South Africa's largest bank, Standard Bank Group in 2004 had about the capital base and three times the combined assets of all the current 25 banks in Nigeria. The capitalization of Nigeria's stock exchange is less than 10 percent of Johannesburg stock exchange in South Africa. Total credit



Source: **World Bank, Doing Business Report, 2005**

from the banking sector is 20 percent of GDP in Nigeria compared to more than 100 percent in South Africa. Mortgage loans represent less than one percent of GDP in Nigeria compared to 20 percent of GDP in South Africa (Soludo, 2006b).

Table 4: Emerging Market External Financing: Total Bonds, Equities and Loans (in millions of U.S. dollars)

	2001	2002	2003	2004	2005	Average	% of GDP
Algeria	50	150	75	271	489	207	0.2
Brazil	19533	10925	12001	15941	25421	16764	2.1
China	5567	8891	13560	24367	35797	17636	0.8
Egypt	2545	670	155	1159	3418	1589	1.7
India	2382	1381	4094	13918	19315	8218	1.1
Mexico	13824	1040	16993	19015	17507	13656	1.8
Nigeria	100	960	593	250	519	485	0.5
South Africa	4647	4058	7837	5413	5440	5480	2.28

Source: IMF: Global Financial Stability Report, April 2006

In absolute terms, Foreign Direct Investment (FDI) to China is 30 times that in Nigeria (Table 5). FDI in Nigeria compares relatively well to other African countries, ranging between 3-5 percent of GDP during 2002-2004. As a ratio of GDP, FDI to Nigeria also compares well with other peer group including India, Brazil, Mexico, and China. FDI is relatively more significant in capital formation in Nigeria, accounting for a fifth of gross investment, more than twice for its peer group. FDI in Nigeria has traditionally concentrated in the oil sector. However, recent sector reforms and privatization are beginning to attract foreign investments into such sectors as telecommunications and banking industry. As a result, the non-oil sectors attracted about $3 billion of FDI in 2005. Such investments need to continue to be spread across a broad range of industries throughout the economy in order to generate higher employment, build skills and know-how.

UNCTAD (2005) indicates that Nigeria's FDI inflows performance ranking improved from 82 in 1999-2001 to 44 in 2002-2004 ahead of all its peers, including China, which ranked 45. In contrast, South Africa's ranking worsened from 114 to 126 in the same period. While South Africa has not attracted higher FDI inflows, it has been estimated that the stock of South Africa's FDI in the rest of Africa has increased from 5 percent of the country's outward stock in 2000 to 9 percent in 2003 (Arvanitis, 2006). Nigeria has been one of the principal destinations of FDI from South Africa.

In addition to the flow of goods and capital, Nigeria's economic links to the rest of the world also involve the movement of people, particularly skilled professionals. The skilled emigrants from Nigeria represent two-thirds of total emigrants from the country to OECD countries, slightly higher than the skilled emigration rates for India (60.5 percent) and South Africa (62.6 percent) (Docquier, Frederic and Abdeslam Marfouk, 2005). Skilled emigration or brain drain has its downside for a source country as Nigeria, especially if the education of skilled emigrants was funded through public subsidies. Emigration also has positive economic feedback effects, through return migration after additional knowledge and skills have been acquired abroad, the creation of trade and business networks, and remittances from abroad. For Nigeria, remittances now average US$ 1.5 billion per year, including around US$

1.3 billion per year from the United States alone (around 1.9 percent of GDP in 2004). For India, remittances are estimated to range between 3 and 4 percent of GDP.

Table 5: Foreign Direct Investment

	Algeria	Brazil	China	Egypt	India	Mexico	Nigeria	S.Africa
[illegible]								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]								
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]		[illegible]	[illegible]		[illegible]

SOURCE: UNCTAD, World Investment Report 2005

Nigeria's future economic competitiveness position will depend not just on trading in extractive oil, but in participating in an increasingly global knowledge economy. Nigeria lags behind its peers, particularly, Brazil, India, China, and South Africa, on any measure of the knowledge economy including literacy, skills, research and development, patents and information technology. With respect to industrial property, WTO (2005) notes that Nigeria recorded no granted patents or registered marks, while India recorded 2160 patents and 8010 respectively in 1999. Unlike Nigeria, India, in particular, has become an attractive destination for off-shoring and outsourcing. It is estimated that the high tech and outsourcing sectors accounted for 4 percent of India's GDP in 2004, with Indian labour being used within India by foreign companies for business, administrative, and information technology services support (Wilson, Beth Anne and Geoffrey N. Keim (2005).

Barriers to Global Competitiveness

Nigeria is a well-endowed country with strong potential to compete in the global economy. To realize these potentials the country would need to overcome key challenges relating to administrative barriers to business, governance, infrastructure bottlenecks, and low human development. Historically, the high cost of doing business, due to factors including corruption, administrative barriers, and poor infrastructure, has hampered the development of the private sector in Nigeria.

The World Economic Forum provides a measure and ranking of national competitiveness with the global competitiveness index (GCI). The GCI has three components: the quality of the macroeconomic environment, the state of the country's public institutions, and the level of its technological readiness. As noted earlier, Nigeria's economic reforms may be paying off slowly in terms of improving macroeconomic environment for business. Although it ranks below its peers, Nigeria's ranking on the GCI has also been improving from 93 in 2004 to 88 in 2005 (Table 6). Among its peers, India and Egypt showed improvements, while China, Brazil, Mexico, South Africa and Algeria slipped on the global ranking between 2004 and 2005.

The 2006 World Bank's Annual Report on Doing Business also provides a global ranking of 155 nations on key business regulations and reforms. The ease of doing business index ranks economies from 1 to 155 based on 10 sets of business environment indicators: starting a business, dealing with business licenses, hiring and firing workers, enforcing contracts, registering property, getting credit, paying taxes, trading across borders, protecting investors, and closing a business.

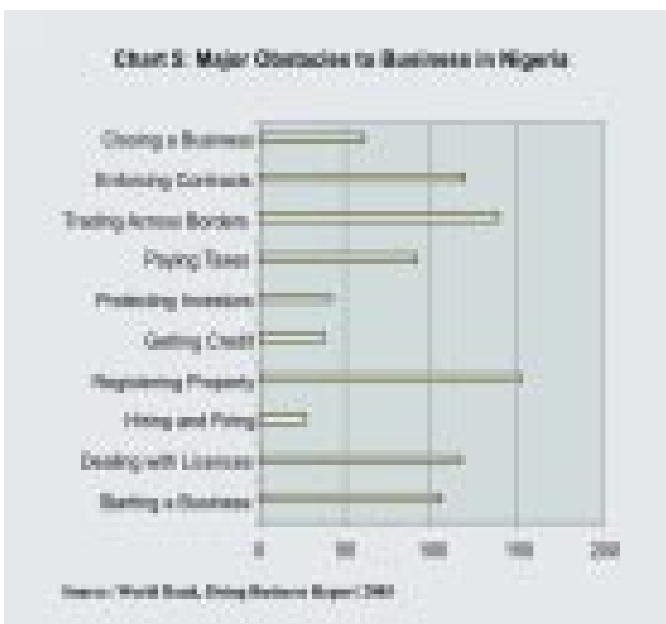


Chart 5: Major Obstacles to Business in Nigeria

In 2006, Nigeria stands at 94 within the 4th quintile of the aggregate global ranking, which consists of a total of 155 countries and 5 quintiles (Charts 4 and 5).

Table 6: Competitiveness Index and Doing Business Rank 2005

	Algeria	Brazil	China	Egypt	India	Mexico	Nigeria	S.Africa
Global Competitiveness Index	78	65	49	53	50	55	88	42
Business Competitiveness Index	88	49	57	71	31	60	76	28
Corruption Perception Index	97	62	78	70	88	65	[illegible]	46
Doing Business Rank	128	119	91	141	116	73	94	28

Sources:
World Economic Forum 2005: Global Competitiveness Report 2005
World Bank 2006: Doing Business Report 2006
Transparency International: Corruption Perception Index, 2005

Among its peer group, China, India, and Brazil also fall within the 4th quintile. South Africa is the only country within the 1st quintile with a ranking of 28; and Mexico with a ranking of 73 falls within the 2nd quintile. Algeria and Egypt are in the 5th quintile. A detailed breakdown of the score indicates that Nigeria ranks within the 1st quintile in the ability of business to hire and fire. It ranks in the 2nd quintile on getting credit, protecting investors and closing a business. The country ranks in the 3rd quintile on paying taxes, starting a business, dealing with licenses, and enforcing contracts. The worst rankings are in registering property (152) and trading across borders (139), with both in the 5th quintile.

The challenges of starting a business in Nigeria show that entrepreneurs can expect to go through 9 steps to launch a business over 42 days on average, at a cost of more than two-thirds of per capita income in 2004. To obtain a business registration number, a business owner must deposit almost half of per capita income in a bank. It costs three and a half times per capita income and takes 16 steps and 465 days to complete the process of complying with licensing and permit requirements for ongoing operations in Nigeria. It takes 21 steps and 274 days to register property. The cost to register property in the country is almost one-third of overall property value, the worst in the global ranking. A medium size company must make 36 payments, spend 1,120 hours, and pay 27.1 percent of gross profit in taxes. It takes 23 steps and 730 days to enforce a contract, while the cost of enforcing contracts is 37.2 percent of debt. The picture that emerges is that business competitiveness in Nigeria can be further improved by streamlining administrative requirements and obstacles to the private sector

In the short-to medium term, Nigeria faces two main challenges on the governance front. First, since the return to democracy in 1999, outbreaks of ethno-religious violence have gained momentum. In the past two years, fighting has escalated in the Niger Delta leading to hostage-taking and disrupting oil production. The run-up to democratic elections in 2007 could put further strains on the fragile situation. Second, although progress has been made in respect of economic governance, much still remains to be done. While Nigeria has often been associated with a high level of corruption, economic governance has improved considerably in the past three years. The Government has embarked on various anti-corruption measures including the creation of the Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC), as well as the removal of high-ranking civil servants from office on the grounds of corruption. To improve accountability, the Government introduced the Fiscal Responsibility Bill and the Public Procurement Bill, while establishing a

As noted earlier, Nigeria's economic reforms may be paying off slowly in terms of improving macroeconomic environment for business.

Table 7: Human Development and Technology Readiness Indicators 2003

	Algeria	Brazil	China	Egypt	India	Mexico	Nigeria	S.Africa	USA
Population living below $2 a day %	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Human Development Index Rank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Life Expectancy at Birth (years)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Adult Literacy Rate %	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
School Enrolment Ratio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Internet Users per 1000 people			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Cellular subscribers per 1000 people	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Telephone mainlines per 1000 people	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7		[illegible]

Source: UNDP, Human Development Indicators, 2005

Budget Monitoring and Price Intelligence Unit in charge of public sector contracting and procurement contracting. To increase transparency in the dominant oil sector, the country has taken steps to participate in the G8 Extractive Industries and Transparency Initiative (EITI), under which full audits of the annual oil accounts of relevant agencies will be implemented and published.

To be competitive in the global knowledge economy, emphasis must be placed on development of human capacity. The quality of skills development has been affected by poor facilities for science and technical education. Furthermore, Nigeria has the third highest number of poor people in the world, after China and India. Among its peer group, Nigeria has the highest percentage of its population living on less than US $2 a day (Table 7). The UN Human Development Index 2005 ranks Nigeria 158, a ranking worse than its entire peer group. To address the challenges of poor human and social development, annual savings from debt service to the tune of $1 billion due to Paris Club are now being directed to the social sectors of education and health.

A modern and efficient physical infrastructure is important to underpin and sustain productivity and global competitiveness. However, the poor state and inadequacies of Nigeria's systems of roads, rail, ports, airports, telecommunications, and power generation and distribution have contributed to the high costs of doing business. Power generation amounts to a tenth of that in South Africa, which has a population less than one-third of Nigeria (Lyman, 2004). In particular, generation and delivery of electricity are low and unreliable, with the private sector incurring huge cost on stand-by power generators. Recent survey suggests that Nigerian manufacturers rely on private power generation for more than two-thirds of their operations, which undermine cost competitiveness. Recent investments in the power sector are projected to increase generation capacity to 5,200 MW and 10,800 MW by end of 2006 and 2007 respectively (FGN, Budget Speech 2006). The country has a road network of 195,200 km, with half in poor state due to low maintenance. In the past five years, communications network coverage has improved with the growth of cellular subscribers due to liberalization of the subsector. Nevertheless, Nigeria still lags considerably behind its peers in terms of access to cellular, fixed mainline and internet facilities. In 2003, about 7 out of 1000 people have access to both fixed lines and internet compared to more than 100 people in Mexico and 500 people in the USA respectively.

However, in the past five years, Nigeria has started laying the foundations for rapid economic growth. The on-going policy and institutional reforms, if sustained, could help competitiveness as the private sector becomes positioned to seize the opportunities and meet the challenges of globalization.

Conclusions

Nigeria has abundant human, material and natural resources with the potential to become Africa's largest economy and a major player in the global economy over the next few decades. In the previous three decades, poor economic policies, corruption, and the high costs of doing business have combined to keep these

potentials basically untapped. However, in the past five years, Nigeria has started laying the foundations for rapid economic growth. The on-going policy and institutional reforms, if sustained, could help competitiveness as the private sector becomes positioned to seize the opportunities and meet the challenges of globalization. If current economic growth rates are sustained Nigeria would be among the fastest growing and large emerging economies in the world over the next few decades. To harness these opportunities and its considerable potentials, the country would need to overcome the burden of several decades of poor governance, infrastructure bottlenecks, and poor socio-economic conditions.

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[2] *The views expressed in this paper are the author's and do not reflect those of the African Development Bank. The author would like to thank Kupukile Mlambo and Peninah Kariuki for comments.*

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Implementing Budget 2006: Challenges & Prospects

* By Boniface Chizea

It is a known fact that the problem Nigeria has with the budget is not with the crafting of beautiful budget couched in the most appropriate language. The problem has always been with implementing the budget. Some of the reasons why budgets were not implemented in the past included the difficulty of mustering the requisite discipline. The managers of the economy are averse to the restriction to their freedom to act which an attempt to maintain fidelity with the provisions of the budget would imply. They would prefer to be free to act as the exigency of running the economy dictates, to take advantage of the confusion which such a development would generate and be in position to extend patronage to party loyalists, cronies, friends and relations. The other development which had accounted for non successful implementation of the budget is the fact that routinely the budget is not timely presented at such a time as to allow sufficient

time for the National Assembly to exercise its due process on the budget before sending it to the Executive for approval to become a bill. The present administration since inception has undertaken a lot of reforms to address these and several other issues. It is very important to note here that the Budget Office of the Federation (with Bode Agusto at the helm of affairs) has championed these reforms.

Timeliness in Budget Presentation

In this regard, the President on presentation of Budget 2006 to the National Assembly did observe the fact that it was being presented two months later than budget 2005. He also noted that the delay was due to the understanding with the House that there was the need to avoid the experience with Budget 2005 which though was presented in October, 2004 encountered significant delays and difficulties in the appropriation process. This was due mainly to the fact that the various relevant Committees of the National Assembly had not had enough discussions and dialogue with respective ministries over the provisions prior to the presentation of the Appropriation Bill. The President then expressed the hope that for Budget 2006 because of the co-operation and collaboration that had been the hallmark of the process, the approval process would proceed at a much faster pace. In the event, Budget 2006 was assented to by the President on Wednesday, February 22, 2006.

To put matters in their proper context and perspective, the President was candid when he observed in presenting budget 2006 that because budget 2005 was not approved until April 12, 2005, it was difficult to adhere to the spending plan particularly for the capital budget. There is also a peculiarity with the preparation of budget in the polity. This is the situation when upon the presentation of the budget, the President commits himself to the implementation of an indicated percentage of the capital budget. We understand that this is due to the challenges of commensurate cash flows. But be that as it may, it is better to prepare the budget with a mindset of its complete, total and holistic implementation. Anyone familiar with the budget process appreciates the fact that it would be a coincidence if the budget is implemented to the letter. This is one particular reason why there is often a resort to contingency provisions in budgeting.

Monitoring Budget Implementation

The administration has made quite a lot out of the fact of its declared intention and determination to monitor and present its report card on the implementation of the budget. The President having made a promise to the National Assembly that he would improve on the monitoring of the budget as well as render an account of progress, in mid 2004 presented a budget implementation report. And taking into consideration delays associated with the implementation of budget 2005 the President also promised that a full year report would be presented. The President promised that for Budget 2006, both mid and full year budget monitoring and implementation reports would be presented. We hope that the President would keep faith with this promise given the need to prepare for a successful election year and smooth transition in 2007.

Job Creation

Budget 2006 has a focus on; "Building Physical and Human Infrastructure for Job Creation and Poverty Eradication." But Budget 2006 is not likely to create too many jobs. Infact, it could even lead to job losses owing to the implications of many of its policies. For samplers, consider the fact that reforming the public sector had so far led to about 2,000 job losses with a projected

2006 BUDGET: KEY ASSUMPTIONS & TARGETS

	2005	2006
Production Capacity (in mbpd)	2.71	2.70
Production Quota (in mbpd)	2.30	2.30
Production (in mbpd)	2.38	2.50
Projected price - Market (in USD)	51.10	60.40
Projected price - Budget (in USD)	30.00	33.00
Technical cost of oil companies		
Operational Expenses (T1) - in USD	2.41	2.12
Capital Expenses (T2) in USD	5.37	5.82
Joint Venture Cash Calls (in billions of USD)	4.1	4.2
Weighted average rate of PPT	63%	80%
Weighted average rate of Royalties	18%	19%
Average exchange rate (NGN/USD)	133	129
VAT rate	5%	10%
CIT rate	30%	30%
Weighted average duty rate	29%	17%
Target inflation	13.0%	9.0%
Target interest rate	19.0%	8.5%
Target growth in real GDP	5.0%	7.0%

Source: ***Budget Office***

anticipated total of 30,000 job losses to come. We are informed that what is delaying the conclusion of the retrenchment exercise is to correct errors detected in the first phase of the exercise whereby some staff were wrongly included in the list of those to be off loaded into the unemployment market. It is also clear to all that job losses in the banking sector following the conclusion of the first phase of reform agenda is a hemorrhage which no one could predict when it would abate. It is also likely that job losses would occur in many sectors visited by the privatization and the reform program. For instance the port concessioning exercise is projected to result in job losses in the hundreds.

FEDERATION ACCOUNT

INFLOWS INTO THE FEDERATION ACCOUNT	2005 =N= bns	2006 =N= bns
Crude Oil Sales	1,109	1,238
Oil Mains & Other	1,154	1,508
Value Added Tax	215	450
Companies' Income Tax	174	238
Customs & Excise Duties	180	197
TOTAL CURRENT YEAR	2,842	3,704
Distributions from Excess Crude Account	380	-
TOTAL CURRENT YEAR	3,222	3,704
Growth	18.3%	13.0%

Source: ***Budget Office***

Poverty Alleviation

Given the spate of retrenchments in privatized establishments, poverty and misery level are unlikely to abate. In the telecommunications sector which could be considered as one of the bright spots in the economy where some growth had been recorded, it is probably fair to observe that this sector has had its growth period and if there are any job gains at the moment, it could only be marginal.

It is also a fact that nothing impoverishes the masses more than spiraling inflation. The government would like to see inflation down to single digit. There is no doubt that the pledge to keep down the prices of petroleum product through the provision of subsidy would help. But it is also worthy of note to observe that the prices of diesel and kerosene have gone through the roof. The President bemoaned the fact that the price of diesel was at some point in time higher than the price of fuel. But the situation now actually is the prevalence of scarcity of particularly kerosene that compatriots are even fortunate to find the product no matter the price. As I put this paper together the scarcity of kerosene persists even as NNPC had not lived up to its promise of flooding the market through importation and the releases of strategic reserves. We have ar-

gued in another paper that these measures are essentially of the nature of palliatives which, would not provide the lasting solution required. The question is why the sudden scarcity of kerosene as the explanation that diversion to the Aviation industry is responsible cannot be the whole fact. The issue is what has suddenly changed to make diversion unusually attractive and to result in this unjustifiable and biting scarcity.

The problem of poverty is so widespread that even the special purpose vehicles established by the government, such as National Poverty Eradication Program (NAPEP), are overwhelmed and could hardly make significant impact. What is even more worrisome is that in undertaking all the reform programs in the country, all of which so far have resulted in job losses, deliberate efforts at mitigating the unsavory impact of job losses have not yielded much dividend.

OIL REVENUE

Production (in mbpd)	2005	2006
Joint Ventures	1.812	1.822
Alternative Funding	0.358	0.297
Production Sharing Contracts	0.084	0.270
Independents	0.129	0.100
Service Contracts	0.010	0.011
Total Production	2.393	2.500

Source: ***Budget Office***

Growing the Economy

The government would wish to see the economy grow by 10 percent to put the country on course to meeting the Millennium Development Goals (MDG) of halving the number of the poor in the country by the year 2015. The growth in GDP reported by Government was 6 per cent by the end of 2005 with the reassuring development that non-oil GDP growth was approximating 8 per cent indicating that efforts at the diversification of the economy away from its unwholesome dependence on oil have started to yield dividends. Agriculture growing at 7 per cent had contributed commensurately to this growth. A growth rate of 7 per cent has been projected for 2006 moving the rate closer to the medium term target of 10 per cent per annum.

The prospects for attaining this level of growth is not to be taken for granted particularly as the private sector that is expected to be the engine to drive the economy under this reform regime looks disadvantaged through the implementation of the ECOWAS Common External Tariff (CET), which places local manufacturers at a disadvantage vis-à-vis imported items. In fact it is argued that the local producer bears a burden the equivalent of an additional 35 per cent because of poor socio-economic infrastructure. There is also the problem of multiple taxation, high cost and falling purchasing power amongst a generality of the population.

The President promised to give comprehensive treatment in 2006 to all outstanding arrears particularly debts owed local contractors. To this end an allocation of the sum of N25 billion was made in the budget. The President promised that contractors owed below N100 million would be paid and those owed above this amount would be accommodated through the issuance of 2 to 5 year bonds. We are aware that an attempt was made during the year to issue bonds but we are not in a position to vouch for the success of the issue. But the authorities must recognize the importance of keeping to this promise as it would also impact the banking sector that in most instances would be the ultimate beneficiaries as they bore the exposure in the first place and it also has the potential of giving a desired fillip to the economy and fast tracking its rapid growth.

AGGREGATE EXPENDITURE

		2004	2005	2006
		[illegible]	[illegible]	[illegible]
1	REVENUE	[illegible]	[illegible]	[illegible]
	Growth		[illegible]	[illegible]
	EXPENDITURE			
2	National Judicial Council	[illegible]	[illegible]	[illegible]
3	Niger Delta Development Commission	[illegible]	[illegible]	[illegible]
4	Universal Basic Education Scheme	-	[illegible]	[illegible]
5	TOTAL - TRANSFERS	[illegible]	[illegible]	[illegible]
6	Domestic debt service	[illegible]	[illegible]	[illegible]
7	Foreign debt service	[illegible]	[illegible]	[illegible]
8	TOTAL - DEBT SERVICE	[illegible]	[illegible]	[illegible]
9	[illegible] EXPENDITURE	[illegible]	[illegible]	[illegible]
	Growth		[illegible]	[illegible]
10	TOTAL EXPENDITURE	[illegible]	[illegible]	[illegible]
	Growth		[illegible]	[illegible]
11	SURPLUS / DEFICIT	[illegible]	[illegible]	[illegible]
12	NOMINAL GDP	[illegible]	[illegible]	[illegible]
13	DEFICIT AS % OF GDP	[illegible]	[illegible]	[illegible]

Source: ***Budget Office***

There is no aspect of infrastructure availability that has been of more concern to a generality of the population such as power generation. And this is one area where government had committed itself to attaining some improvement and for which considerable resources have been expended. Unfortunately peak power generation only reached 3,500 MW well below what should be produced to ensure the required

and desired regularity in power supply. What is even of more concern is that the peak generation attained could not even be sustained. The government has continued to make significant investments to upgrade the generation and transmission capacity. It remains to be seen whether these efforts would add to generation capacity such that by the end of 2006 the capacity of generation would reach 5,198 MW as promised by government with the peak reaching an optimal level of 10,806 MW by December, 2007. All efforts must be made to grow the economy as that is the only sure basis for sustainable poverty alleviation.

Revenue Projections

The revenue projections in budget 2005 at N1.8 trillion, a 38 per cent growth over budget 2004 estimates was highly expansionary. It was however revised downwards to N1.4 trillion. Also, the implementation of subsidies in deference to the wishes of Nigerians to limit the price increases in petroleum products played some role in this regard. In projecting the revenue for Budget 2006, an oil price of $33 per barrel was assumed as well as a production level of 2.5 million barrels per day. The price of crude is currently in excess of double the price of what was assumed for the preparation of the budget. We could have been celebrating by now a bursting of the excess crude account but for the unfortunate development in the Niger Delta, which had resulted to disrupted production activities.

The price of crude is currently in excess of double the price of what was assumed for the preparation of the budget. We could have been celebrating by now a bursting of the excess crude account but for the unfortunate development in the Niger Delta, which had resulted to disrupted production activities.

There is also disruption of gas supplies from the Niger Delta region negatively impacting power generation capacity and resulted in increased dependence on relatively high cost diesel for the operation of generators, worsening the cost profile and to that extent exacerbating the inflationary pressure. There is no doubt that the projected volumes of crude oil production as included in the budget would not be realized this year. The only saving grace is the development regarding the unprecedented high price of petroleum products and this factor has introduced some uncertainties in the entire scenario. Whatever happened to revenue generation during the year, we commend the government and recommend the sustenance of the practice of sterilizing revenue in excess of projection in the excess crude account to be subsequently shared amongst the tiers of government using the approved allocation formula.

OIL REVENUE

OIL TAXES & OTHERS	2005	2006
	=N= bns	=N= bns
PPT	777	923
Royalties	316	377
Other	61	338
	1,154	1,638
PPT & ROYALTIES	US $ mns	US $ mns
Revenue	13,212	15,646
Royalties	2,378	2,817
Opex	1,109	1,048
Capex	2,472	2,877
Total	5,959	6,742
Profit	7,252	8,907
PPT	6,034	7,128
Education Tax	194	236
PPT (Net)	5,839	6,890
Royalties	2,378	2,817
PPT (in bns of Naira)	777	923
Royalties (in bns of Naira)	316	377

Source: **_Budget Office_**

Re-living the Past

It is expected that sooner than later the experience of budgeting in the country would transcend some of the problems associated with budgeting as encapsulated by Professor Mich Obadan in his very useful and insightful book titled; "National Development Planning and Budgeting in Nigeria". Some of these undesirable features of budgeting in the country include; poor fiscal management as reflected in low public expenditure results, lack of expenditure control and persistent budget deficits, and corruption in contracts and procurement practices. Budgetary targets were not observed due to a combination of under-budgeting and weak expenditure controls. Budget indiscipline as reflected in the implementation of projects and programs not included in the budget while, leaving out those initially included. There is also the absence of multi-year budgeting to safeguard against opportunistic decisions in the preparation of the annual budget and which would necessitate the taking into account, well in advance of medium-term financial consequences of new programs or proposals. Non-release or untimely release of appropriated funds, sometimes due to low revenue flow. Effective budget monitoring capable of ensuring that projects and activities implemented were commensurate with the resources committed hardly takes place due to such factors as inadequate funds for the exercise, inadequate or untimely supply of data for monitoring as well as inadequate audit. No doubt this administration like with most other sectors of the economy has made some progress in improving fiscal management, in ensuring value for money and the enthroning of transparency but there is some considerable mileage to cover in ensuring that we attain best practice in formulating, implementing, monitoring and reporting on performance and achievements and in using the budget as a blue print to facilitate rapid national growth and development.

(Dr. Boniface Chizea is a Principal Consultant, BIC Consultancy Services, Lagos.)

OIL REVENUE

CRUDE OIL SALES	2005	2006
Lifting		
Government (in mbpd)	1.13	1.15
Other (in mbpd)	1.26	1.35
TOTAL (in mbpd)	2.39	2.50
Average price per barrel (in US$)	30.00	33.00
Crude Oil Sales (in millions of US$)	12,393	13,802
JV Cash Calls (in millions of US$)	4,056	4,200
Crude Oil Sales - Net (in millions of US$)	8,337	9,602
Crude Oil Sales - Net (in bns of Naira)	1,109	1,287

Source: **_Budget Office_**

CHINA

* By Toni Kan Onwordi

Two hundred years ago, Napoleon Bonaparte made a prediction that is coming true by the day. The great French Emperor had told the world: “Let China sleep, for when she awakes, she will shake the world.”

What Napoleon predicted is coming true with the emergence of China as a major global force both politically and economically. With the end of the cold war, the attenuation of the East/West divide and the crash of the Iron Curtain, trade lines have become more fluid and nations which would have been considered strange bed-fellows are today entering into strategic partnerships in the era of Globalization.

Former communist China is one such nation which continues to make in-roads into areas hitherto considered off limits. Today, China’s major oil company, China National Offshore Oil Corporation (CNOOC) has former American Secretary of State, Henry Kissinger, on its advisory board and is also prosecuting a $4.3bn petrochemical project with Anglo-Dutch con-

SINO-NIGERIAN TRADE: IMPLICATIONS FOR THE FUTURE

glomerate Shell in what is considered China's biggest joint venture investment. The agreement for a 50/50 joint venture project which took 12 years to conclude is the largest foreign investment ever in China.

It is true that as leader of Communist China, Chairman Mao did establish links with many developing African nations but those were moves aimed at perpetuating the communist and socialist agenda. Today, the prime consideration is capitalism. Ideology has given way to market forces.

China's current forays are predicated on a few factors top of which is the voracious hunger for natural resources to fuel its booming economy. There is also the issue of China's current romance with cars. Other key factors include the need to find new markets for the products – shoes, textiles, TV sets and cars - rolling out from its booming factories.

Sino-African trade is growing rapidly and reports from the BBC indicate that trade between Asia and the continent is now worth more than $30bn and still rising with a record inflow of $175m recorded in the first 10 months of 2005.

China's eyes, once turned towards the West, are now focused firmly on Africa and nothing underlines this more than Chinese President Hu Jintao's African tour which saw him criss-crossing Africa in April.

Sino-African trade is growing rapidly and reports from the BBC indicate that trade between Asia and the continent is now worth more than $30bn and still rising with a record inflow of $175m recorded in the first 10 months of 2005. There are currently, over 700 Chinese factories doing business in Africa while China has been hailed as leading in FDI inflows into the continent. And unlike many western countries which give aid to Africa, China's aid and investment come without strictures or preconditions demanding democracy, good governance or reduction of corruption. This trade, which is driven as much by economic and political reasons has seen China scrapping tariffs on 190 different types of imported goods from 28 of the least developed countries in Africa. China's total exports rose by 31.3% to $546.4bn in 2005 while imports rose by 16% to $478.1bn in the same year. Chinese exports to Africa amounted to $15.25bn or about 2.8% of total Chinese exports for 2005 while imports from Africa stood at $16.92bn.

All China seems to require from its trading partners in Africa is support in its "One China Policy" with regard to its ongoing conflict with Taiwan. African nations seem to be responding positively because most of the 53 African nations have severed ties with Taiwan.

Infact, the communiqué issued at the end of Hu Jintao's two day visit to Nigeria, was explicit on this score: "The Nigerian side reiterated its adherence to the one-China policy and opposition to "Taiwan independence" in any

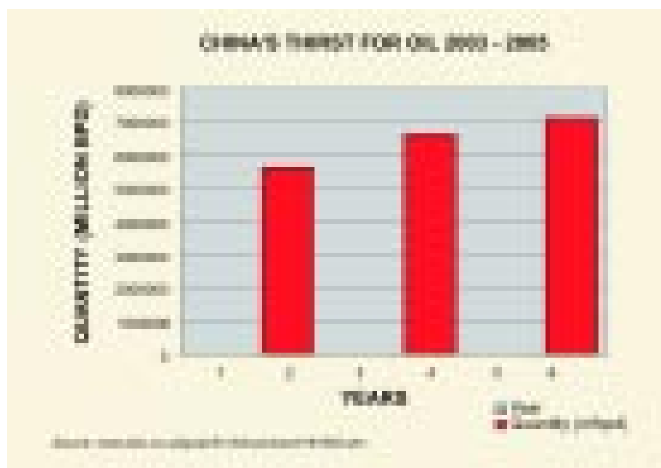
[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

form including "de jure Taiwan independence" and to Taiwan's participation in any international or regional organization whose membership applies only to sovereign states. The Nigerian side also reiterated its position of not having official relations or contact with Taiwan and its support for all efforts made by the Chinese government to realize national reunification. The Chinese side highly appreciated the above-mentioned position of the Nigerian side."

To assuage its thirst for oil, China which accounted for 40% of total growth in oil consumption in the past four years, has overtaken Japan to occupy the No. 2 spot behind the US as the world's largest oil consumer (See Chart), and appears to be strategically targeting Sudan and Nigeria, Africa's largest oil producers. Infact, China was the first to smell the whiff of oil coming from Sudan.



In Nigeria, China has been a bit more direct. During the state visit to Nigeria, China agreed to buy a controlling stake in Nigeria's ailing 110,000 bpd refinery in Kaduna. It also pledged to build a railroad system and power stations to help ease the epileptic power supply. The total investment expected in the wake of the visit is a whopping $4bn expected to go primarily to oil and infrastructure.

In return, the Nigerian government offered the Chinese right of first refusal on four oil blocks which were up for grabs during the mini-licensing round which took place on May 19, 2006. Two of the oil blocks are in the oil producing Niger Delta region while the other two are in the Chad basin which is significantly higher risk and where oil is yet to be produced. CNOOC has also announced that it has concluded deals to buy a stake in Akpo oil field in Nigeria for $2.3bn. The oil field, its largest overseas acquisition is expected to produce 225,00 barrels of oil when it comes on stream in 2008.

SINO NIGERIA TRADE 1998 - 2005

YEAR	AMOUNT (USD BILLIONS)
1998	0.3848
2001	1.0000
2004	2.0000
2005	3.0000

Meanwhile, Chinese companies have set up scores of factories in Nigeria with interests in plastics and textiles while a Free Trade Zone to be sited in Lagos has just been launched in a pioneering joint venture agreement between the Lagos state government and a Chinese consortium. The first Chinese factory in Nigeria which was set up in 2004 with an initial investment of $6m is currently producing air conditioners which have a ready market.

Other areas in which the Chinese have expressed interest include investments in power stations, low cost housing projects, cassava plantations, an agro-research centre, an Aids medicine factory and a medical equipment factory.

In early 2006 the Federal Government signed a memorandum of understanding with Guangdong Xinguang International Group, a Chinese government-owned company, to enhance Nigeria's rail network. The $2 billion dollar MOU includes a fast rail system between Lagos and Abuja, a light rail system from Murtala Mohammed International Airport to Nnamdi Azikiwe International Airport in Lagos and Abuja city centre as well. Oil is, however, not the only natural resource attracting the Chinese. Chinese demand was responsible for a 74.1% global growth in export items using ferrous materials. World wide prices for steel, copper oil and shipping have also spiked due to the huge demand from China. Copper prices soared to a 16 year high in June 2005 as demand from China caused depletion in global stockpiles.

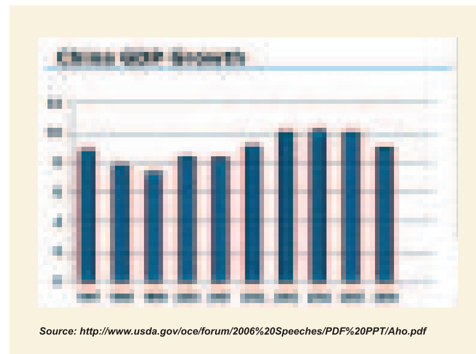
What does this trade partnership portend for Nigeria whose GDP growth rate for 2005 stood at 5.6% as against China's 9.5% for the same period?

Analysts consider the Sino/Nigerian partnership as more beneficial compared to that between African na-

tions and the West. With the West, African nations continue to replicate what transpired in the colonial times when Africa shipped inexpensive raw materials abroad to the industrialized nations, which would then turn around and sell the finished products back to Africans. The Chinese, are however, different. Though primarily interested in oil they have shown commitment towards improving the poor infrastructure in these African nations seen from their commitment towards constructing roads, rail lines and telecommunications infrastructure.

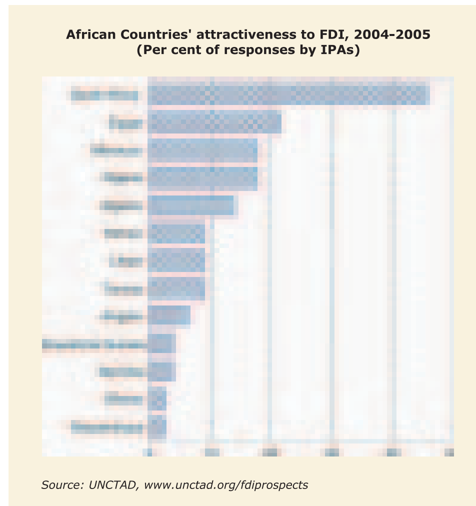
According to Hu Yuji, Head of the Commercial Office of the General Consulate of the People's Republic of China in Lagos, FDI inflow from China, in the past few years, has crossed the $30m mark, while there are over 30 Chinese factories operating in Nigeria as wholly owned, joint venture or co-management enterprises in Nigeria.

It is not a rosy picture all the way though. There are fears from local manufacturers who are scared that the influx of cheap goods from China will ultimately wreck home grown industries.



Source: http://www.usda.gov/oce/forum/2006%20Speeches/PDF%20PPT/Aho.pdf

African Countries' attractiveness to FDI, 2004-2005
(Per cent of responses by IPAs)



Source: UNCTAD, www.unctad.org/fdiprospects

There are also apprehensions over the effect the Chinese insistence on using skilled Chinese labour will also have on home grown skilled workers. These fears are not unfounded. The Chinese experience in South Africa provides a backdrop for justifying these misgivings.

In South Africa, a contract awarded to CITIC-ARCE, a Chinese consortium by South African Steel maker Ispat Iskor saw the influx of hundred of Chinese workers to handle the construction of Ispat Iskor's plant in Northern Kwazulu.

Sasol, South Africa Energy Company is also planning to import about 2000 qualified Chinese artisans to handle their projects. This deluge of Chinese artisans which has been replicated in other parts of the continent is expected to occur in Nigeria leading to deep-seated concerns on the fate of indigenous skilled workers especially since the Federal Government has not made any plans to protect local jobs.

With the Chinese economy showing no signs of slowing down, the World Bank has just revised its projections indicating that its previous 9.2% growth rate for 2006 was wrong. The new figure is 9.5% even though Chinese Bureau of Statistics has put the projection for 2006 at 10%. The Organisation of Economic Cooperation and Development (OECD) projected a growth rate of 9.4%. Chinese foreign reserves, on the other hand, which stood at a record $875.1bn by March 2006 is expected to cross the $1tr mark by the end of the year.

Governor Bola Ahmed Tinubu was spot on when he said during the launch of the Lagos Free Trade Zone that the Chinese have the money while we have the enabling environment. What he failed to say is what this blossoming relationship portends for the future.

Only time will tell.

(* Toni Kan Onwordi is an Assistant Editor, Zenith Economic Quarterly)

Corporate Governance In Development Financing Institutions

* By Mercedes B. Suleik

Corporate governance has already taken root in development financing institutions in Asia and the Pacific. The Asian financial crisis of 1997 has indeed been a defining point for countries in these regions, stressing the need not just for corporate reform in the business community, but also the need for reforms in national development financing institutions (DFIs). Heeding this call has been the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the focal point of all development banks and other development-oriented institutions engaged in the financing of development in the region.

DFIs, established by their governments as specialized financial institutions, provide long-term financing and technical assistance to enterprises that contribute to their countries' economies, and have come to play an important role in their economic development and growth. DFIs are considered "trailblazers" in the sense that they finance start-up projects that other financial institutions tend to avoid because of inherent risks and long-term gestation. As well, DFIs now form an integral part of their financial systems. In recent times, these have also come to play a central role in advancing corporate governance reforms in the region, first by instituting good corporate governance practices themselves. ADFIAP spearheaded this important task by undertaking, since February 2003, the "DFIs for Corporate Governance Project."

ADFIAP was established on October 1, 1976 with 31 original charter signatories under the auspices of the Asian Development Bank (ADB), a special member of the association. ADFIAP is a non-governmental organization in consultative status with the United Nations Economic and Social Council (UNECOSOC). Its permanent secretariat is based in the Philippines.

The idea of an association of development bankers first surfaced in the 4th Regional Conference of Development Financing Institutions of Asia and the Pacific held in Manila in 1969 under the auspices of the ADB. The idea gained further impetus during the UNIDO Bankers Meeting in 1970 in Paris and a subsequent meeting in Caracas where it was learned that two regional associations, one in Latin America and another in Africa, had been organized, and that similar institutions were being contemplated for the Arab countries and for countries in Eastern Europe. The DFIs from the Asia-Pacific region attending that meeting in Caracas considered it timely to accelerate the establishment of an association for Asia-Pacific DFIs.

As rationalized, the adoption of a corporate governance rating system for DFIAP countries is suitable because their corporate sectors share similar structures and legal frameworks.

On October 1, 1976, the ADFIAP charter was signed during the annual meeting of the ADB in Manila by 31 DFIs, among them the Development Bank of the Philippines and the Private Development Corporation of the Philippines (PDCP). ADFIAP's mission was "to advance sustainable development by strengthening the development finance function and institutions, enhancing the capacity of members, and advocating development financial innovations."

The 31 charter members represented 17 countries in the Asia-Pacific region, namely, Bangladesh, Indonesia, Malaysia, China, Singapore, the Philippines, Thailand, Ceylon, South Korea, Japan, India, Pakistan, Fiji, Western Samoa, Iran, Nepal, and Australia plus the Overseas Economic Cooperation Fund. ADFIAP became operational in April 1977, its members electing Vicente R. Jayme, President of the PDCP, as Chairman of the Management Committee.

The governance structure of the association is as follows: (1) the highest body is the General Assembly which meets every two years to elect the board of directors and passes upon organizational matters; (2) the Board of Directors, which is the governing body that passes upon policy matters, is composed of not more than 30 duly elected voting members, who elect from among them the Chairman, three Vice-Chairmen, and the Treasurer; the Secretary-General is an ex-officio Member of the Board; and (3) management, which is headed by the Secretary-General assisted by service unit heads that constitute the secretariat, a fully functioning business center and full-time professional staff .

The current Chairman of ADFIAP is Jesus P. Tambunting, Chairman and CEO of PDCP. ADFIAP's current Secretary-General is Octavio B. Peralta. Mr. Peralta has attended the Institute of Corporate Directors (ICD) Professional Directors Program.

When ADFIAP embarked on its "DFIs for Corporate Governance" Project in partnership with the Washington, D.C.-based Center for International Private Enterprise, it was a clear response to its mission of advancing sustainable development through the promotion of mechanisms of good corporate governance as a key to business sustainability in the region. ADFIAP has obviously seen the need for DFIs to adopt and institutionalize good corporate gover-

nance policies and practices in their member organizations not only because it is the "right thing to do," but because it is essential to business success. This reminds me of a remark of former DBP Chairman and CEO Alfredo C. Antonio, "when doing good is also doing well."

ADFIAP's governance process, in fact, spells out the role of its Board of Directors in setting the future of the association, setting its vision, mission and operating goals. While by ordinary corporate standards its board of directors may appear overly large, its unique configuration as an association of now 58 members from 30 countries all over Asia and the Pacific presumably justifies it. Moreover, it spells out in detail the functions of the Chairman, Vice-Chairman, Board Members, Board Treasurer, Committee Chairs, and Board Secretary (who is the Secretary-General and Chief Executive of the association) for a properly functioning organization. It also has formulated a "Statement of Common Values and Beliefs of the Members of the Association." In addition, it has conceptualized a "Framework of a Code of Conduct for its Member Institutions," and a "Framework of a Code of Conduct for Officers and Staff of Member Institutions," which have been recommended for adoption.

Addressing the weakness of corporate governance in the region, ADFIAP encourages Boards of Directors to develop and accept codes of corporate governance, and to appoint a Senior Officer (or unit) to oversee, direct, and manage a sustainable good corporate governance program in their institutions. This would especially be relevant to those member institutions whose countries have not yet required the observance of the OECD principles of corporate governance and/or the OECD guidelines for corporate governance in state owned enterprises.

ADFIAP's strategy to improve corporate governance among its members comprises (1) conducting a membership survey of members' observance of corporate governance policies and practices; (2 organizing a regional symposium-workshop to develop an action agenda; (3) organizing national workshops to focus on "local" corporate governance programs; (4) assisting members to develop a framework and to sustain their corporate governance polices and programs; (5) promoting the project through the association's regular publications (a new one being *Governance*) and website; and, (6) visiting institutions to assist members in developing their corporate governance systems, using best practices learned from the surveys, seminars, and other interactions with them.

Along this line, ADFIAP embarked on a new project to develop a corporate governance "scorecard" for DFIs and their clients. In a regional workshop held in Manila was developed an assessment and monitoring instrument called the ADFIAP Corporate Governance Rating System (ACGRS), which, being consistent with other existing international governance rating methods, monitors the areas for governance reforms.

As rationalized, the adoption of a corporate governance rating system for DFIAP countries is suitable because their corporate sectors share similar structures and legal frameworks. Its importance, particularly to concerned government, multilateral, and private institutions, is viewed from a better capability to compare and monitor corporate governance reforms among the DFIs in the region. The competition for investments in the regional financial markets highlights the importance of good governance practices.

ADFIAP's governance process, in fact, spells out the role of its Board of Directors in setting the future of the association, setting its vision, mission and operating goals.

The ACGRS has been reviewed, tested, and revised in five national workshops held in Malaysia, Pakistan, Mongolia, Fiji, and Vietnam. After developing the final version in Manila, the ACGRS will be distributed to the member-institutions of ADFIAP. The handbook will serve to help them assess and monitor their governance reform process.

In fact, the ACGRS contained in the handbook is an adaptation and expansion of two rating instruments: (1) the German CG Score-card developed by the German Society of Investment Analysts and Asset Management; and (2) the one repared and used by the Institute of Corporate Directors (ICD) in the Philippines. ICD provided the conceptual framework in developing and formulating the ACGRS, and helped in trainings conducted under the project.

The ADFIAP scorecard adapted the German scorecard to better fit ADFIAP member institutions and consists of five elements: (1) Shareholder Rights; (2) Commitment to Corporate Governance Reforms; (3) Board Governance; (4) Disclosure; and (5) Auditing.

These elements are similar to the five OECD Principles of Corporate Governance. It might be mentioned that the ADFIAP scorecard has two versions for shareholder rights: for commercial banks and financial institutions other than DFIs, the focus is the shareholders; for DFIs, the focus is on stakeholders' and beneficiaries' rights, i.e., the sectors of the economy and society that are served by them.

The ACGRS instrument is in the form of a questionnaire that requires a respondent to assess the corporate governance (CG) practices in his institution.

There are two versions, one for DFIs and another for commercial banks and other financial institutions. A Survey Administrator converts the responses to a weighted score for each question using a predetermined point equivalence system. The scores for each of the criteria are consolidated into an overall weighted average CG score of the institution. The weights for each governance criterion are as follows: shareholder rights, 25%; commitment to corporate governance, 20%; board governance, 25%; disclosure and transparency, 15%; and auditing, 15%. The point system is detailed in accordance with various checklists for each of the five elements.

In all, the ADFIAP Corporate Governance Rating System Handbook contains four important questionnaires:

In sum, ADFIAP considers that the practice and institutionalization of corporate governance reforms in DFIs is an initiative that is well taken.

DFIs are considered "trailblazers" in the sense that they finance start-up projects that other financial institutions tend to avoid because of inherent risks and long-term gestation.

1. A "Governance Rating Standard for DFIs in the Asia-Pacifi c Region," which is prepared by a Director or Committee of Directors (usually the Corporate Governance Committee, if there is one, or the Audit Committee) authorized by the Board to conduct the task.

2. A "Governance Rating Standard for Commercial Banks and Other Financial Institutions in the Asia-Pacific Region," which is prepared by a Director or Committee of Directors (the Corporate Governance Committee, if there is one, or the Audit Committee) authorized by the Board to do so.

3. A "Checklist of Indicators of the Quality of Corporate Governance of Corporate Borrowers," which is prepared by the Relationship Manager or Account Officer in charge of the corporate borrower's loan.

4. A "Governance Rating Standard for Commercial Banks and Other Financial Institutions in the Asia-Pacific Region" to be filled out by a respondent financial institution.

In sum, ADFIAP considers that the practice and institutionalization of corporate governance reforms in DFIs is an initiative that is well taken. Indeed, it may consider this as another of its "trailblazing" actions that can provide its member institutions the opportunity to become models of good corporate governance in the Asia-Pacific region, not to mention other regional organizations, thereby contributing to a global effort to "make a better world."

ADFIAP is the focal point of all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region. Its mission is to advance sustainable development through its members. Founded in 1976, ADFIAP has currently 64 member institutions in 32 countries.

The views expressed by the author are her own and do not necessarily represent the views of the Center for International Private Enterprise.

The Center for International Private Enterprise is a non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy.

(Mercedes B. Suleik is of the ADFIAP. Permission for this publication is thankfully acknowledged from CIPE.)*

Legitimizing the Reform Process: Consensus through the NATIONAL BUSINESS AGENDA

*** By Hugo Maúl Rivas**

Democracy and free enterprise ideas are under attack in Latin America, and the rise of populism and leftwing-oriented governments does not come as a surprise.

Despite countless efforts toward reforming economic and political institutions to promote economic freedom, many of these reforms have been perceived as "recipes" imposed by international financial organizations and foreign governments - a costly misperception exacerbated by the top-down approach used to develop public policies that are designed and debated exclusively by technocrats. In countries that urgently need broad based institutional reforms, from political parties to economic institutions to social practices, the problems are so ubiquitous, so deeply related with everyday life, that technocrats do not know how to handle them.

Polarized and fragmented societies lack democratic mechanisms to promote dialogue and understanding. Not only do bureaucracies have a tendency to not pay attention to the needs of their client beneficiaries, but in most cases the beneficiaries of a particular policy do not have effective mechanisms to organize themselves to express their opinions in an effective manner. Furthermore, since policymakers rarely pay attention to the "voice" of the beneficiaries of a proposed policy, ordinary citizens do not perceive reform policies as the outcome of a legitimate process.

The exponential growth of the informal economy is a clear example of an absence of communication between policymakers and the business community.

While policymakers are always

devising new ways to "capture" informal entrepreneurs, the entrepreneurs are always discovering new ways to "escape" from government regulations. Without open and direct communication between the two sides, it is almost certain that the informal economy, in the long run, will win the battle.

However, beyond the task of organizing the beneficiaries of a particular policy, the challenge for reformers is to develop consensus among all beneficiaries as to the role of incentives, government intervention, scope of the market, etc. To achieve such a consensus, reformers have to learn from the private sector, from entrepreneurs, about their needs and realities. In turn, it is important to have actors inside the private sector capable of articulating and promoting the needed changes because those changes cannot be made from the outside. Thus, as participative mechanisms to organize the voices of the beneficiaries are developed, a consensus in terms of pro-market and free enterprise friendly reforms can begin to emerge.

In the future, successful economic reforms will be the outcome of an effective communication process between the public and private sectors. The Guatemalan National Economic Research Center (CIEN) has been working to frame public policy development in this manner for many years, based on the firm belief that reform success lies not in the technocracy or bureaucracy, but in free enterprise.

Developing a Reform Agenda

The first step in developing a reform agenda is to identify prominent economic sectors, such as the export business sector in Central America. Exporters are the businesspeople who most frequently confront international competition and the rigors of international trade, and, it can be said that they often have the best ideas and are more amenable to enacting sweeping reforms. Various exporters also represent very well the overall structure of the economy.

One of CIEN's initial efforts at consensus-building focused on competitiveness as the top priority for a reform agenda. The results of a survey CIEN conducted illustrate the difficulties of building a consensus. CIEN asked exporters, business associations, and public servants to identify the most important factors in improving Guatemala's competitiveness - the issue that everybody regarded as the most important tool for participating in global markets. Whereas exporters rated access to markets as the most important factor, it was only the sixth-highest priority for the business association representatives and civil servants.

In the future, successful economic reforms will be the outcome of an effective communication process between the public and private sectors.

After countless meetings, public presentations, and interviews with business leaders, union leaders, politicians, and policymakers, CIEN and other reform-minded groups helped develop a National Competitiveness Agenda1 for 2005-2015, which was adopted by the Guatemalan government. This Agenda is designed to improve the competitiveness of the nation through free market reforms and participatory mechanisms. A strategic alliance between CIEN and AGEXPRONT (the Guatemalan Exporters Association) organized exporters and gave them a voice in identifying specific areas of reform, prioritizing them, and proposing entrepreneur-based solutions.

The second reform priority is the need to base a reform agenda on democratic principles. CIEN uses competitiveness to define the importance of using freemarket reforms to advance democratic principles and to increase the leadership role of the private sector. The impetus for reform flows from the grassroots to the government – not in the opposite direction. As people identify and discover their strengths and needs, they mobilize the government to cooperate with them to overcome obstacles.

To do so, however, they must eliminate practices that have become well-established in developing countries, such as pervasive crony capitalism. They must develop an equally powerful force on their side – organizing regular businesspeople and identifying business leaders who are not crony capitalists and are willing to participate in the system openly and implement reforms. To mobilize this broad support, reform leaders can use the national business agenda, which in its essence is a democratic mechanism for consulting with the business community to identify obstacles hindering business capacity and develop priorities about reforming public policy. The methodology of the national business agenda is based largely on focus

group interviews and surveys. Through the national business agenda, it is possible to get in touch with the real experts – entrepreneurs – who go every day to get a permit to operate a truck or to pay taxes, or to register a business. In Guatemala, Nicaragua, and Honduras, CIEN has worked with more than ten business associations that count more than 500 entrepreneurs and business leaders as members to identify the problems they face and devise some solutions to those problems. Through this national business agenda advocacy process, CIEN has been able to legitimize business needs.

What Are the Obstacles?

What obstacles to doing business did CIEN find in Guatemala through the national business agenda process? Surveys and interviews revealed the following six major reform priorities in addition to the problem of the top-down reform approach described above:

• Access to credit is hampered by the judicial system. It is impossible to make borrowers repay their loans, so banks will not lend money to anybody. CIEN participated in formulating a new law regulating the use of collateral in the banking system that is currently under discussion by the government. If enacted, the new law will speed up the process of adjudicating disputed debts in the courts.

• In housing, construction is costly because regulations are not uniform – every municipality has its own labor and building codes. To address poor incentives for owning a home, CIEN has been designated by the government to evaluate the possibility of adopting a more beneficial tax system to encourage home ownership, including the possibility of abolishing an existing 12% tax on every sale of a house and allowing a tax deduction on mortgage interest payments. Homogenizing the disparate labor and building costs remains on CIEN's reform agenda.

The lack of good infrastructure, exemplified by poor roads and airports and seaports with inadequate facilities, raises transport costs and delivery times

• Stolen property sold on the black market results in unfair competition for honest firms. Thieves go to the same markets as legitimate firms, who find their own products for sale at half of their cost. CIEN joined an alliance with the Chamber of Commerce and a citizen-based NGO (Acción Ciudadana) that is working to denounce and combat fraud and corruption as well as modernize customs. The alliance has helped achieve notable improvements in customs operations over the last two years and is also working to promote transparency in the management of public funds.

Access to credit is hampered by the judicial system. It is impossible to make borrowers repay their loans, so banks will not lend money to anybody.

• Labor regulations, such as the minimum wage and other mandated worker benefits, impose too many costs for firms and reduce productivity. CIEN has been working with leaders in the labor unions and informal economy to show them the dangers of a politically influenced minimum wage policy. CIEN and the National Federation of Agricultural, Commercial, Industrial and Financial Organizations (CACIF) have joined forces to push for reform in the minimum wage law, featuring the introduction of productivity indicators into the mechanism for setting the wage rate. The minimum wage rate rose by less than 10% last year, the lowest increase of the last five years. CIEN is also working with the Economic Commission and Labor Commission in the Congress to introduce greater flexibility as part of a reform of the Labor Code.

• The taxes paid by small- and medium-sized enterprises are levied at a fair rate, but the costs of compliance are very burdensome. SMEs do not have in-house lawyers or accountants and seek an easier way to comply with their tax obligations. In 2004, CIEN publicly proposed the abolition of the income tax on firms and the adoption of a flat-tax for individuals. The Congress approved a new income tax regime based on a pseudo-fl at tax of 5% on gross income. Tax revenues from this system are above initial estimates.

• The lack of good infrastructure,

exemplified by poor roads and airports and seaports with inadequate facilities, raises transport costs and delivery times. Joint public and private sector partnerships have led to international certification for Guatemala's two major ports, the reconstruction of its international airports, and the expansion of the Atlantic Highway - the most important road in the country - to four lanes.

By defining these top reform priorities in Guatemala, CIEN and other private sector representatives can approach policymakers to ask for specific solutions to a specific problem; many of these problems do not require additional public spending, just political willingness to implement the changes. CIEN plans to review the record of policymakers and issue a report card that will provide an account of their commitment to implementing reforms.

Lessons Learned

CIEN has learned many lessons in developing and implementing these reform initiatives. In particular, the following findings deserve special mention.

• To achieve consensus about the need for reform, the private sector needs to speak the same language. To accomplish this, CIEN used "competitiveness," to define how to operate in a modern, free-market economy. One also has to identify the most developed sectors, such as exporters in the case of Guatemala, to lead the change within the private sector, and business leaders must be willing to deal with the costs associated with leading the initiative. Government officials must be willing to listen and work with the private sector. Think tanks have a special role and can be helpful to business leaders and government officials by trying to mediate between them to help the reforms advance.

• Another lesson is that organizing the voice of businesspeople is a unifying process. In Guatemala, CIEN started with exporters, but soon, manufacturers, farmers, builders, and others joined the competitiveness framework and the business agenda. If there is a legitimate way of presenting the problems and needs of businesspeople, the others that are not as advanced as the exporters will have a way to participate.

• Spreading the word will pay off. CIEN and some of the chambers participating in the process held hundreds of press conferences, participated in TV and radio shows and wrote in the print media. These efforts are worth it because when a group starts to make noise, politicians, political parties, and civil society will listen. If that group has a democratic-based reform agenda, they don't have any way to oppose that.

CIEN has been working with leaders in the labor unions and informal economy to show them the dangers of a politically influenced minimum wage policy.

• Democratic principles legitimize private sector proposals. Even in Guatemala, a highly polarized society where the private sector is largely ignored by those on the left, political opponents were won over by CIEN's methods. When they learned how CIEN built the business agenda, based on democratic principles and the suggestions of regular businesspeople, they were won over because they could not use the argument that CIEN was just promoting crony capitalism.

This approach to reform is not a traditional private sector proposal, but a new way of presenting the problems and needs of regular businesspeople. It challenges the traditional perspective that all progress is made using a top-down approach, and shows how reformers can start doing things on a grassroots level, like entrepreneurs and businesspeople do every day. In this way, reformers can set free the spirit of free enterprise and provide people with means to take advantage of economic opportunities.

[1] *The National Competitiveness Agenda is based on the national business agenda process.*

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The views expressed by the authors are their own and do not necessarily represent the views of the Center for International Private Enterprise.

Global Economy And Crude Oil Price Puzzle

*By Eunice Sampson

Thank God! The global economy continued on the path of sustainable growth in the first quarter of 2006 with most economies recording more growth than decline. Perhaps, things could have been a lot better but for the energy crises that pervaded much of the quarter. From North to South, most economies were confronted with a major common challenge – the unrelenting rise in the price of crude oil.

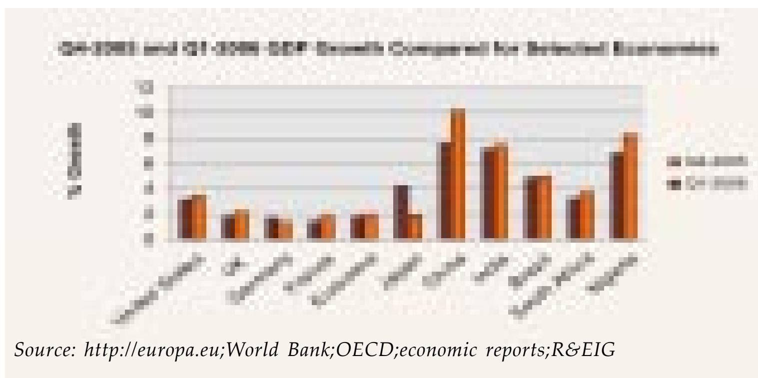
Rising from its $52.31 per barrel position in December 2005, crude oil for May delivery, on April 21, 2006 traded at a high of $75.35, going up by over $23 per barrel in just four months. Compared to first quarter 2005, crude oil price was up by 30% this first quarter. Concerns over Iran's nuclear programme and continuing supply disruptions in Nigeria were the major factors responsible for the

price hike.

This article analysis the global economy in the first quarter of 2006 with specific focus on the impact of the high cost of crude oil on consumer pricing and inflationary trends, and the level of drawback this might have had on economic prosperity.

Q1-2006: How did Economies Fare?

Except for Japan, which dropped in growth from the 4.3% recorded in 4th quarter of 2005 to 1.9% (quarter-on-quarter), for most developed economies, the quarter under review was better than the preceding one.

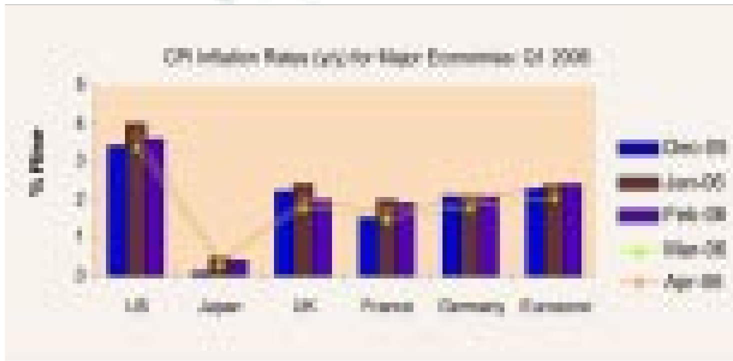


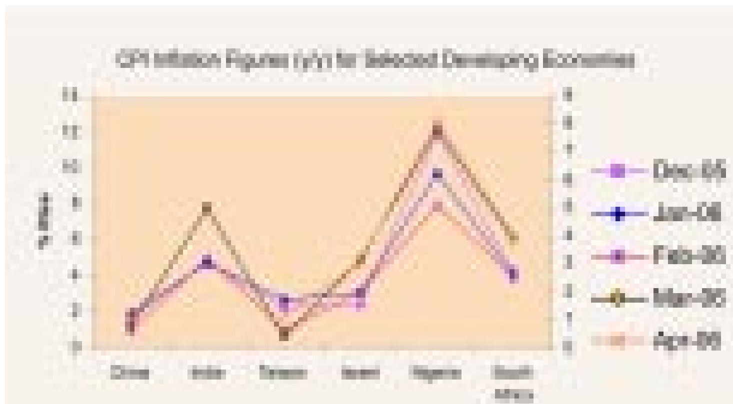
Source: http://europa.eu;World Bank;OECD;economic reports;R&EIG

For Japan, the 1.9% growth on year-on-year basis was impressive, far higher than earlier projections of 1.1%. With this performance, Japan's economy remains on a recovery path propelled by strong export and domestic productivity. In response to high energy cost and increasing domestic demand, consumer price index rose by 0.1% year-on-year, marking its first annual increase in eight years.

Year-on-year, US economy is believed to have grown by 4.8% in the first quarter, a remarkable improvement on the 1.7% growth in the last quarter of 2005, and the best growth since the third quarter of 2003.

In the Eurozone, GDP grew by 2% year-on-year in the first quarter of 2006, better than the 1.8% (y/y) growth in the fourth quarter of 2005. The region is expected to advance from its 1.3%





Source: OECD, Research & EIG

annualized growth in 2005 to 2.1% this year.

French economy recorded 0.5% growth in the first quarter of 2006 compared to 0.1% rise in the same period last year. This falls short of the 0.6-0.7% growth predicted by economists and the Bank of France for the period.

Germany dropped from its 1.7% growth position as at last quarter of 2005, to 1.4% this quarter. The decline is attributed to the coldest weather in a decade which impacted negatively on the construction sector. The 1.4% advancement is a robust growth all the same, consistent with its average performance in the last three quarters.

High consumer spending was the key factor that accelerated growth in most national economies this quarter; but this, coupled with the unprecedented, persistent rise in crude oil price in the international markets helped drive up inflation and interest rates in most economies.

Energy Cost and Rising Inflation:

Inflation (consumer price) firmed up in many economies in the first quarter of 2006, mostly on account of high crude oil prices which rose above $70 per barrel at the end of the quarter. To curtail this, many central banks had tightened monetary policies, which in many instances resulted in a hike in interest rates. Interestingly, however, most economies experienced robust growth despite these set-backs.

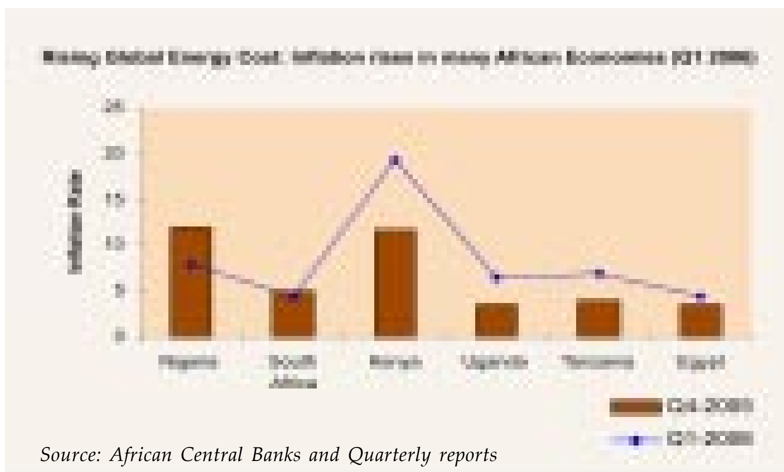
In the United States where consumer spending on durable goods rose by 21% in the first quarter, high energy prices helped push up commodity prices. The Federal Reserve Bank at the end of the quarter jacked up interest rate to its target 5% to curb mounting inflationary pressure. There are already speculations that rates might get up to 5.5% before the end of the second quarter.

In April, the European Commission cut its economic growth forecasts for the first three quarters of 2006. Inflation rose to 2.4% as oil prices touched record highs. Contrary to expectations however, the European Central Bank (ECB) kept the benchmark interest rate at 2.5% till the end of the quarter; but an increase is expected early in the second quarter.

The United Kingdom sustained its steady growth within the quarter, with rising house prices boosting economic confidence and buying power. Inflation was however curtailed, remaining at about 2% at the end of the quarter, from its 2.2% position as at last December.

For most developing economies, growth was sustained in the first quarter. In the Asian continent, Korea, China, and Singapore were among those that recorded remarkable growth. Korea grew year-on-year by 6.2% and China, 10.2%, far stronger than most analysts or even the Chinese authorities had anticipated.

But inflationary pressure also mounted in most of these economies. In India, the inflation outcome during the period was influenced mainly by the price movements of petroleum products. Energy -related inflation alone con-



Source: African Central Banks and Quarterly reports

tributed about 41% to the headline inflation.

In China, the central bank raised interest rates by 0.27% to 5.85%, to curtail growth in lending and help cool the surge in liquidity which put pressure on the general price level. China remained one of the world's biggest consumers of crude, importing 37.13 million tones in the first quarter of 2006 alone despite the high cost.

In Japan, economic growth slowed sharply compared to same period in 2005 following a drop in consumer spending and rise in cost of import, fuelled by the high global energy cost. However, private consumption, which accounts for nearly 55% of the Japanese economy, grew 0.4% in the first quarter, easing deflationary pressures and raising hopes that the Bank of Japan might soon scrap its zero interest rate policy.

In Israel, the Bank of Israel at the end of March raised the interest rate on its sources for the month of April by 0.25% to 5.00% in anticipation of upward inflationary movement in the coming months. In February, the consumer price index went up by 0.6%, double of what was expected, in response to a 5.5% rise in fuel price.

Germany dropped from its 1.7% growth position as at last quarter of 2005, to 1.4% this quarter. The decline is attributed to the coldest weather in a decade which impacted negatively on the construction sector.

For some, the sharp rise in inflation actually slowed growth prospects. In Africa, many economies suffered this setback. Of particular notice is the case of East Africa where the central banks of the three countries in that region (Tanzania, Uganda, Kenya) cut down the GDP growth forecasts for the first quarter of 2006, primarily due to rising inflation and the high cost of crude oil in the international market, worsened further by drought in the region.

In Tanzania, previous projections put economic growth this year at 7%; this has been trimmed down to 6.8%. Kenya projected a 5.2% growth, but first quarter results show that 4.3% is more likely; while in Uganda, the growth pre-

diction of 6.2% has been trimmed down to 5%.

The three countries also experienced inflationary pressures almost double their targets for the quarter - Uganda's inflation figure rose from 3.5% as at December 2005 to an average of 6.5% for the quarter; Tanzania, from 4.0% as at year-end 2005 to 6.9%; and Kenya, from 11.7% at December 2005 to 19.4% at the end of March 2006.

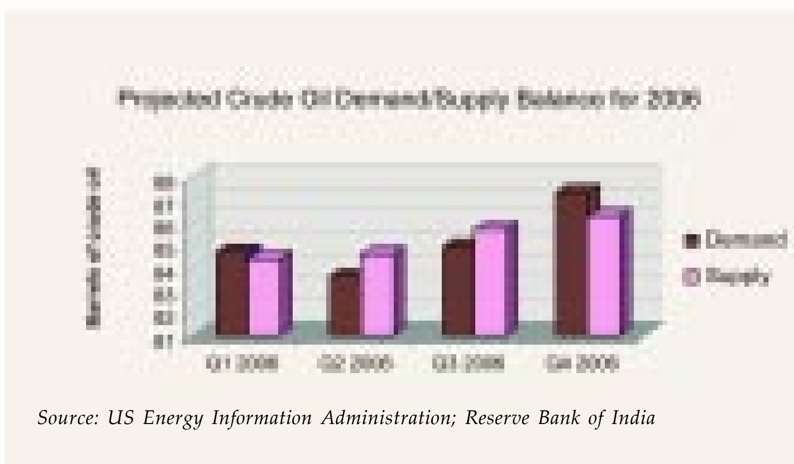
But the story is not the same in all African economies. South African consumers paid 21% more on fuel than they did same period last year. But inflation rate remained within the 5%-6% average it has sustained since late 2003.

Despite the global energy crises, Nigeria actually experienced a drop in inflation from 12% as at last December 2005 to about 8% at the end of the quarter. In both countries also, no significant change was observed in interest rates between last quarter and this.

While the favourable situation in South Africa may have been boosted by strong domestic and international competition as well as increased productivity; that of Nigeria may have been supported by strong output (especially in the agricultural sector) and rising foreign exchange earning resulting from the high cost of its major export commodity – crude oil. In addition, Nigerian government had in its 2006 budget set aside a total of about N150bn ($1.2bn) to hedge a possible rise in the prices of crude oil in the international market.

Also in Egypt, a slow-down in economic growth rate, high interest rates and excess capacity in the productive sector are helping to check inflation despite the high energy cost.

Source: OPEC



Source: US Energy Information Administration; Reserve Bank of India

The Oil Price Puzzle – for how much Longer?

Though its short-term impact on economic growth was minimal for many countries during the first quarter, the rising crude oil price is still a major threat that should be closely watched. Rising global demand, its all-time essentiality and volatile pricing regime makes crude oil a very difficult puzzle to solve.

Figures by OPEC and energy agencies show that global demand for crude oil was slightly higher than supply in the first quarter, at 84.7/84.4 million barrels per day. While supply worries have always been an issue, yet over 37% rise in crude oil price in the first quarter of this year alone cannot be attributed to the rather insignificant difference between supply and demand within the period.

From the crude oil demand and supply balance projections made by OPEC and the US Energy Information Administration, supply will most likely surpass demand in the second quarter of 2006. But so long as the prevailing problems persist, this might not mean an automatic lowering in price. Market speculations arising from developments in major oil producing economies; setbacks in refining capacity; natural disasters, and the failure of major oil consumers to achieve energy efficiency and a cut in demand, are some of the factors that would once again dictate global energy cost in the remaining quarters of the year, and perhaps, global economic growth as well.

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

ZEQ DATABANK

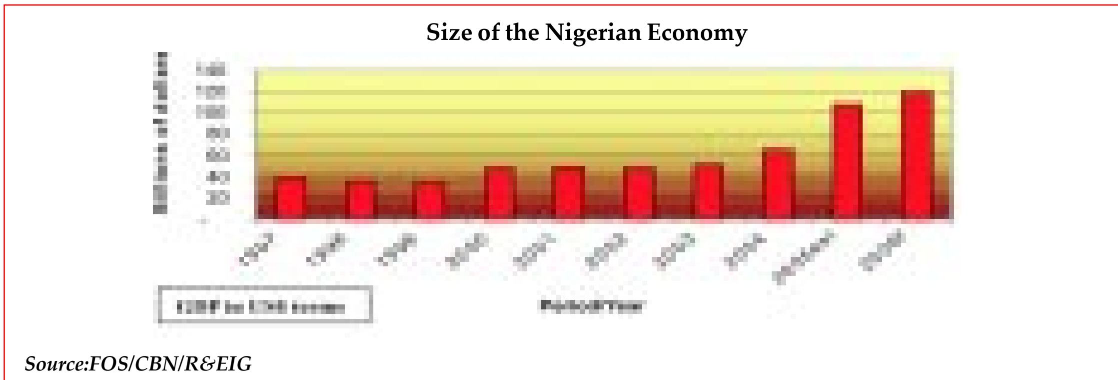
Macroeconomic Environment

Nigeria's macroeconomic environment continued to improve on its 2005 year end showing for varied reasons- continuing, upwardly stable, crude oil prices, sustained macroeconomic stability, improved public expenditure management and an early passage of the 2006 Federal budget, improved international perception of Nigeria's economic environment due to the successful implementation of the Paris Club debt exist scheme, the recent historic BB- rating by Fitch International Ratings etc. The financial sector seems to be coping fine with the 'trade-offs' in the ongoing reforms, with the insurance companies now *on the road*, seeking fresh injection of equity especially from the capital market. FDI inflow and remittances from Nigerians in the Diaspora have improved significantly, the privatization programme remains on course with the recent concessioning of the Ports. A lot could be said to have changed or is changing- kudos to the national economic management team which has succeeded, so far, in keeping away from the politics of the day. The overall view is that the foundation for growth is being properly laid and the sustained high crude oil prices and the accretion of excess crude oil earnings rather than spending it all, would continue to provide a strong basis for improved credit risk perception of Nigeria irrespective of the trend in recent political discourse. How well the citizenry is coping with the fall-out of reform is, admittedly (another issue) with mixed feelings.

Gross Domestic Product (GDP)

Government's projection is that the Agricultural sector would lead the extractive sector in contributions to GDP and employment generation. Currently Agriculture employs over 70% of the workforce and contributes over 40% to total GDP. With an annual growth rate of about 7% consistently over the past three years, this projection would be surpassed in 2006. GDP in 2006 is estimated to hit the $120bn mark, up from an estimated $108bn at December 2005. The prospects for growth remain strong and it is expected that the GDP would grow at a rate of about 8% in 2006, with non-oil sector contributing about 3.5% and the Oil sector 4.5%.

Size of the Nigerian Economy

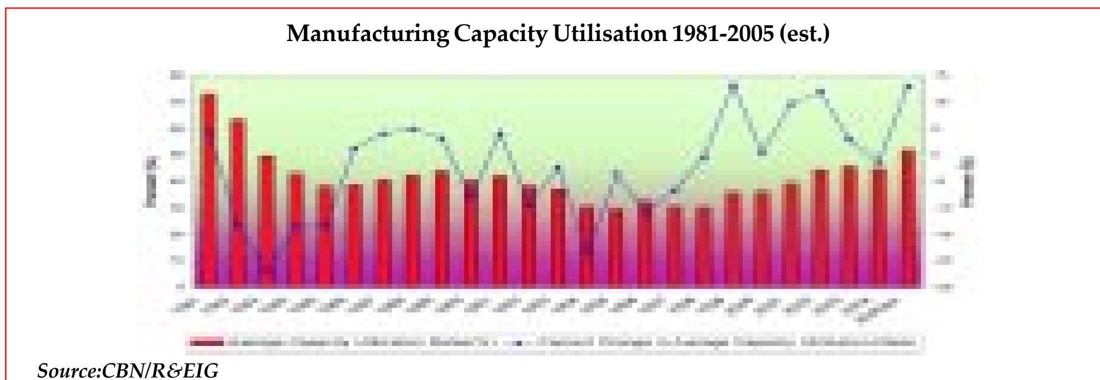


Source:FOS/CBN/R&EIG

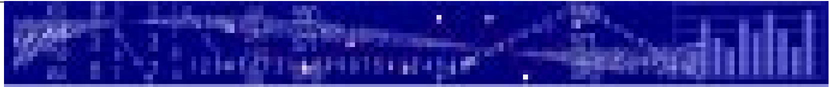
Manufacturing Capacity Utilization

The prospects of an improved level of capacity utilization seem assured by the sustained high crude oil prices which clearly would help support the ongoing reforms in the foreign exchange market and in particular, ensure supply side is efficient and hence lead to further appreciation of the Naira. Except for the usually poor energy supply situation preceding the rainy season, it is expected that manufacturers would witness an increase in capacity utilization this year. The estimated level for first quarter 2006 is 52%.

Manufacturing Capacity Utilisation 1981-2005 (est.)

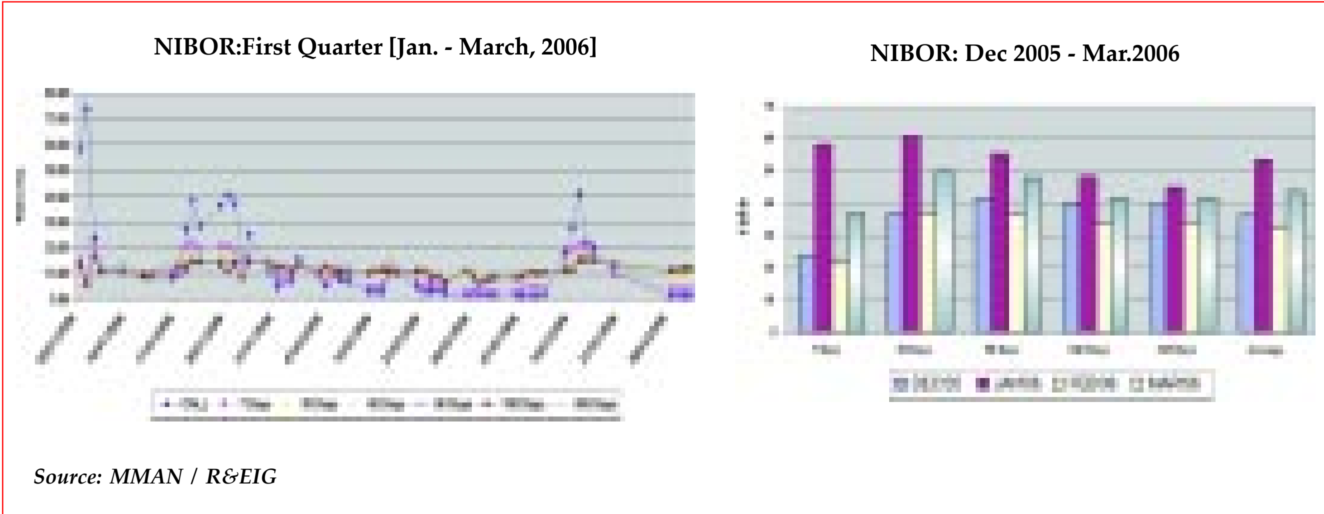


Source:CBN/R&EIG



Interest Rate

The money market continues to exhibit the same pattern at the beginning of the year – gradually taking off due to the low/slow tempo of activity after the festive seasons. Generally, inter-bank rates were affected by the slow/late releases from the Federation Account in February and in March, by the population census. By and large, however, the usual pattern of statutory-allocation-sensitive rates was observed.



NIBOR:First Quarter [Jan. - March, 2006]

NIBOR: Dec 2005 - Mar.2006

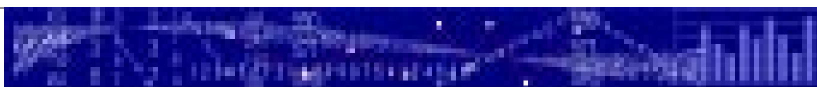
Source: MMAN / R&EIG

While average interbank rates peaked at 17% in March, up from an average of 14% in February, OBB rates rose to about 8%, up from a 1.5% low in February.

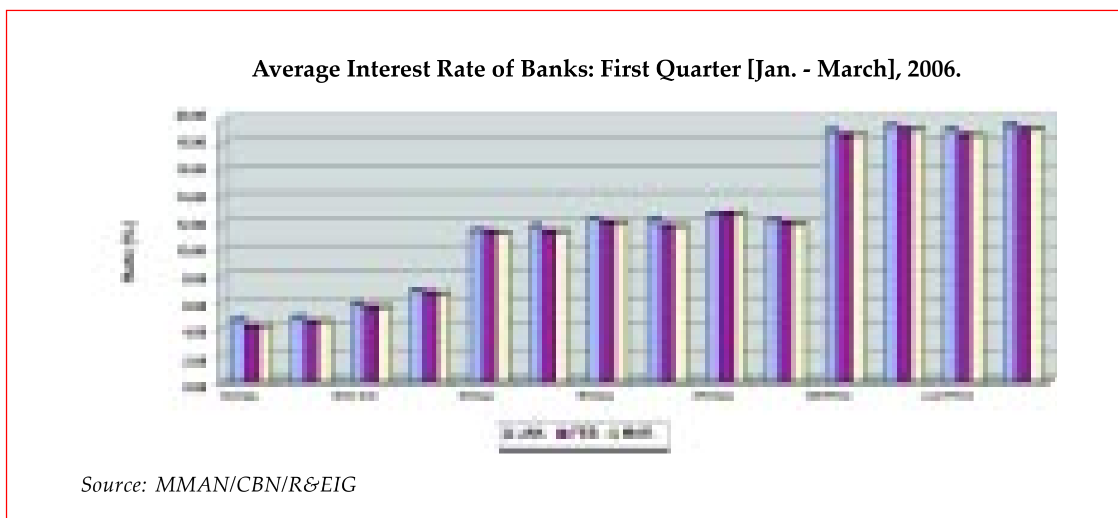
Meanwhile the FGN Bond Market continues to experience growing interest as the DMO auctioned the 3rd N10.0bn FGN Bond 2009, (3yr tenor) and N20.0bn 2011 (5yr tenor) at a coupon rate of 12.5% and 14.5% respectively. This has been followed by another series in March. Although there is noticeable decline in the pricing, no doubt foreign investors have been attracted to this market and government's intention to achieve a single digit interest rate seems on course in spite of the current double digit rate.

Open Buy Back [OBB]: First Quarter [Jan. - March], 2006.

Source: CBN/MMAN/R&EIG



The average interest rate for banks in the first quarter seemed to have remained generally at the same level after it opened the year marginally higher. Rates on Savings deposits was about 4% while rates on various tenors hover about the same level at between 11%-12.5%. However rates increased marginally, hovering between the 18%-20% mark for medium to lower segment borrowers, tenor did not seem to have mattered much. This followed a marginal decline in the month of February (except for longer tenured funds which has continued to improve, though marginally).



Average Interest Rate of Banks: First Quarter [Jan. - March], 2006.

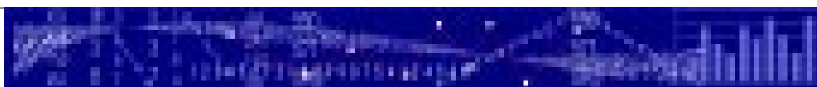
Source: MMAN/CBN/R&EIG

Inflation

Year –on-year inflation figures indicate a stable trend in the last quarter at slightly below the 10% mark, ending the significant downward trend from the last quarter and especially the significant decline in the monthly average in November and December of 2005. This was largely due to the continued harvesting of agricultural produce which moderated food prices (and the relatively stable prices of petroleum products), and hence the general price levels.

Inflation Rate in Nigeria

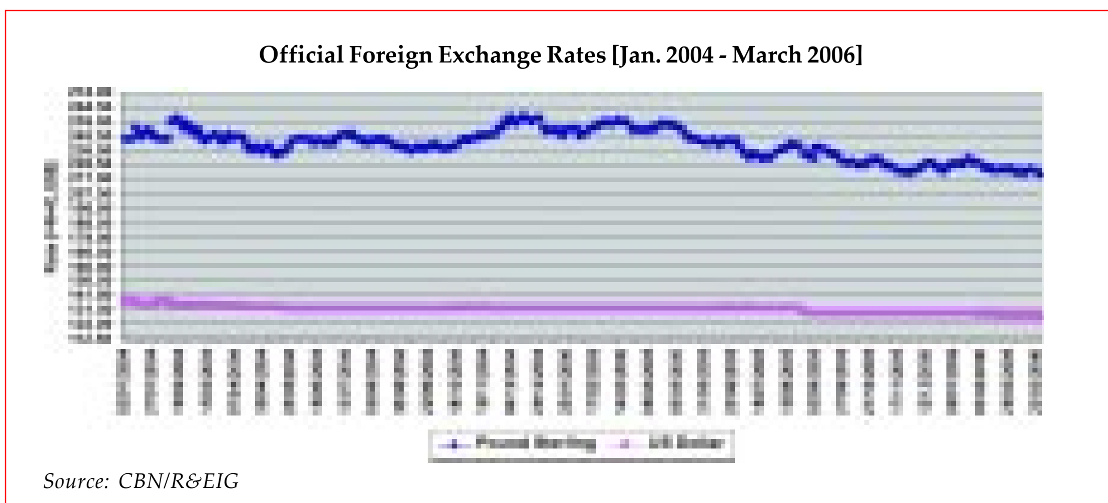
Source: FOS/CBN/R&EIG



Foreign Exchange

The much promised Wholesale Dutch Auction System (WDAS) was introduced by the CBN in February as part of its efforts at deepening the foreign exchange market and managing the foreign exchange rates across the various markets. This would eventually lead to a further liberalization of the other segment of the market under its control-Bureau De Change (BDC).

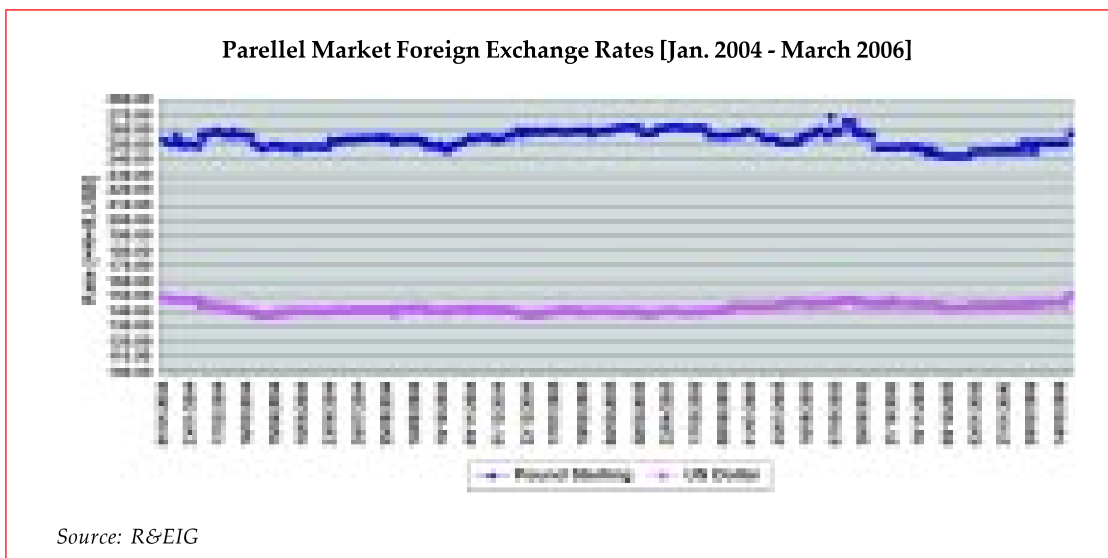
The foreign exchange demand at the WDAS has continued to rise, from $252.0m in January to $359.30m in February and an estimated $423.5m in March. In spite of this gradual rise the Naira exchanged at a significantly stable rate (below N129.0/$1.0) to the US dollar in the quarter, following the trend in 2005, underscoring the strong macroeconomic showing of the economy in the recent past.



Official Foreign Exchange Rates [Jan. 2004 - March 2006]

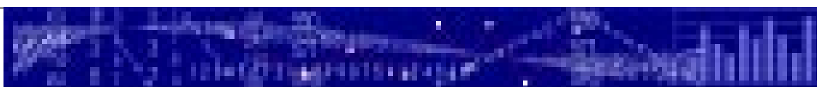
Source: CBN/R&EIG

Foreign exchange net inflow into the economy remained positive all through the quarter ($2.4bn, $3.1bn and estimated $4.2bn in January, February and March respectively) due largely to the consistently high price of crude oil.

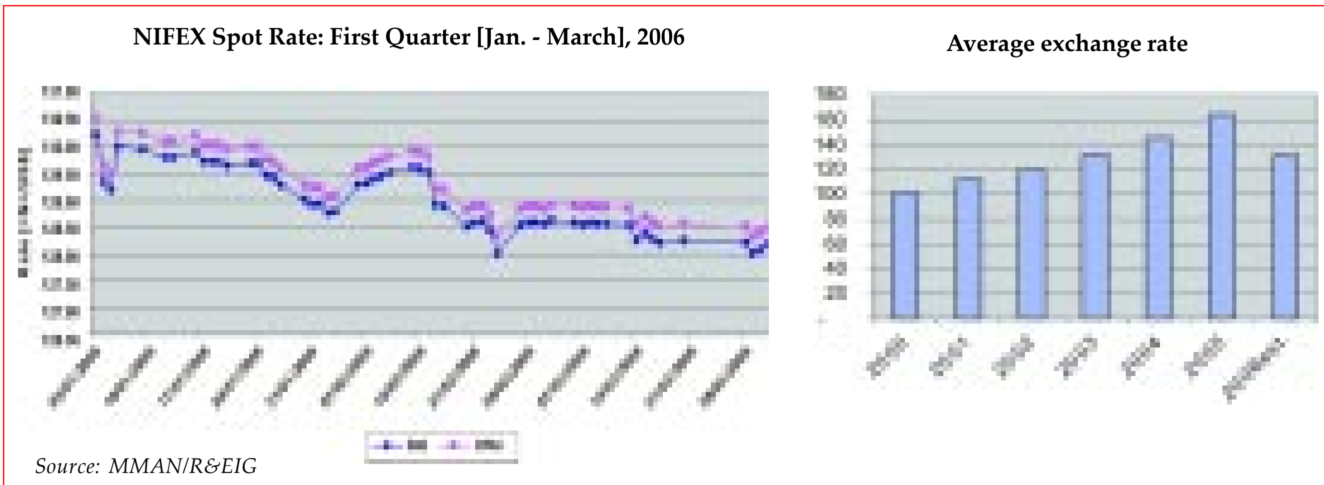


Parellel Market Foreign Exchange Rates [Jan. 2004 - March 2006]

Source: R&EIG



The increased demand pressure in the foreign exchange market, which started in February, due in part to the switch from the weekly to the Wholesale Dutch Auction System (WDAS) continued to the end of the quarter and predictably into the next quarter as manufacturing and trading activities peak up for the year.



NIFEX Spot Rate: First Quarter [Jan. - March], 2006

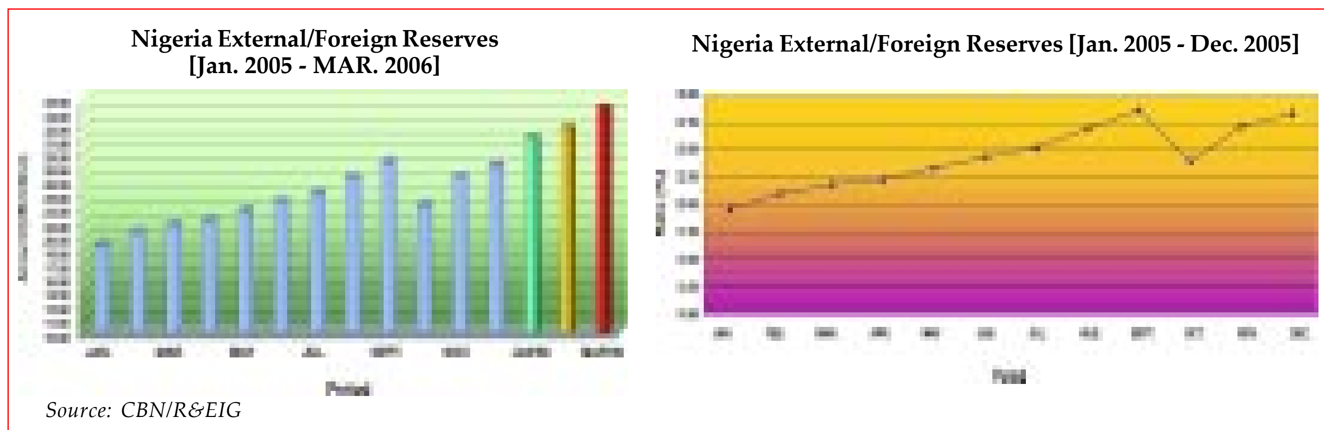
Average exchange rate

Source: MMAN/R&EIG

The CBN continues to meet the supply side effectively and this reform seemed to have sustained the continuing appreciation of the Naira, thanks to the crude oil earnings which have enabled the CBN to guarantee supply. Unfortunately, as can be seen from the graphs, the premiums between the parallel and official exchange rates have continued to widen, tending towards the 15% mark.

External Reserves

Nigeria has never had it so good in the last quarter of a century, supported by a soaring crude oil prices which in the past few years have remained significantly above the $50.0 pb mark. In spite of the demands of the Paris Club Debt exit scheme, external reserves have continued to grow, from a $19.0bn mark in January 2005 to $34.3bn as at end of February in 2006.

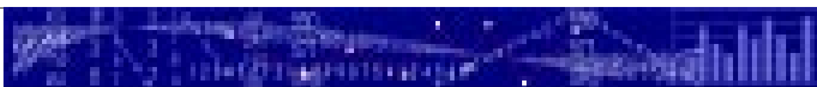


Nigeria External/Foreign Reserves [Jan. 2005 - MAR. 2006]

Nigeria External/Foreign Reserves [Jan. 2005 - Dec. 2005]

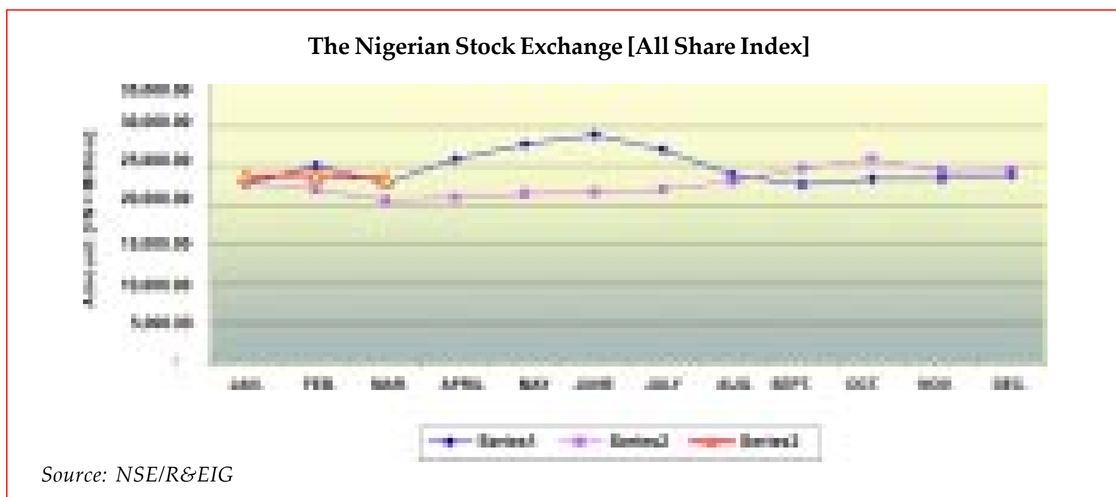
Source: CBN/R&EIG

Estimated to be $36.80bn at March ending, Nigeria's external reserves which opened the year 2006 at slightly below $30.0bn mark, can finance over 64 months of foreign exchange disbursements, at current exchange rate commitments. This represents a major development in the national economic management indices and underscores the strong regime of fiscal prudence. (Hitherto significant increases in crude oil earnings have translated to increased budgetary spending with corresponding decreases in budgets when oil glut forces prices down).



Capital Market

Nigeria's capital market in the New Year started on a low tune and became bullish in February, as reflected in the appreciation in the stock price of blue chips and the sustained marginal increase in the All Share Index. Total shares traded rose in number and value in each successive month of the quarter.

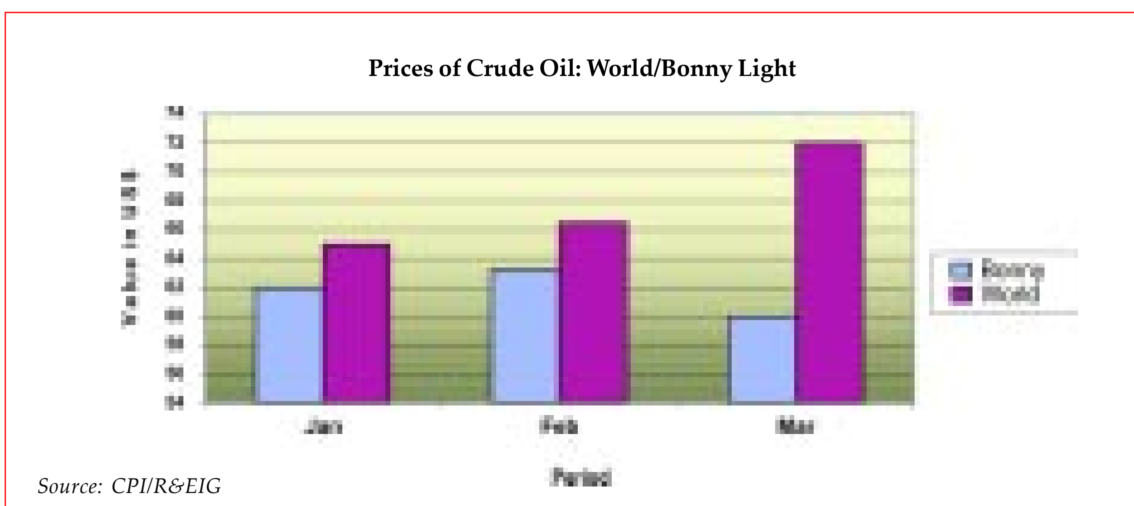


Source: NSE/R&EIG

Due to promising year end (December 2005) results and the expected influx of new public offerings from insurance companies seeking to raise new funds, the market is expected to be very busy, especially the primary market. This is not unexpected as Union Bank's Rights Issue and Public Offer to raise over N40.0bn closed in the quarter. In the same quarter also Zenith Bank's Public Offering of N50.7bn was also offered. The projection is that with the effective take-off of PFCs and PFAs, the equities market would begin to experience more transactions.

Crude Oil

Nigeria's crude oil production suffered from the seeming restlessness in the Niger Delta Region with incidents of disruptions to production and threat to life and property. These incidents and the heightening of tension over the Iranian nuclear policy helped contribute to increases in the prices of crude oil. Crude oil production disruptions in Nigeria meant that targets were generally not met (2.3mbpd as against 2.5mbpd) and this impacted on projected revenues for the quarter as earlier indicated.



Source: CPI/R&EIG